PTA GRUPP AS
LISTING AND TRADING PROSPECTUS

PTA Grupp AS (the “Company”), a limited liability company incorporated in Estonia, is currently listed on the I-List of the Tallinn Stock Exchange (TSE:PTAAT). On 22 August 2006, the Company announced through the Tallinn Stock Exchange that a share swap agreement was concluded on 21 August 2006 between the Company and SIA Alta Capital Partners, under which the Company is entitled to acquire up to 100% of all shares of AS Silvano Fashion Group (“Silvano”) together with certain subsidiaries of the latter (the “Transaction”).

The Transaction was approved by the Extraordinary General Meeting of shareholders of the Company on 5 September 2006. In connection with the Transaction, the Extraordinary General Meeting of shareholders of the Company resolved to increase the share capital of the Company by issuing 36,000,336 new shares of the Company (“New Shares”). The right to subscribe to New Shares was given exclusively to the shareholders of Silvano. All shareholders of Silvano have transferred their shares of Silvano to the Company, and by the date hereof the Company is a 100% shareholder of Silvano.

In connection with the issue of New Shares, the Company has applied for New Shares to be listed on the Tallinn Stock Exchange. Given the significant increase in the extent of the Company’s business following the completion of the Transaction, an application was also made to list all shares of the Company (“Shares”), including New Shares, on the Main List of the Tallinn Stock Exchange instead of the I-List on which such Shares are currently listed. The listing of Shares (including New Shares) on the Main List of the Tallinn Stock Exchange is hereinafter referred to as the “Listing”.

This listing and trading prospectus (the “Prospectus”) is prepared in connection with the Listing of Shares (including New Shares) on the Main List of the Tallinn Stock Exchange and does not constitute an offer by the Company or any of its shareholders to sell any Shares to any person or make any Shares available for subscription to any person.

By investing in Shares of the Company or trading in the same, you acknowledge that such activities involve risks. While every care was taken to ensure that this Prospectus presents a fair and complete overview of the risks related to Shares and the listing of such Shares on the Main List of the Tallinn Stock Exchange (please see section entitled “Risk Factors” below), the value of your investment may be adversely affected by circumstances that are either not evident at the date hereof or not reflected in this Prospectus.

30 OCTOBER 2006

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INTRODUCTORY INFORMATION

The Listing is conducted in accordance with and governed by the Estonian law. Before reading this Prospectus, please take notice of the following important introductory information.

Liability in Connection with the Prospectus

The person responsible. The person responsible for the information given in this Prospectus is PTA Grupp AS (registered address Akadeemia tee 33, Tallinn 12618, Estonia, the "Company"). PTA Grupp AS accepts responsibility for the fullness and correctness as of the date hereof of the information contained in this Prospectus. Having taken all reasonable care to ensure that such is the case, the Company believes that the information contained in this Prospectus is, to the best of the Company's knowledge, in accordance with the facts and contains no omission likely to affect its import.

PTA GRUPP AS
Management Board:

Peeter Larin

Marianne Paas

Limitations of liability. Without prejudice to the above, no responsibility is accepted by the persons responsible for the information given in this Prospectus solely on the basis of the summary of this Prospectus, unless such summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus.

The Company will not accept any responsibility for the information pertaining to the Listing, the Company or its operations (including those of Silvano), where such information is disseminated or otherwise made public by third parties either in connection with the Listing or otherwise.

By purchasing any Shares of the Company or trading in the same, you agree that you are relying on your own examination and analysis of this Prospectus (including the financial statements of the Company which form an indispensable part of this Prospectus) and any information on the Company that is available in the public domain (including any information published by the Company through the information system of the Tallinn Stock Exchange). You also acknowledge the risk factors that may affect the outcome of such investment decision (as presented under "Risk Factors" below).

Please note that in the case of a dispute related to this Prospectus, the plaintiff may have to resort to the jurisdiction of an Estonian court and consequently a need may arise for the plaintiff to cover relevant state fees and translation costs in respect of this Prospectus or other relevant documents.

Presentation of Information

Approximation of numbers. Numerical and quantitative values in this Prospectus (*e.g.* monetary values, percentage values *etc.*) are presented with such precision which is deemed by the Company to be sufficient in order to convey adequate and appropriate information on the relevant matter. From time to time, quantitative values have been rounded up to the nearest reasonable decimal or whole value in order to avoid excessive level of detail. As a result, certain values presented as percentages do not necessarily add up to 100 per cent due to the effects of approximation. Exact numbers may be derived from the financial statements of the Company, to the extent that the relevant information is reflected therein.

Currencies and exchange rates. In this Prospectus, financial information is presented either in Estonian kroons ("EEK"), the official currency of the Republic of Estonia, or the Euro ("EUR"), the official currency of the EU Member States participating in the European Economic and Monetary Union. The exchange rate between the Euro and the Estonian kroon is fixed at 15.6466 Estonian kroons for 1 Euro. Information that has been originally available in other currencies was converted to Euros or Estonian kroons as of the date for which such information is expressed to be valid. With respect to state fees, taxes and similar country-specific values, information may from time to time be expressed in currencies other than EEK or EUR. Such currencies may include the United States Dollar ("USD"), the Latvian Lat ("LVL"), the Lithuanian Litas ("LTL"), the Russian Rubble ("RUR") and the Belorussian Rubble ("BYR"), or other currencies. The exchange rates between the aforementioned currencies and the Euro may change from time to time. The exchange rates between the currencies relevant to this Prospectus and the Estonian kroon, as published by the Bank of Estonia, are presented below. Note that these exchange rates are included for illustrative purposes only and do not necessarily coincide with the exchange rates used in preparation of the financial information reflected in this Prospectus.

Exchange rates against EEK

	2003		2004		2005		2006 (to 30 June)	
	Average	Period-end	Average	Period- end	Average	Period- end	Average	Period-end
LVL	0.0409	0.0430	0.0425	0.0446	0.0445	0.0445	0.0445	0.0445
LTL	0.2207	0.2207	0.2207	0.2207	0.2207	0.2207	0.2207	0.2207
BYR	148.2337	174.2603	171.9458	189.6939	171.2550	162.9272	168.9325	174.0796
RUR	2.2152	2.3566	2.2880	2.4165	2.2485	2.1740	2.1740	2.1877
EUR	0.0639	0.0639	0.0639	0.0639	0.0639	0.0639	0.0639	0.0639
USD	0.0722	0.0806	0.0794	0.0872	0.0794	0.0756	0.0786	0.0812

Dating of information. This Prospectus is drawn up based on information which was valid as of 30 June 2006 (with the exception of the Section entitled "Capitalisation and Indebtedness", which in accordance with the applicable legislation is drawn up as of a date no earlier than 90 days from the date of this Prospectus, *i.e.* as of 31 July 2006). Where not expressly indicated otherwise, all information presented in this Prospectus (including the consolidated financial information of the Company, the facts concerning its operations and any information on the markets in which it operates) must be understood to refer to the state of affairs as of the aforementioned date. Where information is presented as of a date other than 30 June 2006, this is identified by either specifying the relevant date or by the use of expressions "the date of this Prospectus", "to date", "until the date hereof" and other similar expressions, which must all be construed to mean the date of this Prospectus (30 October 2006).

Documents on display. For the life of this Prospectus, the following documents (or copies thereof), where applicable (and subject to certain restrictions mentioned below), may be inspected: (a) the corporate documents of the Company; (b) all reports, letters and other documents, historical financial information, any part of which is included or referred to in this Prospectus, as well as (c) the historical financial information of the Company for each of the two full financial years preceding the date of this Prospectus. To the extent that such documents are not reflected in this Prospectus with reasonable fullness and do not in the sole judgement of the Company constitute business secrets of the Company or third parties, physical inspection of the documents will be arranged at the offices of the Company or by electronic post at the request of any interested party and subject to an agreement between the Company and such interested party regarding the means of inspection of the relevant documents. The above does not apply to the Articles of Association of the Company and the quarterly reports of the Company which are publicly available from the website of the Tallinn Stock Exchange - http://market.ee.omxgroup.com) at all times.

Third party information and market information. For portions of this Prospectus, certain information may have been sourced from third parties. Such information is accurately reproduced and as far as the Company is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. Certain information with respect to the markets in which the Company and its subsidiaries (or Silvano and its subsidiaries) operate is based on the best assessment made by the Management. With respect to the industry in which the Company and its subsidiaries (or Silvano and its subsidiaries) are active and certain jurisdictions in which they conduct their operations, reliable market information is often not available or is incomplete. While every reasonable care was taken to provide best possible assessments of the relevant market situation and the information on the relevant industry, such information may not be relied upon as final and conclusive. Investors are encouraged to conduct their own investigation of the relevant markets or employ a professional consultant. Information on market shares is presented based on the overall revenue from principal activities, unless specifically indicated otherwise.

Updates. The Company will update the information contained in this Prospectus only to such extent, at such intervals and by such means as required by the applicable law or stock exchange regulations, or as considered necessary and appropriate. The Company is under no obligation to update or modify forward-looking statements included in this Prospectus.

Results of Transaction. This Prospectus is drafted in connection with the Transaction and, to the extent possible, presents an overview of the business operations of both the PTA Group and the Silvano Group. By the date of this Prospectus, the Transaction is completed and the Company is a 100% shareholder of Silvano. The issue of New Shares is registered in the Estonian commercial register and the shareholders of Silvano have become shareholders of the Company. However, the integration between the PTA Group and the Silvano Group has not yet started. Any consolidated information presented in relation to the Company and Silvano, as well as any statements pertaining to the state of affairs after the completion of the Transaction, should be treated as discussion material and best estimate only and do not reflect the actual situation as of the date of this Prospectus.

Information on the Silvano Group. Silvano was legally not a subsidiary of the Company until 16 October 2006. While every effort was made to present a fair and accurate account of all affairs of Silvano and the Silvano Group (in particular, under Section entitled "Operations of the Silvano Group"), such account is based on information provided to the Management by the management of Silvano and has not been independently verified by the Company. The Company has assumed for the purposes of this Prospectus that all information received from the management of Silvano is true and correct and does not contain any omission that is likely to affect its import. However, the Company will not accept any liability in connection with any information of forward-looking statements contained in the Section entitled "Operations of the Silvano Group" or elsewhere in this Prospectus pertaining to the Silvano Group.

References. Certain parts of the Prospectus refer to information available from the website of the Tallinn Stock Exchange. All such information may be found at the section of the website of the Tallinn Stock Exchange dedicated to the Company. Such section is located at http://www.baltic.omxgroup.com/market/?currency=0&pg=details&instrument=EE3100001751&list=3. Alternatively, such section may be found by browsing to the website of the Tallinn Stock Exchange (http://www.baltic.omxgroup.com/market) and selecting Trading Info –> Baltic Equity Lists –> PTAAT from the available menus. The information in question is the following:

- Articles of Association of the Company and the quarterly reports of the Company (pages 5 and 15 of the Prospectus);
- Information on the completion of the Transaction (page 24 of the Prospectus);
- Previously published unaudited pro forma consolidated financial information of Silvano (page 32 of the Prospectus);
- Information on the takeover bid launched by OÜ Alta Holding to the shareholders of the Company on 13 August 2002 (page 57 of the Prospectus).

Table of definitions. In this Prospectus, capitalized terms have the meaning ascribed to them hereunder, with the exception of such cases where the context evidently requires to the contrary. Terms are listed in alphabetical order and the list is limited to the terms which are considered to be of more importance. Other terms may be defined elsewhere in the Prospectus.

Company	PTA Grupp AS (whereas a reference to "us", "our" and "we" should be construed to represent a reference to the Company)
ECRS	Estonian Central Register of Securities
Group	PTA Group and Silvano Group together
IFRS	International financial reporting standards, as adopted by the European Union
Issue	The issue of New Shares of the Company
Klementi	AS Klementi (Estonia)
Management	The Management Board of the Company
MTCB	SOOO Milavitsa Trading Company (Belarus)
MTCU	OOO Milavitsa Trading Company (Ukraine)
New Shares	New shares of the Company to be issued in connection with the Transaction
Prospectus	This registration document
PTA Group	The Company and any and all of its subsidiaries
Section	A section of this Prospectus
Shares	New Shares and any other existing shares of the Company (A-shares)
Silvano	AS Silvano Fashion Group
Silvano Group	Silvano and any and all of its subsidiaries
STK	ZAO STK Milavitsa (ZAO Metropolitan Trade Company Milavitsa)
Summary	Summary of this Prospectus
Transaction	The acquisition by the Company of 100% shares of Silvano

Financial and Operational Information

The Company has applied the international financial reporting standards, as adopted by the European Union ("IFRS") in its accounting and the preparation of its statutory annual reports for the whole period covered by the historical financial information (*i.e.* including financial years ended 31 December 2003, 31 December 2004 and 31 December 2005).

This Prospectus includes consolidated financial statements of the Company for the interim period ended 30 June 2006 and the consolidated financial statements of the Silvano Group for the same period, neither of which had been audited. Certain financial and operational indicators that are not reflected in the interim financial statements are at the date of this Prospectus not available for the period extending beyond 31 December 2005 and therefore in some cases information has been presented for financial year ended 31 December 2005 only.

For more information on the manner in which the financial information of the entities belonging to the Silvano Group is presented, please see "Financial Statements" below.

Forward-Looking Statements

This Prospectus may include forward-looking statements (notably under Sections entitled "Summary", "Risk Factors", "Dividend Policy", "Operations" and "Results of Operations and Outlook"). Such forward-looking statements are based on current expectations and projections about future events, which are in turn made on the basis of the best judgment of the Management. Certain statements are based on the beliefs of the Management as well as assumptions made by and information currently available to the Management. Any forward-looking statements included in this Prospectus are subject to risks, uncertainties and assumptions about the future operations of the PTA Group and the Silvano Group, the macro-economic environment and other similar factors.

In particular, such forward-looking statements may be identified by use of words such as "strategy", "expect", "plan", "anticipate", "believe", "will", "continue", "estimate", "intend", "project", "goals", "targets" and other words and expressions of similar meaning. Forward-looking statements can also be identified by the fact that they do not relate strictly to historical or current facts. As with any projection or forecast, they are inherently susceptible to uncertainty and changes in circumstances, and the Company is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements contained in this Prospectus whether as a result of such changes, new information, subsequent events or otherwise.

The business in which the Company is engaged may be affected by changes in domestic and foreign laws and regulations (including those of the European Union), taxes, developments in competition, economic, strategic, political and social conditions, consumer response to new and existing products and services and technological developments and other factors. The PTA Group's and the Silvano Group's actual results may differ materially from the Management's expectations because of the changes in such factors. Other factors and risks could adversely affect the operations, business or financial results of the PTA Group and the Silvano Group (please see "Risk Factors" for a discussion of the risks which are identifiable and deemed material at the date hereof).

Use of this Prospectus

This Prospectus is prepared solely for the purposes of the Listing and may not be construed as a warranty or a representation to any person not owning or intending to trade in Shares. No public offering of Shares is conducted in any jurisdiction and consequently the dissemination of this Prospectus in some countries may be restricted or prohibited by law. You may not use this Prospectus for any other purpose than for making the decision of conducting any trading activities with Shares on the Tallinn Stock Exchange. You may not copy, reproduce (other than for private and non-commercial use) or disseminate this Prospectus without express written permission from the Company.

SUMMARY

This Summary should be read as an introduction to the Prospectus and it summarizes the facts and circumstances that we, in our absolute discretion, consider important with respect to our business. Any decision to invest in Shares and engage in any trading activities involving Shares should be based by each investor on the Prospectus as a whole and not merely on this Summary.

Prospective investors are cautioned that where a claim relating to the information contained in the Prospectus (or this Summary) is brought before a court, the plaintiff investor might, under the national legislation of the relevant state, have to bear the costs of translating the entire Prospectus or the Summary before court proceedings are initiated. We accept civil liability in respect of this Summary solely in the case where this Summary is found to be misleading, inaccurate or inconsistent when read together with the Prospectus as a whole.

Business and history of the PTA Group

Business at a glance

The PTA Group is an international apparel production and trading group which is engaged in two primary lines of business: (i) the design, manufacturing and marketing of women's apparel and (ii) the provision of sewing subcontracting services. Production facilities of the PTA Group are based in Tallinn and are operated by Klementi, which is a wholly-owned subsidiary of the Company. Certain production capacities are outsourced to other producers. The PTA Group employed 377 personnel as of 30 June 2006.

The apparel business generates revenue separately through wholesale and retail activities. With respect to sewing, the PTA Group is since recently pursuing a strategy of gradual transition from the business which is orientated primarily to technical sewing subcontracting services to offering higher-yield full service sewing, where the whole production cycle of a particular garment is completed by Klementi and the output is a finished product.

Recently, the PTA Group took steps to firmly extend its apparel retail operations to Latvia, Lithuania and Ukraine and concluded an important cooperation agreement with a Finnish retail chain Anttila, which is expected to increase sales to Finland. With the improvement of the PTA Group’s retail revenue and the expansion of retail network, the PTA Group hopes to maintain and grow profitable operations.

History and development

The predecessor of the Company (sewing team “Osta”) was established in 1944. Based on the sewing team, a sewing factory named after V. Klementi was established in 1950 in Tallinn, Estonia. The enterprise operates on its current location at Akadeemia tee, Tallinn, since 1973. Following the collapse of the Soviet Union, the enterprise was transformed into a state public limited company (RAS Klementi) and remained in state ownership until 1994. In 1994, 80% of Shares of the Company were privatized by AS Klementi Kaubandus, a company established by the employees of RAS Klementi. The remaining 20% of shares were privatised through a public offering in 1995. From 1997, the Company is listed on the I-List of the Tallinn Stock Exchange. A Finnish garment manufacturer P.T.A. Group Oy acquired control over the Company in 1999, but went bankrupt shortly thereafter in 2000. The Company’s export operations were hit hard and it started generating losses. The majority stake in the Company was acquired by AS Alta Capital (an Estonian investment company) in 2002 and reorganisation process started. The “PTA” trademark was developed in 2004 and the Company has decided to discontinue the use of the trademark “Klementi” and focus on the “PTA” concept. In the second half of 2004 the Company changed the branding of its shops to “PTA” and decided to expand and develop retail operations. In the first half of 2006, the PTA Group reported the first profitable half-year since 2000.

Transaction

On 21 August 2006, the Company concluded a share swap agreement with SIA Alta Capital Partners, under which the Company was entitled to acquire up to 100% of all shares of Silvano together with certain subsidiaries of the latter in exchange for issuing new shares of the Company (New Shares) to the shareholders of Silvano. The subsidiaries of Silvano include the leading producer of lingerie in Belarus – Milavitsa, the leading producer of lingerie in Latvia – Lauma Lingerie and a Russian retail company Linret. The Transaction was approved by the Extraordinary General Meeting of shareholders of the Company on 5 September 2006. In connection with the Transaction, the Extraordinary General Meeting of shareholders of the Company resolved to increase the share capital of the Company by issuing 36,000,336 New Shares. The right to subscribe to New Shares was given exclusively to the shareholders of Silvano. The acquisition of Silvano was completed on 16 October 2006, by which date the Company became a 100% shareholder of Silvano.

Business and History of the Silvano Group

Business at a glance

The Silvano Group is a newly consolidated international lingerie production and trading group, which is engaged in the manufacturing and marketing of lingerie products as well as in the provision of sewing subcontracting services. The Silvano Group is active mainly in the Baltic States, Belarus, Russia and Ukraine, but also has sales to other CIS markets as well as to Western Europe. Silvano itself does not have any business activities. It is the parent and holding company for Lauma Lingerie, Milavitsa and Linret.

Lauma Lingerie is the largest manufacturer of lingerie in the Baltic States. Lauma Lingerie produces and sells lingerie under the brands of "Lauma" and "Laumelle". The main geographic markets for Lauma Lingerie's products are the Baltic States, Russia and other Eastern markets. In addition to its lingerie business, Lauma Lingerie offers sewing subcontracting services by manufacturing lingerie products which are marketed under other brands owned by long term cooperation partners in Western Europe, mainly in the UK and Germany. Lauma Lingerie's annual production currently exceeds 1.5 million pieces. Lauma Lingerie employed app. 500 personnel as of 30 June 2006.

Milavitsa is a Belarusian production company which manufactures and markets lingerie products under such trademarks as "Milavitsa", "Aveline" and "Alisee" and provides sewing subcontracting services for other manufacturers of lingerie (in 2006 mainly to Lauma Lingerie). It operates one of the biggest lingerie factories in Europe. Milavitsa's annual production exceeds 14 million pieces. Milavitsa's own branded products are marketed mainly in Belarus, Russia and Ukraine, but also in other CIS markets. Milavitsa's brands are among the best recognised in Russia. Milavitsa employed 2,009 personnel as of 30 June 2006.

Linret is a recently established Russian retail company, which operates lingerie retail outlet chain "Oblicie", marketing the products of Lauma Lingerie and Milavitsa in Russia. Presently, Linret has six "Oblicie" stores in operation. It is planned that in future Linret will start selling "PTA" branded products through a women's apparel retail outlet chain under the trademark of "PTA" in Russia (and possibly other CIS markets). A number of lease agreements have been concluded by Linret for the opening of "PTA" stores, but none have been opened so far. Linret employed 30 personnel as of 30 June 2006.

History and Development

Silvano was established in 2005. In March 2006, Silvano acquired 100% of Shares of Linret and in July 2006, Silvano acquired approximately 60% of Shares of Milavitsa and 100% of Shares of Lauma Lingerie. Silvano does not have a history of active operations.

Lauma Lingerie's predecessor (AS Lauma) was established in 1960s in Liepaja, Latvia. By the end of 1980s, Lauma's products were popular throughout the territory of the Soviet Union, and Lauma started exporting to Europe. The state enterprise Lauma was privatised in 1994 and it was reorganised to joint stock company AS Lauma. In October 2005, AS Lauma decided to separate fabrics operations from its lingerie business. As a part of this process, Lauma Lingerie was established by way of a carve-out of the lingerie activities of AS Lauma. Lauma Lingerie acquired the lingerie operations and related inventory and other fixed assets from AS Lauma on 16 December 2005 and started independent operations.

Milavitsa's predecessor was established in Belarus in 1908. Since 1964, the factory has specialized in lingerie products. In 1968, the enterprise started to export a part of its output for the first time. In 1991, the factory stepped up its branding efforts and was renamed to "Milavitsa". This marked the start of a turbulent decade of changes, privatisation, reorganisations and investments. The reorganisation was completed by registering Milavitsa under its current legal form and name in 2000, following the acquisition of Milavitsa's shares by a foreign investors, Iluna Group SPA from Italy and the European Bank for Reconstruction and Development from the UK. From 2003 to 2005, Milavitsa invested in modernizing its manufacturing line and in 2004-2005 it began streamlining its distribution network. In the process, Milavitsa transferred its wholesale operations in Russia to its newly established subsidiary STK and its wholesale and retail activities in Belarus to another newly established subsidiary MTCB. In June 2005, STK acquired a 26% stake in MTCU in Ukraine with the purpose of enhancing the distribution of Milavitsa's goods in Ukraine.

Linret was established in 2005. It serves as the base for the roll-out of the lingerie and women's apparel retail network in Russia and other CIS markets. To date, Linret has concluded close to 40 lease agreements with various shopping malls in Russia in order to secure premises for future "Oblicie" and "PTA" retail outlets and has already opened six "Oblicie" outlets in various Russian cities.

Management of the Company

In accordance with the Estonian law, the everyday activities of the Company are managed by the Management Board. The Management Board of the Company currently consists of two members, whose authorities are valid for three years since appointment. According to the Articles of Association of the Company, the Management Board may have from 1 to 7 members. The Management Board reports to the Council, which is responsible for strategic management of the Company's operations. According to the Articles of Association of the Company, the Council consists of 4 to 5 members who are appointed by the General Meeting of shareholders for a period of 5 years. The highest governing body of the Company is the General Meeting of shareholders.

The members of the Management Board of the Company are Mr. Peeter Larin and Ms. Marianne Paas. The members of the Council of the Company are Mr. Indrek Rahumaa, Mr. Andres Rätsepp, Mr. Sven Mansberg and Mr. Toomas Leis.

Combined Management

Following the completion of the Transaction, it is contemplated that the operations of the PTA Group and the Silvano Group will be managed on the level of the Company by the new combined management. The functional structure of the combined management of the Group after the completion of the Transaction will consist of the following business segments: (i) "PTA" concept, (ii) lingerie concepts ("Milavitsa" and "Lauma") and retail, (iii) finance, (iv) production and logistics, (v) IT, (vi) HR and (vii) legal. The Management Board of the Company will include four members responsible for such business segments – respectively Mr. Peeter Larin (i), Mr. Dmitry Podolinski (ii), and Ms. Dace Markevica (iii); Mr. Sergei Kusonski will serve as the CEO and Vice President of the Company and will be directly supervising segments (iv)-(vii). Mr. Dmitry Ditchkovsky will act as a Chairman of the Management Board and the President of the Company. The new Council of the Company will be led by Mr. Pavel Daneiko and include Indrek Rahumaa, Jaak Raid and Edgars Štelmahers.

Articles of Association and Share Capital

The Articles of Association of the Company are in all material aspects in accordance with the requirements of the Estonian law. The latest version of the Articles of Association was adopted by a resolution of the General Meeting of shareholders on 5 September 2006.

The current registered share capital of the Company is EEK 379,471,980. It is divided into 37,947,198 Shares with the nominal value of EEK 10 each.

Capitalisation and Indebtedness

As of 31 July 2006, the volume of the balance sheet of the Company stood at approximately EEK 62.3 million. Current assets stood at EEK 47.2 million (75.7% of the balance sheet) and non-current assets stood at EEK 15.1 million (24.3% of the balance sheet). As of 31 July 2006, the total liabilities were EEK 43.6 million, resulting in total net assets of EEK 18.7 million (19.9% increase over the balance sheet dated 31 December 2005). The indebtedness of the Company comprises several secured loans from AS Hansapank.

Lauma Lingerie did not have any interest-bearing liabilities as of 31 July 2006. Milavitsa also did not have any interest-bearing loans as of 31 July 2006 but had certain finance lease obligations in the amount of some EEK 23 million. The only interest-bearing liability of Linret as of 31 July 2006 was an unsecured loan from Silvano in the amount of approximately EEK 8 million.

Summary Financial Information

Important notice: please refer to Section entitled "Selected Financial Information" for an extended version of the below table, as well as the list of the relevant notes and assumptions.

	Year ended 31 December				
Income statement (EEK in thousands)	**2003**	**2004**	**2005**	**2005 H1**	**2006 H1**
Revenue	**135 884**	**132 194**	**132 473**	**58 194**	**61 307**
Operating profit	**-15 918**	**-6 124**	**2 938**	**-3 152**	**3 869**
Profit before income tax and minority interests	-21 641	-11 901	-2 855	-5 639	3 293
Net profit for the financial period*	**-21 641**	**-11 901**	**-3 215**	**-5 639**	**3 029**
Balance sheet (EEK in thousands)	**2003**	**2004**	**2005**	**2005 H1**	**2006 H1**
Cash and cash equivalents	2 916	3 400	2 831	2 956	3 514
Trade receivables	14 862	9 906	3 052	5 649	2 400
Non-trade receivables	2 042	2 845	2 614	3 668	2 323
Inventories	33 284	28 255	25 496	27 996	34 758
Current assets	**53 104**	**44 406**	**33 993**	**40 269**	**42 995**
Long-term investments	1 173	955	750	851	650
Total fixed assets	60 403	52 896	10 536	50 329	8 363
Intangible assets	7 306	7 574	6 622	7 084	6 589
Total non-current assets	**68 882**	**61 425**	**17 908**	**58 264**	**15 602**
Total assets	**121 986**	**105 831**	**51 901**	**98 533**	**58 597**
Current liabilities	**66 919**	**61 753**	**35 893**	**72 557**	**35 505**
Non-current liabilities	**25 555**	**26 392**	**450**	**12 545**	**4 518**
Total liabilities	**92 474**	**88 145**	**36 343**	**85 102**	**40 023**
Total shareholders´equity	**29 512**	**17 686**	**15 558**	**13 431**	**18 574**
Total liabilities and shareholders equity	**121 986**	**105 831**	**51 901**	**98 533**	**58 597**
Cash flow data (EEK in thousands)	**2003**	**2004**	**2005**	**2005 H1**	**2006 H1**
Cash flow from operating activities	-22 159	3 704	1 458	2 010	-1 708
Cash flow used in investing activities	-2 056	2 358	50 499	-1 360	-4 475
Cash flow from financing activities	22 646	-5 578	-52 526	-1 094	6 866
Ratios and indicators	**2003**	**2004**	**2005**	**2005 H1**	**2006 H1**
Weighted average number of shares	1 644 820	1 896 875	1 935 916	1 924 776	1 946 875
Earnings per share (EPS), EEK	-13.19	-6.27	-1.66	-2.93	1.56
Revenue per employee (EEK in thousands)	279	295	320	139	163
EBITDA (EEK in thousands)	-8 346	1 486	9 888	330	6 569
EBITDA margin %	-6.1%	1.1%	7.5%	0.6%	10.8%
Operating profit margin %	-11.7%	-4.6%	2.2%	-5.4%	6.3%
Return on investment (ROI) %	-29.2%	-15.3%	8.3%	-8.9%	9.9%
Return on assets (ROA) %	-17.7%	-10.4%	-4.1%	-5.5%	5.5%
Return on equity (ROE)%	-66.2%	-50.4%	-19.3%	-36.3%	17.7%
Equity ratio %	24.2%	16.7%	29.9%	13.6%	31.7%

* attributable to the equity shareholders of the parent company

Risk Factors

The business of the Company involves risks, which may be related to the industry in which it operates, to certain specific features of its operations or to the environment in which it and its affiliates conduct their business. In addition, trading in Shares of the Company involves certain risks and dangers. Please refer to Section entitled "Risk Factors" for an overview of such risks that the Company is aware of and considers material.

Major Shareholders and Related Party Transactions

The principal shareholder of the Company with approximately 73.8% of the share capital is SIA Alta Capital Partners. Currently, the Company is controlled by SIA Alta Capital Partners which is acting in concert with OÜ Alta Investments I, Bryum Estonia AS, Alta Capital AS, OÜ Alta Holding, OÜ Merona Holding and Sarto Holding OÜ (together holding over 77.6% of all Shares of the Company). The Company is ultimately under the joint control of Indrek Rahumaa, John Bonfield, Andres Rätsepp and Toomas Leis. With the exception of one transaction in the first half of 2006 where goods were purchased from OÜ GC Fashion (a shareholder of OÜ GC Fashion is a member of the Management Board of the Company) in the total amount of EEK 329 thousand, the Company did not recently engage in any material transactions with related parties.

Effect of the Transaction on the Ownership Structure

Following the Transaction and with the registration of New Shares in the Estonian commercial register, the ownership stakes of the existing shareholders of the Company represents approximately 5.1% of the total share capital of the Company. Some 94.9% of all Shares are held by the shareholders of Silvano who have chosen to exchange their shares in Silvano for Shares of the Company. Such shareholders include SIA Alta Capital Partners (the former majority shareholder of Silvano) and a number of institutional investors who have participated in previous share issues carried out by Silvano.

Listing of New Shares

At the date hereof, Shares of the Company (except New Shares) are listed on the I-List of the Tallinn Stock Exchange. In connection with the Transaction, the Company has applied for the listing of all its Shares (including New Shares) on the Main List of the Tallinn Stock Exchange. The Company will take all necessary measures in order to comply with the Tallinn Stock Exchange rules so that its application will be approved.

Auditors and Legal Advisors

The auditors of the Company for financial year 2006 are KPMG Baltics AS (Ahtri 10A, Tallinn 10151, Estonia). The principal legal advisors to the Company are AS Advokaadibüroo Lepik & Luhaäär LAWIN, address Dunkri 7, Tallinn 10123, Estonia.

Information Available for Inspection

For the life of the Prospectus, the following documents (or copies thereof), where applicable (and subject to certain restrictions mentioned below), may be inspected: (a) the corporate documents of the Company; (b) all reports, letters and other documents, historical financial information, any part of which is included or referred to in this Prospectus, as well as (c) the historical financial information of the Company for each of the two full financial years preceding the date of this Prospectus. To the extent that such documents are not reflected in this Prospectus with reasonable fullness and do not in the sole judgement of the Company constitute business secrets of the Company or third parties, physical inspection of the documents will be arranged at the offices of the Company or by electronic post at the request of any interested party and subject to an agreement between the Company and such interested party regarding the means of inspection of the relevant documents. The above does not apply to the Articles of Association of the Company and the quarterly reports of the Company which are publicly available from the website of the Tallinn Stock Exchange - http://market.ee.omxgroup.com) at all times.

RISK FACTORS

This overview of the various risk factors related to the Company's business represents what we, in our absolute discretion, consider to be of material importance in relation to our present and future operations. While we consider the following to be a fair, full and comprehensive disclosure of all relevant risk factors, this overview (either in conjunction with the Summary or alone) is not a substitute for the rest of the Prospectus and should not be perceived as such. We stress that a full and accurate assessment of our operations may only be made on the basis of the entire Prospectus. Furthermore, the operations of the Company may be affected by risks that are either not known or have not materialised by the date of this Prospectus. Should such risks emerge, the value of the investment made in Shares of the Company may suffer.

Industry-Specific Risks

Tight competition on the women's apparel market

The competition in the women's apparel market is already intense in all of the newly formed Group's target markets. There are several traditional domestic brands in each of the Group's markets and from time to time new international fashion brands may enter the market, while competition is already tight between several international and domestic manufacturers of clothing. Therefore, even though the PTA Group is among the largest Estonian apparel manufacturers, its market share on its home market of Estonia is estimated to be around 4%. In other geographic markets, the PTA Group's market share is lower. In such a competitive environment smaller manufacturers may easily fail in finding and maintaining their niche and loose market share to large international apparel manufacturers.

Competition on the lingerie market is increasingly intense

Though still considerably less intense than the women's apparel market, the lingerie market within the Baltics and Eastern Europe (including Russia) is increasingly competitive. On one hand, international brands such as "Triumph", "Incanto", "Felina" and "DIM" are expanding their activities in these geographical areas, in particular in the upper market segments. On the other hand, low cost Eastern European and Asian producers are exerting competitive pressure in the lower market segments. Furthermore, there are a number of local competitors who are active in the same geographical markets (such as the Russian lingerie manufacturer Palmetta, Estonian Linette, Latvian manufacturers Rosme and V.O.V.A). Therefore, in order to be competitive, all members of the newly formed Group will have to be able to constantly come up with high quality fashionable products and accommodate their branding efforts to the specific expectations of consumers in their target markets. Failure to keep pace with the latest fashion trends, incorrect placement of products or inability to accurately assess market expectations may have an adverse effect on revenue and profitability.

Competition for new retail premises

Competition for finding suitable retail space and warehouses in most of the newly formed Group's target markets has intensified considerably over the past years. A deficit of new shopping centre developments and the lack of retail space are particularly evident in the Eastern European markets including Russia. The Group's outlook depends to certain extent on the possibility to roll out two retail networks ("Oblicie" and "PTA") based in newly developed state of the art shopping malls in Russia and possibly in other markets. So far, the Group's Russian retail arm (Linret) has been successful in securing a substantial amount of retail space in such new shopping malls (see "Operations of the Silvano Group – Real Estate and Leased Premises"). However, there is no assurance that this tendency will continue in the future.

Securing suitable premises for expanding retail activities may also be an obstacle in the Baltic markets. Even though many new shopping centres and other suitable facilities have been built in the Baltic States in the recent years, many of the most favourable sales venues are already occupied by other manufacturers that are currently present in the relevant markets. This circumstance may affect the ability of the Group to expand its retail operations in the Baltic States which are especially important in terms of sales of "PTA" branded women's apparel.

Demand for Group's products

Due to the intense competition in all relevant markets, the Group's success is highly dependent on efficient marketing policy, which should ensure continuous demand for the Group's products through maximum consumer satisfaction both in terms of product quality and shopping assistance. While demand for clothing and lingerie is generally not overly elastic, it may fluctuate considerably within the relevant sectors as consumer preferences change and evolve. Therefore, appropriate branding and pricing, right timing of discounts and campaigns as well as quality in-store service are of utmost strategic importance to the Group. Even minor errors in assessing the consumers' behaviour may adversely affect the demand for the Group's products and thus have a negative effect on sales. As an example, in 2005 the Company experienced considerable decrease in the sales of "PTA" branded apparel to the Scandinavian countries due to improper positioning of products within the relevant apparel market.

Cost of raw materials

In lingerie and women's apparel manufacturing, costs of raw materials such as high quality fabrics and lace may comprise over 50% of the total costs of goods sold. The Group is not itself engaged in the manufacturing of raw materials and must therefore rely on external supplies in order to maintain and increase levels of production. Therefore, the Group is unable to fully control its supplies. Temporary or permanent disruptions in supplies and/or significant fluctuations in costs of raw materials will have an almost immediate effect on the output of the Group's manufacturing entities and the cost of its products. Depending on the type and extent of supply disruptions and/or price fluctuations, either the Group's producing capacity or its ability to compete with the prices offered by competitors with better access to raw materials may suffer. This risk is somewhat reduced by the fact that the principal shareholder of the Company SIA Alta Capital owns SIA Lauma Fabrics, which is among the major suppliers of Lauma Lingerie and Milavitsa.

Rising personnel costs

The production of both lingerie and women's apparel is highly labour-intensive and involves delicate handling and sewing operations that do not lend themselves to full automation. Therefore, labour costs represent a significant share of the Group's manufacturing expenses (around 30% in the Baltics and around 15% in Belarus) and have a direct effect on its competitiveness and profitability. The range of skilled workforce at the present salary levels is already limited in the Baltic States and in the long term also in the Eastern Europe. Growing labour costs pose risks for maintaining product competitiveness with respect to prices and may hinder the expansion of the Group's production capacity in the future. A significant manufacturing capacity that has been acquired by the Group in Belarus provides solid protection against labour shortages and personnel costs in the short and middle term, but may loose a part of its appeal in the long term as the Belorussian economy catches up with that of the rest of Eastern and Central Europe. Hence, the Group may in the future have to outsource its manufacturing to a greater extent than thus far, and start partially relying on sewing services purchased from third countries. Such increased share of outsourcing may create greater risks of delays, quality and communication issues, as well as having the effect of increasing the administration costs of the Group.

Rising rental costs

With the full roll-out of the "Oblicie" and "PTA" retail chains in Russia and possibly other neighbouring countries, the Group (through Linret) will incur significant semi-fixed rental costs on a monthly basis. Considering the tight competition for suitable rental premises in the bigger cities on the relevant markets, Linret may be forced to increase rental spending in order to maintain its trade locations. As a result, profitability of Linret's operations may suffer. Moreover, each of the Company, Klementi and Lauma Lingerie operate on leased premises and do not fully control the amount of rent that is being charged for the use of such premises. Therefore, such entities are also to a certain extent exposed to the risk of higher rental costs. At the same time, all rented premises are prone to termination risk to a certain degree, subject to conditions of contract. Though Linret will attempt to negotiate best possible terms at all times, it cannot be excluded that larger and more popular shopping malls would be successful in imposing their own conditions of lease, including with respect to the possibilities for premature termination. Should one or more agreements be prematurely terminated, Linret (or any other entity that is prone to termination risk) may suffer temporary setbacks in terms of revenue and profit.

Upcoming income tax reform in Estonia

Since 2000, Estonia is running a system of corporate income tax which is favourable for investment- and growth-oriented undertakings. Retained earnings are fully exempt from corporate income tax and only profit distributions in their various forms are taxed. Therefore, corporations can re-invest profits without triggering income taxation. The European Commission considers this system to be contrary to the EU law. The EU rules require that dividends paid to shareholders who hold over 10% of shares in a company are not taxed at the source (*i.e.* in the country of incorporation of the company paying the dividends) and Estonia must comply with these rules by 1 January 2009. At this time, it is highly likely that starting from 2009, Estonian companies will have to pay corporate income tax on earnings. It is presently not known what the main features of the new income tax system would be and it is therefore conceivable that the upcoming changes would have an adverse effect on the financial results of the Group and its ability to sustain current rates of investment and growth.

Business Risks

Expansion of business may be difficult to manage

Following the completion of the Transaction, the strategy of the Group will involve the opening of up to 90 “Oblicie” retail shops in Russia before the end of 2008, as well as the considerable expansion of the “PTA” chain and increasing the manufacturing output of the Group. The Group intends to conduct retail operations both within the existing and in new geographic markets. The expansion of operations is expected to benefit growth in terms of revenues and profits, as well as to contribute to the economies of scale in multiple areas such as logistics, IT and marketing. However, the rapid expansion of the Group may lead to administrative and structural difficulties. Managing international operations of an increasing scope, where different entities may operate in different economic and legal environments, will pose a mounting challenge for the executive team of the Group and may ultimately result in higher administration costs and a slower rate of expansion. At the same time, the contemplated top management of the Group already possesses considerable experience in running international operations.

Top and middle-level human resources are limited

So far, both the PTA Group and the Silvano Group (including the individual entities belonging to the same) have been successful in attracting and retaining qualified top and middle-level management personnel. The contemplated combined management of the newly formed Group (see “Combined Management”) as well as the local management of each Group entity comprises top professionals in the relevant areas with significant experience in their respective fields. However, the expansion of the Group will translate into a growing demand for skilled management personnel to fill new emerging positions in the central management and on the spot. It cannot be guaranteed that suitable personnel will always be easily available where and when required. Failure to attract quality human resources on time may have the effect of slowing down the expansion of the Group and ultimately entail higher hiring and maintenance expenses.

Dependence on essential supplies

The manufacturing of high quality lingerie products and apparel is greatly dependent on the quality of fabrics (and, in the case of lingerie, lace). The manufacturing entities of the newly formed Group depend on certain key suppliers whose supplies have historically been used in the manufacturing of the PTA Group, Lauma Lingerie and Milavitsa products. Therefore, the loss of certain key suppliers could have noticeable negative effects on the business of the Group. Substitutes for the products of the established suppliers (including matching colours and textures) would be hard to secure. For this reason, the products of the Group might have to be re-developed based on alternative fabrics and other material in the event of a loss of a key supplier. Market success of such new products cannot be guaranteed and supply prices could be higher in case of alternatives. Hence, the loss of key suppliers or temporary supply problems may have considerable negative effects on the Group’s output and sales.

Dependence on major distributors

The Group has a limited number of significant distributors, who generate a notable proportion of the Group’s total sales revenue. Some distributors act simultaneously as wholesalers and retailers of the Group’s products, as well as intermediaries between the Group and other wholesalers. Such distributors may have substantial bargaining power in relations with the Group, as the termination of the distributorship with such distributors or the involvement of competing distributors or temporary issues in business relations may have considerable adverse effect on the sales of the Group.

Interest rates

Some of the interest-bearing obligations of the Company (see more under “Capitalisation and Indebtedness”) are tied to the EURIBOR base rate. Therefore, increases in the European Central Bank interest rates (and, consequently, increases of the EURIBOR base rate) will lead to a corresponding increase in the financial costs of the Group. However, such increases are not likely to have a significant effect on the overall results of operations on account of the negligible amount of EURIBOR-dependent financial obligations relative to total capitalisation. Apart from the above-mentioned obligations of the Company, the Group does not have any noticeable external financial obligations that would be prone to interest rate risk.

Currency exchange

Estonia and Lithuania joined the Exchange Rate Mechanism (ERM II) in June 2004 and Latvia joined the ERM II in May 2005, as a result of which the central exchange rates for their national currencies against the Euro were fixed. Under ERM II, the three countries' currencies must not deviate by more than 15% up or down against the Euro from the agreed rates. Estonia’s and Lithuania’s hopes to start using Euro notes and coins from 1 January 2007 have, however, recently proved unrealistic. The possible date for the Euro's introduction in Latvia is likely to be even further away in light of high inflation and a heavy current account deficit. A delay in the transition to the Euro may ultimately lead to a drop in consumer confidence and the overall decline in the growth rates of the Baltic economies. When completed, the transition to the Euro in the Baltic States may pose a currency exchange risk which may materialise through changes in the current exchange rates between national currencies and the Euro.

The effect of currency exchange rates on costs and profitability is more probable with respect to Russia, Ukraine and Belarus (and, in the future, possibly with respect to other Eastern European markets) where the national currencies are not tied to the Euro. Presently, however, the Group does not consider it necessary to hedge itself from the currency risk in Russia, Ukraine and Belarus as future exchange rate trends are difficult to predict and the pricing of the relevant financial instruments is currently not seen as favourable.

Dependency on key personnel

Conducting successful operations in Russia and other neighbouring countries the relevant markets requires a notorious amount of local know-how and experience which takes years to develop. At the same time, the largest of the Group's production facilities (the Milavitsa's Minsk factory) is situated in the controversial and complicated legal, political and economic environment of Belarus. For navigating in the aforementioned markets, the Group intends to rely on the experience of certain management personnel with a proven track record in retail lingerie and clothing in the same (see "Combined Management" for more information). Should any of such key employees part paths with the Group, the impact on the Russian and CIS operations may be significant, while recruiting equivalent replacement may take considerable time to accomplish and may not always be practically feasible.

Risks Related to Operations in Foreign Markets

Local connections take time to develop

Certain Eastern European markets are to a significant extent based on personal relations between the various market participants. As an example, securing suitable premises for new retail outlets in Russia, Ukraine and Belarus normally requires a noticeable degree of personal approach to the contractual partners, which would be unfamiliar to companies operating exclusively in the Baltic States. To this end, the Russian, Ukrainian and Belorussian entities of the Group are somewhat at a disadvantage when compared to local operators with well established local connections. However, the Group expects such disadvantage to diminish and disappear over time, as the local management becomes more accustomed to the local market and as the Group hires more local professionals to assist in everyday operations. At the same time, the contemplated central management of the Group (see "Combined Management" for more information) as well as the local management in Russia and Belarus already have considerable experience in the relevant markets and will be able to successfully lead local operations.

Lack of reliable market information

The majority of markets in which the Group intends to operate or which it may consider in terms of future expansion are characterised by the lack of reliable information on the condition of the textile and clothing industry in general and the lingerie and women's apparel markets in particular. Such information often needs to be collected from unverifiable or unreliable sources or through own research. Strategic management decisions in relation to such markets may therefore have to be made in the absence of adequate data which may from time to time prove essential.

Legal and political uncertainty in non-EU states

The legal system and the administrative bodies of certain non-EU states in which the Group intends to operate (including Russia, Belarus and Ukraine) are to various degrees under-developed as compared to the Baltic States or Western Europe. While the situation is especially acute in Belarus (see below), the legal and administrative systems of other non-EU countries may also from time to time create considerable difficulties for the management of local operations. Ambiguities in the applicable legislation and the practical implementation of the same may often lead to situations where simultaneous compliance with all applicable norms may prove extremely difficult. Such ambiguities may have the ultimate effect of increasing compliance costs and decreasing the rate of expansion.

At the same time, the political systems of the aforementioned countries may pose additional risks to the Group through overall negative macro-economic and legal developments. Such risks may materialise in the form of stricter compliance requirements, higher tax burden, lower demand and other similar negative circumstances which cannot be reliably predicted or alleviated by the actions of the Management.

Imminent uncertainties in Belarus

At the moment, no clear body of case law exists in Belarus in the areas of regulation which may prove crucial to the operations of the Group. Likewise, there is no effective system, official or otherwise, under which various decrees, ministerial decisions, court rulings or internal department circulars having the force of law are indexed and made publicly available on a regular basis. As a consequence, the outcome of most court cases cannot be reliably predicted. Furthermore, the Group may from time to time lack full adequate information on the actions and measures that need to be taken in order to comply with all applicable rules and procedures. This may eventually result in material adverse consequences for the Belorussian operations of the Group through increased compliance costs as well as through possible administrative sanctions and disputes.

Moreover, the Belorussian legislation and administrative policy may from time to time be influenced by changes in the political agenda. State intervention is possible beyond what is expressly permitted by law, and administrative discretion may be exercised in a manner that is detrimental to a particular market participant or a whole industry. In 2006, Milavitsa signed an agreement with the Belarusian Antimonopoly Committee. Pursuant to the agreement Milavitsa agreed not to conduct any actions which can be classified as monopolistic or restrictive of competition. Such agreement may impose certain restrictions with respect to Milavitsa's domestic sales.

The Group hopes to alleviate the above concerns with the aid of the experienced local management who have considerable experience and know-how in operating in the Belorussian legal and administrative environment.

Certain legal restrictions in Belarus

Certain legal rules applicable to the activities of the Belorussian entities of the Group are seen as particularly unusual in comparison with the other markets in which the Group intends to operate. In particular, relatively strict regulations are in place with the respect to the remuneration of employees in Belarus. The state imposes ratios that are applied to determine salaries for each class of employee, where a base salary is multiplied by the respective ratio reflecting the seniority of an employee to arrive at the final salary. Being a company with a foreign shareholding, Milavitsa is permitted to establish its own base salary. The ratios, however, remain in place, thus effectively limiting the amount of executive compensation that may be paid to the top management. However, certain additional payments may be made to employees and management to introduce further diversification of salaries.

Additionally, privatised Belorussian companies such as Milavitsa are subject to the "golden share" legislation, effectively granting the state the right to exercise majority vote in any company by introducing a preferential share. The "golden share" is a form of state participation in the ownership of a company with a single share that grants a majority vote in all circumstances. Theoretically, Milavitsa could be subject to the "golden share" regulation (see "Operations of the Silvano Group – Licensing and Compliance"); however, good operating results and an export-driven strategy both contribute to protecting Milavitsa against most risks related to the Belorussian authorities.

Risks Related to the Listing and Trading

An active market for Shares may not be sustained

Prior to the date of this Prospectus, Shares have been listed on the I-List of the Tallinn Stock Exchange. So far, trading in Shares has not been active. In the period between 1 January 2006 and 15 September 2006, the average daily turnover of trading in Shares of the Company on the Tallinn Stock Exchange was approximately EEK 113 thousand. The average daily turnover more than doubled following the announcement of the Transaction, but still remained relatively modest at EEK 262 thousand.

The Company cannot provide any assurance that an active trading market for Shares will develop or be sustained after the completion of the listing of New Shares. If you purchase any Shares, you may not be able to resell those Shares at or above the purchase price.

The price of Shares may be volatile and may change significantly in response to numerous factors including the actual or anticipated fluctuations in the quarterly and annual results of the Company and those of its publicly-held competitors; industry and market conditions; mergers and strategic alliances in the industry; changes in laws and regulations; shortfalls in the operating results of the Company or its competitors compared to levels forecasted by investment analysts; public announcements concerning the Company or its competitors; global and regional economic conditions and the general state of securities markets. Many of these factors may be beyond the control of the Company and are difficult or impossible to predict.

Volatility and limited liquidity of shares listed on the Tallinn Stock Exchange

An application has been made to the Tallinn Stock Exchange for New Shares to be admitted to trading on the Main List of the Tallinn Stock Exchange. Though every effort will be made to ensure that listing will occur, the Company cannot provide any assurance that New Shares will be admitted to trading.

The average daily trading turnover on the Tallinn Stock Exchange from 1 January 2005 to 31 December 2005 was EEK 118.8 million. From 1 January 2006 to 30 June 2006 the average daily turnover was respectively EEK 53.8 million. A total of 16 companies were listed on the Tallinn Stock Exchange as of 30 June 2006. As of 30 June 2006, the two largest companies in terms of market capitalization, AS Eesti Telekom and AS Tallink Grupp, represented approximately 55% of the Tallinn Stock Exchange's aggregate market capitalization of approximately EEK 42.5 billion. Consequently, the Tallinn Stock Exchange is substantially less liquid and more volatile than established markets such as those in other countries with highly developed securities markets. The relatively small market capitalization and low liquidity of the Tallinn Stock Exchange may impair the ability of shareholders to sell Shares on the Tallinn Stock Exchange, which could increase the volatility of the price of Shares. The delisting of any of the large companies listed on the Tallinn Stock Exchange would be likely to have a negative effect on the market capitalization and liquidity of the Tallinn Stock Exchange as a whole.

Since the Tallinn Stock Exchange is characterised by relatively low investor activity, the impact of individual transactions on the market price of securities may be significant. Lower investor activity may lead to wider spreads between the bid and ask prices and a correspondingly lower liquidity of traded securities.

Harmonisation of the Tallinn Stock Exchange with other OMX Exchanges

The Tallinn Stock Exchange, where Shares (except New Shares) are listed, is a part of the OMX Exchanges. Currently the Tallinn Stock Exchange is in the process of harmonizing its standards with those of OMX. While the implementation of the related changes might cause some disruption in the trading in Shares, the Company expects that in the longer term it will benefit from relying on a uniform trading system in the Northern European region. The OMX group is also intending to create a pan-Nordic and Baltic stock exchange list, the details of which have not been released. Should the Company fail to meet the criteria for such a combined list, that may affect the liquidity of Shares.

Payment of dividends

The Company is under no lasting and definite obligation to pay regular dividends to its shareholders and no representation can be made with respect to the payment and amount of future dividends. The Management's recommendations for the distribution of profit will be based on financial performance, working capital requirements, reinvestment needs and strategic considerations which may not necessarily coincide with the short-term interests of all shareholders. The payment of dividends and the amount thereof will be subject to the ultimate discretion of the majority of the Company's shareholders.

Analysts may stop publishing research or reports on the Company

There is no guarantee of continued analyst research coverage for the Company. Over time, the amount of third party research available in respect of the Company may increase or decrease with little or no correlation with the actual results of its operations as Company has no influence on the analysts who prepare such reports. Negative or insufficient third party reports would be likely to have an adverse effect on the market price and the trading volume of Shares.

Ownership structure

The Company is and will remain under the joint ultimate control of Indrek Rahumaa, John Bonfield, Andres Rätsepp and Toomas Leis (see “Ownership Structure” for more details). With a combined ownership stake in the Company that is over 76% (directly and through affiliated companies), said ultimate shareholders will be able to adopt a majority of the corporate decisions that are in the competence of the General Meeting of shareholders of the Company or block such decisions (see more under “General Corporate Information and Shares – Rights of Shareholders”). Moreover, the aforementioned ultimate shareholders exercise joint control over the Company on the basis of a shareholders’ agreement (see more under “Ownership Structure – Shareholders’ Agreements”) concluded by them in their capacity as the shareholders of SIA Alta Capital Partners (the entity that is the majority shareholder of the Company following the registration of New Shares in the Estonian commercial register). The shareholders’ agreement stipulates that any actions of SIA Alta Capital Partners related to the exercise of its rights as a shareholder of the Company require the approval of at least ¾ of all shareholders of SIA Alta Capital Partners. It is therefore possible that the corporate governance of the Company will be adversely affected if the shareholders of SIA Alta Capital Partners are unable to reach consensus on the manner in which SIA Alta Capital Partners will exercise its rights as the majority shareholder of the Company.

In the event where the shareholders’ agreement in question would be terminated, the majority shareholder of SIA Alta Capital Partners (at this time – Investeerimisvabrik OÜ, in turn under the ultimate control of Indrek Rahumaa) will become the ultimate controlling shareholder of the Company. Under certain conditions, this will be likely to result in an obligation of such controlling shareholder to launch a mandatory takeover bid directed to the remaining shareholders of the Company, as stipulated by the Estonian Securities Market Act. While the law sets forth extensive safeguards to ensure that the price offered in a mandatory takeover bid is objective and fair, there may be no guarantee that the remaining shareholders will be offered such price that would fully satisfy their expectations. Provided that the mandatory takeover bid is successful and the controlling shareholder of the Company will hold at least 90% of all Shares, such controlling shareholder will become entitled to initiate a procedure to squeeze out all remaining shareholders of the Company in accordance with the Estonian commercial code, regardless of whether or not such shareholders would agree with the price offered in the course of the squeeze-out procedure (see “General Corporate Information – Other Important Matters” for more details on the squeeze-out procedure).

TRANSACTION

General information

On 22 August 2006, the Company announced trough the Tallinn Stock Exchange that a share swap agreement was concluded on 21 August 2006 between the Company and SIA Alta Capital Partners ("ACP"), under which the Company was entitled to acquire up to 100% shares of AS Silvano Fashion Group ("Silvano") together with certain subsidiaries of the latter (the "Transaction"). The Transaction was made between related parties and constituted the acquisition of a significant holding within the meaning of the Rules of the Tallinn Stock Exchange. The subsidiaries of Silvano include the leading producer of lingerie in Belarus – Milavitsa, the leading producer of lingerie in Latvia – Lauma Lingerie, and a Russian retail company Linret. Please see "Operations of the Silvano Group" for more information on the Silvano Group.

Conditions Precedent

The completion of the Transaction was subject to certain conditions precedent. Such conditions included the following: (i) the consent of the Estonian Competition Board to the consolidation of the PTA Group and the Silvano Group (together with the subsidiaries of the latter), (ii) a confirmation by an auditor to the effect that the exchange ratio between Shares of the Company and Shares of Silvano is such that it does not damage the interests of any shareholders of the Company that are not connected with the Transaction, (iii) the due registration in the Estonian commercial register of any outstanding resolutions increasing the share capital of Silvano up to EEK 848,880 and the transfer of the corresponding amount of shares of Silvano to the shareholders of Silvano; (iv) the approval of the Transaction by the General Meeting of shareholders of the Company and the issuance of New Shares by the same; (v) the acquisition of at least 59.8% of all shares in Milavitsa by Silvano.

The aforementioned conditions precedent have been duly fulfilled by the date of this Prospectus. The Estonian Competition Board approved the consolidation on 4 September 2006. Prior to the Extraordinary General Meeting of Shareholders of the Company approving the Transaction, KPMG Baltics AS issued a confirmation confirming the exchange rate between New Shares and Shares of Silvano. Pursuant to two resolutions of the sole shareholder of Silvano dated respectively 25 July 2006 and 12 September 2006, the share capital of Silvano was increased to EEK 848,880 and such increase of the share capital of Silvano is duly registered. The Transaction was approved by the Extraordinary General Meeting of shareholders of the Company that took place on 5 September 2006 (see below). Silvano completed the acquisition of over 59.8% of all shares in Milavitsa on 25 August 2006 and currently holds 59.85% of the share capital.

Increase of the share capital of the Company

The Transaction was approved by the Extraordinary General Meeting of shareholders of the Company on 5 September 2006. In connection with the Transaction, the Extraordinary General Meeting of shareholders of the Company resolved to increase the share capital of the Company by issuing 36,000,336 new shares of the Company ("New Shares"). The right to subscribe to New Shares was given exclusively to the shareholders of Silvano. Please see Section entitled "General Corporate Information and Shares – Share Capital and Shares" for more information on such share capital increase.

Completion of the Transaction, registration of New Shares

Completion of the Transaction took place on 16 October 2006 when 100% of all shares of Silvano were transferred to the Company. Information on the completion of the Transaction has been published by the Company through the information system of the Tallinn Stock Exchange (see http://www.baltic.omxgroup.com/market/?pg=details&instrument=EE3100001751&list=3&tab=news&news_id=209936). As a result of approximation, 13 New Shares were not subscribed to and the Management Board of the Company cancelled such New Shares on 17 October 2006. The increase of the share capital of the Company was registered in the Estonian commercial register on 26 October 2006.

Acquired holdings

As a result of the Transaction, the Company has acquired 100% of all shares in Silvano and thus became the ultimate parent company of all companies belonging to the Silvano Group. Please see “Operations of the Silvano Group” for detailed information on acquired holdings and “Pro Forma Financial Information” for a discussion on the combined financial condition of the PTA Group and the Silvano Group. Please see “Combined Management” for information on the future management structure of the combined group comprising the PTA Group and the Silvano Group.

Dilution and new ownership structure

Following the completion of the Transaction and with the registration of the issue of the New Shares in the Estonian commercial register, the ownership stakes of the existing shareholders of the Company represents approximately 5.1% of the total share capital of the Company. Some 94.9% of all Shares is held by the shareholders of Silvano who chose to exchange their shares in Silvano for Shares of the Company.

SIA Alta Capital Partners, who is the principal shareholder of Silvano, now holds an approximately 73.8% ownership stake in the Company and, together with related parties, controls some 76.5% of all votes represented by Shares. Please see Section entitled “Ownership Structure” below for more information on the persons exercising ultimate control over SIA Alta Capital Partners and, consequently, over the Company following the completion of the Transaction and on the estimated ownership structure of the Company following the completion of the Transaction.

Listing of New Shares

At the date hereof, Shares of the Company (except New Shares) are listed on the I-List of the Tallinn Stock Exchange. No securities issued by the Company are admitted to trading on any other regulated market. In connection with the Transaction and assuming that it will be completed, the Company has applied for the conditional listing of all its Shares (including New Shares) on the Main List of the Tallinn Stock Exchange (for general information on the Tallinn Stock Exchange, see “Estonian Securities Market” below). The Company will take all necessary measures in order to comply with the Tallinn Stock Exchange rules so that its application will be approved.

Expenses

The preparation of this Prospectus and the listing of all Shares of the Company on the Main List of the Tallinn Stock Exchange do not involve a public offering of any Shares in any jurisdiction. As a consequence, the Company’s expenses in relation to the listing will not involve commissions to financial intermediaries and will be limited to administrative charges and legal fees, as well as certain other related expenses. The Company estimates that the total expenses of the listing will not be likely to exceed EEK 2 million.

DIVIDEND POLICY

The Company did not distribute any dividends during the period covered by the historical financial information (*i.e.* for financial years ended 31 December 2003, 31 December 2004 or 31 December 2005). Until the date hereof, the Company has not adopted any decision not to distribute profit in the future. No other restrictions exist on distributing profit.

Despite the lack of restrictions on the distribution of profit, the Company may not guarantee that following the completion of the Transaction, the Company will distribute any dividends to its shareholders. The envisaged strategy of the new Group that will be formed as the result of the Transaction is focused on aggressive expansion, which would be likely to require a significant rate of re-investment.

The decision on the payment of dividends is in the ultimate discretion of the General Meeting of shareholders of the Company, whereas the Management Board of the Company must submit to the General Meeting its recommendation with respect to the payment of dividends for each financial year. The Management will be likely to propose not to distribute any profit and not to pay dividends if, in the opinion of the Management, the best long-term interests of the Company require that profits are re-invested.

CAPITALISATION AND INDEBTEDNESS

Capitalisation of the Company

The volume of the balance sheet of the Company as of the end of financial year ended 31 December 2005 was EEK 51.9 million, compared to EEK 105.8 million as of the end of financial year ended 31 December 2004. The decrease of the volume of the balance sheet of the Company was due to the sale of certain real estate belonging to the Company (please see "Operations of the PTA Group – Real Estate and Leased Premises" for more details). Of the above, current assets formed 65.5% or EEK 34 million, with the remaining 34.5% (EEK 17.9 million) in fixed assets. As of 31 July 2006, the volume of the balance sheet stood at approximately EEK 62.3 million. Current assets stood at EEK 47.2 million (75.7% of the balance sheet) and non-current assets stood at EEK 15.1 million (24.3% of the balance sheet).

The obligations of the Company at the end of financial year ended 31 December 2005 were EEK 36.3 million, resulting in total net assets of EEK 15.6 million. As of 31 July 2006, the total liabilities were EEK 43.6 million, resulting in total net assets of EEK 18.7 million (19.9% increase over the balance sheet dated 31 December 2005).

The capitalization of the Company as of 31 July 2006 is illustrated by the following table:

Million EEK	
Short-term interest bearing liabilities…………………………………………………..	17.5
Long-term interest bearing liabilities…………………………………………………..	3.8
Shareholders' equity………………………………………………………………………	18.7
Total capitalization and indebtedness……………………………………………….	**40.0**

In the opinion of the Company, the working capital of the Company is sufficient for its present requirements and no external financing is presently required to satisfy the working capital needs.

Outstanding loans of the Company

The Company has concluded a number of loan agreements with AS Hansapank as at 31 July 2006. The loans that are currently outstanding are as follows:

- Term loan in the amount of EEK 6 million, interest rate 6% p.a., maturity 15 December 2006 (working capital facility), of which EEK 2.5 million was outstanding as at 31 July 2007.
- Term loan in the amount of approximately EUR 447 thousand (approximately EEK 7 million), interest rate 6 months' EURIBOR + 3.5% p.a., maturity 15 December 2007 (refinancing a shareholder loan), of which EUR 317 thousand (approximately EEK 5 million) was outstanding as at 31 July 2007.
- Term loan in the amount of approximately EUR 288 thousand (approximately EEK 4.5 million), interest rate 6 months' EURIBOR + 3.5% p.a., maturity 9 February 2009, of which EUR 248 thousand (approximately EEK 3.9 million) was outstanding as at 31 July 2007.
- Overdraft facility in the amount of EEK 5 million, interest rate 6% p.a., valid until 30 January 2007. As of 31 July 2006, the Company had used EEK 4.3 million of the credit limit.
- A revolving credit facility with credit limit of EEK 5 million, interest rate 6% p.a. of the credit in use, plus 2% p.a. of the remaining credit limit, valid until 21 June 2007. As of 31 July 2006, the Company had used EEK 5 million of the credit limit.

All agreements are concluded on ordinary standard terms of AS Hansapank. Such standard terms require that the Company informs AS Hansapank of certain important developments and also set forth certain restrictions with respect to the Company's business, such as the obligation to receive a written approval of the bank for any transactions exceeding in value 10% of the amount outstanding under the relevant loan agreements. In addition, consent is normally required for the conclusion of any rent or similar agreements regarding the collateral as well as for certain corporate action.

Any loans granted to the Company by AS Hansapank are secured by a commercial pledge on the assets of the Company. Commercial pledge under Estonian law is a universal floating encumbrance that covers all assets of the pledgor with certain exceptions (*e.g.* real estate and registered movables such as motor vehicles). All of the aforementioned loans from AS Hansapank have been guaranteed by AS Alta Capital.

In addition to the above-mentioned loans which were outstanding as at 31 July 2006, the Company has also agreed a working capital facility from AS Hansapank in the amount of EEK 5 million (interest rate 5.5% p.a., maturity 6 December 2006) in September 2006. The agreement concerning the same is concluded materially on the same terms as the remaining agreements with AS Hansapank. Differently from the aforementioned loans, this loan is not guaranteed by AS Alta Capital.

Financial leases of the Company

The PTA Group had certain obligations under financial lease agreements in the amount of some EEK 268 thousand as of 31 July 2006. The amount of obligations outstanding under financial lease agreements has further increased by the date of this Prospectus in connection with the purchase of a truck.

Liabilities of the Silvano Group

This sub-Section includes a short discussion of the liabilities of the Silvano Group and its individual members as of the end of the interim period ended 31 July 2006. It must be noted that the accounting policies employed by the companies of the Silvano Group may differ from those of the Company and the information presented below is based on unaudited data as of the relevant date. For a consolidation of the capitalisation data on the PTA Group and the Silvano Group, please refer to Section entitled "Pro Forma Financial Information".

Lauma Lingerie did not have any interest-bearing liabilities as of 31 July 2006 (*inter alia*, Lauma Lingerie did not have any financial leases). Lauma Lingerie generates sufficient cash flows to fulfil its working capital and investment needs and does not intend to resort to external financing in the short term.

Milavitsa did not have any bank loans as of 31 July 2006 but had certain finance lease obligations in the amount of some EEK 23 million. The company generates strong cash flows that enable it to support its operations and satisfy investment needs without external financing.

The only interest-bearing liability of Linret as at 31 July 2006 was an unsecured loan from Silvano in the amount of some EEK 8 million. Further operations of Linret are expected to be financed from own cash flows and by shareholder loans according to necessity.

SELECTED FINANCIAL INFORMATION

The tables below present certain selected consolidated financial information of the Company for the financial years ended 31 December 2003, 2004, 2005 and for the first six months ended 30 June 2006 (compared, where possible, with the results for six months ended 30 June 2005). This information has been derived from the audited consolidated financial statements of the Company included elsewhere in this Prospectus (with the exception of the information for six months ended 30 June 2005 and six months ended 30 June 2006, which has not been audited). This information should be read in conjunction with, and is qualified in its entirety by reference to, such financial statements and the related notes. The relevant financial statements of the Company have been prepared in accordance with the IFRS. The ratios and indicators set forth in the table below are provided to illustrate certain aspects of the business of the Company and its financial performance. Some of these ratios and indicators are used by the Management to evaluate the performance of the Company, while others are provided for the benefit of investors considering an investment in Shares or trading activities with the same. Although some of these ratios and indicators are not calculated in accordance with the IFRS, the ratios and indicators set forth below are customary and often used by public companies to illustrate their business and financial performance.

	Year ended 31 December				
Income statement (EEK in thousands)	**2003**	**2004**	**2005**	**2005H1**	**2006H1**
Revenue	**135 884**	**132 194**	**132 473**	**58 194**	**61 307**
Change in inventories of work-in progress and finished goods	-3 220	-5 825	-5 849	-2 618	3 457
Cost of materials, goods and services used	-50 634	-51 327	-41 674	-18 720	-22 006
Other operating expenses	-35 504	-27 290	-26 629	-13 304	-14 326
Personnel expenses	-52 720	-44 644	-44 037	-22 114	-21 123
Depreciation and value adjustments	-7 572	-7 610	-6 950	-3 482	-2 700
Miscellaneous expenses	-2 152	-1 622	-4 396	-1 108	-740
Total operating expenses	**-151 802**	**-138 318**	**-129 535**	**-61 346**	**-57 438**
Operating profit	**-15 918**	**-6 124**	**2 938**	**-3 152**	**3 869**
Net financial items	-5 723	-5 777	-5 793	-2 487	-576
Profit before income tax and minority interests	-21 641	-11 901	-2 855	-5 639	3 293
Income tax expenses	0	0	-360	0	-264
Minority interests	0	0	0	0	0
Net profit for the financial period*	**-21 641**	**-11 901**	**-3 215**	**-5 639**	**3 029**

Balance sheet (EEK in thousands)	**2003**	**2004**	**2005**	**2005H1**	**2006H1**
Cash and cash equivalents	2 916	3 400	2 831	2 956	3 514
Trade receivables	14 862	9 906	3 052	5 649	2 400
Non-trade receivables	2 042	2 845	2 614	3 668	2 323
Inventories	33 284	28 255	25 496	27 996	34 758
Current assets	**53 104**	**44 406**	**33 993**	**40 269**	**42 995**
Long-term investments	1 173	955	750	851	650
Total fixed assets	60 403	52 896	10 536	50 329	8 363
Intangible assets	7 306	7 574	6 622	7 084	6 589
Total non-current assets	**68 882**	**61 425**	**17 908**	**58 264**	**15 602**
Total assets	**121 986**	**105 831**	**51 901**	**98 533**	**58 597**
Trade creditors	9 745	9 189	12 573	10 435	13 738
Other short-term payables	8 776	9 369	8 014	8 315	7 823

Short-term provisions	12	12	12	0	12
Short-term debt	48 386	43 183	15 294	53 807	13 932
Total current liabilities	**66 919**	**61 753**	**35 893**	**72 557**	**35 505**
Long-term liabilities	25 487	26 219	134	12 206	4 250
Other long-term payables and provisions	68	173	316	339	268
Total non-current liabilities	**25 555**	**26 392**	**450**	**12 545**	**4 518**
Total liabilities	**92 474**	**88 145**	**36 343**	**85 102**	**40 023**
Share capital	18 969	18 969	19 469	19 469	19 469
Share premium	40 294	40 294	40 994	40 994	40 994
Reserves	1 046	1 046	1 046	1 046	1 046
Revaluation reserve	15 578	13 876	0	13 876	0
Retained earnings	-24 798	-44 737	-42 762	-56 638	-45 977
Currency translation differences	64	139	26	323	13
Net profit for financial period	-21 641	-11 901	-3 215	-5 639	3 029
Minority share	0	0	0	0	0
Total shareholders´ equity	**29 512**	**17 686**	**15 558**	**13 431**	**18 574**
Total liabilities and shareholders equity	**121 986**	**105 831**	**51 901**	**98 533**	**58 597**

Cash flow data (EEK in thousands)	**2003**	**2004**	**2005**	**2005 H1**	**2006 H1**
Cash flow from operating activities	-22 159	3 704	1 458	2 010	-1 708
Cash flow used in investing activities	-2 056	2 358	50 499	-1 360	-4 475
Cash flow from financing activities	22 646	-5 578	-52 526	-1 094	6 866

Key ratios and indicators

Ratios and indicators	**2003**	**2004**	**2005**	**2005 H1**	**2006 H1**
Weighted average number of shares	1 644 820	1 896 875	1 935 916	1 924 776	1 946 875
Earnings per share (EPS), EEK	-13.19	-6.27	-1.66	-2.93	1.56
Number of employees at the end of reporting period	487	448	414	420	377
Revenue per employee (EEK in thousands)	279	295	320	139	163
EBITDA (EEK in thousands)	-8 346	1 486	9 888	330	6 569
EBITDA margin %	-6.1%	1.1%	7.5%	0.6%	10.8%
Operating profit margin %	11.7%	-4.6%	2.2%	-5.4%	6.3%
Return on investment (ROI) %	-29.2%	-15.3%	8.3%	-8.9%	9.9%
Return on assets (ROA) %	-17.7%	-10.4%	-4.1%	-5.5%	5.5%

Return on equity (ROE)	-66.2%	-50.4%	-19.3%	-36.3%	17.7%
Equity ratio %	24.2%	16.7%	29.9%	13.6%	31.7%

1 EBITDA	=	Earnings before net financial items, share of profit of associates, taxes, depreciation and amortization. EBITDA is included as a supplemental item, since the Management believes that EBITDA, when considered in conjunction with cash flows from operating, investing and financing activities, may provide useful information. EBITDA is not a measure of operating performance calculated in accordance with IFRS and should not be considered as a substitute for operating profit, net income, cash flow from operations or other profit or loss or cash flow data determined in accordance with IFRS.
2 EBITDA margin	=	EBITDA / Revenue. The EBITDA margin measures the relationship between different measures of profitability and revenue providing information about a company's profitability from the operations of its business and is independent of the company's financing and tax position as well as depreciation-related estimates.
3 Operating profit margin	=	Operating profit / Revenue. The operating profit margin measures the relationship between different measures of profitability and revenue providing information about a company's profitability from the operations of its business and is independent of both the company's financing and tax position.
4 Return on investment (ROI)	=	(Profit after net financial cost + Interest expense) / (Average total assets—average interest free liabilities). Return on investment measures the relationship between profits and the investment required to generate them.
5 Return on assets (ROA)	=	Net profit / Average total assets. Return on assets compares income with total assets (i) measuring management's ability and efficiency in using the firm's assets to generate (net) profits and (ii) reporting the total return accruing to all providers of capital (debt and equity), independent of the source of capital.
6 Return on equity (ROE)	=	Net profit / Average equity. Return on equity excludes debt in the denominator and compares net income with total shareholders' equity. It measures the rate of return on shareholders' investment and is, therefore, useful in comparing the profitability of a company with its competitors.
7 Equity ratio	=	Equity / Total assets. Equity ratio is a measure of financial leverage which highlights the ratio of shareholders' equity to total assets. The analysis of a company's financial leverage (or capital structure) is essential to evaluate its long-term risk and return prospects.

PRO FORMA FINANCIAL INFORMATION

The Company has acquired 100% of all shares of Silvano (see "Transaction" above fore more details) on the basis of a share swap agreement. The Transaction constituted the acquisition of a significant holding within the meaning of the Rules of the Tallinn Stock Exchange and a significant gross change within the meaning of the Commission Regulation (EC) No 809/2004. Based on the above, the Company has prepared pro forma financial information presenting a description of how the Transaction might have affected the assets and liabilities and earnings of the Company, had the Transaction been undertaken at the commencement of the interim period between 1 January 2006 and 30 June 2006 (which is the most recent interim period for which relevant unadjusted information is being published in this Prospectus).

Said pro forma financial information is prepared for the purpose of giving the shareholders of the Company and investors intending to trade in its Shares a better overview of the financial consequences of the Transaction and ensuring better comparability between the PTA Group and the Silvano Group. However, the pro forma financial information has been prepared for illustrative purposes only and because of its nature, the pro forma financial information addresses a hypothetical situation and, therefore, does not represent the Company's actual financial position or results.

In preparing the pro forma financial information, the Company performed a hypothetical consolidation of the results of the PTA Group and the Silvano Group for the interim period between 1 January 2006 and 30 June 2006. The differences in accounting principles applied by different members of the PTA Group and the Silvano Group (see more under "Financial Statements") cause the financial information of the PTA Group and the Silvano Group (and the financial information of different entities within the Silvano Group) to not be fully comparable.

The pro forma financial information is prepared on the basis of the unaudited consolidated financial information of the Company for the above-mentioned interim period and the unaudited pro forma consolidated financial information of Silvano for the same period. The unaudited pro forma consolidated financial information of Silvano that is taken as basis for the pro forma information presented in this Section differs in details from the information published by the Company through the information system of the Tallinn Stock Exchange (see http://www.baltic.omxgroup.com/market/?pg=news&news_id=209004 and http://www.baltic.omxgroup.com/market/?pg=news&news_id=209112) due to the restatements and adjustments made in preparation of this Prospectus in order to ensure better comparability between the financial information of PTA Group and the Silvano Group.

The pro forma information is presented in two stages. Firstly the pro forma information of Silvano Group is presented to reflect the formation of the Silvano Group assuming it took place as at 31 December 2005 (detailed information on the formation of the Silvano Group can be found under "History and Development of the Silvano Group"). Following that, pro forma information is presented with respect to the hypothetical consolidation of the PTA Group and the Silvano Group.

Pro Forma Information of the Silvano Group

The following adjustments were recognised in relation to the Silvano Group pro forma financial information as at and for the six months ended 30 June 2006:

Recognition of the increase in share capital of Silvano

Two increases in share capital were accounted for in the pro forma balance sheet of Silvano as if they had occurred as at 31 December 2005: (i) the increase of share capital through a private placement of new shares to institutional investors for the total monetary consideration of some EEK 234,699 million on 19 September 2006 and (ii) the increase of share capital through a private placement of new shares of Silvano to SIA Alta Capital Partners in exchange for a non-monetary contribution (100% of all shares of Lauma Lingerie) in the total value of some EEK 22.5 million on 25 July 2006.

Acquisition of subsidiaries

Silvano acquired 100% of all shares of Linret on 1 March 2006, 100% of all shares in Lauma Lingerie on 25 July 2006 and brought its shareholding in Milavitsa to 59.85% of all shares on 25 August 2006. For the purposes of this pro forma presentation, it was assumed that all acquisitions took place as at 31 December 2005.

The table below offers an indication of the assets and liabilities of the Silvano Group, assuming the acquisition of Milavitsa, Lauma Lingerie and Linret occurred on 31 December 2005. The purchase price allocations for the acquisition of Silvano's subsidiaries have not been completed by the date of this calculation. The information is based on the assumption that the financial information of the subsidiaries reflects the fair value of their assets and liabilities. The evaluation of fair value and the consolidation of the accounting of the various Silvano Group entities according to the IFRS are under way and consequently the corresponding data may change compared to the financial information presented below.

Proforma Balance Sheet
Consolidated unaudited

			30 June 2006			
'000 EEK	**Silvano Fashion Group[1]**	**Milavitsa[2]**	**Lauma Lingerie[3]**	**Linret[4]**	**Adjustments & Eliminations**	**Consolidated Silvano Fashion Group pro forma**
ASSETS						
Current assets						
Cash and bank accounts	1,502	151,678	4,068	579	185,678[5]	343,505
Trade receivables		103,861	24,346		(8,261)[6]	119,946
Other receivables and prepaid expenses	15	18,526	7,260	641		26,442
Prepaid taxes		20,262		798		21,060
Inventories		115,566	38,131	5,259	(94)[7]	158,862
Total current assets	**1,517**	**409,893**	**73,805**	**7,277**	**177,323**	**669,815**
Non-current assets						
Investments	74,306				(74,306)[8]	
Property plant and equipment		129,100	7,589	2,707		139,396
Intangible assets		6,024				6,024
Other non-current assets		2,316		3,301		5,617
Total non-current assets	**74,306**	**137,440**	**7,589**	**6,008**	**(74,306)**	**151,037**
TOTAL ASSETS	**75,823**	**547,333**	**81,394**	**13,285**	**103,017**	**820,852**
LIABILITIES AND EQUITY						
Current liabilities						
Borrowings	74,822	7,432		8,230		90,484
Trade payables	610	51,962	52,635	9,607	(8,261)[6]	106,553
Tax liabilities		22,234		62		22,296
Other short-term liabilities	1,064	7,088	5,335	939		14,426
Short-term provisions		10,702				10,702
Total current liabilities	**76,496**	**99,418**	**57,970**	**18,838**	**(8,261)**	**244,461**

Non-current liabilities						
Long-term borrowings		11,750				11,750
Total non-current liabilities		**11,750**				**11,750**
Total liabilities	**76,496**	**111,168**	**57,970**	**18,838**	**(8,261)**	**256,211**
Equity						
Equity attributable to equity holders of the parent	(673)	431,627	23,424	(5,553)	(62,023)[9,10,11]	386,802
Minority interests		4,538			173,301[12]	177,839
Total Equity	**(673)**	**436,165**	**23,424**	**(5,553)**	**111,278**	**564,641**
TOTAL LIABILITIES AND EQUITY	**75,823**	**547,333**	**81,394**	**13,285**	**103,017**	**820,852**

Proforma Income Statement

Consolidated, unaudited **1 January- 30 June 2006**

'000 EEK	**Silvano Fashion Group[1]**	**Milavitsa[2]**	**Lauma Lingerie[3]**	**Linret[4]**	**Adjustments & Eliminations**	**Consolidated Silvano Fashion Group proforma**
Revenue		**505,119**	**93,770**	**1,252**	**(8,653)[7]**	**591,488**
Goods, raw materials and services		(265,069)	(47,581)	(1,314)	8,559[7]	(305,405)
Employee costs		(78,765)	(20,700)	(1,612)		(101,077)
Other operating expenses	(188)	(38,178)	(12,642)	(4,006)		(55,014)
Total expenses	**(188)**	**(382,012)**	**(80,923)**	**(6,932)**	**8,559**	**(461,496)**
Operating profit before depreciation	**(188)**	**123,107**	**12,847**	**(5,680)**	**(94)**	**129,992**
Depreciation		(8,731)	(2,003)	(94)		(10,828)
Operating profit (loss)	**(188)**	**114,376**	**10,844**	**(5,774)**	**(94)**	**119,164**
Interest expenses	(954)			(266)		(1,220)
Foreign exchange gains (loss)	(313)	(501)	(110)			(924)
Other financial income (expenses)		3,411		16		3,427
Total financial income (expenses)	**(1,267)**	**2,910**	**(110)**	**(250)**		**1,283**
Income tax expense		(34,876)	(2,097)	(16)		(36,989)
Dividends received	360				(360)[10]	
Net profit (loss) for period	**(1,095)**	**82,410**	**8,637**	**(6,040)**	**(454)**	**83,458**
Attributable to:						
Equity holders of the parent	(1,095)	81,565	8,637	(6,040)	(33,186)	49,881
Minority interest		845			32,732[12]	33,577

Notes

1 – Information based on Silvano unaudited financial information prepared according to IFRS for the six months ended 30 June 2006.

2 – Information based on Milavitsa unaudited financial information prepared according to IFRS for the six months ended 30 June 2006.
3 – Information based on Lauma Lingerie unaudited financial information prepared according to IFRS for the six months ended 30 June 2006.
4 – Information based on Linret unaudited financial information prepared according to IFRS for the six months ended 30 June 2006.
5 – Adjusted with changes in relation to the private placement of Silvano's shares against cash contributions and cash payments for the acquisition of Milavitsa shares.
6 – Elimination of intra-group accounts receivable and accounts payable.
7 – Elimination of intra-group revenue and expenses.
8 – Elimination of Silvano investments in subsidiaries Lauma Lingerie, Linret and Milavitsa.
9 – Adjustment with share issues against monetary contributions and shares of Lauma Lingerie and elimination of share capital, share premium and reserves of Lauma Lingerie, Linret and Milavitsa.
10 – Elimination of Milavitsa dividends paid to Silvano and retained earnings of Lauma Lingerie, Linret and Milavitsa.
11 – Elimination of Silvano dividend income received from Milavitsa, elimination of intra-group profit, elimination of profit attributable to Milavitsa minority.
12 – Adjusted with Milavitsa minority as at 31 December 2005 and profit for the 6-month period ended 30 June 2006, attributable to Milavitsa minority.

PTA Group Combined with Silvano Group

This Prospectus includes pro forma financial information of the Silvano Group and the PTA Group as at and for the six months ended 30 June 2006 adjusted for transactions that took place after 30 June 2006 but that directly relate to the hypothetical situation where the Silvano Group was acquired by the Company as at 31 December 2005.

Issue of new shares and acquisition of the Silvano Group

According to the resolution of the extraordinary general meeting of shareholders of the Company, 36,000,336 New Shares were issued to Silvano's shareholders with the nominal value EEK 10 each and issue price EEK 39.12 each (of which 36,000,323 New Shares were subscribed for and 13 New Shares were cancelled). The New Shares have been paid for by the transfer of 100% of all shares of Silvano to the Company as a non-monetary contribution. The table below offers an indication of the pro forma financial information of the PTA Group, assuming the increase in the share capital and the acquisition of Silvano occurred on 31 December 2005.

Proforma Balance Sheet Consolidated , unaudited		**30 June 2006**		
'000 EEK	**PTA Group**	**Silvano Group**	**Adjustments, eliminations**	**Pro forma PTA Group**
ASSETS				
Current assets				
Cash and bank accounts	3,514	343,505		347,019
Trade receivables	2,400	119,946		122,346
Other current assets	2,323	47,502		49,825
Inventories	34,758	158,862		193,620
Total current assets	**42,995**	**669,815**		**712,810**
Non-current assets				
Property, plant and equipment	8,363	139,396		147,759
Other intangible assets	6,589	6,024		12,613
Other non-current assets	650	5,617		6,267

Total non-current assets	**15,602**	**151,037**		**166,639**
TOTAL ASSETS	**58,597**	**820,852**		**879,449**
LIABILITIES AND EQUITY				
Current liabilities				
Borrowings	13,932	90,484		104,416
Trade payables	13,737	106,553		120,290
Tax liabilities	4,272	22,296		26,568
Other short-term liabilities	3,552	14,426		17,978
Short-term provisions	12	10,702		10,714
Total current liabilities	**35,505**	**244,461**		**279,966**
Non-current liabilities				
Long-term borrowings	4,250	11,750		16,000
Long-term provisions	268			268
Total non-current liabilities	**4,518**	**11,750**		**16,268**
Total liabilities	**40,023**	**256,211**		**296,234**
Equity				
Equity attributable to equity holders of the parent	18,574	386,802		405,376
Minority interests		177,839		177,839
Total Equity	**18,574**	**564,641**		**583,215**
TOTAL LIABILITIES AND EQUITY	**58,597**	**820,852**		**879,449**

Proforma Income Statement

Consolidated, unaudited		**1 January- 30 June 2006**		
‘000 EEK	**PTA Group**	**Silvano Group**	**Eliminations**	**Consolidated PTA Group**
Revenue	**61,307**	**591,488**	**(266)**	**652,529**
Goods, raw materials and services	(18,549)	(305,405)	266	(323,688)
Employee costs	(21,123)	(101,077)		(122,200)
Other operating expenses	(15,066)	(55,014)		(70,080)
Total expenses	**(54,738)**	**(461,496)**		**(515,968)**
Operating profit before depreciation	**6,569**	**129,992**		**136,561**
Depreciation	(2,700)	(10,828)		(13,528)
Operating profit (loss)	**3,869**	**119,164**		**123,033**
Interest expenses	(542)	(1,220)		(1,762)
Foreign exchange gains (loss)		(924)		(924)
Other financial income (expenses)	(34)	3,427		3,393
Total financial income (expenses)	**(576)**	**1,283**		**707**
Income tax expense	(264)	(36,989)		(37,253)
Net profit (loss) for period	**3,029**	**83,458**		**86,487**
Attributable to:				
Equity holders of the parent	3,029	49,881		52,910
Minority interest		33,577		33,577

When preparing the pro forma financial information, the business combination has been accounted for as a transaction between the companies under common control and using book values of the assets and liabilities. As a result, all goodwill arisen from the transaction has been directly booked to equity. It has been assumed that the transaction has occurred between entities under common control and the parent company has adopted a policy to account for such transactions at book values. The Company will assess the accounting for the transaction in the IFRS financial statements for the year ending 31 December 2006.

Auditors' Report on the Pro Forma Information

REPORT OF FACTUAL FINDINGS

The Directors of PTA Grupp AS:

We have performed the procedures agreed with you and enumerated below with respect to the pro forma consolidated balance sheet of PTA Grupp AS and AS Silvano Fashion Group as of 30 June 2006 and consolidated income statement for the six month period then ended, set forth on pages from 31 to 37 of the Prospectus. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements.

The management of PTA Grupp AS and its subsidiaries (including AS Silvano Fashion Group) are responsible in all matters for the accuracy and completeness of the financial information in the accounting records and for the preparation of the pro forma financial statements, including adjustments made for the purpose of preparing the pro forma financial statements.

The procedures were performed solely to assist you in listing Shares of PTA Grupp AS on the Main List of Tallinn Stock Exchange and are summarized as follows:

1. We compared the financial information used for preparing the pro forma financial statements to the relevant financial information from the accounting records of PTA Grupp AS and its subsidiaries (hereafter "PTA");

2. We compared the financial information used for preparing the pro forma financial statements to the relevant financial information from the accounting records of AS Silvano Fashion Group and its subsidiaries (hereafter "Silvano");

3. The original financial information of PTA and Silvano obtained from the relevant accounting records was adjusted by management, for the purposes of preparing the pro forma financial statements for the transactions subsequent to the balance sheet date but considered relevant to the pro forma financial statements. We compared these adjustments with the information provided to us on the transactions. This information was obtained from the management of AS Silvano Fashion Group and PTA Grupp AS.

Based on the procedures performed by us, we did not note any errors or exceptions to which we would like to draw your attention.

However, please note that the purchase price allocation in connection with the legal acquisition of Shares of AS Silvano Fashion Group by PTA Grupp AS including the acquisitions of subsidiaries by AS Silvano Fashion Group as required by IFRS 3 "Business Combination" has not yet been carried out and the possible effect of the purchase price allocation has not yet been included in the pro forma financial statements.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standard on Auditing, we do not express any assurance on the pro forma consolidated balance sheet of PTA and Silvano as of 30 June 2006 and pro forma consolidated income statement of PTA and Silvano for the six month period then ended.

Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with International Standard on Auditing, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and is addressed to the directors of PTA for your information and is not to be used for any other purpose. This report relates only to the items specified above and does not extend to any financial statements of PTA, taken as a whole. Moreover, we have not performed any procedures, including those specified above in respect of other information presented in the Prospectus.

Tallinn, 20 October 2006

Taivo Epner
KPMG Baltics AS

RESULTS OF OPERATIONS AND OUTLOOK

This Section accommodates the discussion on the results of the operations of the Company for financial years ended 31 December 2005 (as compared with the results of the financial year ended 31 December 2004) and 31 December 2004 (as compared with the results of the financial year ended 31 December 2003) and the interim period ended 30 June 2006, as well as the important developments affecting results of operations in financial year 2006. This Section should be read in conjunction with the other parts of this Prospectus which include important information on the operations and financial condition of the Company, as well as in conjunction with the consolidated audited annual reports of the Company for the relevant accounting periods.

This Section also includes a short discussion on the results of operations of the Silvano Group and its individual members in the aforementioned period. Given that the Silvano Group includes two entities whose first full financial year ends on 31 December 2006 and taking into account the fact that Milavitsa did not consolidate the results of its subsidiaries before the financial year ended 31 December 2005 and did not apply the IFRS in the relevant period, the below discussion of the results of operations of the Silvano Group is limited to basic information on such results that the Management considers relevant and does not present a full account of the results of the members of the Silvano Group. For more information on the manner in which the financial information of the entities belonging to the Silvano Group is presented, please see "Financial Statements" below.

This Section further describes certain strategic objectives and short term goals as well as certain competitive advantages of the Group as a whole. Such objectives and advantages are discussed on the presumption that the integration between the PTA Group and the Silvano Group is completed and that the Group is duly formed. Such objectives and advantages are not meant to relate to and should not be associated with the PTA Group alone.

Major Developments 2003 - 2006

Throughout the financial years ended 31 December 2003, 2004 and 2005 and during the interim period ended 30 June 2006, the Baltic States and Scandinavia remained the principal markets for the Company. Specifically, the majority of the Company's turnover originated from Estonia and Latvia, but also from Finland. Therefore, macro-economic developments in the Baltic States have had a direct effect on the results of the Company's operations in the relevant period.

The Estonia's accession to the European Union in 2004 had a material influence on the economy of the Baltic States as a whole and a considerable impact on the activities of the Company. On one hand, joining with the common market enabled the Company to commence direct distribution of its products to the Finnish and Swedish markets and the need for maintaining the activities of Finnish and Swedish subsidiaries ceased to exist. Compared to 2003, the suspension of the Finnish and Swedish subsidiaries' activities in 2004 lead to direct savings in the form of fixed costs related to the maintenance of such companies in the approximate aggregate amount of EEK 10 million a year.

On the other hand, the EU accession led to the partial opening up of the labour markets of the countries involved. The onset of the free movement of labour caused significant outflow of human resources and brought along increases in the labour related costs in all Baltic States. Similarly to the tendency that is pre-dominant among other European textile and clothes manufacturers, the Company was induced to consider more extensive outsourcing of services to third countries.

Moreover, the absence of boundaries within the EU and the free movement of goods have tightened up the competitive situation in the whole textile and clothing industry and forced the Company to make extra efforts to optimise costs and raise efficiency of production.

The rapid growth of the Baltic economies has led to considerable increases in the standards of living in the Baltic States as well as to noticeable growth in disposable income. The abovementioned factors have caused an increase in consumption. The overall increases in the purchasing power have also affected the turnover of the Company, especially the turnover arising from trade in the Latvian market.

The most important developments in the operations of the Company in the aforementioned period are the following:

- *New branding strategy.* The relevant period brought along significant changes in the branding strategy of the Company. The Company consolidated all its brand development and marketing resources under one single brand "PTA". The target customer of this brand was defined as a successful woman in the age of 30 to 50. The design and production activities focused on classic apparel combined with leisure clothing. Comfort and style became the keywords of the "PTA" brand. In addition to apparel, the Company launched a line of accessories bearing the "PTA" trademark. Bearing in mind the target consumer, the price level was appraised to be suitable for women with average earnings. Distribution efforts focused on "PTA" brand outlets.

- *Constant investments into fixed assets.* Throughout the observed period, the Company has made investments into fixed assets, renewing the equipment and fittings of its retail outlets. In 2003, the annual amount of investments made into tangible and intangible fixed assets (trademarks) of the Company was EEK 2.6 million; in 2004, the annual amount of investments remained the same (EEK 2.6 million). In 2005, the annual amount of investments into tangible assets amounted to EEK 2.2 million and the investments into intangible assets (ERP and accounting software licenses) amounted to EEK 1.5 million.

- *Managing retail, product development, purchasing and marketing as a common system.* The reviewed period signified thorough integration of design and product development with purchasing and marketing activities of the Company concentrating mainly on the development of retail operations. The development of apparel collections was pursued according to previously approved retail plan and seasonal marketing plan. The aforementioned plans were decided to be reviewed on a regular basis to adapt the plans to the changes occurring in the market situation. The activities of the Company were coordinated through centralised management following the principles of matching supplies to sales and demand for different products of the Company. As a result of reforming the strategic management of the Company's activities, the volume of supplies corresponded more accurately to sales and the realisation of stock increased.

- *Discontinuation of loss-making operations*. By the end of financial year 2005, loss-making operations of the Company were terminated. As mentioned above, the loss-making activities of the Swedish and Finnish subsidiaries were substituted with direct distribution bringing along considerable savings in respect of the Company's fixed costs. Moreover, the studio Avenue, a fashion house providing designing and tailoring services to individual customers, was closed down as the market niche for specially designed clothes was too condensed.

- *Sale of real estate and decrease of loan burden.* In December 2005, the Company sold its office building located at Akadeemia tee 33, Tallinn, as well as production facilities and warehouse premises located respectively at Kadaka tee 179, Tallinn and Kadaka tee 179A, Tallinn in a sale and lease-back transaction (please see "Operations of the PTA Group – Real Estate and Leased Premises" for more detailed information). The proceeds of the sale were directed towards the repayment of existing credit obligations. As a result of the above, the majority of the Company's debts were repaid. The decrease of the financial costs driven by the decrease in interest payments reflects also in the financial results of the Company.

- *New ERP and accounting software.* New accounting and ERP software was implemented from 1 January 2005. The preparations for the implementation of the new system begun already in the financial year 2003. The upgrade procedure involved complications and at first, the Company experienced certain issues with the compatibility of the new software and the previously used system. The compatibility issues were resolved by the end of the financial year 2005.

Factors with Constant Effect on Results of Operations

As the relative weight of sewing services in the total revenue of the Company is constantly decreasing, the main source of the Company's revenue is sales of women's apparel. Therefore, the primary factors with noticeable effect on the Company's revenue and profitability are those related to production and distribution of its output. The most important of such factors are briefly summarised below.

Seasonality. As a general rule in the clothing industry, new collections are introduced twice a year – spring collection in March and autumn collection in July or August. Meanwhile, the main collections may be supplemented with so called "express collections" as a rapid reaction to market demands which is deployed when and where necessary. Considering this tendency of the fashion industry in general, the demand for sewing services can also be characterised as seasonal. The demand for sewing services and the prices offered for such services are the highest during the so-called "high season", which is the period during which the whole production capacity is used for the Company's own output. Such seasonal demand has a constant impact on the Company's operations, somewhat impairing its ability to keep up a stable load of production facilities throughout the year.

Flow of customers. As the Company's main revenue source lays in retail sale of its production, it is essential that each outlet bearing the Company's trademark attracts an adequate number of customers to maintain suitable profitability levels. The number of customers is normally affected by a number of different factors. To name a few, such factors include the location and accessibility of outlets, the reputation of the Company's trademark goods and the quality of the goods offered. The Management of the Company believes the Company is able to sustain a stable flow of customers to its retail outlets through developing its trademarks, capitalising on the existence of own production capacity, targeting its goods to middle-class customers and ensuring that retail outlets are located in easily accessible and attractive locations (please see "Results of Operations – Competitive Advantages" for more details).

Disposable income. The impact of macro-economic conditions on the Company's revenues, though by no means linear, cannot be underestimated. The overall economic growth of the regions in which the Company operates translates into higher disposable income for the population, in turn having a beneficial effect on spending. Though the exact correlation between consumer spending and the Company's revenues is not known, such correlation is positive.

Interim Period Ended 30 June 2006

Results of the PTA Group

The total revenue of the PTA Group in the first half of financial year 2006 was EEK 61.3 million, up 5.3% on EEK 58.2 million in the first half of 2005.

The sales in the Estonian market accounted for 55.5% of the consolidated sales (first half of 2005: 47.1%) and rose 24.1% in comparison with the same period last year. The sales growth in Estonia can be attributed to an increase in the effectiveness of retail sales and the general favourable economic conditions due to which the overall consumer spending has increased.

In the first half of 2006, there have been significant changes in the structure of export destinations in comparison with the same period last year. The total export revenue decreased by 11.5% in comparison with the same period last year, but sales to the Latvian market increased 67%. The decrease of the overall export turnover is associated mainly with the Swedish and Norwegian markets where the PTA Group does no longer market its products. The decrease of the export turnover is also related to a decrease in the sales of subcontracting services by EEK 4.4 million. The export turnover of the apparel sales and other sales rose by EEK 0.9 million in absolute numbers.

The apparel sales increased by EEK 5.6 million in comparison with the first half of 2005, amounting to 79.4% of the consolidated sales (first half of 2005: 73.9%) The sales of the subcontracting services have fallen by EEK 2.7 million in comparison with the first six months of 2005, amounting to 18.4% of the sales

(23.9% in the first half of 2005). Retail sales in the first half of 2006 amounted to EEK 36.4 million, growing by 18.7% year-on-year.

Wholesale in the first half of 2006 rose 3% year-on-year. Wholesale growth can be attributed mainly to the products sold to Anttila Oy, a Finnish retailer. As of the second half of 2005, wholesale to Sweden and Norway has been discontinued.

The operating profit before depreciation and financial income and expenses amounted to EEK 6.6 million, increasing by EEK 6.3 million year-on-year. The net profit of the Group in the first six months was EEK 3 million (first half of 2005: net loss of EEK 5.6 million).

Results of the Silvano Group

Lauma Lingerie

During the interim period ended 30 June 2006, Lauma Lingerie succeeded in significantly increasing its revenues and profits as a result of organic growth. The total sales in the interim period were EEK 93.8 million and profit for the same period was EEK 11.9 million. Exact comparable information for the first half of financial year 2005 is not available. Apart from opening a new retail store in the centre of Riga, Latvia, there have been no significant developments within the referred period.

Milavitsa

Milavitsa's revenue in the interim period ending 30 June 2006 was approximately EEK 467.5 million and the profit for the period was approximately EEK 66.4 million. The revenue and profit of Milavitsa exhibit steady growth and benefit from increasing expansion of retail activities by Linret and MTCB (see "Operations of the Silvano Group – Distribution" for more details). No extraordinary events have taken place in the first half of 2006 that could have an effect on the annual results of the company.

Linret

Linret opened the first three "Oblicie" retail stores in Russia in the first half of financial year 2006. In the aforementioned period, investments of some EEK 2.6 million were made in shop equipment and furniture. The balance sheet at the end of the period stood at some EEK 14.4 million. Total sales in the first half of financial year 2006 amounted to approximately EEK 1.3 million (taking into account that first "Oblicie" shop was opened only as late as April 2006). The net loss for the period was some EEK 5.1 million on account of start-up costs and investments.

Year Ended 31 December 2005 Compared to Year Ended 31 December 2004

Results of the PTA Group

Revenue

The PTA Group is engaged in two primary lines of business: retail and wholesale of women's apparel and sewing subcontracting services offered to third parties.

The revenue of the PTA Group in financial year ended 31 December 2005 was EEK 114.5 million, a decrease of 11% compared to the revenue of EEK 128.6 million earned in financial year 2004. EEK 54.7 million was earned in Estonia (an increase of EEK 1.1 million from the 2004 results of EEK 53.6 million), EEK 25 million in Latvia (an increase of EEK 4.2 million from the 2004 results of EEK 20.8 million), EEK 27.7 million in Finland (a drop of EEK 7.1 million from the 2004 results of EEK 34.8 million) and EEK 7 million from other markets (a drop of EEK 12.3 million from the 2004 results of EEK 19.3 million). The decrease in the overall revenue of the PTA Group in 2005 is attributable primarily to a drop in the wholesale revenue derived from the Scandinavian markets, which is discussed in more detail below.

In 2005, the PTA Group suffered a EEK 14.6 million (36.7%) drop in wholesale revenue compared to the 2004 wholesale revenue. The drop in wholesale revenue was primarily due to the decrease in wholesale to Sweden and Norway where the incorrect positioning of the relevant products led to weaker-than-expected demand. A significant positive development in the wholesale area, however, took place in the end of 2005 when the Company commenced cooperation with Anttila Oy, which operates a wide retail network in Finland. "PTA" branded clothes are sold through the Anttila network in Finland since March 2006.

At the same time, the PTA Group was increasingly expanding its activities into the retail sector in Estonia and abroad. Overall retail revenue rose some 5.3% from EEK 60.7 million in 2004 to EEK 63.9 million in 2005. The fastest growth in retail revenue was achieved in Latvia, where retail revenue grew some 50% compared to the 2004 results. The growth in retail revenue was attributable mostly to the more effective use of the existing sales areas, with the average revenue per one square meter of shop area rising 21% compared to the relevant number in 2004.

With respect to sewing subcontracting services, financial year 2005 was the first financial year in which the new strategy of the PTA Group had full effect on its financial results. In particular, the Management was implementing the gradual transition from the business which is orientated primarily to technical sewing subcontracting services to offering higher-yield full service sewing, where the whole production cycle of a particular garment is completed by Klementi and the output is a finished product. The strategy yielded positive results in 2005: while total revenue from sewing services decreased 19.8% compared to 2004 results (EEK 21.4 million in 2005 compared to EEK 26.7 million in 2004), profit from sewing services in fact increased 5%.

With the increase of the retail revenue, the relative importance of all sewing subcontracting services in the revenue of the Group decreased from 20% in 2004 to 18% in 2005.

Operating expenses

Total operating expenses comprise (i) change in inventories of work-in-progress and finished goods, (ii) goods, raw materials and services, (iii) other operating expenses, (iv) personnel expenses, (v) depreciations and amortization, and (vi) miscellaneous expenses.

Operating expenses amounted to EEK 129.5 million in 2005 (2004: EEK 138.3 million). The structure of the operating expenses remained relatively stable compared to financial year 2004. The main driving force behind the overall drop in operating expenses is the decrease of the cost of goods, raw materials and services (EEK 41.7 million in 2005 as compared to EEK 51.3 million in 2004).

The PTA Group derives its revenue from sales of own branded apparel and from sewing services. As a result, the principal operating expenses are the costs of goods, raw materials and services used in the production of clothes (primarily fabrics) and labour costs. The raw material costs and the labour costs together comprised over 66% of all operating expenses in 2005, down from 69.4% in 2004. Personnel expenses in 2005 were EEK 44.0 million (2004: EEK 44.6 million).

Other operating income

Other operating income includes items such as gains on sale of property, plant and equipment and intangibles, change in the fair value of investment property, foreign exchange gain, *etc*.

Other operating income increased significantly in 2005 as compared to the results of 2004. The increase in other operating income is due to a one-off sale of the real estate of the PTA Group in a sales and lease-back transaction that yielded proceeds in the amount of approximately EEK 53 million. The proceeds of the sale were used to decrease the financial obligations of the PTA Group.

Net financial items

Net financial items amounted to a negative balance of EEK 5.8 million in 2005, almost unchanged from the negative balance in 2004. Interest expenses increased somewhat from EEK 5.4 million in 2004 to EEK 5.9 million in 2005, while the impact from exchange rate fluctuations transformed from a loss of EEK 339 thousand in 2004 to a gain of EEK 175 thousand in 2005.

Corporate income tax

In 2005, the distribution of retained earnings by Estonian companies was subject to the tax rate of 24/76 (from 1 January 2006: 23/77) of the amount paid out as net dividends. In 2005 the income tax rates applicable to the Group companies were as follows: in Latvia and Lithuania, the tax rate was 15%; in Sweden, the tax rate was 28%, and in Finland the tax rate was 29% in 2004 and 26% in 2005.

In 2005, the Latvian subsidiary of the Company, SIA Vision, had a corporate income tax and deferred income liability. Income tax at the rate of 15% amounted to EEK 353 thousand. Other Group companies did not have any deferred income tax liabilities or assets.

Minority interest

The Company did not hold any shares in any companies that were not 100% subsidiaries of the Company. Therefore, none of the Company's profit was attributable to minority interest in 2005.

Net profit

In 2005, PTA Group's net loss decreased by EEK 8.7 million and was EEK 3.2 million as compared to EEK 11.9 million in 2004.

Results of the Silvano Group

Lauma Lingerie

Lauma Lingerie was established on 22 October 2005 by way of a separation of lingerie operations from AS Lauma (see "Operations of the Silvano Group – History and Development of the Silvano Group" for more details). The results of operations of Lauma Lingerie for financial year 2005 (as compared to the results for financial year 2004) and for financial year 2004 (as compared to the results for financial year 2003) are calculated primarily on a pro forma basis from the financial results of the lingerie operations of AS Lauma for the relevant period. Such results have not been audited.

Based on the aforementioned pro forma information, the revenue of Lauma Lingerie in 2005 was approximately EEK 153.5 million, representing an approximately EEK 18.5 million gain on the 2004 results (an approximately 14% gain). Net profit rose over 27% to EEK 21.7 million from 2004 results. The growth of revenue and profit was stable and was not affected by extraordinary circumstances.

Milavitsa

The total revenue of Milavitsa in financial year 2005 was EEK 746.9 million, up 4.4%. On the 2004 results (EEK 715.2 million). Due to increased efficiency, net profit rose faster than revenue – a 11.8% growth compared to 2004 results (respectively, to EEK 66.9 million from EEK 59.8 million). The increased efficiency of sales was also evident from the higher rate of capital turnover. Financial year 2005 was characterized by steady growth. In June 2005, the Russian subsidiary of Milavitsa (STK) started wholesale operations and shortly after that acquired a stake in a Ukrainian wholesale company MTCU, thus improving the distribution of Milavitsa's output and achieving a positive effect on results of operations.

Linret

Linret was established in October 2005 and did not have active operations in financial year 2005. However, certain investments and expenses were made in the administrative and logistics structures in preparation for the opening of the first "Oblicie" retail outlets, for which reason Linret ended financial year 2005 with a net loss of some EEK 704 thousand.

Year Ended 31 December 2004 Compared to Year Ended 31 December 2003

Results of the PTA Group

Revenue

The revenue of the PTA Group in financial year ended 31 December 2004 was EEK 128.6 million, a decrease of 3.7% compared to the revenue of EEK 133.6 million earned in financial year 2003.

EEK 53.6 million was earned in Estonia (3.7% up on EEK 51.7 million in 2003), EEK 20.8 million was earned in Latvia (112.2% up on EEK 9.8 million earned in 2003), EEK 34.8 million in Finland (18.1% decrease from 42.5 million earned in 2003) and EEK 19.3 million in other markets (a drop of 34.8% compared to EEK 29.6 million in 2003).

The composition of sales changed as compared to 2003. The apparel sales made up 78.2% of total sales (2003: 82.2%). The share of subcontracting services grew by 4.9% in 2004. Exports decreased by over 8% as compared to 2003. The decrease in sales was related to the decrease of the wholesale turnover in the Nordic countries, especially in Sweden and Finland.

In 2004, the PTA Group's retail sales amounted to EEK 60.7 million, an increase of 22% as compared to 2003. Retail revenue amounted to 60% (2003: 45%) of apparel sales revenue. Total retail sales revenue increased by EEK 11 million, most of which was related to the improvement of efficiencies of retail spaces. The average retail sales per square meter increased by almost 29% as compared to 2003. Most of the sales occurred in Estonia whereas Latvia had the largest sales volume growth of almost 30%.

Wholesale apparel sales decreased by over 30% in 2004. This was primarily related to lower sales in the Scandinavian countries, where the decline of the sales turnover resulted from inappropriate positioning of apparel marketed under the "PTA" trademark. Since the second half of 2004, the PTA Group changed the positioning of the "PTA" trademark.

Subcontracting sales volume increased by 26% in 2004. The number of subcontracting business partners who purchased the full service of manufacturing apparel instead of purchasing just the sewing service increased. Also, the manufacturing and sales of occupational apparel commenced in accordance with the customers' requests. The gradual transition from offering sewing services to offering the full service of manufacturing apparel (incl. the preparation and placement of products, increasing and decreasing of patterns, cutting, *etc*) helped to increase net sales and made the provision of the subcontracting services more profitable.

Operating expenses

Total operating expenses amounted to EEK 138.3 million in 2004 (2003: EEK 151.8 million). The structure of the operating expenses remained relatively stable compared to financial year 2003. The main driving force behind the overall drop in operating expenses was the decrease in manufacturing costs and personnel costs (the decrease in the latter is mainly attributable to the decrease in the number of employees) as well as the decrease in other operating expenses such as irrecoverable and doubtful receivables, *etc*.

The PTA Group derives its revenue from sales of own branded apparel and from sewing services. As a result, the principal operating expenses are the costs of goods, raw materials (primarily fabrics) and services used in the production of clothes (labour costs). The raw material costs and the labour costs together comprised 69.4% of all operating expenses in 2004, slightly up from 68% in 2003. Personnel expenses in 2004 were EEK 44.6 million (2003: EEK 52.7 million).

Other operating income

Other operating income increased by 82.6% in 2004 as compared to the results of 2003 (EEK 3.6 million in 2004 as compared to EEK 2.3 million in 2003). The increase in other operating income was due to the sale of non-current assets in the amount of EEK 1.7 million and an increase in foreign exchange gains from EEK 441 thousand to EEK 1 million.

Net financial items

Net financial items amounted to a negative balance of EEK 5.7 million in 2004, increasing slightly compared to EEK 5.7 million in 2003. Interest expenses increased somewhat, while foreign exchange gain of EEK 45 thousand in 2003 was countered by a loss of EEK 339 thousand in 2004.

Corporate income tax

In 2004, the distribution of retained earnings by Estonian companies was subject to the tax rate of 26/74 (from 1 January 2005: 24/76) of the amount paid out as net dividends. In 2004 the income tax rates applicable to the Group companies were as follows: UAB Klementi Vilnius (Lithuania) – 15%, Klementi Trading Oy (Finland) - 29%, Klementi Trading AB (Sweden) – 28%, SIA Vision (Latvia) – 19%.

On 31 December 2004, the deferred income tax assets of foreign subsidiaries amounted to EEK 460 thousand (31 December 2003: EEK 478 thousand). Deferred income tax assets were not recognised as assets in the balance sheet as there was no reliable certainty that they could be used against future taxable profits.

Minority interest

The Company held minority interest in OÜ Balti Rõivamess and OÜ Eesti Ettevõtjate Ärikeskus. As the operating activities of both companies had been suspended, the Company did not receive any profit from such companies and the investment was reported at nil value in the balance sheet of the Company.

Net profit

In 2004, the net loss of the PTA Group decreased sharply from EEK 21.6 million to EEK 11.9 million.

Results of the Silvano Group

Lauma Lingerie

Based on the aforementioned pro forma information, the revenue of Lauma Lingerie in 2004 was approximately EEK 135 million, representing an approximately EEK 9.4 million decrease compared to the 2003 results. Net profit fell somewhat to EEK 17 million from 2004 results of 20.6 million.

Milavitsa

The total revenue of Milavitsa in financial year 2004 was EEK 715.2 million, up EEK 131.7 million on the 2003 results of EEK 583.5 million (an over 22% increase). At the same time, net profit fell from EEK 98.2 million in 2003 to EEK 59.8 million in 2004. The drop in net profit is explained by the fact that a 3-year tax exemption applicable to all Belorussian companies with at least 30% foreign ownership expired in respect of Milavitsa by the end of financial year 2003 and the company started incurring income tax liabilities which previously did not affect its operations. At the same time, revenue growth remained stable. In 2004, Milavitsa decreased the volume of sales with respect to products that are sold in cooperation with other brands and concentrated on own branded products.

Linret

Linret was established in October 2005 and did not have any operations in financial year 2004.

Strategic Objectives and Short-Term Goals

Strategic objectives

The issue of New Shares and the completion of the Transaction will lead to the creation of a vertically integrated group with the main areas of activity in the fields of the manufacturing and retail of women's clothing and lingerie.

The Group intends to pursue two strategic objectives. Firstly, the long-term ambition of the Group is to become one of the leading producers and distributors of women's apparel, accessories and lingerie in the markets of the Baltic States, Russia and CIS countries. Secondly, the Group is aiming to create a situation where up to 2/3 of the retail sales revenue of the production of its manufacturing units (the PTA Group, Milavitsa and Lauma Lingerie) will remain in the Group companies and by doing so it intends to materially increase the overall revenues and profits of all Group companies.

The Group contemplates the achievement of the abovementioned objectives through strengthening the existing retail network and expanding it into new geographical markets, as well as through the development of the intra-group synergies between various Group companies, which will help reduce costs and increase profitability on a Group-wide basis.

In respect of the development of the retail network, Linret will be responsible for rolling out a chain of lingerie shops in Russia and CIS countries, which will involve the opening of up to 90 new lingerie shops under the trademark "Oblicie" by 2008. In addition to the "Oblicie" brand outlets, women's clothing shops under the trademark "PTA" will be opened in the same markets. The "Oblicie" shops will be selling the products of Lauma Lingerie and Milavitsa and the "PTA" shops will focus on the sale of the "PTA" branded clothes. The management of the Company sees great potential in the development of a retail network in Russia and CIS countries in light of the increasing disposable income of the local population and the rising popularity of shopping centres (as opposed to "bazaar" type open air markets) in Russia and CIS countries. Furthermore, the Russian and CIS lingerie retail market is still characterized by rather weak competition and the trademarks of Milavitsa and Lauma Lingerie already have the advantage of being among the best-recognised brands.

In order to raise the profitability of all Group companies, further integration of operations of the Group companies will be pursued. Currently, the Group comprises three main production units: the Company's Estonian subsidiary Klementi, Lauma Lingerie in Latvia and Milavitsa in Belarus. In addition to the three production units, the Group includes a Russian retail operator Linret and several subsidiaries and associated companies, which are active in marketing the Group's products. The key to optimising costs and raising profitability is seen to lie among other things in the effective administration of the Group's existing resources. The improvement of the business results of all Group companies is hoped to be achieved through a flexible combination of the manufacturing and retail operations of the Group companies and through a highly efficient central management of the Group.

Implementing the Group's strategy as described above requires that constant and careful attention is paid to a number of key areas, which are briefly summarised below.

Implementation of the Group's strategy

Developing the combined management of the Group

The successful integration of the manufacturing, distribution and retail units of the Group and the effective utilisation of the existing resources requires a well-functioning central management for the whole Group. This goal will be achieved through developing the combined management structure of the Group on the Company level. The functional structure of the combined management of the Group will consist of four main business segments, each dealing with different areas of the combined operations of the Group. The efforts of said business segments are contemplated to be coordinated by the Council and the Management Board of the Company in the new composition (see "Combined Management" for further information about the contemplated combined management structure of the Group).

Professional and rapid expansion of retail network

One of the main directions for the Group will be the retail sale of lingerie and women's apparel and accessories in Russia and CIS countries. Through the development of the operations of Linret, there will be a steady platform of administrative, logistical and IT solutions in these markets which will be used in the opening and administration of outlets under "Oblicie" as well as "PTA" trademarks. The management team of Linret that will be responsible for operating retail activities in Russia and CIS countries has a thorough knowledge of the respective markets and extensive past experience in the industry, which is expected to enhance the Group's outlook in these markets.

According to present plans and provided that economic conditions are favourable, up to 90 "Oblicie" outlets with the total area of approximately 8,000 m^2 will be opened by the end of 2008. The retail network will be developed on the basis of the declared strategy of the Group, the objective of which is the improvement of the results of the whole Group through a vertically structured business model, combining manufacturing with retail. Simultaneously with the expansion of the "Oblicie" network, also the "PTA" trademark retail network will be developed. During financial year 2006, Linret is expecting to invest up to some EEK 13 million in opening new retail outlets. It is planned that a total of 18 Oblicie shops and 5 PTA shops will be in operation by the end of 2006, conditions permitting. The long-term marketing strategy of Linret's retail chain development entails further extension to the Baltic States, Belarus, Ukraine, Kazakhstan, Poland, and Czech Republic. By 2010 it is planned to open over 300 stores, subject to market conditions and the success of the existing network.

Developing distinctive trademarks

The implementation of the Group's strategic objectives described above requires that a uniform façade is maintained and developed across all markets in which the Group companies operate. The development and expansion of the "Oblicie" and "PTA" retail networks involves the creation of a uniform interior and exterior concept for all outlets in all present and future markets where the Group operates. The Group is determined to ensure that the trademarks "Oblicie" and "PTA" are associated with quality and style in women's apparel, accessories and lingerie in all markets where the respective outlets are opened. As a part of the Group's retail branding strategy, larger state of the art shopping centres and main streets will be preferred when choosing the location of the outlets.

Further integration of operations of the Group companies

In addition to the tight cooperation among the Group companies with respect to unified sales and marketing policy in the target markets, the supportive operations of the Group companies will be integrated as well. Such supportive operations include primarily the common organisation of logistics, warehousing and external supply sourcing, but also the application of common IT solutions and shared media sourcing.

Flexible manufacturing

Currently the Group comprises three main production units – the Company's subsidiary Klementi with its production facilities based in Tallinn, Estonia; Milavitsa with a sewing factory in Minsk, Belarus; and Lauma Lingerie located in Liepaja, Latvia. All the production companies have outsourcing relationships with different suppliers (in respect of the suppliers of the Company please see "Operations of the PTA Group – Suppliers" and regarding Milavitsa and Lauma Lingerie please see "Operations of the Silvano Group – Suppliers" for further information). The combined operations and common management of the Group will enable the Group companies to raise the efficiency of production by dividing the manufacturing load among the existing manufacturing capacities in accordance with the demand for different products in the markets where the Group companies operate. The risks related to the manufacturing operations of the Group are well diversified with production facilities located in three different countries.

Optimising costs and raising profitability

The large-scale integration of operations of the Group companies described above should ultimately lead to greater optimisation of business costs of the whole Group and therefore raise the overall profitability of the Group. Such integration should finally lead to a situation where up to 2/3 of the retail sales revenue of the production of the PTA Group, Milavitsa and Lauma Lingerie will remain in the Group as referred to above as a strategic objective of the Group.

Short-term goals for financial year 2006

Completing the Transaction and consolidating the Group

The principal objective for the Company in 2006 is to complete the Transaction and ensure that the ultimate structure of the Group is in place. As soon as the Transaction is completed, the Company intends to implement a number of transitional measures to adapt to the new state of affairs and organise its operations as the ultimate holding company of a major lingerie and apparel conglomerate. Such measures would entail changes to the management structure of the Company to implement the envisioned management structure (see "Combined Management" for more details") and other administrative and organisational changes.

Strengthening the existing retail sale network

In the Russian market six stores under the "Oblicie" trademark are already in operation and by the end of the year 2006 or early in 2007, 12 new stores are planned to be opened in Russia, bringing the total number of Russian stores to 18. Moreover, currently the Company operates altogether 5 "PTA" trademark stores in Estonia and Latvia until the end of the year. In 2006 the Company intends to expand its retail chain by increasing the number of "PTA" stores in Latvia and renovating three existing stores in Estonia. The Company will also continue preparations for expanding the "PTA" retail network to the Lithuanian and Ukrainian markets through recently founded local subsidiaries.

Promoting the “PTA” brand

The Company plans to expand the range of products within the “PTA” collections in order to increase the popularity of the “PTA” brand and raise brand-awareness among the Estonian and foreign consumers. The respective plans call for the expansion of casual apparel collections and increasing the range of accessories in the “PTA” stores. As another way towards the same objective, the Company intends to continue the implementation of the loyal customer program (through loyal customer cards) in “PTA” trademark stores.

Replacing subcontracting sewing services with manufacturing “full-price” products

In 2006, a gradual transition will continue from the lower-yield subcontracting sewing services to the more value added full-service manufacturing of apparel and lingerie (so-called “full-price” products), creating additional value for the customer and enabling the Group to use its production capacities more efficiently and profitably. Moreover, the production units of the Group will focus on the manufacturing of own-branded goods, where profit margins are higher compared to the sewing services.

Enhancing cooperation with strategic partners

Once the consolidation of the Group is completed, the Group intends to continue and enhance strategic cooperation with a number of partners both in and outside of its primary target markets. In particular, the Group intends to widen its ties to a major worldwide yarn producer Invista International, which supplies materials to the manufacturing entities of the Group (in particular plastic fibres marketed under the trademark “LYCRA”) for the production of lingerie. The Group also intends to cooperate closely with SIA Lauma Fabrics and its French subsidiary Desseilles Textiles SAS, which belong to the same group of companies as the major shareholder of the Company following the completion of the Transaction (SIA Alta Capital Partners).

Competitive Advantages

The Group hopes to achieve success in the Eastern European markets and expand to other jurisdictions thanks to certain circumstances that in the opinion of the Management represent advantages over competitors. Such circumstances are briefly summarised below.

- Flexible Group structure. In general, the Group consists of production units and entities specialised on marketing and distribution of the output of the Group companies. The contemplated highly integrated group structure will enable the Group companies to reorganise the usage of their production capacities and distribution resources to meet the relevant demand for different products and brands produced and marketed by the Group. Moreover, as the entities engaged in organising the retail sale of the Group’s production are located in different markets, marketing solutions can be developed, planned and, where necessary, reorganised to adapt to the structure and particularities of the relevant market.

- International management. The combined management of the Group is contemplated to be comprised of highly qualified and professional executives having long-term experience in women’s apparel and lingerie industry in different markets (please see “Company Management” and “Combined Management” for further information regarding the executive personnel of the Group). Mr. Peeter Larin as the current Estonian representative in the combined management of the Group has been engaged in apparel industry as of 1993 and has thorough knowledge of the Baltic States’ and Scandinavian apparel markets. The representatives of Milavitsa and Linret in the combined management of the Group (Mr. Dmitry Ditchikovsky, Mr. Dmitry Podolinsky and Mr. Sergei Kusonski) have over five years of experience in managing lingerie manufacturing and sales operations in Russia and Belarus.

- Committed principal shareholder. As a result of the Transaction the principal shareholder of the Company is SIA Alta Capital Partners, which is one of the most experienced investment companies in the Baltic States (in turn under the joint control of Indrek Rahumaa, John Bonfield, Toomas Leis and Andres Rätsepp) with approximately 73.8% direct holding in the Company. SIA Alta Capital Partners will be actively involved in the management of the Company and will contribute its investment and management expertise towards the successful fulfilment of the strategic objectives of the newly formed Group.

- Good access to capital and debt markets. The listing of Shares on the Main List of the Tallinn Stock Exchange and the stable shareholder structure of the Company (mentioned above) will contribute to the transparency of the business activities of the Company and its reputation before possible future investors. Such factors will therefore facilitate future access to additional equity capital through the Tallinn Stock Exchange and to debt capital due to the increased creditworthiness of the Group.

- Well-known trademarks. The trademarks of Milavitsa and Lauma Lingerie are among the best-known lingerie brands in Russia and CIS countries. The "PTA" trademark products are highly regarded in the Baltic States and Scandinavia. As the Group will include a centrally operated retail network, such well-known brands may be used to facilitate the introduction of new or less-known brands of the Group. With the integrated media sourcing for the whole Group, "PTA" trademark products can be promoted through taking advantage of the high recognition of Milavitsa and Lauma Lingerie brands in Eastern European countries and *vice versa*, in the Baltic and Scandinavian markets, the customers' awareness of the "PTA" and "Lauma" brands may be used as a tool for raising the recognition of Milavitsa brands.

- Good reputation of Belarusian and Baltic trademarks. Historically, products of Belarusian and Baltic origin have been associated with superior quality by the majority of Russian and CIS consumers. Such association will be likely to serve as an additional competitive advantage when marketing and distributing the output of Milavitsa, Lauma Lingerie and the PTA Group in the above mentioned markets.

- Middle class as target customers. The Group's output is targeted primarily to middle class consumers. In recent years, the average disposable income in the Eastern European countries has been increasing (please see "Industry Overview – Overview of Relevant Markets" for more details). Such tendencies contribute to the purchasing power of the Group's target customers and serve as a catalyst for the change in consumer habits. In particular, the relatively higher disposable income will be likely to increase the popularity of new comfortable and secure shopping malls as compared to "bazaar" type open air markets which currently account for a disproportionately large share of all clothing and lingerie purchases in Russia and CIS countries.

- Easy access to target markets. The proximity of the Group's manufacturing capacity to the target markets serves as a material competitive advantage before many competitors. The short distance between the production units and the retail outlets engaged in the actual marketing of the production simplify logistics, creating opportunity for material cost-cutting in the fields of transportation and warehousing. Furthermore, the largest of the Group's manufacturing facilities (Milavitsa's Minsk factory) is located in Belarus and thus is able to export goods to Russia without suffering from the effects of considerable customs duties that are currently imposed with respect to exports from the European Union. On the other hand, Klementi's manufacturing facilities in Estonia and Lauma Lingerie's factory in Latvia are able to market their output in the European Union without incurring any customs expenses due to the positive effect of the European customs union.

- Competitive labour costs. A large share of the output of the Group is manufactured in the factory of Milavitsa located in Minsk, Belarus. Compared to the other Group companies, Milavitsa employs a considerably larger amount of employees (please see "Operations of the Silvano Group – Employment" for more details). The costs of labour compared to the countries where the other entities of the Group operate, are, however, relatively modest due to the lower cost of living and the lower level of salaries in Belarus. The less expensive but superbly qualified Belorussian labour enables the Group to optimise its production costs while at the same time maintaining highest standards of quality.

GENERAL CORPORATE INFORMATION AND SHARES

General Corporate Information

The business name of the Company is PTA Grupp AS. The Company is registered in the Estonian commercial register (held by the Registry Department of the Harju County Court) under registration code 10175491. The Company was initially registered in the Estonian commercial register on 23 December 1996 under its previous business name of AS Klementi (having previously been registered in the Register of Enterprises, Agencies and Organisations of the Republic of Estonia and other registers existing at the time). It has existed in one form or another from 1944 – see "Operations of the PTA Group – History and Development of the PTA Group" for more information.

On 5 September 2006, the Extraordinary General Meeting of shareholders of the Company (then under the previous business name of AS Klementi) adopted a resolution on the division of the Company. AS Klementi was divided into two companies by the way of separation[1] of a new subsidiary from AS Klementi. The Company was renamed to PTA Grupp AS and is the legal successor of the former AS Klementi. The new subsidiary received all production-related assets of the Company and was registered under the name of AS Klementi. Said division was deemed completed and all the rights and obligations transferred as of the making of the relevant entry in the commercial register, *i.e.* on 15 August 2006.

The Company is currently operating under the laws of the Republic of Estonia in the form of a public limited company (in Estonian: "aktsiaselts" or "AS") and is established for an indefinite term. The seat and address of the Company is Akadeemia tee 33, 12618 Tallinn, Estonia, telephone number (+372) 6710700, fax number (+372) 6710709.

The principle areas of activity of the Company according to its Articles of Association are the following: the development, organisation of production, production and sale of sewn and tricot products; retail and wholesale of manufactured goods; road transportation (including international road transportation); investment of own funds; training activities (with a duration of up to 6 months) and consultations in the areas of activity mentioned above.

Articles of Association

The Articles of Association of the Company are in all material aspects in accordance with the requirements of the Estonian law. The latest version of the Articles of Association was adopted by a resolution of the General Meeting of shareholders on 5 September 2006 and is in force since the registration in the commercial register on 26 October 2006. The Articles of Association of the Company stipulate the following noticeable provisions with respect to the organisation of the Company:

- the financial year of the Company is the calendar year;
- the minimum share capital of the Company is EEK 250,000,000 and the maximum share capital of the Company is EEK 1,000,000,000;
- the Company has only one class of shares;
- the reserve capital of the Company is 1/10 of its issued share capital;
- the Company may issue convertible bonds;
- the shareholders of the Company have the preferential right to subscribe to new Shares when issued, except when such right is specifically excluded by the General Meeting of shareholders of the Company;
- Shares of the Company are freely transferable;

[1] Pursuant to Section 434 (1) of the Estonian Commercial Code, division can be effected without liquidation proceedings by distribution or separation. Section 434 (4) sets forth that upon separation, the company that is being divided transfers a part of its assets to one or several recipient companies. A recipient company may be an existing or new company.

- the Council is composed of four to five members who are appointed for a period of five years and the Management Board is composed of one to seven members who are appointed for a period of three years.

The Articles of Association do not contain any specific provisions which would have the effect of delaying, deferring or preventing a change of control in the Company.

Share Capital and Shares

Current information

The current registered share capital of the Company is EEK 379,471,980. It is divided into 37,947,198 Shares with the nominal value of EEK 10 each. Currently all the issued Shares have been fully paid in and there are no Shares that are authorised but not issued.

The Company does not have any other classes of shares other than ordinary Shares (A-Shares) and does not contemplate the issue of any shares of such other classes. Shares of the Company are issued and exist under the laws of Estonia. The currency of Shares is Estonian kroons. The Company's Shares have been registered and are kept in book entry form by a securities market infrastructure enterprise AS Eesti Väärtpaberikeskus (located at Tartu mnt 2, Tallinn 10145), which is the operator of the Estonian Central Register of Securities. The ISIN code of Shares of the Company is EE3100001751. Shares of the Company (except New Shares) are listed on the Tallinn Stock Exchange as from 20 May 1997 and they are currently listed on the I-List.

No Shares of the Company are held by the Company itself or its subsidiaries. Likewise, no convertible securities are outstanding. No put or call options are outstanding with respect to or for the benefit of any company in the PTA Group. There are no legal restrictions on the transferability of Shares of the Company.

Increase of share capital in connection with the Transaction

On 5 September 2006, the General Meeting of shareholders of the Company adopted a resolution to increase the share capital of the Company in connection with the Transaction and to issue 36,000,336 new Shares of the Company (New Shares) with the nominal value of EEK 10 per Share, of which 36,000,323 New Shares were subscribed to (and 13 New Shares were not subscribed to due to the effect of approximation and such New Shares were cancelled). As a result of the same, the share capital of the Company has been increased by EEK 360,003,230. After the increase of the share capital, the new amount of the share capital is EEK 379,471,980. The existing shareholders' pre-emptive right to subscribe for New Shares (that is otherwise provided for in the Articles of Association) was excluded and the right to subscribe for New Shares was granted only to the shareholders of Silvano. Every shareholder of Silvano had the right to subscribe for New Shares of the Company in accordance with the number of shares of Silvano held by such person as of the date of subscription for New Shares, whereas one common share of Silvano gave the right to subscribe for 426.1 New Shares of the Company. New Shares were issued at the price of EEK 39.12 per share, whereof EEK 10 was the nominal value of each New Share and EEK 29.12 was the share premium. New Shares were paid for by non-monetary contributions, the object of which were shares of Silvano, whereas one share of Silvano was valued at EEK 16,669.03. Non-monetary contributions were transferred to the Company by 16 October 2006.

History of other changes to the share capital

The historical changes in the Company's share capital are as follows:

Period (dates of registration)	Amount of share capital registered in the commercial register
23 December 1996 – 4 April 1997	EEK 18,750,000
4 April 1997 – 16 May 2000	EEK 24,250,000
16 May 2000 – 24 December 2002	EEK 35,250,000
24 December 2002 – 28 July 2003	EEK 13,218,750
28 July 2003 – 15 March 2005	EEK 18,968,750
15 March 2005 – October 2006 (ca)	EEK 19,468,750
From 26 October 2006	EEK 379,471,980

According to the resolution of the General Meeting of shareholders dated 28 February 1997, it was decided to increase the share capital of the Company by EEK 5,500,000 and to issue 550,000 new Shares of the Company with the par value of EEK 10. 300,000 new Shares were issued in the course of a bonus issue 3 to the shareholders of the Company in proportion to their existing holdings; additional 190,000 Shares were issued in a targeted issue to the shareholders of the Company at the price of EEK 26 per Share (including the issue premium in the amount of EEK 16). In addition, the Management Board and Council members were entitled to subscribe for a total of 60,000 Shares with the price of EEK 13.3 per Share (including the issue premium in the amount of EEK 3.3).

The General Meeting of shareholders of the Company held on 24 March 2000 resolved to increase the share capital of the Company (then in the amount of EEK 11,000,000) to EEK 35,250,000 and to issue 1,100,000 new Shares with the par value of EEK 10. New Shares were issued at par value. The right to subscribe to new Shares was given to P.T.A. Group Oy, which subscribed to all 1,100,000 new Shares of the Company and paid EEK 8,550,000 as monetary contribution for the same. The remainder of the price to be paid for Shares in the amount of EEK 2,450,000 was set off as a contribution in kind against the claim of P.T.A. Group Oy arising from the loan agreement executed between the latter and the Company.

Further, in 2002 the reduction of the share capital of the Company was decided by the resolution of the extraordinary General Meeting of the shareholders of the Company, dated 31 July 2002. The share capital was reduced 4 times and three fourths of all Shares were annulled proportionally to the existing holdings of the shareholders of the Company as of 12 August 2002. Pursuant to the same resolution of the extraordinary General Meeting of shareholders of the Company, the share capital of the Company was increased by EEK 4,406,250 to EEK 13,218,750 by issuing 440,625 new Shares to the existing shareholders of the Company. OÜ Alta Holding agreed to underwrite the issue and subscribe for any Shares that were not subscribed for by the existing shareholders at the price of EEK 11.48 per Share (including a premium of EEK 1.48).

According to the resolution of the extraordinary General Meeting of the shareholders of the Company dated 23 May 2003, 575,000 new Shares with the issue price of EEK 27.5 (including par value of EEK 10 and issue premium of EEK 17.5) were issued in a public offering, increasing the share capital of the Company to EEK 18,968,750 in order to finance the Company with additional equity capital as well as to increase the number of shareholders and thus improve the liquidity of Shares on the secondary market. For the above mentioned reason the pre-emptive right of the existing shareholders was excluded. The issue was underwritten by AS Alta Capital and it was oversubscribed 3.5 times.

In the beginning of 2005 the bankruptcy estate of P.T.A. Group Oy (for information on the bankruptcy of P.T.A. Group Oy please see "Operations of the PTA Group – History and Development of the PTA Group") included 50,000 convertible bonds of the Company issued according the resolution of the extraordinary General Meeting of shareholders of the Company held on 28 August 2002. The convertible bonds were issued with the issue price of EEK 24 and the final term for their redemption was 31 December 2005. Until the conversion of the bonds to Shares of the Company, they bore interest at the annual rate of 5%. On 3 January 2005, P.T.A. Group Oy informed the Company of its intention to convert the convertible bonds into Shares of the Company with the exchange ratio of 1:1. The respective transaction was completed and the Company issued 50,000 new Shares to the bankruptcy estate of P.T.A. Group Oy with the par vale of EEK 10 and issue premium of EEK 14. As a result of the described exchange transaction, the share capital of the Company was increased by EEK 500,000 and the new amount of the share capital of the Company was EEK 19,468,750.

In respect of the last increase of the share capital in connection with the Transaction, that was decided on 5 September 2005, please see "Share capital and Shares – Increase of share capital in connection with the Transaction" for more information.

Takeover bids

A mandatory takeover bid to all the shareholders of the Company was launched by OÜ Alta Holding on 13 August 2002. The bid was made to all the shareholders of the Company in respect of all Shares of the Company held by them. By the date of the bid, OÜ Alta Holding and the persons acting in concert with the same owned 79.08% of all Shares of the Company and had acquired a dominant influence over the Company. Therefore, OÜ Alta Holding was under the obligation to launch the bid pursuant to the provisions of the Securities Market Act and the Rules of the Tallinn Stock Exchange. The price offered for one Share was EEK 11.48. More information on the aforementioned takeover bid is available from the website of the Tallinn Stock Exchange (http://www.baltic.omxgroup.com).

Changing rights attached to Shares

In order to change the rights attached to all shares in general (inasmuch as this is possible under the applicable law), the Articles of Association of the Company normally need to be amended. The amendment of the Articles of Association requires a qualified majority of at least 2/3 of all votes present at the General Meeting of shareholders. If a company has more than one class of shares, changing the rights attached to a particular class of shares requires in addition to the above the consent of at least 2/3 of votes of shareholders that are present at the General Meeting in each class of shares. When rights stemming from a particular class of shares are being amended, a decision of the General Meeting of shareholders will also require a qualified majority of 4/5 of the votes, and the consent of at least 9/10 of all shareholders who hold shares of the type subject to amendment. A brief description of the rights attached to Shares of the Company follows below.

Dividends, Redemptions and Liquidation

Dividend rights

Shares give rights to dividends declared by the Company. A shareholder is entitled to dividends if such shareholder is registered in the register of shareholders of a listed company on a reference date specified by the relevant company (see below for more information). Please note that the Company cannot guarantee that dividends will be declared on a regular basis (see more under "Dividend Policy"). Furthermore, dividends and redemptions of shares are subject to income taxation – please see "Taxation" for more information. With respect to any dividends declared by the Company, the following general rules apply.

Under the Estonian Commercial Code, a company may only make payments to shareholders from net profit or from undistributed profit earned during previous financial years, from which any losses accrued but not covered in previous financial years have been deducted. The amount of dividends is proposed by the Management Board and is subject to the approval of the General Meeting of shareholders. Before the presentation of the Management Board's profit distribution proposal to the shareholders, it must be approved by the Council. Recommendations of the Management Board concerning the payment of dividends in a company listed on the Tallinn Stock Exchange are immediately made public through the stock exchange.

Dividends may be paid on the basis of the approved annual accounts. The procedure for the payment of dividends may be specified in the Articles of Association or by a resolution of the General Meeting. By way of exception, the Articles of Association may set forth that the Management Board of a company may be entitled to make advance payments to its shareholders after the end of a financial year and before the approval the annual accounts on account of the expected net profits up to the amount equalling to the half of amount that may be otherwise be divided between the shareholders. As of the date hereof, the Articles of Association of the Company do not provide for such a right.

The amount of dividends that is paid to each shareholder is in accordance with the nominal value of Shares of the Company that are in such shareholder's ownership. Dividends are to be paid in cash, or upon the consent of the shareholder in other property.

Dividends of the companies listed on the Tallinn Stock Exchange are paid only to those shareholders (or their nominees) who were entered into the list of shareholders (which is maintained by the ECRS) as of 8 a.m. on the reference date chosen by the relevant company. This reference date must be at least 10 trading days from the date of the decision of the General Meeting concerning the payment of dividends, and such date must be announced at least 9 trading days in advance.

There are no specific restrictions on the payment of dividends to non-resident shareholders. Such dividends may, however, be subject to withholding taxation in Estonia – please see more under "Taxation" below.

Should the Company for any reason fail to pay out a dividend prescribed by a resolution of the General Meeting, the shareholder whose dividend was not paid out may demand the payment thereof during the period of three years from the date of the resolution. After the expiry of such period any unpaid dividends remain with the Company.

Redemption of shares

Under the Estonian Commercial Code, a company may acquire its own shares (or take the same as collateral) if all of the following conditions are met: (i) the redemption occurs within one year after the adoption of a resolution of the General Meeting which specifies the conditions and terms for the redemption of shares and the consideration to be paid for shares; (ii) the total nominal value of shares redeemed or taken as collateral does not exceed one-tenth of the share capital; and (iii) shares are paid for from assets exceeding the share capital, reserve capital and premium. These restrictions do not apply if shares are acquired by way of inheritance.

Shares may be acquired without a resolution of the General Meeting on the basis of a resolution of the Council if the redemption of shares is necessary to prevent significant damage to the company. In such event, the shareholders must be informed of the circumstances surrounding the redemption of shares at the next General Meeting of shareholders.

Redeemed shares must be sold or cancelled within one year from redemption. If more than 1/10 of share capital is redeemed through a decision of the Council or by way of inheritance, the part exceeding the 1/10 must be sold or cancelled within 6 months from redemption. Shares that are redeemed illegally must be sold or cancelled within 3 months from redemption.

Rights in the event of liquidation

In the event of liquidation of the Company, all shareholders are entitled to any surplus assets after the satisfaction of all claims of the creditors of the Company and the depositing of such amounts which were not collected by the creditors. Such remaining assets are distributed among the shareholders according to the nominal values of their shares pursuant to the asset distribution plan prepared by the liquidators and paid out in cash.

The assets of the Company may be distributed after six months from the publication of the notice of liquidation and after two months from day when the final balance sheet and asset distribution plan are presented to the attention of the shareholders, provided that the neither the balance sheet nor the asset distribution plan are contested in court. The court may allow for payments to be made earlier, provided that this would not damage the interests of the creditors.

Rights of Shareholders

Right to participate in the General Meeting of shareholders

Purpose of the General Meeting. Shareholders are entitled to take part in the corporate governance of the Company through the General Meeting of shareholders, where they can exercise their powers to decide on certain important corporate matters, such as *e.g.* amending the Articles of Association, increasing and reducing the share capital, issuing convertible bonds, electing and removing the members of the Council and the auditor, approving the annual accounts and the distributions of profit, dissolution, merger, division or transformation of the Company and certain other matters. The General Meeting is the highest governing body of a limited company in Estonia.

Convening the General Meeting. The ordinary General Meeting of shareholders is held once a year pursuant to the procedure and at the time prescribed by the Articles of Association but not later than six months after the end of the financial year. Additionally, extraordinary General Meeting may be held on certain conditions: (i) in the event that the net equity of the Company decreases below the legally required minimum equity, or (ii) if shareholders representing at least 1/10 of the share capital, the Council or the auditor demand the meeting or (iii) if the meeting is required in the interests of the Company. The Articles of Association of the Company do not include any deviation from the applicable law with respect to when the General Meeting needs to be called.

If the Management Board fails to convene the extraordinary meeting within one month after the receipt of a relevant demand from the shareholders (or the Council or the auditor), then the shareholders (or, respectively, the Council or the auditor) have the right to convene the General Meeting themselves. Notice of an upcoming General Meeting must be sent to all shareholders 3 weeks in advance of an ordinary General Meeting and at least one week in advance of an extraordinary General Meeting. As a general rule, the notice must be sent via registered mail to the addresses entered in the share register. Pursuant to the Estonian Commercial Code, where a company has over 50 shareholders, the notice does not have to be sent but instead is published in at least one national daily newspaper in Estonia. However, the Articles of Association of the Company set forth 100 shareholders as the threshold, where the notice about convening the General Meeting of the shareholders may be published in at least one national newspaper. The notice is also published through the Tallinn Stock Exchange.

When the above requirements for convening a General Meeting are violated, such General Meeting does not have the capacity to adopt resolutions except where all shareholders participate in at the General Meeting.

Agenda of the General Meeting. As a rule, the agenda of a General Meeting is determined by the Council. However, if the General Meeting is convened by the shareholders or the auditor, the agenda is determined by them. Furthermore, the Management Board or the shareholders whose shares represent at least one-tenth of the share capital may demand the inclusion of a certain issue on the agenda. An issue which is initially not on the agenda of a General Meeting may be included on the agenda upon the consent of at least nine-tenths of the shareholders who participate in the General Meeting if their shares represent at least two-thirds of the share capital.

Quorum. A General Meeting of shareholders is capable of passing resolutions if more than one-half of the votes represented by shares held by shareholders are present at the General Meeting of shareholders. If the quorum is not met, the Management Board is required to convene a new General Meeting of shareholders not more than three weeks but not less than seven days after the date of the initial General Meeting. There are no quorum requirements for the newly called General Meetings of shareholders called in such manner.

Voting rights and resolutions. The Company currently has only one class of shares with nominal value of EEK10 each. Each share entitles the shareholder to one vote. A shareholder may attend and vote at a General Meeting in person or by proxy. In the case of companies listed on the Tallinn Stock Exchange, only those shareholders are eligible to attend and vote at a General Meeting of shareholders who were on the list of shareholders (which is maintained by the ECRS) as of 8 a.m. on the date chosen by the company. Such date must be made public at least 9 trading days in advance. A shareholder whose shares are registered in the name of a nominee can exercise voting rights if a respective power of attorney has been executed in his favour by the holder of a nominee account.

As a rule, resolutions of a General Meeting of shareholders require the approval of the majority of the votes represented at the General Meeting of shareholders. Certain resolutions, such as amending the Articles of Association, increasing or decreasing the share capital and, in certain cases, resolutions relating to a merger or liquidation of the company, require a qualified majority of two-thirds of the votes represented at the General Meeting of shareholders.

Right to information

Pursuant to the Estonian Commercial Code, shareholders have the right to receive information on the activities of the company from the Management Board at the General Meeting. However, the Management Board may refuse to give information if there is a reason to presume that this may cause significant damage to the interests of the company. In the event the Management Board refuses to give information, the shareholders may require the General Meeting to decide on the legality of such refusal or submit a respective claim to the court of law.

Right to subscribe for new shares

Pursuant to the Estonian Commercial Code, existing shareholders of a company have the preferential right to subscribe for new shares of the company in proportion to their existing shareholding. However, where shares need to be issued to a specific person(s), such preferential right can be waived by a resolution of the General Meeting of shareholders by a majority of three-fourths of the votes represented at the General Meeting of shareholders.

Other Important Matters

Restrictions on financial assistance

The Estonian Commercial Code sets forth certain restrictions in respect of financial assistance. As a general rule, a company may not grant loans or provide other financial assistance (such as *e.g.* giving guarantees or sureties) (i) to shareholders whose shares represent more than 1% of the share capital, (ii) to shareholders of the parent company whose shares represent more than 1% of the share capital of the parent company, (iii) for the purpose of acquiring shares of the company, or (iv) to members of the Management Board, the Council or to procurators.

Financial assistance may, nevertheless, be provided to such shareholders who belong to the same consolidation group as the company and provided that this does not harm the financial status of the company or the interests of its creditors.

Squeeze-out rights

The Estonian Commercial Code allows major shareholder(s) to take over a public limited company. The precondition for such squeeze-out is the acquisition by a person acting individually or in concert with others of at least 90% of the voting rights in the company. The squeeze-out can be decided by the General Meeting of shareholders, if the majority comprising at least 95% of all votes represented by shares is in favour. The amount of compensation for the minority shares which are subject to takeover is to be determined on the basis of the value of Shares as at ten days prior to the date on which the notice summoning the General Meeting was sent out. Additionally, tender offers may be carried out in companies listed on the Tallinn Stock Exchange and sometimes major shareholders of a listed company are under the obligation to launch a tender offer (see "Estonian Securities Market" for more details). However, the shareholders of a listed company are not obliged to accept a tender offer which is not a squeeze-out within the meaning of the Commercial Code.

Disclosure of shareholdings

The Company is required to submit a list of shareholders holding over 10% of all shares to the Estonian commercial register together with the annual accounts, such list being drawn up as of the date when the annual accounts are approved by the General Meeting of shareholders. See "Estonian Securities Market" below for more information on disclosures of shareholdings which are triggered by the listing of shares on the Tallinn Stock Exchange.

COMPANY MANAGEMENT

Management Structure

The Company fully complies with the corporate governance regime of the Republic of Estonia in which it is incorporated. In accordance with the Estonian law, the operational management is structured as a two-tier system. The Management Board is responsible for the day-to-day management of the Company's operations and is eligible to represent the Company on the basis of the law and the Articles of Association. The Council of the Company is responsible for the strategic planning of the business activities of the Company and supervising the activities of the Management Board.

Management Board

The Management Board of the Company is responsible for the day-to-day management of the Company's operations, the representation of the Company and the organisation of its accounting. The Management Board is accountable to the Council and must adhere to its lawful instructions.

The Management Board must present an overview of the economic activities and economic situation of the Company to the Council at least once every four months and is under the obligation to give immediate notice of any material deterioration of the economic condition of the Company or of any other material circumstances related to its operations. If the Company is insolvent and the insolvency, due to the Company's financial situation, is not temporary, the Management Board must immediately submit a voluntary bankruptcy petition in respect of the Company.

The Management Board may only enter into transactions which lie outside the Company's ordinary scope of business with the consent of the Council. In particular, the Management Board requires the consent of the Council in transactions involving (i) the acquisition and disposal of participation in other companies, (ii) the acquisition and disposal of enterprises or the cessation of activities of enterprises, (iii) the acquisition, encumbrance and disposal of immovables, (iv) the foundation and liquidation of foreign branch offices, (iv) investments exceeding the amount established in the relevant financial year's budget, (v) the assumption and provision of loans and collateral and (vi) other transactions which may significantly affect the value of the Company.

The Management Board of the Company currently consists of two members, whose authorities are valid for three years since appointment. According to the Articles of Association of the Company, the Management Board may have from 1 to 7 members. The Articles of Association of the Company set forth joint representation right of the Management Board members – the chairman or the deputy chairman of the Management Board are both entitled to represent the Company alone, while the other members of the Management Board may only represent the Company all together. At this time, the Management Board of the Company does not include any other members than the chairman and the deputy chairman. Therefore, in practise the Company may currently be represented by any one of the two members of the Management Board that have been appointed so far.

Council

In accordance with the Estonian Commercial Code, the Council of the Company is responsible for the strategic planning of the business activities of the Company and supervising the activities of the Management Board. The Council is accountable before the shareholders of the Company (acting through the General Meeting).

According to the Articles of Association of the Company, the Council consists of 4 to 5 members who are appointed by the General Meeting of shareholders for a period of 5 years. The members of the Council elect among themselves a chairman of the Council who is responsible for organising the activities of the Council. The Council of the Company convenes according to actual necessity, but in any case at least once every three months. An extraordinary meeting of the Council is convened when so demanded by a member of the Council, the Management Board, the auditor or the shareholders whose shares represent at least 1/10 of the share capital of the Company. The meetings of the Council must be summoned with at least 10 days' notice, specifying the agenda for the meeting. A meeting has quorum when at least one half of all members is present and decisions are taken by simple majority of all members of the Council.

Internal Auditor

Under the applicable Estonian law, the Company is not required to have an audit committee or a remuneration committee and there are no legal norms governing the activities of such bodies.

Declarations in Respect of the Senior Management

To the best of the Company's knowledge, none of the persons listed under Sections "Management - Management Board of the Company", "Management - Council of the Company" or "Management - Other Key Executive Personnel" below have received any convictions in relation to fraudulent offences for the previous five years, nor were any of such persons in the same period associated with any bankruptcies, receiverships or liquidations in their capacity as members of the administrative, management or supervisory bodies, partners with unlimited liability, founders or senior managers (other than the cases specifically indicated below). To the best of the Company's knowledge, no such persons were subject to any official public incriminations and/or sanctions by statutory or regulatory authorities (including designated professional bodies) nor have they been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of any company or from acting in the management or conduct of the affairs of any company for the previous five years.

Likewise, with respect to the persons listed below, the Company is not aware of any conflict of interest between any of their duties to the Group and their private interests. There are also no family relations between them. For all persons listed below, the business address is Akadeemia tee 33, 12618 Tallinn, Estonia.

Management Board of the Company

Currently, there are two appointed members of the Management Board of the Company:

Peeter Larin**.** Mr. Larin was born in 1971. Mr. Larin has been acting as the chairman of the Management Board of the Company as of 20 December 2005. Mr. Larin joined the Company in 2004 as a marketing director. Mr. Larin has extensive experience in the apparel industry, having worked as a product manager and brand manager in AS Baltika (an Estonian listed company specialised in design and production of clothing) during the period between 1993 and 2004. In addition to his engagement with the Company, Mr. Larin is also appointed Management Board member of OÜ GC Fashion and serves as a Council member of Klementi, UAB PTA Prekyba and TOV PTA Ukraina. Mr. Larin graduated from the Tallinn University of Technology (Diploma in Business Administration 1994; MSc degree in Business Administration 2003). The authorities of Mr. Larin as the member of the Management Board of the Company will expire in 2008.

Marianne Paas. Ms. Paas was born in 1964. Ms. Paas has been acting as a Management Board member of the Company as of 20 December 2005. Before being elected to the Management Board of the Company, Ms. Paas has served in the Company as a chief financial officer. Ms. Paas is a member of Council in the following companies: Klementi, UAB PTA Prekyba and TOV PTA Ukraina. Ms. Paas graduated from the Tallinn University of Technology in 1986.

Council of the Company

Currently, the Council of the Company consists of the following members:

Indrek Rahumaa. Mr. Rahumaa was born in 1972. Mr. Rahumaa is the chairman of the Council of the Company as of 1 August 2002. In addition to his service on the Council of the Company, Mr. Rahumaa serves as a member of the Management Board in one of the Baltic's most experienced investment firms SIA

Alta Capital Partners. Moreover, Mr. Rahumaa is also a member of the Management Board of Latvian companies AS Lauma and SIA Lauma Fabrics and is appointed as a member of Council of Milavitsa. During the period between 1995 and 2000, Mr. Rahumaa has been a founding member and a partner of Baltic Cresco Investment Group AS – a successful investment banking start-up established in 1995. During the preceding five years he was also a member of the council of AS Cresco (until April 2001), Cresco Väärtpaberite AS (until April 2001), OÜ CC Computer (until October 2002), AS Aktivist Network (until February 2002), AS Equitygate (until 2005), AS Erel Group (until July 2004), AS Norbert (until April 2006) and AS Teede REV-2 (until November 2004). In 1995, Mr. Rahumaa graduated from the Stockholm School of Economics, majoring in finance.

Andres Rätsepp. Mr. Rätsepp was born in 1972. Mr. Rätsepp is a member of the Council of the Company as of 2002. Before being elected to the Council of the Company, Mr. Rätsepp served as a manager in Balti Investeerimisgrupi AS. In addition to taking part in the management of the Company, Mr. Rätsepp serves as a member of management board of the Estonian companies Olivente OÜ, 2R Investments AS, Alta Capital AS, Sarto Holding OÜ, AS Hea 5, OÜ Vene Post, OÜ Veglio, FirstMark OÜ, OÜ Tori Vaade, OÜ Pomfrey and Lithuanian company UAB Legendhotels LT (under foundation). Mr. Rätsepp is also a member of the Councils of the following Estonian companies: Legendijuhtimise AS, Bryum Estonia AS, OÜ Alta Holding, OÜ Alta Investments I, AS Vene Posti Operaator, AS Finare Systems and AS Farland Trade Group, as well as a Polish company Legendhotels Polska Sp.z.o.o. (under foundation). During previous five years Mr. Rätsepp has served as member of management board of AS Equitygate (until April 2005), AS Norbert (until May 2006), OÜ UA Invest (until July 2006) and a member of the council of Cresco Väärtpaberite AS (until April 2001), OÜ CC Computer (until October 2002), Clifton AS (until December 2001), AS Aktivist Network (until February 2002), AS Erel Group (until July 2004), Aeroc AS (until June 2003) and AS Norbert (until January 2004). Mr. Rätsepp was awarded LL.B degree in Finance and Banking from Tartu University in 1995. In 1994, Mr. Rätsepp graduated from the Stockholm School of Economics.

Sven Mansberg. Mr. Mansberg was born in 1971. In addition to acting as a member of the Council of the Company, Mr. Mansberg is engaged with the following Estonian companies as a member of the Management Board: OÜ Relaxor, OÜ Nemor Invest, OÜ Maren Kinnisvara, OÜ Baltek Arendus, OÜ Aconto, OÜ Krono Holding, Timeless OÜ, OÜ Hamsah Ehitus, Airlander OÜ, OÜ UA Invest and OÜ Novamill. Mr. Mansberg is acting as a member of the Council in the following Estonian companies: Ehitus Service OÜ, AS Smarten Logistics, OÜ Alta Investments I and AS Sales Star. Moreover, Mr. Mansberg is a member of the Council in Estonian companies Ehitus Service OÜ, AS Smarten Logistics, OÜ Alta Investments I and AS Sales Star. During five previous years Mr. Mansberg was also a member of the management board of Kinnisvaravalduse AS (until July 2002), Eurolegend OÜ (until June 2006), OÜ Upwind (until June 2006) and a member of the council of AS Steinost (until March 2003), Kadaka Säästumarket AS (until May 2002), OÜ Roosa Krants (until June 2002) and OÜ Spirit Star (until April 2006). Mr. Mansberg has graduated from the International University Audentes and was awarded diploma in business administration in 2002.

Toomas Leis. Mr. Leis was born in 1970. Mr. Leis was elected as a member of the Council of the Company in 2006. Besides serving as the member of the Company's Council Mr. Leis is a member of management board of the OÜ Merona Holding and Legendijuhtimise AS. He is also a member of Council in 2R Investments AS, Alta Capital AS, Bryum Estonia AS, OÜ Alta Holding, OÜ Alta Investments I, AS Hea 5 and AS Finare Systems. Formerly Mr. Leis has served as a management board member of the Company (from December 2002 to April 2006) and as a member of Council (from August 2002 to November 2002). He was also a member of council of AS Inn Grupp (until August 2001), OÜ CC Computer (until October 2002), AS Equitygate (until April 2005), Legendijuhtimise AS (until August 2006) and Reval Hotelligrupi AS (until December 2003). Mr. Leis graduated from the Tallinn Technical University and holds an economist diploma (awarded in 1994).

Other Key Executive Personnel

Other important employees of the Company are listed below.

Piret Peet. Ms. Peet was born in 1973, and serves the Company as the product development manager, being responsible for managing the respective department unit of the Company. Ms. Peet has been working for the Company as of 1998. In 1997, Ms. Peet graduated from the Tallinn University of Technology, majoring in Technology of Materials. Currently Ms. Peet is continuing her studies in the University of Tartu for a LL.M. degree in Business Administration. Ms. Peet is a member of the Council in the following companies: Klementi, UAB PTA Prekyba and TOV PTA Ukraina.

Maia-Leena Varjun. Ms. Varjun was born in 1970, and is the single member of the Management Board of Klementi. Before being elected to the Management Board of Klementi, Ms. Varjun worked as the product manager of the Company as of 2003. Ms. Varjun graduated from Estonian Business School with a MBA degree in International Business Administration in 2004. Ms. Varjun also holds a diploma in Clothes Technology from the Tallinn University of Technology (awarded in 2003).

Remuneration and Benefits

The aggregate remuneration of the members of the Management Board of the Company and the key personnel of the Company mentioned above in the financial year ended 31 December 2005 totalled some EEK 1.4 million. No other benefits were made or given to the persons mentioned above. The members of the Council of the Company currently do not receive any remuneration or benefits for their service.

Upon termination of an agreement with a member of the Management Board at the initiative of the Company or due to the expiry of his/her term of office (provided that the member of the Management Board is not elected for the new period), such member of the Management Board is entitled to a compensation in the amount of 6-months' average salary. No compensation is payable upon termination that is triggered by a breach by the member of the Management Board of his/her duties.

Share Ownership

Shares of the Company are freely traded on the Tallinn Stock Exchange and consequently a number of employees and members of the management bodies of the Company hold Shares of the Company. The details of the shareholdings of the members of the Management Board and key employees at the date of this Prospectus are summarised below:

Name of the Shareholder	Number of Shares	Stake
Peeter Larin	50,000	0.0013%
Maia-Leena Varjun	8,430	0.0002%
Külli Aermates	80	>0.0001%
Viktor Raudsepp	86	>0.0001%
Katrin Repnau	47	>0.0001%
Guido Viira	51	>0.0001%

COMBINED MANAGEMENT

Following the completion of the Transaction (see Section entitled "Transaction" above for more information), the PTA Group and the Silvano Group will create a vertically integrated fashion conglomerate with the focus on manufacturing, marketing and retail sales of women's apparel, accessories and lingerie. The functional structure of the combined management of the Group after the completion of the Transaction will consist of four main business segments, the activities of which will be coordinated by the Council and the Management Board of the Company in the new composition. The contemplated structure of Group-level management is illustrated by the following chart:

Council of the Company

Pavel Daneiko (Chairman)
Indrek Rahumaa
Edgars Štelmahers
Jaak Raid

Management Board of the Company

Dmitry Ditchkovsky
(President)

Sergei Kusonski
(CEO and Vice President)

Production & Logistics	**IT**	**Human Resources**	**Legal**
Production coordination Inbound logistics Purchases	Corporate IT solutions Office network Remote access	Recruitment Motivation Training	Legal expertise Training

Peeter Larin	**Dmitry Podolinsky**	**Dace Markevica**
"PTA" concept Concept management Design Merchandising Buying Wholesale Marketing	**Lingerie concepts (Milavitsa & Lauma)** Concept management Merchandising Buying Wholesale Marketing **Retail management** Chain expansion Lease agreements Outlets management Renovation of outlets Logistics Sourcing	**Finance** Corporate accounting Investor relations Finance planning

The combined management of the Group will comprise six executive positions which among others will include a manager responsible for the development of "PTA" trademark concept within the Group – this position will be occupied by Peeter Larin (see "Company Management" above for information on Mr. Larin). The remaining contemplated executive positions on the Group level, as well as the persons who are planned to occupy such positions and the areas of their responsibility are listed below.

Dmitry Ditchkovsky. Mr. Ditchkovsky was born in 1970, and is currently the chairman of the Management Board of Milavitsa. Mr. Ditchkovsky will serve as the President of the Company in combined management structure of the Group described above. Before joining the management team of Milavitsa, Mr. Ditchkovsky was the President of the Institute for Privatisation and Management (Belarus). Mr. Ditchkovsky holds a MBA degree in Economics from the University of New Brunswick, Canada (2000) and a Ph.D degree in Economics from the Academy of Sciences of Belarus.

Dmitry Podolinsky. Mr. Podolinsky was born in 1972, and is currently the single member of the Management Board of Linret. In the combined management structure of the Group, Mr. Podolinksi will serve as a member of the Management Board of the Company and his main areas of responsibility will be the development of lingerie concepts of Milavitsa and Lauma Lingerie, as well as the organisation of retail sales. Previous responsibilities of Mr. Podolinsky involve acting as the Head of Sales and Marketing in Milavitsa and as the General Manager of Belorussian-French joint venture Merlintour Travel Agency. Mr. Podolinsky holds an EMBA diploma from the Leo Kozimski Academy of Entrepreneurship (Poland).

Sergei Kusonski. Mr. Kusonski was born in 1967, and will be the Chief Executive Officer of the Group and the Chairman of the Management Board of the Company. He will also directly supervise the business units dealing with production and logistics, IT-related, human resources and legal issues. Previously, Mr. Kusonski has served as a Marketing Director of Xerox Poland. Currently, Mr. Kusonski is acting as the First Deputy General Director of Milavitsa responsible for Marketing, Sales, Product Development, Purchasing and Logistics. Mr. Kusonski graduated from the Belorussian State University of National Economics in 1991 and holds an MBA degree from Warwick Business School, UK (2000).

Dace Markevica. Ms. Markevica was born in 1966, and is currently a member of Management Board of Silvano. Ms. Markevica will be the Chief Financial Officer of the Group and a member of the Management Board of the Company, being responsible for finance issues, *i.e.* corporate accounting, investor relations and finance planning. During the previous five years, Ms. Markevica has been working in the finance area for the following companies: Rigas Finieru Rupnica SIA, Max Shon SIA and Schenker SIA. In 2004, Ms. Markevica graduated from the Riga Technical University and was awarded an LL.B degree in Economics. Ms. Markevica also holds a diploma in Engineering of Sewing Industry from the Riga Technical University (awarded in 1989).

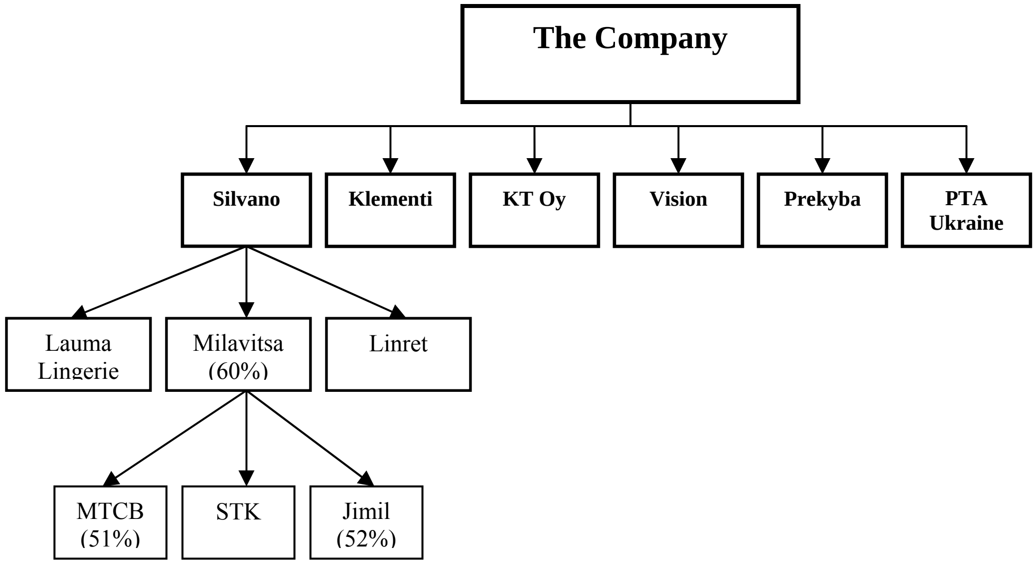
The Council of the Company will be composed of Mr. Pavel Daneiko (chairman of the Council), Indrek Rahumaa, Jaak Raid and Edgars Štelmahers. Council members Mr. Pavel Daneiko and Mr. Edgars Štelmahers are independent of the prospective majority shareholder of Company (SIA Alta Capital Partners).

COMBINED STRUCTURE OF THE GROUP

This Section presents an overview of the combined legal structure of the Group following the conclusion of the Transaction. Following the conclusion of the Transaction, the significant subsidiaries of the Company, whether owned directly or through its subsidiaries, will include the following:

Entity	Abbreviation	Stake	Registration	Activities
AS Silvano Fashion Group	Silvano	100%	Estonia	Holding company
AS Klementi	Klementi	100%	Estonia	Development, production and marketing of women’s apparel and accessories
Klementi Trading Oy	KT Oy	100%	Finland	Wholesale and retail of women’s apparel and accessories
SIA Vision	Vision	100%	Latvia	Retail of women’s apparel and accessories
UAB PTA Prekyba	Prekyba	100%	Lithuania	Retail and wholesale of women’s apparel and accessories
TOV PTA Ukraine	PTA Ukraine	100%	Ukraine	Retail and wholesale of women’s apparel and accessories
SP ZAO Milavitsa	Milavitsa	60%	Belarus	Development, production and marketing of lingerie
AS Lauma Lingerie	Lauma Lingerie	100%	Latvia	Production, marketing and retail of lingerie
ZAO Linret	Linret	100%	Russia	Retail sale of lingerie
ZAO STK Milavitsa	STK	100%	Russia	Wholesale of lingerie
SP Jimil OOO	Jimil	52%	Belarus	Production of knitwear
SOOO Milavitsa Trading Company	MTCB	51%	Belarus	Retail and wholesale of lingerie

The structural chart of the Group (following the completion of the Transaction) is as follows below (all shareholdings 100% except where indicated otherwise).



Brief description of the Group entities

The structure of the Group will comprise three main production companies – Klementi in Estonia, Milavitsa in Belarus and Lauma Lingerie in Latvia. Klementi is engaged in production of women's apparel and accessories, while Milavitsa and Lauma are producing women's lingerie. In addition to the above-mentioned production companies, the Group will include a number of subsidiaries engaged in warehousing, logistics, marketing, retail and wholesale of their production in the CIS, Scandinavian and the Baltic States' markets.

AS Klementi (Klementi). Public limited company operating under the Estonian law, registration code 11279815, registered address Akadeemia tee 33, 12618 Tallinn. Klementi's production includes women's blazers, skirts, trousers, blouses, waistcoats, leisurewear, uniforms and working ware which is manufactured under the brands of "PTA", "Klementi", "Avenue", "MasterCoat", "Clubline", "Mallimari" and "Piretta". The single member of the Management Board of Klementi is Maia-Leena Varjun. The Council consists of Peeter Larin, Marianne Paas and Piret Peet.

AS Silvano Fashion Group (Silvano). Public limited company operating under the Estonian law, registration code 11127815, registered address Tartu mnt 2, 10145 Tallinn. The company was established in 2005 under the name of AS Silvano Investment Group. This entity is the holding company of Milavitsa, Lauma Lingerie and Linret. The Management Board of the Silvano consists of Dace Markevica and Indrek Rahumaa. The members of the Council are Andres Rätsepp, Jaak Raid and Edgars Štelmahers.

Klementi Trading Oy (KT Oy). Private limited company operating under the Finnish law, registration code 1495589-5, registered address Mikkolantie 1A-308, 00640 Helsinki, Finland. The company is engaged in retail and wholesale distribution of Klementi's production in the Finnish market. The single member of the Management Board of KT Oy is Reet Puusepp and the members of the Council are Toomas Leis and Peeter Larin. The relative importance of this company to the Group has fallen considerably as Estonia's accession to the European Union made trading with other Member States of the European Union considerably easier and eliminated certain barriers for cross-border activities.

SIA Vision (Vision). Private limited company operating under the Latvian law, registration code 40003454827, registered address Lielirbes Street 29, LV-1046 Riga, Latvia. The company's main field of business is retail of women's apparel and accessories, mainly that produced by Klementi, in the Latvian market. The Management Board of Vision consists of a single director - Iruta Turka. The company has no Council.

UAB PTA Prekyba (Prekyba). Private limited company operating under the Lithuanian law, registration code 300590867, registered address Jogailos 9/1, Vilnius, Lithuania. The company is engaged in retail sales of the production of Klementi in the Lithuanian market. The Management Board of Prekyba consists of a single member - Linvydas Pilkauskas, and the company has no Council.

TOV PTA Ukraine (PTA Ukraine). A recently established private limited company operating under the Ukrainian law, registration code 34532102, registered address Artema street 37-41, 04053 Kyiv, Ukraine. The company will be engaged in retail of the production of Klementi in the Ukrainian market. The Management Board of PTA Ukraine consists of a single member - Konstantin Maznov (temporary member, attorney with a local law firm Grishenko & Partners), and the company has no Council.

SP ZAO Milavitsa (Milavitsa). Private limited company founded and operating under the Belarusian law, registration code 100055049, registered address at Novovilenskaja Street 28, Minsk 220053, Republic of Belarus. Milavitsa is the largest lingerie manufacturer on the territory of the former Soviet Union. Milavitsa branded products have the highest brand recognition levels in Russia, Belarus and Ukraine. The single member of the Management Board of Milavitsa is Dmitry Ditchikovsky. The Council consists of Zinaida Valeha, Žanna Tratchum, Lidia Klapkova, Vittorio Sivero, Indrek Rahumaa, Ljudmila Demechkevitch and Galina Lukashenko.

AS Lauma Lingerie (Lauma Lingerie). Public limited company operating under the Latvian law, registration code 42103036127, registered address at Ziemeļu Street 19, Liepaja LV-3417, Latvia. Lauma Lingerie was established on 22 October 2005 by a carve-out of the women's lingerie operations of AS Lauma (see "Operations of the Silvano Group – History and Development of the Silvano Group" for more details). Lauma Lingerie is currently the leader of the intimate apparel industry in the region of the Baltic States. The single member of the Management Board of Lauma Lingerie is Tatjana Tužilkina. The members of the Council are Indrek Rahumaa, Jaak Raid and Viktors Aispurs.

ZAO Linret (Linret). Private limited company operating under the Russian law, registration code 1057747595289, registered address Vjatskaja Street 3, Moscow 127015, Russia. Linret is a lingerie retail company operating lingerie stores under "Oblicie" brand in Russia. The general manager of Linret is Dmitry Podolinsky.

ZAO STK Milavitsa (STK). Private limited company operating under the Russian law, registration code 1047796849011, registered address Võtskaja Street 3-1, Moscow, Russia. STK was established in November 2004 with the aim to set up a centralised sales organisation dealing with Russian customers and coordinating all marketing activities in Russia. The Management Board of STK is made up by a single member – Dmitry Podolinsky. The members of the Council are Dmitry Ditchkovski, Sergei Kusonski, Natalia Gaiduchenko, Andrew Glybin, Remi Pilat, and Pavel Daneiko.

SP Jimil OOO (Jimil). Private limited company operating under the Belarusian law, registration code 100437052, registered address at Novovilenskaja Street 28, Minsk, Belarus. Jimil's main operations are the manufacturing of lingerie and knitwear. Jimil produces goods that are sold as supplementary items mainly in the shops selling Milavitsa's brands. The single member of the Management Board of Jimil is Tatjana Sherbatova and there is no Council.

SOOO Milavitsa Trading Company (MTCB). Private limited company operating under the Belarusian law, registration code 190555363, registered address V. Horužei Street 36, Minsk, Belarus. MTCB was established with the aim of managing wholesale and retail sales of Milavitsa brand products in the Belorusian market. The Management Board of MTCB consists of a single member – Natalia Gaiduchenko. MTCB has no Council.

Non-significant subsidiaries of Milavitsa

In addition to the subsidiaries of Milavitsa listed above, Milavitsa holds 40% - 51% shareholdings in six trading companies. All of such trading companies are dormant companies without any current operations. However, formal liquidation procedures have not yet been initiated, as the administrative process that is involved in liquidation is currently perceived as exceedingly lengthy and complicated. In addition to such non-significant subsidiaries, Milavitsa holds 25% - 35% shareholdings in four associated Russian companies engaged in trading.

Share capital of the Group entities

Information on the current share capital of the Group entities is presented below.

Entity	Share Capital	Shares	Par Value	Currency
Silvano	844,880	84,488	10	EEK
Klementi	4,600,000	460,000	10	EEK
KT Oy	8,409.40	50	168.19	EUR
KT AB	100,000	1,000	100	EUR
Vision	107,000	5,350	20	LVL
Prekyba	10,000	100	100	LTL
PTA Ukraina	37,500	1	37,500	UAH
Milavitsa	13,256,171	12,320	1,075.99	USD
Lauma Lingerie	700,000	700,000	1	LVL
Linret	3,000,000	1,000	3,000	RUR
STK	2,700,000	100	27,000	RUR
Jimil	587,963	2	n/a*	USD
MTCB	50,000	2	n/a**	USD

* The share capital of Jimil is divided between two shareholders – Milavitsa holding 52% of the issued share capital and an Italian company S.p.a Cagi Maglierie holding 48% of the issued share capital. Therefore, the precise par value of shares cannot be indicated.

** MTCB has two shareholders - Milavitsa with a 51% shareholding and a French company France Style Lingerie with a 49% shareholding. Therefore, the precise par value of shares cannot be indicated.

Further development of the corporate structure

Following the completion of the Transaction and the registration of New Shares in the Estonian commercial register, the Company will weigh the necessity to conduct a merger of Silvano and the Company, whereby Silvano will be absorbed by the Company and the subsidiaries of Silvano will become direct subsidiaries of the Company. The aforementioned merger will be carried out if seen feasible and necessary by the Management. The possible merger of the Company and Silvano, if it comes to pass, will be aimed at streamlining the corporate structure of the Group and decreasing the complexity of management. Such possible merger is not expected to have any noticeable economic effect on the operations of the Group.

Position in the group consolidated by SIA Alta Capital Partners

Following the completion of the Transaction and the registration of New Shares in the Estonian commercial register, the majority shareholder of the Company is SIA Alta Capital Partners (see "Ownership Structure" for more information).

In turn, the majority shareholder of SIA Alta Capital Partners is Investeerimisvabrik OÜ (100% owned by Indrek Rahumaa). Other subsidiaries of SIA Alta Capital Partners include AS Lauma, who in turn owns SIA Lauma Fabrics and its French subsidiary Desseilles Textiles SAS, as well as a Latvian company SIA Alta Real Estate Partners (though an Estonian holding company AS Farland Trade Group).

The aforementioned SIA Lauma Fabrics and Desseilles Textiles SAS are engaged in the production of textiles and deal with entities belonging to the Silvano Group on arm's length basis (see more under "Operations of the PTA Group" and "Operations of the Silvano Group"). SIA Alta Real Estate Partners is engaged in real estate development business and does not deal with the Silvano Group companies. In addition to the aforementioned entities, SIA Alta Capital Partners is the sole shareholder of ST Group Oy, a Finnish holding company, which in turn is a 100% shareholder of AB Scantarp Oy, a leading Finnish-based producer of fabrics and textiles.

INDUSTRY OVERVIEW

None of the countries mentioned below have so far published definitive official statistical information concerning the state of the clothing industry as a whole. The summary which is presented below is therefore based on information collected by the Company from unofficial sources or through own research, and as such it can not be verified beyond reasonable doubt. Moreover, any forward-looking statements concerning the development of the clothing markets are based exclusively on unverified information and can not be used as guidance in estimating the financial performance of the Group. The information presented with respect to gross revenues of the relevant markets may not be fully comparable due to the differing components of the relevant data and varying calculation methods that may have been used.

Clothing Industry at a Glance

Broadly, the Group is active in the textiles and clothing industry, which comprises the following sectors: (i) treatment of raw materials, (ii) production of knitted and woven fabrics (iii) finishing activities giving fabrics their visual properties (iv) transformation of fabrics into final products and finally (v) distribution of finished products. Such diversity in middle and end products corresponds to a multitude of industrial processes, activities and market structures within the industry, for which reason companies active in the textile and clothing industry usually specialise only in some of the abovementioned sectors.

The Group, following the completion of the Transaction, will be involved primarily in the manufacturing and distribution of clothes, in particular women's apparel and lingerie. The manufacturing process of both women's apparel and lingerie could be divided into two stages – pre-assembly and assembly. The pre-assembly stage involves designing, grading, marking of patterns and cutting of textiles into individual components. In terms of industrial development, this stage was revolutionised through the application of computer-assisted systems. By contrast, the assembly stage remains highly labour-intensive and involves delicate handling and sewing operations that do not lend themselves to full automation. Aside from productivity gains attributable to better needles and more secure fabric-holding techniques, sewing techniques remain basically similar to those utilised a century ago. At this time, this industry is almost unique in the developed countries in terms of its low ratio of capital equipment to labour input. However, technological progress in telecommunications and transport networks has made it easier for clothing manufacturers to divide the supply chain on an international basis and to perform the assembly stage in low-wage countries[2]. As the transportation costs of clothes are relatively low, the products of a manufacturer located in one country can be easily marketed in numerous other countries and geographical regions.

Over the years, clothes-related marketing activities have changed significantly with the blurring of the traditional boundaries between retailers, brand marketers and manufacturers. On the global scale, retail distribution is increasingly dominated by large retail groups in the main consuming countries, where the trend is towards greater product specialisation, brand-name products and market segmentation. These large retail groups collect market information about the latest trends in styles and tastes, and their integration of this information gives them considerable leverage in dealing with suppliers[3].

Overview of Relevant Markets

Summary of relevant markets

The main target markets of the Group are Russia, Belarus, the Baltic States and Ukraine. The table below summarizes the main macro-economic indicators of these countries:

[2] A New World Map in Textiles and Clothing. Adjusting to Change, OECD 2004, p. 19.
[3] A New World Map in Textiles and Clothing. Adjusting to Change, OECD 2004, p. 12

	Estonia	Latvia	Lithuania	Russia	Belarus	Ukraine
Population (million)	1.35	2.3	3.4	143.2	9.75	47.1
GDP (billion EEK, 2005)	164.3	198.7	320.8	9,662.5	369,3	1,112.5
GDP per capita (EEK, 2005)	122,513	86,479	94,349	69,455	40,024	23,626
GDP growth (2004-2005)	10.5%	10.2%	7.5%	6.4%	9.2%	2.6%
Retail sales growth (2004-2005)	11.5%	18%	10%	12%	18%	9.4%

It appears from the above that nearly all target markets of the Group (with the exception of Ukraine and to some extent Russia) are characterized by remarkable GDP growth rates which are currently unparalleled in the developed countries of Western Europe. The GDP growth rates in some of the above countries are, however, to a certain extent offset by surging inflation.

Much like the economy in general, the retail sector in these countries has undergone rapid development over the past decade. Joining the EU has considerably facilitated entering the Baltic market for the companies from EU Member States and has raised trust in these markets. While the Baltic markets are attractive because of their favourable business infrastructure, by contrast the most significant attractive feature of the Russian market is its vast size. Similarly, even though the Ukrainian market is in terms of population about three times smaller than the Russian market, it nevertheless represents a large market when compared to the Baltic States. Taken into account the vicinity of these countries to the Western European producers, they are increasingly becoming relevant business partners for the EU. For instance, in 2005 Russia was the EU's third most important market for clothing products after Switzerland and the USA, and Ukraine was the tenth. The sale of clothes from EU to Russia grew nearly 60% and to Ukraine about 33% between 2002 and 2005[4]. With a remarkably favourable location between Central European countries and Russia, Belarus is also benefiting from the growth of the Russian economy as well as the trade relations between the EU and Russia, even though the size of Belarusian market is not comparable to that of Russia and Ukraine and despite the increasing rift in the EU-Belorussian diplomatic relations.

It is expected that the growth of retail revenue will outpace the GDP growth in all target markets in the coming years, driven by changing lifestyles and by strong gains in terms of disposable income. Growing availability of consumer credit is also expected to help boost consumer demand in these countries.

The market conditions in the Baltic States appear to be substantially different from the other target markets of the Group, especially in terms of the size of economy, business environment and consumer purchase pattern, whereas the market conditions within the Baltics are rather homogenous. Similarly, the market conditions in Russia, Ukraine and Belarus appear to be alike in material aspects. Therefore, for the purposes of this brief industry overview, two groups of target markets have been identified, namely the Eastern European and the Baltic markets.

Eastern European markets

Given the total population of Russia, Ukraine and Belarus, which exceeds 200 million inhabitants, these countries represent one of the biggest clothing markets in the world. The capacity of the Eastern Europe's own clothing industry is not sufficient to satisfy the demand of the entire area. Given that fashion and quality have an important impact on the demand for apparel items, Eastern European production faces intense competition from foreign products, in particular due to low transportation costs of clothes. Therefore, an increasingly large share of the revenue of the Russian, Ukrainian and Belarusian apparel markets is attributable to imported products.

In the Eastern Europe, the Group is currently active only in the lingerie production and marketing segment. Therefore, the following overview focuses first on the lingerie segment. However, since the Group has plans to expand its operations in the women's apparel segment to Russia and Ukraine, a brief overview of the respective segment in Eastern European markets is also provided.

[4] The website of DG Enterprise of the European Commission: http://ec.europa.eu/enterprise/textile/statistics.htm.

Lingerie market

It is estimated that the size of the lingerie market in Russia is in the range of EEK 23.5 billion, in Ukraine EEK 4.7 billion million and in Belarus EEK 940 million, whereas the sales of lingerie are growing year by year. The gradual development and growth of lingerie sales is mainly driven by the general economic growth and increase in the amount of disposable income, as well as the increasing importance of the emerging middle class.

Some statistics have indicated that Russian women spend an average of EEK 235 on lingerie each year. This is about 5.7 times less than the same average figure for European women, who spend an average EEK 1,330 on lingerie each year. However, certain unofficial surveys point to a much higher expenditures on lingerie by Russian women, amounting to some EEK 1,000 per year. The wide spread in statistics may be attributable to the fact that there is a significant divergence in the spending habits of higher-income urban women and the rest of Russian women, which may have been ignored in surveys yielding higher annual spending data. Some surveys have revealed that Russian women with higher income spend about 75% more on lingerie than women with lower income.

As the disposable income in Ukraine and Belarus is lower than in Russia, it is estimated that the expenditure on lingerie in these markets is lower than in Russia.

Substantial difference is observed in the purchasing and shopping habits of Western and Eastern European women. In Russia (but also in other Eastern markets), "bazaar" type open air markets still remain the most popular shopping places. Based on customer surveys, it is estimated that more than 30% of all lingerie items sold in Russia are purchased from such open air markets, which are rather uncommon if at all present in the Western European countries. A significantly smaller proportion of lingerie (about 15% of total sales) is sold through specialized lingerie shops in Russia, whereas in Western countries, more than 40% of lingerie revenue is generated by specialized shops.

Over the past few years, sales through open air markets have started to decrease. It is expected that this tendency will continue and the Eastern European lingerie consumption in specialized lingerie shops will increase as a result of the growth of disposable income, as well as of the overall welfare of the society. Modern Eastern European women are keen to align their consumption habits with those of their Western counterparts, which do not recognize open air markets. The emergence of modern shopping centres in major Russian and other East-European cities is seen as another driving force behind changing the shopping patterns on which the Group intends to capitalise through the opening of specialized lingerie shops under the brand name "Milavitsa" in Belarus and under the brand name "Oblicie" in Russia and Ukraine.

There is already a number of lingerie chains operating in the Eastern European markets, such as those operated by the Wild Orchid group, the Catherine group, DIM and Gulfstream. However, most of them aim at the high luxury market segment. Therefore, entering the lingerie market with specialized shops providing middle priced classic collections could fill the gap and meet the demand for specialized offer with affordable price.

Women's apparel market

Similarly to lingerie market, the majority of the Russian apparel sales are highly concentrated around Moscow, St. Petersburg and other major cities with over one million inhabitants. A significant proportion of the apparel on sale and the sales outlets are not comparable with the Western standards. According to some unofficial data, along with the sales of lingerie, around 70% of all apparel is purchased on the "bazaar" type open air clothing markets. Roughly the same features are attributable also to the Ukrainian and Belarusian apparel sales to a comparable extent.

Nevertheless, based on the economic factors, as well as the overall development of the society, the Eastern European markets have a proven tendency to grow and develop trends and patterns that are similar to those valid in the Western markets. As the market develops, the Eastern European consumers become more demanding and start looking for better quality, fashionable clothes. This has already allowed several well-known international companies' apparel chains to carve their niches in the Eastern European markets. It is expected that the Eastern European markets will continue to rely on imports of clothes, since the domestic production does not seem likely to be able to satisfy the demand in terms of quantity, quality and design in the near future. Moreover, the penetration of the market by the Western European companies contributes to the development of the whole market and drives the push towards the Western level of consumer expectations, including primarily the tradition of purchasing clothes from shopping malls and shopping streets rather than from open air markets.

The clothes sold in open air markets are often counterfeits of well-known Western European brands. The share of counterfeit apparel is estimated to be as high as around 50-60% of the total revenue of the apparel markets in the Eastern Europe, but it is expected to decline gradually as the rising purchasing power contributes to the increased brand and quality awareness.

Over the past years, the development of the Russian retail market has been restricted mainly by low wages, high levels of taxation and the resulting insufficient demand. The impact of these factors is decreasing as the disposable income rate continues to grow. At the same time, the availability of suitable trading and storage premises and increasing rental prices are also gradually starting to have an effect on the expansion of the Russian apparel market which is beginning to emerge.

Nevertheless, the overall economic figures give reasonable basis to state that women's apparel sales in the Eastern European markets have a potential to grow and develop.

Baltic markets

The three Baltic countries of Estonia, Latvia and Lithuania are home to over 7 million people. In 2005, the Baltic countries generated an aggregate GDP of over EEK 680 billion. The Baltic States represent one of the most dynamic and fast developing regions within the EU. The growth of the Baltic economies has had a positive impact on the salaries and disposable income of the local population. Given that the average growth in gross salary is annually in the vicinity of 10%, more disposable income is created within the customer basket, which allows the increase in consumption on the retail level. Over the past few years, the volume of the Baltic retail market has greatly increased and outpaced the overall growth of the economy; for example in 2005, the average growth of retail sales as compared to 2004 was about 13%. The growth has been further boosted by the Baltic States' joining the EU and thus becoming part of the European single market.

The Group is active in the Baltic lingerie and women's apparel markets, which are briefly described below.

<u>Lingerie market</u>

The Baltic lingerie market comprises products that are targeted to all income groups of the society. The Baltic lingerie market has seen fast growth over the past years which was faster than the growth in the retail sector as a whole: to illustrate, in 2005 the lingerie market of the three Baltic States together grew about 25% as compared to 2004.

The Baltic lingerie market is characterised by relatively high popularity of local brands: there are a number of Baltic lingerie manufactures such as Lauma Lingerie, Rosme, Linette and V.O.V.A. whose products are well-known and popular among the Baltic women. Their products could be seen as being targeted mainly to middle and upper middle class lingerie consumption. The market has also attracted imports, the most successful of the foreign brands in the Baltic markets being Triumph, Incanto and Felina. Simultaneously, a considerable bulk of cheaper products from Eastern Europe and Asia without identifiable brand are also being marketed in the Baltics.

Specialized lingerie shops are still rare in the Baltics. Most shopping malls, however, have some lingerie shops, which sell lingerie of different producers, starting from lower class lingerie to upper middle or upper class. Specialized shops normally focus on luxury lingerie.

As a feature taken over from the Soviet times, “bazaar” type open air markets are still a relatively important channel in the Baltics, especially among lower market segments. However, clothes sections in supermarkets (such as RIMI, Maxima *etc*.) are also becoming increasingly important, and are often used to market cheaper lingerie.

Even though the Baltic lingerie market is characterized by intense competition, it could be concluded from the above that there is apparently still room for niche brands with middle price levels.

Women’s apparel market

The women’s apparel market in the Baltic States is saturated with a large variety of brands from lower quality and price segment to middle class apparel and up to luxury clothes to a lesser extent. There are several traditional domestic brands in each of the Baltic markets and occasionally new international fashion brands enter the market, whereas competition is already intense between certain international manufacturers of clothing. Nevertheless, the consumption of fashion in the Baltic markets is still not as pronounced as in the Western European countries.

Similarly to lingerie sales, a noticeable share of the women’s apparel sales revenue is generated by street markets, though to a far lesser extent than in the Eastern markets. Therefore, it is rather difficult to estimate the actual size of the market. It is expected that the market will grow in the future at least in line with the general retail growth rate as well as with the overall growth of economy. Furthermore, the industry has a potential to grow also by rebalancing customers from open air markets to qualified shops, as the Baltic people’s consumption habits change.

The entry to the market of new apparel brands and the expansion of the existing players’ activities has so far been limited to some extent due to the lack of retail premises and warehouses. Although many new shopping centres and trading facilities have been built the recent years, many of the most favourable sales venues are rapidly occupied by the companies that are already present in the market, thus limiting the opportunities for others to enter and occupy economically suitable positions.

OPERATIONS OF THE PTA GROUP

Operations of the PTA Group at a Glance

The PTA Group is an international apparel production and trading group which is engaged in two primary lines of business: (i) the design, manufacturing and marketing of women's apparel and (ii) the provision of sewing subcontracting services. The apparel business of the PTA Group, in turn, generates revenue separately through wholesale and retail activities. Production facilities of the PTA Group are based in Tallinn, and certain production capacities are outsourced to other producers.

The division of the PTA Group's revenue between the aforementioned two lines of business is illustrated by the table below. On 16 May 2005, the PTA Group announced the division of the Company by way of a separation of all producing capacities into a new subsidiary – AS Klementi – in order to separate producing and retailing functions within the PTA Group and by doing that ensure better management. The Management also announced the plan to move somewhat away from the sewing subcontracting services and concentrate on the manufacturing of own branded goods (on the facilities of Klementi) and sale of the same (through the retail network operated by the Company). The Transaction is consistent with this strategy and the Management estimates that it will result in the gradual decrease of the relative volume of sewing subcontracting services in the revenues of the PTA Group.

Division of revenues by segments
2003 – H1 2006 (thousand EEK)

Segment	2003	2004	2005	H1 2006
Women's apparel	109,922	100,641	89,202	48,514
Subcontracting and services	21,076	26,671	21,389	11,227

The PTA Group markets the goods produced under the trademarks of "PTA", "Mallimari", "Piretta" and "Mastercoat" through its own retail chain as well as through wholesalers. The PTA Group operates a retail store chain under the trademark of "PTA" in Estonia and Latvia and has plans to expand its retail activities into Russia, Lithuania and Ukraine. As of the end of June 2006, the PTA Group had a total of 11 retail stores with the aggregate sales area of over 2,500 m^2 in Estonia and Latvia. In addition, as from March 2006, the PTA Group operates a 100 m^2 "PTA" and Lauma Lingerie's brand store in Liepaja jointly with Lauma Lingerie.

The wholesale revenue of the PTA Group is made up mainly of the products sold to Estonian, Latvian, Lithuanian and Finnish partners. The PTA Group's subcontracting services are provided to clients in Estonia and Finland. Geographically, the aggregate revenue of the PTA Group currently comes primarily from Estonia (55% in the first half of 2006), with Latvia and Finland dividing the remaining 43% between them (during the same period), as illustrated by the table on the right. The main target markets for the PTA Group in the field of retail of its own branded goods are the Baltic States (Estonia, Latvia and Lithuania) and Scandinavia (Finland, Sweden and Norway). The Company has an active subsidiary engaged with retail activities in Latvia. On 17 July 2006, the Company announced trough the Tallinn Stock Exchange that a new subsidiary is under foundation in Lithuania. Furthermore, the PTA Group plans to expand its activities into Russia and Ukraine. On 10 August 2006 the Company announced trough the Tallinn Stock Exchange that another new subsidiary is under foundation in Ukraine, and the Transaction will allow for the expansion of the PTA Group's retail activities into the Russian market.

Geographic division of total revenues H1 2006

Country	% of revenue
Estonia	55
Latvia	22
Finland	21
Other markets	2

The consolidated net sales of the PTA Group in the first half of 2006 amounted to EEK 61.1 million and the net profit of the group in the first six months was EEK 3 million. In a testimony to the looming success of the turnaround that is being carried out by the Company's Management, in 2005 the operating profit of the Company was EEK 2.9 million, compared to operating loss in the amount of EEK 6.1 million in 2004. In 2005, the net losses of the PTA Group decreased from EEK 11.9 million in 2004 to EEK 3.2 million.

History and Development of the PTA Group

The history of the Company dates back more than 60 years. The predecessor of the Company began its business operations in 1944 as a sewing team under the name of "Osta". Six years later in 1950, the activities of the sewing team were reformed and a sewing factory named after V. Klementi (In Estonian: "V. Klementi nimeline õmblusvabrik") was established. At the beginning of 1970s, the factory was transformed into V. Klementi sewing manufacturing squad (In Estonian: "V. Klementi nimeline Õmblustootmiskoondis") and the enterprise moved to its current location at Akadeemia tee 33, Tallinn. The enterprise continued its operations throughout the Soviet times.

By the beginning of 1990s, the enterprise manufactured ca 1,000,000 garments per year and employed 1,600 people. 1992 saw further expansion, while the enterprise was transformed into a state owned public limited company (RAS Klementi). In 1993, RAS Klementi was short listed as a company subject to privatisation, among other flagships of the Estonian economy. Already by the end of that year the Estonian Privatisation Agency sold a substantial part of RAS Klementi's assets to a Swedish company Kurt Kellermann AB. As a result, the production capacity of RAS Klementi decreased by some 40%.

The privatisation process of the Company continued throughout the subsequent years. In March 1994, the employees of RAS Klementi established a company named AS Klementi Kaubandus, which bought 80% of Shares of RAS Klementi (A-shares). In October 1995, the Estonian Privatisation Agency privatised the remaining 20% of Shares of the Company (B-shares) through a public offering and no state participation remained in the Company.

1996 saw further restructuring and an increase in production, revenue and profit. AS Klementi merged with AS Klementi Kaubandus and the Company continued under the name AS Klementi. Subject to the newly passed Estonian Commercial Code, the Company was registered in the commercial register on 23 December 1996, under the current registration number of 10175491. All Shares of the Company were transformed into one type of shares (A-shares or Shares).

In May 1997, Shares of the Company were listed on the I-List of the newly established Tallinn Stock Exchange. At that time, the Company's business activities were focused on three areas: manufacturing women's fashion clothing, manufacturing professional clothing and offering sewing subcontracting services to Finnish and Swedish clients. New investments and a further expansion of the business activities followed in 1998. A new professional clothing trademark "PROFLINE" was launched, and it was transferred to a newly established subsidiary AS Profline. Furthermore, the Company established a subsidiary Klementi Trading Oy in Finland to enhance the distribution of the Company's products overseas. Investments were also made into the renovation of the Company's office building. By 1998, a large proportion (over 48%) of the output of the Company was exported from Estonia with the main export destinations being Finland, Sweden, Latvia and Lithuania.

In January 1999, a Finnish garment manufacturer P.T.A. Group Oy (previously a minority shareholder of the Company), bought an additional 43% of the Company's Shares and became the parent company of the Company. In the same year, the Company developed its own production retail network (5 outlets) in Tallinn. In 2000, the share capital of the Company was increased by EEK 11 million up to EEK 35.25 million and convertible bonds worth EEK 2 million were issued to P.T.A. Group Oy to raise new debt and equity capital. In April, the Company decided to divest of the professional clothing business through a sale of AS Profline. 2000 also saw the establishment of a 100% subsidiary Klementi Vilnius UAB in Lithuania and the expansion of the retail network. In addition, the Company built a raw material logistics centre for receiving fabrics and ancillary materials and completing customs procedures.

The development of retail outlets gained further importance in the sale of own output in the subsequent years. By 2001, 19 Klementi retail shops operated in three Baltic States and 56% of the turnover of the PTA Group was originating from exports mainly to Finland, Sweden, Latvia and Lithuania.

2002 marked the onset of important changes for the PTA Group. In April 2002, the bankruptcy of the main client and the parent company of the Company, P.T.A. Group Oy, was declared. The volume of services provided to P.T.A. Group Oy in 2001 had been EEK 19.8 million, *i.e.* 17.8% of the Company's turnover. At the time of the declaration of bankruptcy, P.T.A. Group Oy owned 79.08% of the Company's Shares. The bankruptcy of the parent company had some short-term repercussions on the economic activities of the Company. In July 2002, the Estonian private equity investment company AS Alta Capital and its coinvestors acquired the shareholding of P.T.A. Group Oy in the Company. The share capital of the Company was increased by EEK 4,406,250 to EEK 13,218,750 by issue of 440,625 new A-shares. Simultaneously, the Company acquired the rights to internationally recognized trademarks of P.T.A. Group Oy ("PTA", "Avenue", "MalliMari", "MasterCoat", "ClubLine" and "Piretta") and benefited from the previous parent's customer relationships, which enabled to increase its exports to the Nordic countries significantly.

With the change in the main shareholder of the Company, the business philosophy and strategy also underwent a revision. To implement the new strategy, a new motivated management team was assembled and the Company was reorganized. Since the completion of these reforms, the business activities of the Company consist of two essentially independent business segments aimed at different markets: (i) the design, manufacturing and marketing of women's apparel and (ii) subcontracting sewing services.

In 2003, 575,000 new Shares were issued, increasing the share capital of the Company to EEK 18,968,750 in order to raise additional capital as well as to increase the number of shareholders and improve the liquidity of Shares on the secondary market. In July 2003, the Company purchased Klementi Trading AB in Sweden to enhance the wholesale of the PTA Group's products in Sweden. In August 2003, the Company acquired 100% ownership in the Latvian retail company SIA Vision. In Lithuania, cooperation with a leading retail company Apranga was initiated. For that reason, the Company's own shops in Lithuania were closed and its own Lithuanian subsidiary was resolved to be liquidated.

In 2004, the Company's activities were focused on the development of the "PTA" trademark. In conjunction with this, the product development activities of the Company were reorganised and the chain of stores, which previously operated under the name "Klementi", was rebranded into a "PTA" retail chain. This change was envisaged to lead to better procurement prices, reduction of product development costs, more optimal planning of inventories as well as more efficient usage of the marketing budget to support one brand. The wholesale of apparel decreased by over 30% in 2004. This was primarily related to lower sales in the Scandinavian countries which in the Management's opinion was mostly due to the inappropriate positioning of the apparel marketed under "PTA" brand. The subcontracting sales volume, on the other hand, increased by 26% in 2004.

The development of the "PTA" brand has had a positive effect on retail sales in 2005, which increased 5.3% compared to 2004. One new store was opened and by the end of financial year 2005, the Company had a total of 11 stores. The wholesale of the Company's apparel production continued to decrease in 2005; however, at the end of 2005, the Company started cooperation with the operator of a Finnish retail chain Anttila and the Company's products are being marketed under the "PTA" brand in Finland since March 2006. In addition to services provided in previous years (sewing service, preparation and placement of products, increase and decrease of patterns, cutting services), in 2005 the Company started to offer the service of designing patterns to its subcontracting customers, thus offering full-service sewing. The subcontracting sales volume decreased by 19.8% as compared to 2004. Nevertheless, the volume of the full service of subcontracting increased in 2005, as the cooperation partners purchased the full service of making apparel instead of just purchasing the sewing service. As a result, the total profit generated from the provision of subcontracting services increased by 5% in 2005 compared to 2004. The gradual transition from the provision of basic subcontracting sewing service to offering full service of apparel manufacturing has continued in 2006.

At the end of 2005, the Company sold its land and buildings in a sale and lease-back transaction. The revenue from the sales transaction was approximately EEK 53 million. The Company continues to operate as a lessee in the same premises under a long-term lease agreement.

In May 2006, the Company's Swedish subsidiary Klementi Trading AB was declared bankrupt. Estonia's accession to the European Union has made trading with other Member States considerably easier and the need for the local administration of operations in European countries such as Finland and Sweden ceased to exist. Therefore, the activities of the subsidiary had been effectively terminated already as of the second half of 2005.

On 15 August 2006, the change of the Company's business name was registered in the commercial register. The new name of the Company is PTA Grupp AS. Simultaneously, the Company went through a division process, whereby its production activities were separated and transferred to its newly established 100% subsidiary AS Klementi. Recently in 2006, two new subsidiaries were established – UAB PTA Prekyba in Lithuania and TOV PTA Ukraine in Ukraine with the aim of furthering retail activities in these countries.

The most important milestones of the development of the PTA Group's operations and business are summarized below.

Year	Development
1944	The predecessor of the Company (sewing team "Osta") established
1950	Based on the "Osta" team, a sewing factory named after V. Klementi established
1971	Klementi sewing manufacturing squad established
1973	The enterprise moved to its current location at Akadeemia tee 33, Tallinn
1992	The enterprise transformed into state public limited company (RAS Klementi)
1994	80% of all Shares privatized by a company established by the employees of RAS Klementi
1995	Remaining 20% of Shares privatised through a public offering
1996	The Company registered in the commercial register
1997	The Company listed on the I-List of the Tallinn Stock Exchange
1998	Finnish subsidiary Klementi Trading Oy established
1999	Finnish garment manufacturer P.T.A. Group Oy acquired control over the Company
2000	Lithuanian subsidiary UAB Klementi Vilnius established
2002	Bankruptcy of P.T.A. Group Oy (main client and parent company)
	Acquisition of control by AS Alta Capital, initiation of reorganisation process with focus on two independent business lines – the design, manufacturing and marketing of women's apparel, and subcontracting sewing services
2003	Swedish subsidiary Klementi Trading AB and Latvian subsidiary SIA Vision acquired
	Cooperation started with a Lithuanian wholesale partner Apranga, the activities of the Lithuanian subsidiary UAB Klementi Vilnius were suspended and the latter is currently under liquidation
2004	Development of "PTA" trademark and rebranding of chain stores
2005	Land and buildings disposed of in a sale and lease-back transaction
	Cooperation started with Finnish retail chain Anttila
2006	Bankruptcy of Swedish subsidiary Klementi Trading AB
	Lithuanian subsidiary UAB PTA Prekyba and Ukrainian subsidiary TOV PTA Ukraine established

Business name of the Company changed to PTA Grupp AS; manufacturing separated and transferred to a new subsidiary - AS Klementi.

Licensing and Compliance

As a rule, no specific licenses are required to engage in the manufacturing, wholesale or retail of apparel in the jurisdictions where the Company has business activities. However, registration of its business activities may be required in some jurisdictions. The Company has obtained all material registrations which are required for its operations in each jurisdiction where the Company has business activities.

Competitive Position

Basis of statements

In presenting the below overview of the competitive position of the Group in the relevant markets, the Management has relied principally on its own assessment and analysis of such competitive position. In doing so, the Management has used the market information collected by its own staff and advisors for such purpose, either available on the basis of public information or derivable from the same.

Women's apparel

The competition in the women's apparel market is intense in all geographical markets where the Company is active. There are several traditionally strong domestic brands in each of the Company's target markets and from time to time new international fashion brands enter the market, while competition is already intense between certain international manufacturers of clothing. Therefore, even though the Company is among the largest Estonian apparel manufacturers, its market share in Estonia, which is currently the Company's main market, is estimated to be around 4%. In other geographic markets, the Company's market share is lower.

The main brands competing with the Company's brands in Estonia are the following:

Mosaic and *Monton*	Brands of the biggest Estonian apparel manufacturer AS Baltika. These brands are competitors with price levels comparable to those of the Company's brands.
Bastion	Brand of Estonian women's apparel manufacturer AS Bastion. This brand competes in particular with regard to classic apparel with slightly higher price level.
Gerry Weber	An international brand belonging to Gerry Weber International AG, incorporating the output of different international manufacturers. Similarly to Bastion, this brand is a competitor in particular with regard to classic apparel with a slightly higher price level.
Seppälä	A brand belonging to Finnish Stockmann Group and selling the output of different manufacturers. This brand is a direct competitor with regard to women's casual wear with slightly lower price level compared to the "PTA" brand.

The brands competing in the Latvian and Lithuanian markets are to a considerable extent the same as in Estonia. In Scandinavian, Russian and Ukrainian markets, the share of Estonian manufacturers (Baltika, Bastion) is marginal, but there are many domestic and international brands competing with similar products and price levels as "PTA" trademark products.

The Management believes that a number of foreign competitors may be interested in entering or expanding their operations in the Company's target markets (including such brands as H&M, Lindex, Zara and

Mango). In addition, several German and Italian brands which are targeted to medium price level may be interested in the relevant markets.

There are no specific barriers for entering the market for manufacturing and marketing of women's apparel. However, starting manufacturing in larger scale requires substantial know-how and investments into machinery, human resources, development of distribution channels, marketing and branding.

Subcontracting sewing services

The proportion of providing sewing subcontracting services in the total production of Estonian apparel manufacturers is decreasing due the increase of labour costs. The Estonian manufacturers are using more and more of their own capacity for manufacturing own production and are outsourcing sewing services themselves from countries where labour costs are lower.

Suppliers

The products marketed by the PTA Group are designed by the product development team of the Company. Classic style products of "PTA" brand (women's suits and woollen coats) are manufactured mainly in Estonia, while the casual style products are mainly manufactured in China, but also in Turkey and Pakistan and these are bought in as ready-mades. During the first half of 2006, about 34% of the Company's products were manufactured in Estonia, the remaining 66% were bought in from suppliers. During the first half of 2006, approximately 75% of the Company's Estonian production was manufactured by the Company itself, 25% of the production capacity was outsourced from other Estonian sewing enterprises. The materials used for the products manufactured in Estonia are delivered mainly by European suppliers. The structure of the supplies is rather fragmented; therefore, the Company is not highly dependent on the supplies of any specific suppliers.

Distribution

The Company's own branded products are marketed by the PTA Group's own retail chain as well as by third party wholesalers. Currently, the PTA Group has seven shops in Estonia with a total area of over 1,700 m^2 (four in Tallinn, two in Tartu and one in Jõhvi) and four shops in Latvia with a total area of over 800 m^2 (three in Riga and one in Daugavpils). In addition, one 100 m^2 store is operated in Latvia together with Lauma Lingerie in Liepaja (selling both "PTA" and Lauma Lingerie's branded products). The PTA Group's retail activities in Latvia are operated by the Company's subsidiary SIA Vision.

The Company plans to open a store in Lithuania in November and further its retail activities there through its subsidiary UAB PTA Prekyba. Moreover, its retail activities will expand to Ukraine through its subsidiary TOV PTA Ukraina and to Russia, where the Company's products will be marketed by Linret.

In the first half of 2006, about 46% of the Company's own products were sold to wholesale partners in Estonia (the biggest Estonian partner is Tallinna Kaubamaja), Lithuania (Apranga) and Finland (Anttila). As a rule, the wholesale partners submit their orders on season by season basis.

The Company also performs subcontracting services on the basis of long-term cooperation framework with partners from Finland and Estonia. In the first half year of 2006, the majority (60%) of the Company's subcontracting services were provided to Finnish cooperation partners. Subcontracting services made up 19% of the total turnover of the Company in the first half of 2006. The share of the Company's most important subcontracting services buyer was around 3% of the Company's total sales. Therefore, the Company is not dependent on the orders of individual buyers.

During the first half of 2006, about 37% of the production capacity of the PTA Group was used for manufacturing own branded products and 63% of the capacity was used to perform subcontracting services.

Product Development and Marketing

The clothes marketed under the “PTA” brand are designed primarily to meet the demands of modern women in the age of 30 to 50. “PTA” branded clothes are targeted to offer tailored fine-quality business wear combined with casual clothing items to achieve a relaxed look for business. To meet the expectation of its customers, the Company offers fashionable and comfortable clothes at an attractive combination of the best Nordic quality and reasonable price.

In order to be able to remain competitive, the Company is consistently making efforts to provide better services to its customers and to expand its clientele. In the first half of 2006, the Company launched a loyal customer program in Estonia, which attracted nearly 15,000 customers by the end of June 2006. In addition to the increasing the loyalty of customers, the loyal customer program is an effective direct marketing channel and allows for measuring the effectiveness of campaigns. Within the framework of the program, loyal customer cards were launched. The card gives customers who own the card a 5% discount from all purchased items and enables them to benefit from a number of special offers. Loyal customers receive “PTA” monthly newsletters containing information about new collections, campaigns and special offers.

Intellectual Property

Overview

The main field of activity of the Company is the design and development of women’s apparel collections. Approximately 2000 new articles of clothing produced under the trademark “PTA” are developed and protected with copyright every year. In addition to “PTA” trademark collections mentioned above, women’s coat collections under the trademarks “Master Coat” and “Piretta” and collections of light clothing marketed under “MalliMari” trademark are designed and produced mainly for marketing in the Scandinavian market.

None of the PTA Group companies own any patents, utility models or geographical indications, nor hold or use any material proprietary industrial and/or intellectual property rights with respect to which they would have not filed a patent, trademark or other respective application. Various types of software programs are used in the everyday operations of the PTA Group companies, for which license agreements are valid and duly executed.

Trademarks and other rights

The Company is the owner of and markets its products mainly under the following trademarks registered and protected in Estonia – “REGINA”, “AVANTÉ”, “PTA”, “AVENUE” and “Piretta”. Registered trade mark “KLEMENTI” has in addition to the Estonian Register of Trademarks been registered internationally under the Madrid Agreement Concerning the International Registration of Marks and the Protocol Relating Thereto and is also protected in the Russian Federation and Lithuania.

Trademarks “PTA”, “Master Coat”, “MalliMari” and “Avenue” previously owned by P.T.A. Group Oy were divested to the Company in 2002 following the bankruptcy of P.T.A. Group Oy. However, the international registration procedure of the same is currently pending.

The Company is also the owner of trade marks “HEIGHT 33”, “33 HEIGHT”, “FOR HIM” and “DECO”, but these are not actively used for marketing the Company’s production.

The Company is currently using the following significant registered domain names: “www.pta.ee”, “www.klementi.ee” and “www.ptafashion.com”. Such domains are duly registered in the name of the Company.

Real Estate and Leased Premises

Office, production and warehouse facilities of the Company

The PTA Group does not own real estate. In 2005, the Management decided that owning real estate does not correspond to the long-term strategy of the PTA Group and a sales and lease-back transaction would provide the Company with a valuable source of funding in order to complete the turnaround of its business and support the reduction of the Company's loan burden.

As a result of the above, the Company sold its current office building located at Akadeemia tee 33, Tallinn (total area of 1,932 m^2), a production facility located at Kadaka tee 179, Tallinn (total area of 8,937 m^2) and a logistics and warehouse building located at Kadaka tee 179A, Tallinn (total area of 2,328 m^2), to OÜ Baltek Arendus in December 2005 in a sales and lease-back transaction. The Company leases these premises from the purchaser since January 2006. The ownership of the premises has been further transferred to AS Tiigi Keskus in April 2006. This did not, however, affect the validity of the lease agreement nor its terms, since the lease agreement is registered in the Land Register, the effect of which is to ensure that each new owner of the real estate complies with the terms of the lease agreement. The lease agreement is concluded for a term of three years from the registration of the lease agreement in the Land Register, *i.e.* from 9 February 2006. Thus, the lease agreement is valid until 9 February 2009. The term can be further extended up to one and half years.

Other premises leased by the PTA Group

	Location	Purpose
1.	Keskväljak 4, Jõhvi	Shop
2.	Ülemiste keskus, Suur-Sõjamäe tee 4, Tallinn	Shop
3.	Lõunakeskus, Ringtee 75a, Tartu	Shop
5.	Tartu Kaubamaja, Riia 1, Tartu	Shop
6.	Kristiine Kaubanduskeskus, Endla 45, Tallinn	Shop
7.	Viru keskus, Viru väljak 4, Tallinn	Shop
8.	Origo, Stacijas laukums 2, Riga	Shop
9.	Spice, Lierlirbes iela 29, Riga	Office and shop
10.	Mols, Krasta 46, Riga	Shop
11.	Solo, Rigas 9, Daugavpils	Shop
12.	Liepaja iela 12, Liepaja	Shop
13.	Saules Miestas, Tilzes g.109, Siauliai	Shop
14.	Fashion Forum, Mikkolatie 1A, Helsinki	Office, show room
15.	Vytauto pr. 32, 44328 Kaunas, Lithuania	Office

In most cases, the above shop premises are located in big shopping centres. As a rule, the lease agreements have been concluded with the owners or operators of the shopping centres on arm's length basis.

Fixed Assets and Investments

As of 30 June 2006, the consolidated total fixed assets of the Company stood at EEK 15.6 million, of which tangible assets formed EEK 8.3 million and intangible assets amounted to EEK 6.6 million. By comparison with 30 June 2005, the total amount of fixed assets decreased by EEK 42.7 million due to the sale of real estate of the Company to a third party in a sale and lease-back transaction (see "Operations of the PTA Group – Real Estate and Leased Premises" above). Following the sale of the real estate, the main bulk of the fixed assets of the PTA Group comprises sewing equipment and other production equipment, as well as office equipment and trademarks.

The majority of the fixed assets transferred to Klementi and held by the latter comprises of manufacturing equipment. The business of Klementi does not require expensive mass production lines and is based on small and medium-sized equipment with the value of one average sewing machine normally not exceeding EEK 30,000. Sewing equipment is amortized at the rate of 10-15% per year.

The majority of fixed assets held by the Company comprises office equipment, vehicles and retail shop interiors. In addition, the Company owns certain trademarks with the residual value of some EEK 3 million as of 30 June 2006 (please see more under "Operations of the PTA Group – Intellectual Property").

Due to the nature of the business of the PTA Group, no considerable one-off investments were made over the period covered by the historical financial information. Ongoing replacements of sewing equipment and other manufacturing facilities amount for the majority of the PTA Group's investments. At the date of this Prospectus, none of the companies belonging to the PTA Group are parties to any investment commitments which are binding on such companies.

At the beginning of 2005, the Company invested into the implementation of the new accounting and ERP software "Microsoft Axapta". The costs of implementation of the same (including licenses and developments made at the request of the Company) amounted to approximately EEK 1.9 million. However, together with project management costs, training and relevant hardware, the total costs of launching the new program amounted to over EEK 2.4 million. The introduction of the new software proved to be remarkably more arduous and time-consuming than originally planned and temporarily rendered the management of retail prices and inventories more difficult, thus having an adverse effect on the performance of the Company in 2005. The new software has by now been fully implemented and is working as intended.

The Company is not aware of any environmental issues that may affect the utilization of the fixed assets by the Company or its subsidiaries. All movable assets of the Company (with the exception of certain assets that cannot be subject to commercial pledge, such as motor vehicles and other registered movables, if any) are encumbered with a commercial pledge in the amount of EEK 29 million in favour of AS Hansapank which secures certain credit agreements concluded between AS Hansapank and the Company – please see "Capitalisation and Indebtedness" for more details. A commercial pledge under the Estonian law is a universal floating charge which entitles the pledgor to seek satisfaction against all commercial property of the pledgee.

Employment

The majority of employees of the PTA Group are engaged in manufacturing in the facilities of Klementi. Retail operations of the PTA Group have so far not had a significant effect on the total number of employees of the PTA Group.

The numbers of employees in the PTA Group (including the subsidiaries of the Company) at the end of financial years ended 31 December 2003, 2004 and 2005 and as at 30 June 2006 are set forth in the table below.

	2003	2004	2005	30 June 2006
Employees in PTA Group	489*	448	414	377
The Company**	474	430	393	353
Klementi Trading Oy	2	1	2	n/a
Klementi Trading AB	1	4	n/a	n/a
SIA Vision	10	13	19	24
UAB PTA Prekyba	n/a	n/a	n/a	n/a
TOV PTA Ukraina	n/a	n/a	n/a	n/a

* UAB Klementi (under liquidation) employed 2 employees in 2003

** From the 1 September 2006, 72 of the Company's previous employee work in Klementi

Considering that Shares of the Company are freely tradable on the Tallinn Stock Exchange, a number of employees of the Company hold Shares of the Company as at the date of the date of this Prospectus. The Company does not have any stock option programs for its employees.

A collective agreement is concluded in Klementi which provides for certain benefits that are made available to the employees of Klementi, while at the same time stipulating certain obligations of the employees. The collective agreement does not have a significant effect on the results of operations of Klementi or the Company and is valid until 31 December 2006.

Legal and Arbitration Proceedings

Neither the Company nor any of its subsidiaries have during the 12 months preceding the date of this Prospectus been or are currently involved in any material governmental, legal or arbitral proceedings or material disputes which may have or have had a material adverse effect on their business, results of operations or financial condition or profitability. The Company is not aware of any facts or circumstances that could reasonably be expected to lead to any material claims being made against the PTA Group companies in the foreseeable future.

Notwithstanding the above, the Company has submitted a claim against its subsidiary Klementi Trading AB in the amount of approximately EEK 4.4 million in the bankruptcy proceedings of the latter. The satisfaction of that claim to any material extent is, however, unlikely as Klementi Trading AB has total obligations amounting to approximately EEK 5.4 million and assets in the amount of just over EEK 18 thousand. The claim in question is accounted for as uncollectible.

Related Party Transactions

The Company does not have any significant outstanding transactions with related parties. For information on executive compensation, please see “Company Management” above. Historically, the Company has entered into a number of transactions with related parties, which to the best of the Company’s knowledge were all concluded on arm’s length basis. The Management believes the following recent or ongoing transactions to be relevant:

- In the first half of 2006, goods have been purchased from OÜ GC Fashion (a shareholder of OÜ GC Fashion is a member of the Management Board of the Company) in the total amount of EEK 329 thousand;
- Services in minor amounts were purchased in the same period from FIE Marianne Paas (a member of the Management Board of the Company) and from OÜ Merona Holding (a company related to a member of the Council of the Company).

Other than the above, the Company has not concluded any material agreements or entered into any material transactions with related parties. Non-material transactions with related parties may be entered into from time to time; in such case the arm’s length principle is observed. The transactions with related parties do not form any notable percentage of the turnover of the Company.

Day-to-day intra-group transactions may from time to time occur between the Company and its subsidiaries (as well as between various entities of the PTA Group and the Silvano Group) which are entered into in the ordinary course of business on arm’s length conditions. Such transactions relate primarily to the distribution of goods produced by the PTA Group and are mostly reflected under Sections entitled “Operations of the PTA Group – Distribution” and “Operations of the Silvano Group – Distribution”.

OPERATIONS OF THE SILVANO GROUP

Operations of the Silvano Group at a Glance

The Silvano Group is a newly consolidated international lingerie production and trading group, which is engaged in manufacturing and marketing of lingerie products as well as in the provision of sewing subcontracting services. The Silvano Group is active mainly in the Baltic States, Belarus, Russia and Ukraine, but has sales also to other CIS markets as well as to Western Europe. Silvano itself does not have any business activities. It is the parent and holding company of Lauma Lingerie, Milavitsa and Linret.

Sales by Geographic Areas
H1 2006

Country	Lauma Lingerie	Milavitsa
Latvia	9%	0.3%
Lithuania	4%	-
Estonia	4%	-
Baltic States total	**17%**	**0.3%**
Russia	57%	61%
Moldova	0.1%	1%
Kazakhstan	1%	2%
Ukraine	8%	8%
Belarus	1%	25%
Other CIS	0.3%	1.3%
Eastern market total	**67.4%**	**98.3%**
Germany	9%	0.5%
Finland	3%	-
Sweden	3%	-
Other Western	0.6%	0.9%
Western market total	**16%**	**1,4%**

Due to the fact that Silvano has only recently acquired control over Lauma Lingerie, Milavitsa and Linret, the operations of the three aforementioned entities are still not fully integrated. Lauma Lingerie and Milavitsa are separate and independent entities that have never belonged to the same group of companies before both of them were acquired by Silvano. Linret is a newly established entity which is in operation since 2006. Based on the above, the following review of the operations of Lauma Lingerie, Milavitsa and Linret will normally consist of three different subsections dealing with each of such entities respectively.

Lauma Lingerie

Lauma Lingerie (Latvia) is the largest manufacturer of lingerie in the Baltic States. Lauma Lingerie produces and sells lingerie under the brands of “Lauma” and “Laumelle”. The main geographic markets for Lauma Lingerie’s products are the Baltic States, Russia and other Eastern markets. In addition to its lingerie business, Lauma Lingerie offers sewing subcontracting services by manufacturing lingerie products which are marketed under other brands owned by long term cooperation partners in Western Europe, mainly in the UK and Germany. Lauma Lingerie’s annual production is currently nearing two million pieces.

Lauma Lingerie’s own branded lingerie products are marketed mainly in the Baltic States and Russia, but also in other CIS markets and in some Western European markets. The table above presents the target markets of Lauma Lingerie and the share of sales on such markets in Lauma Lingerie’s total sales revenue.

The net sales of Lauma Lingerie in the first half of 2006 amounted to EEK 93.8 million and its net profit was EEK 11.9 million.

Milavitsa

Milavitsa is a Belarusian production company, which manufactures and markets lingerie products under such trademarks as “Milavitsa”, “Aveline” and “Alisee” and provides sewing subcontracting services for other manufacturers of lingerie (in 2006 mainly to Lauma Lingerie). It operates one of the biggest lingerie factories in Europe. Milavitsa’s annual production exceeds 14 million pieces.

Milavitsa's own branded products are marketed mainly in Belarus, Russia and Ukraine, but also in other CIS markets. The table above presents the target markets of Milavitsa and the share of sales on such markets in Milavitsa's total sales revenue.

Milavitsa has subsidiaries in Russia and Belarus and an associated trading company in Ukraine, which all act as distributors of Milavitsa's products in the respective geographic markets. The net sales of Milavitsa group in the first half of 2006 amounted to EEK 432.4 million and its net profit was EEK 65.3 million.

Linret

Linret is a recently established Russian retail company, which operates lingerie retail outlet chain "Oblicie", marketing the products of Lauma Lingerie and Milavitsa in Russia. Presently, Linret has six "Oblicie" stores in Astrakhan, Volgograd, Kazan, Nizhni Novgorod, and Toljatti (2 stores). Stores in Kaliningrad, Saint-Petersburg, Yaroslavl, Ivanovo, Izhevsk, Moscow, Kharkov, and in other cities are expected to be opened by the end of the year.

It is planned that in future Linret will start selling "PTA" branded products through a women's apparel retail outlet chain under the trademark of "PTA" in Russia. A number of lease agreements have been concluded by Linret for the opening of "PTA" stores, but none have been opened so far (please see "Operations of the Silvano Group – Real Estate and Leased Premises").

Linret started active operations well into the first half of 2006. The net sales of Linret in the first half of 2006 amounted to EEK 1.3 million and it has made a net loss of EEK 5.1 million on account of investments made in its first retail stores.

History and Development of the Silvano Group

The Silvano Group and acquisition of subsidiaries

The parent company of the Silvano Group was established on 3 May 2005 under the name AS Silvano Investment Group. In March 2006, AS Silvano Investment Group acquired 100% of Shares of Linret and in July 2006, Silvano acquired approximately 60% of Shares of Milavitsa and 100% of Shares of Lauma Lingerie. In August 2006, the name of Silvano was changed to AS Silvano Fashion Group.

Acquisition of Lauma

100% of all shares of Lauma Lingerie were transferred to Silvano on 25 July 2006 by SIA Alta Capital Partners as a non-monetary contribution for new shares of Silvano that were issued to SIA Alta Capital Partners.

Acquisition of Milavitsa

Silvano acquired a majority ownership stake in Milavitsa in a number of steps. The first large shareholding was acquired in April 2006 when approximately 12.7% of all shares in Milavitsa were purchased by Silvano from the European Bank for Reconstruction and Development which previously held a strategic stake in Milavitsa. Having acquired Shares previously held by the European Bank for Reconstruction and Development, Silvano launched a tender offer to the shareholders of Milavitsa proposing to acquire all remaining shares that were in circulation. The tender offer was successful and a further tranche of over 26% of all shares was acquired. On 25 August 2006, the acquisition of 20% of all shares in Milavitsa from Iluna Group SPA, an Italian strategic investor, was completed, thus bringing the total ownership stake of Silvano in Milavitsa to over 59.8%. Of the remaining shares of Milavitsa, the circulation of approximately 25.8% is restricted. Such restriction currently applies to 3,164 shares of Milavitsa that belong to private individuals who acquired such shares in the course of the privatisation of Milavitsa. While normally such shares cannot be transferred outside the family of the shareholder, they can be subject to share buy-backs initiated by Milavitsa and be diluted as a result of new share issues.

Acquisition of Linret

Silvano has purchased 100% of all shares of Linret from SIA Alta Capital Partners on 1 March 2006.

Lauma Lingerie

The predecessor of Lauma Lingerie (AS Lauma) was established in 1960s in Liepaja, Latvia. From 1969, the enterprise was named "Lauma". By the end of 1980s, Lauma's products were popular throughout the territory of the Soviet Union, and Lauma started exporting to Europe. The state enterprise Lauma was privatised in 1994, when it became the joint stock company AS Lauma.

The turn of the century marked significant investments in manufacturing and quality. In 2000, large investments were made into Textronic knitting machines for producing high class lace garments. In 2003, AS Lauma obtained the ISO 14001:1996 environmental standard certificate and the ISO 9001:2000 quality management certificate. By 2005, AS Lauma was exporting its products to over 20 countries and was one of the most significant enterprises in Latvia with around 1,500 employees.

Throughout the years, AS Lauma has engaged in both lingerie and fabrics business. The structure of AS Lauma's lingerie sales undergone some changes in the recent years: in 2004, AS Lauma's sales of lingerie to Western Europe markets decreased due to discontinuation of sales to Neckermann and the drop in sales to Quelle and J.F. Con (Adler) due to price pressure. At the same time, the Eastern markets remained stable and exhibited slight growth. In 2005, there was an increase of revenue from sales to both Western and Eastern markets.

In October 2005, AS Lauma decided to separate fabrics operations from its lingerie business. To that end, AS Lauma established two new wholly owned subsidiaries – Lauma Lingerie (by way of a carve-out of the lingerie activities of AS Lauma), and SIA Lauma Fabrics (by way of a carve-out of the fabrics production activities of AS Lauma). Lauma Lingerie acquired the lingerie operations and related inventory and other fixed assets from AS Lauma on 16 December 2005 and started independent operations. Simultaneously, 492 employees of the lingerie operations of AS Lauma were transferred to Lauma Lingerie. Nevertheless, the administrative management of Lauma Lingerie is still carried out by AS Lauma on the basis of a relevant service agreement, which is valid until 31 December 2006. Management services rendered by AS Lauma are charged to Lauma Lingerie on arm's length basis and charges are based on actual costs (please see "Operations of the Silvano Group – Related Party Transactions" for more information).

Milavitsa

In 1908, a Frenchman Francois Tourne founded a small haberdashery factory in Belarus. After the 1917 revolution, the haberdashery factory of Francois Tourne was destroyed and the site remained out of operations until 1925, when the factory's former employees established a cooperative entity producing haberdashery. In 1929, a state haberdashery factory named "Beloruska" was built on the site. Having started with buttons and combs, the factory then switched to sewing garments. Since 1964, the factory has specialized in lingerie products. In 1968, the enterprise started to export a part of its output for the first time.

In 1991, the factory stepped up its branding efforts and was renamed to "Milavitsa". This marked the start of a turbulent decade of changes, privatisation, reorganisations and investments. The reorganisation was completed by registering Milavitsa under its current legal form and name in 2000, following the acquisition of Milavitsa's shares by a foreign investors, Iluna Group SPA from Italy and the European Bank for Development and Reconstruction from the UK.

Milavitsa was the first Belarusian company to receive the ISO 9001 quality standard certificate in 1996. In 2003, Milavitsa became the largest exporter of Belarus and obtained the title of the "best exporter of the year". From 2003 to 2005, Milavitsa invested in modernizing its manufacturing line through the acquisitions of a substantial number of sewing machines and warehouse equipment, as well as new cutting equipment. As of the end of 2003, Milavitsa had eight branches (seven retail trade stores and a canteen) and one subsidiary, Jimil, in Belarus, as well as a representative office in Moscow.

In 2004-2005, Milavitsa began streamlining its distribution network. In the course of the process, Milavitsa transferred its wholesale operations in Russia to its newly established subsidiary STK and its wholesale and retail activities in Belarus to another newly established subsidiary MTCB (see "Operations of the Silvano Group – Distribution" for more details). In 2004, MTCB took over all of Milavitsa's retail store operations and related assets (except for the real estate) from Milavitsa. The Russian subsidiary STK was established to create a centralized sales organization in Russia dealing with Russian customers and coordinating all marketing activities in Russia. STK started sales in March 2005. In June 2005, STK acquired a 26% stake in MTCU in Ukraine. The stake in MTCU was acquired with the purpose of enhancing the distribution of Milavitsa's goods in Ukraine.

Linret

Linret was established in 2005 by SIA Alta Capital Partners. It serves as the base for the roll-out of the lingerie and women's apparel retail network in Russia and other CIS markets. To date, Linret has concluded close to 40 lease agreements with various shopping malls in Russia in order to secure premises for future "Oblicie" and "PTA" retail outlets (see "Operations of the Silvano Group – Real Estate and Leased Premises" for more details on such lease agreements) and has already opened six "Oblicie" outlets in various Russian cities.

Timeline

The most important milestones of the development of the Silvano Group are summarized below.

Year	Development
1908	A small haberdashery factory is established in Minsk that was the predecessor of Milavitsa
1960s	The predecessor of AS Lauma begins operations in Liepaja, Latvia
1962	Milavitsa becomes the only sewing enterprise in Belarus to specialize on the production of lingerie
1991	Reorganisation of the state owned sewing factory Milavitsa starts
1994	State enterprise Lauma is reorganised and a joint stock company AS Lauma is established
2000	Reorganisation of Milavitsa completed, over 20% of Milvaitsa's shares acquired by a foreigns investor Iluna Group SPA and the European Bank for Development and Reconstruction
2004	Milavitsa transfers its retail operations to subsidiaries STK in Russia and MTCB in Belarus
2005	Silvano established in Estonia Lauma Lingerie established by way of a carve-out of the lingerie activities of AS Lauma Linret established in Russia 26% of MTCU is acquired by Milavitsa
2006	Acquisition of 100% of Shares of Linret and Lauma Lingerie and approximately 60% of Shares of Milavitsa by Silvano

Licensing and Compliance

Lauma Lingerie

As a rule, no specific licenses are required to engage in the production and marketing of lingerie in the jurisdictions where Lauma Lingerie has business activities. However, registration of its business activities may be required in some jurisdictions. To the best knowledge of the Management, Lauma Lingerie has obtained all material registrations, which are required for its operations in each jurisdiction where the Lauma Lingerie has business activities.

Milavitsa

General information

Milavitsa holds a number of licenses issued in connection with various activities, including licences to sell alcohol and tobacco products, provide construction services and project management services, medical services, services in the field of industrial safety, communication services and logistics services for passengers and goods. Historically, Milavitsa supports a certain welfare infrastructure for the benefit of its employees and this requires it to from time to time engage in activities that are not directly related to its main lines of business. Jimil, MTCB and STK hold trading licences with respect to their retail operations (and including licenses for retail of alcohol and tobacco products).

Quotas

In addition to the limited registration requirements outlined above, Milavitsa from time to time receives certain quotas from the Republic of Belarus and local authorities that need to be met. These are developed based on the overall economic growth of the Belorussian economy and further divided between various companies, whether state owned or not. These quotas primarily concern the following key areas: (i) production volume requirements (an increase of production volume may be required compared to the production volume of the previous year), (ii) gross margin requirements, (iii) caps on domestic price increases for existing products (*e.g.* a maximum of 0.8% per month, while there are no regulations for pricing of new products).

Milavitsa has so far not had any problems in meeting the quotas imposed by the Belorussian authorities. In particular, the quotas with respect to production volume have in the period between 2003 and the first half of 2006 been exceeded by 15% on average. The inability to fulfil set objectives would normally not cause significant adverse consequences to the company. Instead, the management of Milavitsa will be forced to report on the reasons for non-performance, and face a minor risk of administrative sanctions if not able to do so.

"Golden share"

In March 2004, the President of the Republic of Belarus introduced legislation effectively granting the Belorussian state the right to exercise majority vote in any company by imposing a "golden share". The officially declared purpose of the "golden share" regulation was to ensure the interests and security of the state, the effective operation of the economy and the protection of rights of citizens of Belarus through encouraging effective administration of companies that are based on state-owned assets (including privatised companies such as Milavitsa).

The "golden share" is a form of state participation in the ownership of a company with a single share that grants a majority vote in all circumstances. To the best of the Company's knowledge, the "golden share" right has so far been exercised in approximately 16 companies operating in the Republic of Belarus (of the total of some 16,000). Such companies were mostly operating in business areas that were strategically important for the state (*e.g.* an oil refinery), had significant financial problems and/or an unclear shareholder structure. Theoretically, Milavitsa could be subject to the "golden share" regulation; however, good operating results and an export-driven strategy both contribute to protecting Milavitsa against most risks related to the Belarusian authorities.

Milavitsa is generally under the supervision of the Belarusian Ministry of Light Industry ("Bellegprom") to which regular contributions must be made based on turnover. Contributions are based on the annual turnover of Milavitsa and may reach some EUR 50 thousand (EEK 782 thousand) per year at current production levels. In addition to said contributions, Milavitsa occasionally receives invitations to support certain organizations on a charitable basis (*e.g.* the hockey team of Belarus) or participate in governmental visits to foreign countries.

Linret

Linret has all licenses and consent that it requires in order to conduct retail of lingerie on the territory of the Russian Federation.

Competitive Position

Basis of statements

In presenting the below overview of the competitive position of the Group in the relevant markets, the Management has relied principally on its own assessment and analysis of such competitive position. In doing so, the Management has used the market information collected by its own staff and advisors for such purpose, either available on the basis of public information or derivable from the same.

General

In general, lingerie markets in the Silvano Group's main geographical areas of operation are characterised by intense competition. Even though entering the market requires substantial investments, there are no industry specific barriers or bottlenecks which would substantially restrict the ability of potential competitors to enter the market. A switch to producing lingerie by companies that are currently engaged in manufacturing clothes would require noticeable investments, but is possible in middle term, as such companies could benefit from established sales channels and qualified workforce.

Presently, the Russian, Belarusian, Ukrainian and CIS markets are to a certain extent protected from imported goods by relatively high customs duties. Moreover, the relatively low labour costs, in particular in Belarus, represent a considerable advantage of the Silvano Group before some Western manufacturers. The situation may change in the future as a result of rising labour costs in Belarus, Latvia and Estonia as well as in connection with the relaxation of customs barriers if and when Russia would become a member of the World Trade Organisation. For more information on the competitive environment in which the Silvano Group operates, please see "Industry Overview" above.

Lauma Lingerie

Lauma Lingerie is the market leader in terms of lingerie sales on its home market of Latvia with a market share of 20 - 30%. The main competitor of Lauma Lingerie with a comparable market share is an international lingerie brand Triumph. According to "Integrated Research of Lingerie Consumers" carried out by InMind Marketing Research in Latvia in February 2005, in terms of brand awareness, Lauma is the best known lingerie brand in Latvia, followed by such competitors as Rosme, V.O.V.A. and Triumph.

Lauma Lingerie's market share in the Baltic region in general is estimated to be around 15%. On the pan-Baltic scale, its most notable competitors are Rosme (a Latvian lingerie manufacturer), Linette (an Estonian lingerie manufacturer) and Triumph. Despite the fact that the majority of Lauma Lingerie's output is marketed to Russia, its market share in Russia is estimated at 0.5 - 0.6%. The Russian market is large and extremely fragmented, and there is a considerable number of lingerie manufacturers competing within the market.

Milavitsa

Milavitsa is the largest lingerie manufacturer and distributor in Belarus. Pursuant to the study conducted within the framework of a Belorussian competition "Brand of the year 2003", Milavitsa's products were acknowledged as the "best-known brand" and the "best-preferred brand" among lingerie products sold in Belarus.

Some Belarusian official statistics have indicated that the market share of Milavitsa in Belarus is over 50%. However, the officially calculated market share does not take into account illegal and unreported trade.

Therefore, the actual market share of Milavitsa is estimated by its management to reach 20 - 25% of the Belorussian market. In 2006, Milavitsa signed an agreement with the Belarusian antitrust. Pursuant to the agreement Milavitsa agreed not to conduct any actions which can be classified as monopolistic or restrictive of competition. Such agreement may impose certain restrictions with respect to Milavitsa's domestic sales.

Milavitsa's other primary markets besides the domestic market of Belarus are those of Russia and Ukraine. Milavitsa's market share in Russia is estimated to be around 5-7% and in Ukraine around 4-6%. In other markets (such as Kazakhstan), Milavitsa's market share is lower.

Milavitsa's principal competitors in its primary target markets are Palmetta and Wild Orchid (Russian lingerie traders), Triumph and several Italian, Polish and Baltic brands. It is difficult to estimate the competitors' market share, but in general no competitive brand is perceived to hold a more than 3% market share in Milavitsa's main target markets of Russia, Belarus and Ukraine.

The business of manufacturing and retail of lingerie requires significant numbers of qualified workforce and established sales channels and retail premises, which all constitute barriers for entry to the relevant markets, for which reason Milavitsa's competitive position appears favourable. Among Milavitsa's competitive advantages are its proximity to its main target markets, established brand and sales channels, qualified workforce and market know-how. At the same time, most of its suppliers are remote and the customs taxes for raw materials have a noticeable effect on profitability.

The revenue of Milavitsa is somewhat seasonal and is to a certain extent higher in the first half of the year, when demand for higher margin underwear and swimwear collections is highest. Around 60% of all revenues are generated in the first half of the year.

Linret

Linret's market share in the Russian market for retail of lingerie is negligible with only six retail outlets opened to date. With the opening of new stores (up to 90 stores by the end of 2008, if conditions are favourable), Linret's market share in the lingerie market is expected to grow noticeably, as Linret's "Oblicie" chain is targeted to a currently somewhat uncovered market niche. Namely, "Oblicie" stores plan the provide a wide variety of classic lingerie collections to middle and upper middle market segments, while keeping its price level lower than its existing competitors, who operate specialised lingerie shops marketing mainly luxury brands.

Linret is also expected to operate a chain of "PTA" stores in Russia and possibly other markets, which has not been launched yet. Taking into consideration the large size of the Russian apparel market, Linret's market share with respect to women's apparel in general will presumably remain marginal despite the full roll-out of the "PTA" chain.

Suppliers

As the Silvano Group is mainly active in manufacturing and sales of its lingerie production, the main part of the cost of goods sold is made up of raw material and labour costs. The division of costs of goods sold differs between different manufacturing entities. The most important input to the production of lingerie is fabrics, which makes up for the biggest part of the raw material costs.

Lauma Lingerie

Raw materials comprise over 50% of Lauma Lingerie's costs of goods sold. The raw materials necessary for the production of lingerie are mainly fabrics having varying textures, colours and other physical and aesthetical features. At the same time, also various accessories and haberdashery products constitute relevant inputs for lingerie. Besides raw material, labour costs constitute another significant part of Lauma Lingerie's costs. Over the past years, the proportion of labour costs (salary and social contribution costs) has increased in Latvia. This has affected the structure of costs of goods sold, decreasing the share of raw materials and increasing the share of labour costs in the total costs of goods sold. Due to the increasing labour costs in Latvia, Lauma Lingerie is increasingly outsourcing sewing services to cooperation partners from countries where labour costs are generally lower. In the first half of 2006, sewing services were outsourced from subcontractors to the extent of about 20% of the total output of Lauma Lingerie.

Suppliers of raw materials

The top 10 of Lauma Lingerie's suppliers in the first half of 2006 together with trade volumes as well as the share of the respective suppliers in the total supplies are presented in the table below.

Supplier	Country	Type of supplies	Amount H1 2006 ('000 EEK)	%
Lauma Fabrics	Latvia	Materials	29,171	43
Potencier Brordeires	France	Materials	6,221	9
Arta-F	Latvia	Accessories	4,253	6
Vita Baltic International	Lithuania	Materials	1,382	2
Dentelle Sophie Hallettee	France	Materials	1,051	2
E. Boselli & Co.	Austria	Materials	947	1
Pakaita	Lithuania	Materials	940	1
Kadagas Plastmasa	Latvia	Accessories	894	1
Siva	Italy	Materials	778	1
Coats Latvija	Latvia	Accessories	682	1

As follows from the above, SIA Lauma Fabrics is the key supplier of Lauma Lingerie, while the share of other suppliers in the total supplies of Lauma Lingerie is considerably lower. SIA Lauma Fabrics is a 100% subsidiary of AS Lauma, which in turn is a subsidiary of SIA Alta Capital Partners – the principal shareholder of the Company following the completion of the Transaction.

The cooperation with SIA Lauma Fabrics is advantageous to Lauma Lingerie, in particular in terms of price competitiveness and easy delivery conditions, as the fabrics production facilities of SIA Lauma Fabrics and lingerie production facilities of Lauma Lingerie are currently located in the same building.

Lauma Lingerie concluded the current fabrics purchase agreement with SIA Lauma Fabrics in January 2006. The agreement is entered into for an unspecified term. The prices charged by SIA Lauma Fabrics to Lauma Lingerie are based on the arm's length principle and are equal to those charged by SIA Lauma Fabrics to third parties. For instance, prices charged by SIA Lauma Fabrics to Lauma Lingerie are equal to those charged by SIA Lauma Fabrics to Milavitsa, which is the largest customer of SIA Lauma Fabrics (and which until 2006 was unrelated to SIA Lauma Fabrics).

Lauma Lingerie does not have long-term contractual relationships with West-European suppliers. The pricing and quantities of such supplies as well as the division of transportation costs are set on order basis.

Providers of subcontracting services

During the first half of 2006, Lauma Lingerie outsourced some sewing services (in total some 182 thousand pieces) from various cooperation partners. Most of the outsourced sewing services (over 70%) were provided by Milavitsa. The list of the subcontractors and the number of articles sewn by each material subcontractor is presented in the table below.

Subcontractor	Country	Services provided	Pieces sewn H1 2006
Milavitsa	Belarus	Tailoring services	181,610
Angela	Ukraine	Tailoring services	42,618
Grazija	Belarus	Tailoring services	28,450

During the second half of 2006, Lauma Lingerie has started cooperation for further outsourcing with two new cooperation partners – Tin Chun from Hong Kong and Aura from Ukraine.

Milavitsa

Raw materials comprise the key part (over 60%) of Milavitsa's costs of goods sold. The most important input in the production of Milavitsa's lingerie is fabrics, constituting approximately 60% of the total raw material costs. Accessories make up for about 35% of the costs of raw materials and other materials make up about 5%. Labour costs, including subcontracting services, normally make up some not more than 15% of the production costs. The division of labour costs is approximately 15% for cutting and accessories preparation, 82% for sewing and 3% for packaging. Sewing services are outsourced from subcontractors to the extent of nearly 45% of all output of Milavitsa. The structure of the costs of goods does not change substantially from year to year.

Suppliers of raw materials

The top 10 of Milavitsa' suppliers in the first half of 2006, the volume of trade with such suppliers as well as their share of the total supplies is presented in the table below.

Supplier	Country	Type of supplies	Amount H1 2006 ('000 EEK)	%
Lauma Fabrics	Latvia	Lace, elastic materials, embroidery	55,279	34.0
Iluna Group	Italy	Lace, elastic fabric, seamless	32,856	20.2
Antineja	Belarus	Cups, accessories	8,993	5.5
Arta F	Latvia	Wires, accessories	8,503	5.2
Sorhat	Belarus	Accessories	8,488	5.2
Alge Elastic	Austria	Straps	5,543	3.4
Chanty	Germany	Lace	4,913	3.0
Brunet (BI Europe)	France	Lace	4,358	2.7
Flotats	Spain	Fabrics	4,189	2.6
Aidyn Orme	Turkey	Elastic materials, lace, embroidery	1,374	0.9

As illustrated by the above, the top 10 suppliers of Milavitsa make up over 80% of its total purchases of raw materials. Over 50% of the supplies are provided by two key suppliers – SIA Lauma Fabrics and Iluna Group. The loss of such key suppliers, in particular SIA Lauma Fabrics, would have a notable negative effect on Milavitsa's business. Substitutes for these supplies would be difficult to find and Milavitsa's products would have to be re-developed based on alternative fabrics and other materials. Market success of such new products would not be guaranteed. Moreover, prices of alternative supplies would likely be higher, especially in case of alternatives to SIA Lauma Fabrics' products.

The current agreement between Milavitsa and SIA Lauma Fabrics is valid until March 2007. The agreement provides for a 3% discount for Milavitsa in case of prepayment plus a special bonus scheme according to which Milavitsa is entitled to receive a 2% rebate if it achieves an at least 20% growth in purchases from SIA Lauma Fabrics in 2006.

Providers of subcontracting services

During the fist half of 2006, Milavitsa outsourced a substantial share of sewing work from five Belorussian cooperation partners (subcontractors). Milavitsa performs cutting of materials and assembly of material parts in its own facilities, then sending the parts to subcontractors for sewing and subsequently performs quality control and packaging by itself.

The list of the subcontractors and the number of articles sewn by each subcontractor in the first half of 2006 is presented in the table below:

Subcontractor	Country	Services provided	Pcs sewn	%
Justina	Belarus	Tailoring services	1,480,000	18.4
Imelda	Belarus	Tailoring services	1,109,000	13.8
Grazija	Belarus	Tailoring services	913,000	11.4
Tonkaja Linia	Belarus	Tailoring services	11,000	0.14
Justina-2	Belarus	Tailoring services	1,000	0.01

The agreements with subcontractors are usually concluded for one year and these can be prematurely terminated subject to one month's notice. The average cost per unit differs from subcontractor to subcontractor as different subcontractors perform sewing of different levels of complexity and time requirements. Current subcontractors are already working near their maximum producing capacity, for which reason Milavitsa is working on finding more potential cooperation partners who could provide sewing services to meet the growing demand and increasing quality requirements.

Linret

As the retail outlet chains ("Oblicie" and "PTA" chains) of Linret are set to be selling primarily the products of Milavitsa, Lauma Lingerie and the PTA Group, these companies are and/or will be the main suppliers of Linret.

Milavitsa's products are supplied to Linret by Milavitsa's subsidiary STK. Milavitsa organises the transportation of goods to STK and the latter then organises local deliveries in Moscow and Russia in general. Thus, Milavitsa itself does not currently have a direct contact with Linret.

Because of the customs formalities, the products of Lauma Lingerie are bought by Linret via intermediary customs broker OOO Telma ("Telma"). Pursuant to the sales agreement concluded between Lauma Lingerie and Telma, the latter acts as a buyer of Lauma Lingerie's products, but the orders are made by Linret. The deliveries occur from Lauma Lingerie's warehouse in Liepaja on Ex-Works basis, whereas the goods are received by a Latvian customs broker SIA Ilior. Telma must pay for the goods within 90 days from delivery. Linret pays for the goods to Telma and not to Lauma Lingerie directly. It is envisaged that in the future, the supply of Lauma Lingerie's products will be organised by Milavitsa's subsidiary STK.

The agreements for the supply of the PTA Group's products to Linret have not yet been concluded. It is probable that a similar arrangement will be used for delivering goods produced by the PTA Group to Linret as in the case of Lauma Lingerie's goods.

Distribution

Lauma Lingerie

Lauma Lingerie's sales revenue is derived from two business lines – sales of own lingerie production, which during the first half of 2006 made up about 87% of Lauma Lingerie's total sales, and performing subcontracting services, which made up for the remaining 13% of Lauma Lingerie's total sales.

Sale of lingerie

The majority of Lauma Lingerie's lingerie sales go to the Russian market. In the first half of 2006, the sales to Russian ultimate buyers made up 57% of the sales of Lauma Lingerie's own products, sales to Latvia and Germany amounted to about 9% each, and the share of other target markets was lower still.

The table below presents the top 10 buyers of Lauma Lingerie's own production, the value of their purchases and their share in Lauma Lingerie's own production sales revenue in the first half of 2006.

Buyer	Destination	Sales ('000 EEK)	% of revenue
Co-Star	Russia	11,759	14
J.F Con GmbH /Adler	Germany	7,234	9
Integral (via Co-Star)	Russia	4,643	6
Rockfield Holding (via Co-Star)	Russia	3,995	5
Ancofer (via Co-Star)	Russia	3,425	4
Tehstail Projekt (via Co-Star)	Russia	3,188	4
Aluzo	Lithuania	2,990	4
Imperial Holding	Russia	2,973	4
Alfa (via Co-Star)	Russia	2,712	3
Inžiniring	Russia	2,706	3

Out of the total sales of own production of some EEK 46.5 million in the first half of 2006, it appears from the above that sales to the top 10 buyers made up around 56%.

The biggest buyer of Lauma Lingerie's output is Co-Star Enterprises LLC (registered in Delaware, USA, acting through a branch office in Estonia - Co-Star Enterprises LLC Eesti Filiaal, hereinafter "Co-Star"), which acts as a wholesaler and retailer of lingerie in Russia. Furthermore, Co-Star also intermediates Lauma Lingerie's sales to other Russian buyers. Lauma Lingerie and Co-Star have entered into a sales agreement whereby Lauma Lingerie informs Co-Star of the available models and prices and Co-Star orders Lauma Lingerie products in accordance with the same. Deliveries occur from Lauma Lingerie's warehouse in Liepaja on Ex-Works basis and Co-Star pays for the goods within 60 days from delivery.

The same sales agreement applies with regard to sales intermediated by Co-Star to other Russian buyers to which Co-Star supplies Lauma Lingerie goods. The Russian buyers who use the services of Co-Star to purchase Lauma Lingerie's products pay to Co-Star for the transportation of goods and for settling customs formalities. Some buyers pay for the goods directly to Lauma Lingerie, while some payments pass through Co-Star. The Russian buyers purchasing through Co-Star submit orders directly to Lauma Lingerie. Discounts that are provided by Lauma Lingerie are dependent on the volume of orders from the particular buyer and are determined on the basis of the sales to the entity which is the ultimate buyer of the goods and not on the basis of the total revenue from sales to Co-Star.

Deliveries from Latvia are currently organised through a third-party agent (Co-Star) due to the cumbersome customs formalities associated with imports from the EU to Russia. The current agreement with Co-Star is valid until 31 December 2006. There are currently no definite undertakings to continue the agreement after the expiration of its agreed term. It is planned that Milavitsa's subsidiary STK will take up the distribution operations of the Lauma Lingerie's products in Russia in future.

Due to the fact that the "Oblicie" retail chain was not yet rolled out in the first half of 2006, Lauma Lingerie's sales to Linret amounted only to some EEK 1.5 million in the same period (about 1.6% of the Lauma Lingerie's sales of own production). Sales from Lauma Lingerie to Linret are carried out though a Russian customs broker Telma (see more above under "Operations of the Silvano Group – Suppliers").

During the first half of 2006, the second biggest buyer of Lauma Lingerie's own production was J.F. Con GmbH, which is an intermediary through which the Adler chain based in Germany and Austria procures Lauma Lingerie's production. In the first half of 2006, sales to this client amounted to EEK 7.2 million.

Goods are delivered by Lauma Lingerie to Horselgau, Germany. The agreement is valid until 31 December 2006.

Sales to other customers made up for less than 5% of Lauma Lingerie's own production sales revenue. From the beginning of 2006, Lauma Lingerie is implementing a discount policy pursuant to which Lauma Lingerie determines the discount rate applicable to each buyer individually twice a year on the basis of the buyer's average monthly purchases and payment terms. The discount rates awarded to its top 10 buyers are in the range of 18-26%.

With respect to the Baltic markets, Lauma Lingerie has numerous smaller dealers and cooperation partners marketing Lauma Lingerie's products in Estonia, Latvia and Lithuania. In addition, Lauma Lingerie has three specialised lingerie shops in Latvia. There are currently no plans to develop a specialised chain for the Lauma Lingerie's products in the Baltic States.

Subcontracting services

During the first half of 2006, Lauma Lingerie provided subcontracting services to two cooperation partners from the UK (TK Maxx and Mercia Distribution) for the total amount of EEK 12.6 million, which made up about 13% of the total sales of Lauma Lingerie. The majority (97%) of the subcontracting services were provided to Mercia Distribution. The agreement with the latter provides that Lauma Lingerie delivers readymade products to Derby, UK, arranges and pays for transportation. The client pays 50% of the price within 30 days and 50% within 60 days. The minimal order batch is 1,000 pieces of each model and 500 pieces of each colour. The agreement is valid until 31 December 2006.

Milavitsa

The vast majority of Milavitsa's sales revenue is obtained through sales of its own production. In the first half of 2006, only 0.65% of the total sales revenue was generated by the provision of subcontracting services, the rest was gained through sales of own production.

Sales of lingerie – general information

The principal target market of Milavitsa's products is Russia, which represents 61% of the total sales of Milavitsa, with Belarus and Ukraine following with 25% and 8% respectively. Milavitsa's products in these countries are distributed primarily through Milavitsa's general distributors, who are subsidiaries or associated companies of Milavitsa. Additionally, Milavitsa deals directly with several Belarusian department stores. In other countries, Milavitsa's products are sold through dealers and distributors, as well as through catalogues.

The table below presents the top 10 buyers of Milavitsa and their share in the total lingerie sales of Milavitsa during the first half of 2006:

Buyer	Destination	Sales ('000 EUR)	% of revenue
STK	Russia	284,067	61
MTCB	Belarus	77,324	17
MTCU	Ukraine	35,831	8
TOO Bustje	Kazakhstan	9,341	2
SP Torgovy Dom Na Nemige	Belarus	5,453	1
OAO GUM	Belarus	5,059	1
ODO Eliyt	Belarus	4,162	0.9
UP Univermag Belarus	Belarus	4,156	0.9
OOO Airon-Ledy	Belarus	3,777	0.8
OAO Central Shopping Mall Minsk	Belarus	3,630	0.8

As a rule, Milavitsa ships lingerie from the central warehouse of Milavitsa in Minsk on Ex-Works basis (goods are collected and transported by the buyer), except for deliveries to STK in Moscow, in the case of which Milavitsa itself arranges the transportation of goods with the help of a subcontractor.

Milavitsa implements a discount policy on its sales to long-term partners in order to assist their retail activities. Compared to smaller distributors and dealers, higher discounts are granted to STK and MTCU with the aim to partially cover marketing expenses of the same on the promotion of Milavitsa's brand. In addition, special discount is offered as an incentive for clients working on prepayment basis. The discounts that are made available to various customers and distributors may reach 17% on some occasions.

As a rule, Milavitsa's general distributors such as STK and MTCB use standard agreements with their trade partners. Normally, such agreements are concluded for one year. Payment terms vary from 20 to 60 days, some buyers (usually new buyers) operate on prepayment basis.

Most trade partners of Milavitsa are long-term partners with high reliability and significant ties to Milavitsa.

Sales of lingerie – Russian market

Sales of Milavitsa's lingerie to the Russian market are carried out through STK, representing 61% of Milavitsa's lingerie sales revenue in the first half of 2006. STK is a 100% subsidiary of Milavitsa and it conducts all Milavitsa's distribution activities in Russia, including sales to Linret. The main buyers of STK and their share in the total sales of Milavitsa in the first half of 2006 are listed in the table below:

Buyer	% of revenue
ZAO Trade House Milavitsa* (Moscow)	8
ZAO Galant & Co (Moscow)	7
OOO Elen (Penza)	5
OOO Trading House Milavitsa-N** (Novosibirsk)	4
OOO Mir Belja (Krasnodar)	3
OOO Alen Mark (Moscow)	3
OOO URTS Milavitsa (Rostov na Donu)	2

* Milavitsa holds 25% of shares in ZAO Trade House Milavitsa
** Milavitsa holds 25% of shares in OOO Trading House Milavitsa-N

It is planned that the distribution of Lauma Lingerie's products in Russia will also be operated by STK in future.

Sales of lingerie – Belarusian market

MTCB is a 51% subsidiary of Milavitsa, which operates Milavitsa's retail chain in Belarus. Milavitsa transferred all its retail assets to MTCB in 2004 with the exception of real estate, which MTCB leases form Milavitsa. The remaining 49% of Shares of MTCB are held by a French company France Style Lingerie, which is Milavitsa's cooperation partner with respect to the brand "Alisee" and in the development of the retail chain in Belarus. Milavitsa itself deals with Belarusian wholesale partners such as some large department stores.

Sales of lingerie – Ukrainian market

In June 2005, STK acquired a 26% ownership stake in MTCU (a Ukrainian distributor). The remaining shareholders are Fashion Management Group, UK, with 64% and the management of MTCU with 10%. A stake in MTCU was acquired with the purpose of enhancing the distribution of Milavitsa's goods in Ukraine. The biggest client of MTCU is OOO Janser, whose orders accounted for about 3% of Milavitsa's total lingerie sales revenue in the first half of 2006.

Subcontracting

Since the beginning of 2006, Milavitsa has started cooperation with Lauma Lingerie, to whom it provides sewing services. The value of the services provided by Milavitsa to Lauma Lingerie during the first half of 2006 was approximately EEK 2.8 million. Lauma Lingerie delivers raw materials to Milavitsa, who sews lingerie products under the Lauma brand. Lauma Lingerie arranges and pays for the transportation of raw materials to Milavitsa as well as for the transportation of readymade goods back to Latvia. Services of Milavitsa are charged to Lauma Lingerie on a by-minute basis and on arm's length conditions. The agreement is valid until 12 April 2007.

Linret

Linret distributes lingerie in Russia from a central warehouse in Moscow (located at Polesskiy proezd 16), which currently has a total area of over 550 m^2. Products sold in "Oblicie" retail outlets (and, in future, in "PTA" stores) are delivered from Linret's warehouse to individual shops by several freight forwarding companies. Linret presently operates six "Oblicie" shops (in Kazan, Nižni Novgorod, Astrakhan, Volgograd and two in Toljatti).

Product Development and Marketing

Lauma Lingerie

Lauma Lingerie's products have traditionally been marketed under the established trademark "Lauma". Recently, Lauma Lingerie has started developing two new brands – "Laumelle" and "Bellita". The products marketed under the "Lauma" brand are generally considered to be in the group of upper mainstream lingerie, its target customers are women in the age group of 26 - 45. Lauma Lingerie plans to maintain this product positioning for the "Lauma" brand. In order to expand its product range to the lower market segments with lower price levels, Lauma Lingerie has started developing the "Bellita" brand, which will be used for lower cost products sold in supermarkets. The brand "Laumelle" is targeted to younger women normally below the age of 25 and it is currently in development. By increasing the range of available products, Lauma Lingerie hopes to capture a bigger market share in the relevant lingerie markets in general and increase its revenue through broader-based sales.

As a rule, Lauma Lingerie's collections are developed in two seasons per year – the spring/summer collections and the autumn/winter collections. Lauma Lingerie is aiming to develop 10-15 collections per each season. Since recently, Lauma Lingerie's new collections are designed and constructed by a French designer Eric Leroy.

Lauma Lingerie's products are advertised primarily through fashion, beauty and lifestyle magazines as well as at fashion shows. Posters are displayed in shops.

Milavitsa

Milavitsa develops and introduces over 300 newly styled products every year. The average development cycle of new products is 10-18 months. At the moment, Milavitsa has a number of professional designers, constructors and technologists working on the development of new products. In addition, Milavitsa cooperates with French designers in developing the "Alisee" brand (licensed from French Style Lingerie and introduced in 2004) targeted to the more demanding customers mainly in CIS countries, and with Italian designers to develop swimwear.

Currently, 90% of Milavitsa's lingerie sales revenue comes from the sales of Milavitsa "Classic" brand which includes traditional models that do not change substantially from year to year. At the end of 2005, Milavitsa introduced a new brand – "Aveline" – to establish a presence in the lower market segment (clothing markets and hypermarkets) without causing a negative effect on the reputation of the Milavitsa core brands. The new brand is not expected to be sold in specialized shops. The first deliveries of products marketed under the "Aveline" brand were made in April this year. The launch of this brand was successful in all Milavitsa's main target markets and the sales have exceeded initial plans. Substantial growth in the sales of the "Aveline" brand lingerie, but also in sales of the "Alisee" brand is expected in 2007.

Milavitsa spends about 2% of its sales revenue each year (in 2006 - around EEK 18.8 million) on marketing and sales promotion. In addition, the distributors and dealers are responsible for marketing Milavitsa's products, whereas Milavitsa supports and participates in certain selected marketing actions. To the highest extent, Milavitsa is involved in the marketing of its own products in Belarus.

Milavitsa's products are advertised primarily in fashion, beauty and lifestyle magazines and on TV, but also in industry magazines and at fashion shows. In Belarus and Ukraine (where the brand is well-known), outdoor adverting is also used from time to time. In addition, posters and displays are provided for in-store use by retailers.

Linret

Linret is operating a multi-brand store chain under the brand name "Oblicie". The retail chain is targeted to consumers of middle and upper middle income level. Compared to competitors, "Oblicie" stores market a bigger portion of classic collections. At the same time, the average cheque sums in "Oblicie" stores are expected to remain 15-20% lower than in competing retail chains in the target segment.

Currently Oblicie's product portfolio consists of four brands – "Milavitsa", "Alisee", "Lauma", and "Laumelle", as well as complementary products of different brands (nightwear, hosiery, etc.). Further development of the retail chain will entail further extension of its brand portfolio.

"Oblicie" shops are furbished in accordance with a uniform design and they are virtually identical in terms of product range, thus laying down the basis for brand recognition as more stores are opened. The interior design concept represented by a combination of advanced finishing materials and textile drapery has been developed by a British design studio.

As Linret is active only on the retail level, its marketing activities are targeted to end-customers. Linret runs advertisements of its shops at the local level in the areas where it has already opened "Oblicie" shops. Billboards, radio adverts and other forms of direct advertisement may be used from time to time according to necessity. Recently, Linret has also introduced a client loyalty card system to step up its indirect marketing efforts. The loyalty card allows discounts for loyal customers, the amount of which depends on the value of the purchases and may range from 5% to 15%.

Intellectual Property

Overview

Milavitsa, being the largest lingerie manufacturer on the territory of the former Soviet Union, is constantly engaged in product development. Milavitsa employs numerous professional designers, constructors and technicians and is working in tight cooperation with French and Italian designers, which contribute to the ability of Milavitsa to introduce over 300 new styles protected with copyright every year.

None of the Silvano Group companies own any patents, utility models or geographical indications, nor hold or use material proprietary industrial and/or intellectual property rights with respect to which they have not filed a patent, trademark or other respective application. In the ordinary course of business, various types of software programs are used under license, and the respective license agreements are duly executed and are valid.

Milavitsa is currently using the following significant registered domain names: "www.milavitsa.com", "www.milavitsa.by", "www.milavitsa.eu" and "www.alisee.by". STK is registered as the user of the domain name "www.milavitsa.ru". Lauma Lingerie is the registered user of domain names "www.laumalingerie.lv" and "www.laumalingerie.com".

Trademarks

The output of Milavitsa is mainly sold under the registered trademarks of "Milavitsa", "Aveline" and "Alisee". "Milavitsa" trademark is the main internationally registered trademark owned and used by Milavitsa for marketing lingerie and swimwear in all major markets in which it operates. Among other countries, the trademark "Milavitsa" has been registered and is protected also in Estonia. The trademark "Alisee" is licensed from the French company France Style Lingerie and is currently protected in Belarus, Russian Federation, Latvia, Lithuania, Ukarine and Turkey. "Alisee" brand is used for marketing the more exclusive collections developed by Milavitsa. The "Aveline" brand name has been registered as a trademark in 2006 and will be used for marketing of lower-priced products.

The main trademarks used by Lauma Lingerie are "Lauma", "Laumelle", "Lauma Lingerie", "Lauma Medical" and "Bellita". All the referred trademarks have been duly registered and the protection of all the trademarks has been secured in Latvia. Furthermore, trademark "Lauma Lingerie" is also protected internationally in Denmark, Estonia, Finland, Lithuania, Norway, Sweden, UK, Russia, Ukraine and Belarus; international protection in Estonia, Georgia, Kazakhstan, Lithuania, Russia and Ukraine has been applied for in respect of the trademark "Lauma Medical" and the respective proceedings are currently pending.

Linret is the owner of the "Oblicie" trademark used to operate retail network of Milavitsa and Lauma Lingerie's products in Russia. Should the "Oblicie" network be expanded to other countries in the future, the "Oblicie" trademark will be registered and used in other counties as well.

Real Estate and Leased Premises

Lauma Lingerie

Lauma Lingerie does not own real estate, but leases all its premises. By the date of this Prospectus, Lauma Lingerie has concluded 4 lease agreements with respect to various Latvian properties which are listed in the table below.

	Location	Area (m^2)	Purpose
1.	Ziemelu iela 19, Liepaja	8,612.3	Production, warehouse and office premises
2.	Ziemelu iela 17, Liepaja	139.3	Retail outlet
3.	Liela iela 12, Liepaja	245.9	Retail outlet
4.	Kalku iela 2-2, Riga	72.9	Retail outlet

The production, office and warehouse premises at Ziemelu iela 19, Liepaja (the main operational site of Lauma Lingerie) are leased from AS Lauma (a company which is under the control of SIA Alta Capital Partners, which in turn is the parent company of Silvano). The lease agreement is valid until 31 December 2006. The agreement can be prematurely terminated by both parties subject to six months' prior notice. The monthly rent for the premises is close to EEK 40 thousand and does not include utility services which are provided to Lauma Lingerie by AS Lauma.

Milavitsa

Milavitsa owns a total of nine items of real estate, which were privatized in the course of the privatization of Milavitsa. Such real property is listed in the table below.

	Location	Built	Area (m^2)	Purpose
1.	Minsk, Novovilenskaja 28	n/a	24,480	Production, warehouse and office
2.	Minsk, Masherova 54	1999	679	Retail outlet
3.	Minsk, Horuzhei 36	1992	1,371	Retail outlet
4.	Minsk, Starovilenskaja 131	1998	2,91	Warehouse
5.	Svetlogorsk, Pervomaiskij 3a	1971	332	Retail outlet
6.	Mogilev, Celuskincev 41	1975	754	Retail outlet
7.	Gomel, Sovetskaja 2	1954	245	Retail outlet
8.	Brest, Puskinskaja 21	1995	241	Retail outlet
9.	Grodno, Marksa 12	1900	187	Retail outlet

Properties 1 and 4 are partially leased to third parties. Properties 2, 3 and 5-9 are leased to Milavitsa's Belarusian subsidiary MTCB. Following the establishment of MTCB, Milavitsa subleases all its shop premises to MTCB and does not operate its retail outlets itself.

The existing two warehouses of Milavitsa in Minsk have a capacity of approximately 1.7 million stock units. In order to avoid shortages in warehousing capacity, Milavitsa plans to secure an additional capacity of approximately 0.4 million units by acquiring space adjacent to one of the existing warehouses. It is contemplated that such space will initially be leased (for a period of approximately two years) and will then be acquired into ownership.

Milavitsa also manages two dormitory buildings which are owned by the Republic of Belarus. Milavitsa is legally responsible for maintaining the buildings. The dormitory buildings are mainly occupied by the employees of Milavitsa, who bears the ultimate costs of maintaining the dormitories. Utilities are compensated by inhabitants.

	Location	Area (m^2)	Purpose
1.	Minsk, Novovilenskaja 26	6,387	Dormitory
2.	Minsk, Kulman 33	8,227	Dormitory

In addition, Milavitsa leases following three commercial premises.

	Location	Area (m^2)	Purpose
1.	Pervomaiskaja 34, Mogilev	120	Retail outlet
2.	Sotsjalisticheskaja 60, Bobruisk	110	Retail outlet
3.	Vjatskaja 3/1, Moscow	266	Retail outlet

Milavitsa has sublet the premises leased at Pervomaiskaja 34, Mogilev to its Belarusian subsidiary MTCB.

Linret

Linret does not own real estate, but leases (or intends to lease) all premises on which "PTA" and "Oblicie" retail outlets are or will be operated. Linret's office premises are presently located at Leningradski prospekt 8, office 4255, Moscow, Russia, but the current lease agreement expires before the end of 2006 and Linret plans to relocate the office in the near future. Linret leases warehouse premises at Polesskiy proezd 16, Moscow. The total area of the leased warehouse space is 562 m^2. The agreement is concluded for a year, but it is subject to automatic extension.

In addition to the office premises and the warehouse premises, Linret has to date concluded a total of 38 lease agreements (or preliminary lease agreements) for its retail chain premises. The details of these agreements are listed in the table below.

	Location	Area (m^2)	Purpose
1.	Astor, Astrhan	88	Active retail outlet ("Oblicie")
2.	Zolotaja Mila, Nižni Novgorod	86	Active retail outlet ("Oblicie")
3.	Tandem, Kazan	171	Active retail outlet ("Oblicie")
4.	Park House, Toljatti	100	Active retail outlet ("Oblicie")
5.	Diamant, Volgograd	90	Active retail outlet ("Oblicie")
6.	Aeroholl, Toliatti	113	Active retail outlet ("Oblicie")
7	Park House, Kazan	102	Future retail outlet ("Oblicie")
8.	Trade district, Naberezhnye Chelny	108	Future retail outlet ("Oblicie")
9.	Plaza, Kaliningrad	83	Future retail outlet ("Oblicie")
10.	June, St.Petersburg	85	Future retail outlet ("Oblicie")
11.	Trading Centre, Ivanovo	79	Future retail outlet ("Oblicie")
12.	Trading Centre Koltso, Kazan	88	Future retail outlet ("Oblicie")
13.	DVI, Volgograd	139	Future retail outlet ("Oblicie")
14.	JLL, Jaroslav	95	Future retail outlet ("Oblicie")
15.	Altair, Jaroslav	87	Future retail outlet ("Oblicie")
16.	Trading Centre, Kostroma	79	Future retail outlet ("Oblicie")
17.	DVI, Jekaterinburg	76	Future retail outlet ("Oblicie")
18.	Karnaval, Jekaterinburg	115	Future retail outlet ("Oblicie")
19.	Trading Centre, Smolensk	79	Future retail outlet ("Oblicie")
20.	DVI, Izevsk	73	Future retail outlet ("Oblicie")
21.	Sheremetevski, Moscow	97	Future retail outlet ("Oblicie")
22.	Andropova, Moscow	76	Future retail outlet ("Oblicie")
23.	Trading Centre Srebrjanoi gorod, Ivanovo	108	Future retail outlet ("Oblicie")
24.	Central shopping mall, Ufa	112	Future retail outlet ("PTA")
25.	Altair, Jaroslav	173	Future retail outlet ("PTA")
26.	Karnaval, Jekaterinburg	255	Future retail outlet ("PTA")
27.	June, St.Petersburg	175	Future retail outlet ("PTA")
28.	Trading Centre Koltso, Kazan	259	Future retail outlet ("PTA")
29.	Raduga, St.Petersburg	118	Future retail outlet ("PTA")
30	Andropova, Moscow	176	Future retail outlet ("PTA")
31	Moskovski prospekt, Voroneg	126	Future retail outlet ("Oblicie")
32	Megapolis, Ryazan	101	Future retail outlet ("Oblicie")
33	Mega, Samara	83	Future retail outlet ("Oblicie")
34	Mega, Rostov na Donu	83	Future retail outlet ("Oblicie")
35	Mega, Novosibirsk	83	Future retail outlet ("Oblicie")
36	Mega, Samara	137	Future retail outlet ("PTA")
37	Mega, Rostov na Donu	137	Future retail outlet ("PTA")
38	Mega, Novosibirsk	137	Future retail outlet ("PTA")

The strategy of Linret implies that a considerable number of retail outlets will be opened in Russia between 2006 and 2008. Linret has been actively searching for trading premises in new supermarkets all over Russia, many of which have not yet been opened. The above agreements have been concluded as a result of such search. So far, only six of the above agreements are active; Linret has opened "Oblicie" retail outlets on premises listed under numbers 1 to 6 above. Agreements have been concluded with respect to other premises which are planned to host both "Oblicie" and "PTA" shops. Linret hopes to open "Oblicie" shops on many of the above premises before the end of 2006 or during early 2007, while search for further premises continues.

In the conditions of tight competition for suitable trading premises in new shopping malls, Linret seeks to conclude lease agreements well in advance to reserve trading areas in best-positioned shopping malls. The average rent is normally between USD 800 and USD 1,200 per square meter per year.

Fixed Assets and Investments

Lauma Lingerie

The fixed assets of Lauma Lingerie include mainly sewing equipment, which amounted to some EEK 3.5 million as of 30 June 2006. The rest of the fixed assets consist mainly of computers and other office equipment. Lauma Lingerie does not own any real estate but instead leases its premises from AS Lauma (for details on real estate leased by Lauma Lingerie, please see „Operations of the Silvano Group - Real Estate").

Lauma Lingerie's investments in the renewal of sewing equipment approximated to some EEK 1.3 million in 2003, EEK 1.2 million in 2004 and EEK 1.7 million in 2005. Lauma Lingerie expects to continue to invest in the modernization of its sewing equipment at a comparable rate: for 2006 an investment of up to approximately EEK 1.8 million has been budgeted. In addition, Lauma Lingerie has bought new computer equipment for the amount of nearly EEK 1 million within the past few years. As of 30 June 2006, the total amount of investments made in technical equipment stood at some EEK 7.6 million. Notably, Lauma Lingerie does not lease its equipment but purchases it right away.

No material fixed assets of Lauma Lingerie are leased or pledged as collateral to any party. To the best of the Company's knowledge, there are no material environmental issues that may effect Lauma Lingerie's utilization of its tangible fixed assets.

Milavitsa

Although Milavitsa owns nine items of real estate (see above under "Operations of the Silvano Group - Real Estate and Leased Property"), it is machinery and equipment that comprise a major part of Milavitsa's fixed assets (representing approximately over 60% of the balance sheet).

As of 30 June 2006, the total consolidated fixed assets of Milavitsa stood at EEK 133.7 million, of which tangible assets (plant, property and equipment) comprised over 93% or a total of EEK 124.7 million. No material fixed assets are leased or pledged as collateral to any party.

Milavitsa invests significant amounts into the acquisition of new equipment, primarily sewing machines. As at 30 June 2005, Milavitsa owned approximately 2,000 pieces of sewing equipment. Finance leases are used to finance the acquisitions of sewing machines. Average utilization rate of sewing equipment is approximately 85%. Milavitsa leases out some of the older sewing machines to the suppliers of sewing outsourcing services. Sewing equipment is leased to a large extent from three major suppliers: JUKI GmbH (Middle Europe), Austria, Elite HardWare Europe LLC, USA and Cere France. Terms of lease may reach 36 months and the interest rate is approximately 10-12 %. From financial year ended 31 December 2005, machinery and equipment are depreciated over a period of 5-10 years, which is similar to the accounting principles utilised by the Company. In the past, however, machinery and equipment was depreciated over a period of 10-20 years.

Following the recommendation of the European Bank for Reconstruction and Development (a past shareholder of Milavitsa) in 2002, Milavitsa invested into the acquisition of licences and implementation of a new accounting and management information software "Microsoft Axapta". The process of implementation of the software has proved considerably more time-consuming and more costly than initially planned. Currently, Milavitsa is in the stage of testing the implementation of different modules of the system. The estimated total amount of this investment is in the range of EEK 6 million, of which EEK 2.8 million has already been paid by now.

To the best of the Company's knowledge, there are no material environmental issues that may affect Milavitsa's utilization of its tangible fixed assets. Milavitsa has implemented an ISO compliant environmental management system, which was audited in November 2005 and found to be in accordance with the ISO 14001:2000 standard.

Linret

The primary class of fixed assets that at the moment are owned by Linret is store and office equipment. No fixed assets are leased or pledged as collateral to any party. To the best of the Company's knowledge, Linret has no material environmental issues that may affect utilization of its tangible fixed assets. The total investments made into shop equipment and furniture in the first half of 2006 amounted to some EEK 2.6 million and it is expected that the total amount of investments will reach some EEK 12.8 million by the end of the year.

Employment

Silvano is a holding company and has no employees at the date of this Prospectus. In the future, Silvano may employ a few persons as administrative personnel. Lauma Lingerie and Milavitsa, on the other hand, are engaged in production activities and therefore employ considerable amounts of personnel in their manufacturing facilities in Liepaja and Minsk. The decrease in the number of employees of Milavitsa in 2005 compared to 2004 is partially attributable to the foundation of a subsidiary, whereupon a number of employees were transferred to such subsidiary. A certain potential is seen by Milavitsa for reducing salary expenses (which currently represent approximately 15% of the cost of sales) by decreasing the volume of manufacturing operations in Minsk and outsourcing such operations to other regions of Belarus with lower labour costs. The reduction of Minsk workforce will be gradual and mainly carried out in a natural manner as current employees would retire and be replaced by new employees. Notably, employee rotation rate in Milavitsa is virtually non-existent due to the abundance of qualified sewing workforce on the Belorussian labour market.

Linret currently employs a limited amount of staff but is expecting to hire five to six people as personnel for each retail outlet under its operation. With the growth of the Linret retail network, the number of administrative and office personnel in Linret is also expected to grow.

The total number of employees at the end of the period for each financial year 2003, 2004, 2005 and as at 30 June, 2006 is set forth in the table below:

	2003	2004	2005	30 June 2006
Lauma Lingerie	n/a	n/a	484	500
Milavitsa	2,371	2,113	2,034	2,009
Linret	n/a	n/a	n/a	38

The employment regulations in Latvia and Russia are fairly liberal and there are no significant legislative factors affecting the employment and remuneration policies of Lauma Lingerie and Linret. In Belarus, on the other hand, there are strict regulations with respect to the remuneration of employees. The state imposes ratios that are applied to determine salaries for each class of employee, where a base salary is multiplied by respective ratio reflecting the seniority of an employee to arrive at the final salary. Being a company with a foreign shareholding, Milavitsa is permitted to establish its own base salary. The ratios, however, remain in place, thus effectively limiting the amount of executive compensation payable to the top management. Certain additional payments may be made to employees and management to introduce further diversification of salaries. The salary levels in Milavitsa are generally consistent with the state of the local employment market, and appear in the upper end of the range for the particular type of employment. Compared with the average salary payable by the PTA Group companies in Estonia, the salary levels in Milavitsa are relatively lower, though comparable (the average salary of the Company in the first half of 2006 was EEK 6,663 and the average salary of Milavitsa in the first half of 2006 was EEK 4,921). The relatively low labour costs combined with high quality of manufacturing make Milavitsa an ideal platform for conducting sewing operations. Over 30% of all shares of Milavitsa are held by its current or former employees, which is the result of the privatisation of the company.

Legal and Arbitration Proceedings

Neither Silvano nor any of its subsidiaries have during the 12 months preceding the date of this Prospectus been or are currently involved in any material governmental, legal or arbitral proceedings or material disputes which may have or have had a material adverse effect on their business, results of operations, financial condition or profitability. The management bodies of the Silvano Group companies are not aware of any facts or circumstances that could reasonably be expected to lead to any material claims being made against the Silvano Group companies in the foreseeable future.

Notwithstanding the above, court proceedings were initiated by Milavitsa against and the Moscow Tax Inspection after the Moscow Tax Inspection audited the branch of Milavitsa in Moscow in March-April 2004 and prescribed that additional taxes are to be paid in respect of import VAT and profits tax for financial years ended 31 December 2003 and 31 December 2004 in the amount of some EEK 10 million together with a penalty of some EEK 5 million. The disputable tax audit was initiated due to the announced closure of the representative office and the branch. Milavitsa contested the results of said tax audit in court. Milavitsa is of the opinion that the results of the audit appear to contradict the provisions of the Intergovernmental Agreements between Russia and Belarus effective at the relevant date. In October 2005, the court of first instance satisfied Milavitsa's claim to the full extent. In March 2006, the Supreme Arbitration Court of Moscow dismissed the appeal of the Moscow Tax Inspection.

Related Party Transactions

Lauma Lingerie engages in certain transactions with related parties. The following recent or ongoing transactions are believed to be relevant:

- The factory, office and warehouse premises used by Lauma Lingerie are leased from AS Lauma (the majority of Shares of AS Lauma are owned by SIA Alta Capital Partners, which in turn is a shareholder of Silvano) and shared with SIA Lauma Fabrics, which is a subsidiary of AS Lauma. AS Lauma also supplies utility services to Lauma Lingerie in connection with the aforementioned lease. The total amount of rent paid by Lauma Lingerie to AS Lauma for the first half of the financial year 2006 was approximately EEK 260 thousand. The total of other charges from AS Lauma to Lauma Lingerie for the first half of 2006 was some EEK 8.4 million, of which some EEK 4.2 million was charged forward for utilities and similar services purchased by AS Lauma but used by Lauma Lingerie, while the remaining amount was divided between management fees, purchasing department costs, marketing costs and quality control services.

- SIA Lauma Fabrics is a supplier of materials for corset products to Lauma Lingerie and Milavitsa. Materials are supplied on arm's length basis and the volume of the relevant transactions between SIA Lauma Fabrics and Lauma Lingerie in the first half of 2006 was app. EEK 24.5 million; between SIA Lauma Fabrics and Milavitsa in the same period – EEK 57.8 million. The volume and pricing of transactions between SIA Lauma Fabrics and Milavitsa after the addition of Milavitsa to the Silvano Group is consistent with the volume and pricing of similar transactions in the period when Milavitsa was not a part of the Silvano Group.

Milavitsa has granted interest-free loans to four of its employees with maturity dates between 2007 and 2016. Two loans are given for general purposes in the amount of app. EEK 114 thousand, and two loans in the amount of app. EEK 201 thousand and EEK 230 thousand were granted to Mr. Kusonski and Mr. Glybin (executive personnel of Milavitsa) to cover relocation expenses when taking up a position at Milavitsa.

Linret has not entered into any noticeable transactions with related parties.

Other day-to-day intra-group transactions may from time to time occur between Lauma, Milavitsa and Linret (as well as their subsidiaries), as well as between various entities of the PTA Group and the Silvano Group which are entered into in the ordinary course of business on arm's length conditions. Such transactions relate primarily to the distribution of goods produced by the Silvano Group and are mostly reflected under Section entitled "Operations of the PTA Group – Distribution" and "Operations of the Silvano Group – Distribution", as well as "Operations of the Silvano Group – Suppliers" above.

OWNERSHIP STRUCTURE

Current ownership structure and controlling shareholders

As of 30 October 2006, the 10 largest shareholders of the Company were as follows from the table below (in addition to whom other shareholders are mentioned who are not among the 10 biggest shareholders but who are related to SIA Alta Capital Partners as described below).

	Name	Shares	Holding
1.	SIA Alta Capital Partners*	28,000,309	73.7876 %
2.	Skandinaviska Enskilda Banken AB Clients	2,508,024	6.6092 %
3.	Nordea Bank Finland Plc Clients Account Trading	1,183,704	3.1193 %
4.	Suprema Client Account	923,355	2.4333 %
5.	Bryum Estonia AS**	742,916	1.9578 %
6.	DZ Bank International S.A. Clients	681,760	1.7966 %
7.	JPMORGAN Chase Bank, National Association on behalf of Swedish Residents	639,150	1.6843 %
8.	OÜ Alta Investments I***	462,731	1.2194 %
9.	Clearstream Banking Luxemburg S.A. Clients	328,949	0.8669 %
10.	EVLI Bank PLC/Mutual Fund EVLI Baltic Equity	296,139	0.7804 %
	Alta Capital AS*	137,988	0.3636 %
	OÜ Alta Holding***	67,500	0.1779 %
	OÜ Merona Holding****	25,000	0.0659 %
	Sarto Holding OÜ*****	2,241	0.0059 %

* under joint ultimate control of Indrek Rahumaa, John Bonfield, Andres Rätsepp and Toomas Leis
** under the control of John Bonfield
*** a 100% subsidiary of Alta Capital AS
**** 100% owned by Toomas Leis
***** 100% owned by Andres Rätsepp

The principal shareholder of the Company with approximately 73.8% of the share capital is SIA Alta Capital Partners (register code 40003682396, registered address Riga, Vilandes iela 3, LV-1010). In addition to SIA Alta Capital Partners, considerable holding in the Company is held by the clients of Skandinaviska Enskilda Banken AB through a client account.

Currently, the Company is controlled by SIA Alta Capital Partners which is acting in concert with OÜ Alta Investments I, Bryum Estonia AS, Alta Capital AS, OÜ Alta Holding, OÜ Merona Holding and Sarto Holding OÜ (together holding app. 77.6% of all Shares of the Company). The Company is ultimately under the joint control of Indrek Rahumaa, John Bonfield, Andres Rätsepp and Toomas Leis who control the aforementioned companies.

Results of the Transaction

Following the Transaction and with the registration of New Shares in the Estonian commercial register, the ownership stakes of the existing shareholders of the Company represents approximately 5.1% of the total share capital of the Company. Some 94.9% of all Shares are held by the shareholders of Silvano who have chosen to exchange their shares in Silvano for Shares of the Company. Such shareholders include SIA Alta Capital Partners (the former majority shareholder of Silvano) and a number of institutional investors who have participated in previous share issues carried out by Silvano.

SIA Alta Capital Partners (who together with related parties controls some 77.6% of all Shares of the Company) is in turn under joint control of Indrek Rahumaa (through Investeerimisvabrik OÜ), John Bonfield (through Bryum Estonia AS), Andres Rätsepp (through Sarto Holding OÜ) and Toomas Leis (through OÜ Merona Holding), see “Ownership Structure – Shareholders’ Agreements” below. Therefore, the ultimate parties that control the Company have not changed as a result of the Transaction.

Formally, following the completion of the Transaction and the registration of New Shares in the Estonian commercial register, the ultimate majority shareholder of the Company is Indrek Rahumaa through Investeerimisvabrik OÜ. Indrek Rahumaa is a member of the Supervisory Board of the Company (see “Company Management” above). Investeerimisvabrik OÜ is an Estonian holding company with no active operations, whose sole member of the Management Board and the sole shareholder is Indrek Rahumaa.

Voting rights and agreements

All shareholders of the Company have equal voting rights. The Company is not aware of any arrangements the operation of which may at a subsequent date result in a change in control of the Company (with due regard to the results of the Transaction as described above). No person has, directly or indirectly, an interest in the Company's capital or voting rights which is notifiable under the laws of Estonia (with the exception of such shareholdings which are notifiable to the commercial register in connection with the annual financial reporting of the Company – see “General Corporate Information and Shares” and such shareholdings which are notifiable to the Estonian Financial Supervision Authority under the applicable securities legislation – see “Estonian Securities Market” for more details).

Shareholders’ agreements

The Company is not aware of any shareholders’ agreements that may affect the operations of the Company and the voting in the General Meeting of its shareholders. The Company has been informed, however, that certain corporate shareholders of the Company that are under the control of respectively Indrek Rahumaa, John Bonfield, Andres Rätsepp and Toomas Leis are also shareholders of SIA Alta Capital Partners (the majority shareholder of the Company following the completion of the Transaction) and in their capacity as such they have agreed to act in concert in connection with the exercise of their rights with respect to the corporate governance of SIA Alta Capital Partners. Such shareholders are Bryum Estonia AS (under the control of John Bonfield), Investeerimisvabrik OÜ (under the control of Indrek Rahumaa), Sarto Holding OÜ (under the control of Andres Rätsepp), OÜ Merona Holding (under the control of Toomas Leis) and Alta Capital AS (under the joint control of Bryum Estonia AS, Investeerimisvabrik OÜ and Sarto Holding OÜ). Said shareholders’ agreement is a material agreement within the meaning of Art 22 of Annex I to the Commission Regulation (EC) No 809/2004 (governing inter alia the information contained in prospectuses).

The aforementioned shareholders’ agreement stipulates, among other things, that the General Meeting of shareholders of SIA Alta Capital Partners (which is the highest governing body of that company) may adopt resolutions only by a ¾ majority vote (of all votes held by all shareholders) and that the General Meeting is eligible to adopt such resolutions only if at least ¾ of all shareholders are present. The consent of the General Meeting of shareholders is required for the Management Board in an extensive range of cases, which include exercising voting rights on behalf of SIA Alta Capital Partners as a shareholder in other companies (thus including the Company). Therefore, SIA Alta Capital Partners would be effectively unable to exercise any voting rights in the Company without the consent of the aforementioned shareholders that are parties to the aforementioned shareholders agreement.

Mandatory takeover bid

Prior to the Transaction, the Company was under the ultimate control of Indrek Rahumaa, Andres Rätsepp, John Bonfield and Toomas Leis (see “Ownership Structure - Current ownership structure and controlling shareholders” above). As a result of the Transaction, the new majority shareholder of the Company is SIA Alta Capital Partners.

Normally, the acquisition by a single person (in this case, SIA Alta Capital Partners) of a dominant influence over a public company would trigger the obligation of such person to launch a mandatory takeover bid to the remaining shareholders of such public company (see “Estonian Securities Market” for more details). However, in the present case the new majority shareholder (SIA Alta Capital Partners) is in turn under the joint control of the same private individuals (see “Ownership Structure – Shareholders’

Agreements") who had joint control over the Company prior to the Transaction. Therefore, the ultimate control over the Company has to the knowledge of the Company not changed following the registration of New Shares in the Estonian commercial register, but the existing ultimate controlling shareholders have increased their combined ownership stake in the Company from some 53% of all Shares to app. 77.6% of all Shares.

Having conducted a thorough legal review of the ensuing situation, the ultimate shareholders of the Company are of the opinion that in this case (which in the opinion of the Company represents an exception to the general rule), the completion of the Transaction does not trigger the obligation to launch a mandatory takeover bid to the remaining shareholders of the Company. However, in accordance with the Estonian Securities Market Act, the Estonian Financial Supervision Authority has the discretion to determine in each specific situation whether or not a change of control has taken place; therefore, the final decision as to whether or not the Transaction triggers the obligation of SIA Alta Capital Partners to launch a mandatory takeover bid will rest with the Estonian Financial Supervision Authority.

Furthermore, the obligation to launch a mandatory takeover bid may arise if and when the shareholders' agreement between the shareholders of SIA Alta Capital Partners (see immediately above) is terminated.

TAXATION

General Information

This section dealing with the Estonian tax system is meant to give an overview of the tax regime applicable to the Company and its shareholders, including the taxation of dividends and capital gains as applied to the dividends paid out and shares issued by the Company. Note that the below summary is in no way exhaustive and is not meant to constitute professional advise to any person. In order to establish particular tax consequences of the ownership of Shares and trading in the same, each individual investor is strongly encouraged to seek specialist assistance.

Corporate income tax

The system of corporate earnings taxation currently in force in Estonia is a unique system that shifts the point of corporate taxation from the moment of earning the profits to the moment of their distribution. Corporate income tax is charged on profit distributions such as dividends and implicit distributions (*i.e.* fringe benefits, gifts and donations, as well as expenditures and payments not related to the business activity of the Company).

All of the above profit distributions are taxed at the rate of 23/77, which amounts to approximately 29.87% of the net amount of the distribution. According to the Estonian Income Tax Act as it currently stands, the corporate income tax rate will decrease gradually within the following years (22/78 as from 1 January 2007, 21/79 as from 1 January 2008 and 20/80 as from 1 January 2009). Corporate income tax imposed on distributed profits is not a withholding tax and thus it is not influenced by the applicable international tax treaties.

The applicable corporate income tax system is likely to change in the near future, as the current system of corporate taxation is deemed incompatible with the European law. As of the date hereof, there is no reliable information as to the principles on which the new system will be based.

Taxation of dividends

Dividends payable to Estonian residents and non-resident individuals are taxed with the corporate income tax on distribution as described under sub-section “Taxation - Corporate income tax” immediately above, but are not subject to any withholding in Estonia. The Company is responsible for calculating and paying the corporate income tax as described above.

A withholding tax is, however, charged on dividends payable by a resident company to non-resident legal persons, subject to certain exemptions. Such withholding tax does not replace but is charged in addition to the corporate income tax described above. If at the moment when dividends are announced or paid, a non-resident legal person (with the exception of a legal person located in a low tax rate territory) owns at least 20% of the share capital of the company distributing the dividends, such dividends are not subject to withholding. As the law currently stands, the above 20% threshold will decrease to 15% in 2007. According to EU directives, the threshold should decrease to 10% in 2009.

Withholding tax applicable to cross-border dividends is subject to applicable international tax treaties concluded between Estonia and the relevant foreign states. Tax treaties concluded by Estonia typically reduce the applicable rate of withholding tax from 23% down to 15%. Estonia currently has 35 international tax treaties in force. Non-resident shareholders may be eligible for double taxation relief from Estonian withholding tax either on the grounds of domestic laws of the shareholder’s residence state or the applicable tax treaty. The Company is responsible for calculating and paying the withholding tax as described above.

According to the Estonian Income Tax Act as it currently stands, the withholding tax rate will decrease gradually within the following years (22% as from 1 January 2007, 21% as from 1 January 2008 and 20% as from 1 January 2009).

Capital gains, tax consequences of sale or exchange of shares

Income tax at the rate of 23% (subject to reduction to 22% from 1 January 2007, 21% from 1 January 2008 and 20% from1 January 2009) will be charged on gains realized by Estonian resident individuals upon sale or exchange of shares (including Shares). Since earnings of resident legal persons, including capital gains, are taxed only upon distribution, capital gains realized by resident legal persons are not subject to immediate taxation.

Income tax is charged on capital gains realized by non-residents from the sale or exchange of shares in an Estonian company only in very specific circumstances. Namely, income tax at the rate of 23% is charged in case of sale or exchange of at least 10% of shares in a company of whose property, according to the balance sheet as of the last day of the preceding financial year, more than 75% is made up of immovables or structures as movables, which are located in Estonia.

As from 1 January 2007, the above criteria will change: non-residents will qualify for income tax obligation in case of sale or exchange of any number of shares in a company of whose property, as of the moment of sale or exchange or any moment within two years preceding the sale or exchange, directly or indirectly, more than 50% is made up of immovables or structures as movables, which are located in Estonia, and provided that at the moment of sale or exchange the shareholder owned at least 10% of shares in the company.

At the moment, the Company does not meet the above criteria and thus non-resident shareholders selling or exchanging their Shares will be exempt from Estonian income tax on accrued capital gains.

For the purposes of capital gains taxation, the gain derived from the sale of shares is the difference between the selling price of the sold shares and their acquisition cost. The gain derived from the exchange of shares is the difference between the acquisition cost of shares subject to exchange and the market price of the property received as a result of the exchange. A shareholder has the right to deduct certified expenses directly related to the sale or exchange of shares from the shareholder's gain.

In the case of a reduction of the share capital of the Company or redemption of its shares, income tax is charged on the amount in which the payments made to a non-resident person or resident individual exceed the acquisition cost of the holding.

ESTONIAN SECURITIES MARKET

The Tallinn Stock Exchange

The Tallinn Stock Exchange, owned by AS Tallinna Börs, is the only stock exchange operating in Estonia as of the date of this Prospectus. Its major shareholder is a Swedish corporation OMX AB, which also controls Copenhagen Stock Exchange, Stockholm Stock Exchange, Riga Stock Exchange, Vilnius Stock Exchange and Helsinki Stock Exchange.

AS Tallinna Börs is a member of the Nordic and Baltic exchanges association NOREX which, besides Tallinn Stock Exchange, is comprised of Oslo, Iceland and OMX Stock Exchanges.

The Tallinn Stock Exchange is a two-layer system: mainly governed by Estonian laws and governmental regulations, but further complementation comes from the rules and policies of the Tallinn Stock Exchange. The two most significant laws governing the operation of the Estonian stock market are the Estonian Securities Market Act and the Estonian Central Register of Securities Act.

The main purpose of AS Tallinna Börs regulations is to facilitate smooth and legal exchange of securities. The rules can be changed by AS Tallinna Börs only after the Estonian Financial Supervision Authority has approved the relevant amendments. All rules and regulations are applicable to corporations listed on the Tallinn Stock Exchange, members of the Stock Exchange, and companies trading on the open market.

The ECRS and registration of shares

The shareholders' registers of all public limited companies (and some private limited companies who opted to register their shares) including those that are traded in Tallinn Stock Exchange are held by the Estonian Central Register of Securities (ECRS). ECRS also keeps book entry records of all securities, pension accounts, registered bonds and all other electronic securities and transaction with the same. This register is maintained by a securities market infrastructure enterprise AS Eesti Väärtpaberikeskus that is owned by AS Tallinna Börs and belongs to the OMX group.

Every individual, regardless of nationality, has the right to open an account with the ECRS, where all securities are registered and listed in book entry form on securities accounts of their owners. All transactions are recorded and can be performed only through account holders. Account holders are either investment companies or credit institutions operating in Estonia, or other certified individuals. In some cases, account supervisor can also be a foreign company. For Shares listed in ECRS, no share certificates are issued.

The amount of information from the ECSR that is available to the public is limited and includes information on the issuer (name, seat and registry code) and the details of securities (type, nominal value and number of shares). Unless Shares are listed on the stock exchange, information about shareholders is not available to the public.

In addition to regular securities accounts, qualified member of the securities market (account holder) can open a nominee account. This account type gives the account holder the right to hold securities on behalf of another person – the client – but in its own name. The client retains the right to dispose of the securities or use its rights as a shareholder of the issuer, though a power of attorney must be obtained for the latter purpose.

Listing shares on the Tallinn Stock Exchange

Shares listed on the Tallinn Stock Exchange are divided into two separate lists – the Main List and the Investors' List ("I-list"). In addition to trading in listed securities, the Tallinn Stock Exchange also allows to trade in the free market via the same trade system. As of June 2006, there are 16 companies listed on the Tallinn Stock Exchange, 10 of which are on the main list and 6 on the I-list.

There are two important differences between the main list and the I-list: the minimum length the company has been in business and the minimum value of the company. For the main list, the respective requirements are three years and EUR 4 million. For the I-list, the requirements are two years and EUR 1 million, respectively. Once the company has been listed on the main list, it is still possible to move to the I-list, and vice versa, as the value of the company fluctuates over time.

Various conditions have been established for companies to list their shares on the Tallinn Stock Exchange, among which the most significant one is that 25% of shares of the issuer have to be publicly held. Nevertheless, this percentage does not necessarily have to be fulfilled as of the listing date, if the number is expected to reach 25% shortly after trading commences. Moreover, in certain conditions normal market trading would also be possible with less than 25% of shares belonging to the public, taking into account the total amount of shares and their allocation among the shareholders.

Trading on the Tallinn Stock Exchange

Trading on the Tallinn Stock Exchange is open to its members each workday from 10 am to 2 pm (Tallinn time zone). SAXESS, the Nordic-Baltic trading system, is used in Estonia (as well as in Finland, Sweden, Norway, Denmark, Iceland, Latvia and Lithuania). The official currency on the Tallinn Stock Exchange trading system is Euro.

There are two different types of transactions that take place on the Tallinn Stock Exchange – automatic matching and negotiated deals. Automatic matching occurs when buy and sell orders are matched automatically according to the price and time priorities. In such case, the settlement of a transaction always takes place on the third exchange day after it has been concluded (T+3), unless agreed otherwise by the parties.

Negotiated deals, on the other hand, can be made during the regular trading period or after-market trading period. While the after-market trading period prices are determined by different pricing rules, in general the price of a security falls into the range of the best bid and offer prices at the time of the transaction. The closed transaction has to be entered into the system by the brokers within five (5) minutes after the transaction has been closed. Negotiated deals have to be settled among the members of the stock exchange from one (T+1) to six (T+6) days after concluding the transaction, unless agreed otherwise by the parties.

The Tallinn Stock Exchange, owned by AS Tallinna Börs, is an electronically operated system that provides information about trading activity. This information consists of the latest prices of securities, prices of takeover and transfer securities, price changes, highest and lowest prices, and the number and volume of transactions. Also available on the Internet site of the Stock Exchange are news about stock exchanges, statistics, equity prices, and other transaction related information. Information that is confidential and can alter the price of a security is not disclosed to the public.

However, AS Tallinna Börs is required to provide all the relevant information about the transactions: (1) the time when the transaction was completed, (2) identities of the market members participating in the transaction, (3) names of the securities traded, and (4) the amounts, nominal values and prices of the traded securities. In addition to the aforementioned data, the Tallinn Stock Exchange Rules demand availability of all other information about the transaction that might be needed.

To guarantee higher liquidity of a security, the Listing and Supervisory Committee of the Tallinn Stock Exchange has the right to demand that an issuer enters into a market-making contract with a member of the Tallinn Stock Exchange.

Supervision of the Tallinn Stock Exchange and of trading on the Tallinn Stock Exchange

The Estonian Financial Supervision Authority ("EFSA") is the agency that supervises the Tallinn Stock Exchange under the rules established by the Financial Supervisory Authority Act. The main purpose of the EFSA is not only to ensure reliable and secure operation of the stock market and the financial sector as a whole. In addition to the EFSA, the Listing and Supervisory Committee of the Tallinn Stock Exchange has a specific duty to ensure that the members of the Tallinn Stock Exchange comply with applicable rules and regulations.

The price formation of the traded securities is supervised by AS Tallinna Börs, owner of the Tallinn Stock Exchange. Transactions that can unfairly alter the price of a security (*e.g.* transactions based on inside information or manipulating the market) are strictly prohibited. All suspicious transactions must be notified by the Tallinn Stock Exchange to the EFSA immediately.

Disclosure of information about transactions and shareholders

Whenever a person acquires (directly or indirectly, alone or in concert with a third party) 5%, 10%, 20%, 33%, 50% or 66% of all shares issued by one public limited company, such person must inform the Estonian Financial Supervision Authority (EFSA), the public limited company and the account holder about the number of shares obtained from the transaction. These same rules also apply to the investor whose shareholding falls below any of the same levels. Exceptions to the above requirements may be granted by EFSA alone. The same requirement applies to holders of nominee accounts, who must report to the EFSA when a particular account exceeds or falls below the above-mentioned thresholds.

It is prohibited to enter into agreements concerning Shares of a public limited company that restrict free transfers in the market or have a significant impact on the price of a security, and the public limited company involved in such transactions must report to the EFSA.

In addition, the Rules of the Tallinn Stock Exchange include certain specific regulations related to transactions entered into by an issuer and involving its own securities.

Abuse of the stock market

According to the Securities Market Act, abuse of the stock market is defined as either mishandling of inside information or manipulating the market. Provisions of the Securities Market Act relating to disclosure of confidential information also apply to securities that are not traded in the Estonian Stock market or in any of the Member States of the European Economic Area, but whose value depends on the financial instruments traded on those markets.

According to the Estonian Securities Market Act, "insider information" is defined as specific information that directly relates to the issuer or its securities. Among numerous other things, this includes information on operations and future prospects of the issuer, insofar as not yet officially disclosed. When such information is made public, there is an increased risk of fluctuations in the price of the relevant security and related derivative instruments. There are certain specific rules in the Securities Market Act that help established if a particular piece of insider information can be released or not.

Insider information can only be possessed by "insiders". As defined in the Securities Market Act, an insider is a member of the management of the issuer, a person who obtains access to insider information in discharge of his/her professional duties or a shareholder with over 10% stake in the issuer, as well as certain third persons such as friends and relatives who knowingly obtain insider information from the insider.

Insider information is usually regarded to be misused when used as basis for transactions (or as basis for advise to third parties) or disclosed to the public. The Estonian Securities Market Act establishes a number of administrative offences related to insider information that are punishable with fines of various gravity.

In order to reduce the risk of the abuse of insider information, each issuer whose shares are listed on the Stock Exchange is required to establish internal information rules, extending to individuals which are related to the issuer. The connection can be directly through the issuer, through its subsidiary, or through its parent undertaking.

It is also forbidden that members of the management, officials of the company, or individuals related to them use insider information for their personal benefit. It is illegal to take advantage of the short-term price changes and trade during time periods when trading is not accessible to other members of the market. Exclusions to these rules can only be made by the Listing and Supervisory Committee of the Tallinn Stock Exchange.

Since the Tallinn Stock Exchange has complete control over the Estonian stock market, the ECRS must provide it with information about all the trades taking place on the market. Besides guaranteeing the secure functioning of the market, this also helps detect and avoid illegal trading on the basis of insider information.

Obligatory takeover bid

An obligatory takeover bid must be made by a shareholder who, acting alone or in concert with others, gains dominant control over a company whose shares are listed on the Tallinn Stock Exchange.

According to the law, dominant control is obtained when a person: (i) owns over 50% of the votes represented by shares, or (ii) as a shareholder of the company, has the right to assign or recall a majority of the Management Board or Council of the company, or (iii) as a shareholder of the company, controls at least 50% of the votes represented by shares on the basis of an agreement entered into with other shareholders.

A person acquiring dominant control over a listed company has to make a mandatory takeover bid for all the outstanding shares of the company within 20 days. Only in special cases, the Estonian Financial Supervision Authority can make exceptions to the above rule.

AUDITORS AND LEGAL MATTERS

In accordance with the resolutions of the General Meeting of the Company dated 2 July 2003, 29 June 2004 and 29 June 2005, the appointed auditors of the Company respectively for financial years 2003, 2004 and 2005 were AS PricewaterhouseCoopers.

In accordance with a resolution of the Extraordinary General Meeting of the Company dated 5 September 2006, the auditors of the Company for financial year 2006 are **KPMG Baltics AS** (register code 10096082, Ahtri 10A, Tallinn 10151, Estonia). KPMG Baltics AS is a member of the Estonian Auditing Board and is entered into the list of auditors maintained by the latter in accordance with the Auditing Activities Act.

The principal legal advisors to the Company are **AS Advokaadibüroo Lepik & Luhaäär LAWIN**, address Dunkri 7, Tallinn 10123, Estonia.

FINANCIAL STATEMENTS

Historical financial information of the Company

The historical financial information presented below has been duly audited, with the exception of the financial information for the interim period ended 30 June 2006. In particular, the statutory consolidated financial statements of the Company for year ended 31 December 2005 (including a comparison with year ended 31 December 2004) and year ended 31 December 2004 (including a comparison with year ended 31 December 2003) have been audited by AS PricewaterhouseCoopers.

In 2005, the accounting principles applied by the Company have undergone a revision and certain information concerning financial year ended 31 December 2004 that is reflected in the financial statements of the Company for financial year ended 31 December 2005 is restated accordingly. The changed in the accounting principles applied by the Company are reflected in the financial statements of the Company for financial year ended 31 December 2005, which are attached to and form a part of this Prospectus.

The interim consolidated financial statements of the Company for the period from 1 January 2006 to 30 June 2006 (including a comparison with the period from 1 January 2005 to 30 June 2005) have not been audited.

To the extent possible, the information contained in this Prospectus is taken or derived from the aforementioned audited statutory consolidated financial statements of the Company or from the aforementioned unaudited consolidated interim financial statements of the Company. In particular, such information may be found under Sections entitled "Summary", "Capitalisation", "Selected Financial Information", "Results of Operations and Outlook" and "Operations of the PTA Group". All other information included in this Prospectus (including certain information presented under the aforementioned Sections) is based on unaudited sources.

Financial information of the Silvano Group

Information presented in certain sections of this Prospectus and pertaining to the operations of Lauma Lingerie and Linret, as well as the consolidated financial statements of Silvano for the interim period ended 30 June 2006, has not been audited. In the case of Lauma Lingerie, such information is to a certain extent presented on the basis of unaudited pro forma financial statements of Lauma Lingerie which are in turn based on the results of operations of the lingerie unit of AS Lauma (see "Operations of the Silvano Group – History and Development of the Silvano Group" for more information).

Such unaudited information on Lauma Lingerie, Linret and Silvano may in particular be found under Sections entitled "Summary", "Capitalisation", "Selected Financial Information", "Results of Operations and Outlook" and "Operations of the Silvano Group".

With regard to financial information presented with respect to Milavitsa, such information is based primarily on audited financial statements of the same (with the exception of information pertaining to the interim period ended 30 June 2006, which has not been audited). It must, however, be noted that such statements have not been consolidated to include the results of operations of any subsidiaries of Milavitsa in the period before financial year ended 31 December 2005. Milavitsa did not follow the IFRS in preparing any of its financial statements so far.

The unconsolidated financial statements of Silvano for financial year ended 31 December 2005 have been duly audited.

No significant change

Since the end of the last period for which audited financial information of the Company exists (*i.e.* 1 January 2005 – 31 December 2005), no significant change in the financial or trading position of the Company has occurred (without prejudice to any information presented in this Prospectus and specifically with the exception of any Transaction-related changes) and the business of the PTA Group has been carried out in the ordinary course.

Index to financial statements of the Company

KLEMENTI

Consolidated Interim Report for Q2 2006

COMPANY PROFILE

Business name:	AS Klementi
Registry code:	10175491
Address:	Akadeemia tee 33, 12618 Tallinn
Phone:	+372 6 710 700
Fax:	+372 6 710 709
E-mail:	klementi@klementi.ee
WWW:	www.klementi.ee
Principal activity:	design, manufacturing and sales of apparel
Form of ownership:	public limited company
Chief Executive Officer:	Peeter Larin
Chief Financial Officer:	Marianne Paas
Auditor:	AS PricewaterhouseCoopers

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General information and Management Board's approval of the consolidated interim report for Q2 2006

AS Klementi is an international apparel trade group, which is engaged in the design manufacturing and marketing of women's apparel and provision of sewing services as a subcontractor. The number of the employees of the Group as of 30 June 2006 was 377 (420 as of 30 June 2006). The parent company is located and registered at Akadeemia tee 33 in Tallinn in Estonia.

As of 30 June 2006, the following companies belong to the Group:

	Country of location	Shareholding as of 30.06.06	Shareholding as of 30.06.05
AS Klementi	Estonia		
Klementi Trading OY	Finland	100%	100%
Klementi Trading AB (bankrupt)	Sweden	100%	100%
UAB Klementi Vilnius (in liquidation)	Lithuania	100%	100%
SIA Vision	Latvia	100%	100%

The Management Board certifies that the AS Klementi Consolidated Interim Report for Q2 2006 set out on pages 7-21 is true and complete.

The Management Board warrants and represents that:

1. the accounting methods applied upon preparation of the interim report are in compliance with the international financial accounting standards as adopted by the European Union;
2. the Interim Report truly and fairly reflects the financial condition, economic results and cash flow of the Group;
3. any material circumstances which have become evident until the date of completion of the Report have been taken into account and indicated in the Interim Report in compliance with the requirements;
4. AS Klementi is carrying on its activities as a going concern.

This Interim Report has not been audited or otherwise reviewed by auditors.

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Peeter Larin
Chairman of the Management Board
7 August 2006

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Marianne Paas
Member of the Management Board
7 August 2006

Balance Sheet
Consolidated, unaudited

	Notes	30.06.2006 EEK thousand	30.06.2005 EEK thousand	31.12.2005 EEK thousand	30.06.2006 EUR thousand	30.06.2005 EUR thousand	31. 12.2005 EUR thousand
ASSETS							
Current assets							
Cash at bank and in hand		3 514	2 956	2 831	225	189	181
Trade receivables	1	2 400	5 649	3 052	153	361	195
Other short-term receivables and prepaid expenses		2 117	3 088	2 589	135	198	165
Prepaid taxes		206	580	25	13	37	2
Inventories	2	34 758	27 996	25 496	2 222	1 789	1 630
Total current assets		**42 995**	**40 269**	**33 993**	**2 748**	**2 574**	**2 173**
Fixed assets							
Non-trade receivables		650	851	750	42	54	48
Tangible assets	3	8 363	50 329	10 536	534	3 217	673
Intangible assets	3	6 589	7 084	6 622	421	453	423
Total fixed assets		**15 602**	**58 264**	**17 908**	**997**	**3 724**	**1 144**
TOTAL ASSETS		**58 597**	**98 533**	**51 901**	**3 745**	**6 298**	**3 317**
LIABILITIES AND OWNERS' EQUITY							
Current liabilities							
Payables	4	13 932	53 807	15 294	890	3 439	977
Trade creditors		13 738	10 435	12 573	878	667	804
Taxes payable		4 279	2 683	2 836	273	171	181
Other short-term payables		3 544	5 632	5 178	227	360	331
Short-term provisions		12	0	12	1	0	1
Total current liabilities		**35 505**	**72 557**	**35 893**	**2 269**	**4 637**	**2 294**
Long-term liabilities							
Long-term debt	4	4 250	12 206	134	272	780	9
Other long-term payables		127	191	173	8	12	11
Long-term provisions		141	148	143	9	10	9
Total long-term liabilities		**4 518**	**12 545**	**450**	**289**	**802**	**29**
Total liabilities		**40 023**	**85 102**	**36 343**	**2 558**	**5 439**	**2 323**
Owners' equity							
Share capital (nominal value)	6	19 469	19 469	19 469	1 244	1 244	1 244
Share premium		40 994	40 994	40 994	2 620	2 620	2 620
Revaluation reserve		0	13 876	0	0	887	0
Legal reserve	6	1 046	1 046	1 046	67	67	67
Retained profit		-45 977	-56 638	-42 762	-2 939	-3 620	-2 733
Unrealised exchange rate differences		13	323	26	1	21	2
Net profit/loss for financial year		3 029	-5 639	-3 215	194	-360	-206
Total owners' equity		**18 574**	**13 431**	**15 558**	**1 187**	**859**	**994**
TOTAL LIABILITIES AND OWNERS' EQUITY		**58 597**	**98 533**	**51 901**	**3 745**	**6 298**	**3 317**

Income Statement – Q2
Consolidated, unaudited

	2006 Q2 EEK thousand	**2005 Q2 EEK thousand**	**2006 Q2 EUR thousand**	**2005 Q2 EUR thousand**
Operating revenue				
Sales revenue	29 986	25 815	1 916	1 650
Other operating revenue	127	36	8	2
Total operating revenue	**30 113**	**25 851**	**1 924**	**1 652**
Change in finished goods and work in progress	2 277	3 356	146	215
Goods, raw materials and services	-10 320	-8 192	-660	-524
Other operating expenses	-7 632	-6 310	-488	-403
Staff costs	-9 515	-10 602	-608	-678
Other operating charges	-488	-957	-31	-61
Total operating charges	**-25 678**	**-22 705**	**-1 641**	**-1 451**
EBITDA	**4 435**	**3 146**	**283**	**201**
Depreciation	-1 353	-1 728	-86	-110
Operating profit/loss	**3 082**	**1 418**	**197**	**91**
Financial income/expenses				
Interest expenses	-303	-1 491	-19	-95
Gains / losses on conversion of foreign currencies	76	83	5	5
Other financial income / expenses	-27	-9	-2	-1
Total financial income / expenses	**-254**	**-1 417**	**-16**	**-91**
Withholding tax	-264	0	-17	0
Net profit / loss	**2 564**	**1**	**164**	**0**
Earnings per share				
Basic earnings per share (EEK/EUR)	1,32	0,00	0,08	0,00
Diluted earnings per share (EEK/EUR)	1,32	0,00	0,08	0,00

Income Statement – H1
Consolidated, unaudited

	Notes	**2006 H1 EEK thousand**	**2005 H1 EEK thousand**	**2006 H1 EUR thousand**	**2005 H1 EUR thousand**
Operating revenue					
Sales revenue	7,9	61 088	58 033	3 904	3 709
Other operating revenue		219	161	14	10
Total operating revenue		**61 307**	**58 194**	**3 918**	**3 719**
Change in finished goods and work in progress		3 457	-2 618	221	-167
Goods, raw materials and services		-22 006	-18 720	-1 407	-1 196
Other operating expenses		-14 326	-13 304	-915	-851
Staff costs		-21 123	-22 114	-1 350	-1 413
Other operating charges		-740	-1 108	-47	-71
Total operating charges		**-54 738**	**-57 864**	**-3 498**	**-3 698**
EBITDA		**6 569**	**330**	**420**	**21**
Depreciation	3	-2 700	-3 482	-173	-223
Operating profit/loss		**3 869**	**-3 152**	**247**	**-202**
Financial income/expenses					
Interest expenses		-546	-2 557	-34	-163
Gains / losses on conversion of foreign currencies		0	75	0	5
Other financial income / expenses		-30	-5	-2	-0
Total financial income / expenses		**-576**	**-2 487**	**-36**	**-158**
Withholding tax		-264	0	-17	0
Net profit / loss		**3 029**	**-5 639**	**194**	**-360**
Earnings per share					
Basic earnings per share (EEK/EUR)	5	1,56	-2,93	0,10	-0,19
Diluted earnings per share (EEK/EUR)	5	1,56	-2,93	0,10	-0,19

Cash flow statement

Consolidated, unaudited

	Notes	2006 H1 EEK thousand	2005 H1 EEK thousand	2006 H1 EUR thousand	2005 H1 EUR thousand
Cash flow from commercial operations					
Net profit / loss		3 029	-5 639	194	-360
Adjustments:					
Depreciation and impairment of fixed assets	3	2 700	3 482	173	223
Profit / loss from sales of fixed assets		-58	-108	-4	-7
Loss from write-off of fixed assets			3		0
Change in receivables and prepayments related to commercial operations		1 026	3 667	66	235
Variation in inventories		-9 262	259	-592	16
Change in liabilities and prepayments related to commercial operations		1 428	2 440	91	156
Interests paid		-571	- 2 094	-37	-134
Total cash flow from commercial operations		**-1 708**	**2 010**	**-109**	**129**
Cash flow from investment					
Acquisition of tangible assets and construction in progress	3	-557	-726	-36	-46
Sales of tangible assets		121	295	8	19
Trademark-related payments made	4	-4 112	-1 095	-263	-70
Repayments of loans given		56	147	4	9
Interest received		17	19	1	1
Total cash flow from investment		**-4 475**	**-1 360**	**-286**	**-87**
Cash flow from financing					
Loans raised	4	15 500	17 506	991	1 119
Loans repaid	4	-5 250	-16 200	-336	-1 035
Financial lease principal repayments	4	-241	-2 802	-15	-179
Repayment of other debt	4	-433	-434	-28	-28
Change in overdraft balance	4	-1 910	1 956	-122	125
Repayment of other loans	4	-800	-1 120	-51	-72
Total cash flow from financing		**6 866**	**-1 094**	**439**	**-70**
Total cash flow		**683**	**-444**	**44**	**-28**
Increase/decrease in cash and cash equivalents		**683**	**-444**	**44**	**-28**
Cash and cash equivalents at the beginning of the period		**2 831**	**3 400**	**181**	**217**
Cash and cash equivalents at the end of the period		**3 514**	**2 956**	**225**	**189**

Statement of changes in owners' equity

Consolidated, unaudited

EEK thousands

	Share capital	Share premium	Revaluation reserve	Legal reserve	Unrealised exchange rate differences	Retained profit	Profit/loss for financial year	Total
Balance as of 31.12.2004	**18 969**	**40 294**	**13 876**	**1 046**	**139**	**-44 737**	**-11 901**	**17 686**
Transfer of loss for 2004 into retained profit	0	0	0	0	0	-11 901	11 901	0
Share capital issued	500	700	0	0	0	0	0	1 200
Unrealised exchange rate differences	0	0	0	0	184	0	0	184
Profit for financial year	0	0	0	0	0	0	-5 639	-5 639
Balance as of 30.06.2005	**19 469**	**40 994**	**13 876**	**1 046**	**323**	**- 56 638**	**-5 639**	**13 431**
Balance as of 31.12.2005	**19 469**	**40 994**	**0**	**1 046**	**26**	**-42 762**	**-3 215**	**15 558**
Transfer of loss for 2005 to retained profit	0	0	0	0	0	-3 215	3 215	0
Unrealised exchange rate differences	0	0	0	0	-13	0	0	-13
Profit for financial year	0	0	0	0	0	0	3 029	3 029
Balance as of 30.06.2006	**19 469**	**40 994**	**0**	**1 046**	**13**	**-45 977**	**3 029**	**18 574**

EUR thousands

	Share capital	Share premium	Revaluation reserve	Legal reserve	Unrealised exchange rate differences	Retained profit	Profit/loss for financial year	Total
Balance as of 31.12.2004	**1 212**	**2 575**	**887**	**67**	**9**	**-2 859**	**- 761**	**1 130**
Transfer of loss for 2004 to retained profit	0	0	0	0	0	-761	761	0
Share capital issued	32	45	0	0	0	0	0	77
Unrealised exchange rate differences	0	0	0	0	12	0	0	12
Profit for financial year	0	0	0	0	0	0	-360	-360
Balance as of 30.06.2005	**1 244**	**2 620**	**887**	**67**	**21**	**-3 620**	**-360**	**859**
Balance as of 31.12.2005	**1 244**	**2 620**	**0**	**67**	**2**	**-2 733**	**-206**	**994**
Transfer of loss for 2005 to retained profit	0	0	0	0	0	-206	206	0
Unrealised exchange rate differences	0	0	0	0	-1	0	0	-1
Profit for financial year	0	0	0	0	0	0	194	194
Balance as of 30.06.2006	**1 244**	**2 620**	**0**	**67**	**1**	**-2 939**	**194**	**1 187**

Accounting methods and valuation principles used for preparing the Consolidated Interim Report

Bases for preparation

This Interim Report has been made pursuant to the requirements of IAS 34 "Interim Financial Reporting" of the International Accounting Standards and the International Financial Reporting Standards (IFRS) adopted by the European Union. The same accounting methods were used in the preparation of interim reports as in the Annual Report for the financial year, which ended on 31 December 2005.

This Interim Report shows results in thousands of Estonian kroons (EEK) and thousands of euros (EUR). The Estonian kroon is pegged to the euro at the rate of 1 EUR = 15.6466 EEK.

Comparability

The financial statements have been made pursuant to the principle of consistency and comparability. The content of the changes in the methodology and their impact has been described in the following table. If the presentation of the entries of the financial statement or the classification method indicated in the Annual Report 2005 has been changed, the comparison data in the Income Statement of Q2 2005 has been reclassified respectively.

	Income Statement 2005 H1 Interim Report	**Reclassification**	**Adjusted H1 2005 Interim Report**
Sales revenue	58 033	0	58 033
Other operating revenue	125	36	161
Total operating revenue	**58 158**	**36**	**58 194**
Change in finished goods and work in progress	-2 618	0	-2 618
Goods, raw materials and services	-18 720	0	-18 720
Other operating expenses	-13 200	-104	-13 304
Staff costs	-22 114	0	-22 114
Other operating charges	-542	-566	-1 108
Total operating charges	**-57 194**	**-670**	**-57 864**
EBITDA	**964**	**-634**	**330**
Depreciation	-3 482	0	-3 482
Operating profit	**-2 518**	**-634**	**-3 152**
Financial income and expenses			
Interest expenses	-2 557	0	-2 557
Gains (losses) on conversion of foreign currencies	-10	85	75
Other financial income and expenses	-554	549	-5
Total financial income and expenses	**-3 121**	**634**	**-2 487**
Net profit (loss)	**-5 639**	**0**	**-5 639**

Notes on the Consolidated Interim Report
Note 1. Trade Receivables

	30 June 2006 EEK thousand	31 December 2005 EEK thousand	30 June 2006 EUR thousand	31 December 2005 EUR thousand
Trade receivables	2 487	3 095	159	198
Less: Allowance for uncollectible accounts	-87	-43	-6	-3
Total	**2 400**	**3 052**	**153**	**195**

The trade receivables are accounted in nominal value on the date of emergence of the claim (transaction date) and later at the adjusted acquisition cost (less the possible write-downs arising from a decrease of the value). If it is likely that the Group cannot collect all the amounts receivable pursuant to the terms of the claims, the claims will be written down. Upon assessment of claims the accrual of each specific claim is treated separately, considering the information available on the solvency of the debtor.
Receivables the accrual of which is unlikely are written down in the Balance Sheet to the collectible amount and written off.
In the first half of 2006 receivables were found to be uncollectible in the amount of EEK 148 thousand (EUR 9 thousand) and irrecoverable receivables were taken off the Balance Sheet in the amount of EEK 60 thousand (EUR 4 thousand). Irrecoverable receivables in the amount of EEK 377 thousand (EUR 24 thousand) were written off the Balance Sheet in the first half of 2005.

Note 2. Inventories

	30 June 2006 EEK thousand	31 December 2005 EEK thousand	30 June 2006 EUR thousand	31 December 2005 EUR thousand
Raw materials	9 951	7 604	636	487
Work in progress	3 281	2 242	210	143
Finished goods	9 784	9 280	625	593
Goods for resale	11 734	6 264	750	400
Prepayments to suppliers	8	106	1	7
Total	**34 758**	**25 496**	**2 222**	**1 630**

In H1 2006, inventories in the amount of EEK 23 thousand (EUR 1.5 thousand) were written off.

Note 3. Tangible and Intangible Assets

	Tangible assets EEK thousand	Intangible assets EEK thousand	Tangible assets EUR thousand	Intangible assets EUR thousand
Acquisition cost 31.12.05	**38 115**	**11 732**	**2 436**	**749**
Accumulated depreciation 31.12.05	-27 579	-5 110	-1 763	-326
Residual value 31.12.05	**10 536**	**6 622**	**673**	**423**
Acquired during period under review	116	441	8	28
Sales during period under review	-63	0	-4	0
Depreciation	-2 226	-474	-143	-30
Acquisition cost 30.06.06	**37 876**	**12 163**	**2 420**	**777**
Accumulated depreciation 30.06.06	-29 513	-5 574	-1 886	-356
Residual value 30.06.06	**8 363**	**6 589**	**534**	**421**

	Tangible assets EEK thousand	Intangible assets EEK thousand	Tangible assets EUR thousand	Intangible assets EUR thousand
Acquisition cost 31.12.04	**79 272**	**13 877**	**5 066**	**887**
Accumulated depreciation 31.12.04	-26 376	- 6 303	-1 685	-403
Residual value 31.12.04	**52 896**	**7 574**	**3 381**	**484**
Acquired during period under review	726	0	46	0
Sales during period under review	-298	0	-19	0
Depreciation	-2 992	-490	-191	-31
Written off during period under review	-3	0	0	0
Acquisition cost 30.06.05	**79 271**	**13 877**	**5 066**	**887**
Accumulated depreciation 30.06.05	-28 942	-6 793	-1 849	-434
Residual value 30.06.05	**50 329**	**7 084**	**3 217**	**453**

Note 4. Short-term and Long-term Debts

The Group has the following payables as of 30 June 2006:

	Short-term EEK thousand	Long-term EEK thousand	Short-term EUR thousand	Long-term EUR thousand	Interest rate	Due
Guaranteed debts						
Overdraft from Hansapank	1 560	0	100	0	6%	30.01.2007
Loan from Hansapank	3 000	0	192	0	6%	15.12.2006
Loan from Hansapank	3 500	1 750	224	112	Euribor+3.5%	15.12.2007
Loan from Hansapank	4 000	0	255	0	6%	21.06.2007
Loan from Hansapank	1 500	2 500	96	160	Euribor+3.5%	09.02.2009
Non-guaranteed debts						
Financial lease liabilities	300	0	19	0	7,4-8,0%	2007
Other debt	72	0	4	0	7%	31.07.2006
Total	**13 932**	**4 250**	**890**	**272**		

On 15 December 2005 AS Klementi entered into a long-term loan agreement with Hansapank for refinancing the loans of AS Alta Capital. The loan amount was EEK 7,000 thousand (EUR 447 thousand) with an interest rate of EUR 6 months' Euribor + 3.5% and a due date of 15.12.2007 and the loan was put into use in January 2006.
On 21 June 2006 AS Klementi entered into a revolving credit line contract with Hansapank.
The loan amount is EEK 5,000 thousand (EUR 320 thousand) with a fixed interest rate of 6% a year, an obligation fee rate of 2% a year and a due date of 21 June 2007. The loan in the amount of EEK 4,000 thousand (EUR 255 thousand) was put into use in June 2006 and EEK 1,000 thousand (EUR 64 thousand) in July 2006.

Loan collateral

The loans and overdraft taken from Hansapank are secured by a commercial pledge of immovable property amounting to EEK 29,000 thousand (EUR 1,853 thousand).

The Group has the following payables as of 31 December 2005:

	Short-term EEK thousand	Long-term EEK thousand	Short-term EUR thousand	Long-term EUR thousand	Interest rate	Due
Secured loans						
Overdraft from Hansapank	3 470	0	222	0	6%	30.06.2006
Loan from Hansapank	6 000	0	383	0	6%	15.12.2006
Non-secured debts						
Financial lease liabilities	407	134	26	9	5,5-8,0%	2005-2007
Other debt	505	0	32	0	7%	31.07.2006
Loan from PTA bankruptcy estate	800	0	51	0	5%	31.12.2005
Trademark payables	4 112	0	263	0	8%	15.01.2006
Total	**15 294**	**134**	**977**	**9**		

Note 5. Earnings per share

	2006 H1	2005 H1
No. of ordinary shares as of January 1 (Qty)	1 946 875	1 896 875
Ordinary shares issued	0	50 000
No. of ordinary shares as of June 30 (Qty)	1 946 875	1 946 875
Weighted average number of ordinary shares (Qty)	1 946 875	1 924 776
Net profit (loss) for financial year, EEK thousand	3 029	-5 639
Net profit (loss) for accounting period, EUR thousand	194	-360
Basic earnings per share (EEK)	1,56	-2,93
Basic earnings per share (EUR)	0,10	-0,19
Diluted earnings per share (EEK)	1,56	-2,93
Diluted earnings per share (EUR)	0,10	-0,19

The diluted earnings per share do not differ from the basic earnings per share, because AS Klementi does not have the financial instruments, which allow for diluting the earnings per share in the future.

The comparison data of 2005 have been adjusted in comparison with the Interim Report of Q2 2005.

Note 6. Owners' Equity

a) Shares

The share capital of AS Klementi amounts to EEK 19,469 thousand (EUR 1,244 thousand), which is divided into 1,946,875 shares with a nominal value of EEK 10 (EUR 0.63) each. All the shares of AS Klementi are Class A registered shares. A Class A share gives the shareholder one vote at the general meeting. No share certificates are issued for registered shares. The share register is electronic and maintained at the Estonian Central Depository for Securities. According to the Articles of Association, the maximum share capital of AS Klementi is EEK 52,000 thousand (EUR 3,323 thousand). All the issued shares have been paid for.

AS Klementi had 571 shareholders as of 30 June 2006.

The shareholders of AS Klementi with a shareholding exceeding 1% as of 30 June 2006 are as follows:

Name	Number of shares	Shareholding
Major shareholders	**1 729 347**	**88,8%**
OÜ Alta Investments I	462 731	23,8%
Bryum Estonia AS	342 809	17,6%
ING Luxembourg S.A.	188 805	9,7%
Hansa Baltic Growth Fund	183 758	9,4%
Alta Capital AS	137 988	7,1%
Bank Austria Creditanstalt AG Client's	100 000	5,1%
Firebird Avrora Fund LTD.	68 611	3,5%
OÜ Alta Holding	67 500	3,5%
Peeter Larin	50 000	2,6%
PTA Group OY	50 000	2,6%
Skandinaviska Enskilda Banken Finnish Clients	29 296	1,5%
OÜ Merona Holding	25 000	1,3%
Hansa Pension Fund K3 (Growth strategy)	22 849	1,1%
Minority shareholders	**217 528**	**11,2%**
Total number of shares	**1 946 875**	**100,0%**

b) Legal reserve

The reserve indicated under the owners' equity is a legal reserve established pursuant to the Commercial Code, which can be used for covering losses or increasing the share capital by way of a bonus issue based on a decision of the shareholders. The minimum legal reserve amount is 1/10 of the share capital.

c) Information about shares

The shares of AS Klementi are listed on List I of the HEX Tallinn Stock Exchange.

During the first half of 2006 the highest and lowest prices of the AS Klementi share on the Tallinn Stock Exchange were EEK 41.46 (EUR 2.65) and EEK 31.29 (EUR 2.00), respectively.

Note 7. Sales Revenue

	2006 H1 EEK thousand	2005 H1 EEK thousand	2006 H1 EUR thousand	2005 H1 EUR thousand
Sales revenue				
Apparel sales	48 514	42 913	3 101	2 743
Subcontracting and services	11 227	13 887	717	887
Other sales	1 347	1 233	86	79
Total sales revenue	**61 088**	**58 033**	**3 904**	**3 709**
Incl. export				
Apparel sales	20 014	19 565	1 279	1 250
Subcontracting and services	6 723	11 137	430	712
Other sales	447	2	28	0
Total export	**27 184**	**30 704**	**1 737**	**1 962**
Share of export	*44.5%*	*52.9%*	*44.5%*	*52.9%*

The main export destinations were as follows:

Country	2006 H1 EEK thousand	2005 H1 EEK thousand	2006 H1 EUR thousand	2005 H1 EUR thousand
Finland	12 744	15 596	814	997
Latvia	13 154	7 875	841	503
Other markets	1 286	7 233	82	462
Total	**27 184**	**30 704**	**1 737**	**1 962**

Note 8. Transactions with Related Parties

For the purposes of the Consolidated Interim Report of AS Klementi parties are considered related if one party has control over or a significant influence on the financial or management decisions of the other party. In preparing this Interim Report, the following have been deemed as related parties:

a) owners who have a significant influence or control and usually a shareholding of over 20%;

b) the management, the members of the Management Board and Supervisory Board;

c) close relatives of the aforementioned persons and the companies being controlled by them or being under the significant influence of such persons.

Purchase of goods and services	**H1 2006 EEK thousand**	**H1 2005 EEK thousand**	**H1 2006 EUR thousand**	**H1 2005 EUR thousand**
Companies related to the members of the Management Board and Supervisory Board	390	70	25	4
Total purchase of goods and services	**390**	**70**	**25**	**4**

Sales of goods and services	**H1 2006 EEK thousand**	**H1 2005 EEK thousand**	**H1 2006 EUR thousand**	**H1 2005 EUR thousand**
Companies related to the members of the Management Board and Supervisory Board	3	0	0	0
Total sales of goods and services	**3**	**0**	**0**	**0**

Balances with related parties	**30.06.2006 EEK thousand**	**31.12.2005 EEK thousand**	**30.06.2006 EUR thousand**	**31.12.2005 EUR thousand**
Companies related to the members of the Management Board and Supervisory Board	1 245	1 233	80	79
Total current liabilities	**1 245**	**1 233**	**80**	**79**

Compensation paid to members of the Management Board	**H1 2006 EEK thousand**	**H1 2005 EEK thousand**	**H1 2006 EUR thousand**	**H1 2005 EUR thousand**
Pay and compensation	940	360	60	23
Total	**940**	**360**	**60**	**23**

Note 9. Segments

a) Primary segment – business segment by area of activity

	Retail trade H1 2006 EEK thousand	Production, wholesale and subcontracting H1 2006 EEK thousand	Inter-segment transactions H1 2006 EEK thousand	Total H1 2006 EEK thousand	Retail trade H1 2006 EUR thousand	Production, wholesale and subcontracting H1 2006 EUR thousand	Inter-segment transactions H1 2006 EUR thousand	Total H1 2006 EUR thousand
Extra-group sales revenue	36 384	24 704	0	61 088	2 325	1 579	0	3 904
Inter-segment sales revenue	0	12 326	-12 326	0	0	788	-788	0
Total sales revenue	**36 384**	**37 030**	**-12 326**	**61 088**	**2 325**	**2 367**	**-788**	**3 904**
Operating profit/loss of segment	6 321	3 870	0	10 191	403	248	0	651
Unallocated operating revenue and operating charges				-6 322				-404
Total operating profit / loss				**3 869**				**247**
Other financial income and expenses				-322				-36
Withholding tax				-264				-17
Net profit (loss)				**3 029**				**194**
Assets and receivables	27 356	22 000	0	49 356	1 748	1 406	0	3 154
Unallocated assets of group				9 241				591
Total assets				**58 597**				**3 745**
Liabilities	1 761	19 928	0	21 689	112	1 274	0	1 386
Unallocated liabilities of group				18 334				1 172
Total liabilities				**40 023**				**2 558**
Acquisition of fixed assets	67	490	0	557	4	32	0	36
Depreciation of fixed assets	836	1 864	0	2 700	54	119	0	173

The assets and liabilities set out in the Note are disclosed as of the Balance Sheet date, i.e. 30.06.2006.

	Retail trade H1 2005 EEK thousand	Production, wholesale and subcontracting H1 2005 EEK thousand	Inter-segment transactions H1 2005 EEK thousand	Total H1 2005 EEK thousand	Retail trade H1 2005 EUR thousand	Production, wholesale and subcontracting H1 2005 EUR thousand	Inter-segment transactions H1 2005 EUR thousand	Total H1 2005 EUR thousand
Extra-group sales revenue	30 643	27 390	0	58 033	1 958	1 751	0	3 709
Inter-segment sales revenue	0	12 508	-12 508	0	0	799	-799	0
Total sales revenue	**30 643**	**39 898**	**-12 508**	**58 033**	**1 958**	**2 550**	**-799**	**3 709**
Operating profit/loss of segment	**-3 125**	**4 319**	**0**	**1 194**	**-200**	**276**	**0**	**76**
Unallocated operating revenue and operating charges				-3 712				-237
Total operating profit / loss				**-2 518**				**-161**
Other financial income and expenses				-3 121				-199
Net profit (loss)				**-5 639**				**-360**
Assets and receivables	24 822	58 680	0	83 502	1 586	3 751	0	5 337
Unallocated assets of group				15 031				961
Total assets				**98 533**				**6 298**
Liabilities	1 426	17 489	0	18 915	91	1 118	0	1 209
Unallocated liabilities of group				66 187				4 230
Total liabilities				**85 102**				**5 439**
Acquisition of fixed assets	726	0	0	726	46	0	0	46
Depreciation of fixed assets	615	2 867	0	3 482	39	183	0	222

The assets and liabilities set out in the Note are disclosed as of the Balance Sheet date, i.e. 30.06.2005.

b) Secondary segment – sales revenue, total assets and investments in fixed assets

	Sales revenue H1 30 June 2006 EEK thousand	Sales revenue H1 30 June 2005 EEK thousand	Assets H1 30 June 2006 EEK thousand	Assets H1 30 June 2005 EEK thousand	Investments in fixed assets H1 30 June 2006 EEK thousand	Investments in fixed H1 30 June 2005 EEK thousand	Sales revenue H1 30 June 2006 EUR thousand	Sales revenue H1 30 June 2005 EUR thousand	Assets H1 30 June 2006 EUR thousand	Assets H1 30 June 2005 EUR thousand	Investments in fixed assets H1 30 June 2006 EUR thousand	Investments in fixed assets H1 30 June 2005 EUR thousand
Estonia	33 904	27 329	52 338	92 617	528	0	2 167	1 747	3 345	5 920	34	129
Latvia	13 154	7 875	6 141	0	29	726	841	503	392	0	2	2
Finland	12 744	15 596	0	0	0	0	814	997	0	0	0	0
Other markets	1 286	7 233	118	5 916	0	0	82	462	8	378	0	1
Total	**61 088**	**58 033**	**58 597**	**98 533**	**557**	**726**	**3 904**	**3 709**	**3 745**	**6 298**	**36**	**132**

According to the management's estimation, the prices used in inter-segment transactions do not significantly differ from market prices.

The Group considers the business segment by areas of activity as the primary segment and the geographical segment by the location of consumers as the secondary segment.

The goods and services sold in the retail trade system of the Group are accounted under the retail trade segment in the accounts of the business segment and the services not listed in the retail trade are accounted under the wholesale, manufacturing and subcontracting segments. The operating charges not directly related to a specific segment have been indicated as the joint operating charges of the Group.

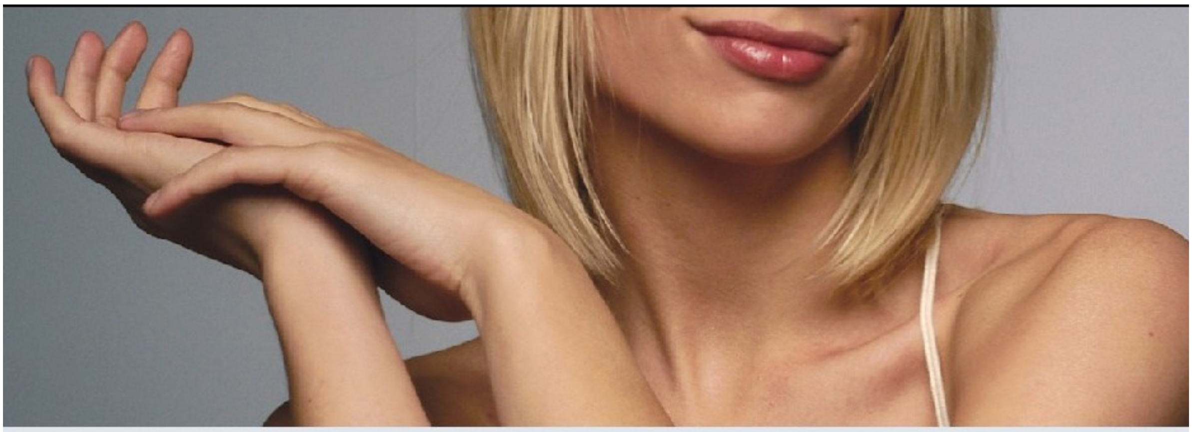
The assets of the segments account all assets directly related to the segments and they do not contain assets that are used for the company in general or for the headquarters. The assets of the segment include the goodwill that can be directly attributed to the segment and in 2004 the expenses of the segment included depreciation of the goodwill directly related to the segment. The obligations of the segments indicate all obligations directly related to the segments. The unallocated expenses of the Group mean the expenses of general management.

Other receivables, loans interest claims and obligations have been indicated as the joint assets and obligations of the Group.

Note 10. Post-Balance Sheet events

On 17 July 2006 the Supervisory Board of AS Klementi decided to found a subsidiary in Lithuania. The business name of the subsidiary will be UAB PTA Prekyba. The area of activity of the subsidiary is retail trade and wholesale of women's apparel and accessories. The purpose of foundation of the subsidiary is expansion of the chain store operating under the PTA trademark to the Lithuanian market and a respective increase of the retail turnover. The first PTA stores will be opened in Lithuania at the end of this year. Since the expansion of retail trade has been planned by the end of the year, AS Klementi is not planning on a significant impact on the performance of the Group in the financial year 2006. The share capital of UAB PTA Prekyba is LIT 10,000, i.e. EEK 45.3 thousand (EUR 2.9 thousand), which has been divided into 100 shares with a nominal value of LIT 100 per share. All shares of the company will belong to AS Klementi.

KLEMENTI



ANNUAL REPORT

Financial year: 1 January 2005 – 31 December 2005

(Translation of the Estonian original)

GENERAL INFORMATION

Business name:	AS Klementi
Commercial Registry No.:	10175491
Address:	Akadeemia tee 33, 12618 TALLINN
Phone:	+372 6710 700
Fax:	+372 6710 709
E-mail:	klementi@klementi.ee
Internet homepage:	www.klementi.ee
Main activities:	design, manufacturing and sale of apparel
Form of ownership:	public limited company
Chairman of the Management Board:	Peeter Larin
Financial Manager:	Marianne Paas
Auditor:	AS PricewaterhouseCoopers

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CONSOLIDATED FINANCIAL STATEMENTS
GENERAL INFORMATION AND CONFIRMATION BY THE MANAGEMEBT BOARD OF THE CONSOLIDATED FINANCIAL STATEMENTS

AS Klementi is an international apparel group which is engaged in design, manufacturing and marketing of women's apparel as well as provision of sewing subcontracting services. In 2005, the average number of employees at the Group was 417 (2004: 485). The parent company is located and has been registered in Tallinn, Estonia.

The Group consists of the following companies:

	Country of location	Participation on 31.12.2005	Participation on 31.12.2004
AS Klementi	Estonia		
Klementi Trading OY	Finland	100%	100%
Klementi Trading AB	Sweden	100%	100%
UAB Klementi Vilnius (under liquidation proceedings)	Lithuania	100%	100%
SIA Vision	Latvia	100%	100%

Starting 20 May 1997, the shares of AS Klementi are traded on the open market of Tallinn Stock Exchange.

The Management Board confirms the correctness and completeness of AS Klementi consolidated financial statements as presented on pages 8-46.

The Management Board confirms that to the best of its knowledge:

1. the financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
2. the financial statements present a true and fair view of the financial position, the results of operations and the cash flows of the Group;
3. all known material matters which have become evident by the time of completing the financial statements, have been accounted for and presented in the financial statements;
4. AS Klementi is a going concern

____

Peeter Larin
Chairman of the Management Board
___May 2006

____

Marianne Paas
Member of the Management Board
___May 2006

In Thousands of Estonian Kroons

CONSOLIDATED BALANCE SHEET

	31.12.2005	31.12.2004	Notes
ASSETS			
Current assets			
Cash and bank	2 831	3 400	Note 2
Trade receivables	3 052	9 906	Note 3
Other receivables and prepaid expenses	2 589	2 808	Note 4
Prepaid taxes	25	37	Note 5
Inventories	25 496	28 255	Note 6
Total current assets	**33 993**	**44 406**	
Non-current assets			
Other receivables	750	955	Note 4
Property, plant and equipment	10 536	52 896	Notes 7, 9
Intangible assets	6 622	7 574	Note 8
Total non-current assets	**17 908**	**61 425**	
TOTAL ASSETS	**51 901**	**105 831**	
LIABILITIES			
Current liabilities			
Borrowings	15 294	43 183	Notes 10, 11
Trade payables	12 573	9 189	Note 12
Tax liabilities	2 476	1 399	Note 5
Corporate income tax liability	294	0	Note 25
Deferred tax liability	66	0	Note 25
Other short-term payables	5 178	7 970	Note 13
Short-term provisions	12	12	Note 14
Total current liabilities	**35 893**	**61 753**	
Non-current liabilities			
Long-term borrowings	134	26 219	Note 10
Other long-term payables	173	25	
Long-term provisions	143	148	Note 14
Total non-current liabilities	**450**	**26 392**	
Total liabilities	**36 343**	**88 145**	
Equity			
Share capital at nominal value	19 469	18 969	Notes 15, 11
Share premium	40 994	40 294	Notes 15, 11
Revaluation reserve	0	13 876	Notes 15, 7
Statutory reserve	1 046	1 046	Note 15
Retained earnings	-42 762	-44 737	
Currency translation differences	26	139	
Loss for the financial year	-3 215	-11 901	
TOTAL EQUITY	**15 558**	**17 686**	
TOTAL LIABILITIES AND EQUITY	**51 901**	**105 831**	

The notes on pages 13-46 are an integral part of these consolidated financial statements.

In Thousands of Estonian Kroons

CONSOLIDATED INCOME STATEMENT

REVENUE	**2005**	**2004**	**Notes**
Net sales	114 524	128 606	Notes 16, 17
Other operating income	17 949	3 588	Notes 18, 19
Total revenue	**132 473**	**132 194**	
Change in inventories of work-in-progress and finished goods	-5 849	-5 825	
Goods, raw materials and services	-41 674	-51 327	Note 20
Other operating expenses	-26 629	-27 290	Note 21
Personnel expenses	-44 037	-44 644	Note 22
Depreciation and amortisation	-6 950	-7 610	Notes 7, 8
Miscellaneous expenses	-4 396	-1 622	Note 23
Total operating expenses	**-129 535**	**-138 318**	
Operating profit/loss	**2 938**	**-6 124**	
Financial income/expenses			
Interest expenses	-5 895	-5 438	Note 24
Foreign exchange gains/losses	175	-339	Note 24
Other financial income/expenses	-73	0	Note 24
Total financial income/expenses	**-5 793**	**-5 777**	
Loss before tax	**-2 855**	**-11 901**	
Corporate income tax	-360	0	Note 25
Net loss for the period	**-3 215**	**-11 901**	
Basic loss per share (in kroons)	-1.66	-6.27	Note 26
Diluted loss per share (in kroons)	-1.66	-6.27	Note 26

The notes on pages 13-46 are an integral part of these consolidated financial statements.

In Thousands of Estonian Kroons

CONSOLIDATED CASH FLOW STATEMENT

	2005	2004	Notes
Cash flow from operating activities			
Net loss	-3 215	-11 901	
Adjustments:			
Depreciation and amortisation	6 950	7 610	Notes 7, 8
Proceeds from sale of non-current assets	-15 256	-1 701	Note 18
Loss from write-off of non-current assets	385	353	Note 7
Change in receivables and prepayments related to operating activities	7 212	2 957	
Change in inventories	2 759	5 029	
Change in liabilities and prepayments related to operating activities	8 922	6 144	
Interest paid	-6 299	-4 787	
Total cash flow from operating activities	**1 458**	**3 704**	
Cash flow from investing activities			
Purchase of property, plant and equipment and construction in progress	-2 224	-3 325	Note 7
Proceeds from sale of property, plant and equipment	53 457	6 035	Note 10
Trademark fees paid	-1 095	-626	Note 10
Receipt of loans granted	323	224	
Interest received	38	50	
Total cash flow from investing activities	**50 499**	**2 358**	
Cash flow from financing activities			
Repayments of borrowings	-64 096	-21 920	Note 10
Proceeds from borrowings	28 506	18 700	Note 10
Finance lease principal payments	-3 002	-981	Note 10
Change in overdraft balance	-11 947	-1 016	Note 10
Repayment of other borrowings	-867	-361	Note 10
Repayments of other loans	-1 120	0	Note 10
Total cash flow from financing activities	**-52 526**	**-5 578**	
Total cash flow	**- 569**	**484**	
Cash and cash equivalents at beginning of the period	**3 400**	**2 916**	Note 2
Net decrease/increase in cash and cash equivalents	-569	484	
Cash and cash equivalents at end of the period	**2 831**	**3 400**	Note 2

The notes on pages 13-46 are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Share premium	Revaluation reserve	Statutory reserve	Currency translation differences	Retained earnings	Total
Balance as of 01.01.2004		**18 969**	**40 294**	**15 578**	**1 046**	**64**	**-46 439**	**29 512**
Depreciation transfer	Note 7	0	0	-1 702	0	0	1 702	0
Currency translation differences		0	0	0	0	75	0	75
Net loss for 2004		0	0	0	0	0	-11 901	-11 901
Balance as of 31.12.2004		**18 969**	**40 294**	**13 876**	**1 046**	**139**	**-56 638**	**17 686**
Issued share capital	Note 11	500	700	0	0	0	0	1 200
Disposal of revalued property	Note 7,15	0	0	-13 876	0	0	13 876	0
Currency translation differences		0	0	0	0	-113	0	-113
Net loss for 2005		0	0	0	0	0	-3 215	-3 215
Balance as of 31.12.2005		**19 469**	**40 994**	**0**	**1 046**	**26**	**-45 977**	**15 558**

More detailed information on share capital is provided in Note 15.

The notes on pages 13-46 are an integral part of these consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Accounting methods and measurement bases used in preparing the financial statements

Basis of preparation

The consolidated financial statements of AS Klementi have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

All International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and effective at the time of preparing these consolidated financial statements have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of the International Accounting Standard IAS 39 "Financial Instruments: Recognition and Measurement". Following recommendations from the Accounting Regulatory Committee, the Commission adopted the Regulations 2086/2004 and 1864/2005 requiring the use of IAS 39, minus certain provisions on portfolio hedging of core deposits, by all listed companies from 1 January 2005.

Since the Company is not affected by the provisions regarding portfolio hedging that are not required by the EU-endorsed version of IAS 39, the accompanying financial statements comply with both IFRS as adopted by the European Union and IFRS issued by the IASB.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings.

The functional currency of AS Klementi is the Estonian kroon (EEK). The financial statements are presented in thousand of Estonian kroons.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Comparability

The financial statements are prepared in accordance with the comparability and consistency principles, the nature and impact of any changes in accounting methods is explained in the respective notes. When the presentation or classification of items in the financial statements is amended, comparative amounts for the previous period are also reclassified. Furthermore, the Group has revised its revenue and expenses' presentation principles in 2005. Respective reclassifications have also been made into 2004 figures as follows:

	Income Statement in 2004 Annual Report	**Re-classifications**	**Reclassified 2004 Income Statement**
Net sales	128 606	0	128 606
Other operating income	4 233	-645	3 588
Total operating income	**132 839**	**-645**	**132 194**
Change in inventories of work-in-progress and finished goods	-5 825	0	-5 825
Goods, raw materials and services	-49 265	-2 062	-51 327
Operating expenses	-28 754	1 464	-27 290
Personnel expenses	-44 644	0	-44 644
Depreciation and amortization	-7 610	0	-7 610
Other operating expenses	-2 564	942	-1 622
Total operating expenses	**-138 662**	**344**	**-138 318**

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Operating loss	**-5 823**	**-301**	**-6 124**
Interest expenses	-5 922	484	-5 438
Net foreign exchange loss	-156	-183	-339
Total financial income/expenses	**-6 078**	**301**	**-5 777**
Net loss for the period	**-11 901**	**0**	**-11 901**

Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates that affect the reported amounts of assets and liabilities in the next financial year. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments that have the most significant effect on the amounts recognised in the financial statements and estimates that may cause significant adjustments to the carrying amount of assets and liabilities in the next financial year include: inventories (Note 6), estimations of useful lives of property, plant and equipment and valuation of goodwill (Note 8).

Inventory Valuation

Upon valuation of inventories, the management will rely on its best knowledge taking into consideration historical experience, general background information and potential assumptions and conditions of future events. In determining the impairment of inventories, the sales potential as well as the net realisable value of finished goods is considered; upon valuation of raw materials and materials, their potential as a source of finished goods and for generating income is considered; upon valuation of work in progress, their stage of completion that can reliably be measured is considered.

Valuation of Goodwill

Goodwill is the excess of the cost of the acquisition over the fair value of the acquired net assets, reflecting the part of cost that was paid for the acquisition of such assets than cannot be separately identified and recognised. Goodwill as an intangible asset with an indefinite useful life is not amortised but it is tested for impairment at least once a year. The management has performed an impairment test for goodwill which arose on the acquisition of the subsidiary SIA Vision. Future expected cash flows based on the budgeted retail sales volumes in the Latvian market have been taken into consideration in finding the recoverable amount of the investment. The future expected cash flows have been discounted using the expected rate of return. If the recoverable amount of the investment is lower than its carrying amount, an impairment loss is recorded to write down the investment to its recoverable amount.

Determination of the Useful Life of Property, Plant and Equipment

The management has evaluated the economic lives of production equipment and other non-current assets related to production depending on their estimated useful lives. The estimation of economic lives is based on historical experience and takes into consideration production capacity and conditions. The estimation of economic lives of non-current assets used in retail trade is based on the period over which this asset is expected to participate in the generation of revenue as well as the guaranteed duration of lease agreements.

According to the estimates, the useful lives of production equipment are 5 to 10 years depending on the purpose of use. Other equipment has the useful lives of 3 to 20 years depending on the purpose of use

Contingent assets and liabilities

In estimating the probability of realisation of contingent assets and liabilities, the management takes into consideration the historical experience, general information on the economic and social environment and the assumptions and conditions of the possible events in the future based on the best knowledge of the situation.

Adoption of new or revised standards and interpretations in 2005

In 2005, the Group adopted all new and revised standards that are effective from or before 1 January 2005. The amended standards, which are applied from 1 January 2005, are following:

- IAS 1 (revised 2003) Presentation of Financial Statements
- IAS 2 (revised 2003) Inventories
- IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 (revised 2003) Events After Balance Sheet Date
- IAS 16 (revised 2003) Property, Plant and Equipment
- IAS 17 (revised 2003) Leases
- IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates
- IAS 24 (revised 2003) Related Party Disclosures
- IAS 27 (revised 2003) Consolidated and Separate Financial Statements
- IAS 28 (revised 2003) Investments in Associates
- IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation
- IAS 33 (revised 2003) Earnings per Share
- IAS 36 (revised 2004) Impairment of Assets
- IAS 38 (revised 2004) Intangible Assets
- IAS 39 (revised 2003) Financial Instruments: Recognition and Measurement
- IAS 40 (revised 2004) Investment Property

The issued new standards, which will become effective for the period starting 1 January 2005 and are applied respectively, are the following:

- IFRS 2, Share-based Payments
- IFRS 3, Business Combinations
- IFRS 4, Insurance Contracts
- IFRS 5, Non-current Assets Held for Sale and Discontinued Operations
- IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities
- IFRIC 2, Members' Shares in Co-operative Entities and Similar Instruments

Applying these amendments and interpretations to standards, which are applicable to the Group, did not cause any significant changes to the accounting principles used previously and did not affect the Group's results.

According to the requirements, the presentation of information has been changed and additional information has been disclosed in the notes.

Information of the parent company's separate report

According to the Estonian Accounting Law, the separate principal reports of the parent company are required to be disclosed. The respective disclosure is in Note 34. The principal reports of the parent company are prepared using the same accounting policies as in the preparation of consolidated financial statements. The change of accounting policies applicable to the parent company's separate principal reports is described below.

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Changes in the accounting policies applicable to the parent company

The financial information of the parent company is disclosed in the notes (Note 34). According to the revised IAS 27 Consolidated and Separate Financial Statements, the accounting principle for the measurement of investment in subsidiaries has been amended. The subsidiaries are reported in the separate report at cost; previously the equity method was used. Accordingly, the value of investments into subsidiaries was reduced by 207 thousand kroons and the net profit for 2004 was reduced by 512 thousand kroons, the retained earnings for previous periods was increased by 305 thousand kroons.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Estonian kroons, which is the functional and presentation currency of AS Klementi.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the Estonian Central Bank's exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) whose functional currency differs from the presentation currency are translated into the presentation currency.

Assets and liabilities for each balance sheet presented are translated at the closing rate on that balance sheet date. The respective rates were the following:

	31.12.2005	**31.12.2004**
1 LVL	22.4726 EEK	22.422 EEK
1 LTL	4.53157 EEK	4.53157 EEK
1 SEK	1.66071 EEK	1.73450 EEK
1 EUR	15.6466 EEK	15.6466 EEK

Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated on the dates of the transactions).

The respective rates were the following:

	2005	**2004**
1 LVL	22.47419 EEK	23.52325 EEK
1 LTL	4.53157 EEK	4.53157 EEK
1 SEK	1.68612 EEK	1.71503 EEK
1 EUR	15.6466 EEK	15.6466 EEK

The exchange rates are based on the Estonian Central Bank's official quotations. All resulting exchange differences are recognised in equity line "Currency translation differences".

Principles of Consolidation, Accounting for Business Combinations and Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values on the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

In the consolidated financial statements, the financial statements of the subsidiaries under the control of the parent company are combined on a line-by-line basis. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered.

The consolidated financial statements include the consolidated financial information of AS Klementi and its subsidiaries UAB Klementi Vilniaus, SIA Vision, Klementi Trading OY and Klementi Trading AB. The accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

The Group's primary segment is business segment by business units and secondary segment is a geographical segment based on the location of the sales network of the Company.

With regard to the business segment, the retail segment includes goods and services sold in the retail system. Wholesale, production activities and subcontracting segment include services not mentioned in the retail segment.

The expenses, which are not directly attributable to a specific segment, are recorded as unallocated expenses of the group. Segment assets include all operating assets of the segment excluding assets that are used at the company in general or at the head office. Segment's assets include goodwill directly attributable to the segment and the segment's expenses include the associated amortisation of goodwill in 2004. Segment liabilities include operating liabilities of the segment. The unallocated expenses of the Group are general management costs. Long-term financial investments, loans, interest receivables and liabilities are recorded as unallocated assets and liabilities of the Group.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, excluding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet. Cash and cash equivalents are measured at fair value.

Financial assets

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and revalues this designation on every reporting date. The purchases and sales of financial assets are recognised at the trade date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value plus transaction costs. Loans and receivables are subsequently carried at amortised cost using the effective interest method. This method is used for calculating interest income on loans and receivables in following periods.

When it is probable that the Group is unable to collect all amounts due according to the original terms of receivables, an allowance is set up for the impairment of these receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount. The recoverable amount is the expected future cash flows discounted at the market rate of interest for similar borrowers. Impairment losses are charged to the income statement.

Loans and receivables are included in current assets when they are due within 12 months after the balance sheet date. Such receivables whose due date is later than 12 months after the balance sheet date are reported as non-current assets.

The amount of allowances is disclosed in Note 3.

Inventories

Purchased goods and raw materials are recorded at acquisition cost consisting of direct and indirect costs related to acquisition of inventories necessary to bring the inventories to their present state and condition.

In addition to the purchase price, purchase cost includes the applicable custom duties, other non refundable taxes and the respective costs on transportation. The discounts and rebates are deducted from the purchase price. Purchased goods and raw materials are stated at the lower of cost and net realisable value.

Finished goods and work-in-progress are recorded at production cost consisting of direct and indirect manufacturing costs. Indirect manufacturing costs include depreciation of fixed assets used in production, wages, equipment maintenance, heating costs and other similar costs. Work-in-progress and finished goods are recorded in the balance sheet at the lower of production cost or net realisable value. Cost is determined using the weighted average method.

Net realisable value is the estimated selling price in the ordinary course of business, less any applicable variable selling expenses.

Property, plant and equipment

Property, plant and equipment are non-current assets used in the operating activities of the entity with a useful life of over one year. An item of property, plant and equipment is initially recognised at its acquisition cost which consists of the purchase price (incl. customs duties and other non-refundable taxes) and other expenditures directly related to the acquisition that are necessary for bringing the asset to its operating condition and location. Property, plant and equipment are subsequently stated at cost less any accumulated depreciation and any impairment losses. Assets acquired under finance leases are depreciated similarly to acquired assets. Cost does not include borrowing costs.

Since the year 2002, the fixed asset group “Land and buildings” is recorded based on the revaluation method. Revaluation is carried out by independent real estate experts. A revaluation surplus is recorded in the revaluation reserve, and any impairment decrease (exceeding the earlier valuation surplus) is recorded in the expenses. In the course of revaluation, earlier accumulated depreciation is eliminated and the revalued amount is considered as the revised gross carrying value. Each year, the revaluation reserve is decreased by the difference of the depreciation charge arising from the difference in the cost of land and buildings and the revalued amount; and it is added to retained earnings. The revaluation reserve of non-current assets is part of restricted equity and no distributions can be made from it to the shareholders.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. The depreciation rates are allocated to each item separately. The annual depreciation rates are as follows:

Buildings:	
Production facility	3%
Other buildings	10%

Plant and equipment:	
Sewing equipment	10-15%
Transport vehicles	20%
Other machinery	20%
Other equipment:	
Computers, tools and other equipment	25-30%
Fittings of warehouses	5%

Land is not depreciated.

The reconstruction expenditures of the rented space are depreciated over the lease term.

Depreciation of an asset is started when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date on which the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date on which the asset is derecognised. Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and they are included in the income statement.

Intangible assets

Intangible assets are stated at historical cost less any amortisation. Cost comprises the purchase price and other directly attributable costs. Intangible assets have finite useful lives. Amortisation on intangible assets is calculated using the straight-line method. The amortisation rates are allocated to each item separately. The annual amortisation rates are as follows:

Computer software	10-20%
Trademarks	10%

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary, reflecting the part of acquisition cost which was paid for the Group's share of identifiable net assets of the acquired company which cannot be separated and accounted for separately. Goodwill is determined upon the acquisition of a new entity or a business as the difference between the purchase price and the fair value of the acquired net assets (acquired identifiable assets less liabilities and contingent liabilities). Goodwill which arose in the acquisition of a subsidiary is recognised as an intangible asset in the consolidated financial statements.

On the transaction date, goodwill is recognised in the balance sheet at its acquisition cost. Goodwill is subsequently carried at its cost less any impairment losses. Goodwill which arose in a business combination is not amortised. On each balance sheet date (or more frequently when an event or change in circumstances indicates that the fair value of goodwill may have become impaired), an impairment test is performed and if necessary, goodwill is written down to its recoverable value (if it is lower than its carrying amount).

Goodwill which arose in the acquisition of foreign subsidiaries is translated using the foreign exchange rates of the Bank of Estonia prevailing on the balance sheet date.

Goodwill arising from a business combination for which the agreement date was before 31 March 2004, the amortization of goodwill is discontinued from 1 January 2005 and goodwill is tested for impairment as of every balance sheet date.

Impairment of assets

Intangible assets with indefinite useful lives (goodwill) are not subject to amortisation but they are tested annually for impairment, by comparing their carrying amount with the recoverable amount.

Assets that are subject to amortisation and depreciation (which exception for land) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If such circumstances exist, the recoverable amount is compared with the carrying amount.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit).

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Finance and Operating Leases

Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases.

The Group is the Lessee
Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property or the present value of minimum lease payments. Each lease payment is allocated between the liability and finance charges (interest expense) so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Assets leased under finance leases are depreciated over the shorter of the asset's expected useful life or the duration of the lease term (when the transfer of ownership is not sufficiently certain).

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the lease term.

The Group is the Lessor
Assets leased out under operating leases are recognised similarly to non-current assets. Operating lease payments (net of any incentives granted to the lessee) are recognised as income on a straight-line basis over the lease term.

Financial liabilities

All financial liabilities (trade payables, borrowings, accrued expenses, and other short and long-term borrowings) are initially recorded at fair value, net of transaction costs incurred. Subsequently, financial liabilities are stated at amortised cost using the effective interest method.

The amortised cost of short-term liabilities normally equals their nominal value; therefore short-term liabilities are stated in the balance sheet in their redemption value. Long-term receivables are initially recognised at the fair value of the consideration receivable (less transaction costs) and are subsequently measured at amortised cost using the effective interest rate method.

In case of convertible bonds the shareholders' equity and liability components are recorded separately, unless the shareholders' equity component is immaterial (then the whole amount is recorded as a liability).

A financial liability is classified as short term when it is due within 12 months after the balance sheet date or the Company does not have an unconditional right to defer the payment for longer than 12 months after the balance sheet date. Borrowings with a due date later than 12 months after the balance sheet date but that are refinanced into long-term after the balance sheet date but before the approval of the annual report, are classified as current. Borrowings that the lender has the right to recall due to the violation of terms specified in the contract are also classified as current liabilities.

Employee benefits

Termination benefits – Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an other offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

Provisions and Contingent Liabilities

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. The management estimations and judgments regarding the probability and realization time are the basis for the recognition of provisions. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense. Provisions are not recognised for future operating losses.

Contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognised because: it is not probable that an outflow of resources will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are disclosed in the notes to the financial statements.

Income Tax

Income tax of the companies registered in Estonia

According to the Income Tax Act of the Republic of Estonia, the net profit earned by enterprises is not taxed. Thus, there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets and liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is subject to income tax 23/77 of net dividend paid (until 31 December 2005, the tax rate was 24/76 and until 31 December 2004, the tax rate was 26/74). The corporate income tax arising from the payment of dividends is accounted for as an expense in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

Corporate income tax of foreign subsidiaries
In Latvia, Lithuania, Finland and Sweden, the profit before taxes is adjusted for permanent and temporary differences as determined by the respective tax laws. In Latvia and Lithuania, the tax rate was 15% in 2004 and 2005. In Sweden, the tax rate was 28% in 2004 and 2005. In Finland the tax rate was 29% in 2004 and 26% in 2005 .

Deferred income tax

Deferred income tax is accounted for in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are presented in the balance sheet by deducting the grant to arrive at the carrying amount of the asset.

Government grants are disclosed in Note 19.

Share capital

Ordinary shares are classified as equity. The Group has not issued any preference shares.

Statutory reserve

The statutory reserve in equity is a mandatory reserve, created in accordance with the Estonian Commercial Code and it can only be used for covering losses or conversion to the share capital. Each year, at least 1/20 of net profit should be recognised as statutory reserve until the statutory reserve comprises 1/10 of share capital. The distribution to shareholders from the statutory reserve is not permitted.

Revenue recognition

Revenue from the sale of goods is recognised at the fair value of the consideration received or receivable, taking into consideration all discounts and concessions made. Revenue from the sale of goods is recognised when the Group has transferred all significant risks and rewards of ownership of the goods to the buyer, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue from the rendering of services is recorded in the accounting period in which the services are rendered. If a service is rendered over a longer period of time, revenue from the rendering of a service is recorded using the stage of completion method.

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, which is the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Dividend income is recognised when the right to receive payment is established.

Revenue recognition on service contracts

When the outcome of a service contract (contract revenue and costs) can be estimated reliably and it is probable that the economic benefits associated with the transaction will flow to the enterprise, contract revenue from nonrecurring services to be performed over a longer period of time is recognised using the stage of completion method. Contract revenue and profits are recognised in the proportion and in the accounting periods in which the contract costs associated with the service contract incurred.

The stage of completion is measured by reference to the relationship that contract costs incurred for work performed to date bear to the estimated total costs for the contract.

When the outcome of a service contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred when it is probable that these costs will be recoverable. When it is not probable that the costs incurred will be recovered, revenue is not recognised. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When progress billings up to the year-end exceed costs incurred plus recognised profits, the balance is shown as due to customers on service contracts, under other deferred income. Where costs incurred and recognised profits exceed progress billings up to the year-end, the balance is shown as due from customers on service contracts, under other receivables.

Earnings per share

Basic earnings per share are calculated by dividing the net profit of the year by the weighted average number of ordinary shares issued during the period.

Diluted earning per share are calculated based on profit or loss attributable to the ordinary equity holders of the parent company, and the weighted average number of shares outstanding, adjusted for the effects of all dilutive potential ordinary shares.

Standards, interpretations and amendments to published standards that are not yet effective

By the time this financial statements were being prepared, new International Financial Reporting Standards and their interpretations had been issued, which shall become mandatory for consolidated companies as of January 1, 2006 or for statements issued for later periods. Below are the consolidated company's assessments of the possible effect of the new standards and interpretations on the financial statement during the period of their first-time application.

- IAS 1 Change in the presentation of financial statements – Presentation of financial statements: Capital disclosures. The IAS 1 amendment will apply to reporting periods which start on January 1, 2007 or later. The Group has decided not to apply the changes before the prescribed time. The standard requires additional disclosures in financial statements.
- IAS 19 Change in Employee Benefits – Actuarial profits and losses from pension plans and disclosure requirements. The amendment to standards will apply to reporting periods which start on January 1, 2006 or later. The Group does not have any plans with established benefits, (defined benefit plans) whereby this amendment does not affect the Group's financial statements.
- IAS 21 (Amendment) - Net Investment in a Foreign Operation (effective from 1 January 2006). This amendment requires foreign exchange gains and losses on quasi-equity intercompany loans to be reported in consolidated equity even if the loans are not in the functional currency of either the lender or the borrower. Currently, such exchange differences are required to be recognised in consolidated profit or loss. It also extends the definition of 'net investment in a foreign operation' to include loans between sister companies. The management assessed the impact of the amendment and believes that it will not affect the Group's financial statements. At the date of the issuance of these financial statements this amendment has not been yet adopted by the EU.
- IAS 39 Financial instruments: amendments to recognition and measurement (Accounting of cash flow hedging for planned intra-group transactions; Fair value option). IAS 39 Financial instruments: amendments to recognition and measurement, and IFRS 4 Insurance contracts amendment – financial guarantee contracts. The amendment to standards will apply to reporting periods which start on or after January 1, 2006. The Group has decided not to apply the changes before the prescribed time. This interpretation does not affect the Group's financial statements.

- IFRS 6 Exploration for and Evaluation of Mineral Assets. The Group does not have any exploration and evaluation assets, therefore this standard does not affect the Group's financial statements.
- IFRS 7 Financial instruments: Disclosure requirements. IFRS 7 will apply to reporting periods which start on or after January 1, 2007.. The Group has decided not to apply the changes before the prescribed time. This standard requires the disclosure of supplemental information in financial statements.
- IFRIC 4 Determining whether an arrangement contains a lease. IFRIC 4 will apply to reporting periods which start on or after January 1, 2006. The Group has decided not to apply IFRIC 4 before the prescribed time. According to the management, the application of IFRIC 4 at the time the financial statements were prepared would not cause any changes in the recognition of valid agreements.
- IFRIC 5 Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds. The Group does not participate in decommissioning, restoration and environmental rehabilitation funds, therefore the given interpretation does not affect the Group's financial statements.
- IFRIC 6 Liabilities arising from participating in a specific market: waste electrical and electronic equipment. IFRIC 6 will apply to reporting periods, which start on or after December 1, 2005. The Group has very small participation in a specific market, which would assume the treatment of waste electrical or electronic equipment, therefore this interpretation does not affect the Group's financial statements.
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies. IFRIC 7 will apply to reporting periods which start on or after March 1, 2006. The Group does not prepare the financial statements currencies of hyperinflationary economies, therefore the given interpretation does not affect the Group's financial statements. At the date of the issuance of these financial statements this interpretation has not been yet adopted by the EU.
- IFRIC 8 Scope of IFRS 2 clarifies that IFRS 2 Share-based Payment applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. IFRIC 8 is effective for annual periods beginning on or after 1 May 2006. Earlier application is encouraged. This interpretation does not affect the Group's financial statements. At the date of the issuance of these financial statements this interpretation has not been yet adopted by the EU.
- IFRIC 9 Reassessment of embedded derivatives. IFRIC 9 concludes that an entity must assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. IFRIC 9 is effective for annual periods beginning on or after 1 June 2006. Earlier application is encouraged. This interpretation does not affect the Group's financial statements. At the date of the issuance of these financial statements this interpretation has not been yet adopted by the EU.

In Thousands of Estonian Kroons

Note 2 Cash and bank

	31.12.2005	**31.12.2004**
Cash on hand	278	157
Bank accounts in kroons	880	102
Bank accounts in foreign currencies	1 536	2 952
Money in transfer	137	189
Total	**2 831**	**3 400**

Note 3 Trade receivables

	31.12.2005	**31.12.2004**
Trade receivables	3 095	10 283
Allowance for doubtful receivables	-43	-377
Total	**3 052**	**9 906**

	2005	**2004**
Impairment of doubtful receivables at beginning of the year	**-377**	**0**
Impairment of doubtful receivables and receivables deemed as irrecoverable in the accounting period (Note 23)	-2 783	-682
Irrecoverable receivables taken off the balance sheet	3 117	305
Total	**-43**	**-377**

The impairment loss of doubtful and irrecoverable receivables is reported in the income statement item “Miscellaneous expenses”. Disclosures on pledged assets are provided in Note 29.

Note 4 Other receivables and prepaid expenses

	31.12.2005	**31.12.2004**
Receivable related to sale of shares*	150	200
Loans to employees	7	7
Loans to other companies**	0	68
Other receivables	129	231
Receivable from customers on service contracts	1 151	1 200
Prepaid expenses***	1 152	1 102
Total	**2 589**	**2 808**

* The current portion of the amount collectible from the sale of the wholly-owned subsidiary AS Profline in 2000. The non-current portion of the receivable in the amount of 750 thousand kroons (31.12.2004: 950 thousand kroons) is reported in the balance sheet line “Other receivables”. The due date of the receivable is on 05 July 2010, the interest rate is 6.month Euribor+1%.
** The repayment date of the loan granted to the former subsidiary AS Profline was on 05 July 2005, which AS Profline paid off on time. The interest rate on this loan was 6-month Euribor+5%.
*** Other accrued expenses include insurance payments, rental payments, subscription of periodicals, etc.

In Thousands of Estonian Kroons

Note 5 Taxes

	31.12.2005	31.12.2004
Value added tax	25	37
Total prepaid taxes	**25**	**37**

	31.12.2005	31.12.2004
Value added tax	608	251
Personal income tax	482	214
Social security tax	892	877
Fringe benefits	17	10
Withholding tax on royalties	411	0
Other taxes	66	47
Total tax liabilities	**2 476**	**1 399**

Disclosures on corporate income tax is provided in Note 25.

Note 6 Inventories

	31.12.2005	31.12.2004
Raw materials and materials	7 604	9 138
Work-in-progress	2 242	3 796
Finished goods	9 280	12 361
Goods held for sale	6 264	2 889
Prepayments to suppliers	106	71
Total inventories	**25 496**	**28 255**

In 2005, inventories were written off in the amount of 207 thousand kroons (2004: 167 thousand kroons). In 2005, no inventories were written down; in 2004, inventories were written down in the amount of 258 thousand kroons. Disclosures on pledged assets are provided in Note 29.

In Thousands of Estonian Kroons

Note 7 Property, plant and equipment

	Land and buildings	Machinery and equipment	Other fixtures	Construction in progress	Total
31.12.2004					
Acquisition cost/valuation	**40 500**	**24 122**	**13 701**	**949**	**79 272**
Accumulated depreciation	-2 341	-16 319	-7 716	0	-26 376
Carrying value	**38 159**	**7 803**	**5 985**	**949**	**52 896**
Changes occurred in 2005					
Acquired during the period	0	361	1 694	169	2 224
Disposed of during the period	-37 908	-11	-282	0	-38 201
Written off during the period	0	-112	-273	0	-385
Taken into use	949	0	0	-949	0
Depreciation	-1 200	-2 600	-2 198	0	-5 998
31.12.2005					
Acquisition cost/valuation	**0**	**23 789**	**14 157**	**169**	**38 115**
Accumulated depreciation	0	-18 348	-9 231	0	-27 579
Carrying value	**0**	**5 441**	**4 926**	**169**	**10 536**

	Land and buildings	Machinery and equipment	Other fixtures	Construction in progress	Total
31.12.2003					
Acquisition cost/valuation	**44 640**	**27 128**	**16 179**	**0**	**87 947**
Accumulated depreciation	-1 284	-16 360	-9 900	0	-27 544
Carrying value	**43 356**	**10 768**	**6 279**	**0**	**60 403**
Changes occurred in 2004					
Acquired during the period	0	139	2 415	949	3 503
Disposed of during the period	-3 952	-108	-284	0	-4 344
Written off during the period	0	-184	-149	0	-333
Depreciation	-1 245	-2 812	-2 276	0	-6 333
31.12.2004					
Acquisition cost/valuation	**40 500**	**24 122**	**13 701**	**949**	**79 272**
Accumulated depreciation	-2 341	-16 319	-7 716	0	-26 376
Carrying value	**38 159**	**7 803**	**5 985**	**949**	**52 896**

In December 2005, registered land and buildings of AS Klementi were sold: an office building located at Akadeemia tee 33, Tallinn (area: 1932 m^2), a production facility located at Kadaka tee 179, Tallinn (area: 8937 m^2), and a logistics and warehouse building located at Kadaka tee 179A, Tallinn (area: 2328 m^2). Registered land and buildings were sold for the total price of 53 000 thousand kroons. The carrying value of registered land and buildings was 37 908 thousand kroons, a profit of 15 092 thousand kroons was earned in the transaction which is recognised in the income statement line “Other operating income” (Note 18). AS Klementi continues to operate as a lessee on the same space under a long-term lease agreement (Note 9).

In Thousands of Estonian Kroons

On 31.12.2002, revaluation of registered land and buildings were carried out. Without the revaluation, the line "Land and buildings" would have included buildings and facilities with the carrying value of 24 283 thousand kroons as of 31.12.2004.

Additional disclosures on the revaluation reserve of non-current assets is provided in Note 15.

Disclosures on pledged assets are provided in Note 29.

Disclosures on non-current assets leased under the finance lease terms are presented in Note 9.

As of 31.12.2005, the cost of items of property, plant and equipment still in use but completely amortised at the Group amounted to 8 140 thousand kroons (31.12.2004: 6 427 thousand kroons).

Note 8 Intangible assets

	Software	Trademarks	Goodwill	Unfinished projects	Total
31.12.2004					
Acquisition cost	**4 506**	**5 717**	**2 185**	**1 469**	**13 877**
Accumulated amortisation	-4 218	-1 776	-309	0	-6 303
Carrying value	**288**	**3 941**	**1 876**	**1 469**	**7 574**
Changes occurred in 2005					
Taken into use	1 469	0	0	-1 469	0
Amortisation charge	-432	-520	0	0	-952
31.12.2005					
Acquisition cost	**4 139**	**5 717**	**1 876**	**0**	**11 732**
Accumulated amortisation	-2 814	-2 296	0	0	-5 110
Carrying value	**1 325**	**3 421**	**1 876**	**0**	**6 622**

	Software	Trademarks	Goodwill	Unfinished projects	Total
31.12.2003					
Acquisition cost	**4 423**	**5 717**	**2 185**	**0**	**12 325**
Accumulated amortisation	-3 671	-1 257	-91	0	-5 019
Carrying value	**752**	**4 460**	**2 094**	**0**	**7 306**
Changes occurred in 2004					
Acquired during the period	86	0	0	1 469	1 555
Written down during the period	-9	0	0	0	-9
Amortisation charge	-540	-519	-218	0	-1 277
31.12.2004					
Acquisition cost	**4 506**	**5 717**	**2 185**	**1 469**	**13 877**
Accumulated amortisation	-4 218	-1 776	-309	0	-6 303
Carrying value	**288**	**3 941**	**1 876**	**1 469**	**7 574**

From 1 January 2005, the financial software Axapta was taken into use. The acquisition cost of software of 1 469 thousand kroons includes the cost of software parts (finance and warehouse, trade and production) launched in stage I as well as software development costs incurred for AS Klementi.

As of 31.12.2005, an impairment test for goodwill was performed. Cash generating unit for goodwill is considered SIA Vision. Calculation of value in use is based on the following assumptions:

In Thousands of Estonian Kroons

1) 2006- 2008 cash flow projections are based on the business plan approved by the Management Board, where the annual average growth rate of 4% for revenue and 5% for expenses;
2) cash flow discount rate used is 15%;
3) key assumption are based on the past experience.

According to impairment test the recoverable value exceeds substantially carrying value of goodwill, therefore no impairment has been identified.

From the beginning of the current financial year, goodwill which arose in the acquisition of a subsidiary before 31.03.2004 is not subject to amortisation.

As of 31.12.2005, the acquisition cost of non-current assets still is use at the Company but completely amortised was 2 689 thousand kroons (31.12.2004: 2 339 thousand kroons).

Note 9 Finance and operating leases

Finance lease – the Group as the lessor

		Land and buildings	**Machinery and equipment**	**Other fixtures**	**Total**
Acquisition cost	31.12.2004	4 449	2 542	56	7 047
Accumulated depreciation	31.12.2004	-521	-1 384	-21	-1 926
Carrying value	**31.12.2004**	**3 928**	**1 158**	**35**	**5 121**
Acquisition cost	31.12.2005	0	1 903	0	1 903
Accumulated depreciation	31.12.2005	0	-1 429	0	-1 429
Carrying value	**31.12.2005**	**0**	**474**	**0**	**474**

	31.12.2005	**31.12.2004**
Minimum lease payments:		
With maturity of up to 1 year	433	2 760
With maturity of 1-5 years	135	914
Total	**568**	**3 674**
Future interest expense of lease	-27	-131
Total present value of future minimum lease payments (Note 10)	**541**	**3 543**
Present value of future minimum lease payments:		
With maturity of up to 1 year	407	3 058
With maturity of 1-5 years	134	485
Total	**541**	**3 543**

Operating lease –the Group as the lessee

In 2005, operating lease payments for retail outlet spaces as well as machinery and equipment amounted to 7 941 thousand kroons (2004: 6 477 thousand kroons).

The future minimum lease payments under non-cancellable operating leases is calculated based on the non-cancellable periods of the leases.

In Thousands of Estonian Kroons

The lease agreements for stores are predominantly not binding for long-term in Estonia and Latvia most of the lease agreements can be terminated with a three to ten month notice. AS Klementi head office and production spaces agreements can be terminated with a one year notice. The information about head office and production spaces sold by AS Klementi in 2005 see in Note 7.

The future minimum lease payments under non-cancellable operating leases in 2006 amounted to

8 070 thousand kroons (2005: 3 324 thousand kroons).

Operating lease – the Group is the lessor

The Group as the lessor has not entered into any non-cancellable operating lease agreements.

Operating lease income includes rental income for space. In 2005, operating lease income totalled 979 thousand kroons (2004: 802 thousand kroons).

In 2005, AS Klementi leased out office space amounted to 738 m^2 (2004: 13 companies and 643.65 m^2) and located at Akadeemia tee 33 to seventeen companies. Lease agreements for office space are cancellable.

Note 10 Short and long-term borrowings

Borrowings as of 31.12.2005	**Current portion within 12 months**	**Non-current portion within 1-5 years**	**Due date**	**Interest rate**
Secured borrowings				
Overdraft from Hansapank	3 470	0	30.06.2006	6%
Short-term loan from Hansapank	6 000	0	15.12.2006	6%
Unsecured borrowings				
Finance lease liability (Note9)	407	134	2005-2007	5.5-8.0%
Other borrowings	505	0	31.07.2006	7%
Loan from bankruptcy estate of PTA Group OY	800	0	31.12.2005	5%
Payable for trademark	4 112	0	15.01.2006	8%
Total	**15 294**	**134**		

During the year, loans were received in the amount of 28 506 thousand kroons (2004: 18 700 thousand kroons), including a loan from Hansapank to finance the current resources in the amount of 26 000 thousand kroons and a finance lease agreement between AS Hansa Liising and AS Klementi in the amount of 2 506 thousand kroons was refinanced. In the accounting period, AS Klementi made principal payments in the amount of 64 096 thousand kroons (2004: 21 920 thousand kroons).

Proceeds received from the sale of registered land and buildings in December 2005 in the amount of 53 000 thousand kroons were used to pay off debt: borrowings from banks were paid off in the amount of 40 706 thousand kroons and loans in the amount of 10 533 were paid off to AS Alta Capital. SEB Eesti Ühispank was paid 10 495 thousand kroons for a short-term bank loan and overdraft. Hansapank was paid a total of 30 211 thousand kroons for short- and long-term loans as well as overdraft.

On 15 December 2005, AS Klementi entered into a long-term loan agreement with Hansapank for refinancing the loans of AS Alta Capital. The loan amount was 7 000 thousand kroons with the interest rate of 6-month Euribor+3.5% with the due date on 15 December 2007. The loan is fixed in euros and with a floating interest rate which is changed in accordance with the changes in Euribor every 6 months and is fixed for the following 6 months. In 2005, the loan balance was zero. The loan was taken into use in January 2006.

In Thousands of Estonian Kroons

All borrowings carried in the balance sheet as of 31 December 2005 payable to credit institutions have fixed interest rates and are fixed in Estonian kroons. The management of the parent company believes that bank loans including the loan with a floating interest rate that was not taken into use in 2005 have been asset raised under market conditions with the market rate of interest and their fair values do not significantly differ from their carrying amounts.

As of 31.12.2005, bank loans and overdraft in use have been contractually fixed in Estonian kroons, therefore they do not carry foreign currency risk.

As of the year-end, the limit of overdraft from Hansapank was 5 000 thousand kroons.

The original due date of the loan received from the bankruptcy estate of PTA Group OY was on 31.12.2005. The loan in the amount of 800 thousand kroons was paid off in January 2006.

Borrowings as of 31.12.2004	**Current portion within 12 months**	**Non-current portion within 1-5 years**	**Repayment date**	**Interest rate**
Secured borrowings				
Loan from Hansapank*	11 525	0	30.01.2005	7%
Loan from Hansapank	3 190	11 430	15.07.2009	Euribor+5%
Loan from SEB Eesti Ühispank	4 912	0	30.06.2005	6%
Overdraft from SEB Eesti Ühispank*	9 022	0	31.01.2005	7%
Overdraft from Hansapank*	6 395	0	31.05.2005	7.75%
Convertible bonds – bankruptcy estate of PTA Group OY (Note 11)	1 200	0	31.12.2005	5%
Unsecured borrowings				
Finance lease liability (Note 9)	3 058	485	2005-2007	Average 8.2%
Other borrowing	866	506	31.07.2006	7%
Loan from bankruptcy estate of PTA Group OY	800	0	31.12.2005	5%
Payable for trademark	1 095	3 265	15.01.2006	8%
Loan from Alta Holding OÜ	1 120	0	21.01.2005	0%
Loan from Alta Capital AS	0	10 533	31.01.2006	8-25%
Total	**43 183**	**26 219**		

* The maturity of the overdraft from SEB Eesti Ühispank, overdraft from Hansapank and loan from Hansapank were extended until 30 June 2005 after the balance sheet date.

In 2004, overdraft limits by banks were as follows:

- Hansapank 8 000 thousand kroons
- SEB Eesti Ühispank 9 333 thousand kroons

Disclosures on pledged assets are provided in Note 29.

In Thousands of Estonian Kroons

Payable for trademark

The payable for trademarks is to the bankruptcy estate of P.T.A. Group OY. The payable for trademarks is reported at the discounted value and is due in 2004-2006. The discount rate is 8%.

Discounted value of trademarks	**31.12.2005**		**31.12.2004**	
	Principal debt	**Interest**	**Principal debt**	**Interest**
Total liability	3 265	848	4 360	1 004
incl. payable within the next 12 months	3 265	848	1 095	156
payable within 1-5 years	0	0	3 265	848

Other borrowing

In 2004, AS Hansa Liising Eesti, Columbus IT Partner Eesti AS and AS Klementi entered into a financing agreement to purchase and install financial software with the payment date on 31 July 2006.

Note 11 Convertible bonds

As of the beginning of 2005, the bankruptcy estate of PTA Group OY held 50 000 convertible bonds of AS Klementi whose conversion to ordinary shares could be required by the bankruptcy estate PTA Group OY until 20.12.2005.

The issue of convertible bonds was decided by the resolution of the General Meeting of Shareholders from 24 March 2000 and the terms of convertible bonds were changed by the resolution of the Extraordinary Meeting of Shareholders of AS Klementi from 28 August 2002. The issue price of convertible bonds was at 24 Estonian kroons per convertible bond and the final redemption date was on 31 December 2005. Until conversion into shares, the convertible bonds had an annualised interest rate of 5%.

On 3 January 2005, the bankruptcy estate of PTA Group OY announced its intention to prematurely convert is convertible bonds into the shares of AS Klementi, using the ratio 1:1.

As a result of the transaction, 50 000 new type A shares were issued with the nominal value of 10 kroons per share and the share premium of 14 kroons per share. As a result, the share capital of AS Klementi increased by 500 thousand kroons and the share premium by 700 thousand kroons. New shares of AS Klementi were issued on 22 March 2005.

Note 12 Trade payables

Trade payables in the amount of 12 573 thousand kroons (31.12.2004: 9 189 thousand kroons) include the amortised cost of accounts payable during ordinary business activities.

Note 13 Other short-term payables

	31.12.2005	**31.12.2004**
Customer prepayments for goods	121	223
Payables to employees	3 458	3 313
Interest and other accrued expenses	329	1 511
Tax liabilities*	1 204	2 626
Prepaid taxes	66	297
Total	**5 178**	**7 970**

In Thousands of Estonian Kroons

*Tax liabilities include a social security and unemployment tax liability calculated on wages and salaries for December but not yet declared as well as personal income taxes, unemployment insurance and contributions to mandatory funded pension withheld on wages and salaries but not yet declared.

Note 14 Short and long-term provisions

Short and long-term provisions consist of monthly compensation paid to a former employee of AS Klementi for permanent incapacitation for work based on a court ruling, whose current portion is 12 thousand kroons (31.12.2004: 12 thousand kroons) and non-current portion is reported in the balance sheet at its probable discounted value in the amount of 143 thousand kroons (31.12.2004: 148 thousand kroons). The discount rate is 5%, the outstanding balance is 19 years. Until the end of 2004, the discount rate was 10%, the outstanding balance of the liability was 10 years.

Note 15 Equity

Share capital

The share capital of AS Klementi in the total amount of 19 469 thousand kroons consists of 1 946 875 shares with a nominal value of 10 kroons each. All shares of AS Klementi are registered class A shares. Each class A share has one vote at the General Meeting of Shareholders. No share certificates have been issued for registered shares. The share register is electronic and is held at the Estonian Central Depository for Securities. According to the articles of association, the maximum share capital of AS Klementi is 52 000 thousand kroons. All issued shares have been paid for.

	31.12.2005	**31.12.2004**
Share capital (in thousand kroons)	19 469	18 969
Number of shares	1 946 875	1 896 875
Nominal value of shares (in kroons)	10,00	10,00

In 2005, the number of shares of AS Klementi increased by 50 000 shares and share capital by 500 thousand kroons in conjunction with the conversion of convertible bonds belonging to the bankruptcy estate of PTA Group OY for shares (Note 11). The share premium which arose in the transactions in the amount of 700 thousand kroons is reported in the balance sheet line “Share premium”.

As of 31.12.2005, the net current liabilities of the Group amounted to 1.9 million kroons (31.12.2004: 17.3 million kroons). The controlling shareholder of AS Klementi, AS Alta Capital (holding through other companies controlled by AS Alta Capital more than 50% of the shares) is willing to provide financial assistance to AS Klementi in case of economic difficulties upon a justified application from the management and if necessary make further investments to guarantee the continuity of AS Klementi’s business operations.

Structure of shareholders

As of 31.12.2005, AS Klementi had 500 shareholders.

Shareholders of AS Klementi with a holding of over 1% as of 31.12.2005:

Name	**Number of shares**	**Holding in share capital**
Share of majority shareholders	1 719 621	88.3%
OÜ Alta Investments I	462 731	23.8%
Bryum Estonia AS	381 809	19.6%
Hansa Baltic Growth Fund	193 758	9.9%
ING Luxembourg S.A.	188 805	9.7%
Alta Capital AS	146 988	7.5%
Firebird Avrora Fund LTD	68 611	3.5%
OÜ Alta Holding	67 500	3.5%
PTA Group OY	50 000	2.6%

In Thousands of Estonian Kroons

Seesam Elukindlustuse AS	50 000	2.6%
AS Hansa Elukindlustus	37 274	1.9%
Skandinaviska Enskilda Banken Finnish Clients	29 296	1.5%
Hansa Pensionifond K3 (Growth strategy)	22 849	1.2%
Peeter Larin	20 000	1.0%
Share of minority shareholders	227 254	11.7%
Total number of shares	**1 946 875**	**100.0%**

As of 31.12.2004, AS Klementi had 507 shareholders.

Shareholders of AS Klementi with a holding of over 1% as of 31.12.2004:

Name	Number of shares	Holding in share capital
Share of majority shareholders	**1 704 444**	**89.9%**
OÜ Alta Investments I	462 731	24.4%
Bryum Estonia AS	381 809	20.1%
ING Luxembourg S.A.	188 805	10.0%
Hansa Baltic Growth Fund	183 769	9.7%
Alta Capital AS	146 988	7.7%
Skandinaviska Enskilda Banken Ab Clients	94 812	5.0%
Firebird Avrora Fund LTD	68 611	3.6%
OÜ Alta Holding	67 500	3.6%
AS Hansa Elukindlustus	37 274	2.0%
Skandinaviska Enskilda Banken Finnish clients	29 296	1.5%
Hansa Pensionifond K3	22 849	1.2%
Peeter Larin	20 000	1.1%
Share of minority shareholders	**192 431**	**10.1%**
Total number of shares	**1 896 875**	**100.0%**

Reserves

Statutory reserve

Statutory reserve is set up to comply with the requirements of the Commercial Code, which under the resolution of the General Meeting of Shareholders can be used to cover the loss if it cannot be covered from the unrestricted equity of the public limited company, and to increase share capital. The minimum amount of statutory reserve is 1/10 of share capital. In 2005 and 2004, statutory reserve was not increased.

Revaluation reserve

In conjunction with the sale of real estate properties, the revaluation reserve in the amount 13 876 thousand kroons was transferred to retained earnings in 2005. In 2004 amortisation of revaluation reserve to retained earnings amounted to 1 702 thousand kroons (Note 7).

Note 16 Segments

The Group treats the business segments by activities as its primary segment and the geographical segments by the location of its customers as its secondary segment.

The retail sector includes the stores of AS Klementi located in Estonia and the subsidiaries engaged in retail trade. The production, wholesale and subcontracting segment includes the assets, liabilities, income and expenses of apparel manufacturing, wholesale trade and other related activities.

In Thousands of Estonian Kroons

The assets and liabilities of the segment do not include financial assets and financial liabilities. The income and expenses of the segment do not include the income and expenses arising from the above-mentioned assets and liabilities.

In the segment report, the unallocated assets of the Group include the administrative building, the unallocated liabilities include long-term loans and interest payable and unallocated operating expenses include administrative costs.

Other major non-monetary expenses are those arising from the write-down of inventories and doubtful receivables.

Primary segment – business segment by activities in 2005

	Retail trade	**Production, wholesale trade and subcontracting**	**Intersegment transactions**	**Total**
Non-group sales	63 946	50 578	0	114 524
Intersegment sales	0	32 722	-32 722	0
Total net sales (Note 17)	**63 946**	**83 300**	**-32 722**	**114 524**
Operating profit/loss of segments	**-959**	**-137**	**0**	**-1 096**
Unallocated operating expenses of the Group				4 034
Total operating profit				**2 938**
Other financial income/expenses				-5 793
Corporate income tax				-360
Net loss				**-3 215**
Assets and receivables	21 726	20 634	0	42 360
Unallocated assets of the Group				9 541
Total assets				**51 901**
Liabilities	1 705	18 947	0	20 652
Unallocated liabilities of the Group				15 597
Total liabilities				**36 249**
Purchase of property, plant and equipment	1 800	424	0	2 224
Depreciation and amortisation	3 582	3 368	0	6 950
Impairment losses of accounts receivable (Note 3, 23)	0	-2 783	0	-2 783
Inventories written off (Note 6)	0	-207	0	-207
Property, plant and equipment written off	-3	-368	0	-371
Unallocated property, plant and equipment written off				-14

In Thousands of Estonian Kroons

Primary segment – business segment by activities in 2004

	Retail trade	Production, wholesale trade and subcontracting	Intersegment transactions	Total
Non-group sales	60 737	67 869	0	128 606
Intersegment sales	0	31 961	-31 961	0
Total net sales (Note 17)	**60 737**	**99 830**	**-31 961**	**128 606**
Operating profit/loss of segments	**-619**	**4 233**	**0**	**3 614**
Unallocated operating income/expenses of the Group				-9 738
Total operating loss				**-6 124**
Other financial income/expenses				-5 777
Net loss				**-11 901**
Assets and receivables	7 753	76 072	0	83 825
Unallocated assets of the Group				22 006
Total assets				**105 831**
Liabilities	528	10 677	0	11 205
Unallocated liabilities of the Group				76 940
Total liabilities				**88 145**
Purchase of property, plant and equipment	2 149	2 909	0	5 058
Depreciation and amortisation	1 874	5 736	0	7 610
Impairment losses of accounts receivable (Note 3, 23)	0	-682	0	-682
Inventories written off (Note 6)	0	-167	0	-167
Property, plant and equipment written off	0	-295	0	-295
Unallocated property, plant and equipment written off				-38

Secondary segment – net sales, total assets and investments by geographical segments

	Net sales		Assets		Property, plant and equipment and intangible assets	
	2005	**2004**	**31.12.05**	**31.12.04**	**2005**	**2004**
Estonia	54 743	53 647	45 049	98 224	1 305	4 723
Latvia	25 050	20 844	6 759	2 024	919	64
Finland	27 700	34 795	37	75	0	0
Other markets	7 031	19 320	56	5 508	0	271
Total	**114 524**	**128 606**	**51 901**	**105 833**	**2 224**	**5 058**

In Thousands of Estonian Kroons

Note 17 Net sales

	2005	2004
Net sales		
Sales of apparel	89 202	100 641
Subcontracting and other services	21 389	26 671
Other sales	3 933	1 294
Total net sales	**114 524**	**128 606**
incl. exports		
Sales of apparel	39 947	53 114
Subcontracting and other services	16 578	20 710
Other sales	3 256	1 135
Total export sales	**59 781**	**74 959**
Percentage of exports in total sales	*52,2%*	*58,3%*

Net sales by countries is disclosed in Note 16.

Note 18 Other operating income

	2005	2004
Revenue from sales of non-current assets (Note 7)	15 256	1 713
Rental income and revenue from intermediation of utilities	1 224	962
Other net sales unrelated to main operations	945	42
Government grants received (Note 19)	88	0
Other revenue	436	546
Foreign exchange gains	0	325
Total other operating income	**17 949**	**3 588**

Note 19 Government grants

In 2005, AS Klementi received a grant in the amount of 88 thousand kroons from Enterprise Estonia to cover its operating expenses The grant was received to cover the cost of the project *Preparation of the Export Plan for AS Klementi* under the Export Plan. Revenue and expenses related to the grant are reported in the income statement under the gross method, under which the expense to be compensated and the benefit received have been reported separately. Revenue from the grant is reported in the line "Other operating income" (Note 18). Due to receiving the grant, AS Klementi does not have any contingent liabilities.

Note 20 Goods, raw materials and services

	2005	2004
Purchased goods	16 609	22 681
Main and ancillary materials	20 498	24 891
Purchased services	2 676	2 062
Other production materials	1 891	1 693
Total	**41 674**	**51 327**

In Thousands of Estonian Kroons

Note 21 Other operating expenses

	2005	2004
Wholesale expenses	4 806	8 584
Retail sales expenses	13 982	12 462
Marketing costs	3 163	2 839
Other administrative expenses	4 678	3 405
Total	**26 629**	**27 290**

Note 22 Personnel expenses

	2005	2004
Wages and salaries	33 137	34 366
Social security taxes	10 900	10 278
Total personnel expenses	**44 037**	**44 644**

Note 23 Miscellaneous expenses

	2005	2004
Irrecoverable and doubtful receivables	2 783	682
Loss from write-down of non-current assets	349	236
Foreign exchange loss	254	0
Tax interest	117	157
Membership fees	40	51
Value added tax expense	482	0
Other expenses	371	496
Total miscellaneous expenses	**4 396**	**1 622**

Note 24 Financial income and expenses

	2005	2004
Other financial income	9	0
Total interest and other financial income and expenses	**9**	**0**
Interest expense	-5 895	-5 438
Other financial expenses	-82	0
Total interest and other financial expenses	**-5 977**	**-5 438**
Foreign exchange profit/loss	175	-339
Total financial income and expenses	**-5 793**	**-5 777**

In Thousands of Estonian Kroons

Note 25 Income tax

In 2005, the subsidiary of AS Klementi, SIA Vision had a corporate income tax and deferred income liability. Other Group companies does not have any deferred income tax liabilities or assets.

	2005	2004
Gross movement of deferred income tax is as follows:		
Balance at the beginning of the year	0	0
Expenses in income statement	66	0
Balance at the end of the year	**66**	**0**
Profit before tax	**2 353**	**1 633**
Latvia – tax rate 15%		
Total profit before tax	**2 535**	**1 633**
Comparison of actual income tax expense with income tax expense calculated for accounting purposes:		
Profit/loss before tax	2 353	1 633
Income tax 15% (2004: 15%)	353	245
Expenses not deductible for tax accounting purposes	7	0
Increase/decrease of deferred unrecognised income tax	0	-245
Total corporate income tax expense	**360**	**0**
Current tax expense	294	0
Deferred tax expense	66	0

Note 26 Loss per share

		2005	2004
Weighted average number of shares	pc	1 935 916	1 896 875
Net loss	thous. kr.	-3 215	-11 901
Basic loss per share in kroons	**kroons**	**-1.66**	**-6.27**
Diluted loss per share in kroons	**kroons**	**-1.66**	**-6.27**

As of the beginning of 2005, the number of ordinary share was 1 896 875. In 2005, 50 000 ordinary shares were issued. As of 31.12.2005, the number of shares was 1 946 875 (Note 11).

Diluted loss per share do not differ from basic loss per share, because AS Klementi does not have any financial instruments which might dilute loss per share.

Note 27 Related party transactions

In preparing the consolidated financial statements of AS Klementi, parties have been considered as related if one party has control or significant influence over the financial and operating decisions of the other party. In preparing these financial statements, related parties include:

a) Owners, that have either significant influence or control, generally implying an ownership interest of 20% or more (Note 15);

b) members of the management, the management board and the supervisory board;

c) close family members of the persons mentioned above and companies under their control or significant influence;

In Thousands of Estonian Kroons

	2005		2004	
	Purchases	**Sales**	**Purchases**	**Sales**
Purchases-sales of goods and services				
Companies related to the members of Management and Supervisory Boards	1 306	0	46	7
Total purchases-sales of goods and services	**1 306**	**0**	**46**	**7**

	2005	2004
Loans from companies related to the members of Management and Supervisory Boards		
Balance at beginning of the period	11 653	1 120
Loans received	0	11 200
Repayments of loans	-11 653	-667
Balance at end of the period	**0**	**11 653**
Interest paid on loans received	**2 283**	**0**

	31.12.2005	31.12.2004
Balances with related parties		
Companies related to the members of Management and Supervisory Boards	1 233	59
Total current liabilities	**1 233**	**59**

In 2004, the Company has loans which differed from market conditions and whose interest rate was 0% (loan balance on 31.12.2004 was 1 120 thousand kroons) and the interest rate was 25% (loan balance on 31.12.2004 was 333 thousand kroons).

	2005	2004
Compensation paid to the members of the Management Board		
Remuneration and compensations	773	720
Total	**773**	**720**

Upon the recall of the member of the Management Board, she/he will receive compensation equalling a six-month salary.
In 2004 and 2005 the members of Supervisory Board did not receive any remunerations and compensations.

In Thousands of Estonian Kroons

Note 28 Investments into subsidiaries

Subsidiary	Country of location	Area of operation	Holding 31.12.2005	Holding 31.12.2004
Klementi Trading UAB (under liquidation proceedings)	Lithuania	Retail trade	100%	100%
Klementi Trading OY	Finland	Wholesale trade	100%	100%
Klementi Trading AB	Sweden	Wholesale trade	100%	100%
SIA Vision	Latvia	Retail trade	100%	100%

Note 29 Loan collateral and pledged assets

In conjunction with the sale of registered land and buildings, loans from banks were repaid (Note 10) and thus the collaterals were changed in 2005. To guarantee overdraft, short and long-term loans, AS Klementi has entered into a commercial pledge agreement on the movable property in the amount of 29 000 thousand kroons for the benefit of AS Hansapank. Loans and overdraft received from AS Hansapank have been provided surety for by the shareholder of AS Klementi, Alta Capital AS.

As of 31.12.2005, AS Klementi has bank guarantees for future payments to the suppliers in the amount of 1 225 thousand kroons (2004: 1 110 thousand kroons) and lease payments of the stores in the amount of 1 088 thousand kroons. Guarantee to the Customs Board amounted to 400 thousand kroons (2004: 900 thousand kroons).

Note 30 Financial risks

The Company may experience different financial risks in its daily operations whose management is an important part of the business activities of the Group. The main risks which may exist include foreign currency risk, credit risk, and interest rate risk.

The basis for risk management at the Group is adherence to requirements established by Tallinn Stock Exchange, the Financial Supervision Authority and other regulatory bodies, observance of the generally accepted accounting principles and internal rules and regulations of the Company.

Foreign currency risk

In 2005, exports made up 52.2% of AS Klementi's consolidated net sales (2004: 58.3%). Most of the materials purchased for production were purchased from outside of the Republic of Estonia. The major foreign currencies which the Company encounters in its daily activities include EUR, USD, LVL and SEK. In purchasing services and goods, foreign currency transaction are carried out mostly in the following currencies: EUR and USD, and foreign currency transactions related to sales are mostly in euros. The Group is exposed to fluctuations of SEK, USD, LVL. The Company does not use any forward and options contracts, or other money market instruments to hedge foreign currency risk because the analysis of the Company's management has shown that risks which have arisen from open foreign currency positions do not exceed the costs related to the use of these instruments.

The Group's results were affected by changes in average exchange rates in relation to the Estonian kroon in countries in which AS Klementi has subsidiaries: Latvian lats –4.5% and Swedish krona –1.7%. Net effect on 2005 result was profit 4,1 thousand kroons.

Credit risk

Credit risk arises from the inability of the company's business partners to meet their obligations. It has primarily to do with the ability of customers to pay for the goods on time . The Company provides credit to its most reliable customers. The credit term is provided for 30-90 days and the limit is set at 50-500 thousand kroons. There have been no guarantees granted for receivables from customers. In retail business the credit risk is limited as the sales are for cash or credit card.

Interest rate risk

The Group's interest rate risk is dependent on the fluctuation of Euribor (Note 10).

Liquidity risk

As at 31 December 2005, the Group's current liabilities exceed its current assets. This situation arises from a large proportion of borrowings in current liabilities assumed in previous financial years to finance the Company's operating activities. The Company's management has prepared the cash flow forecast for 2006, according to which the Group's positive cash flows and profitability should ensure positive working capital by the end of 2006. It is possible to increase overdraft limit at Hansapank to solve temporary liquidity problems.

Note 31 Contingent liabilities

During the years 2004-2005, tax authorities have not carried out a tax audit at the Group companies. The tax authorities may at any time inspect the books and records of the company within 6 years subsequent to the reported tax year, and may as a result of their inspection impose additional tax assessments and penalties.

The Company's management is not aware of any circumstances which may give rise to a potential material liability in any Group company in this respect.

Note 32 Off-balance sheet assets

As of 31.12.2005, AS Klementi had custody of commission goods in the amount of 15 thousand kroons (31.12.2004: 151 thousand kroons).

Note 33 Fair value

The Company's management estimates that there are not any material differences between the carrying amounts and the fair values of financial assets and liabilities.

In Thousands of Estonian Kroons

Note 34 Financial information on the parent company

Financial information disclosed for the parent company encompasses the separate financial statements of the parent company, as required by the Estonian Accounting Act.

BALANCE SHEET

	31.12.2005	31.12.2004
ASSETS		
Current assets		
Cash and bank	1 921	1 802
Trade receivables	3 034	7 807
Other receivables and prepaid expenses	1 626	12 612
Prepaid taxes	0	37
Inventories	23 582	25 139
Total current assets	**30 163**	**47 397**
Non-current assets		
Shares of subsidiaries	2 584	2 656
Long-term financial investments	813	1 018
Property, plant and equipment	9 328	51 854
Intangible assets	4 746	5 698
Total non-current assets	**17 471**	**61 226**
TOTAL ASSETS	**47 634**	**108 623**
LIABILITIES		
Current liabilities		
Borrowings	15 294	43 183
Trade payables	11 787	9 107
Tax liabilities	2 133	1 340
Other short-term payables	5 031	12 141
Short-term provisions	12	12
Total current liabilities	**34 257**	**65 783**
Non-current liabilities		
Long-term borrowings	134	26 219
Other long-term payables	0	25
Long-term provisions	143	148
Total non-current liabilities	**277**	**26 392**
Total liabilities	**34 534**	**92 175**
Equity		
Share capital at nominal value	19 469	18 969
Share premium	40 994	40 294
Revaluation reserve	0	13 876
Statutory reserve	1 046	1 046
Retained earnings	-43 861	-44 741
Net loss for financial year	-4 548	-12 996
TOTAL EQUITY	**13 100**	**16 448**
TOTAL LIABILITIES AND EQUITY	**47 634**	**108 623**

In Thousands of Estonian Kroons

INCOME STATEMENT

REVENUE	**2005**	**2004**
Net sales	103 664	116 572
Other operating income	22 597	3 570
Total revenue	**126 261**	**120 142**
Change in inventories of work-in-progress and finished goods	-3 509	-389
Goods, raw materials and services	-42 094	-49 940
Other operating expenses	-20 254	-26 962
Staff costs	-41 202	-41 565
Depreciation and amortisation	-6 532	-7 009
Miscellaneous expenses	-11 503	-1 536
Total operating expenses	**-125 094**	**-127 401**
Operating profit/loss	**1 167**	**-7 259**
Financial income/expenses		
Interest expenses	-5 895	-5 454
Foreign exchange gains/losses	175	-283
Other financial income/expenses	5	0
Total financial income/expenses	**-5 715**	**-5 737**
Net loss for the period	**-4 548**	**-12 996**

In Thousands of Estonian Kroons

Cash flow statement

	2005	2004
Cash flow from operating activities		
Net loss	-4 548	-12 996
Adjustments:		
Depreciation and amortisation	6 533	7 011
Proceeds from sale of non-current assets	-15 256	-1 701
Loss from write-off of non-current assets	129	239
Change in receivables and prepayments related to operating activities	16 221	758
Change in inventories	1 557	-665
Change in liabilities and prepayments related to operating activities	2 973	14 712
Interest paid	-6 299	-4 777
Total cash flow from operating activities	**1 310**	**2 581**
Cash flow from investing activities		
Purchase of property, plant and equipment and construction in progress	-1 305	-2 990
Proceeds from sale of property, plant and equipment	53 374	6 041
Trademark fees paid	-1 095	-626
Receipt of loans granted	323	224
Interest received	38	50
Total cash flow from investing activities	**51 335**	**2 699**
Cash flow from financing activities		
Repayments of borrowings	-64 096	-21 920
Proceeds from borrowings	28 506	18 700
Finance lease principal payments	-3 002	-981
Change in overdraft balance	-11 947	-1 016
Repayment of other borrowings	-867	-361
Repayments of other loans	-1 120	0
Total cash flow from financing activities	**-52 526**	**-5 578**
Total cash flow	**119**	**-298**
Cash and cash equivalents at beginning of the period	**1 802**	**2 100**
Net decrease/increase in cash and cash equivalents	119	-298
Cash and cash equivalents at end of the period	**1 921**	**1 802**

In Thousands of Estonian Kroons

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Revaluation reserve	Statutory reserve	Currency translation differences	Retained earnings	Total
Balance as of 31.12.2003							
as reported in the Annual Report	**18 969**	**40 294**	**15 578**	**1 046**	**64**	**-46 439**	**29 512**
Effect of changes in accounting policies	**0**	**0**	**0**	**0**	**-64**	**369**	**305**
Adjusted balance 01.01.2004	**18 969**	**40 294**	**15 578**	**1046**	**0**	**-46 070**	**29 817**
Depreciation transfer	0	0	-1 702	0	0	1 702	0
Net loss for 2004	0	0	0	0	0	-12 996	-12 996
Balance as of 31.12.2004							
As reported in the Annual Report	**18 969**	**40 294**	**13 876**	**1 046**	**139**	**-57 364**	**16 960**
Effect of changes in accounting policies	**0**	**0**	**0**	**0**	**-139**	**-373**	**-512**
Adjusted balance 31.12.2004	**18 969**	**40 294**	**13 876**	**1 046**	**0**	**-57 737**	**16 448**
Carrying amounts of holdings under control and significant influence							-2 656
Carrying amounts of holdings under control and significant influence under the equity method							3 711
Adjusted unconsolidated equity 31.12.2004							**17 503**
Issued share capital	500	700	0	0	0	0	1 200
Transfer from revaluation reserve to retained earnings	0	0	-13 876	0	0	13 876	0
Net loss for 2005	0	0	0	0	0	-4 548	- 4 548
Balance as of 31.12.2005	**19 469**	**40 994**	**0**	**1 046**	**0**	**-48 409**	**13 100**
Carrying amounts of holdings under control and significant influence							-2 584
Carrying amounts of holdings under control and significant influence under the equity method							5 948
Adjusted unconsolidated equity 31.12.2005							**16 464**

AUDITOR' REPORT

PROPOSAL FOR COVERING THE LOSS FOR THE FINANCIAL YEAR

As of 31.12.2005, retained earnings and the net loss for the financial year were the following:

Retained earnings	-42 762 thous. kroons
Net loss for financial year	- 3 215 thous. kroons
Total loss	- 45 977 thous. kroons

The Management Board of AS Klementi proposes to the General Meeting of Shareholders to allocate the net loss for 2005 as follows:

-3 215 thousand kroons to retained earnings.

Peeter Larin
Chairman of the Management Board

SIGNATURES OF THE MANAGEMENT AND SUPERVISORY BOARDS TO THE 2005 ANNUAL REPORT

The Management Board has prepared the management report and the financial statements for the year 2005.
The Supervisory Board has reviewed the Annual Report which consists of the management report, the financial statements which were prepared by the Management Board, as well as a proposal for covering the loss and the auditor's report and approved it for presentation at the General Meeting of Shareholders.

Peeter Larin Chairman of the Management Board____________________ ___.___.2006

Marianne Paas Member of the Management Board ____________________ ___.___.2006

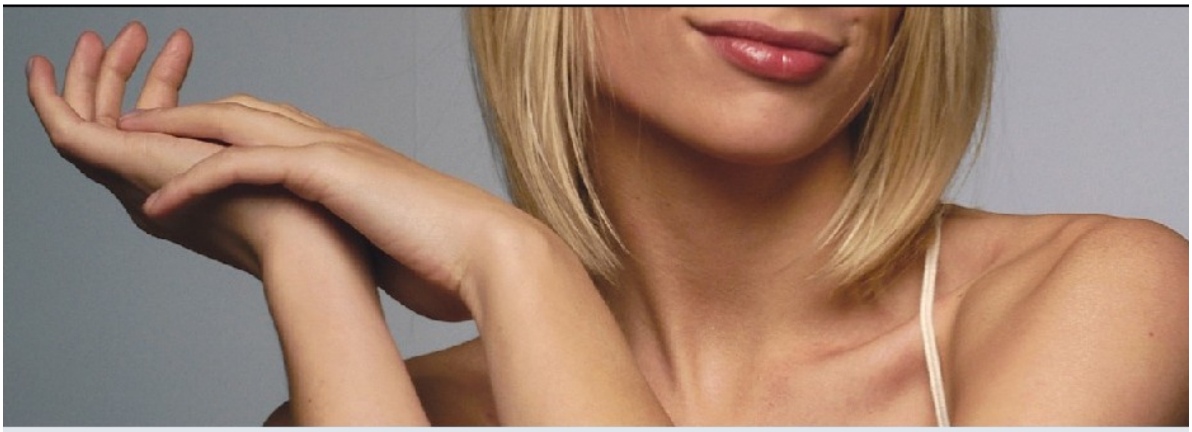
Indrek Rahumaa Chairman of the Supervisory Board____________________ ___.___.2006

Andres Rätsepp Member of the Supervisory Board ____________________ ___.___.2006

Sven Mansberg Member of the Supervisory Board ____________________ ___.___.2006

Sakari Sorri Member of the Supervisory Board____________________ ___.___.2006

KLEMENTI



ANNUAL REPORT

Financial year: 1 January 2004 – 31 December 2004

(Translation of the Estonian original)

GENERAL INFORMATION

Business name:	AS Klementi
Commercial Registry No.:	10175491
Address:	Akadeemia tee 33, 12618 TALLINN
Phone:	+372 6710 700
Fax:	+372 6710 709
E-mail:	klementi@klementi.ee
Internet homepage:	www.klementi.ee
Main activities	design, manufacturing and sale of apparel
Form of ownership:	public limited company
Managing Director:	Toomas Leis
Financial Manager:	Marianne Paas
Auditor:	AS PricewaterhouseCoopers

Table of Contents

2004 FINANCIAL STATEMENTS

Management Board's confirmation of the financial statements

The Management Board of AS Klementi confirms the correctness and completeness of AS Klementi's (parent company) and the group's 2004 financial statements as presented on pages 8-35.

The Management Board confirms that:

- The financial statements have been prepared in accordance with the generally accepted accounting principles and International Financial Reporting Standards;
- the financial statements present a true and fair view of the financial position, the results of the operations and the cash flows of the parent company and the group;
- AS Klementi is a going concern.

8 June 2005

Toomas Leis
Managing Director

Balance sheet

in thousands of kroons

	Group 31.12.04	Group 31.12.03	Parent 31.12.04	Parent 31.12.03	Note
» Assets					
Cash and bank	3 400	2 916	1 802	2 100	2
Trade receivables	9 906	14 862	7 807	5 649	3
Other receivables	1 706	1 097	12 430	16 527	4
Prepayments	1 141	945	404	554	5
Inventories	28 255	33 284	25 139	24 474	6
Total current assets	**44 408**	**53 104**	**47 582**	**49 304**	
Subsidiaries and associates	-	-	3 711	2 493	7
Long-term financial investments	955	1 173	1 018	1 219	7
Property, plant and equipment	52 896	60 403	51 854	59 212	8
Intangible assets	7 574	7 306	5 698	5 208	9
Total non-current assets	**61 425**	**68 882**	**62 281**	**68 132**	
TOTAL ASSETS	**105 833**	**121 986**	**109 863**	**117 436**	
» Liabilities and equity					
Borrowings	43 183	48 386	43 183	48 386	11
Customer prepayments	223	470	223	470	
Supplier payables	9 189	9 745	9 107	7 544	12
Other payables	-	-	4 563	7	13
Tax liabilities	1 399	2 255	1 340	1 728	14
Accrued expenses and prepayments	7 747	6 051	7 355	4 222	15
Short-term provisions	12	12	12	12	16
Total current liabilities	**61 753**	**66 919**	**65 783**	**62 369**	
Long-term borrowings	26 219	25 487	26 219	25 487	11
Other long-term payables	25	-	25	0	
Long-term provisions	148	68	148	68	16
Total non-current liabilities	**26 392**	**25 555**	**26 392**	**25 555**	
TOTAL LIABILITIES	**88 145**	**92 474**	**92 175**	**87 924**	
Share capital at nominal value	18 969	18 969	18 969	18 969	17
Share premium	40 294	40 294	40 294	40 294	
Revaluation reserve	13 876	15 578	13 876	15 578	
Statutory reserve capital	1 046	1 046	1 046	1 046	
Retained earnings	-44 735	-24 798	-44 735	-24 798	
Unrealised exchange rate differences	139	64	139	64	
Net loss for financial year	-11 901	-21 641	-11 901	-21 641	19
TOTAL EQUITY	**17 688**	**29 512**	**17 688**	**29 512**	
TOTAL LIABILITIES AND EQUITY	**105 833**	**121 986**	**109 863**	**117 436**	

The accounting policies and notes to the financial statements presented on pages 13-35 form an integral part of the financial statements.

Income statement

in thousands of kroons

	Group 2004	Group 2003	Parent 2004	Parent 2003	Note
Net sales	128 606	133 630	116 572	127 874	18,21
Other operating income	4 233	2 254	4 215	2 261	22
TOTAL OPERATING INCOME	**132 839**	**135 884**	**120 787**	**130 135**	
Change in work-in-progress and inventories of finished goods	5 825	3 220	389	4 473	
Goods, raw materials and services	49 265	50 634	47 878	50 016	
Operating expenses	28 754	35 504	28 341	35 670	23
Staff costs	44 644	52 720	41 565	46 938	24
Depreciation and amortisation	7 610	7 572	7 009	7 022	8,9
Other operating expenses	2 564	2 152	2 564	2 119	25
TOTAL OPERATING EXPENSES	**138 662**	**151 802**	**127 746**	**146 238**	
OPERATING LOSS	**-5 823**	**-15 918**	**-6 959**	**-16 103**	
Net financial income and expenses from subsidiaries	-	-	1 096	-394	
Interest expenses	-5 922	-5 754	-5 938	-5 314	
Foreign exchange loss	-156	45	-100	-158	
Other financial income/expenses	-	-14	-	328	
Total financial income/expenses	**-6 078**	**-5 723**	**-4 942**	**-5 538**	
NET LOSS	**-11 901**	**-21 641**	**-11 901**	**-21 641**	
Loss per ordinary share (kr)	*-6.27*	*-13,19*	*-6.27*	*-13,19*	19
Diluted loss per ordinary share (kr)	*-6.27*	*-13,19*	*-6.27*	*-13,19*	19

The accounting policies and notes to the financial statements presented on pages 13-35 form an integral part of the financial statements.

Cash flow statement

in thousands of kroons

	Group 2004	Group 2003	Parent 2004	Parent 2003	Note
Cash flow from operating activities					
Net loss	-11 901	-21 641	-11 901	-21 641	
Adjustments:					
Depreciation and amortisation	7 610	7 572	7 011	7 022	8,9
Profit from sale of property, plant and equipment	-1 701	-105	-1 701	-105	
Loss from write-off of property, plant and equipment	353	197	239	197	
Change in receivables and prepayments related to operating activities	2 957	-2 334	758	-5 198	
Change in inventories	5 029	-4 282	-665	1 583	
Change in liabilities and prepayments related to operating activities	6 144	5 156	14 713	935	
Interest paid	-4 787	-5 911	-4 777	-5 471	
Other financial income	-	-818	-	-818	
Profit (-loss) from long-term financial investments	-	7	-1 096	1 095	
Total cash flow from operating activities	**3 704**	**-22 159**	**2 581**	**-22 401**	
Cash flow from investing activities					
Purchase of property, plant and equipment and construction in progress	-3 325	-3 310	-2 990	-2 626	8,9
Proceeds from sale of property, plant and equipment	6 035	541	6 041	541	
Proceeds from sale of associate	-	14	-	14	
Acquisition of subsidiaries	-	351	-	-219	
Repayment of trademark	-626	-300	-626	-300	11
Loans and quarantees granted	-	-136	-	-119	
Receipt of loans granted	224	721	224	721	
Interest received	50	63	50	63	
Total cash flow from investing activities	**2 358**	**-2 056**	**2 699**	**-1 925**	
Cash flow from financing activities					
Repayments of borrowings	-21 920	-34 963	-21 920	-34 963	11
Proceeds from borrowings	18 700	38 000	18 700	38 000	11
Finance lease principal payments	-981	-1 535	-981	-1 535	10
Proceeds from issue of shares	-	15 181	-	15 181	
Change in balance of overdraft	-1 016	5 963	-1 016	5 963	11
Factoring payments	-361	-	-361	-	
Total cash flow from financing activities	**-5 578**	**22 646**	**-5 578**	**22 646**	
Total cash flow	**484**	**-1 569**	**-298**	**-1 680**	
Cash and cash equivalents at beginning of year	2 916	4 485	2 100	3 780	2
Cash and cash equivalents at end of year	3 400	2 916	1 802	2 100	2

The accounting policies and notes to the financial statements presented on pages 13-35 form an integral part of the financial statements.

Statement of changes in equity

in thousands of kroons

	Number of shares	Share capital	Share premium	Revaluation reserve	Statutory reserve capital	Unrealised exchange rate differences	Retained earnings	**Total**
Balance as of 31.12.2002	**1 321 875**	**13 219**	**30 863**	**15 578**	**1 046**	**-**	**-24 798**	**35 908**
Increase of share capital	575 000	5 750	9 431	**-**	**-**	**-**	**-**	**15 181**
Net loss for 2003	-	-	-	**-**	**-**	**-**	-21 641	**-21 641**
Balance as of 31.12.2003	**1 896 875**	**18 969**	**40 294**	**15 578**	**1 046**	**64**	**-46 439**	**29 512**
Amortisation of revaluation reserve to retained earnings	-	-	-	-1 702	-	-	1 702	-
Unrealised exchange rate differences	-	-	-	-	-	75	-	75
Net loss for 2004	-	-	-	-	-	-	-11 901	-11 901
Balance as of 31.12.2004	**1 896 875**	**18 969**	**40 294**	**13 876**	**1 046**	**139**	**-56 636**	**17 688**

More detailed information on share capital is provided in Notes 17 and 19.

The accounting policies and notes to the financial statements presented on pages 13-35 form an integral part of the financial statements.

Note 1. Accounting policies used in the preparation of the financial statements

The consolidated financial statements of AS Klementi for the year ended on 31 December 2004 include the financial statements of the parent company and its subsidiaries (hereinafter the group). The consolidated financial statements of the group and the separate financial statements of AS Klementi have been prepared in accordance with International Financial Reporting Standards (*IFRS*).

The financial statements have been prepared in thousands of Estonian kroons, unless another currency is referred to.

The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates. The management estimates are mainly used for assessing the formation and revaluation of provisions, assessing the useful life of the fixed assets, impairment tests, valuation of accounts receivable and inventories. The effects of changes in the management estimates are recognized in the period of the change and future periods, if the change affects future periods.

Comparability

The financial statements are prepared in accordance with the comparability and consistency principles, the nature and impact of any changes in accounting methods is explained in respective notes. When the presentation or classification of items in the financial statements is amended, comparative amounts for the previous period are also reclassified.

Preparation of the consolidated financial statements

In the group's consolidated financial statements, the financial statements of the parent and its subsidiaries have been combined on a line-by-line basis. Intragroup balances and intragroup transactions and the resulting unrealised profits and losses have been eliminated in full.

The 2004 consolidated financial statements include the financial statements of AS Klementi (parent company) and its subsidiaries UAB Klementi Vilnius, SIA Vision, Klementi Trading OY and Klementi Trading AB.

Accounting policies adopted by the Group companies are similar in all material respects.

In the parent's separate financial statements, investments in subsidiaries are accounted for under the equity method. Under the equity method, the effect of unrealised gains and losses arising from intra-group transactions has been eliminated based on the holding of the group or the parent company in the subsidiary.

Subsidiaries

Subsidiary is an entity controlled by the parent company. Control is presumed to exist when the parent owns, directly or indirectly, more than 50% of the voting power of an enterprise or otherwise has power to govern the financial and operating policies. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. According to the purchase method the assets and liabilities of the subsidiary acquired are measured at their fair values and the difference between the cost of acquisition and the fair value of the net assets of the subsidiary acquired is recorded as goodwill.

Associates

Associate is an entity over which the group has significant influence, but which it does not control. Generally, significant influence is presumed to exist when the group holds between 20% and 50% of the voting power of the investee.

Investments in associates are accounted for under the equity method of accounting. Under this method, the investment is initially recorded at cost and the carrying amount is increased or decreased to recognise the investor's share of the profits or losses of the investee after the date of acquisition and also to recognise the amortisation of goodwill arising from the acquisition.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents are cash on hand, bank account balances (except for overdraft) and short-term deposits (up to 3 months) as well as cash collected. The indirect method has been used for the preparation of the cash flow statement.

Investments

Investments in shares of other companies (except for investments in subsidiaries and associated companies) are initially recognised in the balance sheet at cost and subsequently carried at their fair value. Change in fair value is recorded as income or expense in the income statement.

Foreign currency transactions and assets and liabilities denominated in a foreign currency

(a) Measurement currency

The financial statements of the group companies have been prepared using the currency (*measurement currency*) which reflects the company's economic environment the best. The consolidated financial statements have been presented in Estonian kroons, which is the measurement currency of the parent company.

(b) Foreign currency transactions

Foreign currency transactions have been recorded based on foreign currency exchange rates of the Bank of Estonia prevailing on the transaction dates. In the case of differences in the transfer of cash and exchange rates on the transaction date, the exchange rate differences are recorded in the income statement.

(c) Assets and liabilities denominated in foreign currencies

Assets and liabilities denominated in foreign currencies have been translated into Estonian kroons based on the foreign currency exchange rates of the Bank of Estonia prevailing on the balance sheet date. Gains and losses on translation are recorded in the income statement.

(d) Group companies

Income statements and cash flows of foreign entities are translated into Estonian kroons at average exchange rates for the year and their balance sheets are translated at the exchange rates ruling on 31 December. Unrealised exchange differences arising from the translation are taken to shareholders' equity. When a foreign entity is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Trade receivables

Trade receivables are carried at amortised cost (original invoice amount less allowance made for impairment of these receivables and discounts). An allowance for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

Other receivables

Other receivables (accrued income, loans granted and other short and long-term receivables), except for receivables acquired for the purpose of selling, are carried at amortised cost.

Short-term receivables are normally measured at original invoice amount less a provision made for impairment of these receivables; therefore short-term receivables are carried in the balance sheet at the collectible amount.

Long-term receivables are initially recognised at the fair value of the consideration receivable and subsequently measured at amortised cost using the effective interest rate method.

Inventories

Inventories are stated at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Cost is determined using weighted average cost method.
Purchased goods and raw material are recorded in the balance sheet at cost, consisting of the cost, transportation costs and other direct costs related to the purchase. Work in progress and finished goods are recorded at production cost, consisting of the direct and indirect production costs.

Property, plant and equipment

Property, plant and equipment is stated at historical cost (except for land and buildings) less accumulated depreciation and any impairment.

Assets with the useful life of over 1 year are considered to be property, plant and equipment.

Since the year 2002 the fixed asset group “Land and buildings” is recorded based on the revaluation method. The revaluation is carried out by independent real estate experts. The revaluation surplus is recorded in the revaluation reserve, and any impairment decrease (exceeding the earlier valuation surplus) is recorded in the expenses. In the course of revaluation, the earlier accumulated depreciation is eliminated and the revalued amount is considered as the “new acquisition cost”. Each year, the revaluation reserve is decreased by the difference of the depreciation charge arising from the difference in the cost of land and buildings and the revalued amount; and it is added to retained earnings. The revaluation reserve of non-current assets is part of restricted equity and no distributions can be made from it to the shareholders.

Property, plant and equipment is initially recognised at its cost which consists of the purchase price (incl. customs duties and other non-refundable taxes) and other expenditures directly related to the acquisition that are necessary for bringing the asset to its operating condition and location.

Subsequent expenditure relating to fixed assets is charged to the income statement during the financial period in which they are incurred. Expenditure is added to the cost of asset if it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. Low-value items are fully expensed when the asset is taken into use.

Depreciation is calculated using the straight-line depreciation method based on the following estimated useful lives:

production facility	3%
other buildings	10%
sewing equipment	10-15%
other machinery	20%
computer equipment	30%

transport vehicles	20%
tools and fittings	25-30%
fittings of warehouses	5%

The subsidiaries use the parent's depreciation rates.

Where an asset's carrying amount is greater than its estimated recoverable amount (higher of an asset's net selling price and its value in use), it is written down immediately to its recoverable amount.

Intangible assets

An intangible asset is measured initially at cost, comprising of its purchase price and any directly attributable expenditure on preparing the asset for its intended use. After initial recognition, an intangible asset is carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised using the straight-line method over its estimated useful life.

Trademarks and licenses:

Product development expenditures (incl. design and development of trademarks) are expensed when incurred.

Purchased trademarks are depreciated using the straight-line method over 10 years.

Software:

Software acquisition expenditures are capitalised on the balance sheet as intangible asset and are depreciated over five years using the straight-line method. If the acquired software is necessary for operating hardware then the acquisition cost of software is capitalised as part of the acquisition cost of hardware and is depreciated with hardware based on the hardware's estimated useful life.

Goodwill:

Goodwill represents the excess of the cost of an acquisition over the fair value of the company's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets in consolidated financial statements and in investments in subsidiaries in parent company's separate financial statements. Positive goodwill is amortised using the straight-line method over estimated useful life of the respective companies at the time of the acquisition (over a maximum period of 10 years). Estimated useful life is determined considering factors such as existing market share, potential for growth and other factors inherent in the acquired companies.

Development costs:

Development costs are expenses that are incurred for the implementation of research findings for developing new specific products or services. Development costs are capitalised in case a schedule exists for utilising the project and the future revenues from the intangible asset can be determined.

Leases

Leases of property, plant and equipment where the company has substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases.

The company is the lessee

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the repayment of a liability and finance charges (interest expense). The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Tangible fixed assets acquired under finance leases are depreciated similarly to acquired assets over the shorter of the useful life of the asset or the lease term.

Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

The company is the lessor
When assets are leased out under a finance lease, the amount equal to the net investment in the lease is recognised as a receivable (the aggregate of: the present value of the lease payments receivable by the lessor under a finance lease, and any unguaranteed residual value accruing to the lessor). Each lease payment received is allocated between the receivable and finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets leased out under operating leases are included in tangible fixed assets in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned tangible fixed assets. Rental income is recognised on a straight-line basis over the lease term.

Loans and securities
Borrowings and securities are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings and securities are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.
The effective interest rate is the rate that exactly discounts the expected stream of future cash payments through maturity. The amortisation of the transaction costs is presented in the income statement together with the interest expenses.

Interest expenses are recognised on an accrual basis in the income statement. Accrued interests are recorded in the balance sheet under accrued expenses.

In case of convertible bonds the shareholders' equity and liabilities component are recorded separately, except for when the shareholders' equity component is immaterial (then the whole amount is recorded as liability).

Provisions and contingent liabilities
Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. The provisions are recognised based on the management's estimates regarding the amount and timing of the expected outflows.

Promises, guarantees and other commitments that in certain circumstances may become obligations, but it is not probable that an outflow of resources will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability, are disclosed in the notes to the financial statements as contingent liabilities.

Financial liabilities
All financial liabilities (supplier payables, borrowings, accrued expenses, other short and long-term borrowings) are initially recorded at the proceeds received, net of transaction costs incurred. After initial recognition, financial liabilities are measured at amortised cost.

The amortised cost of short-term liabilities normally equals their nominal value; therefore short-term liabilities are stated in the balance sheet in their redemption value. Long-term liabilities are subsequently stated at amortised cost using the effective interest rate method.

Taxes

Corporate income tax

According to the Income Tax Act, the annual profit earned by enterprises is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is subject to the tax rate of 24/76 (until 31.12.2004: 26/74) of the amount paid out as net dividends. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

Corporate income tax of foreign subsidiaries

Foreign subsidiaries are the subjects of corporate income tax, adjusted with temporary and permanent differences between the tax bases of assets and liabilities and their carrying values in the balance sheet. In the financial year the income tax rates applicable to the Group companies were as follows: UAB Klementi Vilnius (Lithuania) – 15%, Klementi Trading OY (Finland) – 29%, Klementi Trading AB (Sweden) - 28%, SIA Vision (Latvia) - 19%.

Deferred tax is provided for all temporary differences between the tax bases of assets and liabilities and their carrying values in the balance sheet. Main temporary differences arise from depreciation of fixed assets and tax losses carried forward. Deferred tax assets in respect of tax loss carry forwards are recognized in the balance sheet only if their realization is probable.

Statutory reserve capital

Reserve capital is formed to comply with the requirements of the Commercial Code. Reserve capital is formed from annual net profit allocations. During each financial year, at least one-twentieth of the net profit shall be entered in the reserve capital, until the reserve capital reaches one-tenth of the share capital. Reserve capital may be used to cover a loss, or to increase share capital. No distributions can be made from the reserve capital.

Revenue recognition

Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer, when the amount of revenue and the costs incurred in respect of the transaction can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the enterprise. Revenue from rendering of services is recorded upon the rendering of the service or when services are performed over a longer period of time, based on the stage of completion.

Revenue arising from interest, license fees and dividends is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Interest income is recognised taking into account the effective interest rate, except when the receipt of interest is uncertain. In such cases interest income is accounted for on a cash basis. Revenue arising from license fees is recognised on an accrual basis in accordance with the substance of the relevant agreements. Dividends are recognised when the right to receive payment is established.

Revenue recognition on service contracts

When the outcome of a service contract (contract revenue and costs) can be estimated reliably and it is probable that the economic benefits associated with the transaction will flow to the enterprise, contract revenue from nonrecurring services to be performed over a longer period of time is recognised using the stage of completion method. Contract revenue and profits are recognised in the proportion and in the accounting periods in which the contract costs associated with the service contract incurred.

The stage of completion is measured by reference to the relationship contract costs incurred for work performed to date bear to the estimated total costs for the contract.

When the outcome of a service contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred when it is probable that these costs will be recoverable. When it is not probable that the costs incurred will be recovered, revenue is not recognised. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When progress billings up to the year-end exceed costs incurred plus recognised profits, the balance is shown as due to customers on service contracts, under other deferred income. Where costs incurred and recognised profits exceed progress billings up to the year-end, the balance is shown as due from customers on service contracts, under accrued income.

Segment reporting

Retail trade segment as the primary segment is distinguished from the wholesale/production segment with the first comprising accordingly the goods and services provided through Group retail chain and the other the wholesale trade, contractor work and other services provided by Group.
Segment’s assets are assets that are used in the business activities of the segment and the segment-related liabilities are recorded under the segment’s liabilities.
Segment’s assets include goodwill directly attributable to the segment and the segment’s expenses include the associated depreciation of goodwill.

Segment’s assets do not include assets that are used for the company in general or for the head office.

The Group’s loans and accrued interests are recorded under indivisible liabilities. The indivisible expenses of the Group are the general management costs.

The secondary segment is a geographic segment based on the location of the sales network of the company.

Earnings per share

Basic earnings per share is the amount that the company can pay out to shareholders, based on the weighted average number of shares outstanding during the year. The diluted earnings per share is calculated taking into account the weighted average number of potential ordinary shares.

Events after the balance sheet date

Material matters that have an effect on the evaluation of the assets and liabilities that became evident between the balance sheet date and the date of the annual report but are related to the transactions that took place during the reporting period or earlier periods have been reported in the annual report.
The subsequent events that have not been taken into consideration in evaluation of the assets and liabilities, but which have material effect on the financial results of the next financial year, have been disclosed in the notes to the financial statements.

In Thousands of Estonian Kroons

Notes to the financial statements

Note 2. Cash and bank

	Group 31.12.04	Group 31.12.03	Parent 31.12.04	Parent 31.12.03
Cash on hand	157	262	111	220
Bank accounts in kroons	102	349	102	349
Bank accounts in foreign currencies	2 952	2 305	1 420	1 531
Money in transit	189	-	169	-
Total	**3 400**	**2 916**	**1 802**	**2 100**

Note 3. Trade receivables

	Group 31.12.04	Group 31.12.03	Parent 31.12.04	Parent 31.12.03
Trade receivables	10 283	14 862	8 184	5 649
Allowance for doubtful receivables	-377	-	-377	-
Total	**9 906**	**14 862**	**7 807**	**5 649**

In 2004 uncollectible receivables were expensed in the amount of 305 thousand kroons and receivables were deemed doubtful in the amount of 377 thousand kroons. In 2003 uncollectible receivables were expensed in the amount of 455 thousand kroons. The receipt of receivables that have been written down in 2003 was 10 thousand kroons.

Note 4. Other receivables

	Group 31.12.04	Group 31.12.03	Parent 31.12.04	Parent 31.12.03
Receivable related to sale of shares (Note 7)	200	200	200	200
Loans to employees	7	-	7	-
Loans to other companies (Note 7)	68	90	68	90
Other receivables	231	807	79	76
Receivable from UAB Klementi Vilnius	-	-	278	388
Receivable from Klementi Trading OY	-	-	791	2 168
Receivable from Klementi Trading AB	-	-	9 260	11 015
Receivable from SIA Vision	-	-	547	2 590
Due from customers on service contracts	1 200	-	1 200	-
Total	**1 706**	**1 097**	**12 430**	**16 527**

In Thousands of Estonian Kroons

Note 5. Prepayments

	Group 31.12.04	Group 31.12.03	Parent 31.12.04	Parent 31.12.03
Prepaid taxes	38	236	38	236
Total prepaid expenses	1 103	709	366	318
Total	**1 141**	**945**	**404**	**554**

Other prepaid expenses include insurance payments, rental prepayments, subscription of periodicals, etc.

Note 6. Inventories

	Group 31.12.04	Group 31.12.03	Parent 31.12.04	Parent 31.12.03
Raw materials and materials	9 138	5 175	9 138	5 175
Work-in-progress	3 796	4 011	3 796	4 011
Finished goods	12 361	17 507	9 320	9 495
Goods purchased for resale	2 889	6 553	2 814	5 755
Prepayments to suppliers	71	38	71	38
Total	**28 255**	**33 284**	**25 139**	**24 474**

In 2004, inventories were written down in the amount of 258 thousand kroons and written off in the amount of 167 thousand kroons. In 2003, inventories were written down in the amount of 2 957 thousand kroons and written off in the amount of 74 thousand kroons. As of 31.12.2004 and 31.12.2003, no inventories were recorded that had been written down to their net realisable value.

Note 7. Long-term financial investments

	Group 31.12.04	Group 31.12.03	Parent 31.12.04	Parent 31.12.03
Subsidiaries and associates				
Shares in subsidiaries (Note 9)	-	-	3 711	2 493
Total subsidiaries	**-**	**-**	**3 711**	**2 493**
Long-term financial investments				
Receivable related to sale of shares*	950	1 100	950	1 100
Loans to other companies**	-	45	-	45
Klementi Trading OY (long-term receivable)	-	-	63	63
Loans to employees (non-current portion)	5	11	5	11
Other long-term receivables	-	17	-	-
Total long-term financial investments	**955**	**1 173**	**1 018**	**1 219**

* Amount receivable related to the 100% sale of the subsidiary AS Profline in 2000. The maturity is on 5.07.2010, the interest rate is 6-month Euribor+1%. For short-term part, please refer to Note 4.

** The maturity of the loan granted to the former subsidiary AS Profline is on 5.07.2005, the interest rate is 6-month Euribor+5%. For short-term part, please refer to Note 4.

In Thousands of Estonian Kroons

» Subsidiaries:

Klementi Trading OY	(ownership 100%; is registered and operates in Finland; wholesale distribution of the AS Klementi's products in Finland). The nominal value of share capital of EUR 8.4 thousand is reported at nil value in the balance sheet of the parent company. The company was set up in September 1998 and it started its operating activities on 01.10.1998. As of 31.12.2004, the equity of Klementi Trading OY was 69 thousand kroons (31.12.2003: 119 thousand kroons).
UAB Klementi Vilnius	(ownership 100%; operates in Lithuania; retail sales of AS Klementi's products in Lithuania). The share capital in the amount of LTL 230 thousand is reported at nil value in the balance sheet of the parent company. The company was set up on 17.04.2000. As of 31.12.2004, the equity of UAB Klementi Vilnius was – 2 854 thousand kroons (31.12.2003: -2 728 thousand kroons). The liquidation proceedings of the company were started on 5 September 2003.
Klementi Trading AB	On 31 July 2003, a subsidiary with a 100% holding was acquired in Sweden, which engaged in the wholesale distribution of AS Klementi's products in Sweden. The acquisition cost of the acquired entity was 171 thousand kroons. No goodwill arose on the acquisition. It is reported at nil value in the balance sheet of the parent company. As of 31.12.2004, the equity of Klementi Trading AB was 92 thousand kroons (31.12.2003: 20 thousand kroons). The subsidiary has been consolidated since August 2003. In 2004, the share capital of the subsidiary was increased by a non-monetary contribution in the amount of 846 thousand kroons. The non-monetary contribution was a receivable from Klementi Trading AB.
SIA Vision	On 29 August 2003, a 100% holding was acquired in the retail company SIA Vision in the Republic of Latvia (retail sales of AS Klementi's products in Latvia). The subsidiary has been consolidated since August 2003. As of 31.12.2004, the equity of SIA Vision was 1 831 thousand kroons (31.12.2003: LVL 12 100 or 282 thousand kroons).

» Other investments:

OÜ Balti Rõivamess	AS Klementi holds one share which makes up 16.66% of the company's share capital. The nominal value of the unit is 6.7 thousand kroons. As the operating activities of the company have been suspended, the investment is reported at nil value in the balance sheet of AS Klementi.
OÜ Eesti Ettevõtjate Ärikeskus	AS Klementi holds 12.5% of the shares with the nominal value of 50 thousand kroons. As the operating activities of the company have been suspended, the investment is reported at nil value in the balance sheet of AS Klementi.

In Thousands of Estonian Kroons

Note 8. Property, plant and equipment

» Group		**Land and buildings**	**Machinery and equipment**	**Other fixtures**	**Construction in progress**	**Total**
Acquisition cost	**31.12.03**	**44 640**	**27 128**	**16 179**	**-**	**87 947**
Accumulated depreciation	31.12.03	-1 284	-16 360	-9 900	-	-27 544
Net book value	**31.12.03**	**43 356**	**10 768**	**6 279**	**-**	**60 403**
Additions		-	139	2 415	949	3 503
Disposals		-3 952	-108	-284	-	-4 344
Written off		-	-184	-149	-	-333
Depreciation charge		-1 245	-2 812	-2 276	-	-6 333
Acquisition cost	**31.12.04**	**40 500**	**24 122**	**13 701**	**949**	**79 272**
Accumulated depreciation	31.12.04	-2 341	-16 319	-7 716	-	-26 376
Net book value	**31.12.04**	**38 159**	**7 803**	**5 985**	**949**	**52 896**

» Parent company		**Land and buildings**	**Machinery and equipment**	**Other fixtures**	**Construction in progress**	**Total**
Acquisition cost	**31.12.03**	**44 640**	**27 128**	**14 047**	-	**85 815**
Accumulated depreciation	31.12.03	-1 284	-16 360	-8 959	-	-26 603
Net book value	**31.12.03**	**43 356**	**10 768**	**5 088**	**-**	**59 212**
Additions		-	139	2 080	949	3 168
Disposals		-3 952	-108	-284	-	-4 344
Written of		-	-184	-45	-	-229
Depreciation charge		-1 245	-2 812	-1 896	-	-5 953
Acquisition cost	**31.12.04**	**40 500**	**24 122**	**11 963**	**949**	**77 534**
Accumulated depreciation	31.12.04	-2 341	-16 319	-7 020	-	-25 680
Net book value	**31.12.04**	**38 159**	**7 803**	**4 943**	**949**	**51 854**

On 31.12.2002, a revaluation of land and buildings was performed. If land and buildings were stated on the historical cost basis, the net book value would amount to 27 597 thousand kroons as of 31.12.2004 (31.12.2003: net book value of 28 738 thousand kroons, acquisition cost of 38 015 thousand kroons, accumulated depreciation of 9 277 thousand kroons).

The revaluation was preformed by independent real estate valuers. The management estimates the fair value of land and buildings at the end of 2004 does not materially differ from their value as of 31.12.2002.

Information on assets pledged as collateral is provided in Note 29.

For non-current assets leased out under the finance lease terms, please refer to Note 10.

In Thousands of Estonian Kroons

Note 9. Intangible assets

» Group

		Computer programmes	Acquired trademarks	Good-will	Unfinished projects	Total
Acquisition cost	**31.12.03**	**4 423**	**5 717**	**2 185**	**-**	**12 325**
Accumulated amortisation	31.12.03	-3 671	-1 257	-91	-	-5 019
Net book value	**31.12.03**	**752**	**4 460**	**2 094**	**-**	**7 306**
Acquired during period		86	-	-	1 469	1 555
Written down		-9	-	-	-	-9
Amortisation charge		-540	-519	-218	-	-1 277
Acquisition cost	**31.12.04**	**4 506**	**5 717**	**2 185**	**1 469**	**13 877**
Accumulated amortisation	31.12.04	-4 218	-1 776	-309	-	-6 303
Net book value	**31.12.04**	**288**	**3 941**	**1 876**	**1 469**	**7 574**

» Parent company		Computer programmes	Acquired trademarks	Unfinished projects	Total
Acquisition ćost	**31.12.03**	**4 419**	**5 717**	**-**	**10 136**
Accumulated amortisation	31.12.03	-3 671	-1 257	-	-4 928
Net book value	**31.12.03**	**748**	**4 460**	**-**	**5 208**
Acquired during period		86	-	1 469	1 555
Written down		-9	-	-	-9
Amortisation charge		-537	-519	-	-1 056
Acquisition cost	**31.12.04**	**4 496**	**5 717**	**1 469**	**11 682**
Accumulated amortisation	31.12.04	-4 208	-1 776	-	-5 984
Net book value	**31.12.04**	**288**	**3 941**	**1 469**	**5 698**

In Thousands of Estonian Kroons

Note 10. Finance and operating lease

Non-current assets acquired under the finance lease terms as of 31.12.2004 (parent company and group)

Group of non-current asset	Term of agreement	Interest rate	Acquisition cost	Accumul. Depreciation	Net book value on 31.12.2004
Buildings	2005-07	9.4	4 449	521	3 928
incl. logistics centre	*2005*	*10.9*	*4 172*	*250*	*3 922*
Machinery and equipment	2005-07	8.6	2 542	1 384	1 158
Other fixtures	2005	6.7	56	21	35
Total			**7 047**	**1 926**	**5 121**

Non-current assets acquired under the finance lease terms as of 31.12.2003 (parent company and group)

Group of non-current assets	Term of agreement	Interest rate	Acquisition cost	Accumul. depreciation	Net book value on 31.12.2003
Buildings	2005-07	9,4	4 449	341	4 108
incl. logistics centre	*2005*	*10,9*	*4 172*	*125*	*4 047*
Machinery and equipment	2004-07	9,1	3 191	1 192	1 999
Other fixtures	2005	6,7	56	10	46
Total			**7 696**	**1 543**	**6 153**

Finance lease liabilities

	2004	**2003**
Minimum lease payments:		
With maturity of up to one year	2 759	1 395
With maturity of between 1-5 years	914	3 692
Total	**3 673**	**5 087**
Future interest expense	131	563
Present value of lease payments:		
With maturity of up to one year	3 058	981
With maturity of between 1-5 years	485	3 543
Total	**3 543**	**4 524**
Payments made in financial year	981	1 535
Interest expense of financial year	414	437

The table includes both the finance lease payments of the parent company as well as those of the group.

In 2004, AS Klementi leased equipment and machinery from other persons under the operating lease terms, for which rental payments were made in the amount of 103 thousand kroons. In 2003, operating lease payments amounted to 75 thousand kroons. According to current agreements, operating lease payments shall be made in the same amount in 2005. Binding longer-term operating lease agreements have not been signed.

AS Klementi leases out office space located at Akadeemia tee 33 totalling 643.65 m^2 to 13 companies (2003: totalling 462.6 m^2 to 8 companies). The lease agreements for the office space are cancellable.

In Thousands of Estonian Kroons

Note 11. Short and long-term borrowings

As of 31.12.2004, the group and the parent company had the following borrowings (in thousand kroons):

	Short-term	Long-term	Interest rate	Maturity	Change in maturity after balance sheet date
» Secured borrowings					
Overdraft from Eesti Ühispank	9 022	-	8.5%	31.01.2005	30.06.2005
Overdraft from Hansapank	6 395	-	7.75%	31.05.2005	30.06.2005
Loan from Hansapank	3 190	11 430	EURIBOR+ 5%	15.07.2009	
Loan from Eesti Ühispank	4 912	-	6%	30.06.2005	
Loan from Hansapank	11 525	-	7%	30.01.2005	30.06.2005
Convertible bonds – bankruptcy estate of PTA Group	1 200	-	5%	31.12.2005	
» Unsecured borrowings					
Finance lease liabilities	3 058	485	Average 8.2%	2005-2007	
Loan from bankruptcy estate of PTA Group	800	-	5%	31.12.2005	
Loan from Alta Holding OÜ	1 120	-	0%	21.01.2005	
Loan from Alta Capital AS	-	10 533	8-25%	31.01.2006	
Factoring	866	506	7%	31.07.2006	
Payable for trademark	1 095	3 265	8%	15.01.2006	
Total	**43 183**	**26 219**			

In 2004, the overdraft limits by banks were as follows:

- Hansapank 8 000 thousand kroons.
- Eesti Ühispank 9 333 thousand kroons

As of 31.12.2003, the group and the parent company had the following borrowings (in thousand kroons):

	Short-term	Long-term	Interest rate	Maturity
» Secured borrowings				
Overdraft from Eesti Ühispank	9 167	-	8.5%	15.05.2004
Overdraft from Hansapank	7 265	-	7.75%	15.05.2004
Loan from Hansapank	3 190	14 620	EURIBOR+5.0%	15.07.2009
Loan of Eesti Ühispank	10 000	-	6%	15.05.2004
Loan from Hansapank	17 000	-	7%	30.05.2004
Convertible bonds – bankruptcy estate of PTA Group	-	1 200	5%	31.12.2005
» Unsecured borrowings				
Finance lease liabilities	982	3 543	average 8.6 %	2003-2007
Loan from bankruptcy estate of PTA Group	-	800	5%	31.12.2005
Loan from Alta Holding OÜ	-	1 120	0%	31.12.2005
Payable for trademark	782	4 204	8%	20.01.2006
Total	**48 386**	**25 487**		

In 2003, overdraft limits by banks were as follows:

- Hansapank 8 000 thousand kroons.
- Eesti Ühispank 9 333 thousand kroons

In Thousands of Estonian Kroons

Payable for trademark

The payable for trademarks is to the bankruptcy estate of P.T.A. Group OY. The payable for trademarks is recorded at the discounted present value and is due in 2004-2006. The discount rate is 8%.

Discounted present value of trademarks	**31.12.2004**		**31.12.2003**	
	Principal debt	**Interest**	**Principal debt**	**Interest**
Total liability	4 360	1 004	4 986	1 062
Incl. payable in the next 12 months	1 095	156	782	58
over 1- 5 years	3 265	848	4 204	1 004

Convertible bonds

Fifty thousand convertible bonds belonging to the bankruptcy estate of PTA Group represent potential shares. The issue price of convertible bonds is 24 Estonian kroons and the redemption date is on 31 December 2005. Convertible bonds have an annualised interest rate of 5%. The holder of convertible bonds has the right to convert the convertible bonds for ordinary shares until 20.12.2005. Please also refer to Note 28.

Factoring

AS Hansa Liising Eesti, Columbus IT Partner Eesti AS and AS Klementi have concluded a factoring contract for the purchasing and implementation of financial software.

Finance lease liabilities are disclosed in Note 29.
For finance lease liabilities, please refer to Note 10.

All long-term liabilities are denominated in Estonian kroons or euros.

Relevant terms of borrowings

The loan agreement for a short-term loan from Hansapank contains restrictions for repayment of the loan received from the shareholder of AS Klementi, Alta Capital AS. If this condition is violated, the bank has the right to demand premature repayment of the loan.

The loan agreements with AS Eesti Ühispank contain restrictions on making changes to the list of shareholders and the transfer of assets. If this condition is violated, the bank has the right to demand premature repayment of the loan.

31.12.2004	***Borrowings by maturity dates***		
	Balance as of 31.12.2004.	***During 12 months***	***During 1-5 years***
Short-term bank loans	16 437	16 437	-
incl. AS Hansapank	*11 525*	*11 525*	-
AS Eesti Ühispank	*4 912*	*4 912*	-
Long-term bank loans	14 620	3 190	11 430
Overdraft	15 417	15 417	
incl. AS Hansapank	*6 395*	*6 395*	-
AS Eesti Ühispank	*9 022*	*9 022*	-
Finance lease liabilities	3 543	3 058	485
Payable for trademark	4 360	1 095	3 265
Factoring	1 372	866	506
Convertible bonds of bankruptcy estate of PTA Group	1 200	1 200	-
Loan from bankruptcy estate of PTA Group	800	800	-
Loan from Alta Holding	1 120	1 120	-
Loan from Alta Capital	10 533	-	10 533
Total	**69 402**	**43 183**	**26 219**

In Thousands of Estonian Kroons

31.12.2003	*Borrowings by maturity dates*		
	Balance as of 31.12.2003	***During 12 months***	***During 1-5 years***
Short-term bank loans	27 000	27 000	-
incl. AS Hansapank	*17 000*	*17 000*	-
AS Eesti Ühispank	*10 000*	*10 000*	-
Long-term bank loans	17 810	3 190	14 620
Overdraft	16 432	16 432	-
incl. AS Hansapank	*7 265*	*7 265*	-
AS Eesti Ühispank	*9 167*	*9 167*	-
Finance lease liabilities	4 524	981	3 543
Payable for trademark	4 986	782	4 204
Convertible bonds of bankruptcy estate of PTA Group	1 200	-	1 200
Loan from bankruptcy estate of PTA Group	800	-	800
Loan from Alta Holding	1 120	-	1 120
Total	**73 872**	**48 385**	**25 487**

Note 12. Supplier payables

	Group 31.12.04	**Group 31.12.03**	**Parent 31.12.04**	**Parent 31.12.03**
Supplier payables for sales of apparel	9 015	9 607	8 933	7 406
Other supplier payables	174	138	174	138
Total	**9 189**	**9 745**	**9 107**	**7 544**

The line “Other supplier payables” includes supplier payables that are not related to the company’s main activities.

Note 13. Other payables

	Group 31.12.04	**Group 31.12.03**	**Parent 31.12.04**	**Parent 31.12.03**
Payable to subsidiary Klementi Trading AB	-	-	4 563	-
Payable to subsidiary SIA Vision	-	-	-	7
Total	**-**	**-**	**4 563**	**7**

Note 14. Tax liabilities

Tax liabilities recorded in the balance sheet are as follows:

	Group 31.12.04	**Group 31.12.03**	**Parent 31.12.04**	**Parent 31.12.03**
Personal income tax	214	602	185	509
Social security tax	877	1 039	833	994
Fringe benefit income tax	10	14	10	14
Unemployment insurance tax	-	56	-	36
Value added tax	251	482	265	157
Contributions to mandatory funded pension	-	62	-	18
Tax interest	47	-	47	-
Total	**1 399**	**2 255**	**1 340**	**1 728**

In Thousands of Estonian Kroons

Note 15. Accrued income and prepayments

	Group 31.12.04	Group 31.12.03	Parent 31.12.04	Parent 31.12.03
Payables to employees	3 313	3 067	3 200	2 890
Incl. employee wages and salaries	*1 883*	*1 545*	*1 883*	*1 506*
Vacation pay liability	*1 420*	*1 509*	*1 307*	*1 376*
Other payables to employees	*10*	*13*	*10*	*8*
Interest liabilities	1 469	255	1 469	255
Tax liabilities	2 626	987	2 601	987
Other accrued expenses	42	1 740	17	88
Prepaid income	297	2	68	2
Total	**7 747**	**6 051**	**7 355**	**4 222**

Note 16. Short and long-term provisions

Short and long-term provisions consist of a monthly compensation paid to the former employee of AS Klementi for permanent incapacitation for work based on a court ruling, the short-term part of which is 12 thousand kroons (31.12.2003: 12 thousand kroons) and the long-term part has been recorded at the discounted present value in the amount of 148 thousand kroons (31.12.2003: 68 thousand kroons). The discount rate is 10%, the remaining balance of the liability is 10 years.

Note 17. Equity

The share capital of AS Klementi is 18 969 thousand kroons, which consists of 1 896 875 shares with the nominal value of 10 kroons each. All shares of AS Klementi are registered A shares which have one vote at the General Meeting of Shareholders. No share certificates have been issued for registered shares. The share register is electronic and it is kept at the Estonian Central Depository for Securities. According to the articles of association, the maximum share capital of AS Klementi is 52 000 thousand kroons.

As of 31.12.2004, the working capital of AS Klementi is a negative 18 million kroons. The majority shareholder of AS Klementi, AS Alta Capital will provide financial assistance to AS Klementi in case of economic difficulties upon a justified application from the management and if necessary make further investments to guarantee the continuity of AS Klementi's business operations.

As of 31.12.2004, AS Klementi had 507 shareholders.

The shareholders of AS Klementi with a holding larger than 1%, as of 31.12.2004:

Name	Number of shares	Holding in share capital
Share of majority shareholders	**1 704 444**	**89.9%**
OÜ Alta Investments I	462 731	24.4%
Bryum Estonia AS	381 809	20.1%
ING Luxembourg S.A.	188 805	10.0%
Hansa Baltic Growth Fund	183 769	9.7%
Alta Capital AS	146 988	7.7%
Skandinaviska Enskilda Banken Ab Clients	94 812	5.0%
Firebird Avrora Fund LTD	68 611	3.6%
OÜ Alta Holding	67 500	3.6%
AS Hansa Elukindlustus	37 274	2.0%
Skandinaviska Enskilda Banken Finnish clients	29 296	1.5%
Hansa Pension Fund K3	22 849	1.2%
Peeter Larin	20 000	1.1%
Share of minority shareholders	**192 431**	**10.1%**
Total number of shares	**1 896 875**	**100,0%**

As of 31.12.2003, AS Klementi had 582 shareholders.

In Thousands of Estonian Kroons

Shareholders of AS Klementi with a holding larger than 1%, as of 31.12.2003:

ame	Number of shares	Holding in share capital
Share of majority shareholders	**1 653 742**	**87.2%**
OÜ Alta Investments I	462 731	24.4%
Bryum Estonia AS	381 809	20.1%
Nordea Bank Finland PLC clients	191 005	10.1%
Alta Capital AS	146 988	7.8%
Hansa Baltic Growth Funds	126 473	6.7%
Skandinaviska Enskilda Banken AB Clients	94 812	5.0%
OÜ Alta Holding	87 500	4.6%
Firebird Republics Fund Ltd	38 611	2.0%
AS Hansapank	38 447	2.0%
Hansapanga Kindlustuse AS	35 274	1.9%
HEX Back Office and Custody Services OY Funds	29 296	1.5%
SA Eesti Rahvuskultuuri Fond	20 796	1.1%
Share of minority shareholders	**243 133**	**12.8%**
TOTAL NUMBER OF SHARES	**1 896 875**	**100.0%**

Note 18. Segments

The retail sector includes the stores of AS Klementi located in Estonia and subsidiaries engaged in retail trade. The production and wholesale trade segment includes the assets, liabilities, income and expenses of apparel manufacturing, wholesale trade and other related activities.

The assets and liabilities of the segment do not include financial assets and financial liabilities and the income and expenses of the segment do not include the income and expenses arising from the above-mentioned assets and liabilities.

In the segment report, the unallocated assets of the group include the administrative building, the unallocated liabilities include long-term loans, dividend and interest payable and unallocated operating expenses include administrative costs.

Other major non-monetary expenses are those arising from the write-down of inventories and doubtful receivables.

Primary segment – business segment by business unit in 2004

	Retail	Production, wholesale and subcontracting	Intersegment transactions	TOTAL
Non-group sales	60 737	67 869		128 606
Intersegment sales		31 961	-31 961	0
Total sales	60 737	99 830	-31 961	128 606
Segment's operating profit	-619	5 175	-	4 556
Unallocated operating expenses				10 379
Total operating loss				-5 823
Other financial income (-expenses)				-6 078
Net loss				-11 901
Assets and receivables	7 753	76 074	-	83 827
Unallocated assets of group				22 006
Total assets				105 833
Liabilities	528	10 677	-	11 205
Unallocated liabilities of group				94 628
Total liabilities				105 833
Purchase of property, plant and equipment as well as intangible assets	2 149	2 909	-	5 058
Depreciation and amortisation	1 874	5 736	-	7 610

In Thousands of Estonian Kroons

Primary segment – business segment by business unit in 2003

	Retail	Production, wholesale and subcontracting	Intersegment transactions	Total
Non-group sales	49 742	83 888	-	133 630
Intersegment sales	-	24 044	-24 044	-
Total sales	49 742	107 932	-24 044	133 630
				0
Segment’s operating profit	-6 888	1 434	-	-5 454
Unallocated operating expenses				-10 464
Total operating loss				-15 918
Other financial income (-expenses)				-5 723
Net loss				-21 641
Assets and receivables	20 129	76 574	-	96 703
Unallocable assets of group				25 283
Total assets				121 986
Liabilities	2 733	20 771	-	23 504
Unallocable liabilities of group				68 970
Total liabilities				92 474
Purchase of intangible assets	2 569	741	-	3 310
Depreciation and amortisation	2 577	4 995	-	7 572
Other major non-monetary expenses	-533	-3 565	-	-4 098

Secondary segment – net sales, total assets and capital expenditures by geographical segments

	Net sales		Assets		Capital expenditure	
	2004	**2003**	**31.12.04**	**31.12.03**	**2004**	**2003**
Estonia	53 647	51 725	98 226	117 436	4 723	2 626
Latvia	20 844	9 844	2 024	172	64	612
Lithuania	3 019	7 408	319	19	-	-
Finland	34 795	42 487	75	924	-	-
Sweden	12 426	21 547	5 189	3 435	271	72
Other markets	3 875	619	-	-	-	-
Total	**128 606**	**133 630**	**105 833**	**121 986**	**5 058**	**3 310**

According to the management', the prices used in intersegment transactions do not materially differ from market prices.

Note 19. Earnings per share (EPS)

	Group 2004	Group 2003	Parent 2004	Parent 2003
Number of shares (thousand pieces) 01.01	1 897	1 322	1 897	1 322
Reduction of number of shares(thousand pieces)	-	-	-	-
Shares issued (thousand pieces)	-	575	-	575
Number of shares (thousand pieces) 31.12	1 897	1 897	1 897	1 897
Net loss for financial year	-11 901	-21 641	-11 901	-21 641
Weighted average number of shares (thousand pieces)	1 897	1 640	1 897	1 640
Loss per ordinary share	**-6.27**	**-13,19**	**-6.27**	**-13,19**
Diluted loss per ordinary share	**-6.27**	**-13,19**	**-6.27**	**-13,19**

As the company and the group had a loss in 2004 and 2003, the diluted loss per ordinary share equals the loss per ordinary share.

In Thousands of Estonian Kroons

Note 20. Off-balance sheet liabilities

As of 31.12.2004, AS Klementi has guaranteed future receivables from suppliers in the amount of 1 110 thousand kroons and import fee payments to the Customs Board in the amount of 900 thousand kroons.

As of 31.12.2003 AS Klementi had guaranteed future receivables from suppliers in the amount of 748 thousand kroons import fee payments to the Customs Board in the amount of 2 000 thousand kroons.

Note 21. Net sales

	Group 2004	Group 2003	Parent 2004	Parent 2003
» Sales				
Sales of apparel	100 641	109 922	88 556	104 166
Subcontracting and other services	26 671	21 076	26 671	21 076
Other sales	1 294	2 632	1 345	2 632
Total sales	**128 606**	**133 630**	**116 572**	**127 874**
» incl. exports				
Sales of apparel	53 114	63 876	37 128	59 056
Subcontracting and other services	20 710	17 428	21 546	17 428
Other sales	1 135	601	300	601
Total exports	**74 959**	**81 905**	**58 974**	**77 085**
Percentage of exports of total sales	*58,3%*	*61,3%*	*50,6%*	*60,3%*

Note 22. Other operating income

	Group 2004	Group 2003	Parent 2004	Parent 2003
Rental income	962	654	962	654
Profit from sale of non-current assets	1 716	105	1 716	105
Other sales	42	131	24	138
Compensation for losses	53	85	53	85
Foreign exchange gains	1 020	441	1 020	441
Other income	440	838	440	838
Total	**4 233**	**2 254**	**4 215**	**2 261**

In Thousands of Estonian Kroons

Note 23. Operating expenses

	Group 2004	Group 2003	Parent 2004	Parent 2003
Manufacturing and company's operating expenses	25 831	33 485	25 592	34 061
Incl. *irrecoverable and doubtful receivables*	*682*	*3 565*	*596*	*7 284*
wholesale expenses	*8 584*	*11 310*	*8 003*	*11 891*
retail sales expenses	*12 462*	*5 870*	*9 175*	*4 915*
marketing	*2 839*	*4 059*	*2 489*	*3 767*
consulting fees	*630*	*1 805*	*630*	*1 805*
Sewing service purchased	2 062	744	2 062	744
Business trips	638	1 052	509	642
Other expenses	223	223	178	223
Total	**28 754**	**35 504**	**28 341**	**35 670**

Note 24. Staff costs

	Group 2004	Group 2003	Parent 2004	Parent 2003
Wages and salaries	34 366	40 707	31 923	36 067
Social security tax	10 144	11 858	9 508	10 716
Unemployment insurance tax	134	155	134	155
Total	**44 644**	**52 720**	**41 565**	**46 938**

Note 25. Other operating expenses

	Group 2004	Group 2003	Parent 2004	Parent 2003
Foreign exchange loss	878	656	878	656
Membership fees	51	55	51	55
Contract fees	386	330	386	330
Sponsorship	18	40	18	40
Tax interest	157	179	157	179
Retained earnings	301	660	301	660
Loss from sales and write-off of non-current assets	239	77	239	77
Other	534	155	534	122
Total	**2 564**	**2 152**	**2 564**	**2 119**

In Thousands of Estonian Kroons

Note 26. Related party transactions

In compiling the Annual Report, the following entities have been considered as related parties:
- owners
- subsidiaries and associates;
- management and supervisory boards;
- close relatives of the persons mentioned above and the companies related to them.

The following transactions have been concluded with the related parties in 2004 and 2003:

	12 months 31.12.2004	12 months 31.12.2003
Purchased goods and services		
Shareholders		
Alta capital AS	7	-
Purchased goods and services		
Shareholders		
Alta Capital AS	-	373
Management Board		
Merona Holding OÜ	46	-
Loans received		
Shareholders		
Alta Capital AS (Note 11)	11 200	2 000
Loans paid off		
Shareholders		
Alta Capital AS	667	2 000

The company's management estimates that the prices used in related party transactions do not materially differ from market prices except for the loans received with the interest rate of 0% (loan balance of 1 120 thousand kroons) and interest rate of 25% (outstanding balance as of 31.12.2004: 333 thousand kroons).

Note 27. Corporate income tax

On 31.12.2004, the deferred income tax assets of a foreign subsidiary amounted to 460 thousand kroons (31.12.2003: 478 thousand kroons). Deferred income tax assets have not been recognised as assets in the balance sheet as there is no reliable certainty that it can be used against future taxable profits. The expiry term for deferred income tax assets is between 5 and 10 years depending on the legislation of the country of location.

Note 28. Events after the balance sheet date

On 3 January 2005, the bankruptcy estate of PTA Group OY, the holder of 50 000 convertible bonds of AS Klementi, announced of its intention to prematurely convert the convertible bonds to the shares of AS Klementi at the ratio of 1 : 1.The issue of convertible bonds was determined with the resolution of the General Meeting of Shareholders from March 2000 and the terms of these bonds were changed with the resolution of the General Meeting of Shareholders from 28 August 2002.
The issue price of convertible bonds was 24 Estonian kroons and the redemption date is on 31 December 2005. The convertible bonds have an annualised interest rate of 5%. The respective request and the documents for increasing the share capital were presented by the Management Board of AS Klementi to the Commercial Registry on 3 February 2005. As a result of the transaction, 50 000 new A-shares of Klementi with the nominal value of EEK 10 per share and the share premium of EEK 14 will be issued. Thus, the share capital of AS Klementi will increase by 0.5 million kroons.

Note 29. Loan collateral and pledged assets

In conjunction with the sale of real estate properties, loan collaterals were changed in 2004. The collateral for the long-term loan and the overdraft received from the public limited company Hansapank is the mortgage of the first order set on the administrative and production buildings in the amount of 26 200 thousand kroons, a joint mortgage in the amount of 13 000 thousand kroons, a commercial pledge agreement of the second order in the amount of 15 000 thousand kroons and of the third order in the amount of 27 000 thousand kroons.

Collateral for the long-term loan received from Eesti Ühispank is the registered immovables of the administrative and the production building is the joint mortgage of the second order in the amount of 7 000 thousand kroons and a commercial pledge agreement of the first order in the amount of 23 000 thousand kroons.

As of 31.12.2004, the residual value of non-current assets pledged as collateral for the liabilities is 31 852 thousand kroons (31.12.2003: 37 909 thousand kroons).

Note 30. Risks arising from the company's operations and the management's view on managing these risks.

» Credit risk

Credit risk arises from the inability of the company's business partners to fulfil their obligations. It has primarily to do with the ability of customers to pay on time for the goods. The company provides credit for its most trustworthy customers. The credit term is provided for 30-90 days and the limit is set at 50-500 thousand kroons.

» Foreign currency risk

In 2004, exports made up 58.3% of the consolidated net sales of AS Klementi. Most of the materials used in the production are purchased from abroad. The major currencies used in daily operating activities of the company are EUR, SEK, LVL and USD. When purchasing services and goods, foreign currency transactions are concluded mostly in the following currencies: EUR, SEK and USD, the sales-related foreign currency transactions are concluded mostly in EUR, SEK and LVL. The company is exposed to the exchange rate fluctuations of SEK, USD and LVL in relation to EEK. The company does not use forwards, options and other money market instruments for the management of foreign currency risk, because the management's analysis has shown that risks arising from foreign currency exposures do not exceed the expenses that would relate to the usage of these money market instruments.

» Interest rate risk

The interest rate risk of the company is dependent on the fluctuations of EURIBOR (Note 11).

AUDITOR'S REPORT

In Thousands of Estonian Kroons

PROPOSAL FOR COVERING THE LOSS FOR FINANCIAL YEAR

As of 31.12.2004, the accumulated loss and the loss for the financial year are as follows:

Accumulated loss	-44 735 thousand kroons.
Loss for financial year	11 901 thousand kroons.
Total loss	56 636 thousand kroons.

The Managing Director of AS Klementi proposes to the General Meeting of Shareholders to allocate the net loss for 2004 in the amount of
-11 901 thousand kroons to the accumulated loss of previous periods.

Toomas Leis
Managing Director

SIGNATURES OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD TO THE 2004 ANNUAL REPORT

The Management Board of AS Klementi has prepared the management report and the financial statements for 2004.
The Supervisory Board has reviewed the annual report consisting of the management report, the financial statements, the proposal for covering the loss for the financial year and the auditor's report prepared by the Management Board and approved it for the presentation at the General Meeting of Shareholders.

Toomas Leis	Managing Director	____________________	___.___.2005
Indrek Rahumaa	Chairman of the Supervisory Board	____________________	___.___.2005
Andres Rätsep	Member of the Supervisory Board	____________________	___.___.2005
Sven Mansberg	Member of the Supervisory Board	____________________	___.___.2005
Sakari Sorri	Member of the Supervisory Board	____________________	___.___.2005

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Ahtri 10A, Tallinn 10151, Estonia