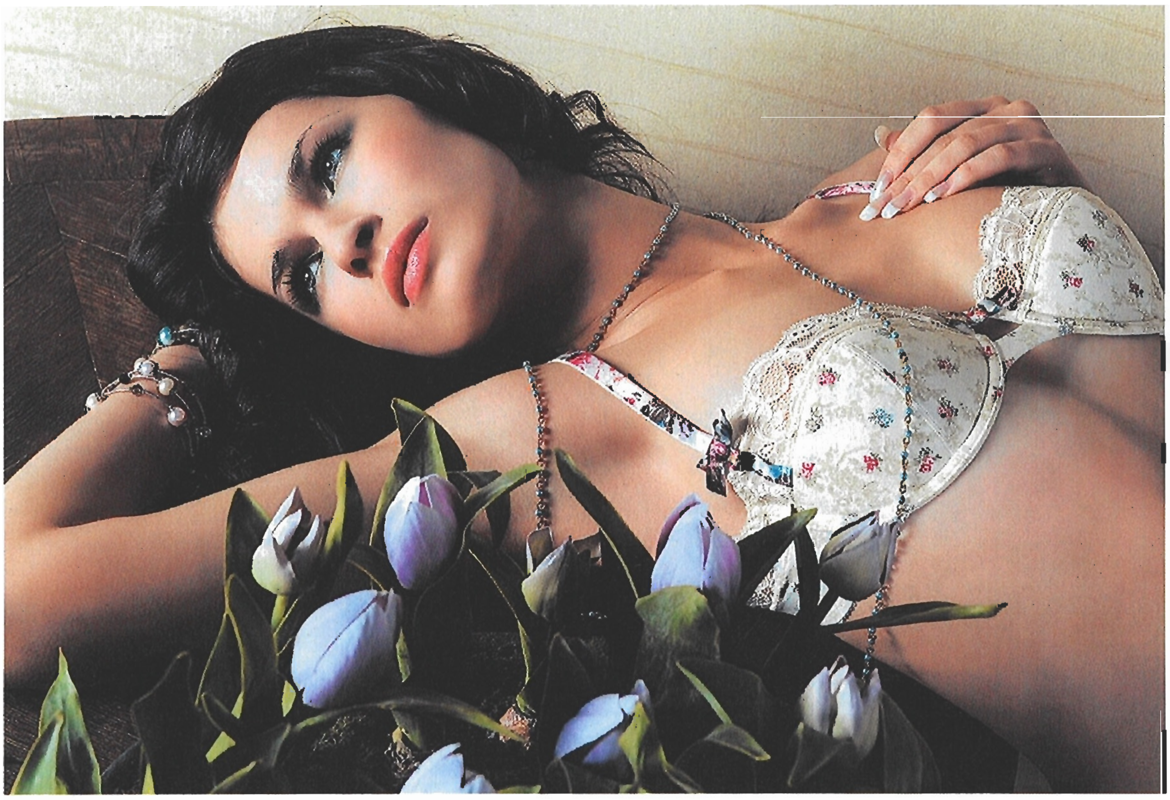
AS Silvano Fashion Group



ANNUAL REPORT
2008

THE COMPANY

Business name	AS Silvano Fashion Group
Registration number	10175491
Legal address	Tartu mnt 2, 10145 Tallinn
Telephone	+372 6 710 700
Fax	+372 6 710 709
E-mail	info@silvanofashion.com
Website	www.silvanofashion.com
Core activities	Design, manufacturing and distribution of women's apparel and lingerie
Auditor	KPMG Baltics AS
Financial year	1 January 2008 – 31 December 2008

Contents

The Group in brief

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

The parent of the Group is AS Silvano Fashion Group, a company domiciled in Estonia and registered at Tartu mnt 2, Tallinn.

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

In 2008 the Group employed, on average, 3,935 people (2007: 3,450 people).

The Group comprises the following companies:

At 31 December 2008	Location	Main activity	Ownership interest 31.12.2008	Ownership interest 31.12.2007
Parent company				
AS Silvano Fashion Group	Estonia	Holding		
Direct subsidiaries of SFG				
AS Lauma Lingerie	Latvia	Manufacturing and wholesale	100%	100%
SP ZAO Milavitsa	Belarus	Manufacturing and wholesale	78.35%	78.35%
ZAO Linret	Russia	Retail	49%	100%
Splendo Polska Sp. z o.o.[1]	Poland	Retail	90%	90%
PTA Grupp AS	Estonia	Retail	100%	100%
UAB Linret LT	Lithuania	Retail	100%	100%
France Style Lingerie s.a.r.l.	France	Holding	100%	0%
OÜ Linret EST	Estonia	Retail	100%	0%
Subsidiaries of PTA Grupp AS				
AS Klementi	Estonia	Manufacturing	100%	100%
Klementi Trading OY	Finland	Wholesale	100%	100%
UAB PTA Prekyba	Lithuania	Retail	100%	100%
SIA Vision	Latvia	Retail	100%	100%
TOV PTA Ukraine	Ukraine	Retail	100%	100%
Subsidiaries of SP ZAO Milavitsa				
SOOO Torgovaja Kompanija Milavitsa	Belarus	Retail	51%	51%
SP Gimil OOO	Belarus	Manufacturing	52%	52%
ZAO Stolichnaja Torgovaja Kompanija Milavitsa	Russia	Wholesale	100%	100%
OAO Junona	Belarus	Manufacturing	58,33%	0%
Subsidiary of ZAO Stolichnaja Torgovaja Kompanija Milavitsa				
ZAO Linret	Russia	Retail	51%	0%
Associate of France Style Lingerie S.A.R.L.				
SOOO Torgovaja Kompanija Milavitsa	Belarus	Retail	49%	0%

[1] Sold in H1 2009

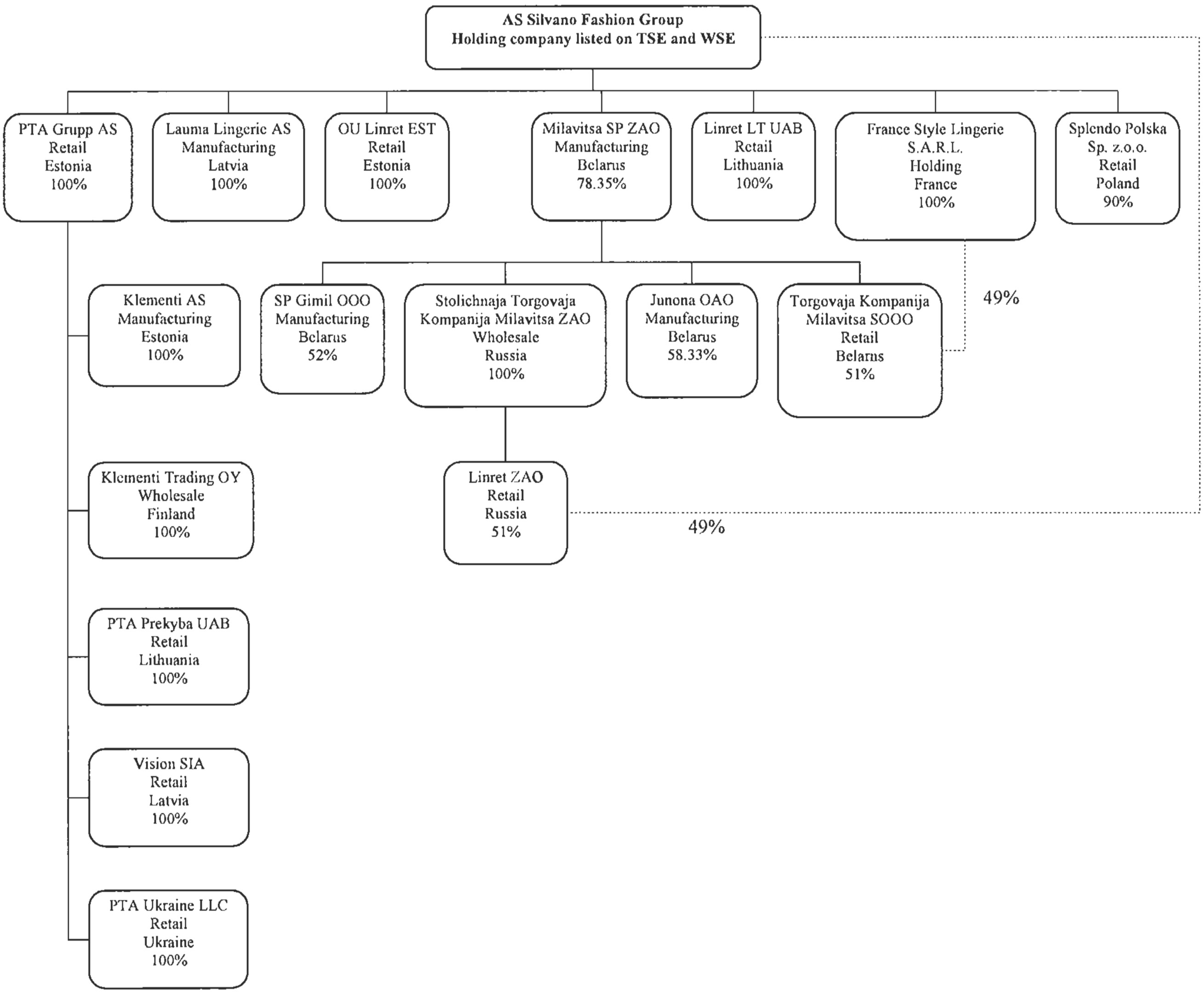
MANAGEMENT REPORT

Organization

The Group is an international lingerie distribution group involved in design, manufacturing and marketing of lingerie and women's apparel.

The strategic goal of the Group is to become a leading branded manufacturer and retailer of lingerie, women's apparel, and accessories running its own flexible production facilities, operating own shops and promoting franchising package for the partners in the markets of Russia, Belarus, Ukraine, and Baltic States and, in the longer term, Central and Eastern Europe. The Group is developing its business model based on the vertical integration of manufacturing and sales functions across a variety of brands and sectors (such as lingerie, apparel and related merchandise). The Group ensures that specific ranges of its products are exclusively available through the Group's retail network and franchising partners' retail shops. This strategy aims to increase the overall revenues and profits of the Group and create additional value for its shareholders.

The Group works towards these objectives by upgrading and expanding franchising partners stores and strengthening its existing retail network in existing markets, entering new geographical regions, developing intra-group synergies, and pooling resources and know-how between the various Group companies.



Key Events in 2008

Acquisition of France Style Lingerie s.a.r.l.

On 25 July 2008, AS Silvano Fashion Group has entered into a share purchase agreement for the acquisition of 100% of all shares in France Style Lingerie s.a.r.l. ("FSL"), a limited liability company registered in France. FSL is a holding and retail management company with significant retail and brand management expertise in the lingerie business. FSL holds 49% of all shares in SOOO «Torgovaja Kompanija Milavitsa» ("TKM"), a Belorussian company operating the Belorussian retail chain for the products of SP ZAO Milavitsa ("Milavitsa"). Already prior to the acquisition of FSL, 51% of all shares in TKM were owned by Milavitsa. As a result of the acquisition of FSL, the Group owns 88.96% of shares in TKM. The acquisition of FSL also secured the ownership of the trademark "Alisee" (a high-level lingerie brand used by Milavitsa), which is being licensed from FSL. The acquisition also gave AS Silvano Fashion Group (through FSL) a 25% stake in ZAO «Stolichnij Torgovij Dom Milavitsa», an independent Russian lingerie wholesaler and retail operator managing 30 lingerie stores in Russia, 27 of them under the trademark of Milavitsa.

The acquisition of FSL is expected to contribute to the distribution and retail sales of the products of the Group, in particular the products of Milavitsa. The effect of the acquisition with respect to the profit and revenue of the Group is not expected to be significant.

Acquisition of OAO "Shveinaja Firma "Junona""

On 20 May 2008, Milavitsa acquired 58.3% in OAO "Shveinaja Firma "Junona"" ("Junona"), a Belorussian sewing factory and a subcontractor for Milavitsa for a total of EEK 9.2 million (EUR 0.6 million) (39.4% paid in cash and 60.6% by production equipment). The primary business of Junona is the manufacturing of children's clothes and sewing lingerie for Milavitsa. Following the acquisition, the Group intends to utilize Junona's capacity primarily for sewing lingerie under Milavitsa's brand names. In 2008 Junona contributed 4.0% of Milavitsa's total production output and it is estimated that Junona will contribute up to 6.2% in 2009.

Share Buyback Programme

The extraordinary general meeting of shareholders of SFG held on 6 October 2008 authorised the buyback of SFG's own shares under the following conditions: SFG is entitled to buy back its own shares within one year of the resolution of the general meeting of the shareholders, the total nominal value of own shares to be bought back by SFG may not exceed 10% of total share capital of SFG, the maximum price payable by SFG for one share will be EUR 3.50 (three Euros and fifty cents), the maximum amount payable by SFG for its own shares is EUR 3,000,000 (three million Euros), own shares will be paid for with assets exceeding the share capital, compulsory reserves and share premium.

On 6 October 2008, the management board of SFG, acting under the authorization granted by the aforementioned general meeting of shareholders, decided to initiate the share buyback program. The buyback period started on 07.10.2008.

To date, the amount of shares bought back is 393,000, the average price per share was 1.15 EUR and total cost amounted to 450,106 EUR.

After the transactions above, SFG owns 393,000 of its own shares, which constitute 0.9825% of the share capital. Under the buyback program, shares up to the maximum value of 2,547,032 million Euros remain to be bought back. The maximum amount of shares that remains to be bought back is 3,607,000.

The share buyback program is being implemented in accordance with the Commission Regulation (EC) No 2273/2003 of 22.12.2003, implementing Directive 2003/6/EC of the European Parliament and of the Council as regards exemptions for buy-back programmes and stabilization of financial instruments. The programme is managed by AS Swedbank, which buys back shares on behalf of SFG. AS Swedbank carries out the buyback according to the regulations and within the framework of the programme, and makes its trading decisions independently of, and without influence by SFG with regard to the timing of the purchases.

Merger of Subsidiaries

Two subsidiaries of SFG operating primarily on the Russian retail market - ZAO Linret ("Linret") and ZAO Stolichnaja Torgovaja Kompanija Milavitsa ("STK") in 2008 signed a merger agreement, as a result of which the intention was to merge STK into Linret. As the first step 51% of Linret was sold to STK in 2008. The merger was not completed in 2008, but the management intends to proceed with the merger in 2009. The merger will contribute to the efficiency of SFG's Russian operations through decreased administrative expenses and better coordination between the previously independent sales structures.

Establishment of a new subsidiary in Estonia

SFG established a new subsidiary in Estonia under the name OÜ Linret EST. The share capital of the new subsidiary is EEK 40,000 (approximately EUR 2,556), 100% of which is held by SFG. The reason for establishing the new subsidiary is the structural development of SFG's retail network and the need for a clearer separation between retail and management functions within the group. The establishment of OÜ Linret EST will not have significant impact on the economic activities of SFG.

PTA Introduces a New Trademark

PTA Grupp AS, a subsidiary SFG, engaged in the retail and wholesale of women's apparel and lingerie has introduced a brand-new Avenue trademark. Avenue is a new collection aimed at wholesale clients, offering classical women's apparel, clothes with a contemporary cut, feminine and decorous models. In the Avenue collection designers have mainly focused on costumes – both everyday and more festive models. Goods bearing the Avenue trademark are going to be marketed in all Baltic states as well as in Russia, Ukraine and Belorussia. Goods bearing Avenue trademark reached stores in the first quarter of 2009.

Business Results

In 2008, economic downturn has swept rapidly through the global economy. Consumer demand has weakened in all of Group's markets. The rapidly increasing proportion of retail revenue in the total revenue of the Group is having a negative effect on the profitability and respectively net profit and EBITDA numbers because of increasing fixed costs attributed to retail rental expenses and personnel costs. However, at the same time retail operations in Russia, the major region for the retail expansion of the Group, are demonstrating a more than 50% growth in revenue year-on-year (for the shops with more than 1 year in operations). Apparel retail performance in the Baltic countries is lower compared to the previous year mainly due to the economic situation in the region. Despite substantial growth of sales per square meter in the Russian and Ukrainian stores the overall sales results were unsatisfactory to support business efficiency in the short term. Due to the crisis on the market the loss generated in Russia would be sufficient enough to put the whole Russian retail operations at risk. It has been decided to focus on development of lingerie retail chain, as this is core business of SFG. PTA apparel stores in Russia will be closed within first half of 2009. Ukrainian subsidiary of PTA has been restructured in the beginning of 2009 and the operational costs have been significantly decreased. It is planned to continue Ukrainian operations of apparel with existing 6 stores.

It is likely that all of Group's market areas will experience an economic downturn during future periods, recording negative growth; therefore Group has launched a series of measures to adjust its business to conditions of lower demand.

Financial Performance

In 2008, consolidated net sales of the Group totalled EUR 108.3 million, showing 9.8% increase compared to 2007. The proportion of retail sales have grown significantly and amounted to 28.1% from total sales as compared to 18.1% in 2007. Apparel sales proportion in total sales also increased from 10.1% in 2007 to 11.9% in 2008.

The Group's gross margin improved slightly from 43.5% in 2007 to 43.9% in 2008. The margin improvement was mainly driven by the growth in retail sales.

Operating profit amounted to EUR 3.0 million in 2008 as compared to EUR 20.6 million in 2007. 2007 operating profit included EUR 5.7 million profit from negative goodwill write off as the result of shareholding increase in SP ZAO Milavitsa, partially explaining decrease in profitability.

In 2008 due to rapid downturn in economy the Group reassessed current investment priorities and determined that the goodwill related to the investment in UAB Linret LT (in the amount of EUR 0.7 million) and investment in France Style Lingerie S.A.R.L. (in the amount of EUR 1.4 million) would not be recovered. As the result, total goodwill write-off in the amount of EUR 2.1 million was made to other operating expenses.

In Q4 2008, the Group also negotiated a share purchase agreement for the sale of all its shares (90% of the share capital) in Splendo Polska Sp. z o.o., a Polish retail subsidiary operating 6 retail outlets, a transaction that was signed in Q1 2009. Taking account of the Group's total investment in Splendo, the transaction was estimated to generate a loss of approximately EUR 1.2 million and the amount was fully provided as other operating expenses in 2008. Net loss of Splendo Polska Sp. z.o.o. amounted to EUR 0.9 million in 2008, therefore, the sale of this loss-making subsidiary will end cash outflows to Polish operations. Splendo will be acquired by a local wholesale partner of the Group, and Splendo's retail outlets will continue their business after being rebranded as "Milavitsa" franchise stores.

In 2008 the Group also re-assessed the performance of PTA and Oblicie retail operations in Russia. Due to expected economic downturn and based on the stores performance up to date the management decided that all PTA stores in Russia and selected Oblicie stores will be closed in the first half of 2009. Management has also decided to rebrand Oblicie operated stores to "Milavitsa" to increase the contribution of the brand name towards the overall performance of Russian lingerie retail operations. PTA will continue its retail operations in Estonia, Latvia, Lithuania and Ukraine. The loss related to Russian retail operations restructuring was estimated in the approximate amount of EUR 2.1 million as of 31 December 2008 and is recognized in other operating expenses in the amount of EUR 1.9 million and EUR 0.2 million in cost of goods sold in the period ended 31 December 2008.

Operating profit was also adversely impacted by the growth in distribution expenses of the group which were mainly driven by increased retail operations largest distribution expenses being shop rent expenses.

Net loss from foreign exchange amounted to EUR 3.9 million (EUR 0.3 million gain in 2007) and was partially generated by intercompany trading and borrowing balances within the Group denominated in EUR currency. Average BYR/EUR rate in 2008 was 3134,80 as compared to 2937,06 in 2007 while average RUR/EUR rate in 2008 was 36,45 as compared to 35,03 in 2007. The Group ended 2008 with a net loss of EUR 7.6 million, representing a 163.6% decline compared to 2007, and net margin equalled -7.0% (12.1% in 2007).

In 2008, the Group's return on equity was -17.3% (down from 31.5% in 2007) and return on assets was -10.4% (down from 19.7% in 2007). Deterioration of return of assets was partially caused by increase in working capital, mainly increase in inventories and trade accounts receivable.

Financial position

At 31 December 2008, consolidated assets amounted to EUR 77.2 million (up from EUR 69.6 million at 31 December 2007).

Trade receivables have increased by EUR 0.6 million in 2008. Inventory increased by EUR 6.2 million and reached EUR 27.8 million at 31 December 2008. The growth in inventory was driven primarily by slowdown in customer consumption at the end of 2008 and also due to the expansion of the retail network requiring permanent working capital increase. The Group made rental prepayments and deposits for store premises which increased other receivables and prepayments balances.

Property, plant and intangibles increased by EUR 2.2 million.

Current liabilities increased by EUR 12.2 million mainly due to increase in loans and borrowings. Current and non-current loans and borrowings increased by EUR 6.7 million to EUR 8.6 million. Loans received and loans repaid during the period amounted to EUR 8.1 million and EUR 1.7 million respectively. This includes finance lease liabilities of EUR 0.4 million. Tax liabilities, other payables, including payables to employees, and provisions amounted to EUR 7.8 million, remaining at the expected level.

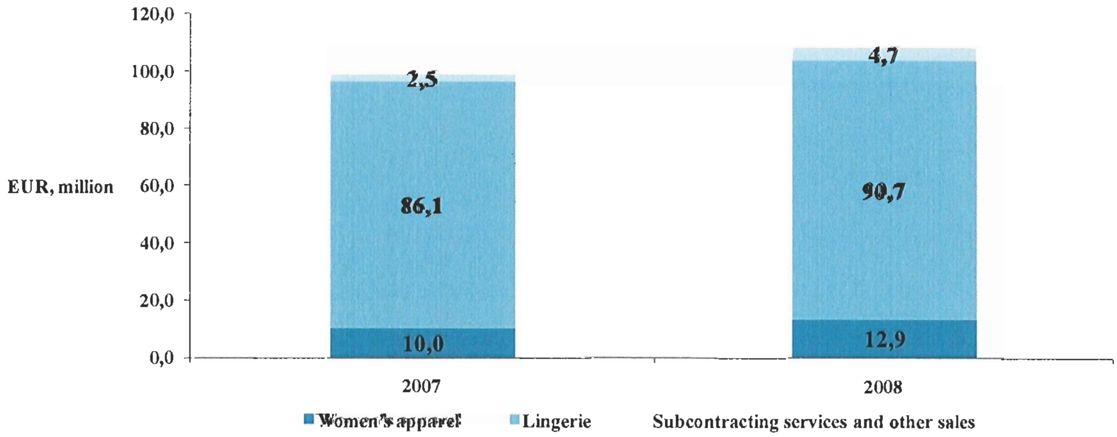
Equity attributable to equity holders decreased by EUR 5.9 million to EUR 41.0 million.

Sales

Sales by business segments

In EUR million	2008	2007	Change
Women's apparel	12.9	10.0	+29.0%
Lingerie	90.7	86.1	+5.3%
Subcontracting services and other sales	4.7	2.5	+88.0%
Total	**108.3**	**98.6**	**+9.8%**

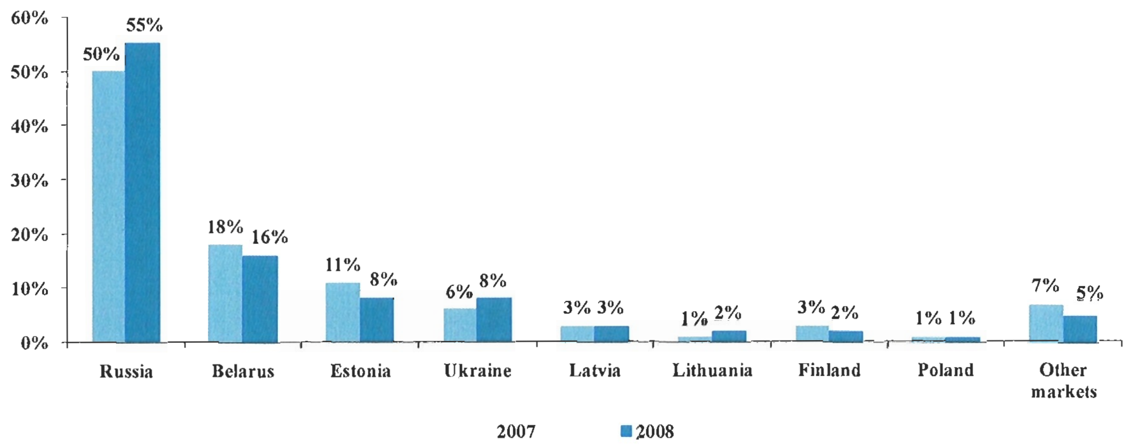
The Group's sales revenue in 2007 and 2008



Sales by Markets

In 2008, the Group continued to focus on East European markets, mainly the Baltic States, Russia, Belarus and Ukraine.

Sales by markets, 2007 and 2008



Retail Operations

Total retail sales of the Group in 2008 amounted to EUR 30.5 million, representing a 70.5% increase against 2007.

Retail operations were conducted in Estonia, Latvia, Russia, Belarus, Poland, Lithuania and Ukraine. At the end of 2008, the Group operated 134 retail outlets with a total area of 14,566 square meters.

Women's apparel retail operations were conducted in Estonia, Latvia, Lithuania, Russia and Ukraine. At the end of 2008 the Group operated 37 women's apparel stores with a total sales area of 6,833 square meters.

Lingerie retail operations were conducted in Russia, Belarus, Latvia, Lithuania, Ukraine, Poland and Estonia. At the end of 2008 the Group operated 97 lingerie stores with a total area of 7,733 square meters.

In 2008, 36 new stores were opened of which 13 new shops were opened in the apparel business (operating under PTA brand name, including 4 shops in Ukraine, 7 – in Russia, one – in Estonia and one – in Lithuania) and 23 stores in the lingerie line of business, including 9 shops operated under Oblicie name (7 shops in Russia, one – in Ukraine and one - in Estonia), 12 shops under Milavitsa name (7 shops in Belarus and 5 shops in Russia), one shop under Lauma Lingerie brand name in Latvia and one stock outlet in Estonia. 17 underperforming stores were closed (5 PTA stores in Russia, one PTA store in Ukraine, 6 Oblicie stores in Russia, one Oblicie store in Ukraine, two Milavitsa stores in Belarus and two Splendo stores in Poland).

The number of stores at 31 December:

	2008	2007
Estonia	11	8
Latvia	7	6
Poland	8	10
Belarus	28	23
Russia	52	44
Lithuania	21	20
Ukraine	7	4
Total stores	**134**	**115**
Total sales area, square meters	**14,566**	**12,454**

In 2008, women's apparel retail revenue compared to 2007 increased by 57.9%, amounting to EUR 12.0 million. The total like-for-like growth was a negative 3% mainly because of the drop of sales in the Baltics. The like-for-like growth in Russia was +33%, in Estonia -4% and in Latvia -3% in 2008. Results in Baltics are influenced by overall macro economical situation and by the fact that the Estonian and Latvian stores have already been in operation for long enough to be close to optimal capacity. Sales of PTA stores were growing in Lithuania due to expansion, however efficiency of Lithuanian stores is still much lower than in Estonian and Latvian stores. Apparel sales in Ukraine were growing 8 times compared with previous year because of retail expansion. Ukrainian stores showed positive trend of sales until October 2008, due to economical crisis and devaluation of Ukrainian Grivna sales results and mark up were decreasing significantly in the end of 2008. Also PTA stores in Russia made over 50% like-for-like growth in first half of 2008, sales revenues were not high enough compared to operational costs in Russia. Growth of PTA apparel sales in Russia stopped in second half of 2008 due to financing problems of Russian apparel operations.

The like-for-like increase in the Oblicie lingerie retail chain in Russia approximated 49% for stores operating longer than one year, however, still below breakeven on average. Retail development continues to be the major objective of the Group, however the focus has been shifted towards franchising versus directly operated stores. In Q4 2008 the Group opened 4 Milavitsa monobrand shops in Russia and one Oblicie shop was re-branded to Milavitsa. The intention of the re-branding is to capitalise on Milavitsa's brand awareness in the country. The remaining Oblicie stores will be re-branded to Milavitsa in 2009.

Stores by concept

Market	PTA stores	Oblicie stores	Milavitsa stores	Other stores	Total	Sales area, sq m
Russia	13	34	5	-	52	5,467
Ukraine	6	1	-	-	7	994
Estonia	9	1	-	1	11	2,120
Latvia	4	-	-	3	7	1,196
Lithuania	5	-	-	16	21	1,883
Belarus	-	-	28	-	28	2,554
Poland	-	1	-	7	8	352
Total	**37**	**37**	**33**	**27**	**134**	**14,566**

Wholesale

In 2008, wholesale amounted to EUR 73.2 million representing 67.5% of the Group's total revenue (2007: 79.3%). The main wholesale regions were Russia, Belarus, Ukraine and the Baltic States for lingerie, and Finland and the Baltic states for women's apparel. In 2008, revenue from wholesale of women's apparel decreased by 53.6% compared to 2007, amounting to EUR 1.3 million.

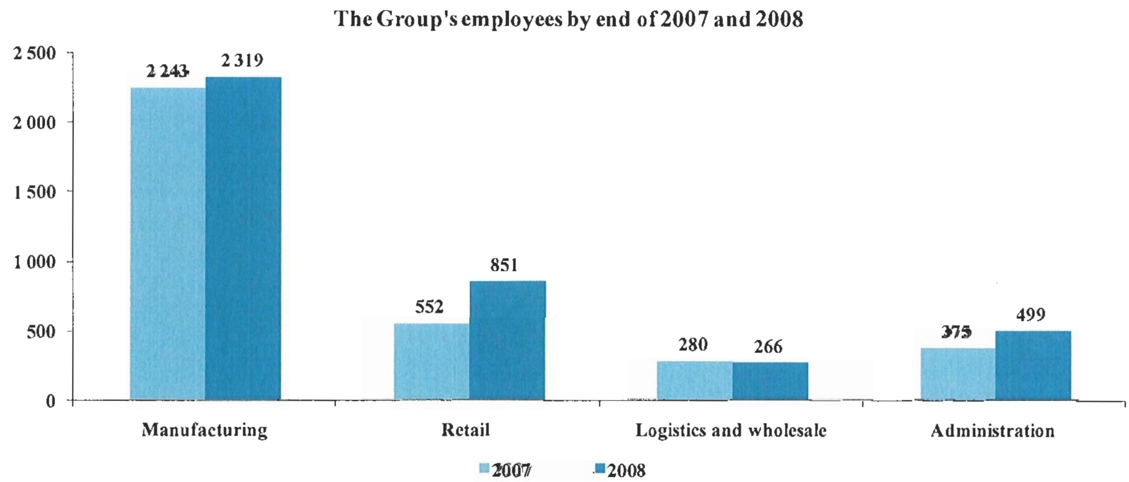
Lingerie wholesale in 2008 decreased by 4.6% compared to 2007, amounting to EUR 71.9 million. Most of the lingerie wholesale partners are located in Russia. There was a slowdown in wholesale operations in Russia and Ukraine in Q4 2008 caused by the financial crisis and key customer working capital financing complications.

Capital investments

In 2008, the Group's investments totaled EUR 6.2 million. A total of EUR 2.5 million was invested in retail operations, EUR 0.8 million was invested in real estate for retail needs in Belarus, while other investments were made in equipment and facilities to maintain effective production.

Personnel

At the end of December 2008, the Group employed 3,901 employees including 851 in retail and 2,319 in production. The rest are employed in wholesale, administration and support operations. The average number of employees in 2008 was 3,935.



The total salaries and wages for 2008 amounted to EUR 22.7 million. The remuneration paid to members of the Management Board totaled EUR 0.3 million. Four members of the Management Board also serve as executives for the Group's subsidiaries.

Outlook for 2009

The Group's overall strategy entails further development of retail and wholesale operations, while at the same time taking into account the current economic crisis that has already resulted in shrinking of consumer demand, slowdown in shopping malls' traffic and limited access to financing for wholesale partners.

In retail, the main focus for 2009 will be on franchising partners' retail networks, i.e. Milavitsa branded stores in Russia, Ukraine and other CIS countries. Revised franchising policies and standards will be communicated to the partners including business model (logistics, pricing, retailing principles), IT support, monitoring, and HR policies. The second important retail development objective is to enhance efficiency of the Group's own retail operations in Belarus, Russia and Baltics. In Belarus, the Group operates 28 stores. The goal is to maintain the current level of sales per square meter with moderate expansion and investments into new stores (3-5 new openings in 2009). In Russia, the Group will operate only lingerie stores. The Group intends to close lingerie stores with negative retail contribution and intends to rebrand the remaining stores into Milavitsa stores. Out of current 39 lingerie stores the management intends to close two stores in the first half of 2009 and to decide on further store closing based on Q1 2009 shop performance. The Group plans to close down all PTA stores in Russia that have demonstrated low potential of becoming a sustainable apparel retail brand for Russia. For the Baltics, the Group plans to operate apparel PTA stores (21 store), and to close 2 underperforming lingerie stores in Lithuania and to rebrand most of the remaining Amadea Line stores (14 stores) operated by Linret LT into Lauma Lingerie stores, the Group also intends to open a few franchise stores of Jockey (men's underwear) and Yamamay.

There will also be other fields of improvement of retail operation for all markets including improvement of the store retail sales efficiency by enhancing brand awareness and recognition, supplementing collections, and performing consumer campaigns and other marketing events for all markets. For all own and partners' stores, the Group will be gradually implementing IT support improving supply chain management within the system and stock planning for the stores.

In wholesale, the main focus for 2009 will be on upgrading existing wholesale network, strengthening relationships with existing dealers, exploring new markets and new product niches, and improving planning and logistics for wholesale distribution.

Upgrading existing distribution network calls for new wholesale policies including pricing, special events, new collections' presentations, as well as better collection and analysis of orders. The Group plans to restructure its planning principles and calendar to assist dealers in placing more precise orders by reducing the lead-time from order to actual shipment. The Group plans to work on raising existing dealers' loyalty to the Group and its products via closer communication with partners, offering competitive terms and conditions, providing marketing and PR support, organizing round-table conferences with key accounts on a quarterly basis. There also appear to be "white spots" on the map of the Group's regional distribution, where the Group will work harder to provide penetration ratio similar to benchmark regions. New planning and logistics procedures are intended to clearly reflect the difference between classic and fashion collections offerings and are aimed at shortening lead-time, allowing wholesale partners to prepare more detailed and precise forecasts.

The Group's manufacturing entities will focus on manufacturing its own brand products. Lauma Lingerie has accomplished its reorganization downsizing its staff and shifting production to Belarus and China. The downsizing programme was successfully accomplished, the total staff was reduced from 416 to 184 employees, the total cost of the downsizing was EUR 287 thousand.

In general, in 2009 the Group plans to prioritize the efficiency of the existing business units each having an ultimate goal of becoming cash positive by the end of 2009, as opposed to investment in new ventures.

Selected financial data

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

Key figures and ratios	**2008**	**2007**	**Change**
Net sales (EUR million)	108.3	98.6	9.7
Net income attributable to shareholders (EUR million)	-7.6	11.9	-19.5
Earnings before interest, taxes and depreciation (EBITDA) (EUR million)	6.1	23.0	-16.9
Earnings before interest and taxes (EBIT) (EUR million)	3.0	20.6	-17.6
Operating margin, %	2.7%	20.8%	-
Net margin, %	-7.0%	12.1%	-
ROA, %	-10.4%	19.7%	-
ROE, %	-17.3%	31.5%	-
Earnings per share (EPS), in EUR	-0.19	0.31	-
Current ratio	2.1	3.6	-
Quick ratio	1.0	2.1	-

Underlying formulas:

Operating margin = operating profit / sales revenue

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

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

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

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

Current ratio = current assets / current liabilities

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

Dmitry Ditchkovsky

Chairman of the Management Board

AS Silvano Fashion Group shares

SFG shares have been listed on the Tallinn Stock Exchange since 1997. The Tallinn Stock Exchange is part of NASDAQ OMX Group. SFG shares have also been listed on the Warsaw Stock Exchange since 2007.

Information on SFG shares

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

SFG share details:

ISIN	EE3100001751
Symbol (TSE)	SFGAT
List	BALTIC MAIN LIST
Par value	EUR 0.64
Number of issued shares	40,000,000
Number of listed shares	40,000,000
Date of listing (TSE)	20 May 1997

Key share details	2004	2005	2006	2007	2008
Number of shares outstanding at year end	1,896,875	1,946,875	37,947,198	40,000,000	40,000,000
Weighted average number of shares	1,896,875	1,935,505	11,020,929	38,852,681	39,915,000
Year-end share price, in EUR	1.81	2.24	3.93	4.40	0.51
Earnings per share, in EUR	–0.40	0.35	0.26	0.31	-0.19

Share price performance and trading history

In 2008, SFG's share price decreased by 88.41% and the Group's market capitalization decreased by about EUR 155.6 million, and the OMX Tallinn Index fell by 62.98%.

Tallinn Stock Exchange trading history	2004	2005	2006	2007	2008
High, in EUR	2.05	2.25	4.45	7.12	4.35
Low, in EUR	1.75	1.50	2.00	3.49	0.40
Last, in EUR	1.81	2.24	3.93	4.40	0.51
Traded volume	132,516	297,502	3,784,919	13,057,062	10,351,740
Turnover, in EUR million	0.25	0.60	13.81	64.29	15.53
Market capitalization, in EUR million	3.43	4.36	149.13	176.0	20.40

Share price development and turnover on the Tallinn Stock Exchange in 12 months 2008

Warsaw Stock Exchange trading history	**2007**	**2008**
High, in PLN	22.5	17.2
Low, in PLN	14.5	1.52
Last, in PLN	16.8	1.99
Traded volume	2,017,878	5,657,364
Turnover in million PLN	70.2	83.8

Shareholder structure

At 31 December 2008, SFG had 1,021 shareholders (up from 996 at 31 December 2007), representing an approximate 2.5% increase in the number of shareholders.

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

The distribution of shares at 31 December:

	2008			**2007**		
Shareholdings	**Number of shareholders**	**%**	**Number of shares**	**Number of shareholders**	**%**	**Number of shares**
>10%	4	0.4%	29,819,865	3	0.3%	29,326,902
1.0–10.0%	4	0.4%	6,234,069	8	0.8%	6,423,713
0.1–1.0%	26	2.5%	3,187,440	22	2.2%	3,516,179
<0.1%	987	96.7%	758,626	963	96.7%	733,206
Total	**1,021**	**100%**	**40,000,000**	**996**	**100.0%**	**40,000,000**

At 31 December 2008 shareholders whose interest in AS Silvano Fashion Group exceeded 1% included:

Name	Number of shares	Shareholding
Major shareholders	**36,053,934**	**90.1%**
NORDEA BANK FINLAND PLC/ NON-RESIDENT LEGAL ENTITIES	14,086,573	35.2%
KRAJOWY DEPOZYT PAPIEROW WARTOACIOWYCH S.A.	6,453,884	16.1%
SEB PANK AS_NON-RESIDENT RETAIL CLIENTS	5,127,682	12.8%
SKANDINAVISKA ENSKILDA BANKEN AB CLIENTS	4,151,726	10.4%
ALTA CAPITAL PARTNERS S.C.A., SICAR	1,864,286	4.7%
SIA ALTA CAPITAL PARTNERS	1,775,000	4.4%
UNICREDIT BANK AUSTRIA AG	1,354,520	3.4%
AS SWEDBANK	784,063	2.0%
TRIGON UUS EUROOPA VÄIKEETTEVÕTETE FOND	456,200	1.1%
Other shareholders	**3,946,066**	**9.9%**
Total number of shares	**40,000,000**	**100.0%**

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

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

Under § 185 of the Estonian Securities Market Act (SMA), any person acquiring, directly or indirectly, alone or together with other persons acting in concert, acquires or increases participation in a share issuer to 5, 10, 15, 20, 25 or 50 per cent, or 1/3 or 2/3 of all votes represented by shares, he must notify the issuer of the number of votes belonging to it immediately, but not later than within four trading days. The same applies to the reduction of participation below the aforementioned thresholds. Under § 186 of the SMA, the issuer must publish the above information immediately, but not later than within three trading days of receipt.

Because under the SMA, the allocation of voting rights does not necessarily coincide with legal ownership, the shareholders' register of the Company may not include all persons who hold over 5% of voting rights represented by its shares. In particular:

- Pioneer Pekao Investment Management SA notified the Company that it controls 5.215% of votes represented by its shares and no notification is received from Pioneer Pekao Investment Management SA on the reduction of its participation in the votes represented by the Company's shares;

- No notification is received from SIA Alta Capital Partners on the reduction of its participation in the votes represented by the Company's shares.

Based on the above, the Company deems Pioneer Pekao Investment Management SA to hold over 5% of the Company's shares, and SIA Alta Capital Partners to hold (directly and indirectly) over 50% of the Company's shares.

Share capital

At 31 December 2008, SFG's registered share capital was EEK 400,000,000 (equivalent to EUR 25,564,659), consisting of 40,000,000 ordinary shares with a par value of EEK 10 (equivalent to EUR 0.64).

The changes in share capital over the last five years:

Date	Increase/decrease	Issue price	Increase / decrease in number of shares	Total number of shares	Share capital at par value	Share premium
		In EUR			In EUR thousand	
31 December 2003				**1,896,875**	**1,212**	**2,575**
31 December 2004				**1,896,875**	**1,212**	**2,575**
24 March 2005	Conversion of convertible bonds	1.53	50,000	1,946,875	32	45
31 December 2005				**1,946,875**	**1 244**	**2,620**
16 October 2006	Share issue	2.50	36,000,323	37,947,198	23,008	2,828
16 October 2006	Issue costs					–143
31 December 2006				**37,947,198**	**24,252**	**5,305**
24 July 2007	Share issue	5.25	2,052,802	40,000,000	1,313	9,464
24 July 2007	Issue costs					–498
31 December 2007				**40,000,000**	**25,565**	**14,271**
31 December 2008				**40,000,000**	**25,565**	**14,271**

SFG is entitled to buy back its own shares within one year as of the resolution of the general meeting of the shareholders, the total nominal value of own shares to be bought back by SFG may not exceed 10% of total share capital of SFG. To date, the amount of shares bought back is 393 000, the average price per share is 1.15 EUR, the cost in total is 450,106 EUR.

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

Corporate governance report

The Company's shares are listed on the NASDAQ OMX Tallinn Stock Exchange and the Warsaw Stock Exchange. Consequently, two corporate governance codes apply as detailed below.
The Corporate Governance Recommendations adopted by the NASDAQ OMX Tallinn Stock Exchange and the Estonian Financial Supervision Authority (hereinafter **CGR**) is an advisory set of rules which provides guidance for conducting corporate governance and is applicable, above all, in respect of companies listed on the NASDAQ OMX Tallinn Stock Exchange.
Compliance with the principles of CGR is binding on the basis of a "comply or explain" principle. In other words, the companies listed on the NASDAQ OMX Tallinn Stock Exchange are required to publish a corporate governance report outlining the principles of CGR, which are not complied with accompanied by the issuer's explanation for such failure to comply.
A similar set of rules titled the Code of Best Practice is applicable in respect of the Company due to its listing on the Warsaw Stock Exchange.
As a general rule, AS Silvano Fashion Group complies with all principles set out in CGR and the Code of Best Practice. This report outlines the principles of CGR and the Code of Best Practice not fully observed and describes the reasons thereof.

General Meeting

General Remarks

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

General Meetings of AS Silvano Fashion Group

During the financial year ended on 31 December 2008 two general meetings of AS Silvano Fashion Group were held.

The ordinary general meeting of AS Silvano Fashion Group was held on 22 May 2008 at Akadeemia tee 33, Tallinn. 21,615,469 votes represented by shares took part of the meeting, representing altogether 54.04% of all the issued shares. The ordinary general meeting resolved to (i) approve the annual accounts of AS Silvano Fashion Group; (ii) approve the proposal on the distribution of profit not to distribute the net profit of 186,914,000 Estonian kroons; (iii) recall a current member of the supervisory board Jaak Raid; (iv) extend the term of office of a current member Indrek Rahumaa; (iv) elect Priit Põldoja, personal identification code 36906180220, residing in Tallinn, Estonia, as a new member of the supervisory board; (v) elect Pavel Daneyko, date of birth 03.04.1961, residing at Prospekt Nezavisimosti 19-56, 220030 Minsk, Belarus, as a new member of the supervisory board; and (vi) appoint auditor and decide its remuneration.

On 6 October 2008 an extraordinary general meeting was held. Altogether 20,748,536 votes represented by shares participated at the meeting, representing 51.87% of the entire issued share capital of AS Silvano Fashion Group. The agenda of the ordinary general meeting included the authorisation for buyback of own shares.

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

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

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

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

According to Section 1.3.2 of CGR a general meeting is attended by members of management board, chairman of supervisory board, if possible also members of supervisory board and at least 1 of auditors. Neither general meeting held in 2008 was attended by all members of the management board and the auditor, for practical reasons and travel arrangements.

Pursuant to Section 1.3.3 of CGR, an issuer enables electronic participation at the meeting provided that it has respective technical means and that it is not too costly. It was not possible to attend the general meeting of AS Silvano Fashion Group held in 2008 via electronic devices as the company does not have relevant equipment and it would have been unreasonably expensive to acquire the same for the general meetings.

Supervisory Board

General Remarks

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

Supervisory Board of AS Silvano Fashion Group

The ordinary general meeting held on 22 May 2008 removed Mr. Jaak Raid from the supervisory board, extended the term of office of Mr. Indrek Rahumaa and elected two new members – Mr. Priit Põldoja and Mr. Pavel Daneyko. As of the referred general meeting the members of the supervisory board of AS Silvano Fashion Group are Mr. Indrek Rahumaa, Mrs. Zinaida Valekha, Mr. Priit Põldoja and Mr. Pavel Daneyko.

In 2008, the members of the supervisory board were not remunerated but they were compensated for the costs incurred in performing their duties.

According to law and the provisions of the articles of association of AS Silvano Fashion Group, the meetings of the supervisory board are held as frequently as necessary; however, not less frequently than once a quarter. In 2008, the supervisory board held a number of meetings exceeding the legal minimum. The management board informed the supervisory board of the activities and financial position of AS Silvano Fashion Group on a regular basis.

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

Management Board

General Remarks

Management board is the representative body of a public limited company being responsible for day-to-day management of the latter. According to the articles of association of AS Silvano Fashion Group, the management of AS Silvano Fashion Group consists of 1 to 7 members elected for the term of three years. All the members of the management board of AS Silvano Fashion Group may represent the company only jointly pursuant to the Company's articles of association; however, this requirement is not entered in the commercial register.

Management Board of AS Silvano Fashion Group

As of the end of 2008, the management board of the Company comprised 6 members – Mr. Dmitry Ditchkovsky, Mr. Dmitri Podolinski, Mr. Sergei Kusonski, Mrs. Dace Markevica, Mr. Peeter Larin and Mr. Remigiusz Pilat.

Currently, the management board of the Company comprises 5 members – Mr. Dmitry Ditchkovsky, Mr. Dmitri Podolinski, Mr. Sergei Kusonski, Ms. Baiba Gegere and Mr. Peeter Larin.

As at 31 December 2008 the members of the management board had the following interests in the company:

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

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

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

Disclosure of Information

The web page of AS Silvano Fashion Group includes a link to the web page of the NASDAQ OMX Tallinn Stock Exchange where AS Silvano Fashion Group discloses all relevant information both in Estonian and in English language. During the financial year ended on 31 December 2008, there have been no deficiencies in providing the shareholders of AS Silvano Fashion Group with all relevant information. All respective provisions of CGR were duly followed and the equal treatment of all the shareholders was ensured.

Reporting

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

MANAGEMENT'S CONFIRMATION TO THE MANAGEMENT REPORT

The Management Board acknowledges its responsibility and confirms, to the best of its knowledge, that the Management Report as set out on pages 5 to 19 is an integral part of the Annual Report of AS Silvano Fashion Group for 2008 and gives a true and fair view of the trends and results of operations, main risks and uncertainties of AS Silvano Fashion Group and its subsidiaries as a group:

Dmitry Ditchkovsky
Chairman of Management Board
23 April 2009

Sergei Kusonski
Member of Management Board
23 April 2009

Peeter Larin
Member of Management Board
23 April 2009

Dmitri Podolinski
Member of Management Board
23 April 2009

Baiba Gegere
Member of Management Board
23 April 2009

CONSOLIDATED FINANCIAL STATEMENTS

Statement of management responsibility

The management board acknowledges its responsibility for the preparation of the consolidated financial statements of AS Silvano Fashion Group presented on pages 22 to 66 and confirms that:

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

Dmitry Ditchkovsky
Chairman of Management Board
23 April 2009

Sergei Kusonski
Member of Management Board
23 April 2009

Peeter Larin
Member of Management Board
23 April 2009

Dmitri Podolinski
Member of Management Board
23 April 2009

Baiba Gegere
Member of Management Board
23 April 2009

Consolidated balance sheet

As at 31 December

In thousands of EUR	**Note**	**2008**	**2007**
ASSETS			
Non-current assets			
Property, plant and equipment	16, 29	18,760	15,757
Intangible assets	17	1,028	1,788
Investment property	18	1,479	1,467
Investments in equity accounted investees	19	184	56
Available-for-sale financial assets	20	557	542
Other receivables	24	1,117	38
Total non-current assets		**23,125**	**19,648**
Current assets			
Inventories	21	27,764	21,572
Prepaid taxes	22	3,967	1,564
Trade receivables	23	10,738	10,132
Other receivables	24	3,250	1,899
Prepayments	25	3,145	3,303
Cash and cash equivalents	26	5,249	11,519
Total current assets		**54,113**	**49,989**
TOTAL ASSETS		**77,238**	**69,637**
LIABILITIES AND EQUITY			
Equity			
Share capital at par value	27	25,565	25,565
Share premium	27	14,271	14,271
Own shares		-450	0
Statutory capital reserve	27	67	67
Translation reserve	27	-3,713	-4,890
Retained earnings		5,243	11,883
Total equity attributable to equity holders of the parent		**40,983**	**46,896**
Minority interest		9,074	8,712
Total equity		**50,057**	**55,608**
Non-current liabilities			
Loans and borrowings	29	1,163	260
Deferred tax liabilities	15	13	13
Other liabilities		84	23
Provisions	32	8	9
Total non-current liabilities		**1,268**	**305**
Current liabilities			
Loans and borrowings	29	7,430	1,584
Trade payables	30	10,734	7,854
Corporate income tax liability		256	204
Other tax liabilities	22	1,160	1,501
Other payables	31	1,763	1,137
Provisions	32	4,526	1,436
Accrued expenses		44	8
Total current liabilities		**25,913**	**13,724**
Total liabilities		**27,181**	**14,029**
TOTAL LIABILITIES AND EQUITY		**77,238**	**69,637**

The notes on pages 26-66 are an integral part of these financial statements.

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KPMG, Tallinn

Consolidated income statement

In thousands of EUR	Note	2008	2007
Revenue			
Sales revenue	8	108,315	98,580
Costs of goods sold	9	-60,778	-55,653
Gross Profit		**47,537**	**42,927**
Other operating income	10	2,203	6,761
Distribution costs	11	-21,577	-13,674
Administrative costs	12	-14,059	-10,900
Other operating expenses	13	-11,151	-4,563
Operating profit		**2,953**	**20,551**
Finance income and expenses			
Finance income	14	555	1,153
Finance expenses	14	-4,417	-232
Net finance income		**-3,862**	**921**
Share of profit of equity accounted investees	19	112	63
Profit before tax		**-797**	**21,535**
Income tax expense	15	-5,610	-5,940
Profit for the period		**-6,407**	**15,595**
Attributable to			
Equity holders of the parent		-7,603	11,946
Minority interest		1,196	3,649
Earnings per share			
Basic earnings per share (in EUR)	28	-0.19	0.31
Diluted earnings per share (in EUR)	28	-0.19	0.31

The notes on pages 26-66 are an integral part of these financial statements.

Consolidated statement of cash flows

In thousands of EUR	Note	2008	2007
Cash flows from operating activities			
Profit for the period		-6,407	15,595
Adjustments for:			
Depreciation of property, plant and equipment		2,668	1,870
Amortization of intangible assets	17	193	137
Loss on intangible assets disposal	17	4	117
Impairment losses on property, plant and equipment	16	62	0
Gains(-) loss(+) on the sale of property, plant and equipment	10	4	-58
Impairment losses on goodwill (+) and negative goodwill gain (-)	7,17	2,006	-5,601
Share of profit of equity accounted investees		-101	-51
Income tax expense	15	5,610	5,940
Acquisition of minority interest		0	202
Change in trade and other receivables and prepayments		-1,497	-7,439
Change in inventories		-2,784	-9,991
Change in trade and other payables		1,740	4,446
Interests paid		-319	-270
Income tax paid		-6,805	-6,113
Total cash flow used in operating activities		**-5,626**	**-1,216**
Cash flows from investing activities			
Acquisition of property, plant and equipment		-5,175	-6,809
Acquisition of investment property		0	-1,296
Proceeds from sale of property, plant and equipment		459	97
Loans granted		-2,850	-4,991
Proceeds from repayments of loans granted		1,910	4,444
Interest received		467	761
Dividends received	14	12	105
Acquisition of intangible assets		-163	-395
Acquisition of subsidiary, net of cash acquired	7	-924	-877
Acquisition of other non-current assets		-63	-228
Total cash used in investing activities		**-6,327**	**-9,189**
Cash flows from financing activities			
Proceeds from issue of share capital		0	10,278
Repayment of borrowings		-1,349	-1,619
Proceeds from borrowings		8,070	1,338
Repayment of finance lease		-365	-695
Dividends paid		-223	-190
Acquisition of own shares		-450	0
Total cash flow from financing activities		**5,683**	**9,112**
Decrease in cash and cash equivalents		**-6,270**	**-1,293**
Cash and cash equivalents at the beginning of period		**11,519**	**12,812**
Cash and cash equivalents at the end of period	26	**5,249**	**11,519**

The notes on pages 26-66 are an integral part of these financial statements.

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Consolidated statement of changes in equity

In thousands EUR	Note	Equity attributable to equity holders of the parent								
		Share capital	Share premium	Own Shares	Capital reserve	Translation reserve	Accumulated profit (losses)	Total	Minority interest	Total equity
Balance at 31 December 2006		**24,252**	**5,305**	**0**	**67**	**-684**	**-63**	**28,877**	**11,492**	**40,369**
Profit for the period		0	0	0	0	0	11,946	**11,946**	3,649	**15,595**
Effect on consolidation of foreign subsidiaries		0	0	0	0	-4,206	0	**-4,206**	-793	**-4,999**
Total recognized income and expense for 12 months of 2007		**0**	**0**	**0**	**0**	**-4,206**	**11,946**	**7,740**	**2,856**	**10,596**
Issue of share capital		1,313	8,966	0	0	0	0	**10,279**	0	**10,279**
Acquisition of minority interest		0	0	0	0	0	0	**0**	-5,514	**-5,514**
Dividends paid		0	0	0	0	0	0	**0**	-122	**-122**
Balance at 31 December 2007		**25,565**	**14,271**	**0**	**67**	**-4,890**	**11,883**	**46,896**	**8,712**	**55,608**
Profit for the period		0	0	0	0	0	-7,603	**-7,603**	1,196	**-6,407**
Effect on consolidation of foreign subsidiaries	27	0	0	0	0	1,177	0	**1,177**	346	**1,523**
Total recognized income and expense for 12 months of 2008		**0**	**0**	**0**	**0**	**1,177**	**-7,603**	**-6,426**	**1,542**	**-4,884**
Own shares acquired	27	0	0	-450	0	0	0	-450	0	**-450**
Disposal of subsidiary		0	0	0	0	0	963	963	-963	**0**
Acquisition of minority interest		0	0	0	0	0	0	0	-512	**-512**
Minority interest from business combination		0	0	0	0	0	0	0	518	**518**
Dividends paid		0	0	0	0	0	0	0	-223	**-223**
Balance at 31 December 2008		**25,565**	**14,271**	**-450**	**67**	**-3,713**	**5,243**	**40,983**	**9,074**	**50,057**

The notes on pages 26-66 are an integral part of these financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Reporting entity

AS Silvano Fashion Group (formerly PTA Grupp AS) is a company domiciled in the Republic of Estonia (registration number 10175491, address Tartu mnt 2, 10145 Tallinn). The consolidated financial statements of AS Silvano Fashion Group (the "Company" or the "Parent company") for the year ended 31 December 2008 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates. The Group's main activities are the design, manufacture and distribution of women's apparel and lingerie.

Note 2. Basis of preparation

The consolidated financial statements for the year ended 31 December 2008 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The consolidated financial statements were authorized for issue by the Management Board on 20 April 2009. According to the Estonian Commercial Code, the annual report including the consolidated financial statements prepared by the management board must be agreed by the supervisory council, and approved by the shareholders' general meeting. Shareholders have the power not to approve the annual report prepared and presented by the management board and the right to request that a new annual report be prepared.

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

Functional and presentation currency

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

Pursuant to the regulations set by the OMX Tallinn Stock Exchange all the information made available by the listed entities is provided in EUR. The annual report is translated from the Group official presentation currency (Estonian kroon) to EUR by applying the following exchange rate 1 EUR = 15,6466 EEK.

Use of estimates and judgments

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

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

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

Measurement of inventories

Management measures inventories based on its best knowledge, historical experience, general background information, and assumptions and conditions for potential future events. The need for and extent of writing down inventories is determined as follows: in the case of finished goods (carrying amount at 31 December 2008: EUR 20,102,000 and at 31 December 2007: EUR 13,020,000) on the basis of their sales potential and net realizable value; in the case of raw and other materials (carrying amount at 31 December 2008: EUR 5,592,000 and at 31 December 2007: EUR 5,701,000) on the basis of their usability in the production of finished goods and generation of revenue; and in the case of work in progress (carrying amount at 31 December 2008: EUR 1,859,000 and at 31 December 2007: EUR 2,466,000) on the basis of their stage of completion which can be measured reliably.

Measurement of goodwill

Goodwill is tested for impairment at least once a year. Management has tested the goodwill acquired on the acquisition of subsidiaries (carrying amount at 31 December 2008: EUR 120,000 and at 31 December 2007: EUR 852,000) for impairment. The recoverable amount of goodwill was identified using future cash flows estimated on the basis of budgeted sales volumes in the respective market. The future expected cash flows have been discounted using expected rate of return in the particular market within the similar industry. If the recoverable amount of goodwill is lower than its carrying amount, an impairment loss is recognized.

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

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

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

The useful lives of assets with an unlimited useful life (land) are indeterminable. There were no property, plant and equipment assets in the group with unlimited useful life as at 31 December 2008 and 31 December 2007.

Valuation of investment property

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

Current market situation

The ongoing global liquidity crisis that commenced in the middle of 2007 resulted in, among other things, lower liquidity levels in financial and real estate markets, a lower level of capital market funding and lower liquidity across the banking sector. Additionally, states where Group operates have been experiencing an economic downturn which has affected, and may continue to affect, the activities of enterprises operating in this environment. The accompanying financial statements reflect management's assessment of the impact of the local and global business environment on the operations and the financial position of the Group. Future developments in the business environment may differ from management's assessment.

Note 3. Significant accounting policies

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

Basis of consolidation

Subsidiaries

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

Associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method and are recognized initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Transactions eliminated on consolidation

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

Business combinations involving independent entities

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

Business combinations involving entities under common control

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

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

Minority interest

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

Acquisition of minority interest

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

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that their value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss.

Foreign operations

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

The financials of foreign subsidiaries are translated as follows:

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

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

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

Financial instruments

Non-derivative financial instruments

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

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

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

Cash and cash equivalents

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

Available-for-sale financial assets

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

Other

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

Share capital

Ordinary shares

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

Repurchase of share capital (own shares)

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognized as a deduction from equity. Repurchased shares are classified as own shares and are presented as a deduction from total equity. When own shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

Property, plant and equipment

Recognition and measurement

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

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

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

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

Subsequent costs

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

Depreciation

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

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

<u>Buildings:</u>	
Production buildings	33 years
Other buildings	10 years
<u>Plant and equipment:</u>	
Sewing equipment	7-10 years
Vehicles	5 years
Other equipment	5 years
<u>Other equipment and fixtures:</u>	
Computers, tools and other items of equipment	3-4 years
Store furnishings	5 years

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

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

<u>Intangible assets</u>

Goodwill

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

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

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

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

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Other intangible assets

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

Amortization

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

Software	5-10 years
Trademarks	10 years

Investment property

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

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

Leased assets

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

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

Inventories

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

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

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

Impairment

Financial assets

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

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

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

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

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

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Non-financial assets

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

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

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

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

Employee benefits

Termination benefits – Termination benefits are employee benefits payable as a result of the Group's decision to terminate an employee's employment before the normal retirement date or the employee's decision to accept voluntary redundancy in exchange for those benefits.

Termination benefits are recognized as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Where termination benefits fall due more than 12 months after the balance sheet date they are discounted to their present value.

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

Provisions

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

Revenue

Goods sold

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

Services

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

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Commissions

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

Rental income

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

Lease payments

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

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

Finance income and expenses

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

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

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

Corporate income tax

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

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

Corporate income tax of entities registered in Estonia

In accordance with effective legislation, in Estonia corporate income tax is not levied on profits earned. Therefore, deferred tax assets and liabilities do not arise. Instead of profit earned, income tax is levied on dividends distributed. From 1 January 2009 the tax rate is 21/79 (until 31 December 2008 the tax rate was 21/79 and until 31 December 2007 22/78) of the amount distributed as the net dividend. The income tax payable on dividends is recognized in the income statement of the period in which the dividends are declared, irrespective of the period for which the dividends are declared or in which they are paid.

Corporate income tax of foreign subsidiaries

In accordance with the tax laws of their domicile, at the Group's foreign entities income tax is levied on corporate profits which have been adjusted for permanent and temporary differences provided for in the law. In Latvia and Lithuania the tax rate is 15%, in Finland 26%, in Ukraine 25%, in Poland 19%, in France 33,33% and in Russia 24%. In the above countries tax rates have not changed compared to 2007. In 2008 income tax rate in Belarus was State profit tax 24% plus local profit tax 3% (2007: 24%, 3%).

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

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

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

Earnings per share

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

Segment reporting

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

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

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

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

New International Financial Reporting Standards and Interpretations of the Financial Reporting

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these consolidated financial statements. The following is the Group's assessment of the possible impact these new standards, amendments or interpretations will have on its financial statements in the period of initial application.

- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group's 2009 consolidated financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions, the Group will apply the revised IAS 23 to qualifying assets for which capitalization of borrowing costs commences on or after the effective date. Therefore there will be no impact on prior periods in the Group's 2009 consolidated financial statements.
- IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group's 2009 consolidated financial statements, is not expected to have any impact on the consolidated financial statements.
- Revised IAS 1 *Presentation of Financial Statements* (2007) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Group's 2009 consolidated financial statements, is expected to have a significant impact on the presentation of the consolidated financial statements. The Group plans to provide total comprehensive income in a single statement of comprehensive income in its 2009 consolidated financial statements.
- Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a *pro rata* share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Group's 2009 consolidated financial statements, with retrospective application required, are not expected to have any impact on the consolidated financial statements.
- Revised IFRS 3 *Business Combinations* (2008) incorporates the following changes that are likely to be relevant to the Group's operations:

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- The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
- Contingent consideration will be measured at fair value, with subsequent changes therein recognized in profit or loss.
- Transaction costs, other than share and debt issue costs, will be expensed as incurred.
- Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognized in profit or loss.
- Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Revised IFRS 3, which becomes mandatory for the Group's 2010 consolidated financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the Group's 2010 consolidated financial statements.

- IFRS 8 Operating Segments introduces the "management approach" to segment reporting. The Group has not yet completed its analysis of the impact of the revised Standard.
- Amended IAS 27 *Consolidated and Separate Financial Statements* (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in profit or loss. The amendments to IAS 27 become mandatory for the Group's 2010 consolidated financial statements. The Group has not yet completed its analysis of the impact of the revised Standard.
- Amendment to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Group's 2009 consolidated financial statements, with retrospective application. The Group has not yet determined the potential effect of the amendment.
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items clarify the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments have no impact on the Group's financial statements.
- IFRIC 15 Agreements for the Construction of Real Estate clarifies that revenue arising from agreements for the construction of real estate is recognized by reference to the stage of completion of the contract activity in the following cases:
  - the agreement meets the definition of a construction contract in accordance with IAS 11.3;
  - the agreement is only for the rendering of services in accordance with IAS 18 (e.g., the entity is not required to supply construction materials); and
  - the agreement is for the sale of goods but the revenue recognition criteria of IAS 18.14 are met continuously as construction progresses.

  In all other cases, revenue is recognized when all of the revenue recognition criteria of IAS 18.14 are satisfied (e.g., upon completion of construction or upon delivery). IFRIC 15 is not relevant to the Group's operations.
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation clarifies that:
  - net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal to or less than the net assets of the foreign operation
  - the hedging instrument may be held by any entity within the group except the foreign operation that is being hedged
  - on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to profit or loss.

  The Interpretation allows an entity that uses the step-by-step method of consolidation an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to profit or loss on disposal of a net investment as if the direct method of consolidation had been used. IFRIC 16 is not relevant to the Group as no hedging is applied.

- IFRIC 17 *Distributions of Non-cash Assets to Owners* applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners and is effective prospectively for annual periods beginning on or after 15 July 2009. In accordance with the Interpretation, a liability to pay a dividend shall be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognized in equity as adjustments to the amount of the distribution. When the dividend payable is settled the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognized in profit or loss. As the Interpretation is applicable

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only from the date of application, it will not impact the financial statements for periods prior to the date of adoption of the interpretation. Further, since it relates to future dividends that will be at the discretion of the board of directors/shareholders, it is not possible to determine the effects of application in advance.

Note 4. Determination of fair values

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

Property, plant and equipment

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

Intangible assets

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

Investment property

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

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

Investments in equity

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

Trade and other receivables

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

Non-derivative financial liabilities

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

Note 5. Financial risk management

Overview

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

- Credit risk
- Liquidity risk
- Market risk

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

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

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

Credit risk

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

Trade and other receivables

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

In the area of credit risk, the most important factor is the customer's capability to pay for goods supplied on a timely basis. The Group grants credit to all reliable customers based on the credit-limits assigned to the customer as assessed appropriate based on prior payment discipline and sales volume. The trade receivables reported in the balance sheet are not secured. In the case of retail operations credit risk is minimal because the customer pays immediately either in cash or using a debit or credit card.

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

Guarantees

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. PTA Grupp AS loans and overdraft received from Danske Bank's Estonian branch, and credit-line provided by AS Unicredit Bank in Latvia to AS Lauma Lingerie are guaranteed by AS Silvano Fashion Group. At 31 December 2007 PTA Grupp AS loans and overdraft from AS Swedbank were guaranteed by AS Silvano Fashion Group.

For the guarantees issued as at 31 December 2008 refer to Note 26. (2007: none).

Liquidity risk

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

At 31 December 2008 the Group's current assets exceeded its current liabilities.

Management has prepared cash flow projections for 2009 according to which the Group's cash flows will be positive and profitability will ensure positive working capital by the end of 2009. In connection with maturity of certain loans of subsidiaries, there will be companies within the Group that will be supported from cash flows of cash positive companies through 2009. Temporary liquidity problems can be solved by involving loan capital and re-allocating funds inside the Group.

Market risk

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

Currency risk

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

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

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

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group. This provides partial economic hedge without derivatives being entered into; however, the Group has open foreign exchange exposure in respect to RUR (sales), EUR (purchases) and BYR (purchases) that is not covered by natural economic hedge.

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

The Group is exposed to currency risks arising from fluctuations in the exchange rates of USD, BYR, RUR, UAH (Ukrainian grivna), SEK (Swedish krona) and PLN. During the reporting year, the exchange rates of currencies affecting the Group's operating results changed as follows: Swedish krona -3.6% (2007: +0.1%), Ukrainian grivna -9.3% (2007: -8.1%), US dollar -6.5% (2007: -8.2%), Belarusian rouble -5.9% (2007: -8.3%), Russian rouble -3.8% (2007: -2.5%) and Polish zloty +8.0% (2007: +3.0%). The Lithuanian litas, Estonian kroons and Latvian lats are pegged to the EUR. The Group does not hedge its currency risks with forwards, options or any other hedging instruments because the analyses performed by the Group's management indicate that the risks arising from open currency positions do not exceed the costs arising from the use of the above instruments.

The Group loss from foreign exchange in 2008 was mainly caused by weakening of Belarusian and Russian markets currencies against euro.

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

Interest rate risk

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

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

In 2008 74% and in 2007 100% of loans and borrowings with floating interest rates were fixed in EUR and Estonian kroons. The Group mitigates its interest rate risk by refinancing existing loans and seeking alternative and intra-group financing solutions. Information on interest expenses is presented in Note 14.

Capital management

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

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

Note 6. Segments reporting

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

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

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

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

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Business segments

The Group comprises the following business segments:

a) Women's apparel – entails the design, manufacture and retail and wholesale distribution of women's apparel products as well as services related to this area.

b) Lingerie – entails the design, manufacture and retail and wholesale distribution of lingerie products as well as services related to this area.

c) Other operations – entails manufacturing and subcontracting services and other activities not listed under Women's apparel and Lingerie.

Geographical segments

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

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

Primary format – business segments 2008

In thousands of EUR	**Women's apparel**	**Lingerie**	**Other operations**	**Total**
External sales revenue	12,858	90,742	4,715	108,315
Total sales revenue (note 8)	**12,858**	**90,742**	**4,715**	**108,315**
Segment's operating profit	**-1,674**	**11,032**	**-3,791**	**5,567**
Unallocated revenue / expenses				-2,614
Total operating profit				**2,953**
Other financial income / expenses				-3,750
Income tax expense (note 14)				-5,610
Net profit /loss				**-6,407**
Segment assets	6,985	65,683	2,981	75,649
Unallocated assets				1,589
Total assets				**77,238**
Segment liabilities	5,356	15,816	6,009	27,181
Total liabilities				**27,181**
Capital expenditure	1,289	4,810	68	6,167
Depreciation and amortization expense	628	2,395	93	3,116
Disposal of property, plant and equipment	-294	-279	0	-573
Impairment losses on intangible assets and property, plant and equipment	0	-62	-2,149	-2,211

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Primary format – business segments 2007

In thousands of EUR	Women's apparel	Lingerie	Other operations	Inter-segment transactions	Total
External sales revenue	9,950	86,116	2,514	0	98,580
Inter-segment sales revenue	0	0	122	-122	0
Total sales revenue (note 8)	**9,950**	**86,116**	**2,636**	**-122**	**98,580**
Segment's operating profit	**862**	**17,145**	**5,082**	**0**	**23,089**
Unallocated revenue / expenses					-2,538
Total operating profit					**20 551**
Other financial income / expenses					984
Income tax expense (note 15)					-5,940
Net profit /loss					**15,595**
Segment assets	6,703	56,541	6,389	0	69,633
Unallocated assets					4
Total assets					**69,637**
Segment liabilities	3,908	7,969	960	0	12,837
Unallocated liabilities					1,192
Total liabilities					**14,029**
Capital expenditure	1,409	7,292	136	0	8,837
Depreciation and amortization expense	360	2,003	100	0	2,463
Disposal of property, plant and equipment	-5	-28	-28	0	-61
Impairment losses on intangible assets and property, plant and equipment	0	0	-115	0	-115

Secondary format – geographical segments

In thousands of EUR	Sales revenue		Assets at 31 December		Capital expenditures	
	2008	2007	2008	2007	2008	2007
Russia	59,248	48,957	19,390	15,857	1,388	2,416
Belarus	17,142	17,827	42,783	34,066	3,669	5,190
Estonia	8,894	10,691	4,412	7,187	232	176
Ukraine	8,763	6,361	948	750	588	166
Latvia	2,947	3,199	7,791	9,840	114	526
Lithuania	2,490	999	1,267	1,077	168	317
Finland	2,108	2,530	3	5	0	0
Poland	680	669	509	855	6	46
Other markets	6,043	7,347	135	0	2	0
Total	**108,315**	**98,580**	**77,238**	**69,637**	**6,167**	**8,837**

Note 7. Group entities and acquisitions of subsidiaries and minority interests

Significant subsidiaries

Entity	Location	Main activity	Ownership at 31 December 2008	2007
Parent company				
AS Silvano Fashion Group	Estonia	Holding		
Direct subsidiaries of SFG				
AS Lauma Lingerie	Latvia	Manufacturing and wholesale	100%	100%
SP ZAO Milavitsa	Belarus	Manufacturing and wholesale	78.35%	78.35%
ZAO Linret	Russia	Retail	49%	100%
Splendo Polska Sp. z o.o.	Poland	Retail	90%	90%
PTA Grupp AS	Estonia	Retail	100%	100%
UAB Linret LT	Lithuania	Retail	100%	100%
France Style Lingerie S.A.R.L.	France	Holding	100%	0%
OÜ Linret EST	Estonia	Retail	100%	0%
Subsidiaries of PTA Grupp AS				
AS Klementi	Estonia	Manufacturing	100%	100%
Klementi Trading OY	Finland	Wholesale	100%	100%
UAB PTA Prekyba	Lithuania	Retail	100%	100%
SIA Vision	Latvia	Retail	100%	100%
TOV PTA Ukraine	Ukraine	Retail	100%	100%
Subsidiaries of ZAO SP Milavitsa				
SOOO Torgovaja Kompanija Milavitsa	Belarus	Retail	51%	51%
SP Gimil OOO	Belarus	Manufacturing	52%	52%
ZAO Stolichnaja Torgovaja Kompanija Milavitsa	Russia	Wholesale	100%	100%
OAO Junona	Belarus	Manufacturing	58,33%	0%
Subsidiary of ZAO Stolichnaja Torgovaja Kompanija Milavitsa				
ZAO Linret	Russia	Retail	51%	0%
Associate of France Style Lingerie S.A.R.L.				
SOOO Torgovaja Kompanija Milavitsa	Belarus	Retail	49%	0%

Establishment of a subsidiary

In October 2008 AS Silvano Fashion Group established a new subsidiary in Estonia under the name OÜ Linret EST. The share capital of the new subsidiary is EEK 40,000(approximately EUR 2,556), 100% of which is held by SFG.
The reason for establishing the new subsidiary is the structural development of SFG's retail network and the need for a clearer separation between retail and management functions within the group.

Sale of subsidiary

In August 2008 AS Silvano Fashion Group sold 51% of it's shareholding in ZAO Linret to the entity under common control ZAO Stolichnaja Torgovaja Kompanija Milavitsa. After sale effective shareholding of AS Silvano Fashion Group in ZAO Linret is 88.96%.

Value of assets and liabilities transferred to minority in thousands of euros:

In thousands of EUR	**August 2008**
Current assets	968
Non-current assets	395
Loans and borrowings	-1,222
Other liabilities	-1,104
Value of net assets transferred	**-963**

Acquisition of a subsidiary

On 31 July 2008 AS Silvano Fashion Group acquired all the shares of France Style Lingerie S.A.R.L.("FSL"), a limited liability company registered in France. The total price of the acquisition comprises of EUR 2 million (EEK 31.3 million) purchase price and EUR 59 thousands registration tax. As a result of the transaction goodwill of EUR 1,417 thousand arose.

FSL holds 49% of SOOO «Torgovaja Kompanija Milavitsa» ("TKM"), a Belarussian company operating the Belorussian retail chain for the products of SP ZAO Milavitsa ("Milavitsa"), a subsidiary of SFG and the leading lingerie producer in Belarus and Russia. Prior to the acquisition of FSL, 51% of TKM were owned by Milavitsa. As a result of the acquisition of FSL, the SFG's shareholding (direct and indirect) in TKM increased to 88.96%.

Further, FSL holds 25% ZAO «Stolichnij Torgovij Dom Milavitsa» ("STD"), an independent Russian lingerie wholesaler and retail operator. Another 25% of all shares in STD was previously held by Milavitsa.

At the date of acquisition, the fair values of the assets and liabilities of France Style Lingerie S.A.R.L. ("FSL") did not differ significantly from their carrying amounts and were as follows:

In thousands of EUR	**31 July 2008**
Cash and cash equivalents	40
Other current assets	195
Non-current assets	541
Current liabilities	-134
Fair value of net assets acquired	**642**
Interest acquired 100%	
Goodwill on acquisition	1,417
Fair value of net assets acquired	642
Consideration paid, satisfied in cash	**-2,059**
Cash acquired	40
Net cash outflow	**-2,019**

Results of annual goodwill impairment test are described in Note 17.

Acquisition of a sub-subsidiary

On 2008 AS Silvano Fashion Group subsidiary SP ZAO Milavitsa acquired 58.33% of shares in OAO Junona manufacturing company in Belarus. As result of transaction negative goodwill of EUR 143 thousand arose, which has been reported as other operating income.

In thousands of EUR	**31 March 2008**
Cash and cash equivalents	324
Other current assets	373
Non-current assets	926
Loans	-162
Other current liabilities	-219
Fair value of net assets acquired	**1,242**
Interest acquired 58.33%	
Goodwill on acquisition	-143
Fair value of net assets acquired	724
Total consideration paid	**-581**
Including consideration satisfied in cash	**-229**
Cash acquired	324
Net cash outflow	**95**

Note 8. Sales revenue

In thousands of EUR	2008	2007
Sale revenue		
Sales of lingerie	90,742	86,116
Sales of women's apparel	12,858	9,950
Sales of subcontracting and other services	2,565	1,783
Other sales	2,150	731
Total sales revenue	**108,315**	**98,580**

Sales revenue by countries is presented in note 6.

Note 9. Cost of goods sold

In thousands of EUR	2008	2007
Raw materials	36,622	33,264
Purchased goods	1,408	3,877
Purchased services	9,616	6,798
Personnel costs	9,178	9,577
Depreciation	1,103	1,210
Rent and utilities	735	700
Other production costs	2,116	227
Total	**60,778**	**55,653**

Note 10. Other operating income

In thousands of EUR	2008	2007
Income from sales of auxiliary materials	330	224
Net gain on sales of property, plant and equipment	0	58
Negative goodwill (Note 7)	143	5,715
Other income	1,730	764
Total	**2,203**	**6,761**

Note 11. Distribution costs

In thousands of EUR	2008	2007
Rent and utilities	7,057	3,783
Personnel costs	6,602	3,310
Depreciation	1,212	655
Advertising expenses	3,122	3,318
Marketing	228	385
Transportation expenses	532	317
Bank charges in retail sales	250	115
Renovation of retail outlets	279	363
Storage and packaging	767	530
Other costs	1,528	898
Total	**21,577**	**13,674**

Note 12. Administrative costs

In thousands of EUR	2008	2007
Rent	850	457
Personnel costs	8,269	6,754
Depreciation	539	478
Communication expenses	230	157
Office expense	855	698
Bank fees	276	158
Professional services	509	390
IT costs	427	221
Business trips	504	318
Insurance	101	89
Other expenses	1,499	1,180
Total	**14,059**	**10,900**

Note 13. Other operating expenses

In thousands of EUR	2008	2007
Auxiliary materials	356	139
Net loss on sales of property, plant and equipment	4	0
Loss on write off of property, plant and equipment	0	16
Impairment of property plant and equipment	62	0
Loss on disposal of intangible assets (Note 17)	4	144
Expense for donations	27	56
Impairment of goodwill (Note 17)	2,149	115
Expense on social infrastructure	1,692	1,440
Restructuring costs	3,366	0
Other taxes	1,085	807
Other expenses	2,406	1,846
Total	**11,151**	**4,563**

Restructuring costs include write-down of investment related to Splendo Sp.z.o.o. disposal (Note 32) in the amount of EUR 1,163,000, restructuring costs related to Lauma Lingerie AS staff reduction program in the amount of EUR 287,000 and Russian retail operations restructuring in the amount of EUR 1,911,000 (Note 32).

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

Note 14. Financial income and expenses
Recognized in profit or loss

In thousands of EUR

Financial income	2008	2007
Interest income on loans	28	35
Interest income on bank deposits	410	720
Foreign exchange gains	0	272
Dividends received on available-for-sale financial assets	11	105
Other financial income	106	21
Total financial income	**555**	**1,153**
Financial expenses		
Interest expense on bank loans	-240	-83
Interest expense on lease	-84	-99
Other interest expense	0	-5
Other financial expenses	-127	-45
Foreign exchange loss	-3,966	0
Total financial expenses	**-4,417**	**-232**
Net financial items	**-3,862**	**921**

Recognized directly in equity

In thousands of EUR	2008	2007
Foreign currency translation differences for foreign operations	1,523	-4,999
Finance income/expense recognized directly in equity	**1,523**	**-4,999**

Attributable to :		
Equity holders of the Company	1,177	-4,206
Minority interest	346	-793
Finance income/expense recognized directly in equity	**1,523**	**-4,999**
Recognized in :		
Translation reserve	1,177	-4,206

Note 15. Income tax expense

Current tax expense

In thousands of EUR	2008	2007
Current tax	-5,610	-5,940
Total	**-5,610**	**-5,940**

Reconciliation of effective tax rate

In thousands of EUR	2008	2007
Profit for the period	-6,407	15,595
Income tax expense	5,610	5,940
Profit before tax	**-797**	**21,535**
Income tax using the Parent company's domestic tax rate of 0% (2007: 0%)	0	0
Income tax using the foreign subsidiaries' domestic tax rate of 33.04% (2007: 24.74%)*	-255	5,328
Non-deductible expenses	3,767	1,791
Current year losses for which no deferred tax asset was recognized	774	134
Tax exempt donations	-19	-33
Increase / decrease in unrecognized deferred tax asset	1,381	134
Tax exempt income (gain on business combination)	-38	-1,414
Total	**5,610**	**5,940**
Including current tax expense	5,610	5,940
Including deferred tax expense	0	0

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

At 31 December 2008 the unrecognized deferred tax assets amounted to EUR 3,310,000 (31 December 2007: EUR 1,155,000). Deferred tax assets have not been recognized as it is not probable that future taxable profit will be available against which the Group can utilize the benefits there from.

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Deferred income tax liability

In thousands of EUR	2008	2007
Changes in deferred tax liability:		
Balance at beginning of year	13	13
Expense in the income statement	0	0
Balance at end of year	**13**	**13**

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

In thousands of EUR	2008	2007
Property, plant and equipment	13	13

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Note 16. Property, plant and equipment

In thousands of EUR	Land and buildings	Plant and equipment	Other equipment and fixtures	Assets under construction	Total
Cost at 31 December 2006	**3,975**	**13,720**	**4,563**	**26**	**22,284**
Movements in 2007					
Acquired through business combinations	12	53	9	0	74
Acquisition	0	293	2,978	5,082	8,353
Transfers and reclassifications	457	2,945	259	-3,661	0
Disposals	-12	-308	-418	-3	-741
Effect of movements in foreign exchange on cost	-470	-1,485	-332	-91	-2,378
Cost at 31 December 2007	**3,962**	**15,218**	**7,059**	**1,353**	**27,592**
Movements in 2008					
Acquired through business combinations	1,390	475	82	31	1,978
Acquisition	198	315	2,247	3,230	5,990
Transfers and reclassifications	1,465	1,346	336	-3,147	0
Disposals	0	-251	-725	-154	-1,130
Effect of movements in foreign exchange on cost	173	290	-569	10	-96
Cost at 31 December 2008	**7,188**	**17,393**	**8,430**	**1,323**	**34,334**
Accumulated depreciation at 31 December 2006	**1,417**	**7,856**	**2,000**	**0**	**11,273**
Movements in 2007					
Acquired through business combinations	0	24	8	0	32
Depreciation	96	1,300	891	0	2,287
Transfers and reclassification	0	-5	5	0	0
Disposals	0	-298	-382	0	-680
Effect of movements in foreign exchange on accumulated depreciation	-164	-769	-144	0	-1,077
Accumulated depreciation at 31 December 2007	**1,349**	**8,108**	**2,378**	**0**	**11,835**
Movements in 2008					
Acquired through business combinations	755	396	75	0	1,226
Depreciation	137	1,326	1,413	0	2,876
Transfers and reclassification	0	-24	24	0	0
Disposals	0	-236	-321	0	-557
Impairment	0	62	0	0	62
Effect of movements in foreign exchange on accumulated depreciation	56	202	-126	0	132
Accumulated depreciation at 31 December 2008	**2,297**	**9,834**	**3,443**	**0**	**15,574**
Carrying amounts					
At 31 December 2006	**2,558**	**5,864**	**2,563**	**26**	**11,011**
At 31 December 2007	**2,613**	**7,110**	**4,681**	**1,353**	**15,757**
At 31 December 2008	**4,891**	**7,559**	**4,987**	**1,323**	**18,760**

Pledged assets

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

Finance lease

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

Fully depreciated items

At 31 December 2008, the cost of fully depreciated items of property, plant and equipment still in use amounted to EUR 6,566,000 (31 December 2007: EUR 4,476,000).

Note 17. Intangible assets

In thousands of EUR	Software	Trademarks	Goodwill	Projects in progress	Total
Cost at 31 December 2006	**307**	**434**	**235**	**473**	**1,449**
Movements in 2007					
Acquisition	176	6	0	302	484
Acquired through business combinations (note 7)	0	0	732	0	732
Transfers and reclassifications	434	6	0	-440	0
Disposals	-3	0	0	-143	-146
Effect of movements in foreign exchange on cost	-32	-3	0	-29	-64
Cost at 31 December 2007	**882**	**443**	**967**	**163**	**2,455**
Movements in 2008					
Acquisition	144	2	0	31	177
Acquired through business combinations (note 7)	1	0	1,417	0	1,418
Transfers and reclassifications	34	4	0	-38	0
Disposals	-4	0	0	-1	-5
Effect of movements in foreign exchange on cost	12	-6	0	4	10
Cost at 31 December 2008	**1,069**	**443**	**2,384**	**159**	**4,055**
Accumulated amortization and impairment losses at 31 December 2006	**205**	**186**	**0**	**0**	**391**
Movements in 2007					
Amortization	127	41	0	0	168
Disposals	-2	0	0	0	-2
Impairment	0	0	115		115
Effect of movements in foreign exchange on amortization	-5	0	0	0	-5
Accumulated amortization and impairment losses at 31 December 2007	**325**	**227**	**115**	**0**	**667**
Movements in 2008					
Amortization	169	41	0	0	210
Acquired through business combinations (note 7)	1	0	0	0	1
Disposals	-1	0	0	0	-1
Impairment	0	0	2,149	0	2,149
Effect of movements in foreign exchange on amortization	2	-1	0	0	1
Accumulated amortization and impairment losses at 31 December 2008	**496**	**267**	**2,264**	**0**	**3,027**
Carrying amounts					
At 31 December 2006	**102**	**248**	**235**	**473**	**1,058**
At 31 December 2007	**557**	**216**	**852**	**163**	**1,788**
At 31 December 2008	**573**	**176**	**120**	**159**	**1,028**

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Determination of the recoverable amounts of cash generating units

In measuring the recoverable amount of goodwill, the Group determines the recoverable amounts of the cash generating units to which the goodwill belongs. For measurement, goodwill of EUR 120,000 was allocated to cash generating units as follows:

In thousands of EUR **At 31 December**	**2008**	**2007**
SIA Vision (subsidiary of PTA Grupp AS)	120	120
UAB Linret LT	0	732
Total	**120**	**852**

At 31 December 2008 Group performed impairment tests to determine recoverable value of each cash generating units.

Goodwill in the amount of EUR 1,417,000 was allocated for impairment testing purposes to cash-generating unit Torgovaja Kompanija Milavitsa. Unit Torgovaja Kompanija Milavitsa represents the lowest level within the Group at which the goodwill that relates to acquisition of France Style Lingerie S.A.R.L. is monitored for internal management purposes. The recoverable amount of unit Torgovaja Kompanija Milavitsa, has been determined based on a value in use calculation. That calculation used cash flow projections covering a 4-year period, and a discount rate of 26.6%. Cash flow in year 5 was estimated based on assumption of recoverable amount of the cash-generating in year 5 considering the overall assessment of industry and economic situation. At the end of 2008 the carrying value of cash-generating unit exceeded its estimated value in use; therefore, impairment loss of EUR 1,417,000 was recognized in the income statement. The impairment loss was allocated fully to goodwill. Key assumptions used for value-in-use calculations included growth of 2% in sales in 2009 and steady state thereafter keeping current gross margin level while other expenses were assumed to increase by 5% annually and all expenses would be based on market terms.

Furthermore, goodwill in the amount of EUR 732,000 was allocated for impairment testing purposes to cash-generating unit UAB Linret LT. Unit UAB Linret LT represents the lowest level within the Group at which the goodwill related to the acquisition of UAB Linret LT is monitored for internal management purposes. The recoverable amount of unit UAB Linret LT has been determined based on a value in use calculation. That calculation used cash flow projections covering a 4-year period, and a discount rate of 13.37%. Cash flow in year 5 was estimated based on assumption of recoverable amount of the cash-generating in year 5 considering the overall assessment of industry and economic situation. At the end of 2008 the carrying value of cash-generating unit exceeded its estimated value in use; therefore, impairment loss of EUR 732,000 was recognized in the income statement. The impairment loss was allocated fully to goodwill. Key assumptions used for value-in-use calculations included growth of 26% in sales in 2009 and steady 10% growth thereafter with slight increase in gross margin while expenses were assumed to increase 5% annually.

The impairment loss is recognized in other operating expenses in the income statement.

At 31 December 2008 the cost of fully amortized intangible assets still in use amounted to EUR 202,500 (31 December 2007: EUR 187,000).

Note 18. Investment property

In thousands of EUR	**2008**	**2007**
At beginning of period	1,467	0
Acquisition	0	1,590
Depreciation	-30	-8
Effect of movements in foreign exchange	42	-115
At 31 December	**1,479**	**1,467**

As of 31 December 2008 investment property consisted of premises located at Nemiga 8, Minsk, Belarus. Investment property of 728.3 sq. m. acquired in 2007 and recognized at cost less depreciation.

Purchase price less depreciation approximates fair value at 31 December 2008.

Note 19. Equity accounted investees

The Group's share of profit in its equity accounted investees for the current period was EUR 112,000 (2007: EUR 63,000), dividends received EUR 14,000 (2007: EUR 8,000), currency translation difference from BYR was EUR 7,200.
All interests in associates are held by AS Silvano Fashion Group subsidiary SP ZAO Milavitsa, except for ZAO Stolichnyj Torgovyj Dom Milavitsa, Moscow in which 25% shares is held by SP ZAO Milavitsa and 25% by France Style Lingerie S.A.R.L. Although effective share of SFG in ZAO Stolichnyj Torgovyj Dom Milavitsa,

Moscow is 44.59 %. Equity method is applied based on latest available financial results of associates. Operations at 1 January 2008 were not material. Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by group:

In thousands of EUR	Owner-ship	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabili-ties	Total liabili-ties	Revenue	Expen-ses	Profit
OOO Torgovyj Dom Milavitsa – Novosibirsk	25%	604	6	610	459	0	459	3,351	-3,273	78
ZOO Torgovyj Dom Milavitsa – Tjumen	25%	118	15	133	143	0	143	752	-747	5
ZAO Stolichnyj Torgovyj Dom Milavitsa, Moscow	44.59%	2,752	204	2,956	2,853	2	2,855	7,193	-7,172	21
OOO Uralskoje Predstavitelstvo Torgovyj Dom Milavitsa, Ufa	35%	133	5	138	125	0	125	930	-925	5
TOV Torgovaja Kompanija Milavitsa, Kiev	26%	1,573	84	1,657	1,200	54	1,254	5,938	-5,504	434
		5,180	**314**	**5,494**	**4,780**	**56**	**4,836**	**18,164**	**-17,621**	**543**

Note 20. Available-for-sale financial assets

Equity investments

In thousands of EUR	**Domicile**	**Core activity**	**Ownership at 31 December 2008**	**Value of investment at 31 December 2008**
OAO Belvnesheconombank	Belarus	Financing	0.147%	12
National Pension Fund of Belarus	Belarus	Financing	0.002%	0
AOA Belinvestbank	Belarus	Financing	0.00014%	0
ZAO Minsk Transit Bank	Belarus	Financing	0.19%	12
OOO Gratsiya	Belarus	Manufacturing	14.286%	5
Lauma AS	Latvia	Property Management	0.32%	74
OAO Svitanok	Belarus	Manufacturing	11.3726%	454
Total				**557**

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

Note 21. Inventories

In thousands of EUR **At 31 December**	**2008**	**2007**
Raw and other materials	5,592	5,701
Work in progress	1,859	2,466
Finished goods	17,267	10,817
Goods purchased for resale	2,835	2,203
Other inventories	211	385
Total	**27,764**	**21,572**

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Inventories are shown at carrying values that are cost net of allowance. As of 31 December 2008 allowances for slow moving raw materials amounted to EUR 625,000 (2007: EUR 225,000) and allowances for slow moving finished goods amounted to EUR 1,054,000 (2007: EUR 376,000). EUR 181,000 were written off for inventories carried at net realizable value. There were no inventories carried at fair value less cost to sell as of 31 December 2008 (2007: EUR 0).

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

At 31 December 2008 AS Silvano Fashion Group's subsidiary PTA Grupp AS was storing and was responsible for other parties' goods (commission goods) of EUR 28,620 (2007: EUR 17,000).

Note 22. Taxes

In thousands of EUR
At 31 December

Tax receivables	**2008**	**2007**
Value added tax	2,619	1,408
Personal income tax	12	0
Social tax	30	0
Corporate income tax	1,245	153
Other taxes	61	3
Total	**3,967**	**1,564**

Tax liabilities	**2008**	**2007**
Social tax	316	277
Value added tax	423	816
Personal income tax	182	170
Other taxes	239	238
Total	**1,160**	**1,501**

Note 23. Trade receivables

In thousands of EUR

At 31 December	**2008**	**2007**
Trade receivables	11,001	10,447
Impairment of receivables (note 34)	-263	-315
Total	**10,738**	**10,132**

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

Note 24. Other receivables

In thousands of EUR
At 31 December

Other current receivables	**2008**	**2007**
Due from customers for contract work	34	22
Loans to shareholders	0	60
Loans to third parties	128	315
Employees receivables	130	109
VAT on unpaid invoices	901	1,070
Prepaid expenses	603	67
Guarantees withheld	753	46
Miscellaneous receivables	701	210
Total	**3,250**	**1,899**

Other non-current receivables		
Loans to shareholders	1,008	0
Loans to companies	0	1
Other non-current receivables	109	37
Total	**1,117**	**38**

Annual interest rate on loan to shareholders is 15%, maturity 31 December 2012.

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

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Note 25. Prepayments

In thousands of EUR

At 31 December Other current receivables and prepayments	2008	2007
Prepayments to suppliers	3,145	3,303
Total	**3,145**	**3,303**

Note 26. Cash and cash equivalents

In thousands of EUR

At 31 December	2008	2007
Cash on hand	117	90
Bank accounts, kroons	46	33
Bank accounts, foreign currency	2,466	4,829
Cash in transit	527	321
Short-term deposits	2,093	6,246
Total	**5,249**	**11,519**

Cash and cash equivalents analyzed by currency

In thousands of EUR

At 31 December	2008	2007
EUR (euro)	2,921	8,427
BYR (Byelorussian rouble)	842	1,184
RUR (Russian rouble)	971	1,104
LVL (Latvian lat)	220	54
LTL (Lithuanian lit)	122	72
EEK (Estonian kroon)	70	58
Other	103	620
	5,249	**11,519**

At the end of 2008, cash placed in short-term deposits with a maturity of 3, 6 and 12 months totaled EUR 2,093,222. The interest rates of 3 months deposits were 10.0%, for 6 and 12 months deposit 10.5%. The deposits can be cancelled by giving less than 3 months' notice. For the 12 months deposits the Group can withdraw money from deposit without any notice if amount still on account would not be reduced to less than EUR 100,000 for deposit in EUR and EUR 3,500 for deposit in BYR. The Group intends to use the cancellation clause when necessary to ensure the liquidity for operating activities.

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

Note 27. Equity

Share capital

As of 31 December 2008 share capital of AS Silvano Fashion Group amounted to EEK 400,000 thousands (EUR 25,565 thousands), which is divided into 40,000,000 shares with a nominal value of EEK 10 (EUR 0.64) each.

The minimum share capital and maximum share capital of AS Silvano Fashion Group amount to 250,000,000 kroons (EUR 15,977, 912) and 1,000,000,000 kroons (EUR 63,911,649) respectively (the maximum number of shares is 100,000,000).

All shares have been paid for.

At 31 December	2008	2007
Share capital, in thousands of EUR	25,565	25,565
Number of shares	40,000,000	40,000,000
Par value of a share, in EUR	0.64	0.64

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

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

Changes in share capital in 2008:

Date	Total number of shares	Share capital at par value	Share premium In thousands of EUR
31 December 2007	**40,000,000**	**25,565**	**14,271**
31 December 2008	**40,000,000**	**25,565**	**14,271**

Statutory capital reserve

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

At 31 December 2008 the capital reserve amounted to EUR 67,000 (31 December 2007: EUR 67,000).

Translation reserve

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

At 31 December 2008 the translation reserve amounted to EUR 3,713,000 (31 December 2007: EUR 4,890,000).

Own Shares

The extraordinary general meeting of shareholders of AS Silvano Fashion Group held on 6 October 2008 authorized the buyback of AS Silvano Fashion Group's own shares under the following conditions: SFG is entitled to buy back its own shares within one year as of the resolution of the general meeting of the shareholders, the total nominal value of own shares to be bought back by SFG may not exceed 10% of total share capital of SFG, the maximum price payable by SFG for one share will be EUR 3.50 (three Euros and fifty cents), the maximum amount payable by SFG for its own shares is EUR 3,000,000 (three million Euros), own shares will be paid for with assets exceeding the share capital, compulsory reserves and share premium.

To date, the amount of shares bought back is 393 000, the average price per share is 1.15 EUR, the cost in total is 450,106 EUR.

Note 28. Earnings per share

The calculation of basic earnings per share at 31 December 2008 was based on the loss attributable to ordinary shareholders and a weighted average number of ordinary shares.

In thousands of shares	2008	2007
Issued ordinary shares at 01 January	40,000	37,947
Effect of own shares held	-85	0
Effect of shares issued in July 2007	0	906
Weighted average number of ordinary shares	39,915	38,853

	2008	2007
Weighted average number of ordinary shares	39,915,082	38,852,681
Profit/(loss) attributable to equity holders of the parent, in thousands of EUR	-7,603	11,946
Basic earnings per share, in EUR	**-0.19**	**0.31**
Diluted earnings per share, in EUR	**-0.19**	**0.31**

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

Note 29. Loans and borrowings

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

In thousands of EUR	2008	2007
Non-current liabilities		
Loans	709	0
Finance lease liabilities	454	260
	1,163	**260**

In thousands of EUR	2008	2007
Current liabilities		
Current portion of loans	7,126	1,239
Current portion of finance lease liabilities	304	345
	7,430	**1,584**

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Terms and debt repayment schedule

				31 Dec 2008		31 Dec 2007	
In thousands of EUR	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Secured bank loan	EUR	6M EURIBOR +1.10%	2011	1,207	1,207	0	0
Bank overdraft	EUR	6.00%	2009	857	857	0	0
Secured bank loan	BYR	17.00%	2010	147	147	0	0
Secured bank loan	BYR	25.00%	2009	520	520	0	0
Secured bank loan	BYR	17.00-24.56%	2009	488	488	0	0
Secured bank loan	BYR	13.00%	2009	650	650	0	0
Secured bank loan	EUR	6M LIBOR+7.63%	2009	1,400	1,400	0	0
Secured bank loan	BYR	BYRIBOR*+9%	2009	16	16	0	0
Secured bank loan	BYR	21%	2009	156	156	0	0
Bank overdraft	EUR	3M EURIBOR+1.65%	2009	2,336	2,336	0	0
Secured bank loan	EEK	6.50%	2008	0	0	660	660
Secured bank loan	EEK	6.50%	2008	0	0	320	320
Secured bank loan	EUR	6M EURIBOR +2.5%	2008	0	0	155	155
Secured bank loan	LTL	7.94-8.67%	2009	58	58	58	58
Unsecured bank facility	BYR	13.00%	2008	0	0	46	46
Finance lease liabilities	EEK	6M EURIBOR + 2.5%	2011	28	25	39	35
Finance lease liabilities	EUR	10.50%	2009	29	28	87	78
Finance lease liabilities	EUR	12.50%	2010	38	28	59	43
Finance lease liabilities	EUR	12.50%	2008	0	0	56	45
Finance lease liabilities	EUR	12.50%	2008	0	0	39	36
Finance lease liabilities	EUR	10.50%	2009	53	51	174	156
Finance lease liabilities	EUR	10.50%	2010	107	84	186	143
Finance lease liabilities	EUR	14.00%	2010	46	40	78	69
Finance lease liabilities	EUR	11.00%	2013	133	96	0	0
Finance lease liabilities	EUR	11.00%	2013	519	373	0	0
Finance lease liabilities	EUR	5.62%	2013	26	23	0	0
Finance lease liabilities	UAH	21 %	2010	6	4	0	0
Finance lease liabilities	EEK	8.00-9.00%	2011	6	6	0	0
Total interest bearing liabilities				**8,826**	**8,593**	**1,957**	**1,844**

* BYRIBOR – BYR Interbank Offered Rate

Regarding the short-term loans with outstanding balance at 31 December 2008 and with floating interest rates, management of the Group is of the opinion that the loan was granted on the market terms and carried a market interest rate; consequently, fair value of loans does not differ significantly from its carrying amount as the interest rate is floating and the margin depends on the Group's operating risks.

In 2008 the Group received loans of EUR 8,070,000 (2007: EUR 1,338,000) and settled loan liabilities of EUR 1,349,000 (2007: EUR 1,619,000).

Loan collateral

AS Silvano Fashion Group subsidiary PTA Grupp AS has secured an overdraft facility and short- and long-term loans with a commercial pledge of movable assets of EUR 1,853,000 established for the benefit of Danske Bank's Estonian branch (Sampo pank). The loans and overdraft received from Danske Bank's Estonian branch are guaranteed by AS Silvano Fashion Group, a shareholder of PTA Grupp AS, under a suretyship agreement. Loan provided by AB Swedbankas in Lithuania is secured with movable assets of EUR 174,000. Loans and overdraft facilities provided by Priorbank OAO, ZAO AKB Belrosbank, ZAO Minsk Transit bank in Belarus are secured with non-current assets of EUR 682,000, movable assets of EUR 4,400,000 and deposit of EUR 800,000. Creditline provided by AS Unicredit Bank in Latvia is secured with movable assets of EUR 3,750,000 and AS Silvano Fashion Group guarantee.

At 31 December 2008 AS Silvano Fashion Group had obtained bank guarantees to secure lease payments for retail premises of EUR 136,440 (2007: EUR 136,440) and import duties payable to the Customs Board of EUR 63,912 (2007: EUR 63,912). At 31 December 2008 no trade payables were secured.

Finance leases
The Group as a lessee

In thousands of EUR		Intangible assets	Plant and equipment	Total
Cost	31 December 2007	69	1,281	1,350
Accumulated depreciation	31 December 2007	-4	-369	-373
Carrying amount	**31 December 2007**	**65**	**912**	**977**
Cost	31 December 2008	69	1,042	1,111
Accumulated depreciation	31 December 2008	-22	-294	-316
Carrying amount	**31 December 2008**	**47**	**748**	**795**

Future minimum lease payments under finance lease

In thousands of EUR	Future minimum lease payments 2008	Interest 2008	Present value of minimum lease payments 2008	Future minimum lease payments 2007	Interest 2007	Present value of minimum lease payments 2007
Less than one year	407	103	304	413	68	345
Between one and five years	584	130	454	305	45	260
	991	**233**	**758**	**718**	**113**	**605**

Operating leases
The Group as a lessee

In 2008 the Group made operating lease payments for store, office and production premises and plant and equipment. Operating lease expenses totaled EUR 1,936,000 (2007: EUR 1,103,000).

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

In thousands of EUR **At 31 December**	**2008**	**2007**
Minimum operating lease rentals:		
Payable in less than 1 year	236	249
Payable between 1 and 5 years	427	382
Payable in over 5 years	38	26
Total	**701**	**657**

Operating lease
The Group as a lessor

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

The Group leases out premises and machinery under the terms of operating lease. In 2008 operating lease income amounted to EUR 387,000 (2007: EUR 63,000).

In 2008 AS Silvano Fashion Group leased out premises of 2,151 square meters in Minsk, Belarus, and Moscow, Russia, and machinery to 13 companies (2007: a total of 755 square meters to 12 companies). All contracts on the lease of premises are cancellable.

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Note 30. Trade payables

In thousands of EUR **At 31 December**	**2008**	**2007**
Trade payables to suppliers	8,896	6,849
Trade payables to related parties	1,838	1,005
Total	**10,734**	**7,854**

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

Note 31. Other payables

In thousands of EUR **At 31 December**	**2008**	**2007**
Customer advances for products and services	360	152
Payables related to employees*	960	861
Other accruals	13	1
Other payables	430	123
Total	**1,763**	**1,137**

* Payables related to employees among other items include declared social insurance contribution amounts, funded pension premiums, and personal income tax calculated based on employee's wages and salaries for December 2008.

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

Note 32. Provisions

In thousands of EUR	**Provision for bonuses**	**Provision for vacations**	**Provision for staff costs**	**Other provision**	**Total provisions**
Short term provisions					
At 31 December 2007	**975**	**418**	**1**	**42**	**1,436**
Provided during 2008	1,439	1,434	1	2,768	5,642
Used during 2008	-1,267	-1,270	-1	0	-2,538
Reversed during 2008	-70	-2	0	-11	-83
Effect of movements in exchange rates	29	9	0	31	69
At 31 December 2008	**1,106**	**589**	**1**	**2,830**	**4,526**
Long-term provision					
At 31 December 2007	**0**	**0**	**9**	**0**	**9**
At 31 December 2008	**0**	**0**	**8**	**0**	**8**

The Group has entered into a share purchase agreement for the sale of all its shares (90% of the share capital) in Splendo Polska Sp. z o.o.. Other provisions include a provision in the amount of EUR 1,163,000 for write-offs related to the initial investment and financing provided to Splendo Polska Sp. z o.o. that will not be recovered through sale of operations. Splendo Polska Sp. z o.o. net loss for 12 months period ended amounted to EUR 864,638.

In 2008 the Group also re-assessed the performance of PTA and Oblicie retail operations in Russia. Due to expected economic downturn and based on the stores performance up to date the management decided that all PTA stores in Russia and selected Oblicie stores will be closed in the first half of 2009. Management has also decided to rebrand Oblicie operated stores to "Milavitsa" to increase the contribution of the brand name towards overall performance of Russian lingerie retail operations. PTA will continue its retail operations in Estonia, Latvia, Lithuania and Ukraine. Restructuring expenses in the amount of EUR 1,605,000 were accrued under Provisions as of 31 December 2008.

Current and non-current provisions for staff costs comprise provisions for incapacity benefits to a former employee of AS Klementi which are payable on a monthly basis under a court order. The current portion amounts to EUR 1,000 (31 December 2007: EUR 1,000) and the non-current portion, which is stated at its discounted present value, amounts to EUR 8,000 (31 December 2007: EUR 9,000). The discount rate is 5% and the remaining term of the liability is 16 years. Until the end of 2004 the discount rate was 10% and the remaining term of the liability was 10 years.

Note 33. Transactions with related parties

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

a) Alta Capital Partners S.C.A., SICAR, SIA Alta Capital Partners and individuals with a shareholding that provides them with control or significant influence;

b) companies under Alta Capital Partners S.C.A., SICAR, SIA Alta Capital Partners control

c) members of the governing bodies (management and supervisory boards) of shareholders that have control or significant influence;

d) members of the Group's management and supervisory boards;

e) close family members of and companies controlled or significantly influenced by the above;

f) associated companies.

In thousands of EUR

Purchase of goods and services	**2008**	**2007**
Companies related to members of the management and supervisory boards	12,114	12,499
Total purchases	**12,114**	**12,499**

In thousands of EUR	**2008**	**2007**
Loans from shareholders		
Opening balance	0	514
Received	0	0
Repaid	0	-514
Closing balance	**0**	**0**
Accrued interest expense	**0**	**0**

In thousands of EUR	**2008**	**2007**
Loans to shareholders		
Opening balance	40	0
Given	2,850	2,909
Repaid	-1,910	-2,869
Closing balance	**980**	**40**
Accrued interest income	**28**	**20**

In thousands of EUR

At 31 December

Balances with related parties	**2008**	**2007**
Companies related to members of the management and supervisory boards	1,828	982
Total current liabilities	**1,828**	**982**

In thousands of EUR

At 31 December

Balances with related parties	**2008**	**2007**
Interest receivable from related parties (note 24)	28	20
Total receivables	**28**	**20**

In thousands of EUR

Benefits to members of the management board	**2008**	**2007**
Remuneration and benefits	324	229
Total	**324**	**229**

In the event of removal from office, members of the management board are entitled to termination benefits equal to their 6 months' remuneration. In 2007 and 2008 members of the supervisory board were not remunerated for the work on the Group's supervisory board.

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

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Note 34. Financial instruments

31 December 2008 Assets	Note	Available-for-sale	Loans and receivables	Total
(In thousands of EUR)				
Equity investments	20	557	0	557
Trade and other receivables	23, 24	0	12,848	12,848
Total		**557**	**12,848**	**13,405**

31 December 2008 Liabilities	Note	Liabilities measured at amortized cost	Total
(In thousands of EUR)			
Trade and other payables	30,31	12,208	12,208
Other loans and borrowings	29	758	758
Bank loans	29	7,835	7,835
Total		**20,801**	**20,801**

Credit risk

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

In thousands of EUR **At 31 December**	**2008**	**2007**
Available-for-sale financial assets (Note 20)	557	542
Loans, receivables (Note 23-24)	12,848	10,886
Cash and cash equivalents (Note 26)	5,249	11,519
	18,654	**22,947**

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

In thousands of EUR **At 31 December**	**2008**	**2007**
Domestic (Estonian)	1,873	285
European Union countries	1,929	2,439
Eastern European countries	8,839	6,743
Other	207	1,419
	12,848	**10,886**

The ageing of trade and other receivables at the reporting date was:

In thousands of EUR	**Gross 2008**	**Impairment 2008**	**Gross 2007**	**Impairment 2007**
Not yet due	9,422	0	9,963	0
Overdue 0-30 days	2,473	-3	580	0
Overdue 31-90 days	664	-65	203	0
Overdue 91-180 days	378	-21	179	-39
More than 180 days	174	-174	276	-276
	13,111	**-263**	**11,201**	**-315**

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

	2008	**2007**
Impairment losses on trade receivables at beginning of period	**-315**	**-162**
Impairment losses of the period	64	-168
Impairment losses on items written off	-12	15
Impairment losses on trade receivables at end of period	**-263**	**-315**

Impairment losses on receivables are recognized in distribution costs. In 2008 recovery of losses previously provided for occurred in amount of EUR 47,000 (2007: EUR 19,000)

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Liquidity risk

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

In thousands of EUR **At 31 December 2008**	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**
Non-derivative financial liabilities						
Secured bank loans	4,642	4,720	1,977	1,854	889	0
Finance lease liabilities	758	991	242	164	235	350
Trade and other payables	12,208	12,208	12,025	183	0	0
Bank overdraft	3,193	3,193	3,193	0	0	0

In thousands of EUR **At 31 December 2007**	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**
Non-derivative financial liabilities						
Secured bank loans	533	548	484	64	0	0
Finance lease liabilities	605	718	213	200	259	46
Unsecured bank facility	46	46	46	0	0	0
Trade and other payables	8,861	8,861	8,861	0	0	0
Bank overdraft	660	660	660	0	0	0

Currency risk

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

31 December 2008 *In thousands of EUR*	**EUR**	**BYR**	**RUR**	**LVL**	**EEK**	**Other**
Trade and other receivables	3,236	1,211	6,343	1,906	36	116
Secured bank loans	-5,800	-1,977	0	0	0	-58
Finance lease liabilities	-723	0	0	0	-31	-4
Trade and other payables	-5,273	-2,093	-2,378	-1,388	-368	-708
Gross balance sheet exposure	**-8,560**	**-2,859**	**3,965**	**518**	**-363**	**-654**

31 December 2007	**EUR**	**BYR**	**RUR**	**LVL**	**EEK**	**Other**
Trade and other receivables	2,081	1,152	5,210	2,155	63	225
Secured bank loans	-155	0	0	0	-980	-58
Finance lease liabilities	-570	0	0	0	-35	0
Trade and other payables	-3,597	-933	-1,251	-1,248	-832	-1,000
Gross balance sheet exposure	**-2,241**	**219**	**3,959**	**907**	**-1,784**	**-833**

The following significant exchange rates applied during the year:

in EUR	**Average rate**		**Reporting date spot rate**	
	2008	**2007**	**2008**	**2007**
EEK	0.0639	0.0639	0.0639	0.0639
LVL	1.4229	1.4229	1.4229	1.4229
LTL	0.2896	0.2896	0.2896	0.2896
BYR	0.0003	0.0003	0.0003	0.0003
RUR	0.0274	0.0285	0.0241	0.0278
PLN	0.2844	0.2643	0.2397	0.2792

Sensitivity analysis

A 10 percent strengthening of the EUR against the following currencies at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

Effect in thousands of EUR	**Profit or loss**
31 December 2008	
BYR	286
RUR	-397
	-111
31 December 2007	
BYR	-22
RUR	-396
	-418

Interest rate risk

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

In thousands of EUR	**2008**	**2007**
Fixed rate instruments		
Financial assets	1,136	0
Financial liabilities	-3,121	-1,654
	-1,985	**-1,654**
Variable rate instruments		
Financial liabilities	-5,472	-190
	-5,472	**-190**
Net position	**-7,457**	**-1,844**

Cash flow sensitivity analysis for variable and fixed rate instruments

	Profit or loss	
Effect in thousands of EUR	**100 bp increase**	**100 bp decrease**
31 December 2008		
Variable rate instruments	-41	41
Fixed rate instruments	-20	20
Cash flow sensitivity (net)	**-61**	**61**
31 December 2007		
Variable rate instruments	-1	1
Cash flow sensitivity (net)	**-1**	**1**

Fair values

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

In thousands of EUR **At 31 December**	**Carrying amount 2008**	**Fair value 2008**	**Carrying amount 2007**	**Fair value 2007**
Available-for sale financial assets	557	557	542	542
Loans and receivables	12,848	12,848	10,886	10,886
Cash and cash equivalents	5,249	5,249	11,519	11,519
Secured bank loans	-4,642	-4,655	-533	-533
Financial lease liabilities	-758	-826	-605	-605
Unsecured bank facilities	0	0	-46	-46
Trade and other payables	-12,208	-12,208	-8,861	-8,861
Bank overdraft	-3,193	-3,193	-660	-660
	-2,147	**-2,228**	**12,242**	**12,242**

Note 35. Contingencies

Contingent dividend tax liability

The retained earnings of the Group amounted to EUR 5,243,000 as at 31 December 2008 (31 December 2007: EUR 11,883,000). The income tax rate applicable to the net profit distributable as dividends by the parent company is 21/79 from 1 January 2009 (from 1 January 2008: 21/79). The maximum income tax liability that could arise if all of the consolidated undistributed profits were distributed as dividends amounts to EUR 1,393,000. Dividends received from the foreign subsidiaries reduce the contingent income tax liability of the parent company.

Other contingent liabilities

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

Note 36. Subsequent events

AS Silvano Fashion Group has entered into a share purchase agreement for the sale of all its shares (90% of the share capital) in Splendo Polska Sp.z o.o., a Polish retail subsidiary operating 6 retail outlets. The closing of the transaction is expected to occur in first half of 2009. Taking into account AS Silvano Fashion Group's total investment in Splendo Polska Sp.z o.o., the transaction was estimated to generate a loss of EUR 1,163,000. The provision for the estimated loss was created as at 31 December 2008 (see note 32).

In March 2009 an overdraft facility of PTA Grupp AS with Sampo Pank in the amount of EUR 319,558 was prolonged to April 2010 and loan facility in the amount of EUR 639,116 – to March 2010.

In April 2009 a credit line facility of Lauma Lingerie AS was prolonged until July 2009 with Unicredit Bank in Latvia decreasing the available facility's limit with the bank from EUR 2,500,000 to EUR 2,000,000.

In January 2009 Central Bank of Belarus executed one-time devaluation of national currency by 20% against currency basket containing EUR, USD and RUR currencies. As the result of devaluation production costs and other costs of Group companies domiciled in Belarus decreased in EUR terms as well as revenue generated in Belarussian market. Management anticipates that the benefits of lower production costs will outweigh negative impact on sales from the Group's perspective. However, additional tax expense in Belarus related to net foreign currency position may be incurred.

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

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

In 2007 there were Group restructuring completed whereas PTA Grupp AS (parent company of the Group at that point) and AS Silvano Fashion Group (a subsidiary at that point) were merged. The merger was registered on 24 August 2007. After the merger AS Silvano Fashion Group as a legal person was dissolved and PTA Grupp AS was renamed AS Silvano Fashion Group. A new subsidiary was separated from AS Silvano Fashion Group (former PTA Grupp AS) and named PTA Grupp AS. Due to that Parent stand alone comparative data for 2007 includes PTA Grupp AS stand alone data until restructuring on 24 August 2007 and AS Silvano Fashion Group data from 24 August 2007. Therefore Parent stand alone 2007 and 2008 Income statement and Statement of cash flows are not directly comparable.

Balance sheet (unconsolidated)

As at 31 December

In thousands of EUR	**2008**	**2007**
ASSETS		
Non-current assets		
Property, plant and equipment	18	13
Intangible assets	122	95
Shares in subsidiaries	23,912	24,269
Long term receivables	10,838	0
Total non-current assets	**34,890**	**24,377**
Current assets		
Prepaid taxes	37	44
Trade receivables	185	12
Other receivables and prepayments	1,178	9,781
Cash and cash equivalents	63	4,345
Total current assets	**1,463**	**14,182**
TOTAL ASSETS	**36,353**	**38,559**
LIABILITIES AND EQUITY		
Equity		
Share capital at par value	25,565	25,565
Share premium	14,271	14,271
Own shares	-450	0
Statutory capital reserve	67	67
Accumulated losses	-5,055	-1,675
Currency translation differences	34	28
Total equity	**34,432**	**38,256**
Non-current liabilities		
Loans and borrowings	17	46
Total non-current liabilities	**17**	**46**
Current liabilities		
Loans and borrowings	23	23
Trade payables	1,654	72
Tax liabilities	11	57
Other payables	31	27
Provisions	150	70
Accrued expenses	35	8
Total current liabilities	**1,904**	**257**
Total liabilities	**1,921**	**303**
TOTAL LIABILITIES AND EQUITY	**36,353**	**38,559**

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Income statement (unconsolidated)

In thousands of EUR

	2008	2007
Revenue		
Sales revenue	0	6,619
Costs of goods sold	0	-3,775
Gross profit	**0**	**2,844**
Other operating income	235	169
Distribution expenses	0	-1,277
Administrative expenses	-1,375	-1,082
Other operating expenses	-3,313	-86
Operating profit	**-4,453**	**568**
Financial income	1,073	371
Financial expenses	0	-120
Net financial items	**1,073**	**251**
Profit for the period	**-3,380**	**819**

Statement of cash flows (unconsolidated)

In thousands of EUR

	2008	2007
Cash flows from operating activities		
Profit for the period	-3,380	819
Adjustments for:		
Depreciation, amortization and impairment losses	28	118
Non-cash items on merge/ de-merge	0	-562
Gains on the sale of property, plant and equipment	0	-2
Net finance income/costs	-453	-8
Impairment losses on goodwill (+) and negative goodwill gain (-)	2,149	0
Change in receivables and prepayments	242	-9,222
Change in inventories	0	1,449
Change in payables	871	-830
Interest paid	0	-62
Net cash from operating activities	**-543**	**-8,300**
Cash flows from investing activities		
Acquisition of property, plant and equipment and assets under construction	-9	-37
Acquisition of intangibles	-51	-186
Acquisition of subsidiaries	-1,061	2,298
Repayment of loans granted	3,405	0
Loans granted	-5,997	0
Interest received	33	70
Dividends received	420	0
Net cash used in / from investing activities	**-3,260**	**2,145**
Cash flows from financing activities		
Proceeds from issue of share capital	0	10,279
Proceeds from loans received	0	568
Payment of finance lease liabilities	-29	-27
Re-purchase of own shares	-450	0
Repayment of other loans	0	-402
Net cash from / used in financing activities	**-479**	**10,418**
Net cash flows	**-4,282**	**4,263**
Cash and cash equivalents at beginning of period	**4,345**	**82**
Cash and cash equivalents at end of period	**63**	**4,345**

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Statement of changes in equity (unconsolidated)

In thousands of EUR	Share capital	Share premium	Own shares	Currency translation difference	Capital reserve	Accumulated losses	Total
Balance at 31 December 2006	**24,252**	**5,305**	**0**	**0**	**67**	**-2,401**	**27,223**
Carrying amount of interests under control or significant influence							-26,528
Carrying amount of interests under control or significant influence under the equity method							28,263
Adjusted unconsolidated equity at 31 December 2006							28,958
Issue of share capital	1,313	8,966	0	0	0	0	10,279
Retained earnings of merged company	0	0	0	0	0	-93	-93
Effect on consolidation of foreign entities	0	0	0	28	0	0	28
Profit for 2007	0	0	0	0	0	819	819
Balance at 31 December 2007	**25,565**	**14,271**	**0**	**28**	**67**	**-1,675**	**38,256**
Carrying amount of interests under control or significant influence							-24,269
Carrying amount of interests under control or significant influence under the equity method							36,798
Adjusted unconsolidated equity at 31 December 2007							50,785
Repurchase of own shares	0	0	-450	0	0	0	-450
Effect on consolidation of foreign entities	0	0	0	6	0	0	6
Loss for 2008	0	0	0	0	0	-3,380	-3,380
Balance at 31 December 2008	**25,565**	**14,271**	**-450**	**34**	**67**	**-5,055**	**34,432**
Carrying amount of interests under control or significant influence							-23,912
Carrying amount of interests under control or significant influence under the equity method							39,667
Adjusted unconsolidated equity at 31 December 2008							50,187

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SIGNATURES

The management board has prepared the management report and the consolidated financial statements for 2008.

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

Dmitry Ditchkovsky	Chairman of Management Board	23.04.2009
Sergei Kusonski	Member of Management Board	23.04.2009
Peeter Larin	Member of Management Board	23.04.2009
Dmitri Podolinski	Member of Management Board	23.04.2009
Baiba Gegere	Member of Management Board	23.04.2009
Indrek Rahumaa	Chairman of Supervisory Board	23.04.2009
Zinaida Valekha	Member of Supervisory Board	23.04.2009
Priit Poldoja	Member of Supervisory Board	23.04.2009
Pavel Daneyko	Member of Supervisory Board	23.04.2009

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS Silvano Fashion Group

We have audited the accompanying consolidated financial statements of AS Silvano Fashion Group, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 22 to 66.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AS Silvano Fashion Group as of 31 December 2008, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tallinn, 23 April 2009

KPMG Baltics AS

Taivo Epner
Authorized Public Accountant

PROFIT ALLOCATION PROPOSAL

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

To transfer the net loss for the year ended 31 December 2008 in the amount of EUR 7,603,000 to the retained earnings.

At 31 December 2008 retained earnings are allocated as follows:

Accumulated retained earnings	11,883,000 EUR
Change for the period	-6,640,000 EUR
Total retained earnings	5,243,000 EUR

Dmitry Ditchkovsky	Chairman of Management Board	23.04.2009
Sergei Kusonski	Member of Management Board	23.04.2009
Peeter Larin	Member of Management Board	23.04 2009
Dmitri Podolinski	Member of Management Board	23.04 2009
Baiba Gegere	Member of Management Board	23.04 2009
Indrek Rahumaa	Chairman of Supervisory Board	23.04 2009
Zinaida Valekha	Member of Supervisory Board	23.04 2009
Priit Poldoja	Member of Supervisory Board	23.04. 2009
Pavel Daneyko	Member of Supervisory Board	23.04 2009

Revenues by EMTAK (the Estonian classification of economic activities)

In thousands of EUR

Code	Definition	Parent company 2008	Parent company 2007	Group 2008	Group 2007
14131	Manufacture of other outerwear	0	421	16,257	19,368
46421	Wholesale of clothing and accessories	0	3,497	60,485	61,150
47711	Retail sales of clothing in specialized stores	0	2,701	30,778	17,999
46191	Intermediation of various goods/items/services	0	0	345	0
82991	Sale of various goods/items/services helping business-activities	0	0	63	0
68201	Renting and operating of own or leased real estate	0	0	387	63
Total		**0**	**6,619**	**108,315**	**98,580**

Activities planned for the period 1 January to 31 December 2009:

70101 Headquarter activities