

JOINT STOCK COMPANY

“KURZEMES ATSLEGA 1”

LV40003044007

**Non-audited
FINANCIAL REPORT
30 June 2006**

Contents

1. Information on enterprise	3
2. Report of Direction.....	4
3. Statement of responsibility of direction	6
4. Balance sheet	7
5. Profit and loss account.....	10
6. Cash flow statement	11
7. Statement of changes in equity	13
8. Accounting policy.....	14
9. Information for the ‘Balance sheet’.....	15
10. Information for the ‘Profit and loss account’.....	18

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– December 31, 2005
Members of Supervisory Council (until April 15 ,.2006)	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 Supervisory Council (from April 15,.2006)	Valdis Bikis – "KURZEMES ATSLEGA 1", JSC, Technical Director – Chairman of Supervisory Council Peteris Hanka – Member of Supervisory Council,, Guntars Stekjanis – KURZEMES ATSLEGA 1", JSC, economist, Member of Supervisory Council, 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 Board, "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 first half-year 2006 was unchanged, the enterprise continues production of door locks an ironmongery, fittings for furniture, wrought iron for gates and fences, technological equipment and so on.

The net turnover of first half-year 2006 in comparison with the first half-year 2005 has increased on 16.4% and it makes thousands 851.4 LVL. According to the budget made by board, the net turnover for 2006 is planned in volume of 1800.0 thousands LVL. The execution of the budget on June 30, 2006 is 47.3%. Performance of the budget for June 30, 2006 makes 47.3 % from the planned volume of an annual turnover. The volume of incomes of the first 6 months 2006 was affected with fortnight collective holiday, which has been connected with necessary repair works that are possibly to lead only during summertime. Realization of production during collective holiday had not been stopped, however the saved up volumes of products did not cover the demand fully.

The first half-year 2006, also as well as the first quarter, is characterized by a significant increase of charges, therefore volume of profit is small. The retained earnings for June 30, 2006 was LVL 4549.00. In comparison with the first half-year 2005 which had been completed with profit of LVL 10336.00, parameters of profit for the first half-year 2006 are lower. Charges are supervised to keep within the limits of the established budget - for June 30, 2006 budget in part of expenditure is executed on 47.3 %. The increase of charges has caused not only by a increase of charges on material resources, but also by necessity to raise earnings to involve a human resources. The number of personnel in June 30, 2006 was 199, the average earnings for the first half-year 2006 was 197.47 LVL. The average number or personnel in first half-year 2005 was 206, the average earnings – 172.12 LVL. The average earnings in comparison with corresponding period of previous year had increased on 14.7 %.

Considering that by experience of former years, parameters of realization of the first half-year usually are higher, these parameters for 2006 could be up to standard of the last year. To provide it, since September 1, 2006 the sale prices of products will be risen. To provide reduction of charges, there is planned to carry out following actions:

- Improve the organization of work, to reduce number working (mainly administrative and the maintenance staff in manufacture);
- Reduce the consumption of nonferrous metal.

In August 8, 2006 there were signed contract with the State Agency of Regional Development about implementation and execution of conditions of financing of the scheme of grants "Assistance to investments in development of the enterprises in especially supported territories" of the project "Introduction of innovative technologies of spot welding of electroplated parts". The total financing of the project is 36,531.75 LVL, from this the private share of financing makes 18,265.89 LVL, the public part of financing makes 18,265.86 LVL, from this of 50 % is financed from the European Fund of Regional Development. Final date of realization of the project is December 14, 2006. Realization of the project will allow to improve quality of products and to reduce charges.

August 28, 2006

Aizpute

Statement of responsibility of direction.

Non-audited report of first six months 2006 and a report of board are prepared being guided by the kindest conscience and good accounting practice. The accounting period is estimated being based on all information known to us at the moment of preparation of the financial report. Financial report gives a real and clear idea about assets, liabilities, financial situation and profits .

Responsibility for non-audited semiannual report of first 6 months 2006 bears the Supervisory Council of joint stock company “KURZEMES ATSLEGA 1”.

The Supervisory Council of AS “KURZEMES ATSLEGA 1”:

Chairman of the Supervisory Council	Aivars Puisītis
-------------------------------------	-----------------

Member of the Supervisory Council	Janis Plume
-----------------------------------	-------------

Member of the Supervisory Council	Inara Burve
-----------------------------------	-------------

Name of the company: JSC "KURZEMES ATSLEGA1 "

Registration Nr. 40003044007

VAT Reg. nr. LV 40003044007

Adress : Kalvenes -27, Aizpute, LV 3456

UNIT :LVL, EUR

BALANCE SHEET

On 30 june

ASSETS 1	Row code	30.06.06. LVL	30.06.05. LVL	30.06.06. EUR	30.06.05. EUR
1.LONG TERM INVESTMENT					
I. Intangible investments					
1.Concesions, patents, licences, trade mark	50	1745		2483	
Total intangible investments	60	1745		2483	
II. Fixed assets					
1. Land, building.	70	400261	402594	569520	572840
2.Equipment and machinery	90	152427	129523	216884	184295
3.Other fixed assets	100	73718	28362	104891	40355
4.Fixed assets development costs	110	53854	162416	76627	231097
5.Prepayment for fixed assets	120	348		495	
II Total fixed assets	130	680608	722895	968417	1028587
III. Long term financial investment					
1.Other investment and securities	180	0	691	0	983
2.Other loans	190				
III Total Long term financial investment	220	0	691	0	983
1.Total LONG TERM INVESTMENT	230	682353	723586	970900	1029570
2.CURRENT ASSETS					
1.Inventories					
1.Raw materials	240	294133	255611	418514	363702
2.Work in progress	250	156365	153572	222487	218513
3.Finished goods and goods for sale	260	168644	157404	239959	223965
5.Advance payment for goods	280	523	1697	744	2415
I. Total inventories	300	619665	568284	881704	808595
II. Debtors					
1.Trade debtors	310	163920	126115	233237	179446
4.Other debtors	340	2543	1433	3618	2039
7.Deferred expenses	370	1488	318	2117	452
II. Total debtors	380	167951	127866	238972	181937
III. Securities and capital participation					
IV . Cash	430	2638	9669	3754	13758
2.Total current assets	440	790254	705819	1124430	1004290
Total assets	450	1472607	1429405	2095330	2033860

LIABILITIES 1	Row code	30.06.06. LVL	30.06.05. LVL	30.06.06. EUR	30.06.05. EUR
1.CAPITAL					
1.Share capital	460	918144	918144	1306401	1306401
3.Revaluation reserve	480	-94	-94	-134	-134
4.Reserves					
a)legal reserves	490				
4.Total reserves	530				
5.Retained profit					
a) previous years retained profit	540	326891	312429	465124	444546
current year profit	550	4549	10336	6472	14707
1Total Capital and reserves	560	1249490	1240815	1777863	1765520
2.PROVISIONS					
3.CREDITORS					
1.Long term creditors					
Other loans	640	46203	17350	65741	24687
.Amounts payable to associated companies	650	40375		57448	
1.Total long term creditors	750	86578	17350	123189	24687
2.Short-term creditors					
3. Other loans	780	13247	7149	18849	10172
4..Bank loan	790	23596	20412	33574	29044
5.Advances received from customers	800	2155	4022	3066	5723
6.Trade creditors	810	52364	43041	74507	61242
8.Amounts payable to associated companies	830	425	53361	605	75926
10.Taxes and social security payments	850	23763	20576	33812	29277
11.Other creditors	860	20989	22679	29865	32269
2. Total short-term creditors	900	136539	171240	194278	243653
Total creditors	910	223117	188590	317467	268340
Total liabilities	920	1472607	1429405	2095330	2033860

1 EUR uz 30.06.2005, 30.06.2006 = 0.702804 LVL

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

Profit or loss account

30 june 2006

N.	Item	line No	30.06.06.	30.06.05.	30.06.06.	30.06.05.
			LVL	LVL	EUR	EUR
1	Net sales	10	851341	731345	1211349	1040610
2	Cost of sales	20	-762310	-639373	-1084669	-909746
3	Gross profit	30	89031	91972	126680	130864
4	Distribution expenses	40	-8733	-10277	-12426	-14623
5	Administration expenses	50	-73428	-64505	-104479	-91782
6	Other operating income	60	21497	13844	30587	19698
7	Other operating expenses	70	-18626	-15125	-26502	-21520
8	Income from participation in subsidiary capital	80				
10	Income from other interest and similar incomes	100	10	8	14	11
11	Long term investments and					
	short-terms bond write-off	110				
12	Interest paid and similar expense	120	-1646	-883	-2342	-1256
13	Operating profit	130	8105	15034	11532	21392
14	Extraordinary income	140				
15	Extraordinary expenses	150				
16	Profit before taxes	160	8105	15034	11532	21392
16	Corporate income tax	170	-1184	-2093	-1685	-2978
17	Other taxes	180	-2372	-2605	-3375	-3707
18	Net profit for the year	190	4549	10336	6472	14707

1 EUR 30.06.2005, 30.06.2006 = 0.702804 LVL

Profit on 1 stock 30.06.2006 = 0.005 LVL

Profit on 1 stock 30.06.2005 = 0.01 LVL

The name of enterprise: **Joint-stock company "KURZEMES ATSLEGA 1"**

Reg.No.: **40003044007**

Address: **Kalvenes street 27, Aizpute, district Liepāja, LV3456, Latvia**

Cash flow statement 30 June 2006

(Cash flow statement, prepared using indirect method)

Indices	Appen ndici es	30.06.06.	30.06.05.	30.06.06.	30.06.05.
		LVL	LVL	EUR	EUR
2	1.	3.	4	5	6
I. Operation activities					
I.					
1. Profit or loss before extraordinary items and taxes.		8105	15034	11532	21391
Corrections:		40871	34942	58154	49718
a) Wear and tear of fixed assets;		39235	34067	55826	48473
b) Value cancellation if long-term investments;					
c) Formation of reserves (except the reserves for unreliable debt);					
d) Profit or loss from fluctuation of foreign currency exchange rate;					
e) Proceeds from partnership in capital of subsidiary company and associated enterprises					
f) Proceeds from no securities and loans, that have been made long-term investment					
g) The rest of incomes and similar incomes		-10	-8	-14	-11
h) Long-term financial investment and cancellation of value short-term securities					
i) Interest payments and similar expenses		1646	883	2342	1256
2. Profit or loss before corrections of effects of changes of current assets and short-term liabilities		48976	49976	69686	71109
Adjustments:		-70666	-32092	-100548	-45663
a) Increase or decrease of residues of debts of debtors;		-22178	-35231	-31556	-50129
b) Increase or decrease of residues of resources;		-44676	23131	-63568	32912
c) Increase or decrease of remains of debts to be paid to suppliers, contractors and other creditors.		-3812	-19992	-5424	-28446
3. The gross cash flow of basic activity.		-21690	17884	-30862	25446
4. Expenses for interest payments.		-1646	-883	-2342	-1256
5. Expenses for payments of enterprise income tax		-1184	-2093	-1685	-2978
6. Expenses for fixed asset tax payments		-2372	-2605	-3375	-3707
7. Cash flow before extraordinary items.		-26892	12303	-38264	17505
8. Cash flow from extraordinary items.					
8. The net cash flow of basic activity		-26892	12303	-38264	17505

1.	2.	3.	4.	5.	8.
			0		0
II. Investing activities					
1. Purchase of shares or parts of related or associated enterprises.					
3. Purchase of fixed assets and nonmaterial investments		-40201	-31951	-57202	-45461
4. Proceeds from sales of fixed assets and nonmaterial investments.		62008		88229	
5. Granted loans					
6. Proceeds from repayment of loans					
7. Entered interests		10	8	14	11
8. Cash in deposit					
9. Received dividends					
9. Net cash flow used in investing activities		21817	-31943	31043	-45450
III. Financing activities					
			0		0
1. Proceeds from issue of shares and bond or participation shares of capital investments.					
2. Loans received		6558	31466	9331	44772
3. Financial aids, pump-priming, presents or donations received					
4. Expenses for repayment of loans		-5431	-7149	-7728	-10172
5. Expenses for redemption of hired fixed assets					
6. Dividends paid					
7. Changes of reserves					
7. Net cash flow of financing activity		1127	24317	1604	34600
IV. The result of exchange rate fluctuations of foreign currency.					
V. The net cash flow of year of account		-3948	4677	-5617	6655
VI. The reminder of currency and its equivalents at the beginning of year of account.		6586	4992	9371	7103
VII. The reminder of currency and its equivalents at the end of year of account.		2638	9669	3754	13758

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

STATEMENT OF CHANGES IN EQUITY
 30 june 2006

	Share capital	Revaluation reserve	Reserves	Retained profit	Total
AS of 31 december 2004 LVL	918144	-94		317020	1235070
Transfer to reserves					0
dividend paid				-4591	-4591
Current year profit				23644	23644
As of 31 december 2005 LVL	918144	-94	0	336073	1254123
As of 31 december 2005 EUR	1306401	-134	0	478188	1784455
Transfer to reserves					
dividend paid				-9182	-9182
Current year profit				4549	4549
As of 30 june 2006 LVL	918144	94		331440	1249490
As of 30 june 2006 EUR	1306401	-134		471596	1777863

Accounting policy.

Report for the 6 months of 2006 is made accordingly Latvian book - keeping principles.

Profit or loss statement is made accordingly turnover costs model.

Cash flow overview is made stating main operation cash flow using the indirect method.

Comparing to the previous year accounting and evaluation methods have not been changed.

Fixed assets are evaluated on their purchasing price, excluding depreciation.

Depreciation are calculated linear, accordingly confirmed parameters.

All values of raw are evaluated accordingly their purchasing prices. Production in progress is evaluated accordingly the standard production costs. The finished goods are evaluated accordingly standard production costs. For calculation of stock value the average weight method is used (FIFO method).

Debtors debts in balance are stated in net value, deducting special accumulations for doubtful debt (at 30June 2006 – 3298.76 LVL) .

All amounts of debtors debts in balance are expected to be received during one year.

All deals in foreign currency are booked accordingly the currency rate of the Bank of Latvia at the date of the deal. All foreign cash means at the end of the report period are evaluated accordingly the exchange rate of the Latvian bank on the last day of the report period.

Information for the ‘Balance sheet’.

1. The rest of securities.

On the December 31, 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. Actions are sold on April 21 st, 2006 at the price of 3.30 LVL (a total sum 1983.30 LVL)

2. The distribution of trade debtors by countries

Valstis	31.06.06 LVL	31.06.05 LVL	31.06.06 EUR	31.06.05 EUR
Latvia	88017	68005	125237	96762
Lituania	28809	39102	40991	55638
Estonia	7079	6843	10073	9737
Russia	2456	6887	3495	9799
Germany	10455	5278	14876	7510
Ukraina	27104	0	38565	0
Total	163920	126115	233237	179446

4. Joint –stock or share capital.

The share capital consists of 918144 equities with nominal value 1.00 LVL .
48.36% (443976 equities) of share capital belongs to A/S ‘KURZEMES ATSLEGA 1’, reg.40003253124. 10% of share capital belongs to Bargain Trade Oy ,Finland

5. Other borrowings (long term creditors)

Creditors	31.06.06 LVL	31.06.05 LVL	31.06.06 EUR	31.06.05 EUR
Nordic Environment Finance Corporation	30668	17350	43636	24678
NORD LB/Lizings	15535		22105	
A/S ‘Kurzemes atslega’	40375		57448	
Total	86578	17350	123189	24678

6. Other borrowings (Short-term creditors)

Creditors	31.06.06 LVL	31.06.05 LVL	31.06.06 EUR	31.06.05 EUR
Nordic Environment Finance Corporacion	11501	7149	16364	10172
NORD LB/Lizings	1746		2485	
Total	13247	7149	18849	10172

7. Borrowings from credit institutions.

Creditors	30.06.06 LVL	30.06.05 LVL	30.06.06. EUR	30.06.05 EUR
A/S NORD /LB Latvija	23956	20412	33574	29044

8.Trade creditors

Busines partner	30.06.06 LVL	30.06.05 LVL	30.06.06. EUR	30.06.05 EUR
Enterprises of latvia	45870	31787	65267	45230
Enterprises of Lithuania	6494	11254	9240	16012
TOTAL	52364	43041	74507	61242

9.Liabilities to associated Enterprises

Busines partner	30.06.06 LVL	30.06.05 LVL	30.06.06. EUR	30.06.05 EUR
A/S "Kurzemes atslega"	425	53361	605	75296

10. Taxes and Obligatory payments of the state social insurance

Kind of taxes	30.06.06 LVL	30.06.05 LVL	30.06.06. EUR	30.06.05 EUR
Income tax of inhabitants	6876	6020	9784	8566
Obligatory payments of the state social insurance	11528	10302	16403	14658
Value added tax	5359	4254	7625	6053
Total	23763	20576	33812	29277

11. The rest of creditors.

Kind of creditors	30.06.06 LVL	30.06.05 LVL	30.06.06. EUR	30.06.05 EUR
Wages for june	11138	17077	15848	24298
Dividend	9181	4591	13063	6532
Other creditors	670	1011	954	1439
Total	23083	22565	32844	32107

Information for the ''Profit and loss account''.

1. Net sales

Modus operandi	30.06.06 LVL	30.06.05 LVL	30.06.06. EUR	30.06.05 EUR
Incomings from production of locks and ironmongery	823097	709854	1171162	1010032
Incomings from sales of goods in shop	15385	10853	21890	15442
Incomings from rendering of services	2211	2186	3146	3110
Incomings from rendering of public facilities	10648	8452	15151	12026
Total:	851341	731345	1211349	1040610

2. Production costs of sales.

The main elements of expenses	30.06.06 LVL	30.06.05 LVL	30.06.06. EUR	30.06.05 EUR
Material costs	495648	375949	705244	534927
Wages	177130	157377	252033	223927
Obligatory payments of the state social insurance	41819	38913	59503	55368
Electrical energy	31858	23072	45330	32828
Costs of depreciation of fixed	39235	34067	55826	48473
The rest of expenses	51256	46558	72931	66246
Expenses in total	836946	675936	1190867	961769
Correction of expenses				
Changes of remains of unfinished production	-5989	8214	-8522	11687
Changes of remains of self-made punches, molds and materials	-9414	-14332	-13395	-20392
Changes of remains of complete product	-50261	-6954	-71515	-9894
Changes of remains self-made fixed assets	-8972	-23491	-12766	-33424
Total	762310	639373	1084669	909746

3. Distribution expenses

The main elements of expenses	30.06.06 LVL	30.06.05 LVL	30.06.06. EUR	30.06.05 EUR
Wages	5207	5176	7409	7365
Social expenses	1254	1248	1784	1776
The rest of expenses	2272	3853	3233	5482
Total	8733	10277	12426	14623

4. Administration expenses.

The main elements of expenses	30.06.06 LVL	30.06.05 LVL	30.06.06. EUR	30.06.05 EUR
Wages	54516	46808	77570	66602
Social expenses	13090	11276	18625	16044
The rest of expenses	5822	6421	8284	9136
Total	73428	64505	104479	91782

5. The rest of incomes for economic activity

Sort of revenue	30.06.06 LVL	30.06.05 LVL	30.06.06. EUR	30.06.05 EUR
Sales of current assets	13383	10210	19042	14527
Incomes from exchange rate fluctuations	0	1662	0	2365
The rest of incomes	8114	1972	11545	2806
Total	21497	13844	30587	19698

6. The rest of expenses for economic activity of enterprise

Heads of expenditure	30.06.06 LVL	30.06.05 LVL	30.06.06. EUR	30.06.05 EUR
First cost of sold current assets	13049	9686	18567	13782
Expenses for social sphere	1581	1099	2250	1564
Expenses, unrelated with economic activity, donations	3996	4340	5685	6174
Heads of expenditure	18626	15125	26502	21520

Chairman of Board:

Aivars Puisitis

Members of Board :

Janis Plume

Inara Burve