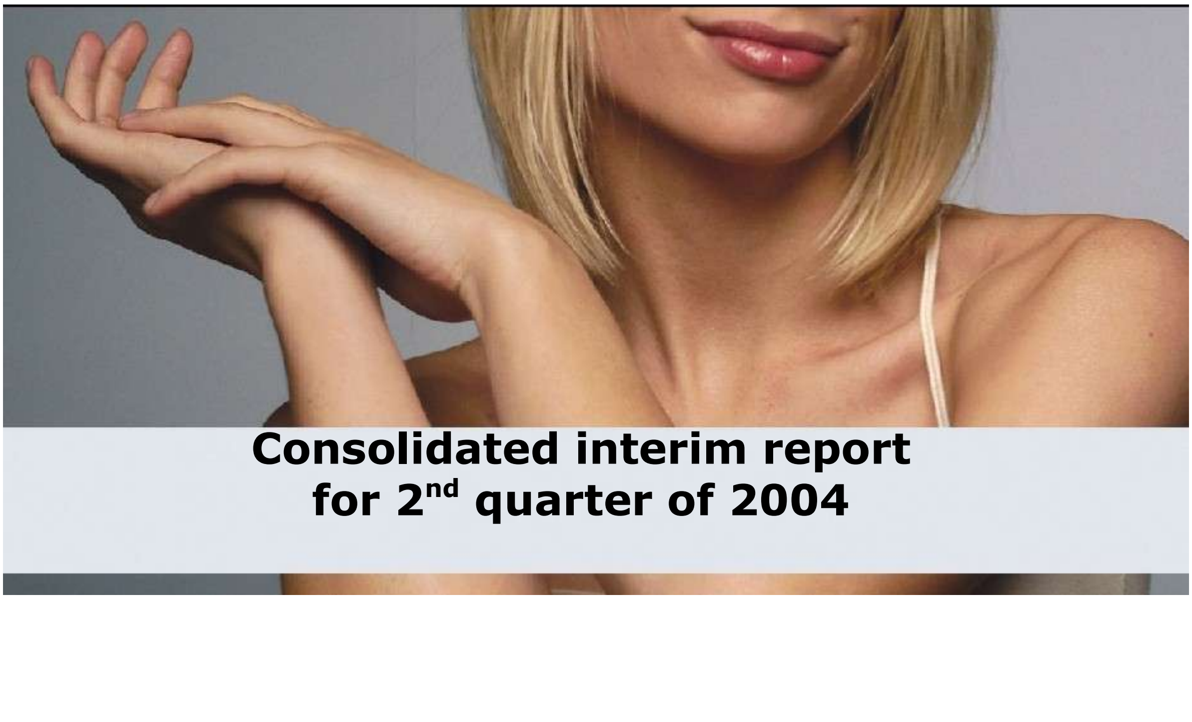
KLEMENTI



Consolidated interim report for 2nd quarter of 2004

COMPANY PROFILE

Business name:	AS Klementi
Commercial registry code:	10175491
Address:	Akadeemia tee 33 TALLINN
Telephone:	+372 6710 700
Fax:	+372 6710 709
E-mail:	klementi@klementi.ee
WWW:	www.klementi.ee
Principal activity:	development, production and sale of sewn products
Form of ownership:	privately owned public limited company
Chief Executive Officer:	Toomas Leis
Chief Financial Officer:	Marianne Paas
Auditor:	PricewaterhouseCoopers

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Letter of explanation to interim report for the second quarter of 2004

AS Klementi is a company operating in Estonia in the field of development, production, retail sale and wholesale of sewn products. The company is registered and operates in Tallinn. The head office of the company is located at Akadeemia tee 33, Tallinn.

Results for the first half of 2004

The unaudited consolidated net sales of AS Klementi for the first half of 2004 were EEK 63.6m (EUR 4,1m) and the net loss was EEK 4.7m (EUR 0.3m). The unaudited consolidated net sales of for the same period of the previous year were EEK 54.8m (EUR 3.5m) and the net loss was EEK 19.0m (EUR 1.2m). Sales increased in the first half of 2004 by 16.1% compared to the same period of the previous year.

There are no significant changes in the sales structure compared to the same period of the previous year. Sales of clothes formed 78.43% of the total sales (77.4% in 2003). The percentage of subcontracted production in the sales structure has remained the same when compared to the same period of the previous year, but sales have increased by EEK 1.7m (EUR 0.1m). Export sales increased by EEK 5.9m (EUR 0.4m) or by 19.2% compared to the same period of the previous year. Exports to Latvia and Sweden increased 2.3 and nearly 1.8 fold, respectively, compared to the same period last year. The new market of Norway was added this year.

Retail sales formed nearly 44% of the clothes sales of the first half of 2004. The respective percentage in the same period of 2003 was 43%. Compared to the first half of 2003, retail sales increased by nearly 13% and over 31% in Estonia and Latvia, respectively. The growth in retail sales is partly due to the opening of new shops in the 2nd quarter. Three new ladies outfits shops were opened, two in Tallinn and one in Stockholm. As of the end of June 2004, Klementi was using 3154 square meters of sales area (compared to 2952 square meters a year ago).

The group employed 479 people as of 30 June 2004 (559 in 2003).

Profit analysis

Operating income before depreciation of fixed assets amounted to EEK 1.8m (EUR 0.1m), representing an EEK 14.6m (EUR 0.9m) growth compared to the same period last year.

The consolidated net loss of the AS Klementi group for the first half of 2004 was EEK 4.7m (EUR 0.3m). The net loss for the same period of 2003 was EEK 19.0m (EUR 1.2m).

Due to increased sales, expenses on production and intermediation of goods increased by EEK 2.0m (EUR 0.1m) in the first half of the year. Labour expenses have decreased by over EEK 5.2m (EUR 0.3m) compared to the same period last year. Operating expenses (except for production and intermediation expenses) have decreased, compared to the same period of the previous year, by nearly 13%.

Balance sheet and ratios

The consolidated balance sheet total of AS Klementi was EEK 121.4m (EUR 7.8m) as of 30 June 2004. The balance sheet total has decreased by EEK 0.6m (EUR 0.04m) since the beginning of the year.

Accounts receivable have decreased by EEK 4.5m (EUR 0.3m) in connection with the receipt of the sales proceeds of the spring and summer collection. The group's inventories totaled EEK 37.0m (EUR 2.4m) at the end of the 2nd quarter of 2004. The increase in inventories by EEK 3.7m (EUR 0.2m) since the beginning of the year is related to the completion of the autumn and winter collection, produced under the Klementi and PTA trademark, and purchases for retail sales. Accounts payable have increased by EEK 4.5m (EUR 0.3m) in connection with materials and goods acquired for the autumn and winter collection. The net change of EEK 2.7m (EUR 0.2m) in debt obligations arises from the difference between loans received and repaid in the 2nd quarter.

The main financial indicators and ratios that characterize the consolidated data of the AS Klementi group for the first six months of 2004 are as follows:

Main financial indicators	1st half of 2004	1st half of 2003	Change
Operating income, EEK '000	64 796	55 394	17.0%
Operating profit/loss before depreciation (EBITDA), EEK '000	1 818	-12 795	14 613
Margin, %	3%	-23%	-
Operating income (EBIT), EEK '000	-2 003	-16 488	14 485
EBIT to net sales, %	-3%	-30%	-
Loss for the period, EEK '000	-4 693	-19 003	14 310
ROA, %	-3.9%	-16.1%	-
ROE, %	-17.2%	-55,4%	-
Earnings per share (EPS), EEK	-2.47	-13.78	11.31
Sales growth, %	16.1%	-4.4%	-
Share of clothes sales in total sales, %	78.4%	77.4%	-
Current ratio	0.76	0.90	-
Quick ratio	0.25	0.31	-
Inventory turnover	3.96	3.80	-

The ratios were calculated as follows:

Return on assets ROA: Net profit / average total assets

Return on equity (ROE): Net profit / average equity capital

Earnings per share (EPS): Net profit / average common shares

Current ratio: Current assets / current liabilities

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

Inventory turnover (annual basis): Net turnover / average inventory for the period

Toomas Leis
CEO of AS Klementi

Balance sheet

Consolidated, unaudited

	Notes	30 June 2004 EEK '000	31 December 2003 EEK '000	30 June 2004 EUR '000	31 December 2003 EUR '000
ASSETS					
Current assets					
Cash and bank		5 433	2 916	347	186
Accounts receivable	1	10 327	14 862	660	950
Other short-term receivables		339	1 097	22	70
Prepaid expenses		1 534	945	98	60
Inventories	2	36 986	33 284	2 363	2 127
Total current assets		**54 619**	**53 104**	**3 490**	**3 393**
Fixed assets					
Long-term investments		1 156	1 173	74	75
Tangible assets	3	58 909	60 403	3 765	3 861
Intangible assets	3	6 678	7 306	427	467
Total fixed assets		**66 743**	**68 882**	**4 266**	**4 403**
TOTAL ASSETS		**121 362**	**121 986**	**7 756**	**7 796**
OWNERS' EQUITY AND LIABILITIES					
Current liabilities					
Debt obligations	4	50 352	47 604	3 218	3 042
Customer prepayments		20	470	1	30
Accounts payable		14 244	9 745	910	623
Other payables		782	782	50	50
Tax debt		2 724	3 242	174	207
Accrued expenses		2 704	5 064	173	324
Short-term provisions		6	12	1	1
Total current liabilities		**70 832**	**66 919**	**4 527**	**4 277**
Noncurrent liabilities					
Long-term debt	4	21 283	21 283	1 360	1 360
Other long-term payables		4 203	4 204	269	269
Provisions for liabilities and charges		68	68	4	4
Total noncurrent liabilities		**25 554**	**25 555**	**1 633**	**1 633**
Total liabilities		**96 386**	**92 474**	**6 160**	**5 910**
Owners' equity					
Share capital	5	18 969	18 969	1 212	1 212
Share premium		40 294	40 294	2 575	2 575
Revaluation reserve		15 578	15 578	996	996
Other reserves		1 046	1 046	67	67
Retained earnings		-46 439	-24 798	-2 968	-1 585
Foreign exchange differences		221	64	14	4
Profit for the financial year		-4 693	-21 641	-300	-1 383
Total owners' equity		**24 976**	**29 512**	**1 596**	**1 886**
TOTAL OWNERS' EQUITY AND LIABILITIES		**121 362**	**121 986**	**7 756**	**7 796**

Income statement – 2nd quarter

Consolidated, unaudited

	Notes	2004 2nd quarter EEK '000	2003 2nd quarter EEK '000	2004 2nd quarter EUR '000	2003 2nd quarter EUR '000
Operating income					
Net sales	5	24 546	22 968	1 569	1 468
Other income		753	289	48	18
Total operating income		**25 299**	**23 257**	**1 617**	**1 486**
Operating expenses					
Change in inventories		-1 731	-771	-111	-49
Materials, raw materials and services		8 235	9 982	526	637
Other operating expenses		7 623	7 788	487	497
Personnel expenses		10 446	12 627	668	808
Other expenses		822	386	53	25
Total operating expenses		**25 395**	**30 012**	**1 623**	**1 918**
Earnings before depreciation		**-96**	**-6 755**	**-6**	**-432**
Depreciation		1 919	1 858	123	119
Operating profit		**-2 015**	**-8 613**	**-129**	**-551**
Financial income and expenses					
Interest expenses		-1 183	-1 283	-76	-82
Foreign exchange loss		-109	-41	-7	-2
Other financial income and expenses		-18	49	-1	3
Total financial income and expenses		**-1 310**	**-1 275**	**-84**	**-81**
Net loss		**-3 325**	**-9 888**	**-213**	**-632**
Earnings per share					
Basic earnings per share (EEK/EUR)	6	-1.75	-5.93	-0.11	-0.38
Diluted earnings per share (EEK/EUR)	6	-1.75	-5.93	-0.11	-0.38

Income statement – 1st half of the year

Consolidated, unaudited

	Notes	2004 1st half-year EEK '000	2003 1st half-year EEK '000	2004 1st half-year EUR '000	2003 1st half-year EUR '000
Operating income					
Net sales	5	63 602	54 779	4 065	3 501
Other income		1 194	615	76	39
Total operating income		**64 796**	**55 394**	**4 141**	**3 540**
Operating expenses					
Change in inventories		179	1 990	11	127
Materials, raw materials and services		24 875	22 852	1 590	1 460
Other operating expenses		14 505	14 712	927	940
Personnel expenses		22 122	27 345	1 414	1 748
Other expenses		1 297	1 290	83	83
Total operating expenses		**62 978**	**68 189**	**4 025**	**4 358**
Earnings before depreciation		**1 818**	**-12 795**	**116**	**-818**
Depreciation		3 821	3 693	244	236
Operating loss		**-2 003**	**-16 488**	**-128**	**-1 054**
Financial income and expenses					
Interest expenses		-2 622	-2 536	-168	-162
Foreign exchange loss		-65	-80	-4	-5
Other financial income and expenses		-3	101	0	6
Total financial income and expenses		**-2 690**	**-2 515**	**-172**	**-161**
Net loss		**-4 693**	**-19 003**	**-300**	**-1 215**
Earnings per share					
Basic earnings per share (EEK/EUR)	6	-2.47	-13.78	-0.16	-0.88
Diluted earnings per share (EEK/EUR)	6	-2.47	-13.78	-0.16	-0.88

Cash flow statement

Consolidated, unaudited

	30 June 2004 1st half-year EEK '000	30 June 2003 1st half-year EEK '000	30 June 2004 1st half-year EUR '000	30 June 2003 1st half-year EUR '000
Cash flow from operating activities				
Net loss	-4 693	-19 003	-300	-1 215
Adjustments				
Depreciation of fixed assets	3 821	3 693	244	236
Profit from sale of fixed assets	-140	-15	-9	-1
Change in receivables and prepayments related to business operations	4 704	2 393	301	153
Changes in inventories	-3 702	167	-237	11
Change in liabilities and prepayments related to business operations	780	-5 449	50	-348
Accrued interest	2 622	2 536	168	162
Interest paid	-2 076	-2 316	-133	-148
Foreign exchange differences	157	0	10	0
Total cash flow from operating activities	**1 473**	**-17 994**	**94**	**-1 150**
Cash flow from investing activities				
Acquisition of tangible assets	-2 053	-922	-131	-59
Sale of tangible assets	247	129	16	8
Repayments of loans granted	76	412	5	27
Interest received	26	32	1	2
Total cash flow from investing activities	**-1 704**	**-349**	**-109**	**-22**
Cash flow from financing activities				
Loans received	15 700	28 000	1 004	1 790
Loan repayments	-5 132	-30 368	-328	-1 941
Repayments of financial lease principal	-533	-872	-34	-56
Overdraft received	3 415	16 603	218	1 061
Overdraft paid	-10 702	-13 820	-684	-883
Proceeds of share issues	0	15 813	0	1 010
Total cash flow from financing activities	**2 748**	**15 356**	**176**	**981**
Change in cash and cash equivalents	**2 517**	**-2 987**	**161**	**-191**
Cash and equivalents at beginning of period	**2 916**	**4 485**	**186**	**287**
Cash and equivalents at end of period	**5 433**	**1 498**	**347**	**96**

Changes in owners' equity

Consolidated, unaudited

In thousands of Estonian kroons

	Share capital	Share pre-mium	Revalu-ation reserve	Legal reserve	Foreign ex-change differenc es	Retained loss	Loss for financial year	Total
Balance 31.12.2002	**13 219**	**30 863**	**15 578**	**1 046**	**-**	**7 083**	**-31 881**	**35 908**
Allocation of loss for 2002 to retained loss	-	-	-	-	-	-31 881	31 881	-
Share capital issued	5 750	10 063	-	-	-	-	-	15 813
Loss for accounting period	-	-	-	-	-	-	-19 003	-19 003
Balance 30.06.2003	**18 969**	**40 926**	**15 578**	**1 046**	**-**	**-24 798**	**-19 003**	**32 718**
Balance 31.12.2003	**18 969**	**40 294**	**15 578**	**1 046**	**64**	**-24 798**	**-21 641**	**29 512**
Allocation of loss for 2003 to retained loss	-	-	-	-	-	-21 641	21 641	-
Foreign exchange differences	-	-	-	-	157	-	-	157
Loss for accounting period	-	-	-	-	-	-	-4 693	-4 693
Balance 30.06.2004	**18 969**	**40 294**	**15 578**	**1 046**	**221**	**-46 439**	**-4 693**	**24 976**

Changes in owners' equity

Consolidated, unaudited

In thousands of Euros

	Share capital	Share pre-mium	Revalu-ation reserve	Legal reserve	Foreign ex-change diffe-rences	Retained loss	Loss for financial year	Total
Balance 31.12.2002	**845**	**1 973**	**996**	**67**	**-**	**453**	**-2 038**	**2 296**
Allocation of loss for 2002 to retained loss	-	-	-	-	-	-2 038	2 038	-
Share capital issued	367	643	-	-	-	-	-	1 010
Loss for accounting period	-	-	-	-	-	-	-1 215	-1 215
Balance 30.06.2003	**1 212**	**2 616**	**996**	**67**	**-**	**-1 585**	**-1 215**	**2 091**
Balance 31.12.2003	**1 212**	**2 575**	**996**	**67**	**4**	**-1 585**	**-1 383**	**1 886**
Allocation of loss for 2002 to retained loss	-	-	-	-	-	-1 383	1 383	-
Foreign exchange differences	-	-	-	-	10	-	-	10
Loss for accounting period	-	-	-	-	-	-	-300	-300
Balance 30.06.2004	**1 212**	**2 575**	**996**	**67**	**14**	**-2 968**	**-300**	**1 596**

Accounting principles and valuation assumptions used in preparing the interim report

The consolidated interim report of AS Klementi (group) for the first six months of 2004 was prepared in accordance with the Republic of Estonia Accounting Act and the IFRS requirements for summarized interim reports. The same accounting methods were used in the preparation of the interim report as in the annual report for the financial year that ended on 31.12.2003.

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

Consolidated financial reports contain the financial results of all the subsidiaries controlled by the parent company. The group's consolidated reports contain the financial reports of the parent company and subsidiaries, added line by line; any claims, liabilities, income, expenses, unrealized profit and loss created by the internal transactions in the group have been eliminated.

The consolidated financial reports for the 2nd quarter of 2004 reflect the financial indicators of AS Klementi (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. In the acquisition of a subsidiary, the parent company's holding in the subsidiary's net assets is fixed based on the exchange rate of the date of acquisition. The balance sheets of subsidiaries, converted into Estonian kroons, show the components of the subsidiaries' equity capital based on evaluation on the date of acquisition. The income and expenses of subsidiaries are evaluated on the basis of the weighted average exchange rate. The exchange differences due to revaluation is recorded in the consolidated balance sheet under "foreign exchange loss" under equity capital.

Foreign currency transactions are recorded at the Bank of Estonia exchange rate applicable on the date of 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. The foreign exchange gains and losses due to revaluation are reflected in the income statement for the accounting period.

Subsidiaries are understood as 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 2nd 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: the assets and liabilities of the acquired subsidiary are revaluated stating their fair value. The difference between the acquisition value of the acquired holding and the fair value of the acquired net assets is recorded under goodwill.

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

Tangible assets are recorded in the balance sheet at acquisition value (except for land), less accumulated depreciation and any devaluation due to decreases in the value of the asset.

Depreciation is calculated using the linear 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
- Other equipment 25–30% per annum
- Computer 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 on repairs and improvement of fixed assets are, as a rule, recorded under periodic expenses. Improvements of tangible assets are capitalized if the properties of the specific assets are brought to a qualitatively new level or if it can be proved that income corresponding to the expenses made is largely to be received in future periods.

Intangible assets are recorded at the acquisition value, which comprises the purchase price and expenses directly related to acquisition. Intangible assets are recorded in the balance sheet at acquisition value, less accumulated amortization and any devaluation due to decreases in the value of the asset. Amortization is calculated using the linear method based on the expected useful life of the asset.

Inventories (raw material, materials, purchased goods, etc.) are recorded at acquisition value, which comprises the purchase price, production expenses and other expenses needed to take the inventories into their current location and condition.
Inventories are valuated on the basis of the lowest of the acquisition value or net sales 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.

Accounts receivable are recorded using the adjusted acquisition value method. Accounts receivable are estimated for the balance sheet based on sums likely to be received as of the balance sheet date. Accounts receivable whose collection is unlikely are expensed during the period. Accounts receivable whose collection is not possible or financially reasonable are regarded as bad debts and removed from the balance sheet. The company forms a reserve to cover bad debts; the reserve is entered in the balance sheet with a negative value.

Financial obligations (accounts payable, accrued expenses, other short and long term debts) are initially recorded at acquisition value, comprising all expenses directly related to acquisition. They are further recorded using the adjusted acquisition value method.

The adjusted acquisition value of short-term financial obligations is usually equal to their nominal value, which is why short-term financial obligations are recorded in the balance sheet at the value payable.

Debt obligations (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 value, i.e. the initial acquisition value is adjusted by the principal repayments and cumulative depreciation of the difference between the initial acquisition value 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 value. Depreciation of transaction costs is recorded in the income statement together with interest expenses.

Interest expenses are recorded in the income statement as expenses during the period of their accrual. The accrued interest payable by the balance sheet date is recorded in the balance sheet as accrued expenses.

Taxation

According to the applicable law, corporate income is not subject to taxes in Estonia, which is why there are no deferred income tax claims and liabilities within the meaning if IAS 12 (Income Taxes). Income tax applies to dividends paid out of retained earnings at a rate of 26/74 on the sum paid as net dividend, and other payments, which by their nature constitute distribution of profits. The undertaking's income tax on dividends is recorded in the balance sheet as income tax expense during the same period when the dividends are declared or actually paid.

Accounting for income

Sales income is recorded on an accrual basis on the basis of the realization principle.

Income from the sale of goods is presented after all the major risks related to the title have passed over to the purchaser and the revenue from the sale and related costs can be reliably determined.

Income from the sale of services is presented after the provision of the service or, if the service is provided over a length of time, based on the level of readiness method.

Interest income, license fees and dividend income is recorded when receipt of the income is likely and the amount of the income can be reliably determined. Interest income is calculated on an accrual basis, unless receipt is unlikely. Income from license fees is recorded on an accrual basis, taking into account the conditions of the contract. Dividend income is recorded at the moment when the owner becomes eligible to dividends.

Report forms

The balance sheet and income statement of the AS Klementi group were prepared in adherence to the report schemes established by the Republic of Estonia Accounting Act. For improved presentation, some of the entries have been summaries; 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 flows from investing and financing activities are presented as gross receipts and disbursements during the accounting period.

According to the assessment of the management board, the interim report of AS Klementi for the first half of 2004 presents a fair and true view of the financial results of the company, which is a going concern. This interim report has not been audited or otherwise reviewed by any auditors.

Notes to consolidated interim report

Note 1 Accounts receivable

	30 June 2004 EEK '000	31 December 2003 EEK '000	30 June 2004 EUR '000	31 December 2003 EUR '000
Accounts receivable	10 327	14 862	660	950
Total	**10 327**	**14 862**	**660**	**950**

In the first half of 2004, bad debts of EEK 24k (EUR 1.5k) were written off the balance sheet.

Note 2 Inventories

	30 June 2004 EEK '000	31 December 2003 EEK '000	30 June 2004 EUR '000	31 December 2003 EUR '000
Raw materials	7 879	5 175	503	330
Work in progress	8 900	4 011	569	257
Finished goods	16 065	17 507	1 026	1 119
Goods for resale	3 942	6 553	252	419
Prepayments to suppliers	200	38	13	2
Total	**36 986**	**33 284**	**2 363**	**2 127**

Inventories devaluation amounted to EEK 212k (EUR 13.5k) in the first half of 2004.

Note 3 Tangible and intangible assets

	Tangible assets EEK '000	Intangible assets EEK '000	Tangible assets EUR '000	Intangible assets EUR '000
Acquisition value				
As of 31.12.2002	**87 757**	**9 654**	**5 481**	**616**
Acquisitions	1 095	-	70	-
Selling and write-offs (-)	-1 193	-	-76	-
Reclassification of fixed assets	-927	927	-60	60
As of 30.06.2003	**84 732**	**10 581**	**5 415**	**676**
As of 31.12.2003	**87 947**	**12 332**	**5 621**	**788**
Acquisitions	2 053	9	131	1
Selling and write-offs (-)	-1 224	-	-79	-
As of 30.06.2004	**88 776**	**12 341**	**5 673**	**789**
Accumulated depreciation				
As of 31.12.2002	**21 108**	**3 883**	**1 349**	**248**
Depreciation	3 169	524	203	33
Depreciation of fixed assets sold and written off (-)	-938	-	-60	-
Reclassification of depreciation of fixed assets	-556	556	-36	36
As of 30.06.2003	**22 783**	**4 963**	**1 456**	**317**
As of 31.12.2003	**27 544**	**5 026**	**1 760**	**321**
Depreciation	3 184	637	203	41
Depreciation of fixed assets sold and written off (-)	-861	-	-55	-
As of 30.06.2004	**29 867**	**5 663**	**1 908**	**362**
Residual value				

As of 30.06.2003	61 949	5 618	3 959	359
As of 30.06.2004	58 909	6 678	3 765	427

Note 4 Short and long term debt obligations

The group had the following debt obligations as of 30.06.2004:

	Short-term EEK '000	**Long-term** EEK '000	**Short-term** EUR '000	**Long-term** EUR '000	**Interest rate**	**Due date**
Guaranteed debt obligations						
Eesti Ühispank overdraft	9 145	-	584	-	7%	30.09.2004
Hansapank loan	1 595	14 620	102	934	EURIBOR+5%	15.07.2009
Eesti Ühispank loan	8 714	-	557	-	6%	30.09.2004
Hansapank loan	22 500	-	1 438	-	7%	31.01.2005
Convertible bonds – PTA Group bankruptcy estate	-	1 200	-	77	5%	31.12.2005
Unguaranteed debt obligations						
Financial lease liabilities	448	3 543	29	226	Average 8.6%	2003-2007
Loan from PTA bankruptcy estate	-	800	-	51	5%	31.12.2005
Loan from Alta Holding OÜ	-	1 120	-	72	0%	31.12.2005
Loans from Alta Capital AS	7 950	-	508	-	Weighted average 14.4%	31.01.2005
Total	**50 352**	**21 283**	**3 218**	**1 360**		

The group had the following debt obligations as of 31.12.2003:

	Short-term EEK '000	**Long-term** EEK '000	**Short-term** EUR '000	**Long-term** EUR '000	**Interest rate**	**Due date**
Guaranteed debt obligations						
Eesti Ühispank overdraft	9 167	-	586	-	8,5%	15.05.2004
Hansapank overdraft	7 265	-	464	-	7,75%	15.05.2004
Hansapank loan	3 190	14 620	204	934	EURIBOR+5%	15.07.2009
Eesti Ühispank loan	10 000	-	639	-	6%	15.05.2004
Hansapank loan	17 000	-	1 086	-	7%	30.05.2004
Convertible bonds – PTA Group bankruptcy estate	-	1 200	-	77	5%	31.12.2005
Unguaranteed debt obligations						
Financial lease liabilities	982	3 543	63	226	Average 8.6%	2003-2007
Loan from PTA bankruptcy estate	-	800	-	51	5%	31.12.2005
Loan from Alta Holding OÜ	-	1 120	-	72	0%	31.12.2005
Total	**47 604**	**21 283**	**3 042**	**1 360**		

Security for loans

The long-term loan from Hansapank and the overdraft are secured by a first rank mortgage in the registered immovables of the administrative building, production building and shops in an amount of EEK 27,000k (EUR 1,726k) and collateral claims of EEK 5,400k (EUR 345k), and a second rank commercial pledge contract in an amount of EEK 15,000k (EUR 959k). Due to the cyclical nature of the main operations of the company, additional working capital was involved by way of borrowing.
The residual value of the fixed assets pledged as security was EEK 34,855k (EUR 2,228k) as of 30.06.2004.

Note 5 Owners' equity

a) Shares

The share capital of AS Klementi is EEK 18,969k (EUR 1,212k), which is divided into 1,896,875 shares with a nominal value of EEK 10 (EUR 0.64) each. All the shares of Klementi are registered A-shares. Each A-share grants a shareholder one vote at the general meeting. 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 52,000k (EUR 3,323k) and the minimum share capital is EEK 13,000k (EUR 831k).
AS Klementi had 548 shareholders as of 30.06.2004.

The shareholders of AS Klementi whose holding exceeded 1% as of 30.06.2004:

Name	Number of shares	Shareholding
Major shareholders	**1 669 595**	**88,0%**
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	171 769	9,0%
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	1,9%
HEX Back Office and Custody Services OY Funds	29 296	1,5%
Peeter Larin	20 000	1,1%
Minor shareholders	**227 280**	**12.0%**
Total shares	**1 896 875**	**100.0%**

b) Reserves

The financial statements contain the following 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, if this cannot be covered from the free equity capital of the company, as well as to increase share capital;
- Share premium – the difference between the price and nominal value of the shares issued.

c) Information on shares

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

During the first six months of 2004, the highest and lowest prices of the AS Klementi share on the Tallinn Stock Exchange were EEK 32.08 (EUR 2.05) and EEK 27.38 (EUR 1.75), respectively. The average price of the share was EEK 29.44 (EUR 1.88).

Note 6 Earnings per share (EPS)

Basic and diluted earnings per share in the first half-year were as follows:

	2004 1st half-year	2003 1st half-year
Total shares as of 1 January, '000 pcs	1 897	1 322
Shares issued 13.06.2003, '000 pcs	-	575
Total shares as of 30 June, '000 pcs	1 897	1 897
Weighted average number of common shares, '000 pcs	1897	1379
Net loss for accounting period, EEK '000	-4 693	-19 003

Net profit for accounting period, EUR '000	-300	-1 215
Basic earnings per share, EEK	-2.47	-13.78
Basic earnings per share, EUR	-0.16	-0.88
Diluted earnings per share, EEK	-2.47	-13.78
Diluted earnings per share, EUR	-0.16	-0.88

Basic earnings per share were calculated as a ratio of net loss to the weighted average number of common shares.

The convertible bonds owned by the PTA Group bankruptcy estate are potential common shares. The special general meeting of 31.07.2002 decided to reduce, on 12.08.2002, the number of potential common shares from 200,000 shares with a nominal value of EEK 10 (EUR 0.64) each to 50,000 shares with a nominal value of EEK 24 (EUR 1.53) each.

Note 7 Net sales

The consolidated net sales of AS Klementi for the first half of 2004 were EEK 63,602k (EUR 4,065k), including exports EEK 36,740k (EUR 2,348k) or 57.8%, and the net sales for the first half of 2003 were EEK 54,779k (EUR 3,501k), including exports of EEK 30,826k (EUR 1,970k) or 56.3%, broken down as follows:

	2004 1st half-year EEK '000	2003 1st half-year EEK '000	2004 1st half-year EUR '000	2003 1st half-year EUR '000
Sales				
Sales of clothes	49 868	42 415	3 187	2 711
Subcontracting works and services	13 167	11 433	842	731
Sales of material	414	441		28
Other sales	153	490		31
Total sales	**63 602**	**54 779**	**4 065**	**3 501**
Including exports				
Sales of clothes	24 678	20 595	1 576	1 316
Subcontracting works and services	11 571	10 201	740	652
Sales of material	402	30	26	2
Other sales	89	-	6	-
Total exports	**36 740**	**30 826**	**2 348**	**1 970**
Percentage of exports	*57.8%*	*56.3%*	*57.8%*	*56.3%*

The main export destinations were as follows:

Country	2004 1st half-year EEK '000	2003 1st half-year EEK '000	2004 1st half-year EUR '000	2003 1st half-year EUR '000
Finland	17 936	17 638	1 146	1 128
Sweden	9 001	5 041	575	322
Lithuania	1 467	4 918	94	314
Latvia	7 157	3 066	457	196
Other	1 179	163	76	10
Total	**36 740**	**30 826**	**2 348**	**1 970**

Note 8 Related parties

Transactions with related parties are understood as transactions with shareholders, subsidiaries and related companies, members of the supervisory board and management board, their close relatives and companies in which they have a qualifying holding.

a) Remuneration of members of management board and supervisory board

Members of the management board and supervisory board were paid the following remuneration in the first six months of 2004 and 2003:

	6 months 2004 EEK (EEK '000)	6 months 2003 EEK (EEK '000)	6 months 2004 EEK '000	6 months 2003 EEK '000
Wages	261	290	17	18

b) Transactions with related parties

The following transactions were made with related parties in the first six months of 2004 and 2003:

	6 months 30 June 2004 EEK '000	6 months 30 June 2003 EEK '000	6 months 30 June 2004 EUR '000	6 months 30 June 2003 EUR '000
1. Goods and services sold				
Shareholders				
Alta Capital AS	7	-	0	-
2. Goods and services purchased				
Shareholders				
Alta Capital AS	-	373	-	24
3. Loans received				
Shareholders				
Alta Capital AS	8 200	2 000	524	128
4. Loans repaid				
Shareholders				
Alta Capital AS	250	2 000	16	128

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

Note 9 Segments

a) Primary segment – business segment by area of activity

	Retail trade **6 months 2004** **30 June 2004** EEK '000	**Production, wholesale and subcontracting** **6 months 2004** **30 June 2004** EEK '000	**Intersegmental transactions** **6 months 2004** **30 June 2004** EEK '000	**Total** **6 months 2004** **30 June 2004** EEK '000	**Retail trade** **6 months 2004** **30 June 2004** EUR '000	**Production, wholesale and subcontracting** **6 months 2004** **30 June 2004** EUR '000	**Intersegmental transactions** **6 months 2004** **30 June 2004** EUR '000	**Total** **6 months 2004** **30 June 2004** EUR '000
Extra-group sales	27 910	35 692	-	63 602	1 784	2 281	-	4 065
Intersegmental sales	-	12 285	-12 285	-	-	785	-785	-
Total sales	**27 910**	**47 977**	**-12 285**	**63 602**	**1 784**	**3 066**	**-785**	**4 065**
Operating profit/loss of the segment	-260	1 664	-	1 404	-17	106	-	89
Indivisible operating expenses				-3 407				-217
Total operating loss				**-2 003**				**-128**
Other financial income and expenses				-2 690				-172
Net loss				**-4 693**				**-300**
Assets and claims	13 862	85 713	-	99 575	886	5 478	-	6 364
Indivisible assets of the group				21 787				1 392
Total assets				**121 362**				**7 756**
Liabilities	1 072	19 622	-	20 694	69	1 253	-	1 322
Indivisible liabilities of the group				100 668				6 434
Total liabilities				**121 362**				**7 756**
Purchase of tangible and intangible assets	25	2 037	-	2 062	2	130	-	132
Depreciation and amortisation	1 289	2 532	-	3 821	82	162	-	244

	Retail trade 6 months 2003 30 June 2003 EEK '000	Production, wholesale and subcontracting 6 months 2003 30 June 2003 EEK '000	Intersegmental transactions 6 months 2003 30 June 2003 EEK '000	Total 6 months 2003 30 June 2003 EEK '000	Retail trade 6 months 2003 30 June 2003 EUR '000	Production, wholesale and subcontracting 6 months 2003 30 June 2003 EUR '000	Intersegmental transactions 6 months 2003 30 June 2003 EUR '000	Total 6 months 2003 30 June 2003 EUR '000
Extra-group sales	23 349	31 430	-	54 779	1 492	2 009	-	3 501
Intersegmental sales	-	14 463	-14 463	-	-	924	-924	-
Total sales	**23 349**	**45 893**	**-14 463**	**54 779**	**1 492**	**2 933**	**-924**	**3 501**
Operating profit/loss of the segment	-3 488	-8 047	-	-11 535	-223	-514	-	-737
Indivisible operating expenses				-4 953				-317
Total operating loss				**-16 488**				**-1 054**
Other financial income and expenses				-2 515				-161
Net loss				**-19 003**				**-1 215**
Assets and claims	6 708	89 424	-	96 132	429	5 715	-	6 144
Indivisible assets of the group				17 803				1 138
Total assets				**113 935**				**7 282**
Liabilities	1 428	13 512	-	14 940	91	864	-	955
Indivisible liabilities of the group				98 995				6 327
Total liabilities				**113 935**				**7 282**
Purchase of tangible and intangible assets	-	1 095	-	1 095	-	70	-	70
Depreciation and amortisation	-	3 693	-	3 693	-	236	-	236

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

	Sales income 6 months 2004 EEK '000	Sales income 6 months 2003 EEK '000	Assets 30 June 2004 EEK '000	Assets 30 June 2003 EEK '000	Investments in fixed assets 6 months 2004 EEK '000	Investments in fixed assets 6 months 2003 EEK '000	Sales income 6 months 2004 EUR '000	Sales income 6 months 2003 EUR '000	Assets 30 June 2004 EUR '000	Assets 30 June 2003 EUR'000	Investments in fixed assets 6 months 2004 EUR '000	Investments in fixed assets 6 months 2003 EUR '000
Estonia	26 862	23 953	102 727	105 260	2 024	411	1 717	1 531	6 565	6 728	129	26
Latvia	7 157	3 066	529	3 260	25	612	457	196	34	208	2	39
Lithuania	1 467	4 918	354	3 082	-	-	94	314	23	197	-	-
Finland	17 936	17 638	1 994	2 333	-	-	1 146	1 128	127	149	-	-
Sweden	9 001	5 041	15 684	-	13	72	575	322	1 002	-	1	5
Other countries	1 179	163	74	-	-	-	76	10	5	-	-	-
Total	**63 602**	**54 779**	**121 362**	**113 935**	**2 062**	**1 095**	**4 065**	**3 501**	**7 756**	**7 282**	**132**	**70**

The management is convinced that the prices used in intersegmental transactions do not substantially differ from market prices.

Note 10 Events after balance sheet date

Sale of registered movables, reduction of debt obligations

The registered immovables at Akadeemia tee 33B (shop building) and Kadaka tee 179B (auxiliary production building) were sold in July and August 2004 for EEK 5,450,k (EUR 348k). The sales proceeds of the immovables were used to reduce the loan obligations to AS Hansapank: EEK 975k (EUR 62k), and AS Eesti Ühispank: EEK 3,960k (EUR 253k).

Loan securities were changed in connection with the sale of the immovables. The long-term loan from Hansapank and the overdraft are secured by a first rank mortgage in the registered immovables of the administrative building and production building in an amount of EEK 13,000k (EUR 831k), a second rank commercial pledge contract in an amount of EEK 15,000k (EUR 959k) and a third rank commercial pledge contract in an amount of EEK 27,000k (EUR 1,726k).

The long-term loan from AS Eesti Ühispank are secured by a second rank mortgage in the registered immovables of the administrative building and production building in an amount of EEK 7,000k (EUR 447k) and a first rank commercial pledge contract in an amount of EEK 23,000k (EUR 1,470k).

The residual value of the fixed assets pledged as security was EEK 32,191k (EUR 2,058k) as of 23.08.2004.