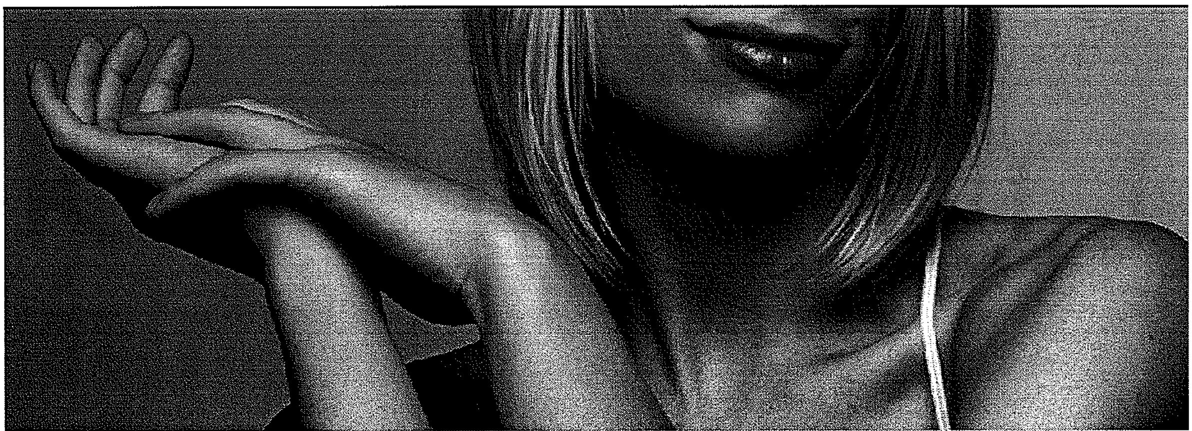
KLEMENTI



ANNUAL REPORT

Financial year: 1 January 2005 – 31 December 2005
(Translation of the Estonian original)

GENERAL INFORMATION

Business name:	AS Klementi
Commercial Registry No.:	10175491
Address:	Akadeemia tee 33, 12618 TALLINN
Phone:	+372 6710 700
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E-mail:	klementi@klementi.ee
Internet homepage:	www.klementi.ee
Main activities:	design, manufacturing and sale of apparel
Form of ownership:	public limited company
Chairman of the Management Board:	Peeter Larin
Financial Manager:	Marianne Paas
Auditor:	AS PricewaterhouseCoopers

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MANAGEMENT REPORT

General information on the Group

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

As of 31.12.2005, the Klementi Group whose parent company is AS Klementi consisted of four wholly owned subsidiaries: Klementi Trading OY, UAB Klementi Vilnius (under liquidation), Klementi Trading AB and SIA Vision. The subsidiaries are engaged in retail and wholesale distribution of apparel in Finland, Sweden, Latvia and Lithuania.

The Klementi Group operates a retail store chain under the PTA brand in Estonia and Latvia, and owns a factory stores in Estonia. The Company markets the brands PTA, Mallimari, Piretta and Mastercoat of the Klementi Group through its own retail chain as well as through wholesalers. The factory stores sell apparel from past seasons' collections.

Results of operations of AS Klementi in 2005

In 2005, the consolidated net sales AS Klementi amounted to 7.32 million euros (2004: 8.22 million euros) and the loss amounted to 0.20 million euros (2004: 0.76 million euros). As compared to 2004, the net sales decreased by 10.9% and the loss by 0.56 million euros.

As compared to the previous year, the composition of sales has not significantly changed. In 2005, the share of apparel sales in total sales amounted to 77.9% (2004: 78.2%). In 2005, the share of subcontracted products decreased by 19.8%. In 2005, the share of exports in total sales decreased by over 6.1%. The decrease in sales was primarily related to the wholesale turnover in the Nordic countries, especially in Sweden and Finland.

As of 31.12.2005, the consolidated balance sheet total of the Klementi Group was 3.32 million euros (31.12.2004: 6.76 million euros), decreasing by 3.44 million euros as compared to the year-end of the previous year. At the end of 2005, AS Klementi sold its registered land and buildings. The cost of the sales transaction was 3.39 million euros and Klementi made a profit of 0.97 million euros from the transaction. AS Klementi continues to operate as a lessee on the same space under a long-term lease agreement.

In conjunction with the instalment of the new economics software MS Axapta in 2005, management of retail prices and inventories was more complicated and it had a major negative effect on the results of operations of the Company.

Products and markets

From the second half of 2004, the main brand under development has been the PTA brand. Product development activities centred on the PTA brand and a chain of stores redesigned as the PTA retail chain has positively affected retail sale growth.

In addition to Estonia, the women's apparel of AS Klementi was sold also in the Nordic countries, Latvia, Lithuania and Russia. In 2005, the largest sales growth occurred in Latvia where apparel sales increased by 20%. In conjunction with the decrease of wholesale trade, sales decreased in the Scandinavian markets.

Retail sales

In 2005, the Group's retail sales amounted to 4.08 million euros (2004: 3.88 million euros), increasing by 5.3% as compared to the year before. Retail revenue amounted to 71.7% (2004: 60.4%) of apparel sales. Total retail sales increased by 0.20 million euros, most of which was related to the improvement of efficiencies on retail spaces. As compared to the previous year, retail sales per square meter increased by almost 21%. In 2005, most of the sales volume was generated in Estonia, whereas Latvia had the largest volume growth of almost 50%.

As of the year-end 2005, the Klementi Group had 11 stores with the sales space of 2646 square meters (31.12.2004: 10 stores with the sales space of 2744 square meters).

Wholesale distribution

In 2005, wholesale of apparel decreased by 0.93 million euros, i.e. 36.7%. This was primarily related to a decrease of apparel sales in the Scandinavian countries. Due to improper positioning of apparel sold under the PTA brand and collections failing to meet expectations in earlier seasons, wholesale of apparel decreased in Sweden and Norway and AS Klementi does not currently sell its apparel in these countries.

From the end of 2005, business cooperation was started with the Finnish retail chain Anttila OY and Klementi has been marketing its products under the PTA brand in Finland since March 2006.

Subcontracting sales

In 2005, subcontracting sales volume decreased by 19.8% as compared to 2004. However, the volume of the full service of subcontracting increased in the previous financial year, as the customers purchased the full service of making apparel instead of just purchasing the sewing service. As a result, the total profit generated from the provision of subcontracting services increased by 5% as compared to 2004.

In addition to services provided in previous years (sewing service, preparation and placement of products, increase and decrease of patterns, cutting, etc.), in 2005 the Company started to offer the service of designing patterns to its subcontracting customers.

Manufacturing

In 2005, the production volumes of AS Klementi decreased by 0.6 million standard minutes as compared to 2004. In 2005, the decrease of production volumes was smaller than in 2004. Despite lower production volumes, improvement of sewing efficiencies of 3% ensured the need for making own products and enabled the Company to meet the budgeted volume of orders for the subcontracting sewing services.

Personnel

As of 31.12.2005, Klementi employed 414 people (31.12.2004: 448 people). In 2005, the average number of employees decreased by 68 people or 14%. In 2005, the average number of employees was 417 (2004: 485). In 2005, total wages and salaries at the Group amounted to 2.12 million euros (2004: 2.20 million euros).

Capital expenditures

In 2005, the volume of capital expenditures amounted to 0.14 million euros (2004: 0.17 million euros). At the beginning of 2005, the economics software Axapta was installed, whose stage I licenses and developments made for AS Klementi amounted to 0.10 million euros.

Management Board and Supervisory Board

In 2005, remuneration paid to the members of the Management Board amounted to 49.40 thousand euros (2004: 46.02 thousand euros). In 2004 and 2005, the members of the Supervisory Board did not receive any remuneration. Upon the recall of the member of the Management Board, she/he will receive compensation equalling a six-month salary.

At the end of 2005, the number of members of the Management Board increased as a result of which the Management Board consisted of three members. From 7 March 2006, the Management Board consists of two members.

Financial ratios

Profit

In 2005, the operating profit amounted to 0.19 million euros (2004: -0.39 million euros). The Company's net loss decreased by 0.56 million euros as compared to 2004.

Balance sheet and financial ratios

As of 31.12.2005, Klementi consolidated balance sheet total was 3.32 million euros (2004: 6.76 million euros). As compared to the beginning of the year, the balance sheet total has decreased by 3.44 million euros. The drastic decrease of the balance sheet total is mostly related to the decrease of the cost of property, plant and equipment in conjunction with the sale of registered land and buildings in December 2005.

In Thousands of Euros

As of the year-end 2005, inventories amounted to 1.63 million euros (31.12.2004: 1.81 million euros), decreasing by 0.18 million euros during the year. The main decrease of inventories occurred in work-in-progress and materials. Inventories of finished goods decreased by 0.20 million euros. However, the share of inventories of purchased goods has increased by 0.22 million euros. The change in the structure of inventories is related to the increase of volumes of purchased goods from the Far East.

As compared to the year-end 2004, trade receivables have decreased by 0.44 million euros. The decrease of receivables is related to the decrease of wholesale trade in the Scandinavian countries in the second half of 2005. In 2005, receivables deemed as irrecoverable and doubtful were expensed in the amount of 0.18 million euros (2004: 0.04 million euros), incl. receivables of subsidiaries from wholesale customers in the amount of 0.10 million euros.

As of the year-end 2005, trade payables have increased by 0.22 million euros as compared to the year-end of the previous year. The increase of trade payables is mostly related to large-volume supplies of purchased goods immediately prior to the year-end.

Proceeds received from the sale of registered land and buildings were used to pay off debt. As of the year-end, the volume of borrowings was 0.98 million euros and it has decreased by 3.45 million euros as compared to the beginning of the year. The decrease of other short-term payables in the amount of 0.18 million euros arises mostly from the payment of interest payables on loans received from the owners.

Key financial figures and ratios of the AS Klementi Group in 2005 are the following:

		2005	**2004**
Sales growth vs. last year		-10.9%	-3.7%
Share of apparel in total sales		77.9 %	78.2%
Inventory turnover	[net sales/average inventory balance]	4.3	4.2
Length of receivable turnover	[(receivables – customer prepayments) / average daily net sales]	9	28
Liquidity ratio	[(current assets-inventories)/current liabilities]	0.24	0.26
Current ratio	[current assets/current liabilities]	0.95	0.72
EBIT margin	[operating profit/net sales)	2.6%	-4.8%
Net margin	[net profit/net sales]	-2.8%	-9.3%
Return on equity (ROE)	[net profit/average equity]	-19.3%	-50.4%
Return on assets (ROA)	[net profit/average cost of assets]	-4%	-10.4%

Plans for 2006

In 2006, the expansion of the chain of PTA stores will continue in Estonia and Latvia and preparations will start to expand the retail chain into Lithuania, the Ukraine and Russia.

The main focus of the retail trade is to improve the efficiencies of retail sales. The following steps will be implemented to achieve this:

- increase the awareness of the PTA brand and activating tactical marketing in stores
- improvement of methods for managing retail inventories
- expansion of products within collections
- introduction of the loyal customer programme in PTA stores.

In 2006, the plan calls for doubling the number of PTA stores in Latvia as well as renovating three stores in Estonia.

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

In 2006, a gradual transition from the basic subcontracting sewing service will continue to be replaced with the full service of apparel manufacturing (so-called *full-price* products), creating additional value for the customer and enabling the Company to use its total resources more efficiently and profitably.

Within the framework of installing the economics software Microsoft Axapta, the production module is planned to be installed in 2006 enabling the Company to improve production planning and measure the actual results more precisely.

In 2006, capital expenditures are budgeted at 0.13 million euros.

Peeter Larin
Chairman of the Management Board

In Thousands of Euros

CONSOLIDATED FINANCIAL STATEMENTS
GENERAL INFORMATION AND CONFIRMATION BY THE MANAGEMEBT BOARD OF THE CONSOLIDATED FINANCIAL STATEMENTS

AS Klementi is an international apparel group which is engaged in design, manufacturing and marketing of women's apparel as well as provision of sewing subcontracting services. In 2005, the average number of employees at the Group was 417 (2004: 485). The parent company is located and has been registered in Tallinn, Estonia.

The Group consists of the following companies:

	Country of location	Participation on 31.12.2005	Participation on 31.12.2004
AS Klementi	Estonia		
Klementi Trading OY	Finland	100%	100%
Klementi Trading AB	Sweden	100%	100%
UAB Klementi Vilnius (under liquidation proceedings)	Lithuania	100%	100%
SIA Vision	Latvia	100%	100%

Starting 20 May 1997, the shares of AS Klementi are traded on the open market of Tallinn Stock Exchange.

The Management Board confirms the correctness and completeness of AS Klementi consolidated financial statements as presented on pages 8-46.

The Management Board confirms that to the best of its knowledge:

1. the financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
2. the financial statements present a true and fair view of the financial position, the results of operations and the cash flows of the Group;
3. all known material matters which have become evident by the time of completing the financial statements, have been accounted for and presented in the financial statements;
4. AS Klementi is a going concern

Peeter Larin
Chairman of the Management Board
11 May 2006

Marianne Paas
Member of the Management Board
11 May 2006

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PricewaterhouseCoopers, Tallinn

In Thousands of Euros

CONSOLIDATED BALANCE SHEET

	31.12.2005	31.12.2004	Notes
ASSETS			
Current assets			
Cash and bank	181	217	Note 2
Trade receivables	195	633	Note 3
Other receivables and prepaid expenses	165	180	Note 4
Prepaid taxes	2	2	Note 5
Inventories	1 630	1 806	Note 6
Total current assets	**2 173**	**2 838**	
Non-current assets			
Other receivables	48	61	Note 4
Property, plant and equipment	673	3 381	Notes 7, 9
Intangible assets	423	484	Note 8
Total non-current assets	**1 144**	**3 926**	
TOTAL ASSETS	**3 317**	**6 764**	
LIABILITIES			
Current liabilities			
Borrowings	977	2 761	Notes 10, 11
Trade payables	804	586	Note 12
Tax liabilities	158	90	Note 5
Corporate income tax liability	19	0	Note 25
Deferred tax liability	4	0	Note 25
Other short-term payables	331	509	Note 13
Short-term provisions	1	1	Note 14
Total current liabilities	**2 294**	**3 947**	
Non-current liabilities			
Long-term borrowings	9	1 676	Note 10
Other long-term payables	11	2	
Long-term provisions	9	9	Note 14
Total non-current liabilities	**29**	**1 687**	
Total liabilities	**2 323**	**5 634**	
Equity			
Share capital at nominal value	1 244	1 212	Notes 15, 11
Share premium	2 620	2 575	Notes 15, 11
Revaluation reserve	0	887	Notes 15, 7
Statutory reserve	67	67	Note 15
Retained earnings	-2 733	-2 859	
Currency translation differences	2	9	
Loss for the financial year	-206	-761	
TOTAL EQUITY	**994**	**1 130**	
TOTAL LIABILITIES AND EQUITY	**3 317**	**6 764**	

The notes on pages 13-46 are an integral part of these consolidated financial statements.

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In Thousands of Euros

CONSOLIDATED INCOME STATEMENT

REVENUE	2005	2004	Notes
Net sales	7 319	8 219	Notes 16, 17
Other operating income	1 147	229	Notes 18, 19
Total revenue	**8 466**	**8 448**	
Change in inventories of work-in-progress and finished goods	-374	-372	
Goods, raw materials and services	-2 663	-3 281	Note 20
Other operating expenses	-1 702	-1 744	Note 21
Personnel expenses	-2 815	-2 853	Note 22
Depreciation and amortisation	-444	-486	Notes 7, 8
Miscellaneous expenses	-281	-104	Note 23
Total operating expenses	**-8 279**	**-8 840**	
Operating profit/loss	**187**	**-392**	
Financial income/expenses			
Interest expenses	-377	-347	Note 24
Foreign exchange gains/losses	11	-22	Note 24
Other financial income/expenses	-4	0	Note 24
Total financial income/expenses	**-370**	**-369**	
Loss before tax	**-183**	**-761**	
Corporate income tax	-23	0	Note 25
Net loss for the period	**-206**	**-761**	
Basic loss per share (in euros)	-0.11	-0.40	Note 26
Diluted loss per share (in euros)	-0.11	-0.40	Note 26

The notes on pages 13-46 are an integral part of these consolidated financial statements.

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In Thousands of Euros

CONSOLIDATED CASH FLOW STATEMENT

	2005	2004	Notes
Cash flow from operating activities			
Net loss	-206	-761	
Adjustments:			
Depreciation and amortisation	444	486	Notes 7, 8
Proceeds from sale of non-current assets	-975	-109	Note 18
Loss from write-off of non-current assets	25	23	Note 7
Change in receivables and prepayments related to operating activities	461	189	
Change in inventories	176	321	
Change in liabilities and prepayments related to operating activities	570	393	
Interest paid	-402	-305	
Total cash flow from operating activities	**93**	**237**	
Cash flow from investing activities			
Purchase of property, plant and equipment and construction in progress	-142	-213	Note 7
Proceeds from sale of property, plant and equipment	3 417	386	Note 10
Trademark fees paid	-70	-40	Note 10
Receipt of loans granted	21	14	
Interest received	2	3	
Total cash flow from investing activities	**3 228**	**150**	
Cash flow from financing activities			
Repayments of borrowings	-4 096	-1 401	Note 10
Proceeds from borrowings	1 822	1 195	Note 10
Finance lease principal payments	-192	-63	Note 10
Change in overdraft balance	-764	-65	Note 10
Repayment of other borrowings	-55	-22	Note 10
Repayments of other loans	-72	0	Note 10
Total cash flow from financing activities	**-3 357**	**-356**	
Total cash flow	**-36**	**31**	
Cash and cash equivalents at beginning of the period	**217**	**186**	Note 2
Net decrease/increase in cash and cash equivalents	-36	31	
Cash and cash equivalents at end of the period	**181**	**217**	Note 2

The notes on pages 13-46 are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Share premium	Revaluation reserve	Statutory reserve	Currency translation differences	Retained earnings	Total
Balance as of 01.01.2004		**1 212**	**2 575**	**996**	**67**	**4**	**-2 968**	**1 886**
Depreciation transfer	Note 7	0	0	-109	0	0	109	0
Currency translation differences		0	0	0	0	5	0	5
Net loss for 2004		0	0	0	0	0	-761	-761
Balance as of 31.12.2004		**1 212**	**2 575**	**887**	**67**	**9**	**-3 620**	**1 130**
Issued share capital	Note 11	32	45	0	0	0	0	77
Disposal of revalued property	Note 7,15	0	0	-887	0	0	887	0
Currency translation differences		0	0	0	0	-7	0	-7
Net loss for 2005		0	0	0	0	0	-206	-206
Balance as of 31.12.2005		**1 244**	**2 620**	**0**	**67**	**2**	**-2 939**	**994**

More detailed information on share capital is provided in Note 15.

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In Thousands of Euros

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Accounting methods and measurement bases used in preparing the financial statements

Basis of preparation

The consolidated financial statements of AS Klementi have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

All International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and effective at the time of preparing these consolidated financial statements have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of the International Accounting Standard IAS 39 "Financial Instruments: Recognition and Measurement". Following recommendations from the Accounting Regulatory Committee, the Commission adopted the Regulations 2086/2004 and 1864/2005 requiring the use of IAS 39, minus certain provisions on portfolio hedging of core deposits, by all listed companies from 1 January 2005.

Since the Company is not affected by the provisions regarding portfolio hedging that are not required by the EU-endorsed version of IAS 39, the accompanying financial statements comply with both IFRS as adopted by the European Union and IFRS issued by the IASB.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings.

The functional currency of AS Klementi is the Estonian kroon (EEK). The consolidated financial statements have been prepared in thousand of euros, which is the presentation currency of these financial statements.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Comparability

The financial statements are prepared in accordance with the comparability and consistency principles, the nature and impact of any changes in accounting methods is explained in the respective notes. When the presentation or classification of items in the financial statements is amended, comparative amounts for the previous period are also reclassified. Furthermore, the Group has revised its revenue and expenses' presentation principles in 2005. Respective reclassifications have also been made into 2004 figures as follows:

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	Income Statement in 2004 Annual Report	**Re-classifications**	**Reclassified 2004 Income Statement**
Net sales	8 219	0	8 219
Other operating income	270	-41	229
Total operating income	**8 489**	**-41**	**8 448**
Change in inventories of work-in-progress and finished goods	-372	0	-372
Goods, raw materials and services	-3 149	-132	-3 281
Operating expenses	-1 838	94	-1 744
Personnel expenses	-2 853	0	-2 853
Depreciation and amortization	-486	0	-486
Other operating expenses	-164	60	-104
Total operating expenses	**-8 862**	**-22**	**-8 840**

In Thousands of Euros

Operating loss	**-373**	**-19**	**-392**
Interest expenses	-378	31	-347
Net foreign exchange loss	-10	-12	-22
Total financial income/expenses	**-388**	**19**	**-369**
Net loss for the period	**-761**	**0**	**-761**

Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates that affect the reported amounts of assets and liabilities in the next financial year. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments that have the most significant effect on the amounts recognised in the financial statements and estimates that may cause significant adjustments to the carrying amount of assets and liabilities in the next financial year include: inventories (Note 6), estimations of useful lives of property, plant and equipment and valuation of goodwill (Note 8).

Inventory Valuation

Upon valuation of inventories, the management will rely on its best knowledge taking into consideration historical experience, general background information and potential assumptions and conditions of future events. In determining the impairment of inventories, the sales potential as well as the net realisable value of finished goods is considered; upon valuation of raw materials and materials, their potential as a source of finished goods and for generating income is considered; upon valuation of work in progress, their stage of completion that can reliably be measured is considered.

Valuation of Goodwill

Goodwill is the excess of the cost of the acquisition over the fair value of the acquired net assets, reflecting the part of cost that was paid for the acquisition of such assets than cannot be separately identified and recognised. Goodwill as an intangible asset with an indefinite useful life is not amortised but it is tested for impairment at least once a year. The management has performed an impairment test for goodwill which arose on the acquisition of the subsidiary SIA Vision. Future expected cash flows based on the budgeted retail sales volumes in the Latvian market have been taken into consideration in finding the recoverable amount of the investment. The future expected cash flows have been discounted using the expected rate of return. If the recoverable amount of the investment is lower than its carrying amount, an impairment loss is recorded to write down the investment to its recoverable amount.

Determination of the Useful Life of Property, Plant and Equipment

The management has evaluated the economic lives of production equipment and other non-current assets related to production depending on their estimated useful lives. The estimation of economic lives is based on historical experience and takes into consideration production capacity and conditions. The estimation of economic lives of non-current assets used in retail trade is based on the period over which this asset is expected to participate in the generation of revenue as well as the guaranteed duration of lease agreements.

According to the estimates, the useful lives of production equipment are 5 to 10 years depending on the purpose of use. Other equipment has the useful lives of 3 to 20 years depending on the purpose of use

Contingent assets and liabilities

In estimating the probability of realisation of contingent assets and liabilities, the management takes into consideration the historical experience, general information on the economic and social environment and the assumptions and conditions of the possible events in the future based on the best knowledge of the situation.

Adoption of new or revised standards and interpretations in 2005

In 2005, the Group adopted all new and revised standards that are effective from or before 1 January 2005. The amended standards, which are applied from 1 January 2005, are following:

- IAS 1 (revised 2003) Presentation of Financial Statements
- IAS 2 (revised 2003) Inventories
- IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 (revised 2003) Events After Balance Sheet Date
- IAS 16 (revised 2003) Property, Plant and Equipment
- IAS 17 (revised 2003) Leases
- IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates
- IAS 24 (revised 2003) Related Party Disclosures
- IAS 27 (revised 2003) Consolidated and Separate Financial Statements
- IAS 28 (revised 2003) Investments in Associates
- IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation
- IAS 33 (revised 2003) Earnings per Share
- IAS 36 (revised 2004) Impairment of Assets
- IAS 38 (revised 2004) Intangible Assets
- IAS 39 (revised 2003) Financial Instruments: Recognition and Measurement
- IAS 40 (revised 2004) Investment Property

The issued new standards, which will become effective for the period starting 1 January 2005 and are applied respectively, are the following:

- IFRS 2, Share-based Payments
- IFRS 3, Business Combinations
- IFRS 4, Insurance Contracts
- IFRS 5, Non-current Assets Held for Sale and Discontinued Operations
- IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities
- IFRIC 2, Members' Shares in Co-operative Entities and Similar Instruments

Applying these amendments and interpretations to standards, which are applicable to the Group, did not cause any significant changes to the accounting principles used previously and did not affect the Group's results.

According to the requirements, the presentation of information has been changed and additional information has been disclosed in the notes.

Information of the parent company's separate report

According to the Estonian Accounting Law, the separate principal reports of the parent company are required to be disclosed. The respective disclosure is in Note 34. The principal reports of the parent company are prepared using the same accounting policies as in the preparation of consolidated financial statements. The change of accounting policies applicable to the parent company's separate principal reports is described below.

In Thousands of Euros

Changes in the accounting policies applicable to the parent company

The financial information of the parent company is disclosed in the notes (Note 34). According to the revised IAS 27 Consolidated and Separate Financial Statements, the accounting principle for the measurement of investment in subsidiaries has been amended. The subsidiaries are reported in the separate report at cost; previously the equity method was used. Accordingly, the value of investments into subsidiaries was reduced by 13 thousand euros and the net profit for 2004 was reduced by 33 thousand euros , the retained earnings for previous periods was increased by 19 thousand euros.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The parent company's functional currency is Estonian kroon. The consolidated financial statements have been prepared in euros, which is the presentation currency of these financial statements.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the Estonian Central Bank's exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) whose functional currency differs from the presentation currency are translated into the presentation currency.

Assets and liabilities for each balance sheet presented are translated at the closing rate on that balance sheet date. The respective rates were the following:

	31.12.2005	**31.12.2004**
1 LVL	22.4726 EEK	22.422 EEK
1 LTL	4.53157 EEK	4.53157 EEK
1 SEK	1.66071 EEK	1.73450 EEK
1 EUR	15.6466 EEK	15.6466 EEK

Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated on the dates of the transactions).

The respective rates were the following:

	2005	**2004**
1 LVL	22.47419 EEK	23.52325 EEK
1 LTL	4.53157 EEK	4.53157 EEK
1 SEK	1.68612 EEK	1.71503 EEK
1 EUR	15.6466 EEK	15.6466 EEK

The exchange rates are based on the Estonian Central Bank's official quotations. All resulting exchange differences are recognised in equity line "Currency translation differences".

Principles of Consolidation, Accounting for Business Combinations and Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values on the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

In the consolidated financial statements, the financial statements of the subsidiaries under the control of the parent company are combined on a line-by-line basis. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered.

The consolidated financial statements include the consolidated financial information of AS Klementi and its subsidiaries UAB Klementi Vilniaus, SIA Vision, Klementi Trading OY and Klementi Trading AB. The accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

The Group's primary segment is business segment by business units and secondary segment is a geographical segment based on the location of the sales network of the Company.

With regard to the business segment, the retail segment includes goods and services sold in the retail system. Wholesale, production activities and subcontracting segment include services not mentioned in the retail segment.

The expenses, which are not directly attributable to a specific segment, are recorded as unallocated expenses of the group. Segment assets include all operating assets of the segment excluding assets that are used at the company in general or at the head office. Segment's assets include goodwill directly attributable to the segment and the segment's expenses include the associated amortisation of goodwill in 2004. Segment liabilities include operating liabilities of the segment. The unallocated expenses of the Group are general management costs. Long-term financial investments, loans, interest receivables and liabilities are recorded as unallocated assets and liabilities of the Group.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, excluding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet. Cash and cash equivalents are measured at fair value.

Financial assets

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and revalues this designation on every reporting date. The purchases and sales of financial assets are recognised at the trade date.

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Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value plus transaction costs. Loans and receivables are subsequently carried at amortised cost using the effective interest method. This method is used for calculating interest income on loans and receivables in following periods.
When it is probable that the Group is unable to collect all amounts due according to the original terms of receivables, an allowance is set up for the impairment of these receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount. The recoverable amount is the expected future cash flows discounted at the market rate of interest for similar borrowers. Impairment losses are charged to the income statement.

Loans and receivables are included in current assets when they are due within 12 months after the balance sheet date. Such receivables whose due date is later than 12 months after the balance sheet date are reported as non-current assets.

The amount of allowances is disclosed in Note 3.

Inventories

Purchased goods and raw materials are recorded at acquisition cost consisting of direct and indirect costs related to acquisition of inventories necessary to bring the inventories to their present state and condition.

In addition to the purchase price, purchase cost includes the applicable custom duties, other non refundable taxes and the respective costs on transportation. The discounts and rebates are deducted from the purchase price. Purchased goods and raw materials are stated at the lower of cost and net realisable value.

Finished goods and work-in-progress are recorded at production cost consisting of direct and indirect manufacturing costs. Indirect manufacturing costs include depreciation of fixed assets used in production, wages, equipment maintenance, heating costs and other similar costs. Work-in-progress and finished goods are recorded in the balance sheet at the lower of production cost or net realisable value. Cost is determined using the weighted average method.

Net realisable value is the estimated selling price in the ordinary course of business, less any applicable variable selling expenses.

Property, plant and equipment

Property, plant and equipment are non-current assets used in the operating activities of the entity with a useful life of over one year. An item of property, plant and equipment is initially recognised at its acquisition cost which consists of the purchase price (incl. customs duties and other non-refundable taxes) and other expenditures directly related to the acquisition that are necessary for bringing the asset to its operating condition and location. Property, plant and equipment are subsequently stated at cost less any accumulated depreciation and any impairment losses. Assets acquired under finance leases are depreciated similarly to acquired assets. Cost does not include borrowing costs.

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the income statement during the financial period in which they are incurred.

In Thousands of Euros

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. The depreciation rates are allocated to each item separately. The annual depreciation rates are as follows:

<u>Buildings:</u>	
Production facility	3%
Other buildings	10%
<u>Plant and equipment:</u>	
Sewing equipment	10-15%
Transport vehicles	20%
Other machinery	20%
<u>Other equipment:</u>	
Computers, tools and other equipment	25-30%
Fittings of warehouses	5%

Land is not depreciated.

The reconstruction expenditures of the rented space are depreciated over the lease term.

Depreciation of an asset is started when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date on which the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date on which the asset is derecognised. Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and they are included in the income statement.

<u>Intangible assets</u>

Intangible assets are stated at historical cost less any amortisation. Cost comprises the purchase price and other directly attributable costs. Intangible assets have finite useful lives. Amortisation on intangible assets is calculated using the straight-line method. The amortisation rates are allocated to each item separately. The annual amortisation rates are as follows:

Computer software	10-20%
Trademarks	10%

<u>Goodwill</u>

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary, reflecting the part of acquisition cost which was paid for the Group's share of identifiable net assets of the acquired company which cannot be separated and accounted for separately. Goodwill is determined upon the acquisition of a new entity or a business as the difference between the purchase price and the fair value of the acquired net assets (acquired identifiable assets less liabilities and contingent liabilities). Goodwill which arose in the acquisition of a subsidiary is recognised as an intangible asset in the consolidated financial statements.

On the transaction date, goodwill is recognised in the balance sheet at its acquisition cost. Goodwill is subsequently carried at its cost less any impairment losses. Goodwill which arose in a business combination is not amortised. On each balance sheet date (or more frequently when an event or change in circumstances indicates that the fair value of goodwill may have become impaired), an impairment test is performed and if necessary, goodwill is written down to its recoverable value (if it is lower than its carrying amount).

Goodwill which arose in the acquisition of foreign subsidiaries is translated using the foreign exchange rates of the Bank of Estonia prevailing on the balance sheet date.

Goodwill arising from a business combination for which the agreement date was before 31 March 2004, the amortization of goodwill is discontinued from 1 January 2005 and goodwill is tested for impairment as of every balance sheet date.

Impairment of assets

Intangible assets with indefinite useful lives (goodwill) are not subject to amortisation but they are tested annually for impairment, by comparing their carrying amount with the recoverable amount.

Assets that are subject to amortisation and depreciation (which exception for land) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If such circumstances exist, the recoverable amount is compared with the carrying amount.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit).

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Finance and Operating Leases

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

The Group is the Lessee
Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property or the present value of minimum lease payments. Each lease payment is allocated between the liability and finance charges (interest expense) so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Assets leased under finance leases are depreciated over the shorter of the asset's expected useful life or the duration of the lease term (when the transfer of ownership is not sufficiently certain).

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the lease term.

The Group is the Lessor
Assets leased out under operating leases are recognised similarly to non-current assets. Operating lease payments (net of any incentives granted to the lessee) are recognised as income on a straight-line basis over the lease term.

Financial liabilities

All financial liabilities (trade payables, borrowings, accrued expenses, and other short and long-term borrowings) are initially recorded at fair value, net of transaction costs incurred. Subsequently, financial liabilities are stated at amortised cost using the effective interest method.

The amortised cost of short-term liabilities normally equals their nominal value; therefore short-term liabilities are stated in the balance sheet in their redemption value. Long-term receivables are initially recognised at the fair value of the consideration receivable (less transaction costs) and are subsequently measured at amortised cost using the effective interest rate method.

In case of convertible bonds the shareholders' equity and liability components are recorded separately, unless the shareholders' equity component is immaterial (then the whole amount is recorded as a liability).

A financial liability is classified as short term when it is due within 12 months after the balance sheet date or the Company does not have an unconditional right to defer the payment for longer than 12 months after the balance sheet date. Borrowings with a due date later than 12 months after the balance sheet date but that are refinanced into long-term after the balance sheet date but before the approval of the annual report, are classified as current. Borrowings that the lender has the right to recall due to the violation of terms specified in the contract are also classified as current liabilities.

Employee benefits

Termination benefits – Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an other offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

Provisions and Contingent Liabilities

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. The management estimations and judgments regarding the probability and realization time are the basis for the recognition of provisions. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense. Provisions are not recognised for future operating losses.

Contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognised because: it is not probable that an outflow of resources will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are disclosed in the notes to the financial statements.

Income Tax

Income tax of the companies registered in Estonia

According to the Income Tax Act of the Republic of Estonia, the net profit earned by enterprises is not taxed. Thus, there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets and liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is subject to income tax 23/77 of net dividend paid (until 31 December 2005, the tax rate was 24/76 and until 31 December 2004, the tax rate was 26/74). The corporate income tax arising from the payment of dividends is accounted for as an expense in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

Corporate income tax of foreign subsidiaries
In Latvia, Lithuania, Finland and Sweden, the profit before taxes is adjusted for permanent and temporary differences as determined by the respective tax laws. In Latvia and Lithuania, the tax rate was 15% in 2004 and 2005. In Sweden, the tax rate was 28% in 2004 and 2005. In Finland the tax rate was 29% in 2004 and 26% in 2005 .

Deferred income tax

Deferred income tax is accounted for in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are presented in the balance sheet by deducting the grant to arrive at the carrying amount of the asset.

Government grants are disclosed in Note 19.

Share capital

Ordinary shares are classified as equity. The Group has not issued any preference shares.

Statutory reserve

The statutory reserve in equity is a mandatory reserve, created in accordance with the Estonian Commercial Code and it can only be used for covering losses or conversion to the share capital. Each year, at least 1/20 of net profit should be recognised as statutory reserve until the statutory reserve comprises 1/10 of share capital. The distribution to shareholders from the statutory reserve is not permitted.

Revenue recognition

Revenue from the sale of goods is recognised at the fair value of the consideration received or receivable, taking into consideration all discounts and concessions made. Revenue from the sale of goods is recognised when the Group has transferred all significant risks and rewards of ownership of the goods to the buyer, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue from the rendering of services is recorded in the accounting period in which the services are rendered. If a service is rendered over a longer period of time, revenue from the rendering of a service is recorded using the stage of completion method.

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, which is the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Dividend income is recognised when the right to receive payment is established.

Revenue recognition on service contracts

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

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

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

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

Earnings per share

Basic earnings per share are calculated by dividing the net profit of the year by the weighted average number of ordinary shares issued during the period.

Diluted earning per share are calculated based on profit or loss attributable to the ordinary equity holders of the parent company, and the weighted average number of shares outstanding, adjusted for the effects of all dilutive potential ordinary shares.

Standards, interpretations and amendments to published standards that are not yet effective

By the time this financial statements were being prepared, new International Financial Reporting Standards and their interpretations had been issued, which shall become mandatory for consolidated companies as of January 1, 2006 or for statements issued for later periods. Below are the consolidated company's assessments of the possible effect of the new standards and interpretations on the financial statement during the period of their first-time application.

- IAS 1 Change in the presentation of financial statements – Presentation of financial statements: Capital disclosures. The IAS 1 amendment will apply to reporting periods which start on January 1, 2007 or later. The Group has decided not to apply the changes before the prescribed time. The standard requires additional disclosures in financial statements.
- IAS 19 Change in Employee Benefits – Actuarial profits and losses from pension plans and disclosure requirements. The amendment to standards will apply to reporting periods which start on January 1, 2006 or later. The Group does not have any plans with established benefits, (defined benefit plans) whereby this amendment does not affect the Group's financial statements.
- IAS 21 (Amendment) - Net Investment in a Foreign Operation (effective from 1 January 2006). This amendment requires foreign exchange gains and losses on quasi-equity intercompany loans to be reported in consolidated equity even if the loans are not in the functional currency of either the lender or the borrower. Currently, such exchange differences are required to be recognised in consolidated profit or loss. It also extends the definition of 'net investment in a foreign operation' to include loans between sister companies. The management assessed the impact of the amendment and believes that it will not affect the Group's financial statements. At the date of the issuance of these financial statements this amendment has not been yet adopted by the EU.
- IAS 39 Financial instruments: amendments to recognition and measurement (Accounting of cash flow hedging for planned intra-group transactions; Fair value option). IAS 39 Financial instruments: amendments to recognition and measurement, and IFRS 4 Insurance contracts amendment – financial guarantee contracts. The amendment to standards will apply to

reporting periods which start on or after January 1, 2006. The Group has decided not to apply the changes before the prescribed time. This interpretation does not affect the Group's financial statements.

- IFRS 6 Exploration for and Evaluation of Mineral Assets. The Group does not have any exploration and evaluation assets, therefore this standard does not affect the Group's financial statements.
- IFRS 7 Financial instruments: Disclosure requirements. IFRS 7 will apply to reporting periods which start on or after January 1, 2007.. The Group has decided not to apply the changes before the prescribed time. This standard requires the disclosure of supplemental information in financial statements.
- IFRIC 4 Determining whether an arrangement contains a lease. IFRIC 4 will apply to reporting periods which start on or after January 1, 2006. The Group has decided not to apply IFRIC 4 before the prescribed time. According to the management, the application of IFRIC 4 at the time the financial statements were prepared would not cause any changes in the recognition of valid agreements.
- IFRIC 5 Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds. The Group does not participate in decommissioning, restoration and environmental rehabilitation funds, therefore the given interpretation does not affect the Group's financial statements.
- IFRIC 6 Liabilities arising from participating in a specific market: waste electrical and electronic equipment. IFRIC 6 will apply to reporting periods, which start on or after December 1, 2005. The Group has very small participation in a specific market, which would assume the treatment of waste electrical or electronic equipment, therefore this interpretation does not affect the Group's financial statements.
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies. IFRIC 7 will apply to reporting periods which start on or after March 1, 2006. The Group does not prepare the financial statements currencies of hyperinflationary economies, therefore the given interpretation does not affect the Group's financial statements. At the date of the issuance of these financial statements this interpretation has not been yet adopted by the EU.
- IFRIC 8 Scope of IFRS 2 clarifies that IFRS 2 Share-based Payment applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. IFRIC 8 is effective for annual periods beginning on or after 1 May 2006. Earlier application is encouraged. This interpretation does not affect the Group's financial statements. At the date of the issuance of these financial statements this interpretation has not been yet adopted by the EU.
- IFRIC 9 Reassessment of embedded derivatives. IFRIC 9 concludes that an entity must assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. IFRIC 9 is effective for annual periods beginning on or after 1 June 2006. Earlier application is encouraged. This interpretation does not affect the Group's financial statements. At the date of the issuance of these financial statements this interpretation has not been yet adopted by the EU.

In Thousands of Euros

Note 2 Cash and bank

	31.12.2005	31.12.2004
Cash on hand	18	10
Bank accounts in kroons	56	6
Bank accounts in foreign currencies	98	189
Money in transfer	9	12
Total	**181**	**217**

Note 3 Trade receivables

	31.12.2005	31.12.2004
Trade receivables	198	657
Allowance for doubtful receivables	-3	-24
Total	**195**	**633**

	2005	2004
Impairment of doubtful receivables at beginning of the year	**-24**	**0**
Impairment of doubtful receivables and receivables deemed as irrecoverable in the accounting period (Note 23)	-178	-44
Irrecoverable receivables taken off the balance sheet	199	20
Total	**-3**	**-24**

The impairment loss of doubtful and irrecoverable receivables is reported in the income statement item "Miscellaneous expenses". Disclosures on pledged assets are provided in Note 29.

Note 4 Other receivables and prepaid expenses

	31.12.2005	31.12.2004
Receivable related to sale of shares*	10	13
Loans to employees	0	0
Loans to other companies**	0	4
Other receivables	8	15
Receivable from customers on service contracts	73	77
Prepaid expenses***	74	71
Total	**165**	**180**

* The current portion of the amount collectible from the sale of the wholly-owned subsidiary AS Profline in 2000. The non-current portion of the receivable in the amount of 48 thousand euros (31.12.2004: 61 thousand euros) is reported in the balance sheet line "Other receivables". The due date of the receivable is on 05 July 2010, the interest rate is 6.month Euribor+1%.
** The repayment date of the loan granted to the former subsidiary AS Profline was on 05 July 2005, which AS Profline paid off on time. The interest rate on this loan was 6-month Euribor+5%.
*** Other accrued expenses include insurance payments, rental payments, subscription of periodicals, etc.

In Thousands of Euros

Note 5 Taxes

	31.12.2005	31.12.2004
Value added tax	2	2
Total prepaid taxes	**2**	**2**

	31.12.2005	31.12.2004
Value added tax	39	16
Personal income tax	31	14
Social security tax	57	56
Fringe benefits	1	1
Withholding tax on royalties	26	0
Other taxes	4	3
Total tax liabilities	**158**	**90**

Disclosures on corporate income tax is provided in Note 25.

Note 6 Inventories

	31.12.2005	31.12.2004
Raw materials and materials	487	584
Work-in-progress	143	243
Finished goods	593	790
Goods held for sale	400	185
Prepayments to suppliers	7	4
Total inventories	**1 630**	**1 806**

In 2005, inventories were written off in the amount of 13 thousand euros (2004: 11 thousand euros). In 2005, no inventories were written down; in 2004, inventories were written down in the amount of 16.5 thousand euros. Disclosures on pledged assets are provided in Note 29.

In Thousands of Euros

Note 7 Property, plant and equipment

	Land and buildings	Machinery and equipment	Other fixtures	Construction in progress	Total
31.12.2004					
Acquisition cost/valuation	**2 588**	**1 542**	**876**	**61**	**5 067**
Accumulated depreciation	-150	-1 043	-493	0	-1 686
Carrying value	**2 439**	**499**	**383**	**61**	**3 381**
Changes occurred in 2005					
Acquired during the period	0	23	108	11	142
Disposed of during the period	-2 423	-1	-18	0	-2 442
Written off during the period	0	-7	-17	0	-24
Taken into use	61	0	0	-61	0
Depreciation	-77	-166	-140	0	-383
31.12.2005					
Acquisition cost/valuation	**0**	**1 520**	**905**	**11**	**2 436**
Accumulated depreciation	0	-1 173	-590	0	-1 763
Carrying value	**0**	**347**	**315**	**11**	**673**

	Land and buildings	Machinery and equipment	Other fixtures	Construction in progress	Total
31.12.2003					
Acquisition cost/valuation	**2 853**	**1 734**	**1 034**	**0**	**5 621**
Accumulated depreciation	-82	-1 046	-633	0	-1 761
Carrying value	**2 771**	**688**	**401**	**0**	**3 860**
Changes occurred in 2004					
Acquired during the period	0	9	154	61	224
Disposed of during the period	-253	-7	-18	0	-278
Written off during the period	0	-11	-10	0	-21
Depreciation	-80	-180	-145	0	-405
31.12.2004					
Acquisition cost/valuation	**2 588**	**1 542**	**876**	**61**	**5 067**
Accumulated depreciation	-150	-1 043	-493	0	-1 686
Carrying value	**2 438**	**499**	**383**	**61**	**3 381**

In December 2005, registered land and buildings of AS Klementi were sold: an office building located at Akadeemia tee 33, Tallinn (area: 1932 m^2), a production facility located at Kadaka tee 179, Tallinn (area: 8937 m^2), and a logistics and warehouse building located at Kadaka tee 179A, Tallinn (area: 2328 m^2). Registered land and buildings were sold for the total price of 3 387 thousand euros. The carrying value of registered land and buildings was 2 423 thousand euros, a profit of 965 thousand euros was earned in the transaction which is recognised in the income statement line "Other operating income" (Note 18). AS Klementi continues to operate as a lessee on the same space under a long-term lease agreement (Note 9).

On 31.12.2002, revaluation of registered land and buildings were carried out. Without the revaluation, the line "Land and buildings" would have included buildings and facilities with the carrying value of

In Thousands of Euros

1 552 thousand euros as of 31.12.2004.

Additional disclosures on the revaluation reserve of non-current assets is provided in Note 15.

Disclosures on pledged assets are provided in Note 29.

Disclosures on non-current assets leased under the finance lease terms are presented in Note 9.

As of 31.12.2005, the cost of items of property, plant and equipment still in use but completely amortised at the Group amounted to 520 thousand euros (31.12.2004: 411 thousand euros).

Note 8 Intangible assets

	Software	Trademarks	Goodwill	Unfinished projects	Total
31.12.2004					
Acquisition cost	**287**	**365**	**139**	**94**	**885**
Accumulated amortisation	-269	-113	-19	0	-401
Carrying value	**18**	**252**	**120**	**94**	**484**
Changes occurred in 2005					
Taken into use	94	0	0	-94	0
Amortisation charge	-28	-33	0	0	-61
31.12.2005					
Acquisition cost	**264**	**365**	**120**	**0**	**749**
Accumulated amortisation	-180	-146	0	0	-326
Carrying value	**84**	**219**	**120**	**0**	**423**

	Software	Trademarks	Goodwill	Unfinished projects	Total
31.12.2003					
Acquisition cost	**282**	**365**	**139**	**0**	**786**
Accumulated amortisation	-234	-80	-5	0	-319
Carrying value	**48**	**285**	**134**	**0**	**467**
Changes occurred in 2004					
Acquired during the period	5	0	0	94	99
Written down during the period	-1	0	0	0	-1
Amortisation charge	-34	-33	-13	0	-80
31.12.2004					
Acquisition cost	**287**	**365**	**139**	**94**	**885**
Accumulated amortisation	-269	-113	-19	0	-401
Carrying value	**18**	**252**	**120**	**94**	**484**

From 1 January 2005, the financial software Axapta was taken into use. The acquisition cost of software of 94 thousand euros includes the cost of software parts (finance and warehouse, trade and production) launched in stage I as well as software development costs incurred for AS Klementi.

As of 31.12.2005, an impairment test for goodwill was performed. Cash generating unit for goodwill is considered SIA Vision. Calculation of value in use is based on the following assumptions:

1) 2006- 2008 cash flow projections are based on the business plan approved by the Management Board, where the annual average growth rate of 4% for revenue and 5% for expenses;

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2) cash flow discount rate used is 15%;
3) key assumption are based on the past experience.

According to impairment test the recoverable value exceeds substantially carrying value of goodwill, therefore no impairment has been identified.

From the beginning of the current financial year, goodwill which arose in the acquisition of a subsidiary before 31.03.2004 is not subject to amortisation.

As of 31.12.2005, the acquisition cost of non-current assets still is use at the Company but completely amortised was 172 thousand euros (31.12.2004:149 thousand euros).

Note 9 Finance and operating leases

Finance lease – the Group as the lessor

		Land and buildings	Machinery and equipment	Other fixtures	Total
Acquisition cost	31.12.2004	284	162	4	450
Accumulated depreciation	31.12.2004	-33	-88	-2	-123
Carrying value	**31.12.2004**	**251**	**74**	**2**	**327**
Acquisition cost	31.12.2005	0	121	0	121
Accumulated depreciation	31.12.2005	0	-91	0	-91
Carrying value	**31.12.2005**	**0**	**30**	**0**	**30**

	31.12.2005	31.12.2004
Minimum lease payments:		
With maturity of up to 1 year	28	176
With maturity of 1-5 years	8	58
Total	**36**	**234**
Future interest expense of lease	-2	-8
Total present value of future minimum lease payments (Note 10)	**34**	**226**
Present value of future minimum lease payments:		
With maturity of up to 1 year	26	195
With maturity of 1-5 years	8	31
Total	**34**	**226**

Operating lease –the Group as the lessee

In 2005, operating lease payments for retail outlet spaces as well as machinery and equipment amounted to 508 thousand euros (2004: 414 thousand euros).

The future minimum lease payments under non-cancellable operating leases is calculated based on the non-cancellable periods of the leases.

The lease agreements for stores are predominantly not binding for long-term in Estonia and Latvia most of the lease agreements can be terminated with a three to ten month notice. AS Klementi head office and production spaces can be terminated with a one year notice. The information about head office and production spaces sold by AS Klementi in 2005 see in Note 7.

In Thousands of Euros

The future minimum lease payments under non-cancellable operating leases in 2006 amounted to 516 thousand euros (2005: 212 thousand euros).

Operating lease – the Group is the lessor

The Group as the lessor has not entered into any non-cancellable operating lease agreements.

Operating lease income includes rental income for space. In 2005, operating lease income totalled 63 thousand euros (2004: 51 thousand euros).

In 2005, AS Klementi leased out office space amounted to 738 m^2 (2004: 13 companies and 643.65 m^2) and located at Akadeemia tee 33 to seventeen companies. Lease agreements for office space are cancellable.

Note 10 Short and long-term borrowings

Borrowings as of 31.12.2005	Current portion within 12 months	Non-current portion within 1-5 years	Due date	Interest rate
Secured borrowings				
Overdraft from Hansapank	222	0	30.06.2006	6%
Short-term loan from Hansapank	383	0	15.12.2006	6%
Unsecured borrowings				
Finance lease liability (Note9)	26	9	2005-2007	5.5-8.0%
Other borrowings	32	0	31.07.2006	7%
Loan from bankruptcy estate of PTA Group OY	51	0	31.12.2005	5%
Payable for trademark	263	0	15.01.2006	8%
Total	**977**	**9**		

During the year, loans were received in the amount of 1 822 thousand euros (2004: 1 195 thousand euros), including a loan from Hansapank to finance the current resources in the amount of 1 662 thousand euros and a finance lease agreement between AS Hansa Liising and AS Klementi in the amount of 160 thousand euros was refinanced. In the accounting period, AS Klementi made principal payments in the amount of 4 096 thousand euros (2004: 1 401 thousand euros).

Proceeds received from the sale of registered land and buildings in December 2005 in the amount of 3 387 thousand euros were used to pay off debt: borrowings from banks were paid off in the amount of 2 602 thousand euros and loans in the amount of 673 thousand euros were paid off to AS Alta Capital. SEB Eesti Ühispank was paid 671 thousand euros for a short-term bank loan and overdraft. Hansapank was paid a total of 1 931 thousand euros for short- and long-term loans as well as overdraft.

On 15 December 2005, AS Klementi entered into a long-term loan agreement with Hansapank for refinancing the loans of AS Alta Capital. The loan amount was 447 thousand euros with the interest rate of 6-month Euribor+3.5% with the due date on 15 December 2007. The loan is fixed in euros and with a floating interest rate which is changed in accordance with the changes in Euribor every 6 months and is fixed for the following 6 months. In 2005, the loan balance was zero. The loan was taken into use in January 2006.

In Thousands of Euros

All borrowings carried in the balance sheet as of 31 December 2005 payable to credit institutions have fixed interest rates and are fixed in Estonian kroons. The management of the parent company believes that bank loans including the loan with a floating interest rate that was not taken into use in 2005 have been asset raised under market conditions with the market rate of interest and their fair values do not significantly differ from their carrying amounts.

As of 31.12.2005, bank loans and overdraft in use have been contractually fixed in Estonian kroons, therefore they do not carry foreign currency risk.

As of the year-end, the limit of overdraft from Hansapank was 320 thousand euros.

The original due date of the loan received from the bankruptcy estate of PTA Group OY was on 31.12.2005. The loan in the amount of 51 thousand euros was paid off in January 2006.

Borrowings as of 31.12.2004	Current portion within 12 months	Non-current portion within 1-5 years	Repayment date	Interest rate
Secured borrowings				
Loan from Hansapank*	737	0	30.01.2005	7%
Loan from Hansapank	204	731	15.07.2009	Euribor+5%
Loan from SEB Eesti Ühispank	314	0	30.06.2005	6%
Overdraft from SEB Eesti Ühispank*	577	0	31.01.2005	7%
Overdraft from Hansapank*	409	0	31.05.2005	7.75%
Convertible bonds – bankruptcy estate of PTA Group OY (Note 11)	77	0	31.12.2005	5%
Unsecured borrowings				
Finance lease liability (Note 9)	195	31	2005-2007	Average 8.2%
Other borrowing	55	32	31.07.2006	7%
Loan from bankruptcy estate of PTA Group OY	51	0	31.12.2005	5%
Payable for trademark	70	209	15.01.2006	8%
Loan from Alta Holding OÜ	72	0	21.01.2005	0%
Loan from Alta Capital AS	0	673	31.01.2006	8-25%
Total	**2 761**	**1 676**		

* The maturity of the overdraft from SEB Eesti Ühispank, overdraft from Hansapank and loan from Hansapank were extended until 30 June 2005 after the balance sheet date.

In 2004, overdraft limits by banks were as follows:

- Hansapank 511 thousand euros

- SEB Eesti Ühispank 596 thousand euros

Disclosures on pledged assets are provided in Note 29.

Payable for trademark

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

In Thousands of Euros

Discounted value of trademarks	31.12.2005		31.12.2004	
	Principal debt	Interest	Principal debt	Interest
Total liability	209	54	279	64
incl. payable within the next 12 months	209	54	70	10
payable within 1-5 years	0	0	209	54

Other borrowing

In 2004, AS Hansa Liising Eesti, Columbus IT Partner Eesti AS and AS Klementi entered into a financing agreement to purchase and install financial software with the payment date on 31 July 2006.

Note 11 Convertible bonds

As of the beginning of 2005, the bankruptcy estate of PTA Group OY held 50 000 convertible bonds of AS Klementi whose conversion to ordinary shares could be required by the bankruptcy estate PTA Group OY until 20.12.2005.

The issue of convertible bonds was decided by the resolution of the General Meeting of Shareholders from 24 March 2000 and the terms of convertible bonds were changed by the resolution of the Extraordinary Meeting of Shareholders of AS Klementi from 28 August 2002. The issue price of convertible bonds was at 1.5 euro per convertible bond and the final redemption date was on 31 December 2005. Until conversion into shares, the convertible bonds had an annualised interest rate of 5%.

On 3 January 2005, the bankruptcy estate of PTA Group OY announced its intention to prematurely convert is convertible bonds into the shares of AS Klementi, using the ratio 1:1.

As a result of the transaction, 50 000 new type A shares were issued with the nominal value of 0.64 euros per share and the share premium of 0.89 euros per share. As a result, the share capital of AS Klementi increased by 32 thousand euros and the share premium by 45 thousand euros. New shares of AS Klementi were issued on 22 March 2005.

Note 12 Trade payables

Trade payables in the amount of 804 thousand euros (31.12.2004: 587 thousand euros) include the amortised cost of accounts payable during ordinary business activities.

Note 13 Other short-term payables

	31.12.2005	31.12.2004
Customer prepayments for goods	8	14
Payables to employees	221	212
Interest and other accrued expenses	21	96
Tax liabilities*	77	168
Prepaid taxes	4	19
Total	**331**	**509**

*Tax liabilities include a social security and unemployment tax liability calculated on wages and salaries for December but not yet declared as well as personal income taxes, unemployment insurance and contributions to mandatory funded pension withheld on wages and salaries but not yet declared.

In Thousands of Euros

Note 14 Short and long-term provisions

Short and long-term provisions consist of monthly compensation paid to a former employee of AS Klementi for permanent incapacitation for work based on a court ruling, whose current portion is 0.77 thousand euros (31.12.2004: 0.77 thousand euros) and non-current portion is reported in the balance sheet at its probable discounted value in the amount of 9 thousand euros (31.12.2004: 9 thousand euros). The discount rate is 5%, the outstanding balance is 19 years. Until the end of 2004, the discount rate was 10%, the outstanding balance of the liability was 10 years.

Note 15 Equity

Share capital

The share capital of AS Klementi in the total amount of 1 244 thousand euros consists of 1 946 875 shares with a nominal value of 0.64 euros each. All shares of AS Klementi are registered class A shares. Each class A share has one vote at the General Meeting of Shareholders. No share certificates have been issued for registered shares. The share register is electronic and is held at the Estonian Central Depository for Securities. According to the articles of association, the maximum share capital of AS Klementi is 3 323 thousand euros. All issued shares have been paid for.

	31.12.2005	31.12.2004
Share capital (in thousand euros)	1 244	1 212
Number of shares	1 946 875	1 896 875
Nominal value of shares (in euros)	0.64	0.64

In 2005, the number of shares of AS Klementi increased by 50 000 shares and share capital by 32 thousand euros in conjunction with the conversion of convertible bonds belonging to the bankruptcy estate of PTA Group OY for shares (Note 11). The share premium which arose in the transactions in the amount of 45 thousand euros reported in the balance sheet line "Share premium".

As of 31.12.2005, the net current liabilities of the Group amounted to 0.12 million euros (31.12.2004: 1.12 million euros). The controlling shareholder of AS Klementi, AS Alta Capital (holding through other companies controlled by AS Alta Capital more than 50% of the shares) is willing to provide financial assistance to AS Klementi in case of economic difficulties upon a justified application from the management and if necessary make further investments to guarantee the continuity of AS Klementi's business operations.

Structure of shareholders

As of 31.12.2005, AS Klementi had 500 shareholders.

Shareholders of AS Klementi with a holding of over 1% as of 31.12.2005:

Name	Number of shares	Holding in share capital
Share of majority shareholders	1 719 621	88.3%
OÜ Alta Investments I	462 731	23.8%
Bryum Estonia AS	381 809	19.6%
Hansa Baltic Growth Fund	193 758	9.9%
ING Luxembourg S.A.	188 805	9.7%
Alta Capital AS	146 988	7.5%
Firebird Avrora Fund LTD	68 611	3.5%
OÜ Alta Holding	67 500	3.5%
PTA Group OY	50 000	2.6%
Seesam Elukindlustuse AS	50 000	2.6%
AS Hansa Elukindlustus	37 274	1.9%
Skandinaviska Enskilda Banken Finnish Clients	29 296	1.5%

In Thousands of Euros

Hansa Pensionifond K3 (Growth strategy)	22 849	1.2%
Peeter Larin	20 000	1.0%
Share of minority shareholders	227 254	11.7%
Total number of shares	**1 946 875**	**100.0%**

As of 31.12.2004, AS Klementi had 507 shareholders.

Shareholders of AS Klementi with a holding of over 1% as of 31.12.2004:

Name	Number of shares	Holding in share capital
Share of majority shareholders	**1 704 444**	**89.9%**
OÜ Alta Investments I	462 731	24.4%
Bryum Estonia AS	381 809	20.1%
ING Luxembourg S.A.	188 805	10.0%
Hansa Baltic Growth Fund	183 769	9.7%
Alta Capital AS	146 988	7.7%
Skandinaviska Enskilda Banken Ab Clients	94 812	5.0%
Firebird Avrora Fund LTD	68 611	3.6%
OÜ Alta Holding	67 500	3.6%
AS Hansa Elukindlustus	37 274	2.0%
Skandinaviska Enskilda Banken Finnish clients	29 296	1.5%
Hansa 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%**

Reserves

Statutory reserve

Statutory reserve is set up to comply with the requirements of the Commercial Code, which under the resolution of the General Meeting of Shareholders can be used to cover the loss if it cannot be covered from the unrestricted equity of the public limited company, and to increase share capital. The minimum amount of statutory reserve is 1/10 of share capital. In 2005 and 2004, statutory reserve was not increased.

Revaluation reserve

In conjunction with the sale of real estate properties, the revaluation reserve in the amount 887 thousand euros was transferred to retained earnings in 2005. In 2004 amortisation of revaluation reserve to retained earnings amounted to 109 thousand euros (Note 7).

Note 16 Segments

The Group treats the business segments by activities as its primary segment and the geographical segments by the location of its customers as its secondary segment.

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

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

In Thousands of Euros

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

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

Primary segment – business segment by activities in 2005

	Retail trade	Production, wholesale trade and subcontracting	Intersegment transactions	Total
Non-group sales	4 087	3 232	0	7 319
Intersegment sales	0	2 091	-2 091	0
Total net sales (Note 17)	**4 087**	**5 323**	**-2 091**	**7319**
Operating profit/loss of segments	**-61**	**-9**	**0**	**-70**
Unallocated operating expenses of the Group				257
Total operating profit				**187**
Other financial income/expenses				-370
Corporate income tax				-23
Net loss				**-206**
Assets and receivables	1 388	1 319	0	2 707
Unallocated assets of the Group				610
Total assets				**3 317**
Liabilities	109	1 211	0	1 320
Unallocated liabilities of the Group				997
Total liabilities				**2 317**
Purchase of property, plant and equipment	115	27	0	142
Depreciation and amortisation	229	215	0	444
Impairment losses of accounts receivable (Note 3, 23)	0	-178	0	-178
Inventories written off (Note 6)	0	-13	0	-13
Property, plant and equipment written off	0	-24	0	-24
Unallocated property, plant and equipment written off				-1

In Thousands of Euros

Primary segment – business segment by activities in 2004

	Retail trade	Production, wholesale trade and subcontracting	Intersegment transactions	Total
Non-group sales	3 882	4 337	0	8 219
Intersegment sales	0	2 043	-2 043	0
Total net sales (Note 17)	**3 882**	**6 380**	**- 2 043**	**8 219**
Operating profit/loss of segments	**-40**	**271**	**0**	**231**
Unallocated operating income/expenses of the Group				-623
Total operating loss				**-392**
Other financial income/expenses				-369
Net loss				**-761**
Assets and receivables	496	4 862	0	5 358
Unallocated assets of the Group				1 406
Total assets				**6 764**
Liabilities	34	682	0	716
Unallocated liabilities of the Group				4 917
Total liabilities				**5 633**
Purchase of property, plant and equipment	137	186	0	323
Depreciation and amortisation	120	366	0	486
Impairment losses of accounts receivable (Note 3, 23)	0	-44	0	-44
Inventories written off (Note 6)	0	-11	0	-11
Property, plant and equipment written off	0	-19	0	-19
Unallocated property, plant and equipment written off				-2

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

	Net sales		Assets		Property, plant and equipment and intangible assets	
	2005	2004	31.12.05	31.12.04	2005	2004
Estonia	3 499	3 428	2 879	6 278	83	302
Latvia	1 601	1 332	432	129	59	4
Finland	1 770	2 224	2	5	0	0
Other markets	449	1 235	4	352	0	17
Total	**7 319**	**8 219**	**3 317**	**6 764**	**142**	**323**

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In Thousands of Euros

Note 17 Net sales

	2005	2004
Net sales		
Sales of apparel	5 701	6 432
Subcontracting and other services	1 367	1 704
Other sales	251	83
Total net sales	**7 319**	**8 219**
incl. exports		
Sales of apparel	2 553	3 395
Subcontracting and other services	1 060	1 324
Other sales	208	72
Total export sales	**3 821**	**4 791**
Percentage of exports in total sales	*52,2%*	*58,3%*

Net sales by countries is disclosed in Note 16.

Note 18 Other operating income

	2005	2004
Revenue from sales of non-current assets (Note 7)	975	109
Rental income and revenue from intermediation of utilities	78	61
Other net sales unrelated to main operations	60	3
Government grants received (Note 19)	6	0
Other revenue	28	35
Foreign exchange gains	0	21
Total other operating income	**1 147**	**229**

Note 19 Government grants

In 2005, AS Klementi received a grant in the amount of 6 thousand euros from Enterprise Estonia to cover its operating expenses The grant was received to cover the cost of the project *Preparation of the Export Plan for AS Klementi* under the Export Plan. Revenue and expenses related to the grant are reported in the income statement under the gross method, under which the expense to be compensated and the benefit received have been reported separately. Revenue from the grant is reported in the line "Other operating income" (Note 18). Due to receiving the grant, AS Klementi does not have any contingent liabilities.

Note 20 Goods, raw materials and services

	2005	2004
Purchased goods	1 061	1 450
Main and ancillary materials	1 310	1 591
Purchased services	171	132
Other production materials	121	108
Total	**2 663**	**3 281**

In Thousands of Euros

Note 21 Other operating expenses

	2005	2004
Wholesale expenses	307	549
Retail sales expenses	894	796
Marketing costs	202	181
Other administrative expenses	299	218
Total	**1 702**	**1 744**

Note 22 Personnel expenses

	2005	2004
Wages and salaries	2 118	2 196
Social security taxes	697	657
Total personnel expenses	**2 815**	**2 853**

Note 23 Miscellaneous expenses

	2005	2004
Irrecoverable and doubtful receivables	178	44
Loss from write-down of non-current assets	22	15
Foreign exchange loss	16	0
Tax interest	7	10
Membership fees	3	3
Value added tax expense	31	0
Other expenses	24	32
Total miscellaneous expenses	**281**	**104**

Note 24 Financial income and expenses

	2005	2004
Other financial income	0.5	0
Total interest and other financial income and expenses	**0.5**	**0**
Interest expense	-377	-347
Other financial expenses	-4	0
Total interest and other financial expenses	**-381**	**-347**
Foreign exchange profit/loss	11	-22
Total financial income and expenses	**-370**	**-369**

In Thousands of Euros

Note 25 Income tax

In 2005, the subsidiary of AS Klementi, SIA Vision had a corporate income tax and deferred income liability. Other Group companies does not have any deferred income tax liabilities or assets.

	2005	2004
Gross movement of deferred income tax is as follows:		
Balance at the beginning of the year	0	0
Expenses in income statement	4	0
Balance at the end of the year	**4**	**0**
Profit before tax	**150**	**104**
Latvia – tax rate 15%		
Total profit before tax	**150**	**104**
Comparison of actual income tax expense with income tax expense calculated for accounting purposes:		
Profit/loss before tax	150	104
Income tax 15% (2004: 15%)	23	16
Expenses not deductible for tax accounting purposes	0	0
Increase/decrease of deferred unrecognised income tax	0	-16
Total corporate income tax expense	**23**	**0**
Current tax expense	19	0
Deferred tax expense	4	0

Note 26 Loss per share

		2005	2004
Weighted average number of shares	pc	1 935 916	1 896 875
Net loss	thous. euros.	-206	-761
Basic loss per share in euros	**euros**	**-0.11**	**-0.40**
Diluted loss per share in euros	**euros**	**-0.11**	**-0.40**

As of the beginning of 2005, the number of ordinary share was 1 896 875. In 2005, 50 000 ordinary shares were issued. As of 31.12.2005, the number of shares was 1 946 875 (Note 11).

Diluted loss per share do not differ from basic loss per share, because AS Klementi does not have any financial instruments which might dilute loss per share.

Note 27 Related party transactions

In preparing the consolidated financial statements of AS Klementi, parties have been considered as related if one party has control or significant influence over the financial and operating decisions of the other party. In preparing these financial statements, related parties include:

a) Owners, that have either significant influence or control, generally implying an ownership interest of 20% or more (Note 15);

b) members of the management, the management board and the supervisory board;

c) close family members of the persons mentioned above and companies under their control or significant influence;

In Thousands of Euros

	2005 Purchases	2005 Sales	2004 Purchases	2004 Sales
Purchases-sales of goods and services				
Companies related to the members of Management and Supervisory Boards	83	0	3	1
Total purchases-sales of goods and services	**83**	**0**	**3**	**1**

	2005	2004
Loans from companies related to the members of Management and Supervisory Boards		
Balance at beginning of the period	745	72
Loans received	0	716
Repayments of loans	-745	-43
Balance at end of the period	**0**	**745**
Interest paid on loans received	**146**	**0**

	31.12.2005	31.12.2004
Balances with related parties		
Companies related to the members of Management and Supervisory Boards	79	4
Total current liabilities	**79**	**4**

In 2004, the Company has loans which differed from market conditions and whose interest rate was 0% (loan balance on 31.12.2004 was 72 thousand euros) and the interest rate was 25% (loan balance on 31.12.2004 was 21 thousand euros).

	2005	2004
Compensation paid to the members of the Management Board		
Remuneration and compensations	49	46
Total	**49**	**46**

Upon the recall of the member of the Management Board, she/he will receive compensation equalling a six-month salary.
In 2004 and 2005 the members of Supervisory Board did not receive any remunerations and compensations.

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In Thousands of Euros

Note 28 Investments into subsidiaries

Subsidiary	Country of location	Area of operation	Holding 31.12.2005	Holding 31.12.2004
Klementi Trading UAB (under liquidation proceedings)	Lithuania	Retail trade	100%	100%
Klementi Trading OY	Finland	Wholesale trade	100%	100%
Klementi Trading AB	Sweden	Wholesale trade	100%	100%
SIA Vision	Latvia	Retail trade	100%	100%

Note 29 Loan collateral and pledged assets

In conjunction with the sale of registered land and buildings, loans from banks were repaid (Note 10) and thus the collaterals were changed in 2005. To guarantee overdraft, short and long-term loans, AS Klementi has entered into a commercial pledge agreement on the movable property in the amount of 1 853 thousand euros for the benefit of AS Hansapank. Loans and overdraft received from AS Hansapank have been provided surety for by the shareholder of AS Klementi, Alta Capital AS.

As of 31.12.2005, AS Klementi has bank guarantees for future payments to the suppliers in the amount of 78 thousand euros (2004:71 thousand euros) and lease payments of the stores in the amount of 70 thousand euros. Guarantee to the Customs Board amounted to 26 thousand euros (2004: 58 thousand euros).

Note 30 Financial risks

The Company may experience different financial risks in its daily operations whose management is an important part of the business activities of the Group. The main risks which may exist include foreign currency risk, credit risk, and interest rate risk.

The basis for risk management at the Group is adherence to requirements established by Tallinn Stock Exchange, the Financial Supervision Authority and other regulatory bodies, observance of the generally accepted accounting principles and internal rules and regulations of the Company.

Foreign currency risk

In 2005, exports made up 52.2% of AS Klementi's consolidated net sales (2004: 58.3%). Most of the materials purchased for production were purchased from outside of the Republic of Estonia. The major foreign currencies which the Company encounters in its daily activities include EUR, USD, LVL and SEK. In purchasing services and goods, foreign currency transaction are carried out mostly in the following currencies: EUR and USD, and foreign currency transactions related to sales are mostly in euros. The Group is exposed to fluctuations of SEK, USD, LVL. The Company does not use any forward and options contracts, or other money market instruments to hedge foreign currency risk because the analysis of the Company's management has shown that risks which have arisen from open foreign currency positions do not exceed the costs related to the use of these instruments.

The Group's results were affected by changes in average exchange rates in relation to the Estonian kroon in countries in which AS Klementi has subsidiaries: Latvian lats –4.5% and Swedish krona – 1.7%. Net effect on 2005 result was profit 0.26 thousand euros.

Credit risk

Credit risk arises from the inability of the company's business partners to meet their obligations. It has primarily to do with the ability of customers to pay for the goods on time . The Company provides credit to its most reliable customers. The credit term is provided for 30-90 days and the limit is set at 3-32 thousand euros. There have been no guarantees granted for receivables from customers. In retail business the credit risk is limited as the sales are for cash or credit card.

Interest rate risk

The Group's interest rate risk is dependent on the fluctuation of Euribor(Note 10).

Liquidity risk

As at 31 December 2005, the Group's current liabilities exceed its current assets. This situation arises from a large proportion of borrowings in current liabilities assumed in previous financial years to finance the Company's operating activities. The Company's management has prepared the cash flow forecast for 2006, according to which the Group's positive cash flows and profitability should ensure positive working capital by the end of 2006. It is possible to increase overdraft limit at Hansapank to solve temporary liquidity problems.

Note 31 Contingent liabilities

During the years 2004-2005, tax authorities have not carried out a tax audit at the Group companies. The tax authorities may at any time inspect the books and records of the company within 6 years subsequent to the reported tax year, and may as a result of their inspection impose additional tax assessments and penalties.

The Company's management is not aware of any circumstances which may give rise to a potential material liability in any Group company in this respect.

Note 32 Off-balance sheet assets

As of 31.12.2005, AS Klementi had custody of commission goods in the amount of 1 thousand euros (31.12.2004:10 thousand euros).

Note 33 Fair value

The Company's management estimates that there are not any material differences between the carrying amounts and the fair values of financial assets and liabilities.

In Thousands of Euros

Note 34 Financial information on the parent company

Financial information disclosed for the parent company encompasses the separate financial statements of the parent company, as required by the Estonian Accounting Act.

BALANCE SHEET

	31.12.2005	31.12.2004
ASSETS		
Current assets		
Cash and bank	123	115
Trade receivables	194	499
Other receivables and prepaid expenses	104	806
Prepaid taxes	0	2
Inventories	1 507	1 607
Total current assets	**1 928**	**3 029**
Non-current assets		
Shares of subsidiaries	165	170
Long-term financial investments	52	65
Property, plant and equipment	596	3 314
Intangible assets	303	364
Total non-current assets	**1 116**	**3 913**
TOTAL ASSETS	**3 044**	**6 942**
LIABILITIES		
Current liabilities		
Borrowings	977	2 760
Trade payables	753	582
Tax liabilities	136	85
Other short-term payables	322	776
Short-term provisions	1	1
Total current liabilities	**2 189**	**4 204**
Non-current liabilities		
Long-term borrowings	9	1 676
Other long-term payables	0	2
Long-term provisions	9	9
Total non-current liabilities	**18**	**1 687**
Total liabilities	**2 207**	**5 891**
Equity		
Share capital at nominal value	1 244	1 212
Share premium	2 620	2 575
Revaluation reserve	0	887
Statutory reserve	67	67
Retained earnings	-2 803	-2 859
Net loss for financial year	-291	-831
TOTAL EQUITY	**837**	**1 051**
TOTAL LIABILITIES AND EQUITY	**3 044**	**6 942**

In Thousands of Euros

INCOME STATEMENT

REVENUE	**2005**	**2004**
Net sales	6 625	7 450
Other operating income	1 444	228
Total revenue	**8 069**	**7 678**
Change in inventories of work-in-progress and finished goods	-224	-25
Goods, raw materials and services	-2 690	-3 192
Other operating expenses	-1 295	-1 723
Staff costs	-2 633	-2 656
Depreciation and amortisation	-418	-448
Miscellaneous expenses	-735	-98
Total operating expenses	**-7 995**	**-8 142**
Operating profit/loss	**74**	**-464**
Financial income/expenses		
Interest expenses	-377	-349
Foreign exchange gains/losses	11	-18
Other financial income/expenses	1	0
Total financial income/expenses	**-365**	**-367**
Net loss for the period	**-291**	**-831**

In Thousands of Euros

Cash flow statement

	2005	2004
Cash flow from operating activities		
Net loss	-291	-831
Adjustments:		
Depreciation and amortisation	418	448
Proceeds from sale of non-current assets	-975	-108
Loss from write-off of non-current assets	8	15
Change in receivables and prepayments related to operating activities	1 037	48
Change in inventories	100	-42
Change in liabilities and prepayments related to operating activities	190	940
Interest paid	-403	-305
Total cash flow from operating activities	**84**	**165**
Cash flow from investing activities		
Purchase of property, plant and equipment and construction in progress	-83	-191
Proceeds from sale of property, plant and equipment	3 411	386
Trademark fees paid	-70	-40
Receipt of loans granted	21	14
Interest received	2	3
Total cash flow from investing activities	**3 281**	**172**
Cash flow from financing activities		
Repayments of borrowings	-4 096	-1 401
Proceeds from borrowings	1 822	1 195
Finance lease principal payments	-192	-63
Change in overdraft balance	-764	-65
Repayment of other borrowings	-55	-22
Repayments of other loans	-72	0
Total cash flow from financing activities	**-3 357**	**-356**
Total cash flow	**8**	**-19**
Cash and cash equivalents at beginning of the period	**115**	**134**
Net decrease/increase in cash and cash equivalents	8	-19
Cash and cash equivalents at end of the period	**123**	**115**

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PricewaterhouseCoopers, Tallinn

In Thousands of Euros

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Revaluation reserve	Statutory reserve	Currency translation differences	Retained earnings	Total
Balance as of 31.12.2003							
as reported in the Annual Report	**1 212**	**2 575**	**996**	**67**	**4**	**-2 968**	**1 886**
Effect of changes in accounting policies	**0**	**0**	**0**	**0**	**-4**	**24**	**20**
Adjusted balance 01.01.2004	**1 212**	**2 575**	**996**	**67**	**0**	**-2 944**	**1 906**
Depreciation transfer	0	0	-109	0	0	109	0
Net loss for 2004	0	0	0	0	0	-831	-831
Balance as of 31.12.2004							
As reported in the Annual Report	**1 212**	**2 575**	**887**	**67**	**9**	**-3 666**	**1 084**
Effect of changes in accounting policies	**0**	**0**	**0**	**0**	**-9**	**-24**	**-33**
Adjusted balance 31.12.2004	**1 212**	**2 575**	**887**	**67**	**0**	**-3 690**	**1 051**
Carrying amounts of holdings under control and significant influence							-170
Carrying amounts of holdings under control and significant influence under the equity method							237
Adjusted unconsolidated equity 31.12.2004							**1 118**
Issued share capital	32	45	0	0	0	0	77
Transfer from revaluation reserve to retained earnings	0	0	-887	0	0	887	0
Net loss for 2005	0	0	0	0	0	-291	-291
Balance as of 31.12.2005	**1 244**	**2 620**	**0**	**67**	**0**	**-3 094**	**837**
Carrying amounts of holdings under control and significant influence							-165
Carrying amounts of holdings under control and significant influence under the equity method							380
Adjusted unconsolidated equity 31.12.2005							**1 052**

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AUDITOR'S REPORT

(Translation of the Estonian original)

To the shareholders of AS Klementi

We have audited the accompanying consolidated balance sheet of AS Klementi (the Parent Company) and its subsidiaries (the Group) as of 31 December 2005 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements as set out on pages 8 to 46 are the responsibility of the Parent Company's Management Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2005 and of the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Urmas Kaarlep
AS PricewaterhouseCoopers

Tiit Raimla
Authorised auditor

12 May 2006

PROPOSAL FOR COVERING THE LOSS FOR THE FINANCIAL YEAR

As of 31.12.2005, retained earnings and the net loss for the financial year were the following:

Retained earnings	-2 733 thous. euros
Net loss for financial year	- 206 thous. euros
Total loss	- 2 939 thous. euros

The Management Board of AS Klementi proposes to the General Meeting of Shareholders to allocate the net loss for 2005 as follows:

-206 thousand euros to retained earnings.

Peeter Larin
Chairman of the Management Board

SIGNATURES OF THE MANAGEMENT AND SUPERVISORY BOARDS TO THE 2005 ANNUAL REPORT

The Management Board has prepared the management report and the financial statements for the year 2005.

The Supervisory Board has reviewed the Annual Report which consists of the management report, the financial statements which were prepared by the Management Board, as well as a proposal for covering the loss and the auditor's report and approved it for presentation at the General Meeting of Shareholders.

Peeter Larin	Chairman of the Management Board	________	12.05.2006
Marianne Paas	Member of the Management Board	________	12.05.2006
Indrek Rahumaa	Chairman of the Supervisory Board	RAHUMAA	12.05.2006
Andres Rätsepp	Member of the Supervisory Board	________	12.05.2006
Sven Mansberg	Member of the Supervisory Board	________	12.05.2006
Sakari Sorri	Member of the Supervisory Board	________	12.05.2006