LPP CAPITAL GROUP
Report for H1 FY05

Contents:

September 2005

STATEMENT OF THE MANAGEMENT BOARD

Pursuant to provisions of the Regulation by the Polish Council of Ministers of 21st March 2005 on current and interim information provided by issuers of securities, the Management Board of LPP S.A. hereby declares that:

- the mid-year consolidated financial statement of the LPP Capital Group and comparative financial data have been drawn up in compliance with the accounting principles and are a true and fair view of the financial standing, assets and financial result of LPP Capital Group,

- half-year consolidated report of the Management Board presents a true view of development, achievements and standing of LPP Capital Group, including the description of risks and threats,

- entity authorised to audit financial statement, reviewing the half-year consolidated financial statement has been selected in compliance with the legal regulations. This entity and certified auditors reviewing the statement have met the terms to draw up an impartial and independent audit report, in line with the relevant regulations of the domestic law.

Management Board of LPP S.A.:

Marek Piechocki ....

Alicja Milińska ....

Dariusz Pachla ....

Stanisław Dreliszak ....

Gdańsk, 23rd September 2005

INDEPENDENT CERTIFIED AUDITOR'S REPORT TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENT COVERING THE PERIOD FROM 01.01.2005 TO 30.06.2005

To the Shareholders, Supervisory Board and Management Board of
LPP S.A.

We have audited the consolidated half-year financial statement of the capital group in which LPP S.A. is a holding company (hereinafter referred to as the Company), with its registered office in Gdańsk, at ul. Łąkowa 39/44 including:

- balance sheet as at 30 June 2005 with the balance sheet total of assets and liabilities of **PLN 380,927,000** (say: three hundred and eighty million nine hundred twenty seven thousand),
- the profit and loss account for the period between 1 January 2005 and 30 June 2005 presenting the net profit of **PLN 16,121,000** (say: sixteen million one hundred and sixty two thousand),
- statement of changes in shareholders' equity presenting the increase in equity by **PLN 16,514,000** in the period between 1 January 2005 and 30 June 2005 (say: sixteen million five hundred and fourteen thousand),
- the cash flow statement presenting the decrease in cash by **PLN 3,150,000** in the period between 1 January 2005 and 30 June 2005 (say: three million one hundred and fifty thousand),
- notes including description of essential accounting principles and other explanatory notes.

The Company Board Directors is liable for drawing up of the financial statement.
Our task was to audit this financial statement and upon this basis prepare a report on audit.

The audit was conducted pursuant to the provisions of:

- the Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2002 no. 76 item 694, as amended),
- auditing standards issued by the National Council of Certified Auditors in Poland.

The said standards require us to plan and conduct the audit so as to obtain reasonable basis for an opinion as to whether the consolidated financial statement is free of any material errors.

Our audit included the examination of correctness of the accounting principles (policy) employed by the related parties, queries to the Company's employees and application of analytical procedures to financial data, hence it is not as reliable as audit of the financial statement. As we have not audited the consolidated financial statement, we do not present any opinion on the attached report being true, fair and clear.

The Company's Management Board drawn up a consolidated financial statement covering the period from 1 January 2005 to 30 June 2006, in accordance with accounting policy which is in line with IAS and IFRS. The Management Board of the Company believes that the accounting policy assumed while preparing the financial statement will also be applied while drawing up the consolidated financial statement for financial year ending on 31 December 2005. The Company must draw up first consolidated financial statement compliant with IAS/IFRS for financial year ending on 31 December 2005 and by the date of statement set up accounting policy compliant with IAS/IFRS. Thus accounting principles employed for the preparation of the mid-year consolidated financial statement for six months ending on 30 June 2005 may be different from those that will be employed while drawing up consolidated financial statement for year ending on 31 December 2005.

Based on results of our audit it was concluded that no material changes in the mid-year consolidated financial statement attached hereto are not required to ensure that the said statement presents a reliable, accurate and clear view of the Capital Group's assets and financial standing as at 30 June 2005 as well as its result for the period between 1 January 2005 and 30 June 2005, pursuant to International Accounting Standards / International Financial Reporting Standards (IAS / IFRS).

Information included in the report on the Capital Group's business for the period between 1 January 2005 and 30 June 2005 are in line with Regulation by the Council of Ministers of 21 March 2005 on current and interim information provided by issuers of securities (Journal of Laws Dz. U. No 49 item 463).

Jan Letkiewicz	Cecylia Pol
certified auditor No. 9530/7106	President of the Board of Directors HLB Frąckowiak i Wspólnicy Sp. z o.o. the entity authorised to audit financial statements, entered in the register of auditors certified to audit financial statements, entry no. 238 certified auditor No. 5282/782

Poznań, 24 September 2005

Mid-year consolidated financial statement for the period from 01.01.2005 to 30.06.2005

1. Selected consolidated financial data

Selected consolidated financial data	H1 FY05	H1 FY04	H1 FY05	H1 FY04
	in PLN '000		in EUR '000	
Net revenues from sales of products, goods and materials	304 903	223 205	74 722	47 178
Operating profit (loss)	26 467	11 109	6 486	2 348
Gross profit (loss)	21 882	10 962	5 363	2 317
Net profit (loss)	16 162	8 170	3 962	1 727
Net cash flow from operations	15 021	-37 501	3 681	-7 926
Net cash flow from investments	-42 540	-25 088	-10 425	-5 303
Net cash flow on financial activity	24 367	51 326	5 972	10 849
Total net cash flow	-3 152	-11 263	-772	-2 381
Total assets	380 927	359 976	94 287	79 251
Liabilities and provisions for liabilities	173 585	202 591	42 966	44 602
Long-term payables	1 745	3 664	432	807
Short-term payables	166 848	194 793	41 298	42 885
Equity	207 342	157 385	51 321	34 650
Share capital	3 407	3 407	843	750
No. of shares	1 703 500	1 703 500	1 703 500	1 703 500
Profit (loss) per ordinary share (in PLN / EURO)	9,49	4,80	2,33	1,01
Book value per share - BVPS (in PLN / EURO)	121,72	92,39	30,13	20,34
Dividend per share – declared or paid (in PLN / EURO)				

2. Consolidated balance sheet

Consolidated balance sheet	Notes	Q2 FY05 2005-06-30	previous year 2004-12-31	Q2 FY04 2004-06-30
		as at the end of :		
I. Fixed assets		165 100	136 852	109 947
1. Intangible Assets	13.1	14 319	13 644	12 233
2. Tangible fixed assets	13.2	145 155	116 605	91 890
3. Long-term receivables		199	472	485
3.1. from related parties				
3.2. due from other entities		199	472	485
4. Long-term investments		927	894	964
4.1. Long-term financial assets		927	894	964
a) in related parties, including:		707	611	611
- shares in non-consolidated subsidiaries or jointly-controlled entities	13.3	707	611	611
b) in other entities	13.4	220	283	353
5. Long-term prepaid expenses		4 500	5 237	4 375
5.1. Deferred income tax assets	13.17.2	3 758	4 176	2 393
5.2. Other prepaid expenses	13.14	742	1 061	1 982
II. Current assets		215 827	174 606	250 029
1. Inventory	13.5	171 508	131 776	202 221
2. Short-term receivables	13.6	29 213	24 547	35 252
2.1. from related parties			40	124
2.2. due from other entities		29 213	24 507	35 128
3. Short-term investments		12 435	15 571	11 470
3.1. Short-term financial assets		12 435	15 571	11 470
a) in related parties				
b) in other entities		93	79	160
c) cash and cash equivalents	13.4, 13.7	12 342	15 492	11 310
4. Short-term prepaid expenses	13.14	2 671	2 712	1 086
T o t a l a s s e t s		380 927	311 458	359 976
L i a b i l i t i e s				
I. Equity	13.8	207 342	190 819	157 385
1. share capital		3 407	3 407	3 407
2. reserve capital		199 319	151 236	151 174
3. Other capital reserves		1	1	
4. FX rate discrepancies (conversion of foreign subsidiaries)		304	(8)	549
a) positive FX rate discrepancies		1 247	1 313	766
b) negative FX rate discrepancies		943	1 321	217
5. Profit (loss) from previous years		(11 851)	(5 973)	(5 915)
6. Net profit (loss)		16 162	42 156	8 170
II. Liabilities and provisions for liabilities		173 585	120 639	202 591
1. Provisions for liabilities		4 333	2 750	1 322
1.1. Provision for deferred income tax	13.17.2	3 128	1 659	919
1.2. Provision for retirement benefits and similar benefits	13.9	290	379	291
a) long-term		290	379	291
b) short-term				
1.3 Other provisions	13.9	915	712	112
a) long-term			55	
b) short-term		915	657	112
2. Long-term payables		1 745	2 349	3 664
2.1. Due to related parties				
2.2 Due to other entities	13.12	1 745	2 349	3 664
3. Short-term payables		166 848	114 410	194 793

3.1. Due to related parties	13.13	1 706	1 609	24
3.2 Due to other entities	13.12, 13.13	164 820	112 594	193 289
3.3. Special funds		322	207	1 480
4. Accruals and deferred income		659	1 130	2 812
4.1. Negative goodwill				
4.2. Other prepaid expenses		659	1 130	2 812
a) long-term		122	165	1 048
b) short-term		537	965	1 764
Total liabilities		380 927	311 458	359 976
Book value		207 342	190 819	157 385
No. of shares		1 703 500	1 703 501	1 703 501
Book value per share - BVPS (in PLN)		121,72	112,02	92,39

3. Off-balance sheet liabilities

Off-balance sheet items	Notes	as at the end of : Q2 FY05 2005-06-30	previous year 2004-12-31	Q2 FY04 2004-06-30
1. Contingent liabilities	13.10	24 583	22 927	20 092
1.1. Due to related parties		12 712	18 053	10 026
- bank guarantees issued upon the request of the Issuer to secure payables of non-consolidated subsidiaries		12 712	18 053	10 026
1.2. Due to other entities		11 872	4 874	10 066
- granted guarantees		11 467	4 512	8 196
- bank guarantees issued upon the request of the Issuer to secure payables of other entities		405	362	1 870
Total off-balance sheet items		**24 583**	**22 927**	**20 092**

4. Consolidated profit and loss account

Consolidated profit and loss account	Notes	H1 FY05 01/01/2005-30/06/2005	H1 FY04 01/01/2004-30/06/2004
I. Net revenues from sales of products, goods and materials, including:		**304 903**	**223 205**
- from related parties		46	38
1. Net revenues from sales of products	13.15	2 052	1 115
2. Net revenues from sales of goods and materials	13.15	302 851	222 090
II. Costs of products, goods and materials sold, including:		**134 829**	**103 735**
1. Value of goods and materials sold		134 829	103 735
III. Gross profit (loss) on sales (I-II)		**170 074**	**119 470**
IV. Costs of sales	**13.16**	**123 276**	**91 206**
V. General administrative expenses	**13.16**	**19 007**	**16 496**
VI. Profit (loss) on sales (III-IV-V)		**27 791**	**11 768**
VII. Other operating revenues		**2 186**	**3 221**
1. Profit from the disposal of non-financial fixed assets		26	163
2. Subsidies		124	45
3. Other operating revenues	13.15	2 036	3 013
VIII. Other operating expenses		**3 510**	**3 880**
1. Revaluation of non-financial assets		1 200	1 575
2. Other operating expenses	13.16	2 310	2 305
IX. Operating profit (loss) (VI+VII-VIII)		**26 467**	**11 109**
X. Financial revenues		**529**	**927**
1. interest		509	398
2. Other	13.15	20	529
XI. Financial expenses		**5 114**	**1 074**
1. Interest, including:		2 660	746
2. Other	13.16	2 454	328
XII. Profit (loss) on business operations / gross profit		**21 882**	**10 962**
XIII. Income tax		**5 720**	**2 792**
a) current	13.17.1	4 023	2 519
b) deferred	13.17.2	1 697	273
XIV. Net profit (loss)		**16 162**	**8 170**

Net profit (loss)	16 162	8 170
Weighed average number of ordinary shares	1 703 500	1 703 500
Profit (loss) per ordinary share (in PLN)	9,49	4,80

5. Statement of changes in shareholders' equity

Statement of changes in consolidated equity	H1 FY05 01/01/2005-30/06/2005	previous year financial 31/12/2004	H1 FY04 01/01/2004-30/06/2004
I. Opening balance shareholders' equity	**190 828**	**150 208**	**150 208**
b) corrections of fundamental errors	48		
I.a. Shareholders' equity – opening balance, adjusted to comparative data	190 876	150 208	150 208
1. Opening balance share capital	3 407	3 407	3 407
1.1. Changes in share capital			
1.2. Closing balance share capital	3 407	3 407	3 407

2. Opening balance reserve capital	151 236	118 152	118 152
a) changes resulting from employing IAS/IFRS for the first time		-1 260	-1 260
2.1 Opening balance reserve capital adjusted to comparative data		116 892	116 892
2.2. Changes in reserve capital	48 083	34 344	34 282
a) increase	48 083	34 344	34 282
- distribution of profit (statutory)	49	63	1
- distribution of profit (above the minimum statutory value)	48 034	34 281	34 281
2.3. Closing balance reserve capital	199 319	151 236	151 174
3. Opening balance revaluation capital			
3.1. Changes in revaluation capital	0	0	0
a) increase	48		
- valuation of receivables	48		
b) decrease	48	0	0
- correction of loan valuation	48		
3.2. Closing balance revaluation capital	0	0	0
4. Other capital reserves - opening balance	1		
4.1. Changes in other capital reserves		1	0
a) increase		1	
- distribution of profit		1	
4.2. Other capital reserves - closing balance	1	1	0
5. FX rate differences (translation of subsidiaries)	304	-8	549
6. Opening balance profit (loss) from previous years	36 015	29 515	29 515
6.1. Opening balance profit from previous years	49 346	36 924	36 924
a) changes resulting from employing IAS/IFRS for the first time		386	386
b) corrections of fundamental errors	48		
6.2. Opening balance profit from previous years adjusted to comparative data	49 394	37 310	37 310
a) increase	0	80	80
- consolidation adjustment related to previous years		80	80
b) decrease	48 083	34 483	34 421
- distribution of profit	48 083	34 483	34 421
6.3. Closing balance profit from previous years	1 311	2 907	2 969
6.4. Opening balance loss from previous years	-13 162	-7 409	-7 409
- corrections of fundamental errors		-310	-353
6.5. Opening balance loss from previous years adjusted to comparative data	-13 162	-7 719	-7 762
a) increase	0	145	145
- transfer of profit from previous years		145	145
b) decrease	0	1 306	1 267
- write-off of goodwill as at acquisition date		22	14
- consolidation adjustment related to previous years		1 284	1 253
6.6. Closing balance loss from previous years	-13 162	-8 880	-8 884
6.7. Closing balance profit (loss) from previous years	-11 851	-5 973	-5 915
7. Net result	16 162	42 156	8 170
a) net profit	24 706	46 438	12 613
b) net loss	-8 544	-4 282	-4 443
c) write-offs from profit			
II. Closing balance shareholders' equity	**207 342**	**190 819**	**157 385**
III. Shareholders' equity adjusted by proposed distribution of profit (offset of loss)	**207 342**	**190 819**	**157 385**

6. Consolidated cash flow statement

Consolidated cash flow statement	H1 FY05 01/01/2005- 30/06/2005	H1 FY04 01/01/2004-30/06/2004
A. Cash flow from operations – indirect method		
I. Net profit (loss)	16 162	8 170
II. Total adjustments	-1 141	-45 671
1. Minority profits (losses)		
2. Share in net profits (losses) of subsidiaries valued in accordance with the equity method		
3. Amortization and depreciation, including:	13 551	8 561
- write-off of goodwill or negative goodwill of subsidiaries		
4. FX rate discrepancies (profits) losses	1 163	-350
5. Interest and share in profits (dividends)	2 213	451
6. Profit (loss) from investments	244	1 060
7. Income tax paid	-8 761	-8 690
8. Income tax charged into the gross result	5 721	2 792
9. Change in provisions	288	-598
10. Change in inventory	-39 528	-110 762
11. Change in receivables	-4 393	-12 371
12. Change in short-term payables, excluding credits and loans	28 827	77 260
13. Change in prepaid expenses, accruals and deferred income	-100	-2 911
14. Other adjustments	-366	-113
III. Net cash flow from operations (I+/-II)	15 021	-37 501
B. Cash flow from investments		
I. Inflows	292	304
1. Disposal of intangible assets and tangible fixed assets	233	189
2. Disposal of investments into real estate and intangible assets		
3. From financial assets, including:	29	23
a) in related parties	0	4
- disposal of financial assets		4
- dividends and share in profits		
- repayment of long-term loans granted		
- interest		
- other inflows from financial assets		
b) in other entities	29	19
- disposal of financial assets		
- dividends and share in profits		
- repayment of long-term loans granted	23	
- interest	6	19
- other inflows from financial assets		
4. Other inflows from investments	30	92
II. Outflows	42 832	25 392
1. Acquisition of intangible assets and tangible fixed assets	42 650	24 347
2. Investments into real estate and intangible assets		
3. On financial assets, including:	75	106
a) in related parties	75	87
- acquisition of financial assets	75	87
- long-term loans granted		
b) in other entities	0	19
- acquisition of financial assets		
- long-term loans granted		19
4. Dividends and other share in profits paid to the minority		
5. Other investment outflows	107	939
III. Net cash flow from investments (I-II)	-42 540	-25 088

C. Cash flow from financial activity		
I. Inflows	28 899	53 669
1. Net inflows from the issue of shares and other equity instruments and additional payments to capital		
2. Credits and loans	28 076	53 106
3. Issue of debt securities		
4. Other financial inflows	823	563
II. Outflows	4 532	2 343
1. Acquisition of treasury shares		
2. Dividends and other payments to shareholders		
3. Outflows related to the distribution of profit other than payments to owners		
4. Repayment of credits and loans	1 276	1 582
5. Redemption of debt securities		
6. Other financial payables		
7. Payments due under financial lease agreements	24	
8. interest	2 550	500
9. Other financial outflows	680	261
III. Net cash flow from financial activity (I-II)	24 369	51 326
D. Total net cash flow (A.III+/-B.III+/-C.III)	-3 150	-11 263
E. Total cash flow balance, including:	**-3 150**	**-11 263**
- change in cash due to FX rate discrepancies	**-342**	**-94**
F. Opening cash balance	**15 492**	**22 573**
G. Closing cash balance (F+/-D), including:	**12 342**	**11 310**
- restricted cash	262	1 361

NOTES TO THE CONSOLIDATED MID-YEAR FINANCIAL STATEMENT FOR H1 FY05 OF THE CAPITAL GROUP OF LPP

1. Basic information

Name and registered office LPP CAPITAL GROUP
Holding company: LPP SPÓŁKA AKCYJNA
with its registered office in Gdańsk
ul. Łąkowa 39/44
ZIP code: 80-769

Core business:

1. wholesale sales of clothing, classified in item 51.42 Z of the Polish Classification of Economic Activities (PKD) as "wholesale sales of clothing and footwear",
2. retail sales of clothing, classified in item 52.42 Z as "retail sales of clothing".

Place of business
The Company operates in the following countries:
- Poland,
- Estonia,
- the Czech Republic,
- Lithuania,
- Latvia,
- Hungary,
- Russia,
- Ukraine.

Sector according to the classification adopted by the Warsaw Stock Exchange:

The share of the holding company, LPP S.A. are listed on the main market of the Warsaw Stock Exchange and classified in the trade sector.

2. Members of the Issuer's Management Board and of the Supervisory Board

Members of the Executive Board:
- Marek Piechocki - President of the Management Board
- Dariusz Pachla - Vice President of the Management Board
- Alicja Milińska – Vice President of the Management Board
- Stanisław Dreliszak - Vice President of the Management Board

Members of the Supervisory Board:
- Jerzy Lubianiec - Chairman of the Supervisory Board
- Jacek Siwicki - member of the Supervisory Board
- Krzysztof Fąferek - member of the Supervisory Board
- Wojciech Olejniczak - member of the Supervisory Board
- Maciej Matusiak - member of the Supervisory Board
- Krzysztof Fąferek - member of the Supervisory Board

3. Description of the Capital Group of LPP

LPP Capital Group (CG) comprises:
- LPP S.A. - the holding company,
- 19 subsidiary domestic companies, and
- 7 subsidiary foreign companies.

LPP S.A. is the holding company.

Detailed list of companies comprising the CG is presented in the below table.

no.	Company name	Registered office	Date of control take-over
1.	G&M Sp. z o.o.	Gdańsk, Poland	26.09.2001
2.	M&G Sp. z o.o.	Gdańsk, Poland	26.09.2001
3.	AKME Sp. z o.o.	Gdańsk, Poland	26.09.2001
4.	TORA Sp. z o.o.	Gdańsk, Poland	26.09.2001
5.	P&G Sp. z o.o.	Gdańsk, Poland	26.09.2001
6.	SL&DP Sp. z o.o.	Gdańsk, Poland	26.09.2001
7.	DP&SL Sp. z o.o.	Gdańsk, Poland	26.09.2001
8.	IL&DL Sp. z o.o.	Gdańsk, Poland	26.09.2001
9.	PL&GM Sp. z o.o.	Gdańsk, Poland	26.09.2001
10.	GM&PL Sp. z o.o.	Gdańsk, Poland	26.09.2001
11.	AMA Sp. z o.o.	Gdańsk, Poland	28.05.2002
12.	LIMA Sp. z o.o.	Gdańsk, Poland	22.07.2002
13.	LUMA Sp. z o.o.	Gdańsk, Poland	05.11.2002
14.	KAMA Sp. z o.o.	Gdańsk, Poland	29.10.2002
15.	KUMA Sp. z o.o.	Gdańsk, Poland	05.11.2002
16.	AMUL Sp. z o.o.	Gdańsk, Poland	29.10.2002
17.	AMUK Sp. z o.o.	Gdańsk, Poland	15.05.2003
18.	AMUR Sp. z o.o.	Gdańsk, Poland	09.05.2003
19	MM&MR Sp. z o.o.	Gdańsk, Poland	09.03.2005
20.	LPP Retail Estonia OU	Talin. Estonia	29.04.2002
21.	LPP Czech Republic s.r.o.	Prague, the Czech Republic	16.09.2002
22.	LPP Hungary Kft	Budapest, Hungary	18.10.2002
23.	LPP Retail Latvia Ltd	Riga, Latvia	30.09.2002
24.	UAB LPP	Vilnius, Lithuania	27.01.2003
25.	LPP Ukraina	Przemyślany, Ukraine	23.07.2003
26.	Re Trading Zamknięta Spółka Akcyjna	Moscow, Russia	12.02.2004

LPP S.A. holds direct control in its subsidiaries – 100% share in capital and 100% of the total number of votes held.

The financial statement of LPP S.A. Capital Group covering the period between 1 January and 30 June 2005 includes individual results of LPP S.A. and results of consolidated companies listed below:

- LPP Retail Estonia OU;
- LPP Czech Republic s.r.o.;
- LPP Hungary Kft;
- LPP Retail Latvia Ltd;
- UAB LPP;
- LPP Ukraina AT;
- ZAO Re Trading

Domestic subsidiaries of LPP S.A. were not included in the consolidated statement as the data are irrelevant. This is in line with the Accounting Policy employed by the Group.
Pursuant to the policy, a subsidiary or an affiliated entity is not subject to it if the values included in the financial statement of this entity are minor as compared to the data included in the financial statement of the holding company. In particular, balance sheet total, net revenues from the sale of goods and services and financial transaction of the entity, which are lower than 10% of the balance sheet in a given financial period and revenue of the holding company shall be regarded as minor. The total amount of balance sheet total and revenues of non-consolidated entities cannot exceed that level, but in relation to the value of consolidated financial statement, at the assumption that it covers all subsidiaries and affiliated entities with no exceptions.
The share of all domestic subsidiaries, not subject to consolidated, is as follows:

- in the Capital Group's balance sheet – 0.66%
- in revenues from sales and financial revenues of the Capital Group – 5.55%

The fact that financial statements of these companies are not consolidated has no negative impact on reliable presentation of the CG's state of assets, finance and financial results.

LPP S.A., as a holding company, is involved in the design and distribution of clothing in Poland and in Central and Eastern Europe. The companies of the Capital Group subject to consolidation are entities involved in the distribution of goods under the Reserved brand outside Poland. Clothing is basically the sole product sold by the CG companies. CG companies' basic offer is supplemented by such goods sold as shoes, bags and clothing accessories.
Designs of clothing are prepared in the design office located at LPP S.A.'s registered office in Gdańsk, and then passed on to the purchasing department to start the production in co-operation with production sites in Poland and abroad. Production in China is managed by the Company's trading office in Shanghai.
The Capital Group also generates minor revenues from the sales of services (these are only the revenues of the holding company - mainly know-how services concerning management of brand outlets by domestic contractors and lease of transport vehicles).
19 domestic subsidiaries deal in lease of premises in which Cropp Town and Reserved outlets are located.

4. Basis for the preparation of the financial statement; information on changes in accounting principles employed.

Pursuant to the Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2003 no. 76 item 694 as amended), as of 1 January 2005 the LPP Capital Group Capital Group must prepare a consolidated financial statement prepared against IFRS. The Accounting Act is applied in the scope not governed by the IFRS. The financial statements for periods started before 1 January 2005 were prepared based on the Accounting Act and implementing provisions hereto.
The CG prepared its consolidated report for H1 FY05 in line with the Regulation by the Polish Council of Ministers of 21 March 2005 on current and interim information provided by issuers of securities. The report contains full consolidated financial statement of the Group and condensed individual half-year financial statement of LPP S.A. The report was drawn up in line with the IFRS.
This consolidated financial statement was drawn up in PLN'000.
Comparative data have been presented for relevant periods of FY04.
The Capital Group switched to IFRS as of 1 January 2004.
When preparing the first statement compliant with the IFRS, the CG used the provisions of IFRS 1 "First time application of international financial reporting standards".
As the comparative data had to be transformed, there are differences between values of some comparative data in this report and values presented in the previously prepared and published financial statement. These differences will be discussed later herein.
The key changes resulting from transformation of the financial statement for the comparative period were related to the following:

- evaluation method for items presented in foreign currencies (granted loans, interest on granted loans, payables, liabilities, financial resources, bank credits),
- the time when sales revenue is deemed due and legitimate,
- method of recognising capital enlargement costs

5. Declaration of compliance with IFRS

This consolidated financial statement has been prepared in line with the International Financial Reporting Standards (IFRS) approved by the European Union, which cover standards and interpretations approved by the International Accounting Standards Board and International Financial Reporting Standards Interpretation Committee.

6. Going concern

The consolidated mid-year financial statement for H1 FY05 was prepared based on the assumption that the Issuer and the Capital Group shall remain a going concern in the foreseeable future and that their respective businesses are not limited in a considerable extent. Based on the information available as at the date of preparation of the financial statement, the going concern assumption adopted in this financial statement is fully justified.

7. Date of the financial statement approval for publishing

This financial statement has been approved for publishing by the Board of the holding company on 23 September 2005.

8. Post-balance sheet events

In line with IAS 10, post-balance sheet events include all events that occurred from the balance sheet day to the day of approval of the financial statement for publishing.
After the balance sheet day there were no events that would considerably affect the future financial results of the Group, or other events, which in line with IFRS should be included or disclosed individually herein.

9. Principles of valuation of assets and liabilities and determination of financial result employed in preparing the consolidated report

Fixed assets and intangible assets
Initial value of fixed assets is set at the level of price of purchase enlarged by all costs directly related to the purchase and adjustment of asset item to the state fit for use. Costs incurred after the date of the fixed asset commissioning, such as maintenance and repair costs, debit the profit and loss account as they are incurred. External financing costs are not included in the value of fixed assets but in the profit and loss account when they are incurred.
As of the balance sheet date, fixed assets are evaluated at the purchase price less depreciation and impairment write-downs.
CG makes depreciation write-offs on the straight-line basis. Fixed assets are depreciated for a time of their economic usage defined in advance. The expected time of economic usage is reviewed regularly (every year).

Value of the fixed assets is verified periodically for reduction as a result of events or changes in the environment or within the companies that may cause value reduction of these assets to below its current book value.
For accounting purposes, pursuant to the relevance principle, limits adopted by the Company are equal to fiscal limits for one-off depreciation of fixed assets and exclusion of tangible fixed assets from fixed assets.
As a result, a relevant principle was adopted whereby in each case when the initial value of a fixed asset or property right exceeds PLN 3,500, monthly depreciation write-offs are made as of the month following the month of acceptance for use.

In the initial value of the fixed asset is below PLN 3500, two accounting methods have been adopted based on the materiality principle:

- fixed asset is recorded in the fixed assets or intangible assets register and subject to one-off depreciation in the month when the asset was put into use;

or

- the asset is recorded in the off-balance sheet register and written off on purchase (allocated to cost of consumption of materials recorded in the month of purchase).

Foreign companies have also adopted this principle; however the adopted limits (in line with their local regulations) do not differ much in different countries.
However in relevant cases when the Management Board makes an appropriate decision, straight-line depreciation is employed also for fixed assets of small unit value.
It is in line with the adopted accounting policy, which in justified cases allows the Management Board to decide to adopt straight-line depreciation of low-cost assets if all the following circumstances occur simultaneously:

- if a large number fixed assets is purchased at the same time and their unit price is not in excess of the limit, but their total value is material,
- if these assets are a part of a larger set of interconnected units, and their purchase is related to an investment programme to be implemented at least over the period of normative depreciation specified for this particular group of fixed assets in tax regulations,
- if these fixed assets are of high reliability.

This situation has occurred twice so far in LPP S.A. in relation to:

- purchase of a large amount of computer hardware for the implementation of the Company's new IT system,
- investments into construction and furnishing of new Reserved and Cropp brand stores – implementation of a new plan of brand stores design.

Intangible assets are subject to evaluation and depreciation similar to the fixed assets. The most essential difference consists in the lack of possibility of enlarging the initial value with amounts by which the intangible assets has been improved, unless such capital should enable generating future economic benefits outnumbering the initially estimated benefits by this asset.

Fixed assets in progress – as of the balance sheet date they are estimated in the total amount of costs directly related to their acquisition or manufacturing, less impairment write-downs.

Long-term investments in the CG include:
- shares in subsidiaries - at cost less updating impairment write-downs,
- long-term loans granted – valued at depreciated cost estimated based on effective interest rate, decreased by impairment write-downs.

Long-term prepaid expenses include:

- deferred income tax assets – re-valued as at each balance sheet date
- prepaid expenses related to prepaid lease rent.

Inventories

These are valued at cost not higher that its net selling price as at the balance sheet date.
Inventory includes:

- trading commodities,

- materials (fabrics and sewing accessories) purchased and issued for processing to external customers,
- consumables related to operating, maintenance and development of computer network,
- advertising materials.

Trading commodities in local warehouses are recorded by quantity and value and valued as follows:

- imported goods – based on their purchase costs, costs of transport abroad and cost of transport in Poland up to the first unloading point in Poland, as well as based on customs duties; currency rate specified in customs documents is used for the conversion of value expressed in foreign currency,
- for goods purchased in Poland - at purchase price, and purchase-related costs are charged directly into the costs of business operations as a result of their irrelevant amount.

Valuation of disposal of trading commodities from Reserved and Cropp collections is made at the weighed average prices.
For trading commodities from other collections the FIFO method is employed.

Trading commodities in bonded warehouses are valued based on their purchase cost, as well as costs of transport abroad and cost of transport in Poland up to the first unloading point in Poland.
The value of goods issued from bonded warehouses (to local warehouses or sold directly abroad) is established based on detailed identification of goods on the basis of separate lots accepted at bonded warehouses.

Trading commodities in transit are valued at purchase costs increased by costs of transport abroad and in Poland determined as the balance sheet date. For imported good in transit, the average exchange rate published by Bank Handlowy as at the balance sheet date (in the case of foreign companies – average exchange rate published by banks with which these companies have the largest turnover volume or average exchange rate of the central bank) is adopted for valuation in the holding company.

Inventory whose trading and useful value is impaired are written-down. Inventory revaluation write-downs are charged into other operating expenses.

Receivables
Receivables under deliveries and services are included and presented according to the initially invoiced amounts, including write-downs on bad debts and disputable receivables.
The above principle, due to relatively short payment terms, which do not exceed 120 days, does not result in major changes in valuation of receivables, in relation to the valuation method including discounting of these receivables, set out in IAS 39.
Principles governing write-downs, depending on type of receivables are as follows:

- claimed receivables (amounts due from debtors in the process of liquidation or filing for bankruptcy) - in total amount due,
- doubtful receivables (overdue over 6 months starting from the balance sheet date) - write-downs account for 3% of debt amount,
- other receivables - write-downs are based on individual analysis and assessment of the situation and risk of incurring loss.

Short-term investments

These include assets which are payable, mature or marketable over the period of 12 months after the balance sheet date, as well as cash.

Valuation of short-term investments as at the balance sheet date is based on the following principles:

- long-term loans granted – valued at depreciated cost estimated based on effective interest rate,
- local cash in hand – at nominal value,
- cash in foreign currencies at the currency purchase rate employed on this day by the banks in these countries with which the companies have the largest turnover volume.

Short-term prepaid expenses

These include costs to be settled within 12 months after the balance sheet date.

Share capital

Share capital is presented in the amount specified in the Articles of Association and entered in the court register.

Reserve capital

Value presented under Reserve Capital item comprises:

- bonus for share issuance at the price exceeding their nominal value less issuance costs,
- profits from previous years qualified upon decisions of General Meetings of Shareholders.

Profit/loss from previous years

This item presents net financial result from the previous financial years, until the decision to divide (or cover) it, as well as corrected financial results from the previous years resulting from fundamental errors or changes in accounting principles.

Liabilities

Payables under deliveries and services with maturity date of usually 30 to 90 days are included and presented according to the initially invoiced amounts.

The above principle, due to relatively short payment terms, which do not exceed 120 days, does not result in major changes in valuation of receivables, in relation to the valuation method including discounting of these receivables, set out in IAS 39.

Provisions

Provisions made apply to the deferred income tax and employees' benefits.

Provisions for employee benefits include:

- provision for unused holiday leaves
- provision for future retirement benefits.

Provision for future retirement benefits is valued by companies on their own, using a method taking into account the seniority, sex and value of current remuneration. It has been assumed that the discount on provision for retirement benefits is equal to the expected remuneration growth rate.

Revenues

Revenues are presented in the amount of probable, reliably valued economic benefits related to the transaction.

Revenues from sales of commodities are included if major risk and benefits under ownership right to the commodities have been transferred to the buyer.

Due to the complaints and returns from customers, revenues from sales of goods are realigned by adjustment of estimated cost of these returns. Based on to-date experience, the rate of product return has been evaluated against sales volume. It has also been assumed that most product returns occur in the quarter (season) following the purchase.
The calculations made have shown that:
- return value is approximately 0.7% of revenue from sales of goods
- return value is approximately 0.6% of cost of goods sold.

Revenues under interest are included successively as they accrue to the net balance value of the financial asset.

Internal financing costs

Internal financing costs are recognised by the CG according to the benchmark treatment as set out in IAS 23, i.e. immediately charged to costs in the period in which they were incurred.

Transactions in foreign currencies

Functional currency in LPP Capital Group is the Polish zloty (PLN).

Transactions expressed in foreign currencies are recorded as at the date of their conclusions at the following exchange rates:
- purchase or selling rate used by the Company's bank – in the case of purchase or sale of foreign currencies and repayment of receivables or payables,
- National Bank of Poland's average exchange rate set for this currency as at invoice date or of the customs document.

The following items are expressed in foreign currencies as at the balance sheet date:

- non-monetary items:
    - elements of assets – at the Company's bank purchase rate used as at this date,
    - elements of liabilities – at the Company's bank selling rate used as at this date.
- non-monetary items – at the historic exchange rate for the currency as at the transaction date.

Earnings Per Share
Earnings per share for each period are calculated by dividing the net profit for the period by the weighed average number of shares in this period. The Group does not present diluted earnings/loss per share as there are no factors diluting ordinary shares.

Remuneration paid by shares

LPP S.A. uses an incentive scheme, pursuant to which the Supervisory Board may grant a number of shares specified by the scheme to eligible persons. The terms and conditions of the scheme were specified in the rules of acquisition of series F shares, made by the Supervisory Board on 15 February 1999, published in the Prospectus approved by the Polish Securities and Exchange Commission on 15.11.2000. As the rules do not commit the Supervisory Board to grant all shares covered by the scheme nor do they limit the number of eligible persons, it

was assumed that the date of granting authority shall be the date of resolution of the Supervisory Board on granting shares covered by the scheme to eligible persons.
In line with IFRS 14 2, the costs due to remuneration paid in shares are charged on the day of granting the shares by the Supervisory Board as the granted remuneration is not related to work performed by the eligible persons in future.
Pursuant to IFRS 59 2, the Company has not applied the provisions of IFRS 2 to transactions consisting in granting shares, which were settled before 1 January 2005 to eligible persons. Application of the provisions of IFRS 2 to transactions consisting in granting shares to eligible persons, completed in 2004, would translate to, in terms of comparative balance sheet as at 31.12.2004, increasing the undistributed profit by PLN 2,410k and concurrent reduction in financial result of 2004 by the same amount.
On 30 June 2005 the Supervisory Board, in line with the rules of acquisition of F series shares was authorised to grant the right to purchase1,320 shares. In first half of 2005 the Supervisory Board has not granted rights to purchase shares.

10. Financial risk management

The operation of LPP S.A. CG is related to the following types of financial risks:

a) currency risk
The ongoing monitoring of USD exchange rates (the currency of settlements with suppliers and export customers) and of factors which may affect the rate enable us to claim that no impediments are present in the Capital Group's operation related to such issues.
Specific nature of the Company's business makes it possible to partly transfer the increase in USD exchange rate to end users – the selling price of a given product is calculated on the "last minute" basis – before it is introduced to the market. More, i.e. by 20%, of goods than in the previous year were purchased in Poland where the settlements of transaction with manufacturers are performed in PLN.
Another area where costs may be affected by USD and especially EURO exchange rates are the contracts of lease of commercial premises. Exchange rates of these currencies determine the amount of rent payable under contracts of lease of most stores where the Reserved clothing is sold. As in the case of goods prices, variation in rent resulting from EUR exchange rates fluctuations, in the opinion of the Management Board, should not be followed by a material growth of the total costs incurred for that purpose.

b) interest rate risk
The interest rate risk is related with ongoing use of bank credits by LPP S.A. CG, as well as, though to a lower extent, with granted loans. Bank credits of floating interest rate are related to cash flow risk. Decrease in interest rates for Polish currency convinced the Management Board to use credits in PLN. The Management Board is of the opinion that the change in interest rates will not materially affect the results of LPP S.A. CG.
The fair value risk, related to financial assets of fixed interest rate is irrelevant and applies to loans granted by LPP S.A. to non-related domestic entities, totalling PLN 313k.

c) credit risk
Through its loans, LPP S.A. finances the development of subsidiaries operating in other countries. These loans were used mainly for covering construction assets in the leased retail areas, i.e. for building a network of shops. Despite delays in repayment of loans, the

Management Board is of the opinion that they will not be lost.
The credit risk also applies to trade receivables, in value included in the balance sheet, and guarantees granted to external entities.
The maximum credit risk is represented by the balance sheet value of loans and receivables.

Concentration of credit risk related to trade receivables is presented in table below.

Buyer	share in % of receivables to total receivables
Buyer 1	9%
Buyer 2	7%
Buyer 3	7%
Buyer 4.	5%
Other, whose receivables do not exceed 5% total receivables	72%
Total net trade receivables	100%

The total value of bank guarantees granted upon the request and on the responsibility of LPP S.A. as at 30.06.2005 June amounted to: PLN 32,176k of which:

a) the value of guarantees issued to secure contracts concluded by LPP S.A. totalled PLN 6,954,900
b) the value of guarantees issued to secure contracts concluded by its related parties subject to consolidation totalled PLN 12,104,200
c) the value of guarantees issued to secure contracts concluded by its related parties not subject to consolidation totalled PLN 12,711,500
d) the value of guarantees issued to secure contracts concluded by unrelated parties amounted to PLN 405,400,000

The value of guarantees issued by the company amounted to PLN 4,512,000 as at the balance sheet day.

LPP S.A. CG does not use instruments hedging the said financial risk, nor is hedge accounting applied.

11. Major estimates and judgements

The estimates made by the Management Board of LPP S.A., affecting the values presented in the financial statement apply to:

- expected period of economic useful life of fixed assets,
- share in % of return of goods sold over the reporting period and returned in the next reporting period,
- revaluation write-downs for fixed assets,
- discount, expected increase in remuneration and actuarial method used for calculation of the provision for retirement severance payments,
- future tax results, included during allocation of assets for deferred income tax.

The methodology of calculation of estimated values is applied in the company continuously and has not changed against the previous reporting period. The applied methodology is based on best knowledge of the Management Board and is in line with IFRS requirements.

The following estimated values have not changed against the previous period:

- expected period of economic useful life of fixed assets,

- share in % of return of goods sold over the reporting period and returned in the next reporting period,
- discount, expected increase in remuneration and actuarial method used for calculation of the provision for retirement severance payments,
- future tax results, included while allocation of assets for deferred income tax.

The revaluation write-downs for assets were estimated based on the best knowledge of the Management Board of LPP S.A. as at the financial statement. The changes in revaluation write-downs are presented further, i.e. in additional notes to individual items of assets.

12. Principles of consolidation

The consolidated financial statement of the Capital Group has been drawn up based on financial statements of all relevant subsidiaries, employing the same methods of valuation and principles of financial statements preparation as the holding company.
The consolidated financial statement of the Capital Group is composed of relevant data from the holding company's statement and financial statements of foreign subsidiaries expressed in the local currency of their respective countries, converted into PLN based on the following principles:

- individual items under assets and liabilities presented in the balance sheet (with the exception of shareholders' equity) are converted based on the average exchange rate published by the National Bank of Poland for this particular currency as at the balance sheet date;
- individual items in the profit and loss account are converted based on the exchange rate calculated as an arithmetic average of the exchange rates published by the National Bank of Poland for this particular currency as at the last day of each month during the fiscal year;
- individual items in the cash flow account, excluding net profit, are converted based on the exchange rate calculated as an arithmetic average of the exchange rates published by the National Bank of Poland for this particular currency as at the last day of each month during the fiscal year;
- shareholders' equity are converted as at the date of take-over of control by the holding company, based on the average exchange rate published by the National Bank of Poland as at that date.

company shareholders' equity includes the following separate items:

- share capital;
- other shareholders' equity;
- profit (loss) from previous years;
- net financial result;
- FX rate discrepancies, including especially FX rate discrepancies resulting from different methods of conversion of net financial result and balance sheet into PLN.

A method of full consolidation was employed.
Adjustments and exceptions adopted for consolidation:

- exclusion of stake in shareholders' equity of subsidiaries held by the holding company;

- exclusion of inter-company payables and receivables;
- exclusion of revenues and expenses related to the Capital Group inter-company sale and purchase transactions;
- adjustments for unrealised profits transferred to the Capital Group inventory;
- exclusion of interest on loans granted by the holding company to its subsidiaries (excluded form financial revenues and expenses);
- adjustments of the Capital Group's financial result related to deferred income tax on the interest on loans and statistical FX rate discrepancies as at the balance sheet date;

13. Impact of changed accounting principles on the financial result and share capital

As the accounting principles have been changed as a result of switching to IFRSs, relevant conversions of comparative data presented in this financial statement have been made. Settling discrepancies in comparative data as at 30 June 2004 covers their impact on the equity and is presented in the table at the end of this section.

13.1 Valuation of items expressed in foreign currencies

Pursuant to accounting principles previously employed, valuation of items expressed in foreign currencies as at the balance sheet date, assets and liabilities have been valued at the average exchange rate as at this day published by central banks of respective countries.
In line with IAS 21, valuation of foreign currency items as at the balance sheet date is based on spot exchange rate.
In practice this means converting:

a) monetary items:
   - elements of assets – at the Company's bank purchase rate used as at this date,
   - elements of liabilities – at the Company's bank selling rate used as at this date.

b) non-monetary items – at the historic exchange rate for the currency as at the transaction date.

13.2. Revenue from sales

Changed approach in defining the moment when the revenue becomes due and legitimate results from principles included in IAS 18.
In line with the principles employed previously, revenue was deemed due the moment the invoice was issued.
At the moment, to properly define the moment when revenue is deemed due, the moment the risks and benefits pass on to the buyer is determined. To that end the terms of individual supplies are analysed.
Moreover, to properly determine revenue from sales, also the product returns by the customers are analysed.
Based on to-date experience, the rate of product return has been evaluated against sales volume. It has also been assumed that most product returns occur in the quarter (season) following the purchase.

13.3. Capital enlargement costs

As the share issuance cost settlement and presentation method has been changed, also the comparative data have been converted within cost of issuance from previous years, so far published in the balance sheet as prepaid expenses, settled over time and charged into the financial result. Such a situation has occurred only in the holding company.
Conversion of comparative data for 01.01.2004 - 30.06.2004 resulted in publishing these costs as reduced reserve capital built up from the issuance bonus.

PLN '000

	Equity as at 30 June 2004	Net profit for the period from 01 January 2004 to 30 June 2004	Equity as at 31 December 2004	Net profit for the period from 01 January 2004 to 12 December 2004
Before conversion	159 885	10 154	192 013	42 686
• Increase due to:	50	167	209	185
- change of moment of recognising the revenue	50	66		
- FX rate discrepancies (conversion of foreign entity)			209	
- capital enlargement costs		101		185
• decrease due to:	2 589	2 192	1 418	729
- valuation of foreign currencies	1 832	1 832	447	447
- change of moment of recognising the revenue	377		282	282
- FX rate discrepancies (conversion of foreign entity)		360		
- capital enlargement costs	380		689	
after the change in accounting policy caused by switching to IAS/IFRS	157 346	8 129	190 804	42 142
other changes	39	41	15	15
After conversion	157 385	8 170	190 819	42 157

14. Supplementary information

14.1 Intangible assets

The Group does not have intangible assets produced for internal purposes or intangible assets with unspecified use period. Also goodwill, understood as surplus of price paid for shares over the value of acquired net assets of individual subsidiaries, arose as at the day of acquisition.

Intangible assets of specified use period are amortized on a straight line basis with the following rates:

- costs of completed development works 33%,
- acquired patents, licenses and similar rights 6 - 50%.

As at each balance sheet day, the Group reviews value of elements of its fixed assets to identify any indication of potential impairment. Both in 2005 and 2004 no impairment of said assets were identified.

The Group draws up profit and loss account in function format. Thus the depreciation of intangible assets is included in the following items:

- cost of goods sold of PLN 117k,
- general administrative cost of PLN 1,078k.

An essential item among the intangible assets is the software by Retek company, used as sales and trade assisting tool co-operating with FK software. As at 30.06.2005 the balance sheet of the said software amounted to PLN 10,008k. The expected use period is 6 years, starting from the balance sheet day.

As at 30 June 2005 the Group did not have any contractual commitments to acquire intangible assets.

Over the period from 1 January to 30 June 2005 there were no expenditures on research and development in the Group.

PLN ‘000

CHANGES IN INTANGIBLE ASSETS (BY GROUPS) as at 30.06.2005

	Costs of completed development works	acquired patents, licenses and similar rights, including:	software	Other intangible assets	Intangible assets in progress	Total
1) opening balance gross value of intangible assets	443	16 183	16 090	24	1 754	18 404
- increase	0	1 818	1 818	2	1 815	3 635
- decrease		6	6		1 762	1 768
2) closing balance gross value of intangible assets	443	17 995	17 902	26	1 807	20 271
3) opening balance accumulated depreciation	25	4 728	4 651	7	0	4 760
- planned depreciation write-offs	74	1 117	1 114		0	1 191
- decrease		5	5	3		8
- FX rate discrepancies		9	9			9
4) closing balance accumulated depreciation	99	5 849	5 769	4	0	5 952
Total closing balance net value of intangible assets	344	12 146	12 133	22	1 807	14 319

PLN ‘000

CHANGES IN INTANGIBLE ASSETS (BY GROUPS) as at 30.06.2004

	acquired patents, licenses and similar rights, including:	software	Intangible assets in progress	Other intangible assets	advance payments for total intangible assets	Total
1) opening balance gross value of intangible assets	5 778	5 778	4 902	7	3 326	14 013
- increase	9 998	9 998	0	10		10 008
- decrease	0	0	4 723	0	3 326	8 049
2) closing balance gross value of intangible assets	15 776	15 776	179	17	0	15 972
3) opening balance accumulated depreciation	2 712	2 712	0	2	0	2 714
- planned depreciation write-offs	1 024	1 024	0	1		1 025
- decrease	0	0				0
- FX rate discrepancies						
4) closing balance accumulated depreciation	3 736	3 736	0	3	0	3 739
Total closing balance net value of intangible assets	12 040	12 040	179	14	0	12 233

As at the balance sheet there were no restrictions as to the use of intangible assets, and no collateral was established on the assets.

14.2 Tangible fixed assets (PPE)

Tangible fixed assets are amortized on a straight line basis, applying the following rates:

- buildings, facilities and civil- and hydro-engineering structures 5 - 33%,
- Plant and machinery 10 - 33%,

- means of transport 14 - 25%
- other tangible fixed assets 14 - 50%.

The period of use of fixed assets is reviewed on each balance sheet day.
The revaluation write-offs regarding the tangible fixed assets written off costs of the reporting period amounted to PLN 172,000. Moreover, in the reporting period the previous write-downs for PLN 43k were reversed, which was related to acquisition of higher than expected benefits from liquidation of fixed assets.

To secure investment loan granted by Millenium bank, a mortgage was established on an estate owned by the Company, located in Pruszcz Gdański, amounting to PLN 5,660k.
To secure investment loan granted by Kredyt Bank S.A., a mortgage was established on an estate owned by the Company, located in Gdańsk, at ul. Łąkowa, amounting to EUR 2,400k.
Also rights under insurance policies of both estates have been transferred to the said banks.

Compensation regarding fixed assets obtained by the Group in the first half of 2005 amounted to PLN 121k and was related to transport losses.

The Group does not have any temporarily unused fixed assets.

The Group has tangible fixed assets which are fully amortized. Their initial value amounts to PLN 3,622 k.

As at 30 June 2005 the Group did not have any contractual commitments to acquire tangible assets.

As at 30 June 2005 the Group did not have any fixed assets to be sold. There was also no discontinued business.

The company has no information on fair value of used fixed assets and there are no relevant disclosures.

CHANGES IN FIXED ASSETS (by type) as at 30 June 2005PLN'000

	land	buildings, facilities and civil- and hydro-engineering structures	Plant and machinery	transport vehicles	Other fixed assets	fixed assets in progress	Prepayments for fixed assets	Total tangible fixed assets
1) opening balance gross value of tangible fixed assets	1 117	101 842	26 266	4 312	10 902	4 838	542	149 819
- increase	0	30 834	5 925	387	5 955	30 932	442	74 475
- decrease	0	690	203	280	110	32 888	540	34 711
2) closing balance gross value of tangible fixed assets	1 117	131 986	31 988	4 419	16 747	2 882	444	189 583
3) opening balance accumulated depreciation	0	19 336	8 641	1 749	2 292	0	0	32 018
- depreciation	0	7 464	3 272	342	1 282	0		12 360
- decrease	0	409	133	185	110	0	0	837
- FX rate discrepancies		-185	-121	-51	-3	1	2	-357
4) closing balance accumulated depreciation	0	26 206	11 659	1 855	3 461	1	2	43 184
5) Opening balance impairment write-downs	0	1 196	0	0	0	0	0	1 196
- increase	0	172	0	0	0	0	0	172
- decrease	0	124	0	0	0	0	0	124
6) closing balance impairment write-downs	0	1 244	0	0	0	0	0	1 244
Total closing balance net value of fixed assets	1 117	104 536	20 329	2 564	13 286	2 881	442	145 155

Impairment write-downs - items in PLA	Amount
- increase - "Revaluation of non-financial assets"	172
- reversal - "Other operating revenues"	43

CHANGES IN FIXED ASSETS (by type) as at 30 June 2004
PLN'000

	land	buildings, facilities and civil- and hydro-engineering structures	Plant and machinery	transport vehicles	Other fixed assets	fixed assets in progress	Prepayments for fixed assets	Total tangible fixed assets
1) opening balance gross value of tangible fixed assets	1 117	68 508	17 740	3 746	3 653	1 384	342	96 490
- increase	0	12 730	4 470	1 204	617	2 380	1 051	22 452
- decrease	0	1 121	128	218	158	0	342	1 967
2) closing balance gross value of tangible fixed assets	1 117	80 117	22 082	4 732	4 112	3 764	1 051	116 975
3) opening balance accumulated depreciation	0	9 847	4 612	1 844	1 072	0	0	17 375
- depreciation	0	4 516	2 254	395	372	0		7 537
- other increase	0	202	0	0	0	0	0	202
- decrease			62	200	55	0		317
- FX rate discrepancies	0	-33	-25	-2	-2			-62
4) closing balance accumulated depreciation	0	14 532	6 779	2 037	1 387	0	0	24 735
5) Opening balance impairment write-downs	0	0	0	0	0	0	0	0
- increase	0	350	0	0	0	0	0	350
- decrease	0	0	0	0	0	0	0	0
6) closing balance impairment write-downs	0	350	0	0	0	0	0	350
Total closing balance net value of fixed assets	1 117	65 235	15 303	2 695	2 725	3 764	1 051	91 890

Impairment write-downs - items in PLA	Amount
- increase - "Revaluation of non-financial assets"	350
- reversal - "Other operating revenues"	

14.3 Long-term investments

The long term investments of PLN 707k, presented in the Group's assets in the balance sheet as at 30 June 2005 are related to shares held by the holding company in domestic companies not subject to consolidation.
Balance sheet valuation of the investment is made at purchase prices, less impairment write-downs. As at the balance sheet day, after a proper analysis, no need for impairment write-downs of shares was identified.
Changes in value of shares in the first half of 2005 resulting from enlargement of capital of existing companies and setting up new companies are presented in table below.

	PLN '000		
CHANGE IN VALUE OF SHARES IN DOMESTIC SUBSIDIARIES	30.06.2005	31.12.2004	30.06.2004
1) Opening balance	611	401	401
2) increase	96	210	210
3) Closing balance	707	611	611

14.4 Financial instruments valued in line with IAS 39.

Financial instruments used by the Capital Group include:
- loans granted,
- bank fixed term deposits,
- receivables and payables,
- credits.

Total loans granted by the Capital Group as at 30 June 2005 amount to PLN 313k and result mainly from loan of PLN 309k, granted to a contractor co-operating with the holding company pursuant to a franchise agreement. This loan was granted by LPP S.A. to be used to set up and run a Reserved shop. The interest, at 6% a year in line with the contract, and instalments of the principal amount are repaid in line with the contract in equal monthly instalments. The granted loan, along with interest should be repaid by 31 March 2008.
The value of increases and decreases in loans granted in the first half of 2005 and corresponding period of 2004 is presented below.

The bank fixed term deposits, due to its nature (there is no specific purpose for the deposited cash), were included by the company in financial assets held for trading and are valued in the valance sheet at fair value. Due to short maturity periods of bank deposits and related low credit and interest rate risk, the nominal value of bank deposits was deemed as sufficient fair value.

PLN '000

CHANGE IN GRANTED LOANS	loans granted		bank fixed term deposits	
	30.06.2005	30.06.2004	30.06.2005	30.06.2004
Opening balance	339	581	3 863	7 832
1) increase	8	36	669	11 285
- loans granted	0	19		
- accrued interest	8	17		
- starting the deposit			669	11 285
2) decrease	34	105	4 332	18 138
- repayment of loans	29	86		
- interest repayment	5	19		
- termination of deposit			4 332	18 138
Closing balance	313	512	200	979

Trade receivables and liabilities are included and presented according to the initially invoiced amounts, including write-downs on bad debts and doubtful receivables.
The above principle, due to relatively short payment terms, which do not exceed 120 days, does not result in major changes in valuation of receivables, in relation to the valuation method including discounting of these receivables, set out in IAS 39.
Detailed information on receivables and liabilities are presented below.

In the opinion of LPP S.A. the fair value of business receivables and liabilities, bank deposits and credit is not very different from the presented balance sheet total. Due to the lack of active market, we have not estimated the fair value of loans granted, which due to application of fixed interest rate may differ from the balance sheet value calculated at amortized cost.

14.5 Inventories

The dominant item in the inventories of the Capital Group includes trading commodities. The structure of inventory as at the balance sheet day is presented in the table below.

PLN '000

INVENTORIES	30.06.2005	31.12.2004	30.06.2004
1) materials	2 505	2 317	3 846
2) commodities	168 089	128 484	197 703
3) Advance payments for deliveries	914	975	672
TOTAL	171 508	131 776	202 221

The balance sheet value of goods securing liabilities is as follows:

- PLN 7,600 k to secure stand-by credit under letters of credit for Millenium Bank,
- PLN 3,700 k to secure a multi-purpose line for BHP S.A. bank,
- PLN 6,600 k to secure a credit line under letters of credit for BRE Bank S.A.

The value of inventories was presented in the balance sheet and included revaluation write-downs. Reversed write-down amount for the reporting period was PLN 190k. The commodities, whose trading and useful value is impaired, are written-down. On each balance sheet day the inventories of commodities are analysed in detail, with view of the expected and probable loss on their sales. In line with the principle employed by the Group, only the difference between the value of write-downs for current and previous balance sheet date is posted. Positive difference is written off costs of the period and negative difference increases other operating revenues.

14.6 Trade receivables and other receivables

Detailed information on structure of Capital Group's receivables is presented below.

PLN '000

SHORT-TERM RECEIVABLES	30.06.2005	31.12.2004	30.06.2004
1) from related parties		40	124
- trade receivables		40	124
2) due from other entities	29 213	24 507	35 128
- trade receivables	25 805	21 239	29 186
- other	3 408	3 268	5 942
TOTAL	29 213	24 547	35 252

Trade receivables mainly comprise receivables from the sale of clothing.
In standard course of sales, the receivables are settled within one to three months of the date of sale.
The presented total short term receivables were included in their net amount, i.e. after reduction by revaluation write-offs of PLN 6.307,000.
Changes in receivables revaluation write-downs in the reporting period are as follows:

- As at 31 December 2004. PLN 6,255 k
- write-downs made between 1 January and 30 June 2005 PLN 984k,
- decrease in write-downs in between 1 January and 30 June 2005 PLN 932k,
- as at 30 June 2005 PLN 6,307 k.

The Capital group's receivables from foreign contractors due to deliveries amounted to:

- as at 30 June 2005 – PLN 9,533 k,
- as at 31 December 2004 – PLN 8,925 k,
- as at 30 June 2004 – PLN 9,668 k.

14.7 Cash

PLN'000

CASH	30.06.2005	31.12.2004	30.06.2004
1) cash in hand and cash in banks	12 112	11 506	10 324
2) other cash	230	3 986	986
TOTAL	12 342	15 492	11 310

Other cash comprises short term deposits. Interest-bearing deposits are opened for various periods: from one day to one month, depending on the current demand, with fixed interest rate.

As at 30 June 2005 the Group had unused credits of PLN 217,244k.

Between 1 January and 30 June 2005 the Company settled mutual transactions with contractors, totalling PLN 496 k, in the form of non-cash compensations.

Limited cash include cash deposited on a separate bank account and related to the Social Benefits Fund. Such fund is kept only by the holding company – LPP S.A.
The said cash amounted to:

- as at 30 June 2005 – PLN 262k,
- as at 30 June 2004 – PLN 1.361k.

14.8 Equity

Share capital.

The share capital of the Group comprises the share capital of LPP S.A., the holding company. As at 30 June 2005 the capital amounted to PLN 3,407k. It was divided into 1,703,500 shares of nominal per-share value of PLN 2.00.

Over the period from 1 January to 30 June 2005 there were no changes in the number of shares.

Ownership structure of share capital of LPP S.A. in H1 FY 05 (as at 30 June 2005):

SHAREHOLDERS	Number of shares (in pcs)	No. of votes at the General Meeting of Shareholders	Share in the total vote at the General Meeting of Shareholders	nominal value (in PLN'000)
Marek Piechocki	281.428	981.428	31,62%	564
Jerzy Lubianec	276.039	976.039	31,45%	559
Grangefont Limited, headquartered in London, UK	350.000	350.000	11,28%	700
Polish Enterprise Fund IV, L.P., headquartered in Jersey City, USA	215.000	215.000	6,93%	430
Other shareholders	581.033		18,72%	1.154
TOTAL	1.703.500		100%	3.407

All issued shares have been paid up in full.

In the reporting period, the Company did not pay dividend to the shareholders.

Registered shares held by Marek Piechocki and Jerzy Lubianiec (350,000 shares) are preferred in terms of votes at the General Meeting of Shareholders. Each registered share gives the right to cast 5 votes.

1,320 shares belonging to "other shareholders" category were reserved in relation to the incentive scheme (F series shares). These shares were taken over by the underwriter.

Reserve capital

The reserve capital of the Capital Group established out of net profits (allocated to cover potential loss), and out of surplus from the sales of shares over their nominal value.

Part of share capital, established as a write-down from financial result of LPP S.A. was established pursuant to article 396 of the Commercial Companies Code and may be used in future only to cover the loss included in the financial statement.

The structure of reserve capital is as follows:

TYPE OF RESERVE CAPITAL	30 June 2005	31 December 2004	30 June 2004
established pursuant to law out of financial result	1 135	1 135	1 135
established pursuant to law out of write-down of financial result	126 982	78 899	78 475
Established out of surplus of issue value of shares	71 202	71 202	71 564
TOTAL	199 319	151 236	151 174

14.9 Provisions

PLN'000

CHANGE IN PROVISIONS	Provision for retirement benefits and similar benefits	provision for unused holiday leaves
as at 1 January 2005	258	841
- change in provisions in the period	32	74
As at 30 June 2005	290	915

Provision for retirement benefits
This provision is established only by the holding company. Other group members are not obliged to pay retirement severance payments. LPP S.A. estimates the provision on their own, based on actuarial methods.

Provision for holiday leaves not taken
The Group established a provision of holiday leaves not taken, i.e. to pay future liabilities due to employees resulting from their current work.

14.10 Contingent liabilities

In H1 2005, the Companies used bank guarantees to secure the payment of rent for the area rented to run brand stores.
These guarantees were issued upon the order and responsibility of LPP S.A. for total amount of PLN 32,176 k.
This situation was described in the condensed financial statement of LPP S.A.
The value of guarantees issued by the holding company amounted to PLN 4,512,000 as at the balance sheet day.
Off-balance liabilities are presented in tables in the section containing financial statements.

In the opinion of the Management Board of LPP S.A. the probability of outflow of cash presented in the off-balance sheet / contingent liabilities is immaterial. The essence of these liabilities is mainly to guarantee the payment of rent by LPP S.A. Capital Group members and also guarantee credits granted by the bank to LPP S.A.'s customers for purchasing the company's products.

14.11Future liabilities under concluded lease contracts

The Group is a party to lease contracts under which it uses the area for Cropp Town and Reserved brand stores.

Total future minimum payments under lease contracts, estimated as at 30 June 2005 are as follows:
- payables with the maturity date within 12 months as of the balance sheet date PLN 81,167 k
- payables with the maturity date from 12 months to 5 years as of the balance sheet date PLN 259,043k
- payables with the maturity date within more than. 5 years as of the balance sheet date PLN 107,715 k

The costs of reporting period from 1 January to 30 June 2005 include the amount of PLN 33,993k, resulting from minimum and conditional payments of rent for lease of premises. The value of conditional rent has not been specified due to its immaterial amount.
The provisions of fixed-term lease contracts resulting in the said payments are typical of these kinds of contracts. Apart from the minimal rent, they usually provide for conditional rent related to exceeding a certain amount of revenues per premises, expressed by a specified % of the value of revenues. Over the reporting period their value was negligible, as it was only a fraction of 1% of the total value of all rents. These contracts also include valuation clauses combining the rent value with statistical price growth indexes. Some of them contain provisions which allow to extend the lease contract over the next period, leaving the decision

to the lessee. As the contracts pertain to premises located mainly in large shopping centres, there is no possibility to purchase the subject of lease.

14.12 Credits

As at 30 June 2005 the debt of the Company due to bank credits was as follows:

PLN'000

BANK	Use of credits as at 30 June 2005		Use of credits as at 31 December 2004		Use of credits as at 30 June 2004	
	in PLN ‘000	Foreign currency in '000	in PLN ‘000	Foreign currency in '000	in PLN ‘000	Foreign currency in '000
Millenium	3 862	USD 1,137			6 160	USD 1,614
Millenium	385	-	1 156		4 270	
PKO BP S.A.	288				29 500	
BPH S.A.	30 683		14 256		6 648	
Dresdner Bank Polska SA			10 053		1 577	
Fortis Bank Polska S.A.	35 665		27 719			
Raiffeisen Bank Polska S.A.	18 855		9 800		5 263	
Raiffeisen Bank Polska S.A.	1 019	USD 300	915	USD 300		
Kredyt Bank S.A.	3 006	EUR 729	3 549	EUR 854	4 586	EUR 994
BRE BANK S.A.	3 760	USD 1,105	2 366	USD 774	8 646	USD 2,264
HVB Praga	4 178	CZK 31,071	4 171	CZK 31,071	4 431	CZK 31,071
TOTAL	101 701		73 985		71 081	

The amount of investment loan incurred in Kredyt Bank S.A. is made up of a short and long term amount: PLN 1,710k and PLN 1,295.8k respectively.

Detailed data on bank credits are as follows:

Bank	Type of credit/line	Amounts and currencies of granted credits		Security	Cost of credit	Maturity date
		Limit in '000	currency			
Millenium	overdraft facility	4 000	PLN	blank promissory note	wibor 1 m + bank's profit margin	20-09-2005
Millenium	Stand-by credit for letters of credit	6 283	USD 1,850	Transfer of ownership rights to commodities of PLN 7,600k, transfer of rights from insurance policy, blank promissory note	wibor 1 m + bank's profit margin	30-09-2005
Millenium	Investment loan	5 660	PLN	Mortgage in Pruszcz Gdański, transfer of rights from insurance policy, blank promissory note	wibor 1 m + bank's profit margin	23-06-2005
PKO BP S.A.	Multi-currency and multi-purpose line	70 000	PLN	blank promissory note	wibor 1 m + bank's profit margin	31-07-2005
BPH S.A.	Multi-currency and multi-purpose line	50 000	PLN	Transfer of ownership rights to commodities of PLN 3,700k, transfer of rights from insurance policy, blank promissory note	wibor 1 m + bank's profit margin	30-01-2006
Fortis Bank Polska S.A.	Revolving credit limit	50 000	PLN	blank promissory note	wibor 1 m + bank's profit margin	30-04-2007

Raiffeisen Bank Polska S.A.	Multi-currency overdraft facility	100 000	PLN	blank promissory note	L ibor 1 m + bank's profit margin	30-04-2007
Kredyt Bank S.A.	Investment loan	9 392	EUR 2,285	Capped mortgage on estate located at ul. Łąkowa - EUR 2,400, transfer of rights from the insurance policy, blank promissory notes	libor 1 m + bank's profit margin	15-12-2007
BRE BANK S.A.	Credit line under letters of credit	16 980	USD 5,000	Transfer of ownership rights to commodities of PLN 6,600k, transfer of rights from insurance policy, blank promissory note	libor 1 m + bank's profit margin	30-03-2006
HVB Praga	Multi-purpose credit line	6 630	CZK 48,500	Guarantee of BPH S.A.	pribor + profit margin	30-11-2005
	Total limit:	318 945				

14.13 Trade and other payables

PLN'000

SHORT-TERM PAYABLES	30.06.2005	31.12.2004	30.06.2004
1) Due to related entities	1 705	1 610	24
- trade receivables	1 705	1 610	24
2) Due to other entities	164 821	112 594	193 289
- credits and loans, including:	99 991	71 654	67 444
- trade payables	59 369	30 146	120 580
- due under taxes, customs duties, insurance and other benefits	4 495	10 182	4 772
- remuneration	850	528	440
- other	116	84	53
3) Special funds	322	207	1 480
TOTAL	166 848	114 410	194 793

Trade liabilities of the Group due to foreign contractors amounted to:
- as at 30 June 2005 – PLN 53,969 k,
- as at 31 December 2004 – PLN 22,414 k,
- as at 30 June 2004 – PLN 107,052 k.

14.14 Prepaid expenses

Value of long term prepaid expenses as at 30 June 2005 amounted to PLN 742k (as at 30 June 2004 it amounted to PLN 1,982k). Major items here are:
- amount of rent for lease of shop area paid in advance,
- bank fees for granting long term credits paid.

The value of short term prepaid expenses as at 30 June 2006 amounted to PLN 2,671 k. This amount includes:
- rent for lease of premises to be settled within 12 months after the balance sheet date, PLN 1,885k,
- costs of maintenance services paid in advance, related to software assisting in management and work of operating departments - PLN 196k,
- fees due to bank credits paid in advance - PLN 105k
- write-down of Social Fund regarding H2 FY 05 – PLN 153k

- other items – PLN 332k.

14.15 Revenues

PLN'000

REVENUES	H1 FY05	H1 FY04
1) net revenues from sales of services	2 052	1 115
2) Net revenues from sales of goods and materials	302 851	222 090
TOTAL	304 903	223 205

The Group's revenues from sales of services apply only to the holding company. The services provided include mainly:

- sales of know-how in the scope of running brand stores by domestic contractors,
- letting of own means of transport.

PLN'000

OTHER OPERATING REVENUES	H1 FY05	H1 FY04
1) reversal of write-downs on non-financial assets, including:	1 238	1 609
- on receivables	639	977
- on commodities and materials	556	627
2) other	798	1404
TOTAL	2 036	3 013

PLN'000

OTHER FINANCIAL REVENUES	H1 FY05	H1 FY04
1. Balance of FX rate discrepancies		398
2. other	21	131
TOTAL	21	529

14.16 Costs

PLN'000

COSTS BY TYPE	H1 FY05	H1 FY04
1) depreciation	13 551	8 562
2) Consumption of raw materials and energy	10 498	9 572
3) Outsourced services	86 406	59 830
4) taxes and fees	1 001	1 057
5) remuneration	16 708	14 534
6) social security and other benefits, including:	4 243	3 571
- retirement premium	1 486	1 347
7) other expenses (by type), including:	10 348	11 128
- advertisement inventories recognised as cost of period	1 694	1 248
TOTAL	142 755	108 254

PLN'000

OTHER OPERATING EXPENSES	H1 FY05	H1 FY04
1) donations	281	312
2) costs of renovations, repairs and losses in fixed assets	131	936
3) losses in current assets	1 133	793
4) other	765	264
TOTAL	2 310	2 305

PLN'000

OTHER FINANCIAL EXPENSE	H1 FY05	H1 FY04
1) Balance of FX rate discrepancies	2 146	0
2) other, including:	308	328
- fees on bank credits and guarantees	308	274
TOTAL	2 454	328

14.17 Income tax

14.17.1 Current income tax

Reconciliation of discrepancies between the amount of tax included in the profit and loss account and amount calculated at the current rate on gross profit is presented in table below.

PLN'000

CURRENT INCOME TAX	H1 FY05	H1 FY04
Gross profit (loss)	30 602	10 962
1) discrepancy due to conversion of statement in line with IAS	0	6 907
2) discrepancies between gross profit (loss) and income tax base (by type)	-9 465	-4 375
- revenues other than tax income	-6 617	-3 994
- costs other than tax-deductible costs	2 646	381
3) Taxable income	21 085	13 494
- deductions from income	186	310
4) Income tax base	20 899	13 184
5) Current income tax at 19%, 24%, 25% tax rate	3 993	2 498
6) Increase, failure to pay, exemptions, deductions and decrease of tax	30	21
Current income tax included in PLA	4 023	2 519

The tax paid by the Group in the reporting period applies to the following companies:

- LPP S.A. – 19 % rate,
- ZAO Re Trading (Russia) – 25% rate,
- LPP Ukraina AT – 24% rate.

14.17.2 Deferred tax

The Group presents deferred tax due to occurring and reversing temporary differences. There are no other titles of change in the value of assets and provisions for deferred income tax.

PLN'000

DEFERRED INCOME TAX ASSETS	30.06.2005	31.12.2004	30.06.2004
Surplus of book value over fixed assets tax value	989	702	430
Calculation of fx rate discrepancies of liabilities	188	1 074	505
trade receivables	688	712	744
Valuation of inventory	293	313	124
Revaluation of fixed assets	231	227	67
Unrealized profit margin	822	584	294
Other temporary differences	547	564	229
TOTAL	3 758	4 176	2 393

PLN'000

PROVISION FOR DEFERRED INCOME TAX	30.06.2005	31.12.2004	30.06.2004
Surplus of tax value over fixed assets book value	72	64	155
Write-off of intangible assets	2 720	1 521	265
Calculation of fx rate discrepancies of liabilities			361
Other temporary differences	136	74	138
income tax provision	200		
TOTAL	3 128	1 659	919

A term for realization of assets due to deferred income tax is to gain, by the Group, a positive financial result in next periods.

14.17.3 Taxation of potential dividends for shareholders

Should a decision be made on payment of dividend to shareholders being:
- domestic persons, the payment will result in deduction of income tax at 19%,
- foreign persons - the payment will result deduction of income tax, depending on provisions of specific double taxation agreement.

14.18. Related party transactions

Related parties include:
- domestic and foreign companies controlled by the Group due to holding shares,
- persons comprising key executive staff of LPP Capital Group and their close relatives,
- entities, in which key staff or their next of kin exercise control or significant influence, in line with IAS 24.

14.18.1 Key staff

The key staff in the Group includes the members of the Management and Supervisory Boards of the holding company.
The value of short term employee benefits for key executive staff in H1 FY 2005 amounted to PLN 510k, of which PLN 504 k applied to the Management Board of LPP S.A. and 6K to remuneration of a member of the Supervisory Board of LPP S.A. due to performance of duties other than work in the Board.

Moreover, the major transactions concluded in H1 FY 05 by the Group with key staff included:
- transaction with Marek Piechocki, Management Board President, totalling PLN 48 k, due to leasing estates by the company, used to pursue trade,
- transaction with Jerzy Lubianiec, Supervisory Board President, totalling PLN 48 k, due to leasing estates by the company, used to pursue trade,

14.18.2 Related party transactions

in PLN '000

No.	RELATED PARTIES	liabilities as at 30 June 2005	receivables as at 30 June 2005	revenues in H1 FY 05	costs in H1 FY 05
1.	Total domestic subsidiaries	1.705		46	16.818
TOTAL		1.705		46	16.818

The values presented in the table show only mutual transactions of LPP SA and 19 Polish non-consolidated subsidiaries and are presented from the holding company's point of view.
The data presented as liabilities of LPP S.A. are the receivables in related parties, and the costs are equivalent to revenues of the related parties.
All transactions with related parties were concluded at arm's length.
Revenues from domestic companies are gained from letting of offices for the needs of these companies.
Costs related to domestic subsidiaries relate to lease of estates for Cropp Town and Reserved brand stores.
Payment terms determined for subsidiaries are between 45 and 120 days.

14.19 Business segments

The Capital Group handles only one type of business (one segment, which is the core one). A division into two geographical segments has been applied: business in and outside the European Union. The division into geographical segments was based on criterion of location of Group's assets. At the moment the parameters describing the operation in the latter of the segments are very low (as little as 2.8% of revenues of LPP CG were gained outside the European Union), and thus the values of each segment are not presented.

BOARD OF DIRECTORS' HALF-YEAR REPORT ON THE PBG S.A. CAPITAL GROUP BUSINESS IN H1 FY05

The Capital Group LPP S.A. business in the period between 1 January 2005 and 30 June 2005

Basic tasks carried out in H1 FY05:

1. New Reserved and CroppTown stores were opened of the total commercial area of approx. 15 thousand square metres, thus increasing the total retail area by 23%, to 79 k m2; At the end of H1 2005 there were 174 stores located in 8 countries. Revenues from retail sales of the Capital Group represented over 86% of total revenues.

2. The nature of the offer of Reserved brand has been partly changed, putting more stress on including the latest fashion trends. The autumn advertising campaign has been prepared, which is in line with the transformations of autumn/winter 2005 collection.

3. The company started concept works on building new chain to be commenced in H2 of next year.

Basic figures reflecting the Capital Group's performance in H1 FY05 are as follows:

Figure	H1 FY05 (PLN million)	H1 FY04 (PLN million)	change (%)
Revenues from sales	304,9	223,2	+ 37
Gross profit on sales	170,1	119,5	+ 42
Costs of sales	123,3	91,2	+ 35
General administrative expenses	19,0	16,5	+ 15
Operating profit + depreciation	40,0	19,7	+ 103
Operating profit	26,5	11,1	+ 139
Net profit	16,2	8,2	+ 98

Revenues from sales in H1 FY04 were up by 37% in comparison with revenues from sales in the corresponding period in FY03. The gross margin on sales was increased by 2.3 percent point. The costs of sales, in which the most important are the lease and staff related costs depending on the number of stores and turnover, went up, but not as high as sales. The general administrative costs in H1 went up by only 15% against the corresponding period of the previous year. The above changes resulted in doubling the operating and net profit. Also the profit margins increased considerably.

The profit margins are presented below:

Profit margin (%)	H1 FY 05	H1 FY 04
Gross profit on sales	55,8	53,5
EBITDA	13,1	8,8
Operating	6,2	5,0
Net	5,3	3,7

The above margins and profit amounts are not proportional (taking into account that half the period has passed) to the published financial forecasts. This is caused by seasonality in sales of clothing. The second half of the year, especially the fourth quarter, will be period of realisation of considerable part of both revenues and annual profits of LPP S.A.

Revenues from sales presented in the consolidated statement were generated by the group members in the following amounts (excluding sales inside the group):

country	H1 FY05 (PLN million)	H1 FY04 (PLN million)	change (%)
Poland	263,3	200,2	+ 32
Czech Republic	12,2	6,6	+ 85
Estonia	6,6	4,9	+ 35
Latvia	5,2	3,3	+ 58
Lithuania	5,0	2,4	+ 108
Hungary	4,0	2,7	+ 48
Russia	4,3	-	-
Ukraine	4,2	3,0	+ 40
Total	304,9	223,2	+ 37

In H1 FY 05 the dynamic development of Reserved brand stores outside Poland was continued, which allowed to increase revenues generated by the subsidiaries in 7 countries by 80%. The net financial results generated by LPP S.A. subsidiaries in the Czech Republic, Hungary, Lithuania and Latvia in H1 FY 05 were negative and resulted in negative equity of Companies, or increase in its negative value. The total value of net losses incurred by the said subsidiaries in H1 amounted to PLN 8,343.2 k. In individual financial statement, the assets invested in foreign companies, including shares, granted loans and receivables were valued at purchase prices.
In the opinion of Management Board of LPP S.A., the losses incurred by the subsidiaries are related to the initial stage of their development and unfavourable changes in fx rates in H1 FY 05, as well as higher then planned margin of LPP S.A. on sales to subsidiaries. In line with accounting principles, the losses incurred by the subsidiaries may gives grounds to make a revaluation write-down of assets invested by the holding company in subsidiaries. Due to seasonality of sales, more favourable financial results that the clothing sector records in the second half of the year, and the transitional factors affecting the financial results of subsidiaries, the Management Board of LPP S.A. do not think it is proper to review the valuation of assets invested in subsidiaries based on their half-year results. The position of the

Management Board on the valuation of assets invested in subsidiaries will be prepared based on the results of subsidiaries in the whole FY 05.
We would like to state that LPP S.A. draws up consolidated financial statements, which present the results gained by the entire Capital Group, which are not influenced by the valuation of assets invested in foreign companies and included in the individual statement of the holding company.

II. Basic factors having an impact on the development opportunities; risks and threats

The basic tasks of LPP CG, the performance of which will decide about its future position include:
a) setting up a network of stores in Poland and Central and Eastern Europe,
b) building strong clothing brands (Reserved and Cropp, potentially new ones),

The implementation of strategic tasks and aims of the Issuer will be influenced by a number of internal and external factors, i.e. opportunities and threats.

Internal factors

a) Market strategy of LPP CG

LPP CG concentrates its business on designing and distributing of clothing and building the brand, outsourcing many tasks to external companies. The company has no own production capacity and is not intending to develop its own production facilities. Thus, all investments of the Company are aimed at increasing the trading potential, maintaining the competitive edge on the market, building own distribution network, building positive opinion about LPP CG on the clothing market, acquisition of consumers loyal to the Company and its products.

b) LPP CG market position

The amount of revenues from sales obtained by the LPP S.A. CG points to quite a low share in the total clothing market (app. 2-3% in Poland), but still it is the highest value among the data published by the companies operating in the same sector. In other countries, where the network of stores in under construction, the market position and effects of operation are not as strong due to shorter period of operation. Opening new outlets outside Poland will allow to increase the importance of product recognition, which will translate into generation of profits in other countries of the region.

c) Extension and renewal of offers presented to the customers

Products marketed by LPP Capital Group meet the expectations of target customer groups related to individual channels of distribution. Keeping in touch with the changing preferences of customers, the Company launches new product groups to the market each year, trying to get ahead of the market needs. In certain cases, especially in the case of the Reserved brand stores, LPP Capital Group tries to create its own style, based on global trends. Within the Reserved network, the Capital Group also launches changes which involve the adjustment of the appearance of outlets to meet the latest trends in this respect. The launch of Cropp Town network, selling mainly Cropp apparel, addressed at a different target group that Reserved products, is a proof of the continuous quest for market opportunities. The positive effects of CroppTown stores' operation give grounds to start working on building a new network of stores.

External factors

a) Change and growth of the clothing retail market in Poland and abroad

In response to changes of the retail clothing market, LPP S.A. consistently implements its plan of development of an extensive network of brand stores, selling clothing under widely recognized label.

b) The consequences of the accession of Poland and other countries to the European Union.

The accession to the European Union did not result in any perceptible increase in interest in the clothing market in this region. Major European players are already present on the market. Since the beginning of 2005, the barriers restricting the import of clothes from China, which was restricted since 1995, were lifted. As the removal of these barriers resulted in considerable increase in import, an agreement was concluded between the EU and China on 10 June 2005, pursuant to which the import of 6 categories apparel was administratively restricted for the next three years. This may cause some difficulties and increase in the prices of products subject to restrictions. LPP SA CG diversifies the sources of supply, locating production orders also in countries not subject to restrictions.

c) FX rates

The Capital Group's results may be influenced by FX rates of two foreign currencies: EUR and USD.
The ongoing monitoring of USD exchange rates (the currency of settlements with suppliers and export customers) and of factors which may affect the rate enable us to claim that no impediments are present in the Capital Group's operation related to such issues.
Specific nature of the Company's business makes it possible to partly transfer the increase in USD exchange rate to end users – the selling price of a given product is calculated on the "last minute" basis – before it is introduced to the market. More, i.e. by 20%, of goods than in the previous year were purchased in Poland where the settlements of transaction with manufacturers are performed in PLN.
Another area where costs may be affected by USD and especially EURO exchange rates are the contracts of lease of commercial premises. Exchange rates of these currencies determine the amount of rent payable under contracts of lease of most stores where the Reserved clothing is sold. As in the case of goods prices, variation in rent resulting from EUR exchange rates fluctuations, in the opinion of the Management Board, should not be followed by a material growth of the total costs incurred for that purpose.

d) General economic situation. The level of spending on consumer goods, including clothing.

The dynamic increase in revenues from sales indicates beyond any doubt that the general economic situation characterized by the cutback on spending on certain consumer goods, did not affect the Capital Group's business. LPP S.A. is focusing on ensuring that products offered to customers are attractive; as a result, the Company's customer base is considerable, even if the financial standing of customers is generally considered weak.

e) Changes in fashion that affect attractiveness of the products

Attractiveness of the product and resulting market position of clothing companies depend heavily on proper operation of the design department. Taken this factor into consideration, the Company focuses especially on the skills of designers and their market insight. The design team is composed of several persons working in team, whose cooperation and efforts result in clothing lines appreciated by the customers. Another key factor is continuous monitoring of global trends, for instance by participation in major international fairs. Simultaneously, large-scale marketing actions are undertaken, which successively build high position of the company.

III. Remuneration, awards or benefits due or potentially due to Executive or Supervisory Board

The information on remuneration due or potentially due to Executive or Supervisory Board of the LPP Capital Group was published in the consolidated financial statement, note 9 and note 14.18.1.