Notes to the Quarterly Report
for Q4 FY03

1. Accounting principles adopted in the preparation of the quarterly report; information on changes in adopted accounting principles

The report has been drawn up taking into consideration all accounting principles currently in force; the assumption of the Company remaining a going concern (in the foreseeable future) has been adopted for the valuation of assets and liabilities and determination of the financial result.

One of the basic assumptions adopted for the preparation of the quarterly report was to ensure comparability of data included therein.
In particular, the following uniform procedures must be guaranteed:

- grouping of business operations,
- valuation of assets and liabilities,
- determination of financial result,
- preparation of the financial statement, i.e. presentation of data under specified items in the balance sheet, profit and loss account and cash flow statement

Pursuant to accounting principles adopted by LPP S.A., valuation of assets and liabilities as at the balance sheet data is as follows:

- **fixed assets and intangible assets** – at cost less depreciation to date.

LPP S.A. classification of fixed assets includes tangible fixed assets and their equivalents with expected useful life over one year, complete, fit for use and suitable for use in terms of the Company's business operations.
In addition, the Company's classification of fixed assets also includes fixed assets used by LPP S.A. under a contract whose terms and conditions meet at least one of the requirements determined in Art.3 § 4 of the Accounting Act.
As a result of LPP S.A. business procedures, i.e. the strategy of outsourcing certain services from third parties to ensure successful operation of the business, LPP S.A. classification of fixed assets also includes those means of transport, machinery and equipment which (a) may be defined as fixed assets and (b) are leased by LPP S.A. to those third parties to be used for the sole purpose of providing services for LPP S.A.
The decision to classify the aforementioned assets as fixed assets not as investments is based on the fact that these assets were not leased with an intention to generate profits as specified in Art.3 § 1 item 17 of the Accounting Act (investment-related), but with an intention to ensure due performance of services by LPP S.A. contractors (in terms of quality, deadlines, etc.), based on full control over the type and purchase cost of the equipment used by these third parties to provide these services for LPP S.A.
If a part of property is leased by LPP S.A., while the remaining part is used by LPP S.A. for the Company's own purposes, the entire property is included into the Company's fixed assets.

Depreciation write-offs are made by the Company pursuant to provisions of the Accounting Act from 29th September 1994.
In the period in question, the Company continued to employ a principle whereby depreciation of a fixed asset depends on its net initial value.
The Company adopted the same principles for both accounting and tax purposes in the case of exclusion of an asset from fixed assets or in the case of its one-off depreciation write-off.
Accordingly, the Company adopted the following principle: whenever initial value of a fixed asset or intangible asset (property right) exceeds PLN 3500, monthly depreciation write-offs are made starting in the month following the month when the asset was made available for use.

If the initial value of a fixed asset is lower / equals PLN 3500, two alternative methods of recording have been adopted, pursuant to the materiality principle:

- the asset is entered into the fixed assets register and written off on purchase in the month when the asset was made available for use

or

- the asset is entered into the off-balance sheet register and written off into costs of use of materials recorded in the month when the expense was incurred.

Accounting policies adopted by the Company provide for a possibility not to apply this principle in exceptional cases, when a large number of state-of-the-art, high-reliability fixed assets (e.g. computers) are purchased at once (or in a short period of time), whose unit price does not exceed PLN 3500.00 but their total value is considerable, and when the purchase is a part of a larger project whose life extends at least over the statutory period of depreciation specified for a particular group of fixed assets as determined in tax regulations.
Based on the adopted accounting policies, in specific cases the Company Management Board may decide to apply the method of straight-line depreciation and to make monthly depreciation write-offs.
In such a case, depreciation write-offs are only balance sheet costs, while the entire value is included into tax costs in the month when the asset is made available for use.

Total value of expenses which does not exceed the annual level of PLN 3500.00 (the cost of components of fixed assets or peripheral devices purchased not for the purpose of fixed assets repair/overhaul, but as new elements or upgrades) are included directly into costs of material wear or costs of repairs/overhauls, depending on the classification of expense.
In the case of fixed assets upgrade, that is exchange of parts or peripheral devices, whose total annual value of the upgrades exceeds PLN 3500.00, costs of purchase of these elements increase the initial value of upgraded fixed assets; as a result, the basis for the calculation of monthly depreciation write-offs is also increased, and they are depreciated on the straight line basis, irrespective of whether depreciation of this particular fixed asset is complete as at the date of the upgrade or not. Depreciation based on a new, increased value is recorded starting in the month following the month when upgraded asset was made available for use.
Accounting policies adopted by the Company provide for a possibility not to apply this principle in a situation when upgrades concern expenses outlaid in fixed assets owned by third parties (buildings); in this case, the value of expenses outlaid in buildings owned by third parties is increased regardless of their one-off value, and straight-line depreciation based on the increased value is employed.
In the case of an intended disposal, exclusion from use, or other permanent impairment of fixed assets, a relevant impairment write-down is included into other operating expenses.
The same principles are applied for valuation and amortisation of intangible assets, with one exception: the concept of intangible assets upgrade does not apply.

- fixed assets in progress – in the amount of total costs directly related to their purchase or development.

- shares in subsidiaries and other investments included into fixed assets – at cost less impairment write-downs.

- short-term investments – at cost – no higher than market price or fair value (if there is no active market for a particular short-term investment).

- tangible current assets, i.e. purchased materials to be used for the Company's own purposes, goods purchased for resale (without processing) – at cost – no higher than their net selling price as at the balance sheet date.
Immaterial items (such as domestic transport or customs management fees related to import of goods) are not recorded at cost.
Revaluation write-downs of tangible elements of current assets made following their impairment and based on the valuation at net selling price (instead of valuation at cost) are included into other operating expenses.

If there is no longer any basis for the revaluation write-down (including impairment write-down), the equivalent of the entire amount of a part of previous revaluation write-down increases the value of a given tangible element of current assets and is included in other operating revenues.

The Company's inventory includes:

- commercial commodities,
- materials issued to third-party manufacturers (outsourced processing),
- consumables (materials used during operation) related to the maintenance and development of the computer network,
- in-house processing materials.

Office and operation consumables purchased to cover day-to-day needs are charged into the costs of the Company's current operations, not included into inventory.

- receivables and loans granted - in the amount of payment due, in accordance with the principle of prudence.
Pursuant to the principle of prudence, the value of receivables presented in the balance sheet at as 31st December 2003 has been re-valued based on the revaluation write-down, taking into consideration probability of their repayment.

Revaluation write-down is made based on the following assumptions:

- claimed receivables - in full amount due,
- minor receivables due from a large group of small customers overdue over 6 months - 30% of the debt,
- other receivables - on the basis of an individual analysis of the situation and loss risk assessment.

If there is no longer any basis for the revaluation write-down (including impairment write-down), the equivalent of the entire amount of a part of previous revaluation write-down increases the value of a given asset and is included in other operating revenues.

- payables – in the amount of payment due.

- provisions – at substantiated value based on reliable estimates.

- shareholders' equity and other assets and liabilities – at nominal value.

Valuation of assets and liabilities expressed in foreign currency – is made pursuant to provisions of Art. 30 of the Accounting Act.
The following assets and liabilities of the Company are expressed in foreign currencies:

- trade payables and receivables,
- bank credits incurred,
- loans granted;
- shares in related parties
- cash in hand and cash in banks.

The report also includes obligatory establishment of deferred income tax provision and assets, reflected both in the balance sheet and in the profit and loss account.

2. Information on provision-related adjustments, deferred income tax provision and assets specified in the Accounting Act, and assets revaluation write-downs made.

2.1. Receivables and claimed receivables revaluation write-down as at 31st December 2003 totalled PLN 6 888 680.17.

Receivables revaluation write-down as at 31st December 2003 include:

revaluation write-down of claimed receivables due from customers	PLN 4 901 638.70
revaluation write-down of doubtful receivables	PLN 1 852 050.18
revaluation write-down of receivables due from employees and other receivables	PLN 76 375.71
revaluation write-down of receivables resulting from budget settlements	PLN 58 615.58

Changes in receivables revaluation write-downs in the period 1st January – 31st December 2003 are as follows:

as at 31st December 2002	PLN 6 429 072.00
write-downs made in the period 1st January – 31st December 2003	PLN 4 667 374.62
decrease in write-downs made in previous years	PLN 2 218 061.68
decrease in write-downs made in 2003	PLN 1 989 704.77
as at 31st December 2003	PLN 6 888 680.17

Pursuant to Art. 35 b of the Accounting Act, receivables revaluation write-downs are included to other operating expenses or to financial expenses, respectively.
Decrease in revaluation write downs was a result of (a) receivables being considered overdue or unrecoverable, or (b) the fact that there was no longer any basis for the write-down to be made (payment covered). In the latter case, the write-down made previously was included into other operating revenues or financial revenues.

2.2. As at 31st December 2003, the Company had also made inventory revaluation write-down, pursuant to Art. 34 § 5 of the Accounting Act.
Inventory revaluation write-down as at 31st December 2003 totals PLN 2 384 066.72, up by PLN 1 368 141.54 against the balance as at 30th September 2003.

2.3. Under liabilities recognized in the balance sheet as at as at 31st December 2003, the Company presented provisions for liabilities in the amount of PLN 1 311 835.15. These include:

- provision for holiday leaves not used in the amount of: PLN 561 446.72
- provision for retirement benefits in the amount of : PLN 301 446.00
- deferred income tax provision in the amount of: PLN 448 942.43

The amount of income tax presented in the profit and loss account for the period 1st January 2003 - 31st December 2003 totals PLN 11 755 117.45 and includes:
- current income tax in the amount of PLN 10 725 312.00
and
- deferred income tax in the amount of PLN 1 029 805.45

The amount of deferred income tax includes:

- increase in the deferred income tax provision by PLN 358 268.34;
- decrease in the deferred income tax asset by PLN 671 537.11

2.4. In addition, as at 31st December 2003 the valuation of assets and liabilities expressed in foreign currencies was also made.
The result of this valuation is as follows: the value of negative FX discrepancies exceeds the value of positive FX discrepancies by PLN 306 231.09.

3. The Company's achievements in the reporting period

Major achievements of the Company in Q4 FY03:

1. Revenues from sales up by 47 %, along with an increase in gross profit margin (ROS) by 2.3 percentage point in comparison with Q4 FY2002. In the period of 4 quarters, revenues were up by 44%, while the profit margin was up by 2.2 percentage point.
2. Share of revenues from sales generated in the chain of Reserved brand stores (highest profit margin) increased by 71% (Q4) and up to 65% (4 quarters) (in comparison with 65% and 49% in 2002, respectively)
3. 11 new brand stores opened in Poland and 2 abroad. Currently, the Company runs 63 own brand stores and 7 stores based on the franchise agreement in Poland, with the total area of over 31 000 square meters, and 18 stores abroad with the total area of over 8000 square meters.
4. In the logistics centre in Gdańsk, a mechanical sorting and packaging line for products dispatched to stores was put into operation.

4. Key factors with major influence on the financial results

Presented below is the comparison of financial results from Q4 in FY02 and FY03:

Item	Q4 FY03 PLN ‘000	Q4 FY02 PLN ‘000	change %
Revenues from sales of products, goods and materials	116 426	79 343	46.74
Gross profit on sales	60 536	39 462	53.40
Gross profit margin on sales	52.00%	49.74%	4.54
Costs of sales	39 298	24 666	59.32
General administrative expenses	6 610	4 714	40.22
Profit on sales	14 628	10 082	45.09
Other operating revenues	2 880	2 059	39.87
Other operating expenses	4 705	5 015	-6.18
Profit on operations	12 803	7 126	79.67
Financial revenues	2 124	163	1 203.07
Financial expenses	722	-905	-179.78
Gross profit	14 205	8 194	73.36
Net profit	9 971	5 662	76.10

Presented below is the comparison of financial results from 4 quarters in FY02 and FY03:

Item	4 quarters FY03 PLN ‘000	4 quarters FY02 PLN ‘000	change %
Revenues from sales of products, goods and materials	376 815	261 634	44.02
Gross profit on sales	182 019	120 485	51.07
Gross profit margin on sales	48.30%	46.05%	4.89
Costs of sales	119 246	74 337	60.41
General administrative expenses	21 828	16 740	30.39
Profit on sales	40 945	29 408	39.23
Other operating revenues	12 083	9 080	33.07
Other operating expenses	9 673	9 852	-1.82
Profit on operations	43 355	28 634	51.41
Financial revenues	4 816	1 076	347.58
Financial expenses	2 813	4 709	-40.26
Gross profit	45 358	25 003	81.41
Net profit	33 603	18 556	81.09

In Q4 FY03, revenues from sales were up by 46.74% in comparison with the corresponding period in FY02. Similarly to previous quarters, there was also an increase in profit margin on sales (ROS). The increase was a result of a growing share of revenues from sales generated in brand stores in relation to the total amount of revenues. This share increased up to 71%.

The structure of sales by channels of distribution is as follows:

	Q4 FY03	Q4 FY02	4 quarters FY03	4 quarters FY02
1. Reserved brand stores	71%	65%	65%	49%
2. Hypermarkets	7%	8%	9%	17%
3. Retail stores	5%	7%	6%	9%
4. Wholesalers	4%	5%	6%	10%
5. Exports	9%	11%	9%	9%
6. Promotional clothing	4%	4%	5%	6%

The increase in costs of sales by 59% (60% for 2 quarters) was related mainly to the performance of the Reserved brand stores and expenses outlaid for the development of brand stores network. The amount of costs depends heavily on the brand store area. In Q4 FY03, the average monthly area in all brand stores was 26 500 square meters, in comparison with 15 500 square meters in Q4 FY02. The increase in general administrative expenses was not as considerable as the increase in costs of sales (up by 40% in Q4 and up by 30% for 3 quarters), and was mainly related to infrastructure development (buildings, IT, warehouses).
Financial result in Q4 was affected by the balance of other operating revenues and expenses totalling PLN 1 825 000. The influence of this balance on the result was positive throughout FY03 (PLN 2 410), with the return of the Value-Added Tax for ZPCHR (Workplace for the Disabled) being the key factor influencing these items (PLN 3 743 000).
The balance of financial revenues and expenses was positive and amounted PLN 1 402 000 in Q4 (PLN 2 003 000 for 4 quarters). This item is mainly related to the positive value of FX discrepancies balance.

As a result, pre-tax profit for Q4 FY03 was up by almost 73% in comparison with Q4 FY02 (up by 81% for 4 quarters).
Net profit generated in Q4 FY03 was up by 76% in comparison with Q4 FY02 (up by over 81% for 4 quarters).

5. Significant post-balance sheet events not presented in the financial statement, with potential major impact on the Issuer's future financial results

There have been no post-balance sheet events with potential major impact on the Issuer's future results.

6. Financial results against the FY03 forecast

All targets and financial forecasts adopted for FY03 have been achieved as planned.

7. The Company's share capital

Shareholders holding over 5% of the total vote at the Company's General Meeting of Shareholders as at the date of submission of the quarterly report:

Marek Piechocki

- number of shares: 281 428
- number of votes: 981 428
- share in share capital: 16.52%
- share in the total vote at AGM: 31.62%

Jerzy Lubianiec

- number of shares: 279 327
- number of votes: 979 327
- share in share capital: 16.40%
- share in the total vote at AGM: 31.56%

Grangefont Limited, seated in London, UK

- number of shares: 350 000
- number of votes: 350 000
- share in share capital: 20.55%
- share in the total vote at AGM: 11.28%

Polish Enterprise Fund IV, L.P., seated in Jersey City, USA

- number of shares: 215 000
- number of votes: 215 000
- share in share capital: 12.62%
- share in the total vote at AGM: 6.93%

In the period after the submission of quarterly report for Q3 FY03 (date of submission – 4th November 2003), the structure of share ownership in terms of large blocks of the Issuer's shares has changed as follows:
Mr. Marek Piechocki acquired 1483 shares.
Mr. Jerzy Lubianiec acquired 989 shares.

In the period after the submission of quarterly report for the previous quarterly report, the following changes have taken place in terms of the number of LPP S.A. shares held by members of the Company supervisory and management authorities:

Member of the Management Board holding 279 945 shares as at 4th November 2003 currently holds 281 428 shares.
Member of the Management Board holding 4388 shares as at 4th November 2003 currently holds 5377 shares.
Member of the Management Board holding 4053 shares as at 4th November 2003 currently holds 5042 shares.
Member of the Management Board holding 2948 shares as at 4th November 2003 currently holds 3759 shares.
Member of the Supervisory Board holding 278 338 shares as at 4th November 2003 currently holds 279 327 shares.

8. Legal proceedings in progress

LPP S.A. is a claimant in lawsuits initiated to secure repayment of receivables from customers. Total value of claimed receivables does not exceed 10% of the Company's shareholders' capital.

9. Related-party transactions

In the reporting period, there were no transactions concluded between the Issuer and its related parties valued at over EUR 500 000, other than those related to the Company's current operations.

10. Guaranties granted

In the reporting period, the Issuer granted no guaranties for the repayment of credit or loan, and no guaranties with total value equaling at least 10% of the Issuer's shareholders' capital.

11. Additional information relevant for the assessment of the Issuer's personnel situation, assets, financial standing and financial result, and their changes, as well as information relevant for the assessment of the Issuer's liabilities repayment capacity.

This report includes basic information relevant for the assessment of the Issuer's standing. According to the Company Management Board, currently there are no threats in terms of the Company's liabilities repayment capacity.

12. Indication of factors with impact on the Issuer's results generated at least in the period of the subsequent quarter (in the Issuer's opinion)

Basic factors to impact the Issuer's results in the nearest future are as follows:

1) continuation of the investment process related to the development of the Reserved brand stores network in Poland and abroad,
2) actions targeted towards the launch of the network of a new clothing brand – CROPP,
3) PLN FX rate against USD and EURO.

THE MANAGEMENT BOARD

Marek Piechocki ....
President of the Management Board

Stanisław Dreliszak ....
Vice President of the Management Board

Alicja Milińska ....
Vice President of the Management Board

Dariusz Pachla ....
Vice President of the Management Board