

JOINT STOCK COMPANY
“KURZEMES ATSLEGA 1”

SEMIANNUAL REPORT
FIRST HALF-YEAR 2005

UNAUDITED

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1.Information on enterprise.

State registration Nr. and date	000304400 February 1996. Dropped from Register of Companies 2004.11.06. "KURZEMES ATSLEGA 1" JSC, had been enrolled in Commercial Register June 1, 2004 with identification number Nr. 40003044007
Registration number of VAT	LV 40003044007, January 22, 1997
The name of enterprise and address	Joint stock company "KURZEMES ATSLEGA 1" Kalvenes street -27, Aizpute LV 3456, Latvia
Financial period	January 1, 2005– june 30, 2005
Members of Supervisory Council	Valdis Bikis – "KURZEMES ATSLEGA 1", JSC, Technical Director – Chairman of Supervisory Council Raitis Brikmanis – Member of Supervisory Council, "Kurzemes Atslega 1", JSC, Chief Engineer - Electrician. Juris Grasmanis – Member of Supervisory Council, "Kurzemes Atslega 1", JSC, Chief Engineer - Mechanic. Andris Taurins – Member of Supervisory Council, "Kurzemes Atslega 1", JSC, Technologic - Mechanic Ivars Lacis – Member of Supervisory Council "Kurzemes Atslega 1", JSC, Engineer - Surveyor Controller
Members of Board	Janis Plume – Member of Supervisory Council, "Kurzemes Atslega 1", JSC, Production Manager Inara Burve – Member of Board, "Kurzemes Atslega 1", JSC, Chief Accountant.
Chairman of Board	Aivars Puisitis
Auditor	Certified Auditor Aivars Rutkis , Certificate Nr. 18

2.Report of Direction.

The modus operandi of joint stock company “KURZEMES ATSLEGA 1” in winter half 2005 was unchanged, the enterprise continues production of door locks and ironmongery, fittings for furniture, wrought iron for gates and fences, technological equipment and so on.

The net turnover in comparison with the first half-year 2005 has decreased on LVL 86872. Owing to the accession of Latvia to the European Union, the export to Ukraine is considerably decreased – in comparison with the first half-year on 81566 LVL.

Because deliveries to the EU countries in comparison with first half-year 2004 are increased on 37464 LVL, the realization of products to EU countries and Ukraine and Russia makes 93.1% from amount of first half-year 2004.

In first half-year 2005 there were decreased also the sales in Latvia – the amount of sales in first half-year 2005 was 68.4% from sales in first half-year 2004. The volume of sales was decreased on 71769 LVL. Partly it is concerned with the fact, that in 2005 the enterprise, to whom there were sold products for LVL 52000 in first half-year 2004, has interrupted the co-operation with “KURZEMES ATSLEGA 1” JSC in 2005 due to his own problems of production. The amount of sales in Latvia is decreased also due to competition. To retain the amount of sales in comparison with the year 2004, the enterprise will strive to enlarge the making of wrought iron for gates and fences and various custom-made parts and components.

To ensure the profitable operation of “KURZEMES ATSLEGA 1” JSC, there has been working also on attenuation of production costs. In 2005 the production costs of sold production in comparison with first half-year 2004 were reduced by 11.7%, but the administration costs by 9.3% (the net turnover is reduced by 10.6%). The quantity of personnel also is reduced – in comparison with first half-year 2000 it is by 30 employees less. The quantity of employees in July 1, 2005 was 205. The average earnings during first half-year 2005 was LVL 175.

Because the costs of ferrous metal currently is reducing and prices of this material make considerable proportion of production costs, we are planning, that the profit in year 2005 will not be less than in 2004.

In first half-year 2005 there was concluded a loan agreement on EUR 60000 with the Nordic Environment Finance Corporation. These funds are invested in modernization of equipment in electroplating shop. For modernization of steam-shop in first half-year was spent LVL 10000, for modernization of powder coating line was spent LVL 10000. Because the growth of demand, there is being enlarged forged iron shop.

Chairman of the Board:

Aivars Puisitis

A/S "KURZEMES ATSLEGA 1"
 reg.No.40003044007
 Taxpayer No.LV40003044007
 Address : Kalvenes str.27,Aizpute

BALANCE SHEETS

currency exchange rate on 30.06.2004 LVL/EUR 0.663

currency exchange rate on 30.06.2005 LVL/EUR 0.7028204

ASSETS	Row code	30.06.2005	30.06.2005	30.06.2004	30.06.2004
1		LVL	EUR	LVL	EUR
1.LONG TERM INVESTMENT					
I.Intangible fixed assets					
II.Fixed assets					
1.Land, building.	70	402594	572840	407511	614647
2.Equipment and machinery	90	129523	184295	152750	230392
3.Other fixed assets	100	28362	40355	14069	21220
4.Fixed assets developmant costs	110	162416	231097	127678	192576
5.Prepayment for fixed assets	120			3766	5680
II Total fixsed assets	130	722895	1028587	705774	1064516
III.Long term finansial investment			0		0
1.Other investment and secutities	180	691	983	692	1044
2.Other loans	190			101	152
III.Total Long term finansial investment	220	691	983	793	1196
1.Total LONG TERM INVESTMENT	230	723586	1029570	706567	1065712
2.CURRENT ASSETS					
1.Inventories					
1.Raw materials	240	255611	363702	268802	405433
2.Work in progress	250	153572	218513	100339	151341
3.Finished goods and goods for sale	260	157404	223966	146149	220436
5.Advance payment for goods	280	1697	2415	11632	17544
I.Total inventories	300	568284	808595	526922	794754
II.Debtors					
1.Trade debtors	310	126115	179445	68982	104045
4.Other debtors	340	1433	2039	2214	3339
7.Deferred expenses	370	318	452	1005	1516
II.Total debtors	380	127866	181937	72201	108900
III.Securities and capital participation					
IV . Cash	430	9669	13758	56464	85165
2.Total current assets	440	705819	1004290	655587	988819
Total assets	450	1429405	2033860	1362154	2054531

LIABILITIES 1	Row code	30.06.2005 LVL	30.06.2005 EUR	30.06.2004 LVL	30.06.2004 EUR
1.CAPITAL					
1.Share capital	460	918144	1306401	918144	1384833
3.Revaluation reserve	480	-94	-134	-94	-142
4.Reserves			0		0
a)legal reserves	490		0		0
4.Total reserves	530		0	0	0
5.Retained profit			0		0
a) previous years retained profit	540	312429	444546	300962	453940
current year profit	550	10336	14707	713	1075
1Total Capital and reserves	560	1240815	1765521	1219725	1839706
2.PROVISIONS					
3.CREDITORS					
1.Long term creditors					
Other loans	640	17350	24687	16850	25415
1.Total long term creditors	750	17350	24687	16850	25415
2.Short-term creditors					
3.Bank loan	780	20412	29044	0	0
4.Other loans	790	7149	10172	8366	12618
5.Advances received from customers	800	4022	5723	2949	4448
6.Trade creditors	810	43041	61242	29349	44267
8.Amounts payable to associated companies	830	53361	75926	37184	56084
10.Taxes and social security payments	850	20576	29277	18628	28097
11.Other creditors	860	22679	32269	29103	43896
12.Deferred income	870		0		0
2. Total short-term creditors	900	171240	243653	125579	189410
Total creditors	910	188590	268339	142429	214825
Total liabilities	920	1429405	2033860	1362154	2054531

Chairmen of the Board

Aivars Puisitis

The principles of accounting and methods of valuation

The annual report has been prepared in accordance with laws of Republic of Latvia "On Bookkeeping" and "On Annual Reports of Enterprises", Latvian standards of Bookkeeping № 1 and № 2. The Income Statement has been prepared using scheme of turnover costs. The Cash Flow report has been prepared using indirect method.

Appendices to balance sheet .

1. The rest of securities.

On the june 30 ,2005 to "KURZEMES ATSLEGA 1" JSC belonged 601 equities of "A/S NORD /LB Latvija" at face value 0.01 LVL. The purchase price of these equities was 691.15 LVL

2. The distribution of trade debtors by countries

Valstis	30.06.05 LVL	30.06.05 EUR	30.06.04. LVL	30.06.04. EUR
Latvia	68005	96762	45710	68944
Lituania	39102	55638	21555	32511
Estonia	6843	9737	1717	2590
Russia	6887	9799	0	0
Germany	5278	7510	0	0
Total	126115	179446	68982	104045

3. Means

Account	Currency	Remainder	Rate of exchange	LVL	EUR
2611	LVL	110	1	110	157
2617	LVL	58	1	58	83
2621	LVL	351	1	351	499
2624	LVL	643	1	643	915
26251	USD	5129	0.583	2990	4254
26271	EUR	7799	0.702804	5481	7799
26291	EUR	51	0.702804	36	51
Total				9669	13578

4..Joint –stock or share capital.

The share capital consists of 918144 equities with nominal value 1.00 LVL . 46.07% of share capital belongs to A/S "KURZEMES ATSLEGA 1", reg.40003253124.

5. Other borrowings (long term creditors)

	Currency of loan	Exchange rate	EUR	LVL
Nordic Environment Finance Corporacion (as at June 30, 2005)	EUR	0.702804	24686 EUR	17350 LVL
Nordic Environment Finance Corporacion (as at June 30, 2004)	EUR	0.663	25415 EUR	16850 LVL

Short-term creditors**6. Borrowings from credit institutions.**

As at June 30, 2005

	Currency of loan	LVLL	Exchange Rate	EUR
A/S NORD/LB Latvija	LVL	20412	0.702804	29044 LVL

7. Other borrowings

	Currency of loan	Exchangr rate	EUR	LVL
Nordic Environment Finance Corporacion(as at June 30, 2005)	EUR	0.702804	10172 EUR	7149 LVL
Nordic Environment Finance Corporacion (as at June 30, 2004)	EUR	0.663	12618 EUR	8366 LVL

9. Taxes and Obligatory payments of the state social insurance

Kind of taxes	30.06.05 LVL	30.06.05 EUR	30.06.04. LVL	30.06.04. EUR
Income tax of inhabitants	6020	8566	6448	9725
Obligatory payments of the state social insurance	10302	14658	11745	17716
Tax to natural resources			354	534
Value added tax	4254	6053		
Obligatory risk duty			81	122
Total	20576	29277	18628	28097

10. The rest of creditors.

Kind of creditors	30.06.05 LVL	30.06.05 EUR	30.06.04. LVL	30.06.04. EUR
Wages for december	17077	24298	18330	27647
Deduction from wages	428	609	992	1496
Dividend	4591	6532	9181	13848
Other creditors	583	830	600	905
Total	22679	32269	29103	43896

A/S "KURZEMES ATSLEGA 1"
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Profit and loss account

First half year 2005.

N.	Item	line No	30.06.2005	20.06.2005	30.06.2004	30.06.2004
			LVL	EUR	LVL	EUR
1	Net sales	10	731345	1060610	818217	1234113
2	Cost of sales	20	-641992	-913472	-726872	-1096338
3	Gross profit	30	89353	127138	91345	137775
4	Distribution expenses	40	-2819	-4011	-2477	-3736
5	Administration expenses	50	-69344	-98667	-76482	-115357
6	Other operating income	60	13844	19698	10115	15256
7	Other operating expenses	70	-15125	-21521	-15301	-23078
8	Income from participation in subsidiary capital	80				
10	Income from other interest and similar incomes	100	8	11	41	62
11	Long term investments and					
	short-terms bond write-off	110				
12	Interest paid and similar expense	120	-883	-1256	-66	-100
13	Operating profit	130	15034	21392	7175	10822
14	Extraordinary income	140				
15	Extraordinary expenses	150				
16	Profit before taxes	160	15034	21392	7175	10822
16	Corporate income tax	170	-2093	-2978	-3471	-5235
17	Other taxes	180	-2605	-3707	-2991	-4511
18	Net profit for the year	190	10336	14707	713	1076

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In profit and loss account there were made changes – one part of incomes, that until now were shown in item “The rest of incomes from economic activity” – Incomes from public facilities, incomes from heating and supply of hot water for dwelling houses and health centre, was transferred to line “Net sales”, because the expenses for rendering of these services does no calculated separately, but are included in production costs of sold products.

For comparability with previous year, there are made corresponding corrections also in profit and loss calculations of previous year.

Appendices for profit and loss account

1. Net sales

Modus operandi	30.06.05 LVL	30.06.05. EUR	30.06.04 LVL	30.06.04 EUR
Incomings from production of locks and ironmongery	709854	1010032	800488	1207373
Incomings from sales of goods in shop	10853	15442	8896	13418
Incomings from rendering of services	2186	3110	539	813
Incomings from rendering of public facilities	8452	12026	8294	12509
Total:	731345	1040610	818217	1234113

Distribution of net sales by geographical markets

Country	30.06.05.. LVL	30.06.05. EUR	%	30.06.04.. LVL	30.06.04. EUR	%
Latvia	392623	558652	53.7	454392	685357	55.5
Lithuania	215240	306259	29.4	175813	265178	21.5
Estonia	52022	74021	7.1	47045	70958	5.7
Russia	30772	43785	4.2	28704	43294	3.5
Ukraine	21887	31142	3.0	103443	156023	12.6
Germany	18801	26751	2.6	8820	13303	1.2
Total	731345	1040610	100	818217	1234113	100

2. Production costs of sales.

The main elements of expenses	30.06.05. LVL	30.06.05. EUR	30.06.04. LVL	30.06.04. EUR
Material costs	375949	534927	398203	600608
Wages	159996	227655	175333	264454
Obligatory payments of the state social insurance	38913	55368	41738	62953
Electrical energy	23072	32828	25657	38698
Costs of depreciation of fixed	34067	48473	36685	55332
The rest of expenses	46558	66246	42890	64691
Expenses in total	678555	965498	720506	1086736
Correction of expenses				
Changes of remains of unfinished production	8214	11687	-4469	-6741
Changes of remains of self-made punches, molds and materials	-14332	-20393	-7920	-11946
Changes of remains of complete product	- 6954	-9895	35275	53206
Changes of remains self-made fixed assets	-23491	-33425	-16520	-24917
Total	641992	913472	726872	1096338

3. Administration expenses.

The main elements of expenses	30.06.05. LVL	30.06.05. EUR	30.06.04. LVL	30.06.04. EUR
Wages	51145	72771	56297	84913
Social expenses	11778	16760	13239	19968
The rest of expenses	6421	9136	6946	10476
Total	69344	98667	76482	115357

4. The rest of incomes for economic activity

Sort of revenue	30.06.05. LVL	30.06.05. EUR	30.06.04. LVL	30.06.04. EUR
Sales of current assets	10210	14527	8658	13058
Incomes from exchange rate fluctuations	1662	2365	356	537
The rest of incomes	1972	2806	1101	1661
Total	13844	19698	10115	15256

5. The rest of expenses for economic activity of enterprise

Heads of expenditure	30.06.05. LVL	30.06.05. EUR	30.06.04. LVL	30.06.04. EUR
First cost of sold current assets	9686	13782	8350	12594
Expenses for social sphere	1099	1564	1368	2063
Expenses, unrelated with economic activity, donations	4340	6175	5583	8421
Heads of expenditure	15125	21521	15301	23078

6. The rest of interest income.

Sort of income	30.06.05. LVL	30.06.05. EUR	30.06.04. LVL	30.06.04. EUR
Interest profit for balance of account etc.	8	11	41	62
Total	8	11	41	62

7. Interest payments.

Heads of expenditure	30.06.05. LVL	30.06.05. EUR	30.06.04. LVL	30.06.04. EUR
Penalty, paid up	0	0	10	15
Interest payable for credit	883	1256	56	85
Total	883	1256	66	100

8. The rest of taxes

Kinds of taxes	30.06.05. LVL	30.06.05. EUR	30.06.04. LVL	30.06.04. EUR
Real estate tax	2605	3707	2991	4511

A/S "KURZEMES ATSLEGA 1"

reg.No.40003044007

Taxpayer No.LV40003044007

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CASH FLOW STATEMENT IN FIRST HALF-YEAR OF 2005

	Pielikums	30.06.05. LVL	30.06.05. EUR	30.06.04. LVL	30.06.04. EUR
1.	2.	3.	4	5	6
I. Business activities cash flow					
1. Profit or loss before tax		15034	21391	7175	10822
Corrections			0		0
a) wear of fixed assets		34942	49718	36710	55370
g) interest income		34067	48473	36685	55332
i) interest expense		-8	-11	-41	-62
		883	1256	66	100
2. Profit or loss before current assets and short-term liabilities					
residue correction influence		49976	71109	43885	66192
Corrections		3139	4466	-7102	-10712
b) Stock residue increase/decrease		23131	32912	20039	30225
c) To suppliers, contractors and other creditors			0		0
payable debt residue increase/decrease.		-19992	-28446	-27141	-40937
3. Basic activity cash flow		53115	75576	36783	55480
4. Interest expense		-883	-1256	-66	-100
5. Income tax paid		-2093	-2978	-3471	-5235
6. Real estate tax paid		-2605	-3707	-3707	-5591
Basic activity net cash flow		12303	17506	54984	82932
II. Investments action cash flow					
1.	2.	3.	4	5	6
3. Fixed assets and intangible investments purchase		-31951	-45462	-31045	-46825
7. Interest income		8	11	41	62
			0		0
9. Investments activity net cash flow		-31943	-45451	-31004	-46763
					0
III. Financing activity cash flow					
1.	2.	3.	4	5	6
2. Loans received from credit and other institutions		31466	44772	0	0
4. Loans repaid		-7149	-10172	-3541	-5341
7. Financing activity net cash flow		24317	34600	-3541	-5341
V. Financial period net cash flow		4677	6655	20439	30828
VI. Cash and its equivalents residue in the beginning of financial period.		4992	7103	36025	54336
VII. Cash and its equivalents residue in the end of financial period.		9669	13758	56464	85164

Chairmen of the Board

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STATEMENT OF CHANGES IN EQUITY
 IN FIRST HALF-YEAR OF 2005

	Share capital	Revaluation reserve	Reserves	Retained profit	Total
AS of 31 december 2003 LVL	918144	-94	24237	275906	1228193
Transfer to reserves			-34237	34237	0
dividend paid				-9182	-9182
Current year profit				16058	16058
As of 31 december 2004 LVL	918144	-94	0	317020	1235070
As of 31 december 2004 EUR	1306401	-134	0	451079	1757346
Transfer to reserves					
dividend paid				-4591	-9181
Current year profit				10336	16058
As of 30 june 2005 LVL	918144	-94	0	322765	1235070
As of 30 june 2005 EUR	1304401	-134	0	459253	1765520

Chairmen of the Board

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