

AS Silvano Fashion Group



ANNUAL REPORT 2007

THE COMPANY

Business name	AS Silvano Fashion Group
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E-mail	info@silvanofashion.com
Website	<u>www.silvanofashion.com</u>
Core activities	Design, manufacturing and distribution of women's apparel and lingerie
Auditor	KPMG Baltics AS
Financial year	1 January 2007 – 31 December 2007

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THE GROUP IN BRIEF

AS Silvano Fashion Group (the “Company” or together with its subsidiaries the “Group”) is an international apparel distribution group involved in design, manufacturing and marketing of women’s apparel and lingerie. In addition, the Group provides a limited volume of sewing services to other manufacturers of women’s apparel. The Group operates the “PTA”, “Oblicie”, “Milavitsa”, “Lauma”, “Amadea line” and “Splendo Intime” retail chains which distribute the “PTA”, “Mastercoat”, “Milavitsa”, “Alisee”, “Lauma” and “Laumelle” brands in Estonia, Latvia, Lithuania, Russia, Belarus, Ukraine and Poland. The Group’s products are also distributed through wholesale channels.

The parent of the Group is AS Silvano Fashion Group, a company domiciled in Estonia and registered at Tartu mnt 2, Tallinn. The headquarter of the Group is in Riga at Ulmana gatve 119, Marupe, Latvia.

The shares of AS Silvano Fashion Group are listed at the Tallinn Stock Exchange and at the Warsaw Stock Exchange.

In 2007 the Group employed, on average, 3,450 people (2006: 2,796 people).

The Group comprises the following companies:

At 31 December 2007	Location	Main activity	Ownership interest 31.12.2007	Ownership interest 31.12.2006
Parent company				
AS Silvano Fashion Group	Estonia	Holding		
<u>Subsidiaries of SFG</u>				
PTA Grupp AS	Estonia	Retail	100%	-
AS Lauma Lingerie	Latvia	Manufacturing	100%	100%
SP ZAO Milavitsa	Belarus	Manufacturing	78.35%	62.53%
ZAO Linret	Russia	Retail	100%	100%
Splendo Polska Sp. z o.o.	Poland	Retail	90%	90%
UAB Linret LT	Lithuania	Retail	100%	-
<u>Subsidiaries of PTA Grupp AS</u>				
AS Klementi	Estonia	Manufacturing	100%	100%
Klementi Trading OY	Finland	Wholesale	100%	100%
UAB PTA Prekyba	Lithuania	Retail	100%	100%
SIA Vision	Latvia	Retail	100%	100%
OOO PTA Ukraine	Ukraine	Retail	100%	100%
<u>Subsidiaries of SP ZAO Milavitsa</u>				
SOOO Torgovaja Kompanija Milavitsa	Belarus	Retail	51%	51%
SP Gimil OOO	Belarus	Manufacturing	52%	52%
ZAO Stolichnaja Torgovaja Kompanija Milavitsa	Russia	Wholesale	100%	100%

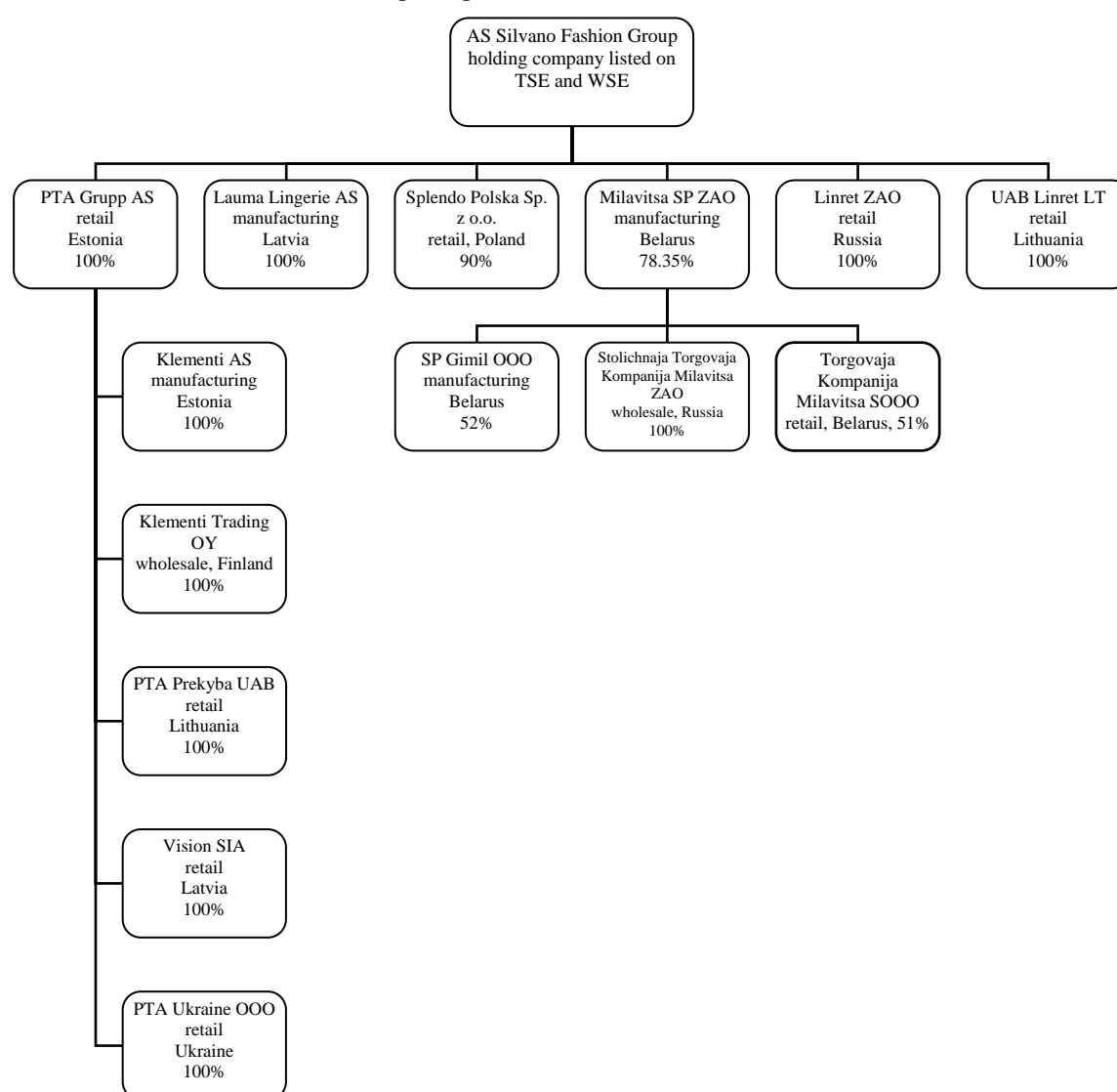
MANAGEMENT REPORT

Organisation

AS Silvano Fashion Group (the “Group”, “SFG” or the “Company”) is an international apparel distribution group involved in design, manufacturing and marketing of women’s apparel and lingerie. In addition, the Group provides sewing services to other manufacturers of women’s apparel.

The strategic goal of the Group is to become a leading retailer of lingerie, women’s apparel and accessories (with its own flexible production facilities) in the markets of the Baltic states, Russia, the rest of the CIS and, in the longer term, Central and Eastern Europe. The Group is planning to develop and fine-tune its business model based on vertical integration of retailing and manufacturing functions across a variety of brands and sectors (such as lingerie, apparel and related merchandise). The Group intends to ensure that most of its products are exclusively available at and sold through the Group’s retail network with differentiated mark-ups reflecting the positioning of each product. This strategy should eventually increase the overall revenues and profits of the Group and create additional value for its shareholders.

The Group intends to achieve these objectives by rapidly expanding and strengthening its existing retail network in existing markets, entering new geographical regions, developing intra-group synergies, and pooling resources and know-how between the various Group companies.



Key events of 2007

Shareholding increase in Milavitsa

In March 2007, SFG's subsidiary Milavitsa SP ZAO completed its share repurchase programme. In the course of the programme 2,487 shares were purchased for a price of about EEK 6,869 per share, representing 20,19% of Milavitsa's share capital. All of the repurchased shares were cancelled on or before 17 May 2007. Following the cancellation, SFG's ownership stake in Milavitsa grew from 62.53% to 78.35%.

Corporate reorganisation

During 2007, the Group completed an extensive reorganisation of its corporate structure. A number of changes were made to separate its strategic management from day-to-day operations and to streamline the Group's management, reporting and corporate organisation.

Amendment to the Articles of Association

On 31 May 2007, the Extraordinary General Meeting of Shareholders decided to amend the Company's Articles of Association and change its name to AS Silvano Fashion Group and its registered address to Tartu mnt 2, Tallinn. SFG's lines of business were changed to holding company activity (EMTAK code 7010) as its main activity, and to business and management consultancy (EMTAK code 7022). Changes were also made to the representation rights and the composition of the supervisory board with effect from 24 August 2007.

Merger of PTA Grupp AS with AS Silvano Fashion Group

On 13 April 2007, the Extraordinary General Meeting of Shareholders decided to approve the merger agreement between PTA Grupp AS and AS Silvano Fashion Group. The merger was registered on 24 August 2007. The changes were related to reorganising the Group's corporate structure and separating its strategic management from day-to-day operations.

Separation of Estonian manufacturing operations from the main holding entity

Effective from 29 August 2007, the Company was divided by establishing a new subsidiary under the business name of PTA Grupp AS. As a result of this division, assets engaged in the development of the PTA concept and the production of women's apparel were transferred to the new entity.

Successful public offering and listings on the Warsaw Stock Exchange

On 3 July 2007, the Estonian Financial Supervision Authority approved the Company's listing and prospectus relating to the combined offering by Alta Capital Partners S.C.A. of up to 6,221,338 shares for sale in a public offering to institutional investors in Poland and in a private placement to selected institutional investors in certain EU member states other than Poland and a listing of the Company's shares on the Warsaw Stock Exchange. The offering was successfully completed and the Warsaw Stock Exchange resolved on 18 July 2007 to start trading in SFG shares, with the first trading day being 23 July 2007.

Due to the public offering and listing, the General Meeting of Shareholders decided on 25 June 2007 to increase the Company's share capital by issuing 2,052,802 new ordinary shares with a par value of EEK 10 (EUR 0.64). The General Meeting resolved that the issue price in the public offering would be EEK 82.14 per share, at which level the issue was fully subscribed.

On 31 August 2007, the share capital increase was entered on the Estonian Commercial Register. After the increase, SFG's registered share capital is EEK 400,000,000 (about EUR 25,564,660) and consists of 40,000,000 ordinary shares with a par value of EEK 10 (EUR 0.64).

Acquisition of a retail chain in Lithuania

On 28 September 2007, SFG entered into an agreement to acquire a 100% stake in Linret LT UAB, a lingerie retail outlet chain operator with 16 lingerie retail outlets in Lithuania (4 in Vilnius, 3 in Klaipeda, 4 in Siaulai, 3 in Kaunas, 1 in Mazeikai and 1 in Utena) totalling 877 square metres in area. The shops are operated primarily under the name of Amadea Line. This acquisition significantly boosted the Group's presence in Lithuania (3 retail outlets before the acquisition). The newly acquired retail outlets already had strong ties to the Group, with over 40% of revenue generated from sales of Lauma Lingerie branded products. Starting from 2008 the product portfolio also includes Milavitsa branded lingerie. The integration of the acquired operation continues as planned.

Business results

PROFITS

2007 was the first full year of new group operations. The Group was concentrating on rapid retail expansion of both business segments – lingerie and women's apparel. In 2007, the Group rapidly expanded in the Russian, Lithuanian and Ukrainian markets, with new shops also opened in Estonia, Belarus and Poland. Start-up periods of new stores in Russia are longer and store operating expenses are much higher than in the Baltics or Poland, which affects the Group's overall retail performance results. In addition, the Group rearranged store formats for the Oblicie concept to improve sales efficiency. The faster expenditure growth is also explained by an increase of Russian retail operations in the Group's overall store portfolio. The Baltic operations posted a development in the first half of the year but the Group's results in the region decreased following the general decline in the Baltic economies in the second half of the year.

SFG ended 2007 with consolidated net sales of EEK 1.542 million, representing a 3.7-fold increase on 2006. Following the acquisition in 2006, the comparable results for 2006 comprise former PTA Grupp AS operations for the whole 2006 and consolidated AS Silvano Fashion Group results for the 4th quarter 2006. The results were boosted by growth in the Baltic, Russian, Belorussian and Ukrainian lingerie and women's apparel markets, which are our primary sales markets.

Consolidated operating profit amounted to EEK 321.5 million, representing a 4.1-fold increase on 2006. The consolidated operating margin reached 20.8% (up from 18.8% in 2006).

In 2007, the Group increased its shareholding in Milavitsa SP ZAO, resulting in gains from the business combination booked in 2007 totalling EEK 89.4 million.

Consolidated net profit attributable to equity holders amounted to EEK 186.9 million (up from EEK 44.9 million in 2006) and the net margin was 12.1% (up from 10.6% in 2006).

In 2007, the Group's return on equity was 31.5% (up from 19.3% in 2006) and return on assets was 19.7% (up from 10.4% in 2006).

BALANCE SHEET

At 31 December 2007, consolidated assets amounted to EEK 1,089.6 million (up from EEK 812.1 million at 31 December 2006). The increases in both assets and liabilities are mainly related to retail expansion.

Trade receivables remained at the ordinary level, given that the subsidiaries Milavitsa SP ZAO and AS Lauma Lingerie sell their products mostly on credit.

Inventories increased by EEK 107.3 million to reach EEK 337.5 million at 31 December 2007. The inventory growth results primarily from the retail expansion. Due to the expansion of the retail network, the Group made rental prepayments for store premises, which increased other receivables and prepayments.

Property, plant and intangibles increased by EEK 85.7 million, of which 43.8 million represents the retail growth.

Current liabilities increased by 44.1 million. Tax liabilities, other payables, including payables to employees, and provisions amounted to EEK 66.6 million, remaining at the expected level.

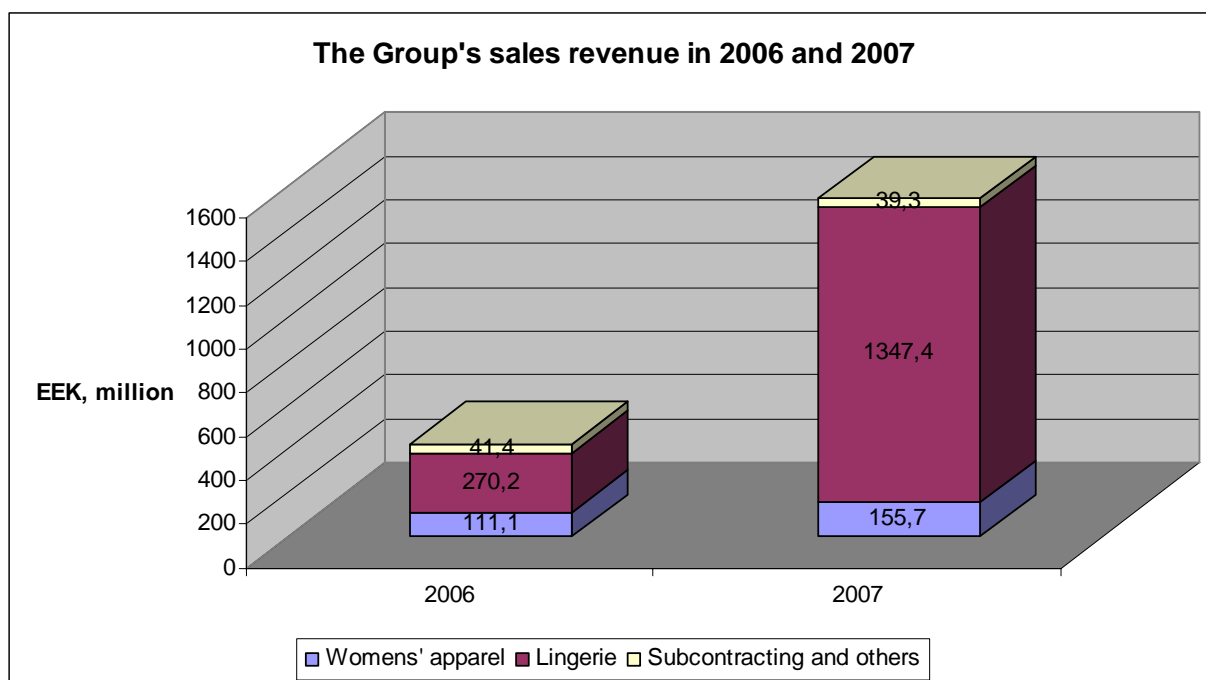
Current and non-current loans and borrowings dropped by EEK 10.2 million to EEK 29.2 million. Loans received and loans repaid during the period amounted to EEK 20.9 million and EEK 36.2 million respectively. This includes finance lease liabilities of EEK 10.9 million.

Equity grew by EEK 238.4 million to reach EEK 870.1 million. As a result of the share issue, SFG's share capital increased by EEK 20.5 million and the share premium grew by EEK 140.3 million.

SALES

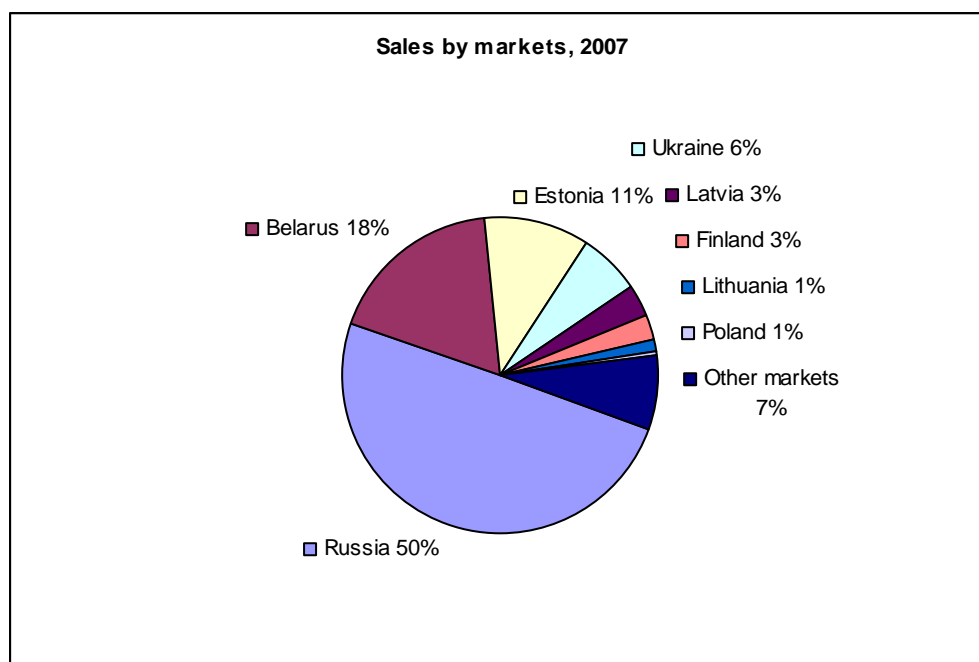
Sales by business segments

In millions of EEK	2007	2006	Change
Women's apparel	155.7	111.1	+40.8%
Lingerie	1,347.4	270.2	+397.7%
Subcontracting services and other sales	39.3	41.4	-3.8%
Total	1,542.4	422.7	+265.2%



Sales by markets

In 2007, we continued our focus on East European markets, mainly the Baltic states, Russia, Belarus and Ukraine.



In 2007, the economic environment grew in all markets of the Group. In 2007, the GDP growth for the Baltics stood at 7.1% in Estonia, 8.7% in Lithuania and 8.1% in Latvia. In the past few years, the Baltic markets were driven by strong domestic demand and the economic growth increased the purchasing power of customers. Starting from the second half of 2007, the Baltic economies faced a slow-down, and the analysts expect that recovery will start in the second half of 2008, or 2009 at the latest. In 2007, Russia and Ukraine posted 8.1% and 7.3% economic growth, respectively. According to the analysts, the economic outlook for Russia for the coming years is positive and the GDP growth is forecasted at 5–6% a year.

Retail operations

Total retail sales of the Group in 2007 amounted to EEK 280.0 million, representing a 2.2-fold increase on 2006.

Retail operations were conducted in Estonia, Latvia, Russia, Belarus, Poland, Lithuania and Ukraine. At the end of 2007, the Group operated 115 retail outlets with a total area of 12,454 square metres.

Women's apparel was retailed in Estonia, Latvia, Lithuania, Russia and Ukraine. At the end of 2007, the Group operated 30 women's apparel stores with a total sales area of 5,741 square metres (up from 2,688 square metres in 2006).

Lingerie was retailed in Russia, Belarus, Latvia, Lithuania, Ukraine and Poland. At the end of 2007, the Group operated 85 lingerie stores with a total area of 6,713 square metres.

In 2007, 60 new stores were opened: 17 women's apparel stores operating under the PTA brand (9 in Russia, 4 in Lithuania, 1 in Estonia and 3 in Ukraine) and 22 lingerie stores under the Oblicie brand (20 in Russia, 1 in Poland and 1 in Ukraine). 16 lingerie stores were acquired in Lithuania. 3 stores under the Milavitsa name were opened in Belarus. In Poland, 2 Splendo stores were closed and 4 new stores opened.

The number of stores at 31 December:

	2007	2006
Estonia	8	7
Latvia	6	6
Poland	10	7
Belarus	23	20
Russia	44	15
Lithuania	20	–
Ukraine	4	–
Total stores	115	55
Total sales area, sq m	12,454	6,997

In 2007, women's apparel retail revenue increased by 46%, amounting to EEK 118.9 million. The retail increase was supported by the sales increase in the like-for-like spaces and by the considerably greater number of stores. The increase in retail of women's apparel in the like-for-like spaces was 9%. In the Baltics, PTA retail revenue growth was 22%. The growth in the Baltics was supported by expansion into the Lithuanian market. As Russia and Ukraine are new markets for women's apparel, comparable figures are not available.

The like-for-like increase in the Oblicie lingerie retail chain is about 40% for stores operating longer than one year. The major objective in the lingerie business was rapid retail expansion mainly in Russia. In addition to the general seasonal marketing campaigns directed to the new markets, marketing operations were focused on campaigns supporting the expansion on the Russian market.

Market	PTA stores	Oblicie stores	Other stores	Total	Sales area, sq m
Russia	11	33	–	44	4,849
Ukraine	3	1	–	4	522
Estonia	8	–	–	8	1,759
Latvia	4	–	2	6	1,169
Lithuania	4	–	16	20	1,626
Belarus	–	–	23	23	2,041
Poland	–	1	9	10	488
Total	30	35	50	115	12,454

Wholesale

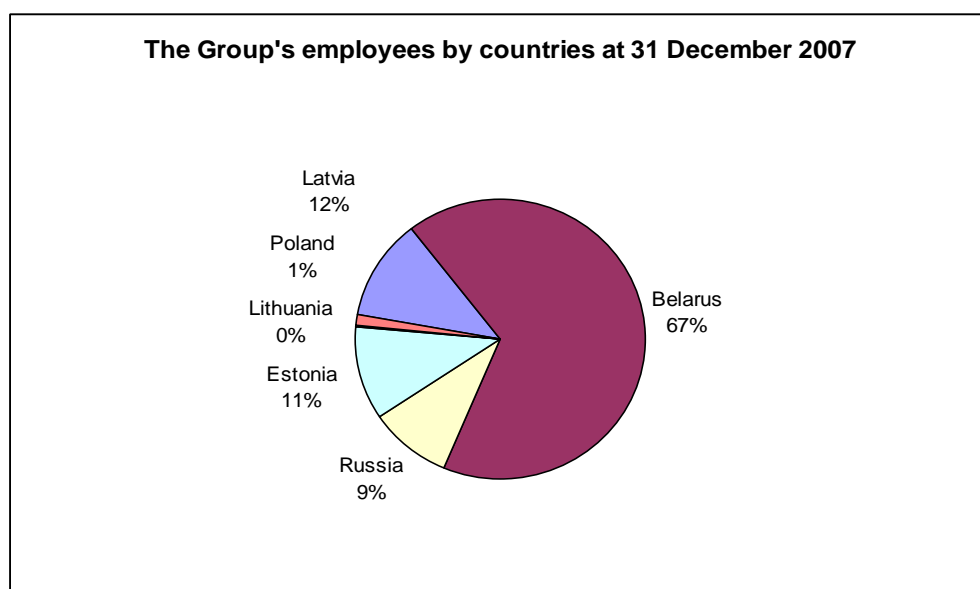
In 2007, wholesale amounted to EEK 1,223.6 million, representing 79.3% of the Group's total revenue. The main wholesale regions were Russia, Ukraine, the Baltic states and Belarus for lingerie, and Finland and the Baltic states for women's apparel. In 2007, revenue from wholesale of women's apparel increased by 28.9%, amounting to EEK 43.8 million. Most of the lingerie wholesale partners are located in Russia.

Investment

In 2007, the Group's investments totalled EEK 150.9 million. A total of EEK 43.8 million was invested in retail operations, while other investments were made in plant and facilities to maintain effective production. Investments in IT development totalled EEK 9.4 million.

Personnel

At the end of December 2007, the Group employed a staff of 3,581, including 552 in retail and 2,243 in production. The rest are employed in wholesale, administration and support operations. The average number of employees in 2007 was 3,450.



The total salaries and wages for 2007 amounted to EEK 294.2 million. The remuneration paid to members of the Management Board totalled EEK 3.6 million. Four members of the Management Board also serve as executives for the portfolio companies.

Outlook for 2008

The Group's overall strategy foresees expansion of retail operations. The Group has adopted an expansion plan according to which development efforts will be focused on the two main retail chains – Oblicie to market lingerie and PTA to market women's apparel. In addition, the Group will continue operating monobrand retail stores under Lauma and Milavitsa.

In the coming years, the Group will focus its retail expansion on Russia, Ukraine, Baltic states and Belarus. 60 new stores are to be opened in 2008.

Other important objectives include improving the store retail sales efficiency by enhancing brand awareness and recognition, supplementing our collections, and performing consumer campaigns and other marketing events.

Most of the capital expenditure will go towards developing retail operations. According to our plan, capital investments in retail expansion will amount to EEK 40.7 million. Our planned investments in plant will amount to EEK 36.0 million.

Our manufacturing entities will focus on manufacturing our own brand products. Sales of subcontracting services will decline because of an increase in our own needs. A substantial part of Lauma Lingerie production is to be shifted to Belarus and China.

Selected financial data

The Group's operating results are best summarised in the following figures and ratios:

Key figures and ratios	2007	2006	Change
Sales revenue, in thousands of EEK	1,542,438	422,682	1,119,756
Revenue, in thousands of EEK	1,648,232	435,393	1,212,839
EBITDA, in thousands of EEK	360,086	90,990	269,096
EBIT, in thousands of EEK	321,548	79,321	242,227
Operating margin, %	20.8%	18.8%	–
Profit/loss for the period, in thousands of EEK	186,914	44,990	141,924
Net margin, %	12.1%	10.6%	–
ROA, %	19.7%	10.4%	–
ROE, %	31.5%	19.3%	–
EPS, in EEK	4.81	4.08	0.73
Current ratio	3.64	3.63	–
Quick ratio	2.07	2.28	–

Underlying formulas:

Operating margin = operating profit / sales revenue

Net margin = net profit attributable to parent equity holders / sales revenue

ROA (return on assets) = net profit attributable to parent equity holders / average total assets

ROE (return on equity) = net profit attributable to parent equity holders / average equity

EPS (earnings per share) = net profit attributable to parent equity holders / weighted average number of ordinary shares

Current ratio = current assets / current liabilities

Quick ratio = (current assets – inventories) / current liabilities

Dmitry Ditchkovsky
Chairman of the Management Board
24 April 2008



AS Silvano Fashion Group shares

SFG shares have been listed on the Tallinn Stock Exchange since 20 May 1997. Initially the shares appeared on the Investor List and then moved to the Main List from 21 November 2006. The Tallinn Stock Exchange is part of OMX Group, which owns and operates stock exchanges in Denmark, Sweden, Finland, Lithuania, Latvia and Estonia.

Information on SFG shares

All issued SFG shares are registered ordinary shares with equal voting and dividend rights. The Company does not issue share certificates to its shareholders. The shares are freely transferable and inheritable, and may be pledged or encumbered with the right of usufruct. The Company's share register is maintained by the Registrar of the Estonian Central Register of Securities.

SFG share details:

ISIN	EE3100001751
OMX symbol	SFGAT
List	BALTIC MAIN LIST
Par value	EEK 10.0
Number of issued shares	40,000,000
Number of listed shares	40,000,000
Date of listing	20 May 1997

Key share details	2003	2004	2005	2006	2007
Number of shares outstanding at year end	1,896,875	1,896,875	1,946,875	37,947,198	40,000,000
Weighted average number of shares	1,643,245	1,896,875	1,935,505	11,020,929	38,852,681
Year-end share price, in EEK	31.29	28.32	35.05	61.49	68.85
Earnings per share, in EEK	-13.17	-6.27	5.51	4.08	4.81

Share price performance and trading history

In 2007, SFG's share price rose by 11.96% and the Group's market capitalisation increased by about EEK 420 million, but the OMX Tallinn Index fell by 13.29%.

Trading history	2003	2004	2005	2006	2007
High, in EEK	33.64	32.08	35.20	69.63	111.4
Low, in EEK	18.31	27.38	23.47	31.29	54.61
Last, in EEK	31.29	28.32	35.05	61.49	68.85
Traded volume	110,494	132,516	297,502	3,784,919	13,057,062
Turnover, in millions of EEK	3.14	3.88	9.38	216.15	1,005.9
Market capitalisation, in millions of EEK	59.36	53.72	68.23	2,333.42	2,753.8

Share price development and turnover on the Tallinn Stock Exchange in 2007



On 19 July 2007, the Management Board of the Warsaw Stock Exchange resolved to introduce 37,947,198 SFG shares to trading on the main market of the Warsaw Stock Exchange. The first trading day was 23 July 2007.

Warsaw Stock Exchange trading history	2007
High, in PLN	22.5
Low, in PLN	14.5
Last, in PLN	16.8
Traded volume	2,017,878
Turnover in million PLN	70.2

Shareholder structure

At 31 December 2007, SFG had 996 shareholders (up from 899 at 31 December 2006), representing an almost 11% increase in the number of shareholders.

A complete list of the Company's shareholders is available on the website of the Estonian Central Register of Securities (www.e-register.ee).

The distribution of shares at 31 December:

2007			2006			
Shareholdings	Number of shareholders	%	Number of shares	Number of shareholders	%	Number of shares
>10%	3	0.3%	29,326,902	1	0.1%	28,024,309
1.0–10.0%	8	0.8%	6,423,713	9	1.0%	7,335,974
0.1–1.0%	22	2.2%	3,516,179	16	1.8%	2,030,412
<0.1%	963	96.7%	733,206	873	97.1%	556,503
Total	996	100.0%	40,000,000	899	100.0%	37,947,198

The diversification of activities and the share capital increase rendered the shares more liquid and increased their trading volume.

At 31 December 2007, SFG had shareholders from 20 countries (up from 17 at 31 December 2006).

The shareholders whose interest exceeded 1% at 31 December 2007:

Name	Number of shares	Shareholding
Major shareholders	35,750,615	89.4%
ALTA CAPITAL PARTNERS S.C.A, SICAR	15,989,241	40.0%
Krajowy Depozyt Papierow Wartoosciowych S.A.[J]	7,877,661	19.7%
ALTA CAPITAL PARTNERS SIA	5,460,000	13.7%
SEB Eesti Ühispank As KAUPLEMINE	1,969,913	4.9%
BANK AUSTRIA CREDITANSTALT AG CLIENTS	1,438,290	3.6%
THE BANK OF NEW YORK/ ING BANK SLASKI AC LM AKCJI FIO	679,584	1.7%
BRYUM ESTONIA AS	542,463	1.4%
STATE STREET MUNICH CARE OF SSB BOSTON/ PZU FIO AKCJI KRAKOWIAK	487,828	1.2%
JPMORGAN CHASE BANK, N.A. ON BEHALF OF BELGIAN RESIDENTS	456,496	1.1%
HANSAPANK AS	449,139	1.1%
STATE STREET LONDON CARE OF SSB BOSTON/ ALLIANZ GLOBAL INVESTORS IRELAND LIMITED	400,000	1.0%
Other shareholders	4,249,385	10.6%
Total number of shares	40,000,000	100.0%

Share capital

At 31 December 2007, SFG's registered share capital was EEK 400,000,000, consisting of 40,000,000 ordinary shares with a par value of EEK 10.

In 2007, share capital was increased by EEK 20,528 thousands through issuing 2,052,802 new ordinary shares with a par value of EEK 10. Under its Articles of Association, the Company's share capital may amount to EEK 1.0 billion.

The changes in share capital over the last five years:

Date	Increase/decrease	Issue price	Increase / decrease in number of shares	Total number of shares	Share capital at par value	Share premium
In EEK			In thousands of EEK			
31 December 2002				1,321,875	13,219	30,863
10 June 2003	Share issue	27.50	575,000	1,896,875	5,750	10,063
10 June 2003	Issue costs					-632
31 December 2003				1,896,875	18,969	40,294
31 December 2004				1,896,875	18,969	40,294
24 March 2005	Swap of shares for P.T.A. Group OY's bonds	24.00	50,000	1,946,875	500	700
31 December 2005				1,946,875	19,469	40,994
16 October 2006	Share issue	39.12	36,000,323	37,947,198	360,003	44,259
16 October 2006	Issue costs					-2,242
31 December 2006				37,947,198	379,472	83,011
24 July 2007	Share issue	82.14	2,052,802	40,000,000	20,528	148,089
24 July 2007	Issue costs					-7,807
31 December 2007				40,000,000	400,000	223,293

More details of share capital and share premium can be found in note 27 to the consolidated financial statements.

Corporate governance report

The Corporate Governance Recommendations adopted by the NASDAQ OMX Tallinn Stock Exchange and the Estonian Financial Supervision Authority (hereinafter **CGR**) is an advisory set of rules which provides guidance for conducting corporate governance and is applicable, above all, in respect of companies listed on the Tallinn Stock Exchange.

Compliance with the principles of CGR is binding on the basis of “comply or explain principle”. In other words, the companies listed on the Tallinn Stock Exchange are expected to publish a corporate governance report outlining the principles of CGR, which are not complied with accompanied by issuer’s explanation for such failure to comply.

As the shares of AS Silvano Fashion Group are in addition to the Tallinn Stock Exchange listed and admitted to trading on the Warsaw Stock Exchange, similar set of rules called the Code of Best Practice is applicable in respect of it.

As a general rule, AS Silvano Fashion Group complies with all principles set out in CGR and the Code of Best Practice. This report outlines the principles of CGR and the Code of Best Practice not fully observed and describes the reasons thereof.

General Meeting

General Remarks

The highest governing body of a public limited company (in Estonian: *aktsiaselts*) is general meeting of shareholders. According to law, general meetings are either ordinary or extraordinary. An ordinary general meeting is convened by management board once a year within 6 months as of the end of financial year. As extraordinary general meeting is convened if (i) the value of net assets of a company falls below a half of its share capital or the minimum requirement of share capital of a public limited company as set out by law; (ii) requested by shareholders whose shares represent at least 10% of the company’s issued share capital; (iii) requested by the supervisory board or auditor of company; or (iv) it is clearly in the interests of company. An ordinary general meeting must be convened at least 3 weeks in advance and extraordinary general meeting at least 1 week in advance. The issues in the competence of a general meeting are determined by law and articles of association of a company. A general meeting is eligible to adopt resolutions if more than half votes represented by shares are present at the meeting unless law or articles of association provide higher quorum requirement. A resolution of general meeting is deemed to be adopted if more than half votes represented at the meeting vote in favour, unless law or articles of association provide higher requirement.

General Meetings of AS Silvano Fashion Group

During the financial year ended on 31 December 2007 two general meetings of AS Silvano Fashion Group were held.

The ordinary general meeting of AS Silvano Fashion Group was held on 25 June 2007 at the registered seat of the company located at Akadeemia tee 33, Tallinn. 26,214,022 votes represented by shares took part of the meeting, representing altogether 69.08% of all the issued shares. The ordinary general meeting resolved to (i) approve the annual accounts of AS Silvano Fashion Group; (ii) increase the share capital of the company and prevent the pre-emptive right to subscribe shares by the existing shareholders; (iii) appoint auditor and decide its remuneration; and (iv) authorize management board to take necessary actions for listing the shares on the Warsaw Stock Exchange.

On 31 May 2007 an extraordinary general meeting was held. Altogether 26,488,283 votes represented by shares participated at the meeting, representing 69.80% of the entire issued share capital of AS Silvano Fashion Group. The agenda of the ordinary general meeting included (i) amendment of articles of association; (ii) removing and electing members of supervisory board; (iii) approval of merger agreement and adopting merger resolution; (iv) approval of division plan.

Both general meetings as described above were duly and timely convened. Notices convening the general meetings were published in Estonian daily newspaper *Eesti Päevaleht* and on the web pages of the Tallinn Stock Exchange (www.ee.omxgroup.com) and the company (www.silvanofashiongroup.com). On the web pages of the Tallinn Stock Exchange, the notices were published in both – in English and in Estonian language. All materials containing information on issues in the agendas of the general meetings were available to all the shareholders at the location of the company. The general meetings were conducted in a manner which enabled all the shareholders to ask questions and make proposals.

On the basis of the above description, AS Silvano Fashion Group ensured all the shareholders of AS Silvano Fashion Group an opportunity to participate at the general meetings and complied with the requirements of CGR regarding convening general meeting and making available information concerning issues placed to the agendas of the meetings.

Without prejudice to the above, AS Silvano Fashion Group did not fully comply with requirements set out in Sections 1.3.1, 1.3.2 and 1.3.3 of CGR.

As set of in Section 1.3.1 of CGR, a member of management board is not elected to be the chairman of a general meeting. Both general meetings of AS Silvano Fashion Group were chaired by the member of the management board Mr. Peeter Larin. Such arrangement was merely due practical reasons. Namely, Mr. Peeter Larin was familiar to the issues placed into the agendas of the general meetings and was in a position to cover all possible questions the shareholders could have had on the agenda items. AS Silvano Fashion Group is in the position to confirm that such failure did not result in violation of the shareholders' rights in any way.

According to Section 1.3.2 of CGR a general meeting is attended by members of management board, chairman of supervisory board, if possible also members of supervisory board and at least 1 of auditors. The ordinary general meeting held on 25 June 2007 was not attended by the member of the management board Mrs. Marianne Paas, members of the supervisory board and auditors representatives from KPMG Baltics AS. Mrs. Marianne Paas also failed to participate in the extraordinary general meeting held on 31 May 2007. Such failure to attend the general meetings by the above mentioned persons happened due to personal reasons; however, AS Silvano Fashion Group confirms that it did not impair the interests of the company and the shareholders.

Pursuant to Section 1.3.3 of CGR, an issuer enables electronic participation at the meeting provided that it has respective technical means and that it is not too costly. It was not possible to attend the general meeting of AS Silvano Fashion Group held in 2007 via electronic devices as the company does not have relevant equipment and it would have been unreasonable expensive to acquire the same for the general meetings.

Supervisory Board

General Remarks

Pursuant to law, a supervisory board of a public limited company is a supervisory body responsible for planning the activities of a company, organizing its management and supervising the activities of management board. The articles of association of AS Silvano Fashion Group provide detailed regulation in respect of issues falling beyond the scope of everyday management of the company. Certain resolutions are adopted only in case all members of the supervisory board vote in favour. According to the articles of association of AS Silvano Fashion Group, the supervisory board has three to five members elected by the general meeting for the term of 5 years. Members of the supervisory board elect a chairman among themselves. Chairman of the supervisory board is responsible for organizing the work of supervisory board and has a casting vote in case of tied vote.

Supervisory Board of AS Silvano Fashion Group

The extraordinary general meeting held on 31 May 2007 removed Mr. Andres Rätsepp, Mr. Sven Mansberg and Mr. Toomas Leis from the supervisory board and to elected two new members – Mr. Jaak Raid and Mrs. Zinaida Valekha. As of the referred general meeting the members of the supervisory board of AS Silvano Fashion Group are Mr. Indrek Rahumaa, Mr. Jaak Raid and Mrs. Zinaida Valekha.

In 2007, the members of the supervisory board were not remunerated but they were compensated for the costs incurred in performing their duties.

According to law and the provisions of the articles of association of AS Silvano Fashion Group, the meetings of the supervisory board are held as frequently as necessary; however, not less frequently than once a quarter. In 2007, the supervisory board held altogether 9 meetings. The management board informed the supervisory board of the activities and financial position of AS Silvano Fashion Group on a regular basis.

The members of the supervisory board of AS Silvano Fashion Group are elected in accordance with the principles of CGR and comply with the requirements established in respect of them. The members of the supervisory board comply with their professional obligations arising from law and GCR with due care. The co-operation of and the information exchange between the management board and the supervisory board meets the requirements of CGR. Except for described in this report, the management board of AS Silvano Fashion Group are not aware of any conflicts of interests between the supervisory board members and the company.

Despite to the above, AS Silvano Fashion Group is currently not complying with the requirement of having at least half members of the supervisory board as independent members as set out in Section 3.2.2 of CGR. Namely, 38.19% of all the shares of AS Silvano Fashion Group are held by Alta Capital Partners S.C.A, SICAR and 13.65% of the shares are held by SIA Alta Capital Partners. SIA Alta Capital Partners is the majority shareholder of Alta Capital Partners S.C.A, SICAR. SIA Alta Capital Partners is controlled by Mr. Indrek Rahumaa. Further, Mr. Indrek Rahumaa and Mr. Jaak Raid are the members of the management board of the general partner of Alta Capital Partners S.C.A, SICAR, Alta Capital Partners Management s.a.r.l., representing Alta Capital Partners S.C.A, SICAR.

Mr. Jaak Raid and Mr. Indrek Rahumaa were elected to serve as the members of the supervisory board due to their extensive experience in business management. Despite to the fact that they may not be considered independent, there is no actual conflict of interests between the current composition of the supervisory board, AS Silvano Fashion Group and its shareholders.

Management Board

General Remarks

Management board is the representative body of a public limited company being responsible for day-to-day management of the latter. According to the articles of association of AS Silvano Fashion Group, the management of AS Silvano Fashion Group consists of 1 to 7 members elected for the term of three years. All the members of the management board of AS Silvano Fashion Group may represent the company only jointly.

Management Board of AS Silvano Fashion Group

Up until 6 June 2007 the management board of AS Silvano Fashion Group had 2 members – Mr. Peeter Larin (also the chairman of the management board) and Mrs. Marianne Paas. At the meeting of the supervisory board the management board of AS Silvano Fashion Group was elected in a new composition – Mr. Dmitry Ditchkovsky, Mr. Dmitry Podolinski, Mr. Sergei Kusonski, Mrs. Dace Markevica, Mr. Peeter Larin and Mr. Remigiusz Pilat.

As at 31 December 2007 the members of the management board had the following interests in the company:

	Number of shares	Interest (%)
Share capital of AS Silvano Fashion Group	40,000,000	100.0%
Peeter Larin	25,000	0.0625%
Total	25,000	0.0625%

All the members of the management board of AS Silvano Fashion Group have complied with their obligations arising from law and CGR. The management board has always acted in the best interests of the company (and its shareholders). The management board has established inside rules for protecting confidential information and acts in strict compliance with those in conducting its everyday business activities. Further, the management board assesses business risks of the company on daily basis and takes necessary steps in order to avoid any adverse effect to the company. The management board acts in compliance with the lawful resolutions of the supervisory board. Information exchange between the management board and the supervisory board may be described as extensive. None of the members of the management board competes with the company. There is no conflict between the interests of the members of the management board and the company.

AS Silvano Fashion Group does not comply with the requirement to publish the remuneration, bonus system and other payments and benefits received by the members of the management board on the web page of the company and in this report (Section 2.2.7 of CGR). AS Silvano Fashion Group is of the opinion that such disclosure may impair the rights and interests of the members of the management board and the company itself. Further, breakdown of all amounts paid to the members of the managing bodies is indicated in the annual report of the company.

Disclosure of Information

The web page of AS Silvano Fashion Group includes a link to the web page of the Tallinn Stock Exchange where AS Silvano Fashion Group discloses all relevant information both in Estonian and in English language. During the financial year ended on 31 December 2007, there have been no deficiencies in providing the shareholders of AS Silvano Fashion Group with all relevant information. All respective provisions of CGR were duly followed and the equal treatment of all the shareholders was ensured.

Reporting

AS Silvano Fashion Group prepares financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. In disclosing financial information, AS Silvano Fashion Group observes the requirements of Estonian legislation and the rules of the Tallinn Stock Exchange.

MANAGEMENT'S CONFIRMATION TO THE MANAGEMENT REPORT

The Management Board acknowledges its responsibility and confirms, to the best of its knowledge, that the Management Report as set out on pages 5 to 17 is an integral part of the Annual Report of AS Silvano Fashion Group for 2007 and gives a true and fair view of the trends and results of operations, main risks and doubts of AS Silvano Fashion Group and its subsidiaries as a group:



Dmitry Ditchkovsky
Chairman of Management Board
24 April 2008



Sergei Kusonski
Member of Management Board
24 April 2008



Peeter Larin
Member of Management Board
24 April 2008



Dmitri Podolinski
Member of Management Board
24 April 2008



Dace Markevica
Member of Management Board
24 April 2008



Remigiusz Pilat
Member of Management Board
24 April 2008

CONSOLIDATED FINANCIAL STATEMENTS

Statement of management responsibility

The management board acknowledges its responsibility for the preparation of the consolidated financial statements of AS Silvano Fashion Group presented on pages 20 to 65 and confirms that:

1. the accounting policies applied on the preparation of the consolidated financial statements comply with International Financial Reporting Standards as adopted by the European Union;
2. the consolidated financial statements give a true and fair view of the financial position of the Group and the results of its operations and its cash flows;
3. AS Silvano Fashion Group and its subsidiaries are going concerns.



Dmitry Ditchkovsky
Chairman of Management Board
24 April 2008



Sergei Kusonski
Member of Management Board
24 April 2008



Peeter Larin
Member of Management Board
24 April 2008



Dmitri Podolinski
Member of Management Board
24 April 2008



Dace Markevica
Member of Management Board
24 April 2008



Remigiusz Pilat
Member of Management Board
24 April 2008

Consolidated balance sheet

As at 31 December

<i>In thousands of EEK</i>	Note	2007	2006
ASSETS			
Non-current assets			
Property, plant and equipment	16, 29	246,541	172,281
Intangible assets	17	27,976	16,551
Investment property	18	22,954	0
Investments in equity accounted investees	19	876	78
Available-for-sale financial assets	20	8,480	1,772
Other receivables	24	595	2,349
Total non-current assets		307,422	193,031
Current assets			
Inventories	21	337,528	230,255
Prepaid taxes	22	24,471	31,568
Trade receivables	23	158,531	111,729
Other receivables	24	29,713	10,680
Prepayments	25	51,680	34,414
Cash and cash equivalents	26	180,233	200,460
Total current assets		782,156	619,106
TOTAL ASSETS		1,089,578	812,137
LIABILITIES AND EQUITY			
Equity			
Share capital at par value	27	400,000	379,472
Share premium	27	223,293	83,011
Statutory capital reserve	27	1,046	1,046
Translation reserve	27	-76,512	-10,710
Retained earnings		185,927	-987
Total equity attributable to equity holders of the parent		733,754	451,832
Minority interest		136,313	179,808
Total equity		870,067	631,640
Non-current liabilities			
Loans and borrowings	29	4,068	9,544
Deferred tax liabilities	15	201	201
Other liabilities		360	0
Provisions	32	139	139
Total non-current liabilities		4,768	9,884
Current liabilities			
Loans and borrowings	29	25,160	29,907
Trade payables	30	122,888	87,534
Corporate income tax liability		3,192	5,976
Other tax liabilities	22	23,486	19,369
Other payables	31	17,430	10,366
Provisions	32	22,462	17,461
Accrued expenses		125	0
Total current liabilities		214,743	170,613
Total liabilities		219,511	180,497
TOTAL LIABILITIES AND EQUITY		1 089,578	812,137

The notes on pages 24-65 are an integral part of these financial statements.

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Consolidated income statement

<i>In thousands of EEK</i>	Note	2007	2006
Revenue			
Sales revenue	8	1,542,438	422,682
Costs of goods sold	9	-870,780	-242,847
Gross Profit		671,658	179,835
Other operating income	10	105,794	12,711
Distribution costs	11	-213,958	-59,085
Administrative costs	12	-170,552	-42,019
Other operating expenses	13	-71,394	-12,121
Operating profit		321,548	79,321
Finance income and expenses			
Finance income	14	18,047	3,544
Finance expenses	14	-3,630	-1,371
Net finance income		14,417	2,173
Share of profit of equity accounted investees	19	988	44
Profit before tax		336,953	81,538
Income tax expense	15	-92,943	-19,362
Profit for the period		244,010	62,176
<i>Attributable to</i>			
Equity holders of the parent		186,914	44,990
Minority interest		57,096	17,186
Earnings per share			
Basic earnings per share (in EEK)	28	4,81	4.08
Diluted earnings per share (in EEK)	28	4,81	4.08

The notes on pages 24-65 are an integral part of these financial statements.

Consolidated statement of cash flows

<i>In thousands of EEK</i>	Note	2007	2006
Cash flows from operating activities			
Profit for the period		244,010	62,176
Adjustments for:			
Depreciation of property, plant and equipment		29,259	10,663
Amortisation of intangible assets	17	2,144	1,006
Impairment losses on intangible assets	17	1,830	0
Impairment losses on property, plant and equipment		203	313
Gains on the sale of property, plant and equipment	10	-907	-194
Impairment losses on goodwill (+) and negative goodwill gain			
(-)	7,17	-87,637	-9,468
Share of profit of equity accounted investees		-798	-44
Income tax expense	15	92,943	19,362
Acquisition of minority interest		3,161	0
Change in trade and other receivables and prepayments		-116,389	-42,887
Change in inventories		-156,325	-36,054
Change in trade and other payables		69,565	-17,003
Interests paid		-2,848	-1,312
Income tax paid		-95,648	-16,966
Total cash flow used in operating activities		-17,437	-30,408
Cash flows from investing activities			
Acquisition of property, plant and equipment		-106,537	-27,211
Acquisition of investment property		-20,278	0
Trademark fees paid		0	-4,112
Proceeds from sale of property, plant and equipment	16	1,314	273
Loans granted		-78,092	-43,318
Proceeds from repayments of loans granted		69,533	43,029
Interest received		11,907	2,176
Dividends received	14	1,643	387
Acquisition of intangible non-current assets		-6,180	-263
Acquisition of minority interest	7	0	-3,401
Acquisition of subsidiary, net of cash acquired	7	-13,722	263,213
Acquisition of other non-current assets		-3,567	0
Total cash from/used in investing activities		-143,979	230,773
Cash flows from financing activities			
Proceeds from issue of share capital		160,810	0
Repayment of borrowings		-25,332	-32,385
Proceeds from borrowings		20,935	31,958
Repayment of finance lease		-10,874	-2,309
Dividends paid		-2,973	0
Factoring paid		-1,377	0
Total cash flow from/used in financing activities		141,189	-2,736
Increase / decrease in cash and cash equivalents		-20,227	197,629
Cash and cash equivalents at the beginning of period	26	200,460	2,831
Cash and cash equivalents at the end of period	26	180,233	200,460

The notes on pages 24-65 are an integral part of these financial statements.

Consolidated statement of changes in equity

<i>In thousands of EEK</i>	Note	Equity attributable to equity holders of the parent						Minority interest	Total equity
		Share capital	Share premium	Capital reserve	Translation reserve	Accumulated profit (losses)	Total		
Balance at 31 December 2005		19,469	40,994	1,046	26	-45,977	15,558	0	15,558
Profit for the period		0	0	0	0	44,990	44,990	17,186	62,176
Effect on consolidation of foreign subsidiaries	27	0	0	0	-10,736	0	-10,736	-8,034	-18,770
Total recognised income and expense for 2006		0	0	0	-10,736	44,990	34,254	9,152	43,406
Issue of share capital	27	360,003	42,017	0	0	0	402,020	0	402,020
Minority interest from business combination		0	0	0	0	0	0	183,525	183,525
Acquisition of minority interest		0	0	0	0	0	0	-12,869	-12,869
Balance at 31 December 2006		379,472	83,011	1,046	-10,710	-987	451,832	179,808	631,640
Profit for the period		0	0	0	0	186,914	186,914	57,096	244,010
Effect on consolidation of foreign subsidiaries	27	0	0	0	-65,802	0	-65,802	-12,407	-78,209
Total recognised income and expense for 2007		0	0	0	-65,802	186,914	121,112	44,689	165,801
Issue of share capital	27	20,528	140,282	0	0	0	160,810	0	160,810
Acquisition of minority interest		0	0	0	0	0	0	-86,275	-86,275
Dividends paid		0	0	0	0	0	0	-1,909	-1,909
Balance at 31 December 2007		400,000	223,293	1,046	-76,512	185,927	733,754	136,313	870,067

The notes on pages 24-65 are an integral part of these financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Reporting entity

AS Silvano Fashion Group (formerly PTA Grupp AS) is a company domiciled in the Republic of Estonia (registration number 10175491, address Tartu mnt 2, 10145 Tallinn). The consolidated financial statements of AS Silvano Fashion Group (the "Company" or the "Parent company") for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates. The Group's main activities are the design, manufacture and distribution of women's apparel and lingerie.

Note 2. Basis of preparation

The consolidated financial statements for the year ended 31 December 2007 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The consolidated financial statements were approved by the Management Board on 18 April 2008. According to the Estonian Commercial Code, the annual report including the consolidated financial statements prepared by the management board must be agreed by the supervisory council, and approved by the shareholders' general meeting. Shareholders have the power not to approve the annual report prepared and presented by the management board and the right to request that a new annual report be prepared.

The consolidated financial statements have been prepared on the historical cost basis except that certain financial instruments which are outlined in accounting policies are measured at their fair value. The accounting policies set out below have been applied consistently to all periods presented in these financial statements unless indicated otherwise.

Comparative data for 2006 includes PTA Grupp AS data consolidated with AS Silvano Fashion Group results from acquisition date on 16 October 2006. Consolidated comparative Income Statement and Cash Flow Statement contain PTA group AS full year 2006 and consolidated AS Silvano Fashion Group for 4th quarter 2006. Therefore 2006 and 2007 Income Statement and Cash Flow Statement are not directly comparable.

Changes in presentation practice

Starting from the first half of 2007, the Group uses a new format of income statement. The need to change format arose from expanding retail activities. The new format of income statement allows for a better presentation of the Group's consolidated results as retail group. The income statements of the previous financial periods were restated to make them comparable to new format.

Functional and presentation currency

These consolidated financial statements are presented in Estonian kroons (EEK) rounded to the nearest thousand. The functional currency of the Group's Parent company and the subsidiary located in Estonia is the currency of the primary economic environment in which they operate – the Estonian kroon. The functional currency of the Group's foreign entities is the official currency of their primary economic environment.

Uses of estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to Accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Judgements and estimates made by management that have significant effect on the consolidated financial statements and the Group's result of operations include measurement of the inventories (note 21), determination of the useful lives of property, plant and equipment (note 16), measurement of the recoverable amounts of cash-generating units containing goodwill (note 17) and valuation of investment property (note 18).

Measurement of inventories

Management measures inventories based on its best knowledge, historical experience, general background information, and assumptions and conditions for potential future events. The need for and extent of writing down inventories is determined as follows: in the case of finished goods (carrying amount at 31 December 2007: EEK 203,719,000 and at 31 December 2006: EEK 114,394,000) on the basis of their sales potential and net realisable value; in the case of raw and other materials (carrying amount at 31 December 2007: EEK 89,201,000 and at 31 December 2006: EEK 84,408,000) on the basis of their usability in the production of finished goods and generation of revenue; and in the case of work in progress (carrying amount at 31 December 2007: EEK 38,585,000 and at 31 December 2006: EEK 31,450,000) on the basis of their stage of completion which can be measured reliably.

Measurement of goodwill

Goodwill is tested for impairment at least once a year. Management has tested the goodwill acquired on the acquisition of subsidiaries (carrying amount at 31 December 2007: EEK 13,324,000 and at 31 December 2006: EEK 3,670,000) for impairment. The recoverable amount of goodwill was identified using future cash flows estimated on the basis of budgeted sales volumes in the respective market. The future expected cash flows have been discounted using expected rate of return in the particular market within the similar industry. If the recoverable amount of goodwill is lower than its carrying amount, an impairment loss is recognized.

Determination of the useful lives of items of property, plant and equipment

Management estimates the useful lives of production plant and equipment and other items associated with production activities on the basis of their expected useful lives. Useful lives are estimated on the basis of historical experience, and production volumes and conditions. The useful lives of items of property, plant and equipment which are used in retailing are estimated based on the period during which the item is expected to participate in the generation of revenue and the guaranteed length of lease contracts.

According to management's assessment, the average useful lives of production plant and equipment range from 5 to 10 years, depending on the purpose of use, and the useful lives of other equipment and fixtures range from 3 to 10 years, depending on their purpose of use.

The useful lives of assets with an unlimited useful life (land) are indeterminable. There were no property, plant and equipment assets in the group with unlimited useful life as at 31 December 2007 and 31 December 2006.

Valuation of investment property

Investment property is recognized at cost less depreciation, regular reviews of valuation is performed by management.

Note 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, all voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Associates (equity accounted investees)

Associates are entities in which the Group has significant influence, but not control over the financial and operating policies. Significant influence is presumed to exist when the Group holds directly or indirectly through subsidiaries between 20 and 50% of the voting power of the entity. Associates are accounted for using the equity method and are initially recognised at cost. The consolidated financial statements include the Group's share of the income and expenses of associates, after adjustments to align the accounting policies with those of the Group from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including

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any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of investee.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Business combinations involving independent entities

Acquisition of a subsidiary from an independent entity is accounted for by applying the purchase method. The acquirer has to allocate the cost of a business combination at the acquisition date by recognising the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values at that date irrespective of the proportion of the minority interest. Any difference between the cost of the business combination and the acquirer's interest in the net fair value of the assets, liabilities and contingent liabilities is recognised as goodwill. If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination the excess is recognised directly in profit or loss.

Business combinations involving entities under common control

A business combination involving entities under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the combination and that control is not transitory. A group of individuals is regarded as controlling an entity when, as a result of contractual arrangements, they collectively have the power to govern its financial and operating policies so as to obtain benefits from its activities.

Acquisition of a subsidiary from an entity under common control is accounted for by recognising the interest acquired at the carrying amount of the net assets acquired (i.e., at the amounts the assets and liabilities were carried in the acquiree's balance sheet). Any difference between the cost of the business combination and the carrying amount of the net assets acquired is recognised as a reduction or increase in the acquirer's equity. The cost of net assets acquired is calculated as a difference between the cost of the acquiree's assets and the acquiree's liabilities and the minority interest.

Minority interest

That portion of the profit or loss of a subsidiary which is attributable to equity interests that are not owned by the Company is presented as minority interest in the consolidated income statement. That portion of the net assets of a subsidiary that is attributable to equity interests that are not owned by the Company is presented as minority interest in the consolidated balance sheet. Minority interests are presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity. Minority interests in the profit or loss of the Group are also separately disclosed.

Acquisition of minority interest

Transactions with minority shareholders are accounted for in the same way as business combinations with third parties. In transactions involving acquisition of minority interest, any difference between the carrying amount of the minority interest and the amount paid for it is recognised as goodwill or directly as income (when the carrying amount of the minority interest exceeds the amount paid for it).

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated at the central bank of reporting subsidiary foreign exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated applying exchange rates ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that their value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

Foreign operations

In subsidiaries whose functional currency differs from the Group's presentation currency, results of transactions and balances are translated to the presentation currency. None of the subsidiaries is located in a hyperinflationary economy.

The financials of foreign subsidiaries are translated as follows:

- assets and liabilities are translated to Estonian kroons at the respective central bank's foreign exchange rates ruling at the balance sheet date;
- revenue and expenses are translated to Estonian kroons using the annual average foreign exchange rates of the respective central bank;
- foreign exchange differences are recognised in the *Translation reserve* in equity.

Goodwill and fair value adjustments arising on the acquisition of foreign subsidiaries are treated as the assets and liabilities of foreign subsidiaries and translated at foreign exchange rates ruling at the balance sheet date. When a foreign subsidiary is disposed of the unrealised exchange differences previously recognised in equity are transferred to profit or loss.

Translations are performed using the respective central bank's official exchange rates.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

The Group has not classified any financial asset to the category of financial assets at fair value through profit or loss or held-to-maturity investments.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances on current accounts (excluding overdrafts) and term deposits of up to three months. Overdrafts are reported in the current portion of loans and borrowings in the balance sheet.

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of the equipment. Borrowing costs related to the acquisition or construction of qualifying assets are recognised in profit or loss as incurred.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing proceeds from disposal with carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

Subsequent costs

The costs of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Buildings:

Production buildings	33 years
Other buildings	10 years

Plant and equipment:

Sewing equipment	7-10 years
Vehicles	5 years
Other equipment	5 years

Other equipment and fixtures:

Computers, tools and other items of equipment	3-4 years
Store furnishings	5 years

The costs of renovating leased premises are depreciated over the lease term.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Intangible assets

Goodwill

Goodwill (negative goodwill) arises on the acquisition of subsidiaries, associates and joint ventures.

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over carrying amount of the net assets acquired at the date of exchange.

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

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Other intangible assets

Other intangible assets that are acquired by Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows :

Software	5-10 years
Trademarks	10 years

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in production or supply of goods or services or for administrative purposes. Investment property is measured at cost less depreciation.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of the investment property. The estimated useful lives used are 50 years.

Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases. The leased assets are not recognised on the Group's balance sheet.

Inventories

Inventories are measured at lower of cost and net realizable value. The cost of inventories includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is assigned using the weighted average cost formula.

Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that assets.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in equity.

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Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash generating-unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

Employee benefits

Termination benefits – Termination benefits are employee benefits payable as a result of the Group's decision to terminate an employee's employment before the normal retirement date or the employee's decision to accept voluntary redundancy in exchange for those benefits. The Group recognises termination benefits when the Group is demonstrably committed to terminate the employment of an employee or a group of employees under a detailed formal plan for the termination and is without realistic possibility of withdrawal or is committed to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Where termination benefits fall due more than 12 months after the balance sheet date they are discounted to their present value.

Short-term benefits - Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Revenue

Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

Commissions

When the Group acts in the capacity of an agent rather than as principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

Rental income

Rental income from investment property is recognized in profit or loss on straight line basis over the lease term.

Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance lease are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Finance income and expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expense on borrowings, impairment losses recognized on financial assets. All borrowing costs are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

Corporate income tax

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Corporate income tax of entities registered in Estonia

In accordance with effective legislation, in Estonia corporate income tax is not levied on profits earned. Therefore, deferred tax assets and liabilities do not arise. Instead of profit earned, income tax is levied on dividends distributed. From 1 January 2008 the tax rate is 21/79 (until 31 December 2007 the tax rate was 22/78 and until 31 December 2006 23/77) of the amount distributed as the net dividend. The income tax payable on dividends is recognised in the income statement of the period in which the dividends are declared, irrespective of the period for which the dividends are declared or in which they are paid.

Corporate income tax of foreign subsidiaries

In accordance with the tax laws of their domicile, at the Group's foreign entities income tax is levied on corporate profits which have been adjusted for permanent and temporary differences provided for in the law. In Latvia and Lithuania the tax rate is 15%, in Finland 26%, in Ukraine 25%, in Poland 19% and in Russia 24%. In the above countries tax rates have not changed compared to 2006. In 2007 income tax rate in Belarus was State profit tax 24% plus local profit tax 3% (2006: 24%, 3%).

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend is recognised.

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Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

Segment reporting

A business segment is a distinguishable component of an entity that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the Group's business and geographical segments. The Group's primary segment reporting is based on business segments. The business segments are determined based Group's management and internal reporting structure. The secondary segment reporting format is geographical segments based on the location of the consumers.

Inter-segment pricing is determined on arm's length basis.

Expenses not directly related to a particular segment are accounted for as unallocated expenses. Unallocated expenses include general management expenses. Segment assets include assets directly attributable to a segment and goodwill attributable to the segment. Unallocated assets include assets which are in common use or used by the head office. Segment liabilities include all liabilities that can be allocated to the segment on a reasonable basis.

Long-term financial investments, loans, and interest receivables and liabilities are accounted for as unallocated items.

New International Financial Reporting Standards and Interpretations of the Financial Reporting

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these consolidated financial statements. The following is the Group's assessment of the possible impact these new standards, amendments or interpretations will have on its financial statements in the period of initial application.

- Revised IFRS 2 *Share-based Payment* (effective from 1 January 2009). The revised Standard clarifies the definition of *vesting* conditions and *non-vesting* conditions. Based on the revised Standards failure to meet non-vesting conditions will generally result in treatment as a cancellation. Revised IFRS 2 is not relevant to the Group's operations as the Group does not have any share-based compensation plans.
- Revised IFRS 3 *Business Combinations* (effective for annual periods beginning on or after 1 July 2009). The scope of the revised Standard has been amended and the definition of a business has been expanded. The revised Standard also includes a number of other potentially significant changes including:
 - All items of consideration transferred by the acquirer are recognised and measured at fair value as of the acquisition date, including contingent consideration.
 - Transaction costs are not included in the acquisition accounting.
 - The acquirer can elect to measure any non-controlling interest at fair value at the acquisition date (full goodwill), or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree.
 - Acquisitions of additional non-controlling equity interests after the business combination must be accounted for as equity transactions.

As the revised Standard should not be applied to business combinations prior to the date of adoption, the revised Standard does not impact on the financial statements with respect to business combinations that occur before the date of adoption of the revised Standard.

- IFRS 8 *Operating Segments* (effective from 1 January 2009). The Standard requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Group has not yet completed its analysis of the impact of the revised Standard.
- Revised IAS 1 *Presentation of Financial Statements* (effective from 1 January 2009). The revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of

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comprehensive income). The Group is currently evaluating whether to present a single statement of comprehensive income, or two separate statements.

- Revised IAS 23 *Borrowing Costs* (effective from 1 January 2009). The revised Standard will require the capitalization of borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The Group has not yet completed its analysis of the impact of the revised Standard.
- Revised IAS 27 *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 July 2009). In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest. The Group has not yet completed its analysis of the impact of the revised Standard.
- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007). The Interpretation requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. It also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent, should be accounted for as cash-settled or equity-settled in the entity's financial statements. IFRIC 11 is not relevant to the Group's operations as the Group has not entered into any share-based payments arrangements.
- IFRIC 12 *Service Concession Arrangements* (effective from 1 January 2008). The Interpretation provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12 is not relevant to the Group's operations as none of the Group entities have entered into any service concession arrangements.
- IFRIC 13 *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008). The Interpretation explains how entities that grant loyalty award credits to customers who buy other goods or services should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem those award credits. Such entities are required to allocate some of the proceeds of the initial sale to the award credits and recognise these proceeds as revenue only when they have fulfilled their obligations. The Group has not yet completed its analysis of the impact of the revised Standard.
- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interactions* (effective for annual periods beginning on or after 1 January 2008). The interpretation addresses 1) when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; 2) how a MFR might affect the availability of reductions in future contributions; and 3) when a MFR might give rise to a liability. No additional liability need be recognised by the employer under IFRIC 14 unless the contributions that are payable under the minimum funding requirement cannot be returned to the company. The Group does not operate in countries that have a minimum funding requirement where there are restrictions on the employer company's ability to get refunds or reduce contributions.

Note 4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about assumptions made in determining fair values is disclosed in the notes specific to asset or liability.

Property, plant and equipment

The fair value of property, plant and equipment recognized as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the market prices for similar items.

Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from use and eventual sale of the assets.

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Investment property

The fair value of investment property is based on market value, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

Investments in equity

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date.

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Note 5. Financial risk management

Overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The note presents information about the Group's exposure to each of above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Management Board has overall responsibility for establishment and oversight of the Group's risk management framework. The achievement of risk management goals in Group is organized such that risk management is part of normal business operations and management, risk management is a process of identifying, assessing and managing business risks that can prevent or jeopardize the achievement of business goals.

Risk management in the Group is based on the risk management requirements established by Tallinn Stock Exchange, the Financial Supervision Authority and other regulatory bodies and the Group's own internal regulations. The Group's risk management policies established to identify, measure and control risks. Risk management policies are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group through its training and management procedures aims to develop a disciplined and constructive control environment in which all employees understand their role and obligations.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

In the area of credit risk, the most important factor is the customer's capability to pay for goods supplied on a timely basis. The Group grants credit to all reliable customers. On average, credit is granted for 30-60 days and average credit limits range from EEK 47,000 to 500,000. In the case of some long-standing customers, credit limits are larger. The trade receivables reported in the balance sheet are not secured. In the case of retail operations credit risk is minimal because the customer pays immediately either in cash or using a debit or credit card.

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The Group has established an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

Guarantees

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. At 31 December 2007 no guarantees were outstanding (2006: none).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

At 31 December 2007 the Group's current assets exceeded its current liabilities.

Management has prepared cash flow projections for 2008 according to which the Group's cash flows will be positive and profitability will ensure positive working capital by the end of 2008. In connection with the Group's plans to double the number of stores in 2008, the Group may experience temporary liquidity problems. Temporary liquidity problems can be solved by involving loan capital and re-allocating funds inside the Group.

Market risk

Market risk is the risk that changes in market prices, such as foreign currency exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing return.

Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than respective functional currencies of the Group entities. In the Group's retail markets, sales prices are fixed in the following currencies: EEK (Estonian kroon), LVL (Latvian lats), LTL (Lithuanian litas), RUB (Russian rouble), BYR (Belarusian rouble) and PLN (Polish zloty). Other purchase and sales transactions are performed mainly in EUR and in US dollars. Intra-group transactions are performed primarily in Estonian kroons and EUR.

Most materials required for the manufacturing of women's apparel and lingerie are imported from EU member states. Those purchases are performed mainly in EUR. Women's apparel is purchased, among other places, from the Far East countries. Those purchase transactions are performed mainly in EUR and US dollars.

Most of the Group's wholesale sales transactions are performed in EUR. The Group's retail sales prices are fixed in the currency of the retail market. Fluctuations in the exchange rates of local currencies affect both the Group's revenue and expenses. Rapid changes in a market's economic environment and increases or decreases in the value of its currency may have a significant impact on the Group's operations and the customers' purchasing power.

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group. This provides an economic hedge and no derivatives are entered into.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The Group is exposed to currency risks arising from fluctuations in the exchange rates of USD, BYR, RUB, UAH (Ukrainian grivna), SEK (Swedish krona) and PLN. During the reporting year, the exchange rates of currencies affecting the Group's operating results changed as follows: Swedish krona +0.1% (2006: +0.3%), Ukrainian grivna -8.1% (2006: +0.1%), US dollar -8.2% (2006: -1.0%), Belarusian rouble -8.3% (2006: -0.5%), Russian rouble -2.5% (2006: +3.1%) and Polish zloty +3.0% (2006: +3.3%). The Lithuanian litas and Latvian lats are pegged to the EUR. Therefore, it has no influence on the Group's results.

The Group does not hedge its currency risks with forwards, options or any other hedging instruments because the analyses performed by the Group's management indicate that the risks arising from open currency positions do not exceed the costs arising from the use of the above instruments.

Information on foreign exchange gains and losses is presented in note 14.

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Interest rate risk

Interest rate risk is the risk that financial expenses will increase due to a rise in interest rates. Exposure to the interest rate risk arises from loans and borrowings with floating interest rates. The Group's interest rate risk stems, above all, from changes in EURIBOR (EUR Interbank Offered Rate) because some of the Group's loans are linked to EURIBOR. The group's finance lease contracts have both fixed and floating interest rates.

The interest rate risk depends also on the economic environments of the Group's entities and changes in the banks' average interest rates. The Group has a cash flow risk arising from changes in interest rates because some loans have a floating interest rate. According to management, the cash flow risk is not significant. Therefore, no hedging instruments have been implemented.

Both in 2007 and 2006 short-term loans and borrowings with floating interest rates were fixed in EUR and Estonian kroons. Therefore, they did not involve any currency risk. The Group mitigates its interest rate risk by refinancing existing loans and seeking alternative and intra-group financing solutions. Information on interest expenses is presented in the cash flow statement.

Capital management

The Board policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholder's equity. The Board of directors also monitors the level of dividends to ordinary shareholders.

There were no changes in the Group's approach to capital management during the year.

Note 6. Segments reporting

The Group's primary segment reporting format is business segments based on product type. The secondary reporting format is geographical segments based on the location of consumers. Expenses not directly attributable to any segment are presented as unallocated expenses.

Segment assets include all assets directly attributable to a segment excluding items which are in common use or used by the head office. Segment assets include directly attributable goodwill. Segment liabilities include all liabilities that can be allocated to the segment on a reasonable basis. Unallocated expenses include general management expenses.

Other receivables, loans, and interest receivables and payables are reported as unallocated items.

According to management's assessment the prices applied in inter-segment transactions do not differ significantly from the market.

Business segments

The Group comprises the following business segments:

- a) Women's apparel – entails the design, manufacture and retail and wholesale distribution of women's apparel products as well as services related to this area.
- b) Lingerie – entails the design, manufacture and retail and wholesale distribution of lingerie products as well as services related to this area.
- c) Other operations – entails manufacturing and subcontracting services and other activities not listed under Women's apparel and Lingerie.

Geographical segments

The Group's business segments operate in the following geographical areas: Russia, Estonia, Belarus, Finland, Latvia, Lithuania, Ukraine and other markets. The revenues of geographical segments are determined based on the location of consumers.

Segment assets include inventories of goods which are located in the geographical area (market), other current assets (e.g. cash and trade receivables) and items of property, plant and equipment used in manufacturing and sales operations.

Primary format – business segments 2007

In thousands of EEK

	Women's apparel	Lingerie	Other operations	Inter- segment transactions	Total
External sales revenue	155,684	1,347,423	39,331	0	1 542,438
Inter-segment sales revenue			1,909	-1,909	0
Total sales revenue (note 8)	155,684	1,347,423	41,240	-1,909	1 542,438
Segment's operating profit	13,487	268,261	79,516	0	361,264
Unallocated revenue / expenses					-39,716
Total operating profit					321,548
Other financial income / expenses					15,405
Income tax expense (note 15)					-92,943
Net profit /loss					244,010
Segment assets	104,879	884,674	99,966	0	1,089,519
Unallocated assets					59
Total assets					1,089,578
Segment liabilities	61,147	124,688	15,021	0	200,856
Unallocated liabilities					18,655
Total liabilities					219,511
Capital expenditure	22,046	114,095	2,129	0	138,270
Depreciation and amortisation expense	5,633	31,340	1,565	0	38,538
Write-down of receivables	-16	-2,913	0	0	-2,929
Write-down and write-off of inventories	-985	-5,039	0		-6,024
Impairment of property, plant and equipment	-63	-125	-61		-249

Primary format – business segments 2006

In thousands of EEK

	Women's apparel	Lingerie	Other operations	Inter- segment transactions	Total
External sales revenue	111,030	270,223	41,429		422,682
Inter-segment sales revenue			36,425	-36,425	0
Total sales revenue (note 8)	111,030	270,223	77,854	-36,425	422,682
Segment's operating profit	19,754	57,969	963	0	78,686
Unallocated revenue / expenses					635
Total operating profit					79,321
Other financial income / expenses					2,217
Income tax expense (note 15)					-19,362
Net profit /loss					62,176
Segment assets	36,725	621,199	14,744	0	672,668
Unallocated assets					139,469
Total assets					812,137
Segment liabilities	18,028	142,627	6,814	0	167,469
Unallocated liabilities					13,028
Total liabilities					180,497
Capital expenditure	3,467	25,050	67	0	28,584
Depreciation and amortisation expense	4,806	6,151	712	0	11,669
Write-down and write-off of receivables	-159	-1,314	0	0	-1,473
Write-down and write-off of inventories	-112	-4,286	-4,436		-8,834
Write-off of property, plant and equipment	-159	-62	-11		-232

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Secondary format – geographical segments

In thousands of EEK

	Sales revenue		Assets at 31 December		Capital expenditures	
	2007	2006	2007	2006	2007	2006
Russia	766,011	145,624	248,108	154,074	37,802	10,855
Belarus	278,932	59,941	533,017	458,126	81,206	12,258
Estonia	167,278	96,882	112,452	91,330	2,754	1,713
Ukraine	99,528	18,430	11,735	70	2,597	0
Latvia	50,053	30,734	153,963	102,125	8,230	2,873
Finland	39,586	34,026	78	51	0	0
Lithuania	15,631	4,127	16,851	0	4,960	0
Poland	10,468	1,266	13,374	3,207	721	78
Other markets	114,951	31,652	0	3,154	0	807
Total	1,542,438	422,682	1,089,578	812,137	138,270	28,584

Note 7. Acquisitions of subsidiaries and minority interests

Significant subsidiaries

Entity	Location	Main activity	Ownership at 31 December	
			2007	2006
Parent company				
AS Silvano Fashion Group	Estonia	Holding		
<u>Subsidiaries of SFG</u>				
PTA Grupp AS	Estonia	Retail	100%	-
AS Lauma Lingerie	Latvia	Manufacturing	100%	100%
SP ZAO Milavitsa	Belarus	Manufacturing	78.35%	62.53%
ZAO Linret	Russia	Retail	100%	100%
Splendo Polska Sp. z o.o.	Poland	Retail	90%	90%
UAB Linret LT	Lithuania	Retail	100%	-
<u>Subsidiaries of PTA Grupp AS</u>				
AS Klementi	Estonia	Manufacturing	100%	100%
Klementi Trading OY	Finland	Wholesale	100%	100%
UAB PTA Prekyba	Lithuania	Retail	100%	100%
SIA Vision	Latvia	Retail	100%	100%
OOO PTA Ukraine	Ukraine	Retail	100%	100%
<u>Subsidiaries of SP ZAO Milavitsa</u>				
SOOO Torgovaja Kompanija	Belarus	Retail	51%	51%
Milavitsa				
SP Gimil OOO	Belarus	Manufacturing	52%	52%
ZAO Stolichnaja Torgovaja Kompanija Milavitsa	Russia	Wholesale	100%	100%

Merger of PTA Grupp AS with AS Silvano Fashion Group

As were announced in 2007, the Group needed to be restructured for the implementation of a new Group's strategy which foresees management of the core processes at the level of a holding company listed at Tallinn Stock Exchange. Centralisation of strategic management functions to the level of a listed holding company ensures greater transparency and efficiency.

To execute the plan, the Group's structure has been changed and restructuring involved following steps:

- On 13 April 2007, Extraordinary General Meeting of Shareholders decided to approve the merger agreement between PTA Grupp AS and AS Silvano Fashion Group. The merger was registered on 24 August 2007
- After the merger AS Silvano Fashion Group as a legal person has been dissolved and PTA Grupp AS has been renamed AS Silvano Fashion Group.
- A new subsidiary has been separated from AS Silvano Fashion Group (former PTA Grupp AS). The new subsidiary is named PTA Grupp AS.

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Establishment of a subsidiary through division

At 29 August 2007 AS Silvano Fashion Group established a wholly-owned subsidiary through division: the assets transferred to PTA Grupp AS comprised the enterprise engaged in the development of the "PTA" concept and production of women's apparel. The subsidiary's share capital and share premium is EEK 57,505,164. The book value of net assets transferred were treated as a contribution to the subsidiary's share capital.

Value of assets and liabilities transferred to PTA Grupp AS in thousands of kroons:

<i>In thousands of EEK</i>	29 August 2007
Current assets	190,408
Non-current assets	24,219
Loans and borrowings	-14,968
Other liabilities	-142,154
Value of net assets transferred	57,505

Increase in ownership interest

In March 2007 SFG's subsidiary SP ZAO Milavitsa completed its share repurchase programme. In the course of the program 2,487 shares have been purchased for a price of EEK 6,869 per share, amounting to 20.19% of Milavitsa share capital. The cancellation of the redeemed shares took place by 17 May 2007. Total consideration paid was EEK 17,086,000. Following the cancellation of redeemed shares AS Silvano Fashion Group ownership stake in Milavitsa grew from 62.53% to 78.35%. As a result, negative goodwill of EEK 89,420 thousands arose (see note 10).

Acquisition of a subsidiary

On 28 September 2007 AS Silvano Fashion Group acquired all the shares of UAB Linret LT. As result of transaction goodwill of EEK 11,448 thousand arose, which is reported as an intangible asset.

At the date of acquisition, the fair values of the assets and liabilities of UAB Linret LT did not differ significantly from their carrying amounts and were as follows:

<i>In thousands of EEK</i>	28 September 2007
Cash and cash equivalents	814
Other current assets	8,611
Non-current assets	1,314
Loans and borrowings	-907
Other liabilities	-6,744
Fair value of net assets acquired	3,088
Interest acquired 100%	
Goodwill on acquisition	11,448
Fair value of net assets acquired	3,088
Consideration paid, satisfied in cash	14,536
Cash acquired	-814
Net cash outflow	13,722

UAB Linret LT net loss for the last three months of 2007 amounted to EEK 755,261. If the acquisition had occurred on 1 January 2007, management estimates that consolidated revenue would have been EEK 1,561,781 thousand and consolidated profit for the period would have been EEK 188,088 thousand. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 January 2007.

The goodwill recognized on the acquisition is attributable mainly to retail chain in Lithuania and increase of lingerie market share in the Baltic States.

Note 8. Sales revenue

In thousands of EEK

	2007	2006
Sale revenue		
Sales of lingerie	1,347,423	270,223
Sales of women's apparel	155,684	111,030
Sales of subcontracting and other services	27,898	36,326
Other sales	11,433	5,103
Total sales revenue	1,542,438	422,682

Sales revenue by countries is presented in note 6.

Note 9. Cost of goods sold

In thousands of EEK

	2007	2006
Raw materials	520,469	137,955
Purchased goods	60,662	24,488
Purchased services	106,366	18,511
Personnel costs	149,847	52,072
Depreciation	18,932	6,290
Rent and utilities	10,952	3,598
Changes in inventories of finished goods, work in progress and raw materials	-18,056	-8,214
Other production costs	21,608	8,147
Total	870,780	242,847

Note 10. Other operating income

In thousands of EEK

	2007	2006
Income from sales of auxiliary materials	3,505	0
Net gain on sales of property, plant and equipment	908	194
Penalties received	0	1,028
Negative goodwill (Note 7)	89,420	9,468
Other income	11,961	2,021
Total	105,794	12,711

Note 11. Distribution costs

In thousands of EEK

	2007	2006
Rent and utilities	59,191	5,257
Personnel costs	51,790	19,655
Depreciation	10,249	2,832
Advertising expenses	51,915	9,153
Marketing	6,024	3,145
Transportation expenses	4,960	1,486
Bank charges in retail sales	1,799	125
Renovation of retail outlets	5,679	0
Other costs	22,351	17,432
Total	213,958	59,085

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Note 12. Administrative costs

<i>In thousands of EEK</i>	2007	2006
Rent	7,151	3,380
Personnel costs	105,677	20,137
Depreciation	7,479	2,582
Communication expenses	2,457	782
Office expense	10,921	782
Bank fees	2,472	2,253
Professional services	6,102	2,488
Other expenses	28,293	9,615
Total	170,552	42,019

Note 13. Other operating expenses

<i>In thousands of EEK</i>	2007	2006
Auxiliary materials	2,175	94
Loss on write off of property, plant and equipment	249	313
Loss on impairment of intangible assets (Note 17)	2,252	0
Expense for donations	876	156
Impairment of goodwill (Note 17)	1,799	0
Expense on social infrastructure	22,531	2,707
Other taxes	12,625	1,893
Other expenses	28,887	6,958
Total	71,394	12,121

Expense of social infrastructure represents maintenance expenses of canteen, employee dormitories and aid station, as well as expenses for social programs.

Note 14. Financial income and expenses

Recognized in profit or loss

<i>In thousands of EEK</i>	2007	2006
Financial income		
Interest income on loans	548	2,709
Interest income on bank deposits	11,265	0
Foreign exchange gains	4,256	331
Dividends received on available-for-sale financial assets and equity accounted investees	1,643	387
Other financial income	335	117
Total financial income	18,047	3,544
Financial expenses		
Interest expense on bank loans	-1,299	-1,180
Interest expense on lease	-1,549	-188
Other interest expense	-78	0
Other financial expenses	-704	-3
Total financial expenses	-3,630	-1,371
Net financial items	14,417	2,173

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Recognized directly in equity

<i>In thousands of EEK</i>	2007	2006
Foreign currency translation differences for foreign operations	-78,209	-18,770
Finance income/expense recognized directly in equity	-78,209	-18,770
Attributable to :		
Equity holders of the Company	-65,802	-10,736
Minority interest	-12,407	-8,034
Finance income/expense recognized directly in equity	-78,209	-18,770
Recognized in :		
Translation reserve	-65,802	-10,736

Note 15. Income tax expense

Current tax expense

<i>In thousands of EEK</i>	2007	2006
Current tax	-92,943	-19,227
Deferred tax	0	-135
Total	-92,943	-19,362

Reconciliation of effective tax rate

<i>In thousands of EEK</i>	2007	2006
Profit for the period	244,010	62,176
Income tax expense	92,943	19,362
Profit before tax	336,953	81,538
Income tax using the Parent company's domestic tax rate of 0% (2006: 0%)	0	0
Income tax using the foreign subsidiaries' domestic tax rate of 24.74% (2006: 21.49%)*	83,365	17,526
Non-deductible expenses	28,023	2,168
Current year losses for which no deferred tax asset was recognised	2,097	2,146
Adjustment of prior periods' calculations in the reporting period	0	205
Tax exempt donations	-516	-240
Increase / decrease in unrecognised deferred tax receivable	2,097	-114
Tax exempt income (gain on business combination)	-22,123	-2,329
Total	92,943	19,362
Including current tax expense	92,943	19,227
Including deferred tax expense	0	135

* Average tax rate in the subsidiaries' domiciles during the reporting period

At 31 December 2007 the unrecognized deferred tax assets amounted to EEK 18,072,000 (31 December 2006: EEK 13,879,000). Deferred tax assets have not been recognised as it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

Deferred income tax liability

<i>In thousands of EEK</i>	2007	2006
Changes in deferred tax liability:		
Balance at beginning of year	201	66
Expense in the income statement	0	135
Balance at end of year	201	201

The deferred tax liability arises from temporary differences between the carrying amount of an asset or a liability in the balance sheet and its tax base. The Group's deferred tax liability is attributable to the following assets and liabilities:

<i>In thousands of EEK</i>	2007	2006
Property, plant and equipment	201	201

Note 16. Property, plant and equipment

<i>In thousands of EEK</i>	Land and buildings	Plant and equipment	Other equipment and fixtures	Assets under construction	Total
Cost at 31 December 2005	0	23,789	14,157	169	38,115
Movements in 2006					
Acquired through business combinations	61,757	190,810	44,374	2,416	299,357
Acquisition	2,729	5,511	15,456	1,486	25,182
Transfers and reclassifications	0	3,382	169	-3,551	0
Disposals	0	-1,705	-438	0	-2,143
Impairment	0	-266	-1,048	-62	-1,376
Effect of movements in foreign exchange on cost	-2,293	-6,834	-1,286	-44	-10,457
Cost at 31 December 2006	62,193	214,687	71,384	414	348,678
Movements in 2007					
Acquired through business combinations	187	829	141	0	1,157
Acquisition	0	4,584	46,597	79,516	130,697
Transfers and reclassifications	7,150	46,079	4,052	-57,281	0
Disposals	-187	-469	-923	0	-1,579
Impairment	0	-4,350	-5,617	-47	-10,014
Effect of movements in foreign exchange on cost	-7,354	-23,235	-5,195	-1,432	-37,216
Cost at 31 December 2007	61,989	238,125	110,439	21,170	431,723
Accumulated depreciation at 31 December 2005	0	18,348	9,231	0	27,579
Movements in 2006					
Acquired through business combinations	22,697	103,510	20,249	0	146,456
Depreciation	312	6,529	3,822	0	10,663
Disposals	0	-1,418	-401	0	-1,819
Impairment	0	-255	-889	0	-1,144
Effect of movements in foreign exchange on accumulated depreciation	-839	-3,782	-717	0	-5,338
Accumulated depreciation at 31 December 2006	22,170	122,932	31,295	0	176,397
Movements in 2007					
Acquired through business combinations	0	375	125	0	500
Depreciation	1,502	20,341	13,941	0	35,784
Transfers and reclassification	0	-78	78	0	0
Disposals	0	-391	-486	0	-877
Impairment	0	-4,272	-5,493	0	-9,765
Effect of movements in foreign exchange on accumulated depreciation	-2,567	-12,029	-2,261	0	-16,857
Accumulated depreciation at 31 December 2007	21,105	126,878	37,199	0	185,182
Carrying amounts					
At 31 December 2005	0	5,441	4,926	169	10,536
At 31 December 2006	40,023	91,755	40,089	414	172,281
At 31 December 2007	40,884	111,247	73,240	21,170	246,541

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Pledged assets

Information on assets pledged as collateral is presented in note 29.

Finance lease

For information on assets leased under the terms of finance lease, see note 29.

Fully depreciated items

At 31 December 2007, the cost of fully depreciated items of property, plant and equipment still in use amounted to EEK 70,034,000 (31 December 2006: EEK 10,026,000).

Note 17. Intangible assets

<i>In thousands of EEK</i>	Software	Trademarks	Goodwill	Projects in progress	Total
Cost at 31 December 2005	4,139	5,717	1,876	0	11,732
Movements in 2006					
Acquisition	666	0	0	2,736	3,402
Acquired through business combinations	75	1,124	1,794	4,906	7,899
Impairment	-76	0	0	0	-76
Effect of movements in foreign exchange on cost	-3	-41	0	-234	-278
Cost at 31 December 2006	4,801	6,800	3,670	7,408	22,679
Movements in 2007					
Acquisition	2,754	94	0	4,725	7,573
Acquired through business combinations (note 7)	0	0	11,448	0	11,448
Transfers and reclasses	6,791	94	0	-6,885	0
Impairments	-47	0	-1,794	-2,237	-4,078
Effect of movements in foreign exchange on cost	-500	-47	0	-452	-999
Cost at 31 December 2007	13,799	6,941	13,324	2,559	36,623
Accumulated amortization at 31 December 2005	2,814	2,296	0	0	5,110
Movements in 2006					
Acquired through business combinations	12	80	0	0	92
Amortization	458	548	0	0	1,006
Impairment	-76	0	0	0	-76
Effect of movements in foreign exchange on amortization	0	-4	0	0	-4
Accumulated amortization at 31 December 2006	3,208	2,920	0	0	6,128
Movements in 2007					
Amortization	1,987	642	0	0	2,629
Impairment	-32	0	0	0	-32
Effect of movements in foreign exchange on amortization	-78	0	0	0	-78
Accumulated amortization at 31 December 2007	5,085	3,562	0	0	8,647
Carrying amounts					
At 31 December 2005	1,325	3,421	1,876	0	6,622
At 31 December 2006	1,593	3,880	3,670	7,408	16,551
At 31 December 2007	8,714	3,379	13,324	2,559	27,976

Transfers and reclassifications include costs of licenses, fees and developments of different parts of Axapta implemented in Milavitsa in 2007. Write offs in Projects in progress includes parts of Axapta what will not be used by the enterprise.

Determination of the recoverable amounts of cash generating units

In measuring the recoverable amount of goodwill, the Group determines the recoverable amounts of the cash generating units to which the goodwill belongs. For measurement, goodwill of EEK 13,324,000 was allocated to cash generating units as follows:

In thousands of EEK

At 31 December

	2007	2006
SIA Vision (subsidiary of PTA Grupp AS)	1,876	1,876
UAB Linret LT	11,448	0
Other	0	1,794
Total	13,324	3,670

At 31 December 2007 Group performed impairment tests to determine recoverable value of each cash generating unit. For the goodwill test for impairment were used projections for the pre-tax cash flows covering 4 years period 2008-2011. From the year 2020 the growth rate is estimated to be 0% because from there on no potential growth in efficiency can be generated by assets existing on the balance sheet date.

The value in use of cash generating units were determined using the following documents and assumptions:

a) cash flow forecasts for 2008-2011 according to which revenues 9% and expenses will grow at the rate of 5% per year; for the period 2012-2020 average growth rate applied is 5%. From the year 2020 the growth rate is estimated to be 0% because from there on no potential growth in efficiency can be generated by assets existing on the balance sheet date. The financial model underlying the business plan was developed on the basis of management's historical experience and expectations for the market development; and

b) a discount rate of 15%.

Recoverable amount of SIA Vision and UAB Linret LT exceeded the carrying amount of the net assets plus the carrying amount of goodwill substantially. Therefore, goodwill was not impaired.

The goodwill allocated to other units was tested for impairment on a similar basis. The growth rates applied in the projections were deduced from management's estimates of the industry's growth rates for the same period. Management made the estimates on the basis of historical experience. The tests indicated that the recoverable values of other cash generating units (Splendo Polska Sp. z o.o. and ZAO Linret) have fallen below the carrying amount of it's net assets plus the carrying amount of goodwill, and therefore it's goodwill have been impaired in 100%. The impairment loss is recognised in other operating expenses in the income statement.

At 31 December 2007 the cost of fully amortised intangible assets still in use amounted to EEK 2,926,000 (31 December 2006: EEK 2,909,000).

Note 18. Investment property

In thousands of EEK

	2007	2006
At beginning of period	0	0
Acquisition	24,878	0
Depreciation	-125	0
Effect of movements in foreign exchange	-1,799	0
At 31 December	22,954	0

As of 31 December 2007 investment property consisted of premises located at Nemiga 8, Minsk, Belarus. Investment property of 728.3 sq. m. acquired in 2007 and recognized at cost less depreciation.

Investment property was acquired from third party close to year-end. Purchase price approximates fair value at 31 December 2007.

Note 19. Equity accounted investees

The Group's share of profit in its equity accounted investees for the current period was EEK 988,000 (2006: EEK 44,000), dividends received EEK 125,000 (2006: nil), currency translation difference from BYR was EEK 63,000.

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All interests in associates are held by AS Silvano Fashion Group subsidiary Milavitsa. Equity method is applied based on latest available financial results of associates. Operations at 1 January 2007 were not material. Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by group:

<i>In thousands of EEK</i>	Owner- ship	Current assets	Non- current assets	Total assets	Current liabiliti es	Non- current liabili- ties	Total liabili- ties	Revenue	Expen- ses	Profit/ loss
OOO Torgovj Dom Milavitsa – Novosibirsk	25%	4,694	125	4,819	3,912	0	3,912	47,706	-47,440	266
ZOO Torgovj Dom Milavitsa – Tjumen	25%	907	110	1,017	1,189	78	1,267	13,832	-13,753	79
ZAO Stolichnyj Torgovj Dom Milavitsa, Moscow	25%	40,900	3,865	44,765	42,027	0	42,027	127,989	-126,753	1,236
OOO Uralskoje Predstavitelstvo Torgovj Dom Milavitsa, Ufa	35%	2,018	78	2,096	1,909	0	1,909	15,240	-15,162	78
TOV Torgovaja Kompanija Milavitsa, Kiev	26%	6,885	344	7,229	7,182	0	7,182	62,273	-62,743	-470
		55,404	4,522	59,926	56,219	78	56,297	267,040	-265,851	1,189

Note 20. Available-for-sale financial assets

Equity investments

<i>In thousands of EEK</i>	Domicile	Core activity	Ownership at 31 December 2007	Value of investment at 31 December 2007
OAo Belvnesheconombank	Belarus	Financing	0.147%	172
National Pension Fund of Belarus	Belarus	Financing	0.002%	0
AOA Belinvestbank	Belarus	Financing	0.00014%	0
ZAO Minsk Transit Bank	Belarus	Financing	0.19%	188
OOO Gratsiya	Belarus	Financing	14.286%	78
Lauma AS	Latvia	Property Management	0.32%	1,142
OAo Svitanok	Belarus	Holding	11,3726%	6,900
Total				8,480

Available-for-sale financial assets comprise the financial investments of AS Silvano Fashion Group's subsidiary Milavitsa. The financial investments are stated at cost because the shares are not traded in an active market and their fair value cannot be measured reliably.

Note 21. Inventories

In thousands of EEK

At 31 December	2007	2006
Raw and other materials	89,201	84,408
Work in progress	38,585	31,450
Finished goods	169,249	90,372
Goods purchased for resale	34,470	24,022
Other inventories	6,023	3
Total	337,528	230,255

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Inventories are shown at carrying values that are cost net of allowance. As of 31 December 2007 allowances for slow moving raw materials amounted to EEK 3,520,000 (2006: EEK 3,927,000) and allowances for slow moving finished goods amounted to EEK 5,883,000 (2006: EEK 4,289,000). There were no inventories carried at fair value less cost to sell as of 31 December 2007 as cost was lower than net realizable value (2006: EEK 0).

Information on assets pledged as collateral is presented in note 29.

At 31 December 2007 AS Silvano Fashion Group subsidiary PTA Grupp AS was storing and was responsible for other parties' goods (commission goods) of EEK 266,000 (2006: EEK 184,000).

Note 22. Taxes

In thousands of EEK

At 31 December

Tax receivables

	2007	2006
Value added tax	22,030	30,922
Personal income tax	0	619
Corporate income tax	2,394	27
Other taxes	47	0
Total	24,471	31,568

Tax liabilities

	2007	2006
Social tax	4,334	9,937
Value added tax	12,768	2,451
Personal income tax	2,660	1,646
Fringe benefit taxes	0	20
Other taxes	3,724	5,315
Total	23,486	19,369

Note 23. Trade receivables

In thousands of EEK

At 31 December

	2007	2006
Trade receivables	163,465	114,255
Impairment of receivables (note 34)	-4,934	-2,526
Total	158,531	111,729

The Group's exposure to credit and currency risks and impairment losses related to trade receivables are disclosed in note 34.

Note 24. Other receivables

In thousands of EEK

At 31 December

Other current receivables

	2007	2006
Due from customers for contract work	344	910
Loans to companies	5,555	447
Interest receivable from related parties	313	434
Employees receivables	1,705	272
Receivable for sale of shares	0	200
Miscellaneous receivables	21,796	8,417
Total	29,713	10,680

Other non-current receivables

	2007	2006
Loans to companies	16	1,799
Receivable for sale of shares	0	550
Other non-current receivables	579	0
Total	595	2,349

The Group's exposure to credit and currency risks and impairment losses related to other receivables are disclosed in note 34.

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Note 25. Prepayments

In thousands of EEK

At 31 December

Other current receivables and prepayments	2007	2006
Prepayments to suppliers	51,680	17,208
Other prepayments	0	17,206
Total	51,680	34,414

Prepayments have grown considerably in connection with advance lease payments made by subsidiaries due to rapid expansion of chain of retail outlets.

Note 26. Cash and cash equivalents

In thousands of EEK

At 31 December

	2007	2006
Cash on hand	1,408	859
Bank accounts, kroons	517	1,011
Bank accounts, foreign currency	75,557	97,039
Cash in transit	5,022	12,702
Short-term deposits	97,729	88,849
Total	180,233	200,460

Cash and cash equivalents analysed by currency

In thousands of EEK

At 31 December

	2007	2006
EUR (euro)	131,854	112,217
BYR (Byelorussian rouble)	18,525	41,948
RUB (Russian rouble)	17,274	34,063
LVL (Latvian lat)	845	7,620
LTL (Lithuanian lit)	1,126	1,189
EEK (Estonian kroon)	908	1,439
Other	9,701	1,984
	180,233	200,460

At the end of 2007, cash placed in short-term deposits with a maturity of 3, 5 and 12 months totalled EEK 97,729,000. The interest rates of 3-month deposit was 4.72%, for 5 months deposit 11.5% and the ones for 12-month deposits interest ranges from 8.5% to 11.5%. The deposits can be cancelled by giving less than 3 months' notice. For the 12 months deposits Group can withdraw money from deposit without any notice if amount still on account would not be reduced to less than EEK 4,694,000. The Group intends to use the cancellation clause when necessary to ensure the liquidity for operating activities.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 34.

Note 27. Equity

Share capital

The General meeting of shareholders which convened on 25 June 2007 decided to increase the share capital of AS Silvano Fashion Group by issue of 2,052,802 new common shares. After the increase the company's registered share capital amounts to EEK 400,000,000 and is made up of 40,000,000 ordinary shares with a par value of EEK 10 each. The increase in share capital was entered in the Commercial Register on 31 August 2007.

The new shares were subscribed with share premium of EEK 148,089,000. The issue price of a share was EEK 82.14 including share premium of EEK 72.14. Share premium was reduced by the direct issue and listing costs of EEK 7,807,000. Thus, share premium amounted to EEK 223,293,000.

All shares have been paid for.

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At 31 December	2007	2006
Share capital, in thousands of EEK	400,000,000	379,472
Number of shares	40,000,000	37,947,198
Par value of a share, in EEK	10.00	10.00

All shares issued by AS Silvano Fashion Group are registered ordinary shares. Each ordinary share grants the holder one vote at meetings of the company. The company does not issue share certificates to shareholders. The company's share register is electronic and maintained at the Estonian Central Register of Securities.

Each ordinary share grants the holder the right to participate in profit distributions in proportion to the number of shares held. The general meeting decides the amount which will be distributed as dividends on the basis of the Company's approved annual report.

Changes in share capital in 2007:

Date	Increase / decrease	Increase / decrease in number of shares	Total number of shares	Share capital at par value	Share premium
				In thousands of EEK	
31 December 2006			37,947,198	379,472	83,011
24 July 2007	Share issue	2,052,802	40,000,000	20,528	148,089
24 July 2007	Issue costs				-7,807
31 December 2007			40,000,000	400,000	223,293

Statutory capital reserve

The statutory capital reserve has been created in accordance with the requirements of the Estonian Commercial Code. The capital reserve is created with annual net profit transfers. Every year the parent company has to transfer to the capital reserve at least one twentieth of its net profit for the period until the capital reserve amounts to at least one tenth of its share capital. The reserve may be used for covering losses and for increasing share capital through a bonus issue. The capital reserve may not be distributed to shareholders.

At 31 December 2007 the capital reserve amounted to EEK 1,046,000 (31 December 2006: EEK 1,046,000).

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of the Group's foreign entities whose functional currency differs from Group's presentation currency.

At 31 December 2007 the translation reserve amounted to EEK 76,512,000 (31 December 2006: EEK 10,710,000).

Shareholder structure

At 31 December 2007 shareholders whose interest in AS Silvano Fashion Group exceeded 1% included:

Name	Number of shares	Shareholding
Major shareholders	35,750,615	89.4%
ALTA CAPITAL PARTNERS S.C.A, SICAR	15,989,241	40.0%
Krajowy Depozyt Papierow Wartoosciowych S.A.[J]	7,877,661	19.7%
SIA ALTA CAPITAL PARTNERS	5,460,000	13.7%
SEB Eesti Ühispank As Trading	1,969,913	4.9%
BANK AUSTRIA CREDITANSTALT AG CLIENT'S	1,438,290	3.6%
THE BANK OF NEW YORK/ ING BANK SLASKI AC LM AKCJI FIO	679,584	1.7%
BRYUM ESTONIA AS	542,463	1.4%
STATE STREET MUNICH CARE OF SSB BOSTON/ PZU FIO AKCJI KRAKOWIAK	487,828	1.2%
JPMORGAN CHASE BANK, N.A. ON BEHALF OF BELGIAN RESIDENTS	456,496	1.1%
AS HANSAPANK	449,139	1.1%
STATE STREET LONDON CARE OF SSB BOSTON/ ALLIANZ GLOBAL INVESTORS IRELAND LIMITED	400,000	1.0%
Other shareholders	4,249,385	10.6%
Total number of shares	40,000,000	100.0%

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At 31 December 2006 shareholders whose interest in AS Silvano Fashion Group exceeded 1% included:

Name	Number of shares	Interest in share capital
Major shareholders	35,360,283	93.2%
SIA ALTA CAPITAL PARTNERS	28,024,309	73.9%
Skandinaviska Enskilda Banken Ab Clients	2,195,827	5.8%
NORDEA BANK FINLAND PLC/NON-RESIDENT LEGAL ENTITIES	1,058,214	2.8%
BRYUM ESTONIA AS	984,063	2.6%
EVLI BANK PLC/MUTUAL FUND BALTIC EQUITY	656,511	1.7%
JPMORGAN CHASE BANK,NATIONAL ASSOCIATION ON BEHALF OF SWEDISH RESIDENTS	639,150	1.7%
DZ BANK INTERNATIONAL S.A.CLIENTS	561,760	1.5%
THE BANK OF NEW YORK/ING BANK SLASKI	440,000	1.2%
Clearstream Banking Luxembourg S.A. Clients	400,449	1.0%
STATE STREET LONDON CARE OF SSB BOSTON/DIT-GLOBAL STRATEGIES FUND	400,000	1.0%
Other shareholders	2,586,915	6.8%
Total number of shares	37,947,198	100.0%

Note 28. Earnings per share

The calculation of basic earnings per share at 31 December 2007 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares.

	2007	2006
Weighted average number of ordinary shares	38,852,681	11,020,929
Profit attributable to equity holders of the parent, in thousands of EEK	186,914	44,990
Basic earnings per share, in EEK	4.81	4.08
Diluted earnings per share, in EEK	4.81	4.08

At the beginning of 2007 the number of ordinary shares was 37,947,198. In 2007 2,052,802 ordinary shares were issued. At 31 December 2007, the number of ordinary shares was 40,000,000 (see note 27). The shares issued during the period have been included in the calculation of the weighted average number of shares from 24 July 2007 (see Note 27).

Diluted earnings per share do not differ from basic earnings per share because AS Silvano Fashion Group has not issued any financial instruments which could dilute basic earnings per share.

Note 29. Loans and borrowings

This note provides information about contractual terms of the Group's interest bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 34.

In thousands of EEK

	2007	2006
Non-current liabilities		
Loans	0	0
Finance lease liabilities	4,068	9,544
	4,068	9,544

In thousands of EEK

	2007	2006
Current liabilities		
Current portion of loans	19,762	14,488
Current portion of finance lease liabilities	5,398	7,392
Loan from associate	0	8,027
	25,160	29,907

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Terms and debt repayment schedule

In thousands of EEK	Currency	Nominal interest rate	Year of maturity	31 Dec 2007		31 Dec 2006	
				Face value	Carrying amount	Face value	Carrying amount
Secured bank loan	EEK	6.50%	2008	10,327	10,327	2,414	2,414
Secured bank loan	EEK	6.50%	2008	5,000	5,000	5,000	5,000
		6M EURIBOR					
Secured bank loan	EUR	+2,5%	2008	2,425	2,425	6,636	6,636
Secured bank loan	LTL	6.60%	2008	908	908	0	0
Unsecured bank facility	BYR	13.00%	2008	725	725	438	438
Unsecured bank facility	EEK	6.50%	2008	377	377	0	0
Loan from associate	EUR	5.00%	2007	0	0	2,957	2,957
Loan from associate	EUR	5.00%	2007	0	0	5,070	5,070
		6M EURIBOR					
Finance lease liabilities	EEK	+ 2,5%	2011	610	548	830	735
Finance lease liabilities	USD	10.50%	2007	0	0	1,533	1,300
Finance lease liabilities	EUR	10.50%	2009	1,361	1,220	2,707	2,332
Finance lease liabilities	EUR	12.50%	2010	923	673	1,393	1,034
Finance lease liabilities	EUR	12.50%	2008	876	704	2,300	1,910
Finance lease liabilities	EUR	12.50%	2008	610	563	1,471	1,300
Finance lease liabilities	EUR	10.50%	2009	2,723	2,441	5,587	4,820
Finance lease liabilities	EUR	10.50%	2010	2,910	2,237	4,475	3,505
Finance lease liabilities	EUR	14.00%	2010	1,221	1,080	0	0
Total interest bearing liabilities				30,996	29,228	42,811	39,451

The short-term loan whose outstanding balance at 31 December 2007 amounted to EEK 2,425,000 has a floating interest rate which is determined on the basis of 6 months' EURIBOR and reassessed during the year. As the interest rate is floating and the margin depends on the Group's operating risks, management of the Group is of the opinion that the loan has been taken on market terms at a market interest rate and consequently its fair value does not differ significantly from its carrying amount. The Group has access to a revolving credit line with a limit of EEK 5,000,000 which will expire on 21 June 2008. The annual interest rate of the credit is 6.5%.

Short-term fixed interest loans and borrowings of EEK 17,337,000 involve fair value risk. As the items will be settled within a year, the fair value risk is insignificant.

In 2007 the Group received loans of EEK 20,935,000 (2006: EEK 31,958,000) and settled loan liabilities of EEK 25,332,000 (2006: EEK 29,548,000).

Loan collateral

AS Silvano Fashion Group subsidiary PTA Grupp AS has secured an overdraft facility and short- and long-term loans with a commercial pledge of movable assets of EEK 29,000,000 established for the benefit of AS Hansapank. The loans and overdraft received from AS Hansapank are guaranteed by AS Silvano Fashion Group a shareholder of PTA Grupp AS, under a suretyship agreement. Loan provided by Hansabankas in Lithuania is secured over movable assets of EEK 2,723,000.

At 31 December 2007 AS Silvano Fashion Group had obtained bank guarantees to secure lease payments for retail premises of EEK 2,134,820 (2006: EEK 641,500) and import duties payable to the Customs Board of EEK 1,000,000 (2006: EEK 400,000). At 31 December 2007 no trade payables were secured.

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Finance leases
The Group as a lessee

<i>In thousands of EEK</i>		Intangible assets	Plant and equipment	Total
Cost	31 December 2006	0	20,792	20,792
Accumulated depreciation	31 December 2006	0	-9,109	-9,109
Carrying amount	31 December 2006	0	11,683	11,683
Cost	31 December 2007	1,078	20,049	21,127
Accumulated depreciation	31 December 2007	-54	-5,773	-5,827
Carrying amount	31 December 2007	1,024	14,276	15,300

Future minimum lease payments under finance lease

<i>In thousands of EEK</i>	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
	2007	2007	2007	2006	2006	2006
Less than one year	6,462	1,064	5,398	9,187	1,795	7,392
Between one and five years	4,772	704	4,068	11,109	1,565	9,544
	11,234	1,768	9,466	20,296	3,360	16,936

Operating leases
The Group as a lessee

In 2007 the Group made operating lease payments for store, office and production premises and plant and equipment. Operating lease expenses totalled EEK 17,258,000 (2006: EEK 17,867,000).

Minimum non-cancellable operating lease rentals have been found on the basis of the non-cancellable periods of operating lease contracts. The contracts on the lease of store premises in Estonia, Latvia and Belarus are not binding for a long term. Most leases can be cancelled by giving two to ten months' notice. The lease of PTA Grupp AS's office and production premises can be cancelled by giving 1 year's notice.

In thousands of EEK

At 31 December	2007	2006
Minimum operating lease rentals:		
Payable in less than 1 year	3,896	964
Payable between 1 and 5 years	5,977	8,951
Payable in over 5 years	407	1,127
Total	10,280	11,042

Operating lease
The Group as a lessor

The Group as a lessor does not have any non-cancellable operating lease contracts.

The Group leases out premises and machinery under the terms of operating lease. In 2007 operating lease income amounted to EEK 986,000 (2006: EEK 112,000).

In 2007 AS Silvano Fashion Group leased out premises of 755 square meters in Minsk Belarus and machinery to 12 companies (2006: a total of 90 square meters). All contracts on the lease of premises are cancellable.

Note 30. Trade payables

In thousands of EEK

At 31 December	2007	2006
Trade payables to suppliers	107,163	86,426
Trade payables to related parties	15,725	1,108
Total	122,888	87,534

The Group's exposure to currency and liquidity risk related to trade payables is disclosed in note 34.

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Note 31. Other payables

In thousands of EEK

At 31 December	2007	2006
Customer advances for products and services	2,378	638
Payables to employees*	13,472	9,111
Interest and other accruals	16	228
Interest payable to related parties	0	306
Deferred income	0	83
Other payables	1,564	0
Total	17,430	10,366

*Payables to employees include among other items undeclared social tax and unemployment insurance liabilities calculated on employee wages and salaries for December and undeclared personal income tax, unemployment insurance premiums and funded pension premiums withheld on employee wages and salaries for December.

The Group's exposure to currency and liquidity risk related to other payables is disclosed in note 34.

Note 32. Provisions

<i>In thousands of EEK</i>	Provision for bonuses	Provision for vacations	Provision for legal costs	Other provision	Total provisions
Short term provisions					
At 31 December 2006	10,483	5,883	12	1,083	17,461
Provided during 2007	16,366	12,752	0	704	29,822
Used during 2007	-9,482	-11,532	0	-751	-21,765
Reversed during 2007	-610	0	0	-297	-907
Effect of movements in exchange rates	-1,502	-563	0	-84	-2,149
At 31 December 2007	15,255	6,540	12	655	22,462
Long-term provision					
At 31 December 2006	0	0	139	0	139
At 31 December 2007	0	0	139	0	139

Current and non-current provisions for legal costs comprise provisions for incapacity benefits to a former employee of AS Klementi which are payable on a monthly basis under a court order. The current portion amounts to EEK 12,000 (31 December 2006: EEK 12,000) and the non-current portion, which is stated at its discounted present value, amounts to EEK 139,000 (31 December 2006: EEK 139,000). The discount rate is 5% and the remaining term of the liability is 17 years. Until the end of 2004 the discount rate was 10% and the remaining term of the liability was 10 years.

Note 33. Transactions with related parties

For the purposes of these financial statements, parties are related if one controls the other or exerts significant influence on the other's financial and operating policies. Related parties include:

- Alta Capital Partners S.C.A., SICAR, SIA Alta Capital Partners and individuals with a shareholding that provides them with control or significant influence;
- companies under Alta Capital Partners S.C.A., SICAR, SIA Alta Capital Partners control
- members of the governing bodies (management and supervisory boards) of shareholders that have control or significant influence;
- members of the Group's management and supervisory boards;
- close family members of and companies controlled or significantly influenced by the above;
- associated companies.

In thousands of EEK

Purchase of goods and services	2007	2006
Companies related to members of the management and supervisory boards	195,567	700
Total purchases	195,567	700

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<i>In thousands of EEK</i>	2007	2006
Loans from shareholders		
Opening balance	8,039	0
Received	0	8,039
Repaid	-8,039	0
Closing balance	0	8,039
Accrued interest expense	0	77

<i>In thousands of EEK</i>	2007	2006
Loans to shareholders		
Opening balance	0	0
Given	45,516	42,871
Repaid	-44,890	-42,871
Closing balance	626	0
Accrued interest income	313	434

<i>In thousands of EEK</i>	2007	2006
At 31 December		
Balances with related parties		
Companies related to members of the management and supervisory boards	15,365	1,108
Interest liabilities to related parties (note 31)	0	306
Total current liabilities	15,365	1,414

<i>In thousands of EEK</i>	2007	2006
At 31 December		
Balances with related parties		
Interest receivable from related parties (note 24)	313	434
Total receivables	313	434

<i>In thousands of EEK</i>	2007	2006
Benefits to members of the management board		
Remuneration and benefits	3,583	1,754
Total	3,583	1,754

In the event of removal from office, members of the management board are entitled to termination benefits equal to their 6 months' remuneration. In 2006 and 2007 members of the supervisory board were not remunerated.

According to management's assessment, the prices applied in transactions with related parties did not differ significantly from the market.

Note 34. Financial instruments

31 December 2007	Note	Available-for-sale	Loans and receivables	Total
Assets				
<i>(In thousands of EEK)</i>				
Equity investments	20	8,480		8,480
Trade and other receivables	23, 24		188,839	188,839
Total		8,480	188,839	197,319

31 December 2007	Note	Liabilities measured at amortised cost	Total
Liabilities			
<i>(In thousands of EEK)</i>			
Trade and other payables	30,31	140,678	140,678
Other loans and borrowings	29	10,568	10,568
Bank loans	29	18,660	18,660
Total		169,906	169,906

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Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

In thousands of EEK

At 31 December	2007	2006
Available-for-sale financial assets(Note 20)	8,480	1,772
Loans, receivables (Note 23-24)	188,839	124,758
Cash and cash equivalents (Note 26)	180,233	200,460
	377,552	326,990

The maximum exposure to credit risk for trade receivables by geographic region was:

In thousands of EEK

At 31 December	2007	2006
Domestic (Estonian)	4,459	3,945
European union countries	39,070	44,139
Eastern European countries	123,107	72,009
Other	22,203	4,665
	188,839	124,758

The ageing of trade receivables at the reporting date was:

In thousands of EEK

	Gross 2007	Impairment	Gross 2006	Impairment
Not past due	174,403	0	115,957	0
Past due 0-30 days	9,075	0	5,805	0
Past due 31-90 days	3,176	0	3,129	-133
Past due 91-180 days	2,801	-616	1,142	-1,142
More than 180 days	4,318	-4,318	1,251	-1,251
	193,773	-4,934	127,284	-2,526

The movement in the allowance for the impairment in respect of trade receivables during year was as follows:

	2007	2006
Impairment losses on trade receivables at beginning of period	-2,526	-43
Impairment losses of the period	-2,635	-2,685
Impairment losses on items written off	227	202
Impairment losses on trade receivables at end of period	-4,934	-2,526

Impairment losses on receivables are recognized in distribution costs. In 2007 recovery of losses previously provided for occurred in amount of EEK 297,000. In 2006 the Group did not recover any previously expensed items.

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments:

<i>In thousands of EEK</i>	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years
At 31 December 2007						
Non-derivative financial liabilities						
Secured bank loans	8,333	8,574	7,573	1,001	0	0
Finance lease liabilities	9,466	11,234	3,333	3,129	4,052	720
Unsecured bank facility	1,102	1,102	1,102	0	0	0
Trade and other payables	140,678	140,678	140,678	0	0	0
Bank overdraft	10,327	10,327	10,327	0	0	0

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KPMG, Tallinn

<i>In thousands of EEK</i> At 31 December 2006	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years
Non-derivative financial liabilities						
Secured bank loans	11,636	12,157	7,808	4,349	0	0
Finance lease liabilities	16,936	20,296	5,698	3,489	6,759	4,350
Unsecured bank facility	8,465	8,465	8,465	0	0	0
Trade and other payables	97,900	97,900	97,900	0	0	0
Bank overdraft	2,414	2,414	2,414	0	0	0

Currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

31 December 2007

<i>In thousands of EEK</i>	EUR	BYR	RUB	LVL	EEK	Other
Trade receivables	32,561	22,312	94,818	33,906	986	4,256
Secured bank loans	-2,425	0	0	0	-15,327	-908
Trade payables	-56,281	-15,224	-21,013	-19,527	-12,971	-15,662
Gross balance sheet exposure	-26,145	7,088	73,805	14,379	-27,312	-12,314

31 December 2006

<i>In thousands of EEK</i>	EUR	BYR	RUB	LVL	EEK	Other
Trade receivables	46,298	9,059	38,678	19,136	1,785	9,802
Secured bank loans	-6,636	0	0	0	-7,414	0
Trade payables	-58,941	-9,404	-7,417	-266	-11,577	-10,295
Gross balance sheet exposure	-19,279	-345	31,261	18,870	-17,206	-493

The following significant exchange rates applied during the year:

<i>in EEK</i>	Average rate		Reporting date spot rate	
	2007	2006	2007	2006
		(full year)		
EUR	15.6466	15.6466	15.6466	15.6466
LVL	22.2635	22.2635	22.2635	22.2635
LTL	4.5313	4.5313	4.5313	4.5313
BYR	0.0047	0.0063	0.0047	0.0063
RUB	0.4459	0.4475	0.4350	0.4506
PLN	4.1354	4.0165	4.3685	4.0838

Sensitivity analysis

A 10 percent strengthening of the Estonian kroon against the following currencies at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

<i>Effect in thousands of EEK</i>	Profit or loss
31 December 2007	
BYR	-709
RUB	-7,381
	-8,090
31 December 2006	
BYR	35
RUB	-3,126
	-3,091

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Interest rate risk

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

<i>In thousands of EEK</i>	2007	2006
Fixed rate instruments		
Financial liabilities	26,255	32,080
Variable rate instruments		
Financial liabilities	2,973	7,371

Cash flow sensitivity analysis for variable rate instruments

<i>Effect in thousands of EEK</i>	Profit or loss	
	100 bp increase	100 bp decrease
31 December 2007		
Variable rate instruments	-16	16
Cash flow sensitivity (net)	<u>-16</u>	<u>16</u>
31 December 2006		
Variable rate instruments	-47	47
Cash flow sensitivity (net)	<u>-47</u>	<u>47</u>

Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet are as follows:

<i>In thousands of EEK</i>	Carrying amount	Fair value	Carrying amount	Fair value
At 31 December	2007	2007	2006	2006
Available-for sale				
financial assets	8,480	8,480	1,772	1,772
Loans and receivables	188,839	188,839	124,758	124,758
Cash and cash equivalents	180,233	180,233	200,460	200,460
Secured bank loans	-8,333	-8,333	-11,636	-11,636
Financial lease liabilities	-9,466	-9,466	-16,936	-16,936
Unsecured bank facilities	-1,102	-1,102	-8,465	-8,465
Trade and other payables	-140,678	-140,678	-97,900	-97,900
Bank overdraft	-10,327	-10,327	-2,414	-2,414
	207,646	207,646	189,639	189,639

Note 35. Contingencies

Contingent dividend tax liability

The retained earnings of the Group amounted to EEK 185,927,000 as at 31 December 2007 (31 December 2006: EEK -987,000). The income tax rate applicable to the net profit distributable as dividends by the parent company is 21/79 from 1 January 2008 (from 1 January 2007: 22/78). The maximum income tax liability that could arise if all of the consolidated undistributed profits were distributed as dividends amounts to EEK 39,038,000. Dividends received from the foreign subsidiaries reduce the contingent income tax liability of the parent company.

The tax administrator may review The Group's tax accounting and may assess additional tax and interest on arrears if errors are detected up to six years of the submission of a tax return. According to management's estimates, there are no circumstances as a result of which the tax administrator could assess additional taxes.

Other contingent liabilities

Under the legislation of the countries in which it operates, the Group has to mend or replace the products which do not comply with established quality standards during the period provided in the law. The Group does not provide any additional contractual warranties. According to the assessment of the Group's management, the expenses which may arise from the fulfilment of the warranty obligations imposed by the law are not material.

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Note 36. Subsequent events

The Group intends to increase its stake in some of the 2nd Tier retail and wholesale subsidiaries through direct or indirect acquisitions. The Group has budgeted EEK 34.4 million for such activities for the first half of 2008.

Note 37. Financial information on the Group's parent company

Pursuant to the Accounting Act of the Republic of Estonia, the unconsolidated financial statements (primary statements) of the consolidating entity (parent company) have to be disclosed in the notes to the consolidated financial statements. In preparing the primary financial statements of the Parent company the same accounting policies have been used as in preparing the consolidated financial statements, except that investments in the shares of subsidiaries are accounted for at cost less any impairment losses.

Company restructuring and the Parent name change is described in note 7.

Balance sheet (unconsolidated)

As at 31 December

<i>In thousands of EEK</i>	2007	2006
ASSETS		
Non-current assets		
Property, plant and equipment	203	3,227
Intangible assets	1,486	4,420
Shares in subsidiaries	379,727	415,071
Long-term financial investments	0	613
Total non-current assets	381,416	423,331
Current assets		
Inventories	0	22,738
Prepaid taxes	688	283
Trade receivables	188	2,009
Other receivables and prepayments	153,039	6,855
Cash and cash equivalents	67,985	1,281
Total current assets	221,900	33,166
TOTAL ASSETS	603,316	456,497
LIABILITIES AND EQUITY		
Equity		
Share capital at par value	400,000	379,472
Share premium	223,293	83,011
Statutory capital reserve	1,046	1,046
Accumulated losses	-26,208	-37,575
Currency translation differences	438	0
Total equity	598,569	425,954
Non-current liabilities		
Loans and borrowings	720	508
Provisions	0	139
Total non-current liabilities	720	647
Current liabilities		
Loans and borrowings	360	13,346
Trade payables	1,127	10,034
Tax liabilities	892	1,815
Other payables	422	4,689
Provisions	1,095	12
Accrued expenses	131	0
Total current liabilities	4,027	29,896
Total liabilities	4,747	30,543
TOTAL LIABILITIES AND EQUITY	603,316	456,497

Income statement (unconsolidated)

In thousands of EEK

	2007	2006
Revenue		
Sales revenue	103,565	125,113
Costs of goods sold	-59,066	-72,412
Gross profit	44,499	52,701
Other operating income	2,644	381
Distribution expenses	-19,981	-25,316
Administrative expenses	-16,930	-14,614
Other operating expenses	-1,346	-1,065
Operating profit	8,886	12,087
Financial income	5,805	19
Financial expenses	-1,878	-1,272
Net financial items	3,927	-1,253
Profit for the period	12,813	10,834

Statement of cash flows (unconsolidated)

In thousands of EEK

	2007	2006
Cash flows from operating activities		
Profit for the period	12,813	10,834
Adjustments for:		
Depreciation, amortisation and impairment losses	1,846	4,189
Non-cash items on merge/ de-merge	-8,793	
Gains on the sale of property, plant and equipment	-31	-79
Losses on write-off of property, plant and equipment	0	9
Net finance income/costs	-123	0
Change in receivables and prepayments	-144,293	-7,032
Change in inventories	22,672	-8,755
Change in payables	-12,987	4,206
Interest paid	-970	-1,222
Net cash from operating activities	-129,866	2,150
Cash flows from investing activities		
Acquisition of property, plant and equipment and assets under construction	-579	-427
Acquisition of intangibles	-2,910	0
Proceeds from sale of property, plant and equipment	0	143
Acquisition of subsidiaries	35,956	-137
Paid for trademarks	0	-4,112
Proceeds from settlement of loans granted	0	158
Interest received	1,095	32
Net cash used in / from investing activities	33,562	-4,343
Cash flows from financing activities		
Proceeds from issue of share capital	160,810	0
Repayment of loans	0	-26,329
Proceeds from loans received	8,910	31,958
Payment of finance lease liabilities	-422	-421
Change in overdraft liability	0	-1,874
Payment of other liabilities	0	-981
Repayment of other loans	-6,290	-800
Net cash from / used in financing activities	163,008	1,553
Net cash flows	66,704	-640
Cash and cash equivalents at beginning of period	1,281	1,921
Cash and cash equivalents at end of period	67,985	1,281

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Statement of changes in equity (unconsolidated)

In thousands of EEK

	Share capital	Share premium	Currency translation difference	Capital reserve	Accumulated losses	Total
Balance at 31 December 2005	19,469	40,994	0	1,046	-48,409	13,100
Carrying amount of interests under control or significant influence						-2,584
Carrying amount of interests under control or significant influence under the equity method						5,948
Adjusted unconsolidated equity at 31 December 2005						16,464
Issue of share capital	360,003	42,017	0	0	0	402,020
Profit for 2006	0	0	0	0	10,834	10,834
Balance at 31 December 2006	379,472	83,011	0	1,046	-37,575	425,954
Carrying amount of interests under control or significant influence						-415,071
Carrying amount of interests under control or significant influence under the equity method						442,219
Adjusted unconsolidated equity at 31 December 2006						453,102
Issue of share capital	20,528	140,282	0	0	0	160,810
Retained earnings of merged company	0	0	0	0	-1,446	-1,446
Effect on consolidation of foreign entities	0	0	438	0	0	438
Profit for 2007	0	0	0	0	12,813	12,813
Balance at 31 December 2007	400,000	223,293	438	1,046	-26,208	598,569
Carrying amount of interests under control or significant influence						-379,727
Carrying amount of interests under control or significant influence under the equity method						575,779
Adjusted unconsolidated equity at 31 December 2007						794,621

Investments in subsidiaries

Cost and other details of the Group's subsidiaries included in the consolidated accounts:

<i>In thousands of EEK</i>	2007	2006
PTA Grupp AS	211,683	0
AS Silvano Fashion Group	0	404,259
SP ZAO Milavitsa	125,971	0
AS Lauma Lingerie	22,641	0
ZAO Linret	1,391	0
Splendo Polska Sp. z o.o.	3,505	0
UAB Linret LT	14,536	0
UAB PTA Prekyba	0	47
SIA Vision	0	2,503
AS Klementi	0	8,090
Klementi Trading Oy	0	78
OOO PTA Ukraine	0	94
	379,727	415,071

	Place of incorporation and operation	Proportion of ownership interest	Proportion of voting power held	Principal activity
PTA Grupp AS	Estonia	100%	100%	Retail, wholesale
SP ZAO Milavitsa	Belarus	78.35%	78.35%	Wholesale, production
AS Lauma Lingerie	Latvia	100%	100%	Production, wholesale, retail
ZAO Linret	Russia	100%	100%	Retail
Splendo Polska Sp. z o.o.	Poland	90%	90%	Retail
UAB Linret LT	Lithuania	100%	100%	Retail

Summary financial information on subsidiaries

<i>In thousands of EEK</i>	Assets	Liabilities	Equity	Revenues for period (post acquisition)	Profit/(loss) for period (post acquisition)
2007					
PTA Grupp AS consolidated	100,060	48,270	51,790	77,216	-5,539
SP ZAO Milavitsa consolidated	714,158	114,064	600,094	1 158,850	204,219
AS Lauma Lingerie	116,630	69,095	47,535	191,593	19,543
ZAO Linret	139,083	211,511	-72,428	64,073	-63,760
Splendo Polska Sp. z o.o.	13,471	13,456	15	7,244	-3,442
UAB Linret LT	9,263	6,634	2,629	5,523	-755
2006					
AS Silvano Fashion Group	251,081	2,503	248,578	0	-1,518
SP ZAO Milavitsa consolidated	581,678	102,689	478,989	238,751	42,308
AS Lauma Lingerie	95,194	51,602	43,592	54,450	11,109
ZAO Linret	57,423	68,063	-10,640	4,287	-6,619
Splendo Polska Sp. z o.o.	6,306	6,368	-62	1,267	-344

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Revenues by EMTAK (the Estonian classification of economic activities)

In thousands of EEK

Code	Definition	Parent company		Group	
		2007	2006	2007	2006
1413	Manufacture of other outerwear	0	19,590	28,352	24,049
1414	Manufacture of underwear	6,587	0	274,692	32,435
4642	Wholesale of clothing and footwear	54,717	48,929	956,785	257,157
4771	Retail sales of clothing in specialized stores	42,261	56,594	281,623	109,041
6820	Renting and operating of own or leased real estate	0	0	986	0
Total		103,565	125,113	1,542,438	422,682

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 Date/kuupäev..... 24.04.08
 Signature/allkiri.....
 L. V. C, Tallinn

SIGNATURES

The management board has prepared the management report and the consolidated financial statements for 2007.

The supervisory board has reviewed the annual report prepared by the management board, including the management report and the consolidated financial statements and the attached auditor's report and profit allocation proposal, and has approved its presentation to the general meeting of the shareholders.


Dmitry Ditchkovsky

Chairman of Management Board

 24.04.2008

Sergei Kusonski

Member of Management Board

 24.04.2008


Peeter Larin

Member of Management Board

 24.04.2008

Dmitri Podolinski

Member of Management Board

 24.04.2008

Remigiusz Pilat

Member of Management Board

 24/04.2008

Dace Markevica

Member of Management Board

 24/04.2008


Indrek Rahumaa

Chairman of Supervisory Board

 24/04.2008

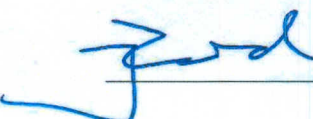
Zinaida Valekha

Member of Supervisory Board

 24.04.2008

Jaak Raid

Member of Supervisory Board

 24.04.2008



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Estonia

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS Silvano Fashion Group

We have audited the accompanying consolidated financial statements of AS Silvano Fashion Group, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 20 to 65.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AS Silvano Fashion Group as of 31 December 2007, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tallinn, 24 April 2008

KPMG Baltics AS

Taivo Epner
Authorized Public Accountant

PROFIT ALLOCATION PROPOSAL

The management board of AS Silvano Fashion Group is making the general meeting the following proposal:

To transfer the net profit for the year ended 31 December 2007 in the amount of EEK 186,914,000 to the retained earnings.

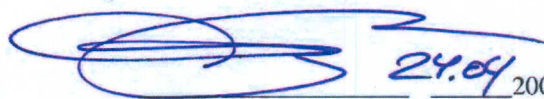
At 31 December 2007 retained earnings are allocated as follows:

Accumulated losses	EEK -987,000
<u>Profit for the period</u>	<u>EEK 186,914,000</u>
Total Retained earnings	EEK 185,927,000

Dmitry Ditchkovsky Chairman of Management Board

 24.04.2008

Sergei Kusonski Member of Management Board

 24.04.2008

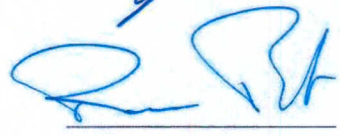
Peeter Larin Member of Management Board

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Dmitri Podolinski Member of Management Board

 24.04.2008

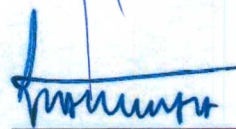
Remigiusz Pilat Member of Management Board

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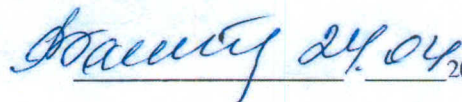
Dace Markevica Member of Management Board

 24/04 2008

Indrek Rahumaa Chairman of Supervisory Board

 24/04 2008

Zinaida Valekha Member of Supervisory Board

 24.04.2008

Jaak Raid Member of Supervisory Board

 24.04.2008