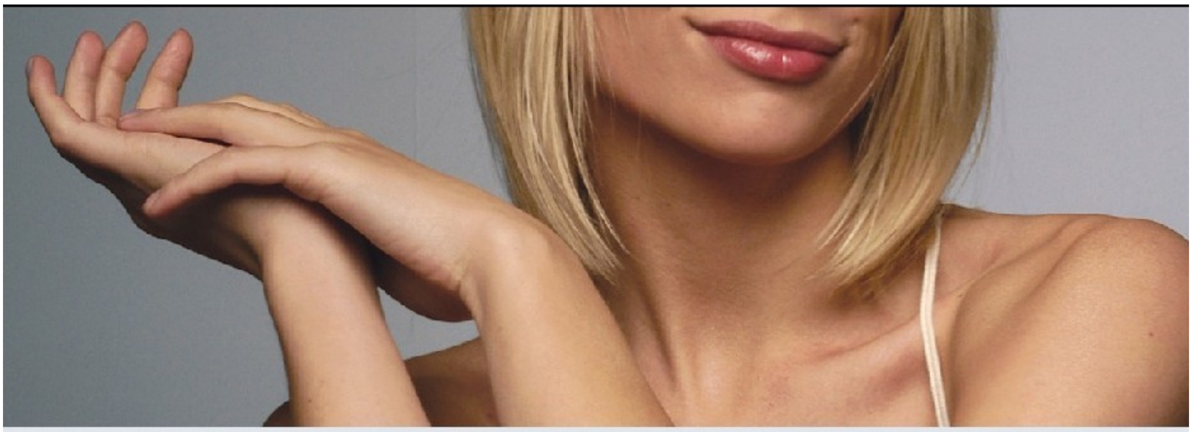
KLEMENTI



Consolidated Interim Report
for the second quarter of 2005

COMPANY PROFILE

Business name:	AS Klementi
Commercial Register code:	10175491
Address	Akadeemia tee 33 TALLINN
Telephone:	+372 671 0700
Fax:	+372 671 0709
E-mail:	klementi@klementi.ee
WWW:	www.klementi.ee
Principal activity:	design, manufacturing and sale of apparel
Form of ownership:	public limited company
Chief Executive Officer:	Toomas Leis
Chief Financial Officer:	Marianne Paas
Auditor:	PricewaterhouseCoopers

Contents

Explanatory memorandum on the interim report for the second 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.

Material specification concerning the interim report for the second 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 first 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 scrupulous stocktake of inventories was carried out at the end of the second 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 first quarter of 2005, as well as the result for the second quarter with a view to ensuring the correct accounting of inventories.

Since the business software does not allow us to precisely allocate said corrections to past quarters, the changes made to the results of the first quarter are to be viewed as the evaluation of the management rendered on the basis its best 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.

Results for six months of 2005

The consolidated net sales of the AS Klementi group in the first half-year 2005 amounted to EEK 58.0 million (€3.7 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 63.6 million (€4.1 million) and the net loss was EEK 4.7 million (€0.3 million). Sales decreased in the first half-year 2005 by 8.8% compared to the previous year.

Apparel sales made up 74% of total sales in the first half-year (78% in the first half-year 2004). The percentage of subcontracted production in the sales structure increased by 3.2% in the first half-year 2005 compared to the same period of the previous year. Compared to the same period of the previous year, export sales decreased by EEK 6.0 million (€0.4 million) in the first half-year 2005. The reason for the decline in net sales lies in a decrease of wholesale to Sweden and Norway.

In the first half-year 2005 the percentage of retail sales in net sales increased by approximately 9% compared to the same period of the previous year. Retail sales accounted for more than 71% of apparel sales in the first half-year 2005 (44% in the first half-year 2004). Compared to the same period of the previous year, the average retail sales per square metre increased by nearly 7.5%. As of the end of June 2005, Klementi was using 2,646 square metres of sales area (compared to 3,154 square metres of retail sales area a year ago).

Starting from 2005, AS Klementi is focusing more on the development of retail trade. In the first half-year PTA stores were opened in the Sola Centre in Daugavpils and in the Mols Centre in Riga. The factory outlet operating in Stockholm was closed at the end of June.

At the end of June, active operations of the subsidiaries located in Finland and Sweden were terminated. Klementi Trading OY commenced economic activities in October 1998 with the aim of wholesale of the production of AS Klementi in Finland. Klementi Trading AB commenced economic activities in August 2003 with the aim of wholesale of the production of AS Klementi in Sweden. As Estonia's accession to the European Union has made trading with other Member States markedly easier, the need for the administration of operations in said countries ceased to exist.

As of 30 June 2005, 420 employees worked for the Group (479 employees as of 30 June 2004).

Profit analysis

Operating profit for the first half-year 2005 before depreciation of fixed assets amounted to EEK 1.0 million (€0.06 million), representing an increase by EEK 0.9 million (€0.05 million) when compared to the same period of the previous year.

Balance Sheet and ratios

The consolidated Balance Sheet total of AS Klementi was EEK 98.5 million (€6.3 million) as of 30 June 2005. The Balance Sheet total has decreased by EEK 7.3 million (€0.5 million) since the beginning of the year.

As of the end of the first half-year 2005, trade receivables had decreased by EEK 4.3 million (€0.3 million) in connection with the payment of invoices for spring season products by wholesale customers. Accounts payable had increased by EEK 1.2 million (€0.1 million) as of the end of the first half-year 2005. Total debts decreased by EEK 3.4 million (€0.2 million) over the first half-year 2005.

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

Main financial indicators	First half-year 2005	First half-year 2004	Variation
Operating income, EEK thousand	58,158	64,796	-10.2%
Operating profit/loss before depreciation of fixed assets (EBITDA), EEK thousand	964	1,818	-854
Margin, %	1.7%	2.8%	-
Operating loss (EBIT), EEK thousand	-2,518	-2,003	-515
EBIT to net sales, %	-4.3%	-3.1%	-
Loss for period, EEK thousand	-5,639	-4,693	-946
ROA, %	-5.5%	-3.9%	-
ROE, %	-36.2%	-17.2%	-
Earnings per share (EPS), EEK	-2.89	-2.47	-0.42
Share of apparel sales in total sales, %	73.9%	78.4%	-
Current ratio	0.55	0.76	-
Quick ratio	0.17	0.25	-
Inventory turnover	2.06	1.81	-

The ratios were calculated as follows:

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

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

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

Current ratio: Current assets / current liabilities

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

Inventory turnover: Net sales / average inventory for the period

Toomas Leis

CEO of AS Klementi

Balance Sheet

Consolidated, unaudited

	Notes	30.06.05 EEK thousand	30.06.04 EEK thousand	31.12.04 EEK thousand	30.06.05 EUR thousand	30.06.04 EUR thousand	31. 12.04 EUR thousand
ASSETS							
Current assets							
Cash at bank and in hand		2,956	5,433	3,400	189	347	217
Trade receivables	1	5,649	10,327	9,906	361	660	633
Other short-term receivables		1,524	339	1,706	98	22	109
Prepaid expenses		2,144	1,534	1,141	137	98	73
Inventories	2	27,996	36,986	28,255	1,789	2,363	1,806
Total current assets		**40,269**	**54,619**	**44,408**	**2,574**	**3,490**	**2,838**
Fixed assets							
Long-term financial investments		851	1,156	955	54	74	61
Tangible assets	3	50,329	58,909	52,896	3,217	3,765	3,381
Intangible assets	3	7,084	6,678	7,574	453	427	484
Total fixed assets		**58,264**	**66,743**	**61,425**	**3,724**	**4,266**	**3,926**
TOTAL ASSETS		**98,533**	**121,362**	**105,833**	**6,298**	**7,756**	**6,764**
LIABILITIES AND OWNERS' EQUITY							
Current liabilities							
Debts	4	53,807	50,352	43,183	3,439	3,218	2,761
Prepayments received for goods and services		50	20	223	3	1	14
Trade creditors		10,435	14,244	9,189	667	910	586
Other payables		107	782	-	7	50	-
Taxes payable		2,683	2,724	1,399	171	174	90
Accrued expenses		5,475	2,704	7,747	350	173	495
Short-term provisions		-	6	12	-	1	1
Total current liabilities		**72,557**	**70,832**	**61,753**	**4,637**	**4,527**	**3,947**
Long-term liabilities							
Long-term debt	4	12,206	21,283	26,219	780	1,360	1,676
Other long-term payables		191	4,203	25	12	269	2
Long-term provisions		148	68	148	10	4	9
Total long-term liabilities		**12,545**	**25,554**	**26,392**	**802**	**1,633**	**1,687**
Total liabilities		**85,102**	**96,386**	**88,145**	**5,439**	**6,160**	**5,634**
Owners' equity							
Share capital	5	19,469	18,969	18,969	1,244	1,212	1,212
Share premium account		40,994	40,294	40,294	2,620	2,575	2,575
Revaluation reserve		13,876	15,578	13,876	887	996	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 exchange-rate differences		321	221	139	21	14	9
Net profit for financial year		-5,639	-4,693	-11,901	-360	-300	-761
Total owners' equity		**13,431**	**24,976**	**17,688**	**859**	**1,596**	**1,130**
TOTAL LIABILITIES AND OWNERS' EQUITY		**98,533**	**121,362**	**105,833**	**6,298**	**7,756**	**6,764**

Income Statement – second quarter

Consolidated, unaudited

	2005 2nd quarter EEK thousand	2004 2nd quarter EEK thousand	2005 2nd quarter EUR thousand	2004 2nd quarter EUR thousand
Operating revenue				
Net sales	25,815	24,546	1,650	1,569
Other operating revenue	36	753	2	48
Total operating revenue	**25,851**	**25,299**	**1,652**	**1,617**
Operating expenses				
Change in inventories	-3,356	-1,731	-215	-111
Goods, raw materials and services	8,192	8,235	524	526
Other operating expenses	6,310	7,623	403	487
Staff costs	10,602	10,446	678	668
Other operating charges	542	822	35	53
Total operating expenses	**22,290**	**25,395**	**1,425**	**1,623**
EBITDA	**3,561**	**-96**	**227**	**-6**
Depreciation	1,728	1,919	110	123
Operating profit	**1,833**	**-2,015**	**117**	**-129**
Financial income and expenses				
Interest expense	-1,491	-1,183	-95	-76
Gains (losses) on conversion of foreign currencies	83	-109	5	-7
Other financial income and expenses	-424	-18	-27	-1
Total financial income and expenses	**-1,832**	**- 1,310**	**117**	**-84**
Net profit (loss)	**1**	**-3,325**	**0**	**-213**
Earnings per share				
Basic earnings per share (EEK/EUR)	0.00	-1.75	0.00	-0.11
Diluted earnings per share (EEK/EUR)	0.00	-1.75	0.00	-0.11

Income Statement – first half-year

Consolidated, unaudited

	Notes	2005 First half-year EEK thousand	2004 First half-year EEK thousand	2005 First half-year EUR thousand	2004 First half-year EUR thousand
Operating revenue					
Net sales	7	58,033	63,602	3,709	4,065
Other operating revenue		125	1,194	8	76
Total operating revenue		**58,158**	**64,796**	**3,717**	**4,141**
Operating expenses					
Change in inventories		2,618	179	167	11
Goods, raw materials and services		18,720	24,875	1,196	1,590
Other operating expenses		13,200	14,505	844	927
Staff costs		22,114	22,122	1,413	1,414
Other operating charges		542	1,297	35	83
Total operating expenses		**57,194**	**62,978**	**3,655**	**4,025**
EBITDA		**964**	**1,818**	**62**	**116**
Depreciation		3,482	3,821	223	244
Operating profit		**-2,518**	**-2,003**	**-161**	**-128**
Financial income and expenses					
Interest expense		-2,557	-2,622	-163	-168
Gains (losses) on conversion of foreign currencies		-10	-65	-1	-4
Other financial income and expenses		-554	-3	-35	0
Total financial income and expenses		**-3,121**	**-2,690**	**-199**	**-172**
Net profit (loss)		**-5,639**	**-4,693**	**-360**	**-300**
Earnings per share					
Basic earnings per share (EEK/EUR)	6	-2.90	-2.47	-0.18	-0.16
Diluted earnings per share (EEK/EUR)	6	-2.90	-2.47	-0.18	-0.16

Cash Flow Statement

Consolidated, unaudited

	2005 First half-year EEK thousand	2004 First half-year EEK thousand	2005 First half-year EUR thousand	2004 First half-year EUR thousand
Cash flow from operating activities				
Net profit (loss)	-5,639	-4,693	-360	-300
Adjustments:				
Depreciation of fixed assets	3,482	3,821	223	244
Gains on disposals of fixed assets	-108	-140	-7	-9
Loss on write-offs of fixed assets	3	-	0	-
Variation in receivables and prepayments relating to operations	3,667	4,704	235	301
Variation in inventories	259	-3,702	16	-237
Variation in payables and prepayments relating to operations	2,440	937	156	60
Interest paid	-2,094	546	-134	35
Total cash flow from operating activities	**2,010**	**1,473**	**129**	**94**
Cash flow from investment activities				
Acquisition of tangible assets	-726	-2,053	-46	-131
Sales of tangible assets	295	247	19	16
Trademark payments made	-1,095	-	-70	5
Repayments of loans granted	147	76	9	0
Interest received	19	26	1	1
Total cash flow from investing activities	**-1,360**	**-1,704**	**-87**	**-109**
Cash flow from financing activities				
Loans received	17,506	15,700	1,119	1,004
Loans repaid	-16,200	-5,132	-1,035	-328
Financial lease principal repayments	-2,802	-533	-179	-34
Factoring paid	-434	-	-28	-
Change in balance of overdraft	1,956	-7,287	125	-466
Settlement of other debts	-1,120	-	-72	-
Total cash flow from financing activities	**-1,094**	**2,748**	**-70**	**176**
Increase/decrease in cash and equivalents of cash	**-444**	**2,517**	**-28**	**161**
Cash and equivalents of cash at beginning of period	**3,400**	**2,916**	**217**	**186**
Cash and equivalents of cash at end of period	**2,956**	**5,433**	**189**	**347**

Statement of Changes in Owners' Equity

Consolidated, unaudited

EEK thousand

	Share capital	Share premium account	Revaluation reserve	Legal reserve	Unrealised exchange-rate differences	Retained earnings	Loss for financial year	Total
Balance as of 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 earnings	-	-	-	-	-	-21,641	21,641	-
Unrealised exchange-rate differences	-	-	-	-	157	-	-	157
Loss for accounting period	-	-	-	-	-	-	-4,693	-4,693
Balance as of 30.06.04	**18,969**	**40,294**	**15,578**	**1,046**	**221**	**-46,439**	**-4693**	**24,976**
Balance as of 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 earnings	-	-	-	-	-	-11,901	11,901	
Share capital issued	500	700	-	-	-	-	-	1,200
Unrealised exchange-rate differences	-	-	-	-	182	-	-	182
Profit for accounting period	-	-	-	-	-	-	-5,639	-5,639
Balance as of 30.06.05	**19,469**	**40,994**	**13,876**	**1,046**	**321**	**-56,636**	**-5,639**	**13,431**

EUR thousand

	Share capital	Share premium account	Revaluation reserve	Legal reserve	Unrealised exchange-rate differences	Retained earnings	Loss for financial year	Total
Balance as of 31.12.03	**1,212**	**2,575**	**995**	**67**	**4**	**-1,585**	**-1,383**	**1,886**
Allocation of loss for 2003 to retained earnings	-	-	-	-	-	-1,383	1,383	-
Unrealised exchange-rate differences	-	-	-	-	10	-	-	10
Loss for accounting period	-	-	-	-	-	-	-300	-300
Balance as of 30.06.04	**1,212**	**2,575**	**995**	**67**	**14**	**-2,968**	**-300**	**1,596**
Balance as of 31.12.04	**1,212**	**2,575**	**887**	**67**	**9**	**-2,859**	**-761**	**1,130**
Allocation of loss for 2004 to retained earnings	-	-	-	-	-	-761	761	-
Share capital issued	32	45	-	-	-	-	-	77
Unrealised exchange-rate differences	-	-	-	-	12	-	-	12
Loss for accounting period	-	-	-	-	-	-	-360	-360
Balance as of 30.06.05	**1,244**	**2,620**	**887**	**67**	**21**	**-3,620**	**-360**	**859**

Accounting methods and principles of valuation used in preparing interim report

The consolidated interim report of AS Klementi (group) for the first half-year 2005 has been 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 interim reports as in the Annual Report for the financial year that ended on 31 December 2004.

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

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

The consolidated financial statements for the second half-year 2005 reflect the financial indicators of AS Klementi (the parent company) and its subsidiaries: UAB Klementi Vilnius, Klementi Trading OY, Klementi Trading AB and SIA Vision.

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

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. Gains or losses arising from revaluation of foreign currency transactions are recorded in the Income Statement for the accounting period.

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

As of the end of the second half-year 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 of accounting, according to which the assets and liabilities of the subsidiary acquired are measured at their fair value. The difference between the cost of acquisition of the holding and the fair value of the net assets acquired is recorded as goodwill.

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

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

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

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

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

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

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

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, goods purchased for resale etc) are recorded at acquisition cost, which comprises the purchase price, production expenses and other expenses needed to bring the inventories to their current location and condition.
Inventories are valuated on the basis of the lower of the acquisition cost or net realisable value. Tangible inventories are accounted for using the method of the weighted average acquisition cost. Work in progress and finished goods are recorded at cost price, comprising direct and indirect production costs.

Trade receivables are recorded at the adjusted acquisition cost (i.e. nominal value less repayments and write-downs, if any). Trade receivables are recorded in 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 (trade creditors, accrued expenses, other short-term and long-term debts) are initially recorded at their acquisition cost, which includes all direct expenses accompanying the acquisition. Thereafter the financial obligations are recorded pursuant to the adjusted acquisition cost method.

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

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

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

Taxation

According to applicable law, annual profit earned by companies is not taxed in Estonia and thus no deferred income tax assets or liabilities arise within the meaning of IAS 12 (*Income Taxes*). Income tax is applied to dividends paid out of retained earnings at the rate of 26/74 of the sum paid out as net dividends and to other payments which by their nature constitute distribution of profits. The corporate income tax arising from the payment of dividends is accounted for in the Income Statement as an income tax expense in the period when the dividends are declared or actually paid.

Revenue recognition

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

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

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

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

Report forms

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

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

According to the assessment of the Management Board, the consolidated interim report of AS Klementi for the first half-year 2005 presents a true and fair view of the economic results of the company in accordance with the going concern principle. This interim report has not been audited or otherwise reviewed by auditors.

Notes on the consolidated interim report

Note no. 1 Trade receivables

	30 June 2005	**31 December 2004**	**30 June 2005**	**31 December 2004**
	EEK thousand	EEK thousand	EUR thousand	EUR thousand
Trade receivables	5,649	9,906	361	633
Total	**5,649**	**9,906**	**361**	**633**

Bad debts of EEK 377 thousand (€24 thousand) were written off the Balance Sheet in the first half-year 2005.

Note no. 2 Inventories

	30 June 2005	**31 December 2004**	**30 June 2005**	**31 December 2004**
	EEK thousand	EEK thousand	EUR thousand	EUR thousand
Raw materials	9,518	9,138	608	584
Work in progress	5,998	3,796	383	243
Finished goods	7,541	12,361	482	790
Goods for resale	4,833	2,889	309	185
Prepayments to suppliers	106	71	7	4
Total	**27,996**	**28,255**	**1,789**	**1,806**

Note no. 3 Tangible and intangible assets

	Tangible assets	**Intangible assets**	**Tangible assets**	**Intangible assets**
	EEK thousand	EEK thousand	EUR thousand	EUR thousand
Acquisition cost 31.12.04	**79,272**	**13,877**	**5,066**	**887**
Accumulated depreciation 31.12.04	-26,376	-6,303	-1,685	-403
Depreciated value 31.12.04	**52,896**	**7,574**	**3,381**	**484**
Acquired during period under review	726	0	46	0
Sold during period under review	-298	0	-19	0
Depreciation	-2992	-490	-191	-31
Written down during period under review	-3	0	0	0
Acquisition cost 30.06.05	**79,271**	**13,877**	**5,066**	**887**
Accumulated depreciation 30.06.05	-28,942	-6,793	-1,849	-434
Depreciated value 30.06.05	**50,329**	**7,084**	**3,217**	**453**

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

The group had the following debts as of 30 June 2005:

	Short-term EEK thousand	Long-term EEK thousand	Short-term EUR thousand	Long-term EUR thousand	Interest rate	Due
Guaranteed debts						
Overdraft from Eesti Ühispank	9,333	0	596	0	7%	31.01.06
Overdraft from Hansapank	8,040	0	514	0	7.75%	30.01.06
Loan from Hansapank	3,190	9,836	204	628	EURIBOR+5%	15.07.09
Loan from Eesti Ühispank	2,412	0	154	0	6%	31.01.06
Loan from Hansapank	443	1,957	28	125	EURIBOR+4.5%	30.03.10
Loan from Hansapank	14,525	0	929	0	7%	30.01.06
Non-guaranteed debts						
Financial lease liabilities	400	341	26	22	Average 8.6%	2005-2007
Factoring	866	72	55	5	7%	31.07.06
Loan from PTA bankruptcy estate	800	0	51	0	5%	31.12.05
Loan from Alta Capital AS	10,533	0	673	0	8-25%	31.01.06
Payable for trademark	3,265	0	209	0	8%	15.01.06
Total	**53,807**	**12,206**	**3,439**	**780**		

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

	Short-term EEK thousand	Long-term EEK thousand	Short-term EUR thousand	Long-term EUR thousand	Interest rate	Due
Guaranteed debts						
Overdraft from Eesti Ühispank	9,022	-	577	-	7%	30.06.05
Overdraft from Hansapank	6,394	-	409	-	7.75%	30.06.05
Loan from Hansapank	3,190	11,430	204	731	EURIBOR+5%	15.07.09
Loan from Eesti Ühispank	4,912	-	314	-	6%	30.06.05
Loan from Hansapank	11,525	-	737	-	7%	30.06.05
Convertible bonds – PTA Group bankruptcy estate	1,200	-	77	-	5%	31.12.05
Non-guaranteed debts						
Financial lease liabilities	3,058	485	195	31	Average 8.6%	2003-2007
Factoring	867	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
Loan from Alta Capital AS	-	10,533	-	673	Weighted average 12.8%	31.01.06
Payable for trademark	1,095	3,265	70	209		15.01.06
Total	**43,183**	**26,219**	**2,,761**	**1,676**		

Loan collateral

The long-term loan and the overdraft from Hansapank are secured by a mortgage of the first ranking established on the administrative building and production building to the amount of EEK 30,200 thousand (€1930 thousand), a combined mortgage to the amount of EEK 13,000 thousand (€831 thousand), a commercial pledge contract of the second ranking to the amount of EEK 15,000 thousand (€959 thousand) and a commercial pledge contract of the third ranking to the amount of EEK 27,000 thousand (€1726 thousand).

The long-term loan from AS Eesti Ühispank is secured by a combined mortgage of the second ranking established on the registered immovables of the administrative building and production building to the amount of EEK 7,000 thousand (€447 thousand) and a commercial pledge contract of the first ranking to the amount of EEK 23,000 thousand (€1470 thousand).

As of 30 June 2005, the residual value of the fixed assets pledged as security for obligations amounted to EEK 32,278 thousand (€2063 thousand).

Note no. 5 Owners' equity

a) Shares

Prior to the increase of the share capital in February 2005, the share capital of AS Klementi amounted to EEK 18,969 thousand (€1212 thousand) and was divided into 1,896,875 shares with a nominal value of EEK 10 (€0.64) each.

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

The resolution to issue convertible bonds was adopted at the annual general meeting of AS Klementi on 24 March 2000 and the terms of the bonds were amended by a resolution of the extraordinary general meeting of AS Klementi on 28 August 2002. The issue price of the convertible bonds was EEK 24 (€1.53) per convertible bond and the final redemption date is 31 December 2005. The convertible bonds carried an annualised interest of 5%.

As a result of the transaction, 50,000 new Class A shares of Klementi were issued with a nominal value of EEK 10 (€0.64) each and an issue premium of EEK 14 (€0.89) per share. As a consequence, the share capital of AS Klementi increased by EEK 500 thousand (€31.9 thousand) and the premium par increased by EEK 700 thousand (€44.7 thousand). The share capital of AS Klementi was increased on 22 March 2005.

All the shares of AS Klementi are Class A registered shares. Each Class A share grants its holder one vote at the general meeting of shareholders. No share certificates are issued for registered shares. The share register is electronic and maintained at the Estonian Central Depository for Securities. According to the Articles of Association, the maximum share capital of AS Klementi is EEK 52,000 thousand (€3323 thousand) and the minimum share capital is EEK 13,000 thousand (€831 thousand).

AS Klementi had 493 shareholders as of 30 June 2005.

The shareholders of AS Klementi with a holding exceeding 1% as of 30 June 2005 are:

Name	Number of shares	Shareholding
Share of majority shareholders	1,760,444	90.4%
OÜ Alta Investments I	462,731	23.8%
Bryum Estonia AS	381,809	19.6%
Hansa Balti Kasvufond	189,769	9.7%
ING Luxembourg S.A.	188,805	9.7%

Alta Capital AS	146,988	7.5%
Skandinaviska Enskilda Banken Ab Clients	94,812	4.9%
Firebird Avrora 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%
Share of minority shareholders	186,431	9.6%
Total number of shares	**1,946,875**	**100.0%**

b) Reserves

The following have been recorded as reserves:

- The legal reserve prescribed by the Commercial Code, which may be used to cover losses by a resolution of a general meeting of shareholders, unless the losses cannot be covered from available owners' equity, 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 the amount of EEK 1,702 thousand (€109 thousand).

c) Information about shares

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

During the first half-year 2005, the highest and lowest prices of the AS Klementi share on the Tallinn Stock Exchange were EEK 33.01 (€2.11) and EEK 23.47 (€1.50) respectively.

Note no. 6 Net earnings per share (EPS)

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

	2005 First half-year	2004 First half-year
Number of shares on 1 January, thousands	1,897	1,897
Issued shares as of February 2005, thousands	50	-
Number of shares on 30 June, thousands	1,947	1,897
Weighted average number of ordinary shares, thousands	1,947	1,897
Net profit (loss) for accounting period, EEK thousand	-5,639	-4,693
Net profit (loss) for accounting period, EUR thousand	-360	-300
Basic earnings per share, EEK	-2.90	-2.47
Basic earnings per share, EUR	-0.18	-0.16
Diluted earnings per share, EEK	-2.90	-2.47
Diluted earnings per share, EUR	-0.18	-0.16

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

Note no. 7 Net sales

The consolidated net sales of AS Klementi for six months of 2005 amounted to EEK 58,033 thousand (€3709 thousand), including exports amounting to EEK 30,704 thousand (€1962 thousand) or 52.9%, while the net sales for six months of 2004 amounted to EEK 63,602 thousand (€4065 thousand), including exports amounting to EEK 36,740 thousand (€2348 thousand) or 57.8%, broken down as follows:

	2005 First half-year EEK thousand	2004 First half-year EEK thousand	2005 First half-year EUR thousand	2004 First half-year EUR thousand
Sales				
Apparel sales	42,913	49,868	2,743	3,187
Subcontracting and services	13,887	13,167	887	842
Sales of materials	0	414	0	26
Other sales	1,233	153	79	10
Total sales	**58,033**	**63,602**	**3,709**	**4,065**
Incl. Exports				
Apparel sales	19,565	24,678	1,250	1,576
Subcontracting and services	11,137	11,571	712	740
Sales of materials	0	402	0	26
Other sales	2	89	0	6
Total exports	**30,704**	**36,740**	**1,962**	**2,348**
Percentage of exports	*52.9%*	*57.8%*	*52.9%*	*57.8%*

The main export destinations were as follows:

Country	2005 First half-year EEK thousand	2004 First half-year EEK thousand	2005 First half-year EUR thousand	2004 First half-year EUR thousand
Finland	15,596	17,936	997	1,146
Sweden	3,966	9,001	253	575
Lithuania	1,658	1,467	106	94
Latvia	7,875	7,157	503	457
Other	1,609	1,179	103	76
Total	**30,704**	**36,740**	**1,962**	**2,348**

Note no. 8 Related parties

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

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

Remuneration paid during the accounting period.

	First half-year 2005	**First half-year 2004**	**First half-year 2005**	**First half-year 2004**
	EEK thousand	EEK thousand	EUR thousand	EUR thousand
Wages	360	360	23	23
Total	**360**	**360**	**23**	**23**

b) Transactions with related parties

The following transactions with related parties were recorded for the first half-years of 2005 and 2004:

	First half-year 30 June 2005 EEK thousand	**First half-year 30 June 2004 EEK thousand**	**First half-year 30 June 2005 EUR thousand**	**First half-year 30 June 2004 EUR thousand**
1. Goods and services sold				
Shareholders				
Alta Capital AS	-	7	-	0
2. Goods and services bought				
Management Board				
Merona Holding OÜ	70	-	4	-
3. Loans received				
Shareholders				
Alta Capital AS	-	8,200	-	524
4. Loans repaid				
Shareholders				
Alta Holding OÜ	1,120	-	72	-
Alta Capital AS	-	250	-	16
5. Interest paid				
Shareholders	-	-	-	-
Alta Capital AS	-	--	-	-

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

Note no. 9 Segments

a) Primary segment – business segment by area of activity

	Retail trade 6 months 2005 30.06.05 EEK thousand	Production, wholesale and subcontracting 6 months 2005 30.06.05 EEK thousand	Inter-segment transactions 6 months 2005 30.06.05 EEK thousand	Total 6 months 2005 30.06.05 EEK thousand	Retail trade 6 months 2005 30.06.05 EUR thousand	Production, wholesale and subcontracting 6 months 2005 30.06.05 EUR thousand	Inter-segment transactions 6 months 2005 30.06.05 EUR thousand	Total 6 months 2005 30.06.05 EUR thousand
Non-group sales	30,643	27,390	-	58,033	1,958	1,751	-	3,709
Inter-segment sales	-	-12,508	12,508	-	-	-799	799	-
Total sales	**30,643**	**14,882**	**12,508**	**58,033**	**1,958**	**952**	**799**	**3,709**
Operating profit/loss of segment	-3,125	4,319	-	1,194	-200	276	-	76
Unallocated operating charges				3,712				237
Total operating loss				**-2,518**				**-161**
Other financial income and expenses				-3,121				-199
Net loss				**-5,639**				**-360**
Assets and receivables	24,822	58,680	-	83,502	1,586	3,751	-	5,337
Unallocated assets of group				15,031				961
Total assets				**98,533**				**6,298**
Liabilities	1750	17,489	-	19,239	112	1,118	-	1,230
Unallocated liabilities of group				79,294				5,068
Total liabilities				**98,533**				**6,298**
Tangible and intangible assets acquired	726	-	-	726	46	-	-	46
Depreciation and amortisation	615	2,867	-	3,482	39	183	-	222

The assets and liabilities set out in the Note are disclosed as of the Balance Sheet date, i.e. 30 June 2005.

	Retail trade 6 months 2004	Production, wholesale and subcontracting 6 months 2004	Inter-segment transactions 6 months 2004	Total 6 months 2004	Retail trade 6 months 2004	Production, wholesale and subcontracting 6 months 2004	Inter-segment transactions 6 months 2004	Total 6 months 2004
	30.06.04 EEK thousand	**30.06.04** EEK thousand	**30.06.04** EEK thousand	**30.06.04** EEK thousand	**30.06.04** EUR thousand	**30.06.04** EUR thousand	**30.06.04** EUR thousand	**30.06.04** EUR thousand
Non-group sales	27,910	35,692	-	63,602	1,784	2,281	-	4,065
Inter-segment sales	-	12,285	-12,285	-		785	-785	0
Total sales	**27,910**	**47,977**	**-12,285**	**63,602**	**1,784**	**3,066**	**-785**	**4,065**
Operating profit/loss of segment	-260	1,664	-	1,404	-17	106	-	89
Unallocated operating charges				-3407				-217
Total operating loss				**-2,003**				**-128**
Other financial income and expenses				-2,690				-172
Net loss				**-4,693**				**-300**
Assets and receivables	13,862	85,713	-	99,575	886	5,478	-	6,364
Unallocated assets of group				21,787				1,392
Total assets				**121,362**				**7,756**
Liabilities	1,072	19,622	**-**	20,694	69	1,253	**-**	1,322
Unallocated liabilities of group				100,668				6,434
Total liabilities				**121,362**				**7,756**
Tangible and intangible assets acquired	25	2,037	-	2,062	2	130	-	132
Depreciation and amortisation	1,289	2,532	-	3,821	82	162	-	244

The assets and liabilities set out in the Note are disclosed as of the Balance Sheet date, i.e. 30.06.2004.

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

	Sales revenue 6 months 30 June 2005 EEK thousand	Sales revenue 6 months 30 June 2004 EEK thousand	Assets 6 months 30 June 2005 EEK thousand	Assets 6 months 30 June 2004 EEK thousand	Investments in fixed assets 6 months 30 June 2005 EEK thousand	Investments in fixed assets 6 months 30 June 2004 EEK thousand	Sales revenue 6 months 30 June 2005 EUR thousand	Sales revenue 6 months 30 June 2004 EUR thousand	Assets 6 months 30 June 2005 EUR thousand	Assets 6 months 30 June 2004 EUR thousand	Investments in fixed assets 6 months 30 June 2005 EUR thousand	Investments in fixed assets 6 months 30 June 2004 EUR thousand
Estonia	27,329	26,862	92,617	102,727	-	2,024	1,747	1,717	5,920	6,565	-	129
Latvia	7,875	7,157	2,339	529	726	25	503	457	150	34	46	2
Lithuania	1,658	1,467	319	354	-	-	106	94	20	23	-	-
Finland	15,596	17,936	154	1,994	-	-	997	1,146	10	127	-	-
Sweden	3,966	9,001	3,104	15,684	-	13	253	575	198	1,002		1
Other countries	1,609	1,179	-	74	-	-	103	76	-	5	-	-
Total	**58,033**	**63,602**	**98,533**	**121,362**	**726**	**2,062**	**3,709**	**4,065**	**6,298**	**7,756**	**46**	**132**

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