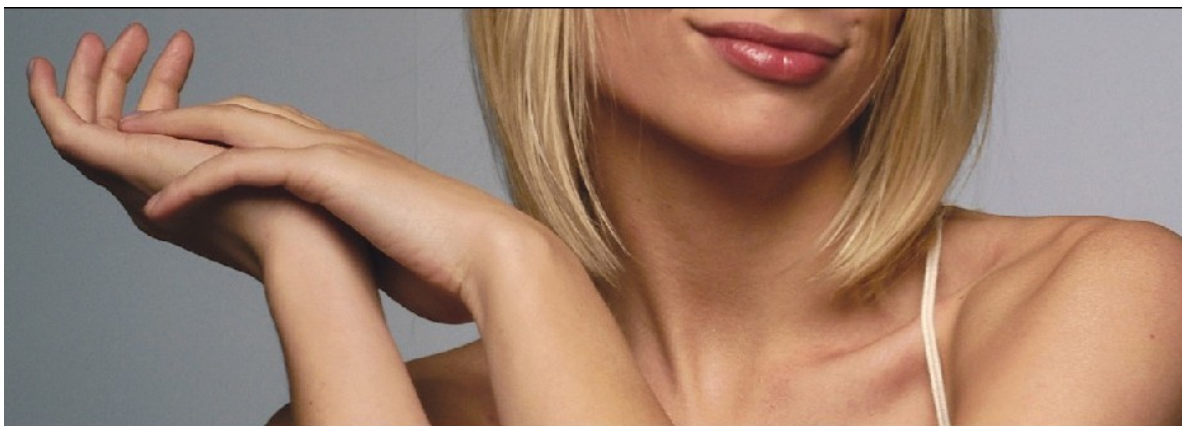


KLEMENTI



Consolidated Interim Report
for the 4th **quarter of 2005**

COMPANY PROFILE

Business name: AS Klementi
Commercial Register code: 10175491
Address: Akadeemia tee 33, 12618 Tallinn
Telephone: +372 6 710 700
Fax: +372 6 710 709
E-mail: klementi@klementi.ee
WWW: www.klementi.ee
Principal activity: design, manufacturing and sales of apparel
Form of ownership: public limited company
Director: Toomas Leis
Chief Financial Officer: Marianne Paas
Auditor: AS PricewaterhouseCoopers

Contents

[Explanatory memorandum to interim report for the 4th quarter of 2005.....](#) 4

[Balance Sheet.....](#) 7

[Income Statement – 4th quarter.....](#) 8

[Cash Flow Statement.....](#) 10

[Accounting methods and valuation principles used for preparing interim report.....](#) 12

[Notes on the consolidated interim report.....](#) 15

[Note 1. Trade Receivables.....](#) 15

[Note 2. Inventories.....](#) 15

[Note 3. Tangible and intangible assets.....](#) 15

[Note 4. Short-term and long-term debts.....](#) 16

[Note 5. Net earnings per share \(EPS\).....](#) 17

[Note 6. Owners’ equity.....](#) 18

[Note 7. Net sales.....](#) 19

[Note 8. Related parties.....](#) 20

[Note 9. Segments.....](#) 21

Explanatory memorandum to interim report for the 4th 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 twelve months of the year 2005

The consolidated net sales of the AS Klementi group for twelve months of 2005 amounted to EEK 116.6 million (EUR 7.5 million) and the net loss was EEK 3.0 million (EUR 0.2 million). Sales for the same period in the previous year amounted to EEK 128.6 million (EUR 8.2 million) and the net loss was EEK 11.9 million (EUR 0.8 million). Sales decreased over the year 2005 by 9.3% compared to the previous year.

Apparel sales made up 76.5% of total sales during the 12 months (78.3% in 2004). The percentage of subcontracted production in the sales structure made up 21.1% (20.7% in 2004). Export sales decreased by EEK 15.2 million (EUR 1.0 million) over the year 2005 when compared to the previous year. The reason for the decline in net sales for the year 2005 lies in a decrease of wholesale to Sweden and Norway.

At the end of 2005, AS Klementi sold its registered immovables and continues activities on these immovables as the lessee under a long-term lease. The transaction value amounted to EEK 53 million (EUR 3.4 million). As a result of the transaction, Klementi earned EEK 15.1 million (EUR 1.0 million), which were disclosed as *other revenue*.

As of 31 December 2005, 414 employees worked for the group (448 employees as of 31 December 2004).

Retail trade

AS Klementi has been focusing on the development of retail trade since 2005. In 2005, 2 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 Department Store, which had been opened just recently, and the factory outlet operating in Stockholm was closed at the end of June. A PTA store will be opened in Liepaja on 1 March 2006.

Retail sales increased by 5.2% in 2005 when compared to the previous year. In Latvia, sales increased by 50% when compared to the previous year. Retail sales accounted for 71.7% of apparel sales 2005, representing an 11.3% increase when compared to 2004.

The efficiency of sales of retail space (sales/m²) has grown by 24% over the year 2005 when compared to the previous year. As of the end of the year 2005, the Klementi Group had 11 stores with an aggregate selling area of 2646 square metres (2689 square metres in 2004).

The introduction of the new Microsoft Axapta business software in 2005 rendered the management of retail prices and inventories more difficult, which had a material adverse effect on the performance results of the Company.

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 EEK 14.6 million (EUR 0.9 million).

An increase in wholesale by approximately 30% has been scheduled for the year 2006. At the end of the year 2005, Klementi launched cooperation with Anttila OY, a Finnish retail group. Klementi is marketing its production under the PTA trademark in Finland through the retail trade chain of Anttila OY.

Profit

Operating profit for the year 2005 before depreciation of fixed assets and before financial items amounted to EEK 10.6 million (EUR 0.7 million). Operating profit for the year 2004 before depreciation of fixed assets and before financial items amounted to EEK 1.8 million (EUR 0.1 million).

The net profit for the fourth quarter amounted to EEK 5.4 million (EUR 0.3 million) – an increase by EEK 11.3 million (EUR 0.7 million) when compared to the same period in 2004.

Balance Sheet and ratios

The consolidated Balance Sheet total of AS Klementi was EEK 51.3 million (EUR 3.3 million) as of 31 December 2005. The Balance Sheet total has decreased by EEK 54.5 million (EUR 3.5 million) when compared to the beginning of the year. The abrupt decrease of the Balance Sheet total was primarily caused by the sale of the Company's registered immovables.

As of the end of December, inventories amounted to EEK 25.0 million (EUR 1.6 million) and had decreased by EEK 3.3 million (EUR 0.2 million) since the beginning of the year. Inventories decreased mainly among the stocks of finished goods, as all the items of previous collections were sold during the year.

When compared to the end of the year 2004, trade receivables have decreased by EEK 6.9 million (EUR 0.4 million). In 2005, bad debts in an amount of EEK 2.5 million (EUR 0.2 million) were expensed and written off the Balance Sheet, incl. subsidiaries' receivables from wholesale customers in an amount of EEK 1.6 million (EUR 0.1 million). As of the end of the year 2005, amounts payable to trade creditors had increased by EEK 3.3 million (EUR 0.2 million) when compared to the situation at the end of the previous year. The increase in trade creditors was predominantly caused by extensive procurements of goods for resale immediately before the end of the year.

The funds received as a result of the sale of the registered immovable were used for reduction of debts. Total debts amounted to EEK 15.4 million (EUR 1.0 million) as of the end of the accounting period and had decreased by EEK 54.0 million (EUR 3.4 million) since the beginning of the year. Accrued expenses decreased as a result of payment of interest in an amount of EEK 2.3 million (EUR 0.1 million) on owners' loans in the fourth quarter.

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

Main financial indicators	12 months 2005	12 months 2004	Change
Operating revenue, EEK thousand	132,019	132,839	-0.6%
Operating profit/loss before depreciation of fixed assets (EBITDA), EEK thousand	10,574	1,787	8,787
Margin, %	7.9%	1.3%	-
Operating loss (EBIT), EEK thousand	3,624	-5,823	9,447
EBIT to net sales, %	2.7%	-4.4%	-
Loss for period, EEK thousand	-2,958	-11,901	8,943
ROA, %	-3.7%	-10.4%	-
ROE, %	-17.7%	-50.4%	-
Earnings per share (EPS), EEK	-1.52	-6.27	4.75
Share of apparel sales in total sales, %	76.5%	78.3%	-
Current debt ratio	0.95	0.72	-
Quick ratio	0.24	0.26	-
Inventory turnover ratio	4.3	4.2	-

The ratios were calculated as follows:

Return on assets (ROA): $\text{Net profit} / \text{average total assets}$

Return on equity (ROE): $\text{Net profit} / \text{average owners' equity}$

Earnings per share (EPS): $\text{Net profit} / \text{average number of ordinary shares}$

Current debt ratio: $\text{Current assets} / \text{current liabilities}$

Quick ratio: $(\text{Current assets} - \text{inventories}) / \text{current liabilities}$

Inventory turnover ratio: $\text{Net sales} / \text{average inventory for the period}$

The Management Board hereby declares that the information disclosed on pages 4-23 of the interim report of AS Klementi are true and correct in all material respects.

Toomas Leis
Chairman of the Management Board

Peeter Larin
Deputy Chairman of the Management Board

Marianne Paas
Member of the Management Board

Tallinn, 28 February 2006

Balance Sheet

Consolidated, unaudited

	Notes	31.12.2005 EEK thousand	31.12.2004 EEK thousand	31.12.2005 EUR thousand	31.12.2004 EUR thousand
ASSETS					
Current assets					
Cash at bank and in hand		2,831	3,400	181	217
Trade receivables	1	3,052	9,906	195	633
Other short-term receivables		1,371	1,706	87	109
Prepaid expenses		1,188	1,141	76	73
Inventories	2	24,970	28,255	1,596	1,806
Total current assets		33,412	44,408	2,135	2,838
Fixed assets					
Long-term financial investments		750	955	49	61
Tangible assets	3	10,536	52,896	673	3,381
Intangible assets	3	6,622	7,574	423	484
Total fixed assets		17,908	61,425	1,145	3,926
TOTAL ASSETS		51,320	105,833	3,280	6,764
LIABILITIES AND OWNERS' EQUITY					
Current liabilities					
Debts	4	15,294	43,183	977	2,761
Prepayments received for goods and services		116	223	7	14
Trade creditors		12,462	9,189	797	586
Taxes payable		2,126	1,399	136	90
Accrued expenses		5,040	7,747	322	495
Short-term provisions		12	12	1	1
Total current liabilities		35,050	61,753	2,240	3,947
Long-term liabilities					
Long-term debt	4	134	26,219	9	1,676
Other long-term payables		173	25	11	2
Long-term provisions		148	148	9	9
Total long-term liabilities		455	26,392	29	1,687
Total liabilities		35,505	88,145	2,269	5,634
Owners' equity					
Share capital		19,469	18,969	1,244	1,212
Share premium account		40,994	40,294	2,620	2,575
Revaluation reserve		-	13,876	-	887
Other reserves		1,046	1,046	67	67
Retained profit		-42,762	-44,735	-2,733	-2,859
Unrealised exchange-rate differences		26	139	2	9
Net profit for financial year	5	-2,958	-11,901	-189	-761
Total owners' equity	6	15,815	17,688	1,011	1,130
TOTAL LIABILITIES AND OWNERS' EQUITY		51,320	105,833	3,280	6,764

Income Statement – 4th quarter

Consolidated, unaudited

	2005 4 th quarter EEK thousand	2004 4 th quarter EEK thousand	2005 4 th quarter EUR thousand	2004 4 th quarter EUR thousand
Sales revenue	27,204	23,880	1,739	1,526
Other operating revenue	15,233	974	973	63
Total operating revenue	42,437	24,854	2,712	1,589
Operating charges				
Change in inventories	1,458	5,053	93	323
Goods, raw materials and services	10,346	4,281	661	274
Other operating expenses	5,970	5,988	382	383
Staff costs	11,032	10,697	705	684
Other operating charges	4,739	1,011	303	64
Total operating expenses	33,545	27,030	2,144	1,728
EBITDA	8,892	-2,176	568	-139
Depreciation	1,680	1,891	107	121
Operating profit	7,212	-4,067	461	-260
Financial income and expenses				
Interest expense	-1,442	-1,863	-92	-119
Gains (losses) on conversion of foreign currencies	-211	-36	-14	-2
Other financial income and expenses	-205	6	-13	0
Total financial income and expenses	-1,858	-1,893	-119	-121
Net profit (loss)	5,354	-5,960	342	-381
Earnings per share				
Basic earnings per share (EEK/EUR)	2.74	-3.14	0.18	-0.20
Diluted earnings per share (EEK/EUR)	2.74	-3.14	0.18	-0.20

Income Statement – 12 months
Consolidated, unaudited

	Notes	2005 12 months EEK thousand	2004 12 months EEK thousand	2005 12 months EUR thousand	2004 12 months EUR thousand
Sales revenue	7,9	116,626	128,606	7,454	8,219
Other operating revenue		15,393	4,233	984	271
Total operating revenue		132,019	132,839	8438	8,490
Operating charges					
Change in inventories		6,247	5,825	399	372
Goods, raw materials and services		40,615	49,265	2,596	3,149
Other operating expenses		24,963	28,754	1,595	1,838
Staff costs		44,037	44,644	2,815	2,853
Other operating charges		5,583	2,564	357	164
Total operating expenses		121,445	131,052	7,762	8,376
EBITDA		10,574	1,787	676	114
Depreciation		6,950	7,610	444	486
Operating profit		3,624	-5,823	232	-372
Financial income and expenses					
Interest expense		-6,017	-5,922	-385	-378
Gains (losses) on conversion of foreign currencies		-219	-156	-14	-11
Other financial income and expenses		-346	-	-22	-
Total financial income and expenses		-6,582	-6,078	-421	-389
Net profit (loss)		-2,958	-11,901	-189	-761
Earnings per share					
Basic earnings per share (EEK/EUR)	5	-1.52	-6.27	-0.09	-0.40
Diluted earnings per share (EEK/EUR)	5	-1.52	-6.27	-0.09	-0.40

Cash Flow Statement
Consolidated, unaudited

	Notes	2005 12 months EEK thousand	2004 12 months EEK thousand	2005 12 months EUR thousand	2004 12 months EUR thousand
Cash flow from operations					
Net profit (loss)		-2,958	-11,901	-189	-761
Adjustments:					
Depreciation of fixed assets	3	6,950	7,610	444	486
Profit on sales of fixed assets		-15,256	-1,701	-975	-109
Loss on write-offs of fixed assets	3	385	353	25	23
Change in receivables and prepayments relating to operations		7,087	2,957	453	189
Change in inventories		3,285	5,029	210	321
Change in payables and prepayments relating to operating activities		8,253	6,144	527	393
Interest paid		-6,288	-4,787	-402	-305
Total cash flow from operating activities		1,458	3,704	93	237
Cash flow from investment activities					
Acquisition of tangible assets	3	-2,224	-3,325	-142	-213
Sales of tangible assets		53,457	6,035	3,417	386
Trademark-related payments made	4	-1,095	-626	-70	-40
Repayments of loans issued		323	224	21	14
Interest received		38	50	2	3
Total cash flow from investing activities		50,499	2,358	3,228	150
Cash flow from financing activities					
Loans raised		28,506	18,700	1,822	1,195
Loans repaid		-64,096	-21,920	-4,096	-1,401
Financial lease principal repayments		-3,002	-981	-192	-63
Factoring paid		-867	-361	-55	-22
Change in balance of overdraft		-11,947	-1,016	-764	-65
Settlement of other debts		-1,120	-	-72	-
Total cash flow from financing activities	4,6	-52,526	-5,578	-3,357	-356
Increase/decrease in cash and cash equivalents		-569	484	-36	31
Cash and cash equivalents at the beginning of the period		3,400	2,916	217	186
Cash and cash equivalents at the end of the period		2,831	3,400	181	217

Statement of Changes in Owners' Equity

Consolidated, unaudited

EEK thousand

	Share capital	Share premium account	Revaluation reserve	Legal reserve	Unrealised exchange-rate differences	Retained loss	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
Transfer of loss for 2003 into retained earnings	-	-	-	-	-	-21,641	21,641	-
Transfer of the fixed assets revaluation reserve into retained earnings	-	-	-1,702	-	-	1,702	-	-
Unrealised exchange-rate differences	-	-	-	-	75	-	-	75
Profit for accounting period	-	-	-	-	-	-	-11,901	-11,901
Balance as of 31.12.2004	18,969	40,294	13,876	1,046	139	-44,735	-11,901	17,688
Transfer of loss for 2004 into retained earnings	-	-	-	-	-	-11,901	11,901	-
Share capital issued	500	700	-	-	-	-	-	1,200
Transfer of the fixed assets revaluation reserve into retained earnings	-	-	-13,876	-	-	13,876	-	-
Unrealised exchange-rate differences	-	-	-	-	-113	-	-	-113
Profit for accounting period	-	-	-	-	-	-	-2,958	-2,958
Balance as of 31.12.2005	19,469	40,994	0	1,046	26	-42,762	-2,958	15,815

EUR thousand

	Share capital	Share premium account	Revaluation reserve	Legal reserve	Unrealised exchange-rate differences	Retained loss	Loss for financial year	Total
Balance as of 31.12.03	1,212	2,575	996	67	4	-1,585	-1,383	1,887
Transfer of loss for 2003 into retained earnings	-	-	-	-	-	-1,383	1,383	-
Transfer of the fixed assets revaluation reserve into retained earnings	-	-	-109	-	-	109	-	-
Unrealised exchange-rate differences	-	-	-	-	5	-	-	5
Profit for accounting period	-	-	-	-	-	-	-761	-761
Balance as of 31.12.2004	1,212	2,575	887	67	9	-2,859	-761	1,130
Transfer of loss for 2004 into retained earnings	-	-	-	-	-	-761	761	-
Share capital issued	32	45	-	-	-	-	-	77
Transfer of the fixed assets revaluation reserve into retained earnings	-	-	-887	-	-	887	-	-
Unrealised exchange-rate differences	-	-	-	-	-7	-	-	-7
Profit for accounting period	-	-	-	-	-	-	-189	-189
Balance as of 31.12.2005	1,244	2,620	0	67	2	-2,733	-189	1,011

Accounting methods and valuation principles used for preparing interim report

The consolidated interim report of AS Klementi (the Group) for 12 months of the year 2005 has been prepared in compliance with the international financial reporting standards (IFRS) as adopted by the European Union. The same accounting methods were used in the preparation of interim reports as in the Annual Report for the financial year ended 31 December 2004.

This interim report indicates results in thousands of EEK 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 12 months of the year 2005 disclose 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 at the date of acquisition. The Balance Sheets of subsidiaries, translated into EEK, indicate the components of the subsidiaries' equity capital as valued at the date of acquisition. The income and expenses of subsidiaries are evaluated on the basis of the weighted average exchange rate. Exchange rate differences arising from revaluation are recorded in the owner's equity account of "Unrealised exchange-rate differences" in the consolidated Balance Sheet.

Foreign currency transactions are recorded at the Bank of Estonia exchange rate applicable at the date of transaction. Monetary assets and liabilities denominated in a foreign currency are restated in the Balance Sheet using the Bank of Estonia exchange rate at the Balance Sheet date. Gains and 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 assumes that the parent company holds directly or indirectly more than 50% of shares in a subsidiary company.

As of the end of the 4th quarter of 2005, AS Klementi had 100% holdings in the following subsidiaries:

- Klementi Trading OY (registered in Finland)
- UAB Klementi Vilnius (registered in Lithuania)
- 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 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 are applied:

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

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 period 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 valued at the lower of their 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 have been assessed in the Balance Sheet to the probability of their receipt at the Balance Sheet date. Accounts receivable, which cannot be collected or collection of which is economically unreasonable, have been recognised as bad debts and written off 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 relating to 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 24/76 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 recognised on an accrual basis, pursuant to the realisation principle.

Revenue from the sales 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.

Notes on the consolidated interim report

Note 1. Trade Receivables

	31 December 2005	31 December 2004	31 December 2005	31 December 2004
	EEK thousand	EEK thousand	EUR thousand	EUR thousand
Trade receivables	3,096	10,283	198	657
Less: allowance for uncollectible accounts	-44	-377	-3	-24
Total	3,052	9,906	195	633

In the year 2005, bad debts in an amount of EEK 2461 thousand (EUR 157 thousand) were expensed, incl. subsidiaries' receivables from wholesale customers in an amount of EEK 1607 thousand (EUR 103 thousand). In 2005, receivables in an amount of EEK 44 thousand (EUR 2.8 thousand) were assessed as uncollectible accounts. In 2004, bad debts in an amount of EEK 305 thousand (EUR 19.5 thousand) were expensed and receivables in an amount of EEK 377 thousand (EUR 24.1 thousand) were assessed as uncollectible accounts and were written off the Balance Sheet in 2005.

Note 2. Inventories

	31 December 2005	31 December 2004	31 December 2005	31 December 2004
	EEK thousand	EEK thousand	EUR thousand	EUR thousand
Raw materials	7,605	9,138	486	584
Work in progress	2,241	3,796	143	243
Finished goods	8,881	12,361	568	790
Goods for resale	6,137	2,889	392	185
Prepayments to suppliers	106	71	7	4
Total	24,970	28,255	1,596	1,806

In 2005, inventories to the amount of EEK 207 thousand (EUR 13 thousand) were written off. In 2004, inventories were written down by EEK 258 thousand (EUR 16 thousand) and were written off to the amount of EEK 167 thousand (EUR 11 thousand). As of 31 December 2005 and 31 December 2004 no inventories written down to the net realisable value were recorded.

Note 3. Tangible and intangible assets

	Tangible assets	Intangible assets	Tangible assets	Intangible assets
	EEK thousand	EEK thousand	EUR thousand	EUR thousand
Acquisition cost at 31.12.2003	87,947	12,325	5,621	786
Accumulated depreciation at 31.12.2003	-27,544	-5,019	-1,761	-319
Carrying amount as of 31.12.2003	60,403	7,306	3,860	467
Acquired during period under review	3,503	1,555	224	99
Sold during period under review	-4,344	-	-278	-
Depreciation	-6,333	-1,277	-405	-80
Written off during period under review	-333	-	-21	-
Written down	-	-9	-	-1
Acquisition cost at 31.12.2004	79,272	13,877	5,067	885
Accumulated depreciation at 31.12.2004	-26,376	-6,303	-1,686	-401
Carrying amount as of 31.12.2004	52,896	7,574	3,381	484

	Tangible assets	Intangible assets	Tangible assets	Intangible assets
	EEK thousand	EEK thousand	EUR thousand	EUR thousand
Acquisition cost at 31.12.2004	79,272	13,877	5,067	885
Accumulated depreciation at 31.12.2004	-26,376	-6,303	-1,686	-401
Carrying amount as of 31.12.2004	52,896	7,574	3,381	484
Acquired during period under review	2,224	-	142	-
Sold during period under review	-38,201	-	-2,442	-
Depreciation	-5,998	-952	-383	-61
Written off during period under review	-385	-	-25	-
Acquisition cost at 31.12.2005	38,106	13,877	2,435	885
Accumulated depreciation at 31.12.2005	-27,570	-7,255	-1,762	-462
Carrying amount as of 31.12.2005	10,536	6,622	673	423

In December 2005, the following registered immovables of AS Klementi were sold: an office building at Akadeemia tee 33, Tallinn (registered immovable with an area of 1932 m²), a production building at Kadaka tee 179, Tallinn (registered immovable with an area of 8937 m²), and a logistics and warehouse building at Kadaka tee 179A, Tallinn (registered immovable with an area of 2328 m²). The registered immovables were sold at a total price of EEK 53,000 thousand (EUR 3,387 thousand). The residual value of the registered immovables sold was EEK 37,908 thousand (EUR 2,423 thousand); a profit of EEK 15,092 thousand (EUR 965 thousand) was earned as a result of the transaction.

Note 4. Short-term and long-term debts

The group had the following debts as of 31 December 2005:

	Short-term	Long-term	Short-term	Long-term	Interest rate	Due
	EEK	EEK	EUR	EUR		
	thousand	thousand	thousand	thousand		
Guaranteed debts						
Overdraft from Hansapank	3,470	-	222	-	6%	30.06.2006
Loan from Hansapank	6,000	-	383	-	6%	15.12.2006
Non-guaranteed debts						
Financial lease liabilities	407	134	26	9	Average 8.2%	2005-2007
Factoring	505	-	32	-	7%	31.07.2006
Loan from PTA bankruptcy estate	800	-	51	-	5%	31.12.2005
Payable for trademark	4,112	-	263	-	8%	15.01.2006
Total	15,294	134	977	9		

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 SEB Ühispank	9,022	-	577	-	8.5%	30.06.2005
Overdraft from Hansapank	6,395	-	409	-	7.75%	30.06.2005
Loan from Hansapank	3,190	11,430	204	731	EURIBOR+5%	15.07.2009
Loan from SEB Ühispank	4,912	-	314	-	6%	30.06.2005
Loan from Hansapank	11,525	-	737	-	7%	30.06.2005
Convertible bonds – PTA Group bankruptcy estate	1,200	-	77	-	5%	31.12.2005
Non-guaranteed debts						
Financial lease liabilities	3,058	485	195	31	Average 8.2%	2005-2007
Factoring	866	506	55	32	7%	31.07.2006
Loan from PTA bankruptcy estate	800	-	51	-	5%	31.12.2005
Loan from Alta Holding OÜ	1,120	-	72	-	0%	21.01.2005
Loan from Alta Capital AS	-	10,533	-	673	8-25%	31.01.2006
Payable for trademark	1,095	3,265	70	209	8%	15.01.2006
Total	43,183	26,219	2,761	1,676		

The funds received as a result of sale of registered immovables, in the amount of EEK 53,000 thousand (EUR 3,387 thousand), were used for reduction of debts. EEK 10,495 thousand (EUR 670 thousand) were paid to SEB Ühispank as a repayment of a short-term bank loan and overdraft. EEK 30,211 thousand (EUR 1,931 thousand) were paid to Hansapank as a repayment of short-term and long-term bank loans; the overdraft limit was reduced to EEK 5,000 thousand (EUR 319 thousand). Loan repayments in an amount of EEK 10,533 thousand (EUR 673 thousand) were made to AS Alta Capital. A loan of EEK 6,000 (EUR 383 thousand) was raised in the fourth quarter for financing circulating capital.

The loan received from the PTA bankruptcy estate was due on 31 December 2005 under the loan agreement. The loan of EEK 800 thousand (EUR 51 thousand) was repaid in January 2006.

Loan collateral

The short-term loan and overdraft received from Hansapank is secured by a commercial pledge amounting to EEK 29,000 thousand (EUR 1853 thousand).

Note 5. Net earnings per share (EPS)

Basic and diluted earnings per share for 12 months were as follows:

	2005 12 months	2004 12 months
Number of shares on 1 January, thousands	1,897	1,897
Issued shares as of February 2005, thousands	50	-
Number of shares on 31 December, thousands	1,947	1,897
Weighted average number of ordinary shares, thousands	1,947	1,897
Net profit (loss) for accounting period, EEK thousand	-2,958	-11,901
Net profit (loss) for the accounting period, EUR thousand	-189	-761
Basic earnings per share, EEK	-1.52	-6.27
Basic earnings per share, EUR	-0.09	-0.40
Diluted earnings per share, EEK	-1.52	-6.27
Diluted earnings per share, EUR	-0.09	-0.40

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

Note 6. 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 (EUR 1212 thousand) and was divided into 1,896,875 shares with a nominal value of EEK 10 (EUR 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 (EUR 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 (EUR 0.64) each and an issue premium of EEK 14 (EUR 0.89) per share. As a consequence, the share capital of AS Klementi increased by EEK 500 thousand (EUR 31.9 thousand) and the premium par increased by EEK 700 thousand (EUR 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 (EUR 3,323 thousand) and the minimum share capital is EEK 13,000 thousand (EUR 831 thousand).

AS Klementi had 500 shareholders as of 31 December 2005.

The shareholders of AS Klementi with a holding exceeding 1% as of 31 December 2005 are:

Name	Number of shares	Shareholding
Share of majority shareholders	1,719,621	88.3%
OÜ Alta Investments I	462,731	23.8%
Bryum Estonia AS	381,809	19.6%
Hansa Balti Kasvufond	193,758	9.9%
ING Luxembourg S.A.	188,805	9.7%
Alta Capital AS	146,988	7.5%
Firebird Avrora Fund LTD.	68,611	3.5%
OÜ Alta Holding	67,500	3.5%
PTA Group OY	50,000	2.6%
Seesam Elukindlustuse AS	50,000	2.6%
AS Hansa Elukindlustus	37,274	1.9%
Skandinaviska Enskilda Banken Finnish Clients	29,296	1.5%
Hansa Pensionifond K3 (Growth strategy)	22,849	1.2%
Peeter Larin	20,000	1.0%
Share of minority shareholders	227,254	11.7%
Total number of shares	1,946,875	100.0%

b) Reserves

The following have been recorded as reserves:

•Legal reserve

Legal reserve is the mandatory reserve capital prescribed by the Commercial Code, which may be used to cover losses by a resolution of the general meeting of shareholders, unless the losses cannot be covered from available owners' equity, as well as to increase the share capital.

•Revaluation reserve

In connection with the sale of real estate, the fixed assets revaluation reserve of EEK 13,876 thousand (EUR 887 thousand) was included among retained earnings in 2005. In 2004, the fixed assets revaluation reserve was reduced by an amount of EEK 1,702 thousand (EUR 109 thousand), which was included among retained earnings.

c) Information about shares

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

During the year 2005, the highest and lowest prices of the AS Klementi share on the Tallinn Stock Exchange were EEK 35.20 (EUR 2.25) and EEK 23.47 (EUR 1.50), respectively.

Note 7. Net sales

	2005	2004	2005	2004
	12 months	12 months	12 months	12 months
	EEK thousand	EEK thousand	EUR thousand	EUR thousand
Sale				
Apparel sales	89,202	100,641	5,701	6,431
Subcontracting and services	24,660	26,671	1,576	1,705
Other sales	2,764	1,294	177	83
Total sales	116,626	128,606	7,454	8,219
Incl. exports				
Apparel sales	39,947	53,114	2,553	3,394
Subcontracting and services	16,511	20,710	1,056	1,324
Other sales	3,256	1,135	208	73
Total exports	59,714	74,959	3,817	4,791
<i>Percentage of exports</i>	<i>51.2%</i>	<i>58.3%</i>	<i>51.2%</i>	<i>58.3%</i>

The main export destinations were as follows:

Country	2005	2004	2005	2004
	12 months	12 months	12 months	12 months
	EEK thousand	EEK thousand	EUR thousand	EUR thousand
Finland	27,633	34,795	1,766	2,224
Sweden	2,989	12,426	191	794
Lithuania	2,468	3,019	158	193
Latvia	25,050	20,844	1,601	1,332
Other	1,574	3,875	101	248
Total	59,714	74,959	3,817	4,791

Note 8. Related parties

Transactions with shareholders, 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

Gross remuneration paid during the accounting period.

	12 months 2005	12 months 2004	12 months 2005	12 months 2004
	EEK thousand	EEK thousand	EUR thousand	EUR thousand
Wages	720	720	46	46
Total	720	720	46	46

b) Transactions with related parties

The following transactions with related parties were recorded for the 12 months of 2005 and 2004:

	12 months 31 December 2005	12 months 31 December 2004	12 months 31 December 2005	12 months 30 December 2004
	EEK thousand	EEK thousand	EUR thousand	EUR thousand
1. Goods and services sold				
Shareholders				
Alta Capital AS	-	7	-	0
2. Goods and services bought				
Management Board				
Merona Holding OÜ	140	46	9	3
Shareholders				
Alta Capital AS	1,162	-	74	-
3. Loans raised				
Shareholders				
Alta Capital AS	-	11,200	-	716
4. Loans repaid				
Shareholders				
Alta Capital AS	10,533	667	673	43
Alta Holding OÜ	1,120	-	72	-
5. Interest paid				
Shareholders				
Alta Capital AS	2,283	-	146	-

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

Note 9. Segments

a) Primary segment – business segment by area of activity

	Retail trade	Production, wholesale and subcontracting	Inter-segment transactions	Total	Retail trade	Production, wholesale and subcontracting	Inter-segment transactions	Total
	12months2005 31.12.2005	12 months 2005 31.12.2005	12months2005 31.12.2005	12 months2005 31.12.2005	12months2005 31.12.2005	12 months 2005 31.12.2005	12months2005 31.12.2005	12 months 2005 31.12.2005
	EEK thousand	EEK thousand	EEK thousand	EEK thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Non-group sales	63,946	52,680	-	116,626	4,087	3,367	-	7,454
Inter-segment sales	-	32,722	-32,722	-	-	2,091	-2,091	-
Total sales	63,946	85,402	-32,722	116,626	4,087	5,458	-2,091	7,454
Operating profit/loss of segment	-368	2,504	-	2,136	-23	160	-	137
Unallocated operating revenue and operating charges				-1,487				-95
Total operating loss				3,623				-232
Other financial income and expenses				6,581				421
Net loss				-2,958				-189
Assets and receivables	21,404	20,375	-	41,779	1,368	1,302	-	2,670
Unallocated assets of group				9,541				610
Total assets				51,320				3,280
Liabilities	1,432	18,497	-	19,929	92	1,182	-	1,274
Unallocated liabilities of group				15,576				995
Total liabilities				35,505				2,269
Tangible and intangible assets acquired	1,800	424	-	2,224	115	27	-	142
Depreciation and amortisation	3,582	3,368	-	6,950	229	215	-	444

The assets and liabilities set out in the Note are disclosed as of the Balance Sheet date, i.e. 31 December 2005.

	Retail trade 12months2004	Production, wholesale and subcontracting 12 months 2004	Inter-segment transactions 12 months2004	Total 12months2004	Retail trade 12months2004	Production, wholesale and subcontracting 12 months 2004	Inter-segment transactions 12 months 2004	Total 12 months 2004
	31.12.2004 EEK thousand	31.12.2004 EEK thousand	31.12.2004 EEK thousand	31.12.2004 EEK thousand	31.12.2004 EUR thousand	31.12.2004 EUR thousand	31.12.2004 EUR thousand	31.12.2004 EUR thousand
Non-group sales	60,737	67,869	-	128,606	3,882	4,337	-	8,219
Inter-segment sales	-	31,961	-31,961	-	-	2,043	-2,043	-
Total sales	60,737	99,830	-31,961	128,606	3,882	6,380	-2,043	8,219
Operating profit/loss of segment	-619	5,175	-	4,556	-40	331	-	291
Unallocated operating revenue and operating charges				10,379				663
Total operating loss				-5,823				-372
Other financial income and expenses				-6,078				-389
Net loss				-11,901				-761
Assets and receivables	7,753	76,074	-	83,827	496	4,862	-	5,358
Unallocated assets of group				22,006				1,406
Total assets				105,833				6,764
Liabilities	528	10,677	-	11,205	34	682	-	716
Unallocated liabilities of group				94,628				6,048
Total liabilities				105,833				6,764
Tangible and intangible assets acquired	2,149	2,909	-	5,058	137	186	-	323
Depreciation and amortisation	1,874	5,736	-	7,610	120	366	-	486

The assets and liabilities set out in the Note are disclosed as of the Balance Sheet date, i.e. 31.12.2004.

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

	Sales revenue	Sales revenue	Assets	Assets	Investments in fixed assets	Investments in fixed assets	Sales revenue	Sales revenue	Assets	Assets	Investmen ts in fixed assets	Investments in fixed assets
	12 months 31.12.2005	12 months 31.12.2004	12 months 31.12.2005	12 months 31.12.2004	12 months 31.12.2005	12 months 31.12.2004	12 months 31.12.2005	12 months 31.12.2004	12 months 31.12.2005	12 months 31.12.2004	12 months 31.12.2005	12 months 31.12.2004
	EEK thousand	EEK thousand	EEK thousand	EEK thousand	EEK thousand	EEK thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Estonia	56,912	53,647	44,475	98,226	1,305	4,723	3,637	3,428	2,843	6,278	83	302
Latvia	25,050	20,844	6,759	2,024	919	64	1,601	1,332	432	129	59	4
Lithuania	2,468	3,019	-	319	-	-	158	193	-	20	-	-
Finland	27,633	34,795	37	75	-	-	1,766	2,224	2	5	-	-
Sweden	2,989	12,426	49	5,189	-	271	191	794	3	332	-	17
Other countries	1,574	3,875	-	-	-	-	101	248	-	-	-	-
Total	116,626	128,606	51,320	105,833	2,224	5,058	7,454	8,219	3,280	6,764	142	323

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