



JOINT STOCK COMPANY

„RĪGAS AUTOELEKTROAPARĀTU RŪPNĪCA”

Reg. No 40003030454

Report for the first six months of 2005

(not audited)

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Information about the company

1. Name of the company

Joint Stock Company “Rīgas autoelektroaparātu rūpnīca”

2. Registration number and date

No 40003030454 from June 30, 2004

3. Address and contacts

2, Klijanu street, Riga, Latvia, LV-1013

Phone +371 7378670

Fax +371 7372581

4. Equity capital on June 30, 2005

3265509 LVL ; par value of a share 1.00 LVL

Management report

The company's “Rīgas autoelektroaparatu rūpnīca” profile of production and basic activities:

- production of control and measuring devices for motorcars and tractors, automotive accessories and different locks;
- designing of new devices as well as designing and manufacturing of tooling and instruments

The following technological processes are used in the manufacturing: metal machining and punching, pressure casting of zinc alloys, moulding of plastics, electroplating and paint coating and assembling of finished products.

Since 2003 the company has introduced quality management system corresponding to ISO 9001:2000. In 2005 the personnel continues to perfect the quality management system.

The products of the enterprise are specific and are intended mainly for complete set of automobiles and agricultural machinery in Russia, Ukraine and Belarus.

Net turnover in the first six months of 2005 was 2419702 LVL. The company is intended to retain the same level of production and sales in the second half of the year.

In the result of economic activities in the first six months of 2005 the JSC “RAR “ gained profit:

Profit before taxes was - 26601 LVL,
after tax payments - 16804 LVL.

The rapid increase of material, sub-component, energy and fuel prices in 2005 caused an increase of prime costs. But the prices of the company's produced goods will remain fixed because they are limited by severe competition in the market.

Customers' debts on June 30, 2005 amount 876646 LVL and are real. They correspond to delivery volumes of two months. According to the signed contracts customers shall pay for the delivered production in 45 up to 60 days.

Current liabilities to trade creditors on June 30, 2005 were 264924 LVL

The financial situation of the enterprise in the first half of the year improved. Cash holdings in the bank guarantee the ability to execute the contracts.

JSC "RAR" didn't use bank credits for carrying out of the manufacturing processes.

The property of the society is insured in the Insurance JSC "Nordens".

The company is arranging its territory – selling the equipment that's no more necessary for production, gathering and selling the used packing materials and scrap.

The enterprise carries out repair works for buildings, heat line and gas-pipe, intends to obtain new equipment, to improve the quality of produced goods, as well as starts up re-equipment of electroplating shop and purification plants to meet the demands of environmental protection.

BALANCE SHEET

For the first six months
of 2005

K=0.703 K=0.703

ASSETS	Notes	Row code	LVL	LVL	EUR	EUR
			At the end of the period 30.06.05.	At the beginning of the year 01.01.05.	At the end of the period 30.06.05.	At the beginning of the year 01.01.05.
1	2	3	4	5	6	7
A. LONG-TERM INVESTMENTS						
1. Intangible assets						
1.1. Patents, licenses and similar rights	1	010	38621	47166	54937	67092
1. TOTAL		020	38621	47166	54937	67092
2. Fixed assets						
2.1. Land, buildings and constructions	2	030	1036459	1040117	1470070	1479541
2.2. Equipment and machinery		040	173718	201832	247109	287101
2.3. Other fixed assets and inventory		050	29414	29139	41841	41449
2.4. Construction in progress		060	90040	90040	128080	128080
2.5. Advance payments for fixed assets		070	20046		28515	
2. TOTAL		080	1346677	1361128	1915615	1936171
3. Long-term financial investments						
3.1. Participation in capital of affiliated companies	3	090	1040	1040	1479	1479
3. TOTAL		100	1040	1040	1479	1479
A. TOTAL		110	1386338	1409334	1972031	2004742
B. CURRENT ASSETS						
1. Inventory						
1.1. Raw materials, direct materials and auxiliary materials	4.1.	120	602601	563128	857185	801036
1.2. Work in progress	4.2.	130	99159	95401	141051	135706
1.3. Finished goods and goods for sale	4.3.	140	537749	466570	764934	663684
1.4. Advance payments for goods	4.4.	150	1398	21929	1989	31193
1. TOTAL		160	1240907	1147028	1765159	1631619
2. Receivables						
2.1. Trade receivables	5.1.	170	876646	1271538	1247007	1808731
2.2. Other receivables	5.2.	180	122634	93956	174444	133650
2.3. Deferred expenses	5.3.	190	2563	3088	3646	4393
2. TOTAL		200	1001843	1368582	1425097	1946774
3. Cash						
3. TOTAL	6	210	634006	411307	901858	585074
B. TOTAL		220	2876756	2926917	4092114	4163467
TOTAL ASSETS		230	4263094	4336251	6064145	6168209

BALANCE SHEET

For the first six months of
2005

K=0.703 K=0.703

LIABILITIES	Notes	Row code	LVL	LVL	EUR	EUR
			At the end of the period 30.06.05.	At the beginning of the year 01.01.05.	At the end of the period 30.06.05.	At the beginning of the year 01.01.05.
1	2	3	4	5	6	7
A. Equity capital						
1. Share capital	7	240	3265509	3265368	4645105	4644904
2. Reserves:	8	250	165625	165625	235598	235598
a) other reserves		260	165625	165625	235598	235598
TOTAL		270	3431134	3430993	4880703	4880502
3. Retained profit:						
a) brought forward from previous years		280	250195	250195	355896	355896
b) for the current year		290	16804		23903	
A. TOTAL		300	3698133	3681188	5260502	5236398
B.CREDITORS						
1. Long-term liabilities						
1.1. Debts to suppliers and contractors	9	310	300037	300037	426795	426795
1. TOTAL		320	300037	300037	426795	426795
2. Current liabilities						
2.1. Advance payments from customers	10.1.	330	40500	6515	57610	9267
2.2. Trade creditors	10.2.	340	100003	54971	142252	78195
2.3. Taxes and social security payments	10.3.	350	22459	14045	31947	19979
2.4. Other creditors	10.4.	360	74551	64636	106047	91943
2.5. Accumulated obligations	10.5.	370	27411	214859	38992	305632
2. TOTAL		380	264924	355026	376848	505016
B.TOTAL		390	564961	655063	803643	931811
TOTAL LIABILITIES		400	4263094	4336251	6064145	6168209

PROFIT OR LOSS ACCOUNT
For the first three months of 2005

K=0.703 K=0.703

No	Items	Row code	LVL	LVL	EUR	EUR
			The first six months of 2005	The first six months of 2004	The first six months of 2005	The first six months of 2004
	1	3	4	5	6	7
1	Net turnover	010	2419702	2835961	3441966	4034084
2	Cost of sales	020	2212453	2137297	3147159	3040252
3	Gross profit or loss	030	207249	698664	294807	993832
4	Selling expenses	040	114024	198942	162196	282990
5	Administrative expenses	050	135987	128439	193438	182701
6	Other operating income	060	152944	116654	217559	165937
7	Other operating expenses	070	77156	237681	109753	338095
8	Interest receivable and similar income	080	2365	6075	3364	8641
9	Interest payable and similar expenses	090	8790		12504	0
10	Profit or loss before extraordinary items and taxes	100	26601	256331	37839	364624
11	Profit or loss before taxes	110	26601	256331	37839	364624
	Income tax (advance payment)	120	2566		3650	
12	Real estate tax	130	7231	7326	10286	10421
13	Profit or loss for the period	140	16804	249005	23903	354203
	Earnings per share		0.005	0.076	0.007	0.108

STATEMENT OF CASH FLOWS for the first six months of the year 2005

A. Cash flow from operating activities

K=0.703

K=0.703

No	ITEMS	2005	2004	2005	2004
		six months	six months	six months	six months
		LVL	LVL	EUR	EUR
1	Income from sales and services	2900570	2687178	4125988	3822444
2	Payments to suppliers for goods and services	-2066630	-2123583	-2939730	-3020744
3	Payments to employees and in their interests or to the third persons according to their orders	-491431	-415969	-699048	-591705
4	Other expenses for economic activities	-19763	-24105	-28112	-34289
5	Income from other economic activities	12018	18458	17095	26256
6	Tax payments	-116949	-44763	-166357	-63674
7	Received taxes (VAT)	691		983	
8	Deferred expenses	-4540	-3926	-6458	-5585
	Cash flow from gross operating activities	213966	93290	304361	132703
9	Interest expenses	-9014		-12822	
10	Income tax payments	-12136		-17263	
11	Real estate tax payments	-7234	-7326	-10290	-10421
	TOTAL	185582	85964	263986	122282
A.	Net cash flow from operating activities	185582	85964	263986	122282

B. Cash flow from investment activities

No	ITEMS	2005	2004	2005	2004
		six months	six months	six months	six months
		LVL	LVL	EUR	EUR
1	Purchase of intangible and fixed assets	-26411	-19189	-37569	-27296
2	Sales of intangible and fixed assets	38285	9407	54459	13381
3	Issued loans	-1350		-1920	
4	Repaid loans	1190	750	1693	1067
	TOTAL	11714	-9032	16663	-12848
B.	Net cash from investment activities	11714	-9032	16663	-12848

C. Cash flow from financing

No	ITEMS	2005	2004	2005	2004
		six months	six months	six months	six months
		LVL	LVL	EUR	EUR
1	Income from issue of shares or bonds	141		201	
2	Received interest for deposit	2365	6075	3364	8641
	TOTAL	2506	6075	3565	8641
C.	Net cash flow from financing	2506	6075	3565	8641

SUMMARY OF CASH INCOME AND EXPENDITURE

No	ITEMS	2005 six months	2004 six months	2005 six months	2004 six months
		LVL	LVL	EUR	EUR
A	The result from operating activities	185582	85964	263986	122282
B	The result from investment activities	11714	-9032	16663	-12848
C	The result from financing	2506	6075	3565	8641
D	The result from currency rate fluctuations	22897	-7096	32570	-10094
	Cash increase or decrease	222699	75911	316784	107981
	Cash and cash equivalents at the beginning of the year	411307	493628	585074	702174
	Cash and cash equivalents at the end of the year	634006	569539	901858	810155

STATEMENT OF EXCHANGES IN EQUITY
for the first six months the year 2005

(LVL)

	Share capital	Reserves	Profit or losses	Total
On Dec.31, 2003	3265367	726466	-560841	3430992
Issue of a share reg. on June 30, 2004	1			1
Write-off of the losses of previous years		-560841	560841	0
Profit of the year 2004			250195	250195
On Dec.31, 2004	3265368	165625	250195	3681188
Issue of shares reg. on June 10, 2005	141			141
Profit (+) or losses (-) of the reporting period			16804	16804
On June 30, 2005	3265509	165625	266999	3698133

K=0.703 (EUR)

	Share capital	Reserves	Profit or losses	Total
On Dec.31, 2003	4644903	1033380	-797782	4880501
Issue of a share reg. on June 30, 2004	1			1
Write-off of the losses of previous years		-797782	797782	0
Profit of the year 2004			355896	355896
On Dec.31, 2004	4644904	235598	355896	5236398
Issue of shares reg. on June 10, 2005	201			201
Profit (+) or losses (-) of the reporting period			23903	23903
On June 30, 2005	4645105	235598	379799	5260502

Notes to the financial statements for the first six months of 2005

The report is prepared in accordance with the law „On accountancy”, „On the annual reports of enterprises” and Latvian accounting standards Nr 1 and Nr 2.

Profit or loss account is prepared in accordance with methods of turnover expenses.

Statement of cash flows is prepared using the direct method.

The financial statements include comparable information of the same period of the previous year.

The financial statements are presented in the national currency of Latvia, the lat (LVL) and in euro (EUR).

1. Intangible assets. Balance sheet –row code 010

At the end of the period the total value of patents, licenses and similar rights was 38621 LVL. Long-term investments are written off over 5 years.

2. Buildings, constructions and land are registered in Land Register and is the property of „RAR”. Balance sheet –row code 030

Balance value at the end of the period: 1033459 LVL

including : buildings and constructions - 812578 LVL; land - 220881 LVL.

3. Participation in capital of affiliated companies. Balance sheet – row code 090

Investments in the share capital of joint venture „ARV”,Ltd. - 1040 LVL (50% of the share capital) – production of steering column switches in Russia, Vladimir city.

4. Inventory. Balance sheet –row code 120;130;140;150

4.1. The total value of raw materials and sub-components in the warehouses is 602601 LVL and they provide the process of production for two months.

4.2. The reserves of work in progress (parts) 99159 LVL provide the process of production for two weeks.

4.3. The reserves of finished goods 537749 LVL ensure deliveries in time according to the signed contracts (delivery volume of a month). The increase of the value of stocks if compared with the value at the beginning of the year is due to the increase of material, sub-component and fuel prices. That raised the value of the stocks.

4.4. Advance payments for goods.

<i>Business partner</i>	<i>Advance payment</i>	<i>Total in LVL</i>
Enterprises of Russia	For materials	1201.56
Enterprises of Latvia	For materials	196.68
	Total:	1398.24

5. Receivables.

5.1. Trade receivables. Balance sheet –row code 170

<i>Business partner</i>	<i>Debt</i>	<i>Total in LVL</i>
Enterprises of Russia	For the goods	588596.81
Enterprises of Belarus	For the goods	252922.41
USA (Adventure Service)	For the goods	7216.18
Enterprises of Lithuania	For the goods	24.66
Enterprises of Latvia	For the goods	27885.44
	Total:	876645.50

Customers' debts are real. According to the signed contracts customers shall pay for the delivered production in 45 up to 60 days.

5.2. Other receivables. Balance sheet –row code 180

<i>Business partner</i>	<i>Debt</i>	<i>Total in LVL</i>
Enterprise of Russia	For the goods	19282.71
Enterprises of Latvia	Other sales	330.96
Enterprises of Latvia	Agreement of lease	744.56
Enterprises of Latvia	For electric power	246.27
Employees of the enterprise	Settlements for business trips and other operating expenses	14177.66
Employees of the enterprise	Short-term loans to the employees	1210.00
State Revenue Service	Overpaid taxes (VAT)	62248.73
State treasury	Other overpaid taxes	74.16
Enterprises of Latvia	VAT on unpaid invoices	14597.90
Enterprise of Latvia	Scrap-metal sales	4879.56
Enterprises of Latvia	For machinery	354.00
Enterprises of Latvia	Services	4487.46
Total:		122633.97

5.3. Deferred expenses. Balance sheet –row code 190

<i>Business partner</i>	<i>Year of the deal</i>	<i>Total in LVL</i>
Riga Stock exchange	2005, 3 rd quarter	1250.00
Newspaper „Diena”	2005, 3 rd quarter	149.02
Transport insurance	2005	198.20
„Atlas turs”,Ltd.	2005	512.67
Hotel “Karavella”	July, 2005	398.10
Other enterprises of Latvia	2005	55.39
Total:		2563.38

6. Cash and cash equivalents on June 30, 2005 Balance sheet –row code 210

<i>Cash location</i>	<i>Currency</i>	<i>Balance In currency</i>	<i>Exchange rate of the Bank of Latvia</i>	<i>Balance LVL</i>
Shop-warehouse	LVL			179.98
and treasury	LVL			2522.48
	EUR	2262	0.7028040	1589.74
	USD	8081	0.583	4711.22
	Total: 1			9003.42
Current accounts	LVL			208808.30
	USD	330073.36	0.583	192432.77
	EUR	182268.44	0.7028040	128098.99
	RUR	4689342.63	0.0204	95662.59
	Total: 2			625002.65
	Total: 1+2			634006.07

7. Share capital. Balance sheet –row code 240

Share capital of the company is 3265509 LVL. The nominal value of each share is 1.00 LVL.

The shareholders as on June 30, 2005 :

- JSC“ BALTIJAS HOLDINGS “ - 30,7 %;
- SIA “ Tehprojekts” - 30,7 %;
- SJSC VSAA - 5,0%
- Other physical and legal persons

8. Reserves. Balance sheet row code- 250

The shareholders' meeting in 2003 took a decision to diminish the share capital and to create reserves. The losses of the previous years are written off of the reserves. Balance of the reserves on June 30, 2005 – 165625 LVL.

9. Long-term liabilities. Balance sheet row code - 310

Debt for obtained equipment is 265037.02 LVL. According to the agreement it shall be paid in 2007. 35000LVL are transferred to JSC„RAR” as investments according to the rules of privatization. In total 300037.02 LVL.

10. Current liabilities.

10.1. Advance payments from customers. Balance sheet row code- 330

<i>Business partner</i>	<i>Advance payments</i>	<i>Total LVL</i>
Enterprises of Russia	For goods	9473.75
Enterprises of Latvia	For goods and services	973.46
Enterprise of the Ukraine	For goods	52.29
Enterprises of Latvia	Preliminary contract of real estate's purchase	30000.00
Total:		40499.50

10.2. Trade creditors. Balance sheet row code- 340

<i>Business partner</i>	<i>Substantiation</i>	<i>Total LVL</i>
Enterprises of Latvia	For materials	84484.01
Enterprise of England	For materials	215.73
Enterprise of Germany	For materials	3443.75
PSJSC „Latvenergo”	Contract	10290.12
ME „Rīgas ūdens”	Contract	852.46
Enterprise of Russia	For services	60.28
Other enterprises of Latvia	For services	657.01
Total:		100003.36

10.3. Taxes and social security payments. Balance sheet row code- 350

<i>Tax</i>	<i>Total LVL</i>	<i>Date of payment</i>
Personal income tax	15528.07	July, 2005
Social security payments	6533.26	July, 2005
Business risk fee	149.45	July, 2005
Natural resource tax	248.63	July, 2005
Total:	22459.41	

10.4. Other creditors. Balance sheet row code- 360

<i>Debt</i>	<i>Total LVL</i>	<i>Date of payment</i>
Salary	69362.87	July, 2005
Deductions from salaries (collection orders)	1168.08	July, 2005
Interest payable (contract of equipment's purchase)	1506.22	July, 2005
Overpayment for lease	1513.75	July, 2005
For machinery	1000.00	July, 2005
Total:	74550.92	

10.5. Accumulated obligations. Balance sheet row code - 370

1. The balance sheet at the end of 2004 as accumulated obligations for short term creditors include the predicted commission 134606.04 LVL for advertising, marketing and transport services, which were really received in 2004, but for which the invoices were not received yet. The value of invoices received and paid during the first six months of the year for the services which were received in 2004 was written off of the accumulated obligations. **There are no more provisions on June 30, 2005.**

2. In accordance with the law „On the annual reports of enterprises” provisions for vacations are calculated in total 80252,81 LVL. The expenses for the drawn up vacations during the first six months of 2005 for the year 2004 were written off of the created provisions. **Balance on June 30, 2005 was 27410.68 LVL.**

11. Profit or loss account

Breakdown of net turnover by kind of production: (LVL and %)

Net turnover total:	including		
	Control and measuring devices for vehicles	Locks	Various orders
2419702	2359454	38477	21771
100%	97.5%	1.6%	0.9%

Breakdown of net turnover by geographical markets : (LVL and %)

Net turnover total:	including				
	Russia	Belarus	Ukraine	EU	Latvia
2419702	1016254	713659	532626	18675	138488
100%	42.0%	29.5%	22.01%	0.77%	5.72%

The operating activities of the JSC”RAR” during the first six months of 2005 resulted in profit - 16804 LVL. Due to the rapid rise of material, sub-component, energy and fuel prices in 2005 the expenses increased.

Row code	Item	The first six months of 2005 LVL	The first six months of 2004 LVL	%
010	Net turnover	2419702	2835961	85.3
020	Cost of sales	2212453	2137297	103.5
030	Gross profit or loss	207249	698664	

Row code	Item	The first six months of 2005 LVL	The first six months of 2004 LVL
020	Cost of sales in total: of them	2212453	2137297
1	Account 7.1-costs of materials and sub-components including transport expenses , custom fees and import duties	1336797	1324565
2	Account 7.171 –electric power	99211	99794
3	Account 7.170 -contracts (for repairing works and maintenance of different systems)	16402	8949
4	Account 7.2,7.3-salaries and social security payments	640261	596319
5	Account 7.4- amortization:	88006	48533

6	Account 7.5- operating expenses: total	31776	59137
	including 7540- insurance expenses (goods, buildings, equipment and machinery)	1777	45976
	7551 - certification of the production	16724	110
	7550; 7560; 7570 –expenses for work safety and other operating expenses ;	13275	13051
040	Selling expenses, account 7.6. total:	114024	198942
	including 7600- salaries and social security payments.	15873	13307
	7610; 7620- wrapping and transport costs.	20116	11795
	7670- marketing services according to contracts (explanation in part 10.5 -1.)	72115	166841
	7601;7650;7660 – other expenses;	5920	6999

050	Administrative expenses, account 7.7.total :	135987	128439
	including 7700- salaries and social security payments.	113288	105106
	7710- communication expenses.	10137	9765
	7750- bank services.	2470	2715
	7720;7730;7740;7760; 7770; 7790- other administrative and representation expenses;	10092	10853

060	Other operating income :	152944	116654
	including – income of foreign exchange rate revaluations - 8150, 8170;	111046	51564
	- income from sales of fixed assets;	19849	4837
	- income from rent charges;	6998	7510
	- other income (selling of scrap, materials and tools)	15051	36778
	-income from certificates of privatization (28 LVL- purchase price)	0	15965

070	Other operating expenses:	77156	237681
	including – from sales of foreign currency;	54726	76860
	-replacement of devices during guarantee period, other expenses; written-off nonmarketable goods – in 2004	22430	160821
080	Interest receivable (deposit)	2365	6075
090	Interest payable (contract for equipment purchase)	8790	
110	Profit or loss before taxes.	26601	256331
120	Income tax (advance payment)	2566	
130	Real estate tax (buildings and constructions; land)	7231	7326
140	Profit or loss for the period.	16804	249005

Chief accountant Tamara Visocka – phone +371 7370268

Chairman of the
Management Board

A.Auzinsh