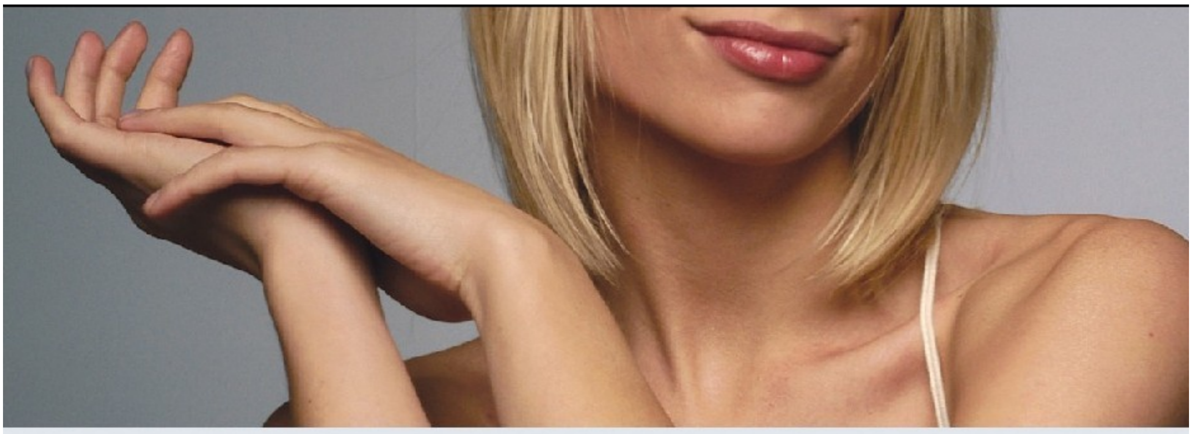
KLEMENTI



Consolidated Interim Report
for the 3rd quarter of 2005

COMPANY PROFILE

Business name:	AS Klementi
Commercial Register code:	10175491
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Telephone:	+372 6 710 700
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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:	AS PricewaterhouseCoopers

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Explanatory memorandum on the interim report for the third 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.

Results for the first nine months of 2005

The clearance of spring and summer collections in July and August and the warm September had a significant impact on the performance results of the Company for the third quarter, as a result of which the sales of outdoor clothes fell short of plans.

The consolidated net sales of the AS Klementi group for the first nine months of 2005 amounted to EEK 89.4 million (€5.7 million) and the net loss was EEK 8.3 million (€0.5 million). Sales for the same period in the previous year amounted to EEK 108.0 million (€6.9 million) and the net loss was EEK 5.9 million (€0.4 million). Sales decreased over the first nine months of 2005 by 14.6% compared to the previous year.

Apparel sales made up 76% of total sales during the first 9 months of the year 2005 (81% in the first nine months of 2004). The percentage of subcontracted production in the sales structure made up 21.8% (17.3% in the same period of the year 2004). Compared to the same period of the previous year, export sales decreased by EEK 14.9 million (€0.9 million) in the first 9 months of the year 2005. The reason for the decline in net sales for the nine months lies in a decrease of wholesale to Sweden and Norway.

As of 30 September 2005, 417 employees worked for the Group (460 employees as of 30 September 2004).

Retail trade

Starting from 2005, AS Klementi is focusing more on the development of retail trade. In autumn 2004 AS Klementi started the reorganisation of its retail trade into a retail chain operating under the PTA trademark. During the nine months under review, two PTA stores were opened in Latvia: one in the Sola Centre in Daugavpils and one in the Mols Centre in Riga. The selling space in Tartu was moved into the Tartu Kaubamaja Department Store, which had been opened just recently, and the factory outlet operating in Stockholm was closed at the end of June.

Compared to the same period of the previous year, retail sales have increased by 4% over the first 9 months of the year 2005. Compared to the first nine months of 2004, the relative share of retail sales has grown by 16% over the first 9 months of the year 2005.

At the same time the efficiency of sales (sales/m^2) has grown by nearly 12%. As of the end of the third quarter of 2005, Klementi was using 2646 square metres of sales area (2689 square metres in 2004).

In the fourth quarter of 2005, Klementi is focusing primarily on the continuous improvement of the efficiency of sales areas. To that end, the Company has sought to reconcile the assortment of its products with customer expectations and commenced the development of a new loyal customer programme.

Wholesale

As a result of inappropriate positioning of apparel marketed under the PTA trademark at the time of designing collections for autumn 2003 and spring 2004, wholesale to Scandinavian countries declined in 2005. By now, AS Klementi has adjusted the positioning of the PTA trademark and supplemented its collections. Being based on the presales for the year 2006, the Company is expecting a substantial increase in wholesale, incl. export sales.

Profit

Operating profit for the first 9 months of the year 2005 before depreciation of fixed assets amounted to EEK 1.7 million (€0.1 million), representing a decrease by EEK 2.3 million (€0.1 million) when compared to the same period of the previous year.

The net loss for the third quarter amounted to EEK 2.7 million (€0.2 million) – an increase by EEK 1.4 million (€0.1 million) when compared to the same period in 2004.

Balance Sheet and ratios

The consolidated Balance Sheet total of AS Klementi was EEK 97.3 million (€6.2 million) as of 30 September 2005. The Balance Sheet total has decreased by EEK 8.5 million (€0.5 million) since the beginning of the year.

As of the end of September, inventories amounted to EEK 23.8 million (€1.5 million) and had decreased by EEK 4.4 million (€0.3 million) since the beginning of the year. The decrease in inventories occurred mainly among the inventories of finished goods.

Trade receivables are on the same level as of the end of the year 2004. Considering the wholesale of goods on credit in the third quarter as well as the decreased wholesale volumes, trade receivables can be deemed to be on an anticipated level when compared to the situation at the end of the third quarter of 2004. Accounts payable have decreased by EEK 0.8 million (€0.05 million) as of the end of the third quarter of 2005.

Total debts amounted to EEK 70.2 million (€4.5 million) as of the end of the accounting period and have increased by EEK 0.8 million (€0.05 million) since the beginning of the year. Debts to the amount of EEK 19.8 million (€1.3 million) were repaid during the first 9 months of the year 2005. Debts increased as a result of a loan of working capital raised for the purpose of financing the autumn collection of 2005. The loan will be due in the fourth quarter. When compared to the end of the third quarter of 2004, debts have decreased by EEK 8.8 million (€0.6 million) by the end of September.

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

Main financial indicators	9 months 2005	9 months 2004	Variation
Operating income, EEK thousand	89,582	107,985	-17.2%
Operating profit/loss before depreciation of fixed assets (EBITDA), EEK thousand	1,682	3,963	-2,281
Margin, %	1.9%	3.7%	-
Operating loss (EBIT), EEK thousand	-3,588	-1,756	-1,832
EBIT to net sales, %	-4.0%	-1.6%	-
Loss for period, EEK thousand	-8,312	-5,941	-2,371
ROA, %	-8.2%	-4.9%	-
ROE, %	-59.5%	-22.4%	-
Earnings per share (EPS), EEK	-4.27	-3.13	-1.14
Share of apparel sales in total sales, %	76.0%	81.5%	-
Current ratio	0.53	0.76	-
Quick ratio	0.21	0.40	-
Inventory turnover	2.06	3.39	-

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	30.09.05 EEK thousand	30.09.04 EEK thousand	31.12.04 EEK thousand	30.09.05 EUR thousand	30.09.04 EUR thousand	31. 12.04 EUR thousand
ASSETS							
Current assets							
Cash at bank and in hand		2,796	4,804	3,400	179	307	217
Trade receivables	1	10,056	23,448	9,906	643	1,499	633
Other short-term receivables		1,520	540	1,706	97	34	109
Prepaid expenses		1,568	2,245	1,141	100	144	73
Inventories	2	23,824	28,542	28,255	1,522	1,824	1,806
Total current assets		**39,764**	**59,579**	**44,408**	**2,541**	**3,808**	**2,838**
Fixed assets							
Long-term financial investments		801	956	955	51	61	61
Tangible assets	3	49,907	54,185	52,896	3,190	3,463	3,381
Intangible assets	3	6,852	7,902	7,574	438	505	484
Total fixed assets		**57,560**	**63,043**	**61,425**	**3,679**	**4,029**	**3,926**
TOTAL ASSETS		**97,324**	**122,622**	**105,833**	**6,220**	**7,837**	**6,764**
LIABILITIES AND OWNERS' EQUITY							
Current liabilities							
Debts	4	59,091	58,916	43,183	3,776	3,765	2,761
Prepayments received for goods and services		46	33	223	3	2	14
Trade creditors		8,351	10,883	9,189	534	696	586
Other payables		71	782	-	5	50	-
Taxes payable		1,537	2,101	1,399	98	134	90
Accrued expenses		6,510	5,410	7,747	416	346	495
Short-term provisions		-	2	12	-	0	1
Total current liabilities		**75,606**	**78,127**	**61,753**	**4,832**	**4,993**	**3,947**
Long-term liabilities							
Long-term debt	4	11,119	20,067	26,219	711	1,283	1,676
Other long-term payables		182	782	25	12	50	2
Long-term provisions		148	68	148	9	4	9
Total long-term liabilities		**11,449**	**20,917**	**26,392**	**732**	**1,377**	**1,687**
Total liabilities		**87,055**	**99,044**	**88,145**	**5,564**	**6,330**	**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		-168	71	139	-11	5	9
Net profit for financial year		-8,312	-5,941	-11,901	-531	-380	-761
Total owners' equity		**10,269**	**23,578**	**17,688**	**656**	**1,507**	**1,130**
TOTAL LIABILITIES AND OWNERS' EQUITY		**97,324**	**122,622**	**105,833**	**6,220**	**7,837**	**6,764**

Income Statement – 3rd quarter
Consolidated, unaudited

	2005 3rd quarter EEK thousand	2004 3rd quarter EEK thousand	2005 3rd quarter EUR thousand	2004 3rd quarter EUR thousand
Operating revenue				
Net sales	31,389	41,124	2,006	2,628
Other operating revenue	35	2,065	2	132
Total operating revenue	**31,424**	**43,189**	**2,008**	**2,760**
Operating expenses				
Change in inventories	2,171	593	139	38
Goods, raw materials and services	11,549	20,109	738	1,285
Other operating expenses	5,793	8,261	370	528
Staff costs	10,891	11,825	696	756
Other operating charges	302	256	19	16
Total operating expenses	**30,706**	**41,044**	**1,962**	**2,623**
EBITDA	**718**	**2,145**	**46**	**137**
Depreciation	1,788	1,898	114	121
Operating profit	**-1,070**	**247**	**-68**	**16**
Financial income and expenses				
Interest expense	-2,018	-1,234	-129	-92
Gains (losses) on conversion of foreign currencies	2	-258	0	-4
Other financial income and expenses	413	-3	26	0
Total financial income and expenses	**-1,603**	**- 1,495**	**-103**	**-96**
Net profit (loss)	**-2,673**	**-1,248**	**-171**	**-80**
Earnings per share				
Basic earnings per share (EEK/EUR)	-1.37	-0.66	-0.09	-0.04
Diluted earnings per share (EEK/EUR)	-1.37	-0.66	-0.09	-0.04

Income Statement – nine months

Consolidated, unaudited

	Notes	2004 9 months EEK thousand	2004 9 months EEK thousand	2005 9 months EUR thousand	2004 9 months EUR thousand
Operating revenue					
Net sales	7	89,422	104,726	5,715	6,693
Other operating revenue		160	3,259	10	208
Total operating revenue		**89,582**	**107,985**	**5,725**	**6,901**
Operating expenses					
Change in inventories		4,789	772	306	49
Goods, raw materials and services		30,269	44,984	1,934	2,875
Other operating expenses		18,993	22,766	1,214	1,455
Staff costs		33,005	33,947	2,109	2,170
Other operating charges		844	1,553	54	99
Total operating expenses		**87,900**	**104,022**	**5,617**	**6,648**
EBITDA		**1,682**	**3,963**	**108**	**253**
Depreciation		5,270	5,719	337	365
Operating profit		**-3,588**	**-1,756**	**-229**	**-112**
Financial income and expenses					
Interest expense		-4,575	-4,059	-292	-260
Gains (losses) on conversion of foreign currencies		-8	-120	-1	-8
Other financial income and expenses		-141	-6	-9	0
Total financial income and expenses		**-4,724**	**-4,185**	**-302**	**-268**
Net profit (loss)		**-8,312**	**-5,941**	**-531**	**-380**
Earnings per share					
Basic earnings per share (EEK/EUR)	6	-4.27	-3.13	-0.27	-0.20
Diluted earnings per share (EEK/EUR)	6	-4.27	-3.13	-0.27	-0.20

Cash Flow Statement

Consolidated, unaudited

	2005 9 months EEK thousand	2004 9 months EEK thousand	2005 9 months EUR thousand	2004 9 months EUR thousand
Cash flow from operating activities				
Net profit (loss)	-8,312	-5,941	-531	-380
Adjustments:				
Depreciation of fixed assets	5,270	5,719	337	365
Gains on disposals of fixed assets	-108	-1,646	-7	-105
Loss on write-offs of fixed assets	208	-	13	-
Variation in receivables and prepayments relating to operations	-544	-9,329	-35	-596
Variation in inventories	4,431	4,742	283	303
Variation in payables and prepayments relating to operations	1,594	-839	102	-54
Interest paid	-3,105	718	-198	47
Total cash flow from operating activities	**-566**	**-6,576**	**-36**	**-420**
Cash flow from investment activities				
Acquisition of tangible assets	-2,090	-2,380	-134	-152
Sales of tangible assets	431	5,712	28	365
Trademark payments made	-1,095	-	-70	-
Repayments of loans granted	221	150	14	10
Interest received	27	39	2	2
Total cash flow from investing activities	**-2,506**	**3,521**	**-160**	**225**
Cash flow from financing activities				
Loans received	22,506	18,700	1,439	1,195
Loans repaid	-19,105	-13,114	-1,221	-838
Financial lease principal repayments	-2,904	-754	-185	-48
Factoring paid	-650	-144	-42	-9
Change in balance of overdraft	3,741	255	239	16
Settlement of other debts	-1,120	-	-72	-
Total cash flow from financing activities	**2,468**	**4,943**	**158**	**316**
Increase/decrease in cash and equivalents of cash	**-604**	**1,888**	**-38**	**121**
Cash and equivalents of cash at beginning of period	**3,400**	**2,916**	**217**	**186**
Cash and equivalents of cash at end of period	**2,796**	**4,804**	**179**	**307**

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	-	-	-	-	7	-	-	7
Loss for accounting period	-	-	-	-	-	-	-5,941	-5,941
Balance as of 30.09.04	**18,969**	**40,294**	**15,578**	**1,046**	**71**	**-46,439**	**-5,941**	**23,578**
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	-	-	-	-	-307	-	-	-307
Profit for accounting period	-	-	-	-	-	-	-8,312	-8,312
Balance as of 30.09.05	**19,469**	**40,994**	**13,876**	**1,046**	**-168**	**-56,636**	**-8,312**	**10,269**

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	-	-	-	-	1	-	-	1
Loss for accounting period	-	-	-	-	-	-	-380	-380
Balance as of 30.09.04	**1,212**	**2,575**	**995**	**67**	**14**	**-2,968**	**-380**	**1,507**
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	-	-	-	-	-20	-	-	-20
Loss for accounting period	-	-	-	-	-	-	-531	-531
Balance as of 30.09.05	**1,244**	**2,620**	**887**	**67**	**-11**	**-3,620**	**-531**	**656**

Accounting methods and principles of valuation used in preparing interim report

The consolidated interim report of AS Klementi (group) for nine months 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:15.6466 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 9 months 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 9 months 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 9 months 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 September 2005	31 December 2004	30 September 2005	31 December 2004
	EEK thousand	EEK thousand	EUR thousand	EUR thousand
Trade receivables	10,056	9,906	643	633
Total	**10,056**	**9,906**	**643**	**633**

Bad debts of EEK 377 thousand (€24 thousand) were written off the Balance Sheet in 9 months 2005.

Note no. 2 Inventories

	30 September 2005	31 December 2004	30 September 2005	31 December 2004
	EEK thousand	EEK thousand	EUR thousand	EUR thousand
Raw materials	8,725	9,138	558	584
Work in progress	3,790	3,796	242	243
Finished goods	7,578	12,361	484	790
Goods for resale	3,630	2,889	232	185
Prepayments to suppliers	101	71	6	4
Total	**23,824**	**28,255**	**1,522**	**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	2,090	0	134	0
Sold during period under review	-323	0	-21	0
Depreciation	-4,548	-722	-291	-46
Written down during period under review	-208	0	-13	0
Acquisition cost 30.09.05	**79,939**	**13,877**	**5,109**	**887**
Accumulated depreciation 30.09.05	-30,032	-7,025	-1,919	-449
Depreciated value 30.09.05	**49,907**	**6,852**	**3,190**	**438**

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

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

	Short-term	Long-term	Short-term	Long-term	Interest rate	Due
	EEK thousand	EEK thousand	EUR thousand	EUR thousand		
Guaranteed debts						
Overdraft from Eesti Ühispank	9,333	-	596	-	7%	31.01.06
Overdraft from Hansapank	9,825	-	628	-	7.75%	30.01.06
Loan from Hansapank	3,190	9,038	204	578	EURIBOR+5%	15.07.09
Loan from Eesti Ühispank	1,662	-	106	-	6%	31.01.06
Loan from Hansapank	451	1,842	29	118	EURIBOR+4.5%	30.03.10
Loan from Hansapank	18,275	-	1,168	-	7%	30.01.06
Non-guaranteed debts						
Financial lease liabilities	400	239	26	15	Average 7%	2007
Factoring	722	-	46	-	7%	31.07.06
Loan from PTA bankruptcy estate	800	-	51	-	5%	31.12.05
Loan from Alta Capital AS	10,533	-	673	-	8-25%	31.01.05
Payable for trademark	3,900	-	249	-	8%	15.01.06
Total	**59,091**	**11,119**	**3,776**	**711**		

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

	Short-term	Long-term	Short-term	Long-term	Interest rate	Due
	EEK thousand	EEK thousand	EUR thousand	EUR thousand		
Guaranteed debts						
Overdraft from Eesti Ühispank	9,022	-	577	-	7%	30.06.05
Overdraft from Hansapank	6,395	-	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 8.2%	2005-2007
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
Loan from Alta Capital AS	-	10,533	-	673	8-25%	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 September 2005, the residual value of the fixed assets pledged as security for obligations amounted to EEK 32,016 thousand (€2046 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 506 shareholders as of 30 September 2005.

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

Name	Number of shares	Shareholding
Share of majority shareholders	1,715 632	88.1%
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%
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 Ab Clients	29,296	1.5%
Hansa Pensionifond K3	22,849	1.2%
Peeter Larin	20,000	1.0%
Share of minority shareholders	231,243	11.9%
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 nine months 2005, the highest and lowest prices of the AS Klementi share on the Tallinn Stock Exchange were EEK 35.20 (€2.25) and EEK 23.47 (€1.50) respectively.

Note no. 6 Net earnings per share (EPS)

Basic and diluted earnings per share for nine months were as follows:

	2005 nine months	2004 nine months
Number of shares on 1 January, thousands	1,897	1,897
Issued shares as of February 2005, thousands	50	-
Number of shares on 30 September, thousands	1,947	1,897
Weighted average number of ordinary shares, thousands	1,947	1,897
Net profit (loss) for accounting period, EEK thousand	-8,312	-5,941
Net profit (loss) for accounting period, EUR thousand	-531	-380
Basic earnings per share, EEK	-4,27	-3,13
Basic earnings per share, EUR	-0,27	-0,20
Diluted earnings per share, EEK	-4,27	-3,.13
Diluted earnings per share, EUR	-0,27	-0,20

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 nine months of 2005 amounted to EEK 89,422 thousand (€5,715 thousand), including exports amounting to EEK 49,022 thousand (€3,133 thousand) or 54.8%, while the net sales for nine months of 2004 amounted to EEK 104,726 thousand (€6,693 thousand), including exports amounting to EEK 63,924 thousand (€4,085 thousand) or 61,0%, broken down as follows:

	2005 9 months EEK thousand	2004 9 months EEK thousand	2005 9 months EUR thousand	2004 9 months EUR thousand
Sales				
Apparel sales	68,032	85,366	4,348	5,456
Subcontracting and services	19,519	18,132	1,248	1,159
Sales of materials	-	320	-	20
Other sales	1,871	908	119	58
Total sales	**89,422**	**104,726**	**5,715**	**6,693**
Incl. Exports				
Apparel sales	32,906	47,312	2,103	3,024
Subcontracting and services	16,111	15,939	1,030	1,019
Sales of materials	-	554	-	35
Other sales	5	119	0	7
Total exports	**49,022**	**63,924**	**3,133**	**4,085**
Percentage of exports	*54,.8%*	*61,0%*	*54,8%*	*61,0%*

The main export destinations were as follows:

Country	2005 9 months EEK thousand	2004 9 months EEK thousand	2005 9 months EUR thousand	2004 9 months EUR thousand
Finland	26,033	28,436	1,664	1,817
Sweden	4,087	16,976	261	1,085
Lithuania	3,165	3,016	202	193
Latvia	14,135	11,890	904	760
Other	1,602	3,606	102	230
Total	**49,022**	**63,924**	**3,133**	**4,085**

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.

	9 months 2005	**9 months 2004**	**9 months 2005**	**9 months 2004**
	EEK thousand	EEK thousand	EUR thousand	EUR thousand
Wages	540	540	35	35
Total	**540**	**540**	**35**	**35**

b) Transactions with related parties

The following transactions with related parties were recorded for 9 months of 2005 and 2004:

	9 months 30 September 2005 EEK thousand	**9 months 30 September 2004 EEK thousand**	**9 months 30 September 2005 EUR thousand**	**9 months 30 September 2004 EUR thousand**
1. Goods and services sold				
Shareholders				
Alta Capital AS	-	7	-	0
2. Goods and services bought				
Management Board				
Merona Holding OÜ	105	10	7	-
3. Loans received				
Shareholders				
Alta Capital AS	-	11,200	-	716
4. Loans repaid				
Shareholders				
Alta Holding OÜ	1,120	-	72	-
Alta Capital AS	-	500	-	32
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 9 months 2005 30.09.05 EEK thousand	Production, wholesale and subcontracting 9 months 2005 30.09.05 EEK thousand	Inter-segment transactions 9 months 2005 30.09.05 EEK thousand	Total 9 months 2005 30.09.05 EEK thousand	Retail trade 9 months 2005 30.09.05 EUR thousand	Production, wholesale and subcontracting 9 months 2005 30.09.05 EUR thousand	Inter-segment transactions 9 months 2005 30.09.05 EUR thousand	Total 9 months 2005 30.09.05 EUR thousand
Non-group sales	46,115	43,307	-	89,422	2,947	2,768	-	5,715
Inter-segment sales	-	-19,036	19,036	-	-	-1,217	1,217	-
Total sales	**46,115**	**24,271**	**19,036**	**89,422**	**2,947**	**1,551**	**1,217**	**5,715**
Operating profit/loss of segment	-5,218	7,229	-	2,011	-333	462	-	129
Unallocated operating charges				5,599				358
Total operating loss				**-3,588**				**-229**
Other financial income and expenses				-4,724				-302
Net loss				**-8,312**				**-531**
Assets and receivables	21,319	60,234	-	81,553	1,362	3,850	-	5,212
Unallocated assets of group				15,771				1,008
Total assets				**97,324**				**6,220**
Liabilities	1,391	15,115	-	16,506	89	966	-	1,055
Unallocated liabilities of group				80,818				5,165
Total liabilities				**97,324**				**6,220**
Tangible and intangible assets acquired	1,729	361	-	2,090	111	23	-	134
Depreciation and amortisation	1,244	4,026	-	5,270	80	257	-	337

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

	Retail trade 9 months 2004 **30.09.04** EEK thousand	Production, wholesale and subcontracting 9 months 2004 **30.09.04** EEK thousand	Inter-segment transactions 9 months 2004 **30.09.04** EEK thousand	Total 9 months 2004 **30.09.04** EEK thousand	Retail trade 9 months 2004 **30.09.04** EUR thousand	Production, wholesale and subcontracting 9 months 2004 **30.09.04** EUR thousand	Inter-segment transactions 9 months 2004 **30.09.04** EUR thousand	Total 9 months 2004 **30.09.04** EUR thousand
Non-group sales	44,352	60,374	-	104,726	2,834	3,859	-	6,693
Inter-segment sales	-	15,371	-15,371	-	-	982	-982	0
Total sales	**44,352**	**75,745**	**-15,371**	**104,726**	**2,834**	**4,841**	**-982**	**6,693**
Operating profit/loss of segment	-3,929	15,402	-	4,165	-251	984	-	266
Unallocated operating charges				-5,921				-378
Total operating loss				**-1,756**				**-112**
Other financial income and expenses				-4,185				-268
Net loss				**-5,941**				**-380**
Assets and receivables	19,339	89,147	-	108,486	1,236	5,698	-	6,934
Unallocated assets of group				14,136				903
Total assets				**122,622**				**7,837**
Liabilities	1,220	18,059	**-**	19,279	78	1,154	**-**	1,232
Unallocated liabilities of group				103,343				6,605
Total liabilities				**122,622**				**7,837**
Tangible and intangible assets acquired	1,847	619	-	2,466	118	39	-	157
Depreciation and amortisation	606	5,113	-	5,719	39	326	-	365

The assets and liabilities set out in the Note are disclosed as of the Balance Sheet date, i.e. 30.09.2004.

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

	Sales revenue 9 months 30 Sept 2005 EEK thousand	Sales revenue 9 months 30 Sept 2004 EEK thousand	Assets 9 months 30 Sept 2005 EEK thousand	Assets 9 months 30 Sept 2004 EEK thousand	Investments in fixed assets 9 months 30 Sept 2005 EEK thousand	Investments in fixed assets 9 months 30 Sept 2004 EEK thousand	Sales revenue 9 months 30 Sept 2005 EUR thousand	Sales revenue 9 months 30 Sept 2004 EUR thousand	Assets 9 months 30 Sept 2005 EUR thousand	Assets 9 months 30 Sept 2004 EUR thousand	Investments in fixed assets 9 months 30 Sept 2005 EUR thousand	Investments in fixed assets 9 months 30 Sept 2004 EUR thousand
Estonia	40,400	40,802	92,408	111,736	1,195	2,182	2,582	2,608	5,906	7,141	77	139
Latvia	14,135	11,890	3,163	1,205	895	25	904	760	202	77	57	2
Lithuania	3,165	3,016	319	322	-	-	202	193	20	21	-	-
Finland	26,033	28,436	37	1,236	-	-	1,664	1,817	2	79	-	-
Sweden	4,087	16,976	1,397	8,123	-	259	261	1,085	90	519		16
Other countries	1,602	3,606	-	-	-	-	102	230	-	-	-	-
Total	**89,422**	**104,726**	**97,324**	**122,622**	**2,090**	**2,466**	**5,715**	**6,693**	**6,220**	**7,837**	**134**	**157**

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