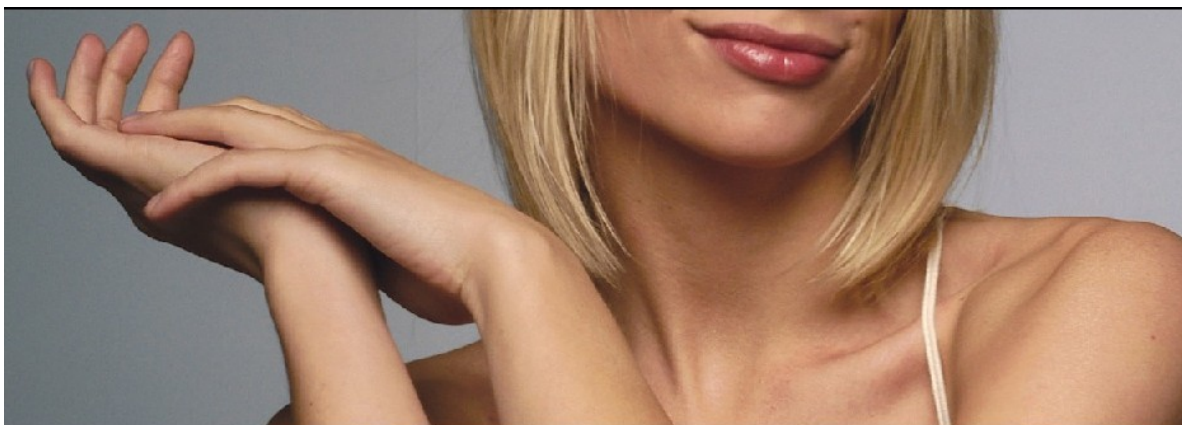


KLEMENTI



**Consolidated Interim Report
for 1st quarter of 2005**

BRIEF INTRODUCTION TO COMPANY

Business name: AS Klementi
Commercial registry code: 10175491
Address: Akadeemia tee 33 TALLINN
Telephone: +372 6 710 700
Fax: +372 6 710 709
E-mail: klementi@klementi.ee
WWW: www.klementi.ee
Principal activity: development, production and sale
of sewn products
Form of ownership: privately owned public limited company
Chief Executive Officer: Toomas Leis
Chief Financial Officer: Marianne Paas
Auditor: PricewaterhouseCoopers

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Explanatory memorandum on the interim report for the first quarter of 2005

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

Changes introduced to the interim report for the first quarter of 2005

The introduction of the new business software, "Microsoft Axapta", has proved to be remarkably more arduous and time-consuming than the timeframe originally planned.

As a result of errors in the conversion of the initial data regarding inventories from the previous software programme into the new one, and due to the erroneous set-up of the programme as regards finances, the accounting of inventories was incorrect in the 1st quarter. Those errors were detected and corrected at the end of the second quarter.

Owing to the errors that had occurred in the set-up of the business software and in the conversion of data, a thorough stocktake of inventories was carried out at the end of the 2nd quarter, on the results of which the inventories were recorded at their correct and fair value.

In connection with the foregoing, AS Klementi has retroactively corrected the performance result for the 1st quarter of 2005, as well as the result for the 2nd quarter with a view to ensuring the correct accounting of inventories.

In the Income Statement for the first quarter, changes were introduced to the rows "Change in inventories" and "Goods, raw materials and services", the aggregate effect of which amounted to EEK 7,140 thousand. Inventories were reduced by the same amount in the row "Inventories" in the Balance Sheet prepared as of 31 March 2005. Since the business software does not allow us to precisely allocate said corrections to past quarters, the changes made to the result of the first quarter are to be viewed as the evaluation of the management rendered on the basis of its knowledge, and the aggregate effect of the accounting of inventories on the result of the half-year is set out in the report for the first half-year. In addition, the cost of depreciation has been reduced by EEK 55 thousand in the Income Statement for the first quarter, and the change is reported in the row "Intangible assets" in the Balance Sheet prepared as of 31 March 2005.

Results for three months of 2005

The consolidated net sales of the AS Klementi group in the first quarter of 2005 amounted to EEK 32.2 million (€2.1 million) and the net loss was EEK 5.6 million (€0.4 million). Sales for the same period in the previous year amounted to EEK 39.1 million (€2.5 million) and the net loss was EEK 1.4 million (€0.1 million). Sales decreased in the first quarter of 2005 by 17.5% compared to the previous year.

Apparel sales made up 74% of total sales in the first quarter (80% in the first quarter of 2004). The percentage of subcontracted production in the sales structure grew by 5.2% in the first quarter of 2005. Compared to the same period of the previous year, export sales decreased by EEK 6.7 million (€0.4 million) in the first quarter of 2005. The reason for the decline in net sales lies in a decrease of wholesale to Sweden and Norway.

Compared to the first quarter of 2004, the relative share of retail sales grew by approximately 9% in the first quarter of 2005. Retail sales accounted for nearly 59% of apparel sales in the first quarter of 2005 (43% in the first quarter of 2004). Compared to the previous year, the average retail sales per square metre increased by nearly 4.4%. As of the end of the first quarter of 2005, Klementi was using 2,799 square metres of sales area (compared to 2,356 square metres of retail sales area a year ago).

Starting from 2005, AS Klementi is focusing more on the development of retail trade and on the extension of selling space. At the end of the first quarter, a PTA store was opened in the Sola Centre in Daugavpils, and at the beginning of the second quarter in the Mols Centre in Riga. In conjunction with Mari Koger, an interior decorator, a new concept for the interior decoration of PTA stores was developed, which was used for the first time in the PTA store opened in the Mols Centre in Riga.

Cooperation with large-scale buyers of the subcontracting service package was started in the first quarter of 2005. As a result of reorientation of a part of the production capacity to the sales of finished goods, the company has succeeded in improving profitability in said sphere.

In 2004, AS Klementi started preparations for development and introduction in 2005 of a new information system, MS Axapta. Following full introduction of the software, the new integrated information system should significantly improve the speed of obtaining information on developments in retail trade and statistics of sales, as well as improve the management of inventories. The needs of product development were taken into account to a substantial extent in the development of the information system. It is also intended to integrate production management in the single information system during the second phase of introduction of the software. Cooperation with the company consulting the introduction of the software has proved to be more arduous and time-consuming than the timeframe originally planned, which has hindered the management of the company and affected the result for the first quarter.

Compared to the first quarter of 2004, the company's cash flow from operating activities has improved by EEK 4.3 million (€0.3 million).

As of 31 March 2005, 456 employees worked for the Group (499 employees as of 31 March 2004).

Profit analysis

Operating profit for the first quarter of 2005 before depreciation of fixed assets amounted to EEK 2.6 million (€0.2 million).

Balance Sheet and ratios

The consolidated Balance Sheet total of AS Klementi was EEK 101.8 million (€6.5 million) as of 31 March 2005. The Balance Sheet total has decreased by EEK 4.0 million (€0.3 million) since the beginning of the year.

Trade receivables have increased by EEK 6.0 million (€0.4 million) when compared to the end of the year due to the sale of spring season products to wholesale customers. Compared to the end of the year, the balance of inventories has decreased in the group by EEK 6.6 million (€0.4 million) and amounted to EEK 21.6 million (€1.4 million) as of 31 March 2005. Accounts payable have increased by EEK 0.5 million (€0.03 million) as of the end of the first quarter of 2005. Total debts decreased by EEK 1.7 million (€0.1 million) over the first quarter of 2005.

The main financial indicators and ratios that characterise the consolidated data of the AS Klementi group for the first three months of 2005 are as follows:

Main financial indicators	1 st quarter 2005	1 st quarter 2004	Change
Operating income, EEK (in thousands)	32 307	39 497	-18.20%
Earnings before interests, taxes, depreciation and amortisation (EBITDA), EEK (in thousands)	- 2 597	1 914	- 4 511
Margin, %	-8.03%	4.84%	-
Earnings before interests and taxes (EBIT), EEK (in thousands)	- 4 351	12	- 4 363
EBIT to net sales, %	-13.46%	0.03%	
Loss for the period, EEK (in thousands)	-5 640	- 1 368	- 4 272
ROA, %	- 5.43%	-1.16%	-
ROE, %	-36.52%	-4.91%	-
Earnings per share (EPS), EEK	- 2.90	-0.72	- 2.18
Share of clothes sales in total sales, %	74.39%	80.36%	-
Current ratio	0.56	0.81	-
Quick ratio	0.27	0.37	-
Inventory turnover	1.29	1.34	-

The ratios were calculated as follows:

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

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

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

Current ratio: Current assets / current liabilities

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

Inventory turnover: Net sales / average inventory for the period

Toomas Leis
CEO of AS Klementi

Balance Sheet

Consolidated, unaudited (In thousands)

	Annexes	31. 03.2005	31.03.2004	31.12.2004	31. 03.2005	31.03.2004	31. 12.2004
		EEK	EEK	EEK	EUR	EUR	EUR
ASSETS							
Current assets							
Cash and bank		1 452	1 778	3 400	93	114	217
Accounts receivable	1	15 882	24 541	9 906	1 015	1 568	633
Other short-term receivables		1 593	605	1 706	102	39	109
Prepaid expenses		1 541	1 375	1 141	98	88	73
Inventories	2	21 612	34 311	28 255	1 382	2 193	1 806
Total current assets		42 808	62 610	44 408	2 690	4 002	2 838
Fixed assets							
Long-term financial investments		955	988	955	61	63	61
Tangible assets	3	51 454	59 459	52 896	3 288	3 800	3 381
Intangible assets	3	7 326	6 997	7 574	468	447	484
Total fixed assets		59 735	67 444	61 425	3 814	4 310	3 926
TOTAL ASSETS		101 815	130 054	105 833	6 507	8 312	6 764
OWNERS' EQUITY AND LIABILITIES							
Current liabilities							
Debt obligations	4	54 167	53 007	43 183	3 462	3 388	2 760
Customer prepayments		221	26	223	14	2	14
Accounts payable		9 726	12 168	9 189	622	778	588
Other payables		68	142	-	4	9	-
Tax liabilities		2 363	3 975	1 399	151	254	89
Accrued expenses		8 346	6 971	7 747	533	445	495
Short-term provisions		12	803	12	1	51	1
Total current liabilities		74 903	77 092	61 753	4 787	4 927	3 947
Long-term liabilities							
Long-term debt	4	13 547	21 283	26 219	866	1 360	1 676
Other long-term payables		25	3 363	25	2	215	2
Long-term provisions		146	68	148	9	5	9
Total long-term liabilities		13 718	24 714	26 392	877	1 580	1 687
Total liabilities		88 621	101 806	88 145	5 664	6 507	5 634
Owners' equity							
Share capital	5	19 469	18 969	18 969	1 244	1 212	1 212
Issue premium		40 994	40 294	40 294	2 621	2 575	2 575
Revaluation reserve		13 876	15 578	13 876	887	995	887
Other reserves		1 046	1 046	1 046	67	67	67
Retained earnings		-56 636	-46 439	-44 735	- 3 620	-2 968	-2 859
Unrealised foreign exchange differences		85	168	139	5	11	9
Net income for the financial year		- 5 640	-1 368	-11 901	- 361	-87	-761
Total owners' equity		13 194	28 248	17 688	843	1 805	1 130
TOTAL OWNERS' EQUITY AND LIABILITIES		101 815	130 054	105 833	6 507	8 312	6 764

Income Statement – 1st quarter

Consolidated, unaudited (In thousands)

	Notes	2005 1 st quarter EEK	2004 1 st quarter EEK	2005 1 st quarter EUR	2004 1 st quarter EUR
Operating income					
Net sales	7	32 218	39 056	2 059	2 496
Other operating income		89	441	6	28
Total operating income		32 307	39 497	2 065	2 524
Operating expenses					
Change in inventories		5 974	1 910	382	122
Materials, raw materials and services		10 528	16 640	673	1 063
Other operating expenses		6 890	6 882	440	440
Labour		11 512	11 676	736	746
Other operating expenses		-	475	-	30
Total operating expenses		34 904	37 583	2 231	2 401
EBITDA		- 2 597	1 914	- 166	123
Depreciation		1 754	1902	112	122
Earnings		- 4 351	12	- 278	1
Financial income and expenses					
Interest expenses		-1 066	-1439	-68	-92
Foreign exchange gain (loss)		-93	44	-6	3
Other financial income and expenses		-130	15	-9	1
Total financial income and expenses		- 1 289	-1 380	-83	-88
Net income (loss)		- 5 640	- 1 368	- 361	-87
Earnings per share					
Basic earnings per share (EEK/EUR)	6	- 2.90	-0.72	-0.19	-0.05
Diluted earnings per share (EEK/EUR)	6	- 2.90	-0.72	-0.19	-0.05

Cash Flow Statement

Consolidated, unaudited (In thousands)

	31 March 2005 1st quarter EEK	31 March 2004 1st quarter EEK	31 March 2005 1st quarter EUR	31 March 2004 1st quarter EUR
Cash flow from operating activities				
Net income	- 5 640	-1 368	- 361	-87
Adjustments				
Loss from fixed asset write-offs	-	525	-	34
Depreciation of fixed assets	1 754	1 902	112	122
Gain from sale of fixed assets	-107	-92	-7	-6
Change in receivables and prepayments related to business operations	-6 244	-9 503	-399	-607
Change in inventories	6 642	-1 027	425	-66
Change in prepayments and liabilities related to business operations	3 237	4 997	207	319
Interest paid	-1 223	-1 294	-78	-83
Total cash flow from operating activities	-1 581	-5 860	-101	-374
Cash flow from investing activities				
Acquisition of tangible assets	-63	-864	-4	-55
Sale of tangible assets	106	173	7	11
Trademark payments made	-1 095	-	-70	-
Repayments of loans granted	74	2	5	0
Interest received	4	8	0	1
Total cash flow from investing activities	-974	-681	-62	-43
Cash flow from financing activities				
Loans received	12 506	8 200	799	524
Loan repayments	-9 047	-2 697	-578	-172
Repayments of financial lease principal	- 2 683	-277	-171	-18
Factoring paid	-217	-	-14	-
Change in overdraft balance	1 168	177	75	11
Repayment of other debts	-1 120	-	-72	-
Total cash flow from financing activities	607	5 403	39	345
Increase/ - decrease in cash and cash equivalents	-1 948	-1 138	-124	-72
Cash and equivalent at beginning of period	3 400	2 916	217	186
Cash and equivalent at end of period	1 452	1 778	93	114

Changes in Owner's Equity

Consolidated, unaudited

In thousands of Estonian kroons

	Share capital	Issue premium	Revaluation reserve	Legal reserve	Unrealised exchange differences	Retained earnings	Loss for financial year	Total
Balance 31.12.03	18 969	40 294	15 578	1 046	64	-24 798	-21 641	29 512
Allocation of loss for 2003 to retained losses from earlier periods	-	-	-	-	104	-21 641	21 641	104
Loss for accounting period	-	-	-	-	-	-	-1 368	-1 368
Balance 31.03.04	18 969	40 294	15 578	1 046	168	-46 439	-1 368	28 248
Balance 31.12.04	18 969	40 294	13 876	1 046	139	-44 735	-11 901	17 688
Allocation of loss for 2004 to retained losses from earlier periods	-	-	-	-	-	-11 901	11 901	-
Share capital issued	500	700	-	-	-	-	-	1 200
Unrealised foreign exchange differences	-	-	-	-	-54	-	-	-54
Net income for the accounting period	-	-	-	-	-	-	-5 640	-5 640
Balance 31.03.05	19 469	40 994	13 876	1 046	85	-56 636	-5 640	13 194

In thousands of Euros

	Share capital	Issue premium	Revaluation reserve	Legal reserve	Unrealised exchange differences	Retained earnings	Loss for financial year	Total
Balance 31.12.03	1212	2575	996	67	4	-1 585	-1 383	1 886
Allocation of loss for 2003 to retained losses from earlier periods	-	-	-	-	7	-1 383	1 383	7
Loss for accounting period	-	-	-	-	-	-	-87	-87
Unrealised foreign exchange differences	-	-	-	-	-	-	-	-
Balance 31.03.04	1 212	2 575	996	67	11	-2 968	-87	1 806
Balance 31.12.04	1 212	2 575	887	67	9	-2 859	-761	1 130
Allocation of loss for 2004 to retained losses from earlier periods	-	-	-	-	-	-761	761	-
Share capital issued	32	46	-	-	-	-	-	78
Unrealised foreign exchange differences	-	-	-	-	-4	-	-	-4
Loss for accounting period	-	-	-	-	-	-	-361	-361
Balance 31.03.05	1 244	2 621	887	67	5	-3 620	-361	843

Accounting principles and valuation assumptions used in preparing the interim report

The consolidated interim report of AS Klementi (group) for the 1st quarter of 2005 was prepared in accordance with the Republic of Estonia Accounting Act and the IFRS requirements for summarised interim reports. The same accounting methods were used in the preparation of the interim report as in the annual report for the financial year that ended on 31.12.04.

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

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

The consolidated financial reports for the 1st quarter of 2005 reflect the financial indicators of AS Klementi (parent company) and its subsidiaries: UAB Klementi Vilnius, Klementi Trading OY, Klementi Trading AB and SIA Vision.

The financial indicators of subsidiaries registered in foreign countries are consolidated by revaluation based on the applicable Bank of Estonia exchange rate. In the acquisition of a subsidiary, the parent company's holding in the subsidiary's net assets is fixed based on the exchange rate on the date of acquisition. The balance sheets of subsidiaries, converted into Estonian kroons, show the components of the subsidiaries' equity capital based on evaluation on the date of acquisition. The income and expenses of subsidiaries are evaluated on the basis of the weighted average exchange rate. The exchange differences due to revaluation are recorded in the consolidated balance sheet under "unrealised foreign exchange differences" under equity capital.

Foreign currency transactions are recorded at the Bank of Estonia exchange rate applicable on the date of transaction. Currency-based monetary assets and liabilities are revaluated in the balance sheet using the Bank of Estonia exchange rate on the balance sheet date. The foreign exchange gains and losses due to revaluation are reflected in the income statement for the accounting period.

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

As of the end of the 1st quarter of 2005, AS Klementi has 100% holdings in the following subsidiaries:

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

The acquisition of subsidiaries is recorded in the balance sheet using the purchase method: the assets and liabilities of the acquired subsidiary are revaluated stating their fair value. The difference between the acquisition value of the acquired holding and the fair value of the acquired net assets is recorded under goodwill.

Tangible assets are understood as assets with a useful life of over one year and a value of at least 10 000 EEK. Fixed assets are recorded at the acquisition value, which comprises the purchase price, other non-refundable payments and taxes, and expenses directly related to putting the fixed asset into use. The acquisition value of fixed assets produced for the company's own use includes the actual production expenses.

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

Depreciation is calculated using the linear method. The following depreciation rates apply:

- Buildings 3–10% per annum
- Warehouse fixtures 5% per annum
- Equipment 10–20% per annum
- Means of transport 20% per annum
- Other equipment 25–30% per annum
- Computer appliances 30% per annum

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

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

Intangible assets are recorded at the acquisition value, which comprises the purchase price and expenses directly related to acquisition. Intangible assets are recorded in the balance sheet at acquisition value, less accumulated depreciation and any write-downs due to reduction in the value. Amortisation is calculated using the linear method based on the expected useful life of the asset.

Starting from the beginning of this financial year, **goodwill** arising from the acquisition of subsidiaries before 31 March 2004 is not amortised. A goodwill impairment test is carried out once a year at the end of the financial year.

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

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

Accounts receivable are recorded at the adjusted acquisition value, i.e. the nominal value less repayments and discounts. Accounts receivable are estimated for the balance sheet based on sums likely to be received as of the balance sheet date. Accounts receivable, whose collection is not possible or financially reasonable are regarded as bad debts and removed from the balance sheet.

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

As a rule, the adjusted acquisition value of current financial obligations equals their nominal value, which is why current financial obligations are presented on the balance sheet in the sum payable.

Debt obligations (loans and bonds) are recorded at the value of the sum received, less transaction costs. Loans and bonds are thereafter recorded at the adjusted acquisition value, i.e. the initial acquisition value is adjusted by the principal repayments and cumulative depreciation of the difference between the initial acquisition value and the redemption value. An effective interest rate, calculated by discounting future cash flow to the balance sheet value, is used to arrive at the adjusted acquisition value. Depreciation of transaction costs is recorded in the income statement together with interest expenses.

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

Taxation

According to the applicable law, corporate income is not subject to taxes in Estonia, which is why there are no deferred income tax claims and liabilities within the meaning of IAS 12 (*Income Taxes*). Income tax applies to dividends paid out of retained earnings at a rate of 26/74 on the sum paid as net dividend,

and other payments which by their nature constitute distribution of profits. The undertaking's income tax on dividends is recorded in the balance sheet as income tax expense during the same period when the dividends are declared or actually paid.

Accounting for income

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

The income from the sale of goods is presented after all the major risks related to the title have passed over to the purchaser, the revenue from the sale and related costs can be reliably determined, and the receipt of the proceeds of the transaction is likely.

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

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

Report forms

The balance sheet and income statement of the AS Klementi group were prepared in adherence with the report schemes established by the Republic of Estonia Accounting Act. For improved presentation, some of the entries have been summaries; detailed information on entries is available in the notes to the interim report.

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

According to the assessment of the management board, the interim report of AS Klementi for the 1st quarter 2005 presents a true and fair view of the economic results of the company on a going concern basis. This interim report has not been audited or otherwise reviewed by any auditors.

Annexes to consolidated interim report

Annex 1 Accounts receivable

(In thousands)

	31 March 2005	31 December 2004	31 March 2005	31 December 2004
	EEK	EEK	EUR	EUR
Accounts receivable	15 882	9 906	1 015	633
Total	15 882	9 906	1 015	633

In the 1st quarter of 2005, bad debts of 30 thousand EEK (€1900) were written off the balance sheet.

Annex 2 Inventories

	31 March 2005	31 December 2004	31 March 2005	31 December 2004
	EEK	EEK	EUR	EUR
Raw materials	7 174	9 138	459	584
Work in progress	1 625	3 796	104	243
Finished goods	8 558	12 361	547	790
Goods for resale	4 114	2 889	262	185
Prepayments to suppliers	141	71	9	4
Total	21 612	28 255	1 381	1 806

Annex 3 Tangible and intangible assets

(In thousands)

	Tangible assets		Intangible assets	
	EEK	EEK	EUR	EUR
Acquisition value 31.12.04	79 272	13 877	5 066	887
Accumulated depreciation 31.12.04	-26 376	-6 303	- 1 685	-403
Residual value 31.12.04	52 896	7 574	3 381	484
Acquired during the period	305	-	19	-
Sold during the period	-241	-	-16	-
Depreciation	-1 506	-248	-96	-16
Acquisition value 31.03.05	78 952	13 877	5 045	887
Accumulated depreciation 31.03.05	-27 498	-6 551	-1 757	-419
Residual value 31.03.05	51 454	7 326	3 288	468

Annex 4 Current and non-current debt obligations

The group had the following debt obligations as of 31.03.05:

(In thousands)

	Short-term EEK	Long-term EEK	Short-term EUR	Long-term EUR	Interest rate	Due
Guaranteed debt obligations						
Eesti Ühispank overdraft	8 883	-	568	-	7%	30.06.05
Hansapank overdraft	7 702	-	492	-	7.75%	30.06.05
Hansapank loan	3 190	10 633	204	680	EURIBOR+5%	15.07.09
Eesti Ühispank loan	3 162	-	202	-	6%	30.06.05
Hansapank loan	323	2 183	21	140	EURIBOR+4.5%	30.03.10
Hansapank loan	15 025	-	960	-	7%	30.06.05
Non-guaranteed debt obligations						
Financial lease liabilities	418	442	27	28	Average 8.6%	2003–2007
Factoring	866	289	55	18	7%	31.07.06
Loan from PTA bankruptcy estate	800	-	51	-	5%	31.12.05
Loans from Alta Capital AS	10 533	-	673	-	8-25%	31.01.06
Trademark liability	3 265	-	209	-	8%	15.01.06
Total	54 167	13 547	3 462	866		

The financial lease obtained to acquire the logistics building was re-formalised at the end of the 1st quarter of 2005 as a long-term loan with the repayment date of 30.03.10. The long-term loan amounts to 2.56 million EEK (€160 000).

The group had the following debt obligations as of 31.12.04:

(In thousands)

	Short-term EEK	Long-term EEK	Short-term EUR	Long-term EUR	Interest rate	Due
Guaranteed debt obligations						
Eesti Ühispank overdraft	9 022	-	577	-	7%	30.06.05
Hansapank overdraft	6 395	-	409	-	7.75%	30.06.05
Hansapank loan	3 190	11 430	204	731	EURIBOR+5%	15.07.09
Eesti Ühispank loan	4 912	-	314	-	6%	30.06.05
Hansapank loan	11 525	-	736	-	7%	30.06.05
Convertible bonds – PTA Group bankruptcy estate	1 200	-	77	-	5%	31.12.05
Non-guaranteed debt obligations						
Financial lease liabilities	3 058	485	195	31	Average 8.6%	2003–2007
Factoring	866	506	55	32	7%	31.07.06
Loan from PTA bankruptcy estate	800	-	51	-	5%	31.12.05
Loan from Alta Holding OÜ	1 120	-	72	-	0%	31.12.05
Loans from Alta Capital AS	-	10 533	-	673	8-25%	31.01.06
Trademark liability	1 095	3 265	70	209	8%	15.01.06
Total	43 183	26 219	2 760	1 676		

Security for loans

The long-term loan from Hansapank and the overdraft are secured by a first rank mortgage in the registered immovables of the administrative building and production building in an amount of 30.2 million EEK (€1.93 million), a second rank commercial pledge contract in an amount of 13 million EEK (€831 000) and a third rank commercial pledge contract in an amount of 15million EEK (€959 000).

The long-term loan from AS Eesti Ühispank is secured by a second rank mortgage in the registered immovables of the administrative building and production building in an amount of 7 million EEK (€447 000) and a first rank commercial pledge contract in an amount of 23 million EEK (€1.470 million).

The residual value of the fixed assets pledged as security was 32.540 million EEK (€2.080 million) as of 31.03.05.

Annex 5 Owners' equity

a) Shares

The share capital of AS Klementi before the extension of share capital in February 2005 was 18.969 million EEK (€1.212 million), which was divided into 1,896,875 shares with a nominal value of 10 EEK (€0.64) each.

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

The decision to issue convertible bonds was taken at the annual general meeting of AS Klementi on 24 March 2000 and the bond conditions were amended by a decision of the special general meeting of AS Klementi on 28 August 2002. The issue price of the convertible bonds was 24 EEK (€1.53) each and the final redemption date was set on 31 December 2005. The convertible bonds carried an interest of 5% per annum.

As a result of the transaction, 50,000 new A shares of Klementi were issued with a nominal value of 10 EEK (€0.64) each and an issue premium of 14 EEK (€0.89) each. As a result, the share capital of AS Klementi increased by 500,000 EEK (€31 900) and the issue premium increased by 700,000 EEK (€44 700). The share capital of AS Klementi was extended on 22 March 2005.

All the shares of Klementi are registered A-shares. Each A-share grants a shareholder one vote at the general meeting. No share certificates are issued for registered shares. The share register is electronic and maintained at the Estonian Central Depository for Securities. According to the articles of association, the maximum share capital of AS Klementi is 52 million EEK (€3.323 million) and the minimum share capital is 13 million EEK (€831 000).

AS Klementi had 498 shareholders as of 31.03.2005.

The shareholders of AS Klementi whose holding exceeded 1% as of 31.03.2005:

Name	Number of shares	Shareholding
Major shareholders	1 758 444	90.3%
OÜ Alta Investments I	462 731	23.8%
Bryum Estonia AS	381 809	19.6%
ING Luxembourg S.A.	188 805	9.7%
Hansa Balti Kasvufond	187 769	9.6%
Alta Capital AS	146 988	7.5%
Skandinaviska Enskilda Banken Ab Clients	94 812	4.9%
Firebird Avroora Fund LTD	68 611	3.5%

OÜ Alta Holding	67 500	3.5%
PTA Group OY	50 000	2.6%
AS Hansa Elukindlustus	37 274	1.9%
Skandinaviska Enskilda Banken Finnish clients	29 296	1.5%
Hansa Pensionifond K3	22 849	1.2%
Peeter Larin	20 000	1.0%
Minor shareholders	188 431	9.7%
Total shares	1 946 875	100.0%

b) Reserves

The financial statements contain the following reserves:

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

Revaluation reserve

In 2004, the fixed assets revaluation reserve was reduced by reducing the retained loss in an amount of 1.702 million EEK (€109 000).

c) Information on shares

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

During the 1st quarter of 2005, the highest and lowest prices of the AS Klementi share on the Tallinn Stock Exchange were 29.42 EEK (€1.88) and 23.47EEK (€1.50), respectively.

Annex 6 Earnings per share (EPS)

Basic and diluted earnings per share in the 1st quarter were as follows:

(In thousands, except Basic and Diluted Earnings data)

	2005 1 st quarter	2004 1 st quarter
Total shares as of 1 January,	1 897	1 897
Shares issued in February 2005,	50	
Total shares as of 31 March,	1 947	1 897
Weighted average number of common shares,	1 947	1 897
Net income (loss) for the accounting period, EEK	- 5 640	- 1 368
Net income (loss) for the accounting period, EUR	- 361	- 87
Basic earnings per share, EEK	- 2,90	-0,72
Basic earnings per share, EUR	- 0,19	-0,05
Diluted earnings per share, EEK	- 2,90	-0,72
Diluted earnings per share, EUR	- 0,19	0,05

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

Annex 7 Net sales

The net sales of AS Klementi for the first three months of 2005 were 32.218 million EEK (€2.059 million), including exports of 18.322 million EEK (€1.171 million) or 56.9%, and the net sales for the first three months of 2004 were 39.056 million EEK (€2.496 million), including exports of 25.031 million EEK (€1.600 million) or 64.1%, broken down as follows:

(In thousands)

	2005 1 st quarter EEK	2004 1 st quarter EEK	2005 1 st quarter EUR	2004 1 st quarter EUR
Sales				
Sales of clothing	23 969	31 387	1 532	2 006
Subcontracting works and services	7 653	7 216	489	461
Sales of material	-	148	-	10
Other sales	596	305	38	19
Total sales	32 218	39 056	2 059	2 496
Including Exports				
Sales of clothing	12 810	18 542	819	1 185
Subcontracting works and services	5 512	6 341	352	405
Sales of material	-	148	-	10
Total exports	18 322	25 031	1 171	1 600
<i>Percentage of exports</i>	<i>56.9%</i>	<i>64.1%</i>	<i>56.9%</i>	<i>64.1%</i>

The main export destinations were as follows:

(In thousands)

Country	2005 1 st quarter EEK	2004 1 st quarter EEK	2005 1 st quarter EEK	2004 1 st quarter EUR
Finland	9 096	12 104	581	774
Sweden	3 030	7 435	194	475
Lithuania	1 184	1 458	76	93
Latvia	3 663	3 209	234	205
Other	1 349	825	86	53
Total	18 322	25 031	1 171	1 600

Annex 8 Related parties

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

a) Remuneration of members of management board and supervisory board:

(In thousands)

	1st quarter 2005 EEK	1st quarter 2004 EEK	1st quarter 2005 EUR	1st quarter 2004 EUR
Wages	135	130	9	8
Total	135	130	9	8

b) Transactions with related parties (In thousands)

The following transactions were made with related parties in the 1st quarters of 2005 and 2004:

	1st quarter 31 March 2005 EEK	1st quarter 31 March 2004 EEK	1st quarter 31 March 2005 EUR	1st quarter 31 March 2004 EUR
1. Goods and services sold				
Shareholders				
Alta Capital AS	-	5	-	0,3
2. Goods and services purchased				
Management board				
Merona Holding OÜ	35	-	2	-
3. Loans received				
Shareholders				
Alta Capital AS	-	8 200	-	524
4. Loans repaid				
Shareholders				
Merona Holding OÜ	1 120	-	72	-
5. Interest paid				
Shareholders				
Alta Capital AS	-	15	-	1

The company's management estimates that the prices used in related party transactions do not materially differ from market prices except for the loans received with the interest rate of 25% (outstanding balance as of 31.03.2005: 333 thousand kroons).

Annex 9 Segments

a) Primary segment – business segment by area of activity

(In thousands)

	Retail trade	Production, wholesale and subcontracting	Inter- segmental transactions	Total	Retail trade	Production, wholesale and subcontracting	Inter- segmental transactions	Total
	1 st quarter 2005	1 st quarter 2005	1 st quarter 2005	1 st quarter 2005	1 st quarter 2005	1 st quarter 2005	1 st quarter 2005	1 st quarter 2005
	EEK	EEK	EEK	EEK	EUR	EUR	EUR	EUR
Extra-group sales	14 043	18 175	-	32 218	897	1 162	-	2 059
Intersegmental sales	-	-7 201	7 201	-	-	-460	460	-
Total sales	14 043	10 974	7 201	32 218	897	702	460	2 059
Earnings of segment	- 1 262	- 1 651	-	- 2 913	- 81	- 105	-	- 186
Indivisible operating expenses				1 438				92
Total loss				- 4 351				- 278
Other financial income and expenses				- 1 289				- 83
Net loss				- 5 640				- 361
Assets and claims	18 959	66 208	-	85 167	1 212	4 231	-	5 443
Indivisible assets of the group				16 648				1 064
Total assets				101 815				6 507
Liabilities	837	19 975	-	20 812	53	1 277	-	1 330
Indivisible liabilities of the group				81 003				5 177
Total liabilities				101 815				6 507
Purchase of tangible and intangible assets	305	-	-	305	19	-	-	19
Depreciation and amortisation	419	1 335	-	1 754	27	85	-	112

The assets and liabilities are presented in this note as of the balance sheet date 31.03.05.

(In thousands)

	Retail trade	Production, wholesale and subcontracting	Inter- segmental transactions	Total	Retail trade	Production, wholesale and subcontracting	Inter- segmental transactions	Total
	1st quarter 2004	1st quarter 2004	1st quarter 2004	1st quarter 2004	1st quarter 2004	1st quarter 2004	1st quarter 2004	1st quarter 2004
	EEK	EEK	EEK	EEK	EUR	EUR	EUR	EUR
Extra-group sales	13 536	25 520	-	39 056	865	1 631	-	2 496
Intersegmental sales	-	-8 204	8 204	-	-	-524	524	0
Total sales	13 536	17 316	8 204	39 056	865	1 107	524	2 496
Earnings of segment	805	1 181	-	1 986	52	75	-	127
Indivisible operating expenses				1 974				126
Total loss				12				1
Other financial income and expenses				1 380				88
Net loss				-1 368				-87
Assets and claims	26 988	83 352	-	110 340	1 725	5 327	-	7 052
Indivisible assets of the group				19 714				1 260
Total assets				130 054				8 312
Liabilities	4 053	8 297	-	12 350	259	530	-	789
Indivisible liabilities of the group				117 704				7 523
Total liabilities				130 054				8 312
Purchase of tangible and intangible assets	-	865	-	865	-	56	-	56
Depreciation and amortisation	323	1 579	-	1 902	21	101	-	122

The assets and liabilities are presented in this note as of the balance sheet date 31.03.04.

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

(In thousands)

	Sales income	Sales income	Assets	Assets	Investments in fixed assets	Investments in fixed assets	Sales income	Sales income	Assets	Assets	Investmen ts in fixed assets	Investmen ts in fixed assets
	1st quarter 31 March 2005	1st quarter 31 March 2004	1st quarter 31 March 2005	1st quarter 31 March 2004	1st quarter 31 March 2005	1st quarter 31 March 2004	1st quarter 31 March 2005	1st quarter 31 March 2004	1st quarter 31 March 2005	1st quarter 31 March 2004	1st quarter 31 March 2005	1st quarter 31 March 2004
	EEK	EEK	EEK	EEK	EEK	EEK	EUR	EUR	EUR	EUR	EUR	EUR
Estonia	13 896	14 025	95 529	102 972	-	855	888	896	6 105	6 581	-	55
Latvia	3 663	3 209	1 977	3 053	305	10	234	205	126	195	19	1
Lithuania	1 184	1 458	319	358	-	-	76	93	20	23	-	-
Finland	9 096	12 104	39	3 684	-	-	581	774	3	236	-	-
Sweden	3 030	7 435	3 951	19 987	-	-	194	475	253	1 277	-	-
Other countries	1 349	825	-	-	-	-	86	53	-	-	-	-
Total	32 218	39 056	101 815	130 054	305	865	2 059	2 496	6 507	8 312	19	56

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

