

# AS Silvano Fashion Group



**ANNUAL REPORT  
2007**

## 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	<a href="http://www.silvanofashion.com">www.silvanofashion.com</a>
Core activities	Design, manufacturing and distribution of women's apparel and lingerie
Auditor	KPMG Baltics AS
Financial year	1 January 2007 – 31 December 2007

## Contents

THE GROUP IN BRIEF .....	4
Key events of 2007 .....	6
Business results .....	7
Investment.....	9
Personnel.....	10
Outlook for 2008.....	11
Selected financial data .....	11
AS Silvano Fashion Group shares.....	12
Corporate governance report.....	15
CONSOLIDATED FINANCIAL STATEMENTS.....	19
Statement of management responsibility .....	19
Consolidated balance sheet .....	20
Consolidated income statement.....	21
Consolidated statement of cash flows .....	22
Consolidated statement of changes in equity .....	23
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.....	24
Note 1. Reporting entity.....	24
Note 2. Basis of preparation.....	24
Note 3. Significant accounting policies.....	25
Note 4. Determination of fair values.....	33
Note 5. Financial risk management.....	34
Note 6. Segments reporting.....	36
Note 7. Acquisitions of subsidiaries and minority interests .....	39
Note 8. Sales revenue.....	40
Note 9. Cost of goods sold.....	41
Note 10. Other operating income .....	41
Note 11. Distribution costs.....	41
Note 12. Administrative costs .....	41
Note 13. Other operating expenses .....	42
Note 14. Financial income and expenses .....	42
Note 15. Income tax expense .....	43
Note 16. Property, plant and equipment.....	44
Note 17. Intangible assets .....	45
Note 18. Investment property.....	46
Note 19. Equity accounted investees.....	46
Note 20. Available-for-sale financial assets.....	47
Note 21. Inventories.....	47
Note 22. Taxes .....	48
Note 23. Trade receivables.....	48
Note 24. Other receivables.....	48
Note 25. Prepayments .....	49
Note 26. Cash and cash equivalents.....	49
Note 27. Equity .....	49
Note 28. Earnings per share .....	51
Note 29. Loans and borrowings .....	51
Note 30. Trade payables.....	53
Note 31. Other payables.....	54
Note 32. Provisions .....	54
Note 33. Transactions with related parties .....	54
Note 34. Financial instruments .....	55
Note 35. Contingencies .....	58
Note 36. Subsequent events .....	59
Note 37. Financial information on the Group's parent company.....	59
AUDITOR'S REPORT .....	67
PROFIT ALLOCATION PROPOSAL.....	68

## THE GROUP IN BRIEF

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

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

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

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

The Group comprises the following companies:

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

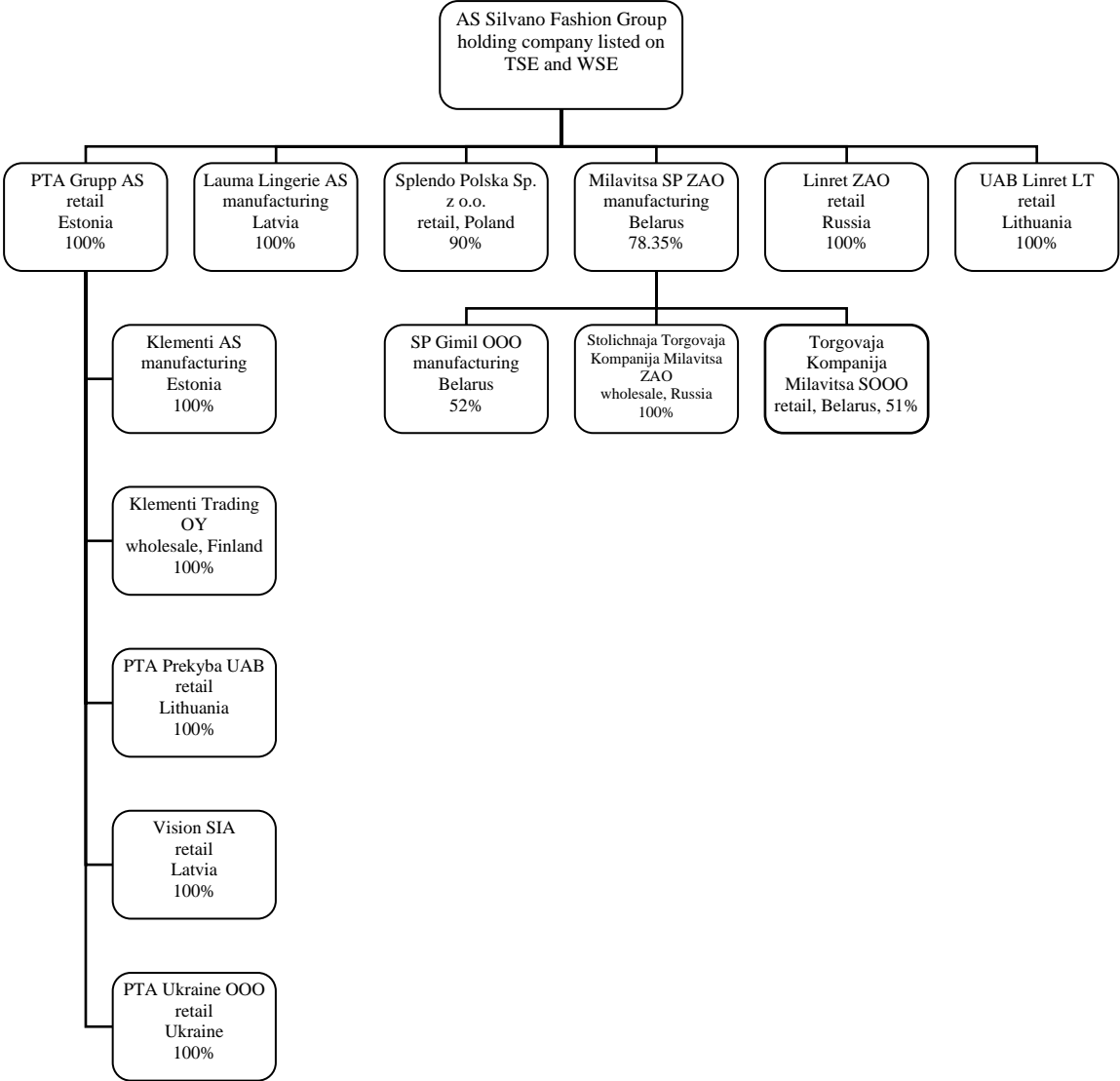
MANAGEMENT REPORT

Organisation

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

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

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



## **Key events of 2007**

### ***Shareholding increase in Milavitsa***

In March 2007, SFG's subsidiary Milavitsa SP ZAO completed its share repurchase programme. In the course of the programme 2,487 shares were purchased for a price of about EUR 439 per share, representing 20,19% of Milavitsa's share capital. All of the repurchased shares were cancelled on or before 17 May 2007. Following the cancellation, SFG's ownership stake in Milavitsa grew from 62.53% to 78.35%.

### ***Corporate reorganisation***

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

### ***Amendment to the Articles of Association***

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

### ***Merger of PTA Grupp AS with AS Silvano Fashion Group***

On 31 May 2007, the Extraordinary General Meeting of Shareholders decided to approve the merger agreement between PTA Grupp AS and AS Silvano Fashion Group. The merger was registered on 24 August 2007. The changes were related to reorganising the Group's corporate structure and separating its strategic management from day-to-day operations.

### ***Separation of Estonian manufacturing operations from the main holding entity***

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

### ***Successful public offering and listings on the Warsaw Stock Exchange***

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

Due to the public offering and listing, the General Meeting of Shareholders decided on 25 June 2007 to increase the Company's share capital by issuing 2,052,802 new ordinary shares with a par value of EEK 10 (EUR 0.64). The General Meeting resolved that the issue price in the public offering would be EUR 5.25 per share, at which level the issue was fully subscribed.

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

### ***Acquisition of a retail chain in Lithuania***

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

## Business results

### PROFITS

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

SFG ended 2007 with consolidated net sales of EUR 98.6 million, representing a 3.7-fold increase on 2006. Following the acquisition in 2006, the comparable results for 2006 comprise former PTA Grupp AS operations for the whole 2006 and consolidated AS Silvano Fashion Group results for the 4<sup>th</sup> quarter 2006. The results were boosted by growth in the Baltic, Russian, Belorussian and Ukrainian lingerie and women’s apparel markets, which are our primary sales markets.

Consolidated operating profit amounted to EUR 20.6 million, representing a 4.1-fold increase on 2006. The consolidated operating margin reached 20.8% (up from 18.8% in 2006).

In 2007, the Group increased its shareholding in Milavitsa SP ZAO, resulting in gains from the business combination booked in 2007 totalling EUR 5.7 million.

Consolidated net profit attributable to equity holders amounted to EUR 11.9 million (up from EUR 2.9 million in 2006) and the net margin was 12.1% (up from 10.6% in 2006).

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

### BALANCE SHEET

At 31 December 2007, consolidated assets amounted to EUR 69.6 million (up from EUR 51.9 million at 31 December 2006). The increases in both assets and liabilities are mainly related to retail expansion.

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

Inventories increased by EUR 6.9 million to reach EUR 21.6 million at 31 December 2007. The inventory growth results primarily from the retail expansion. Due to the expansion of the retail network, the Group made rental prepayments for store premises, which increased other receivables and prepayments.

Property, plant and intangibles increased by EUR 5.5 million, of which 2.8 million represents the retail growth.

Current liabilities increased by 2.8 million. Tax liabilities, other payables, including payables to employees, and provisions amounted to EUR 4.3 million, remaining at the expected level.

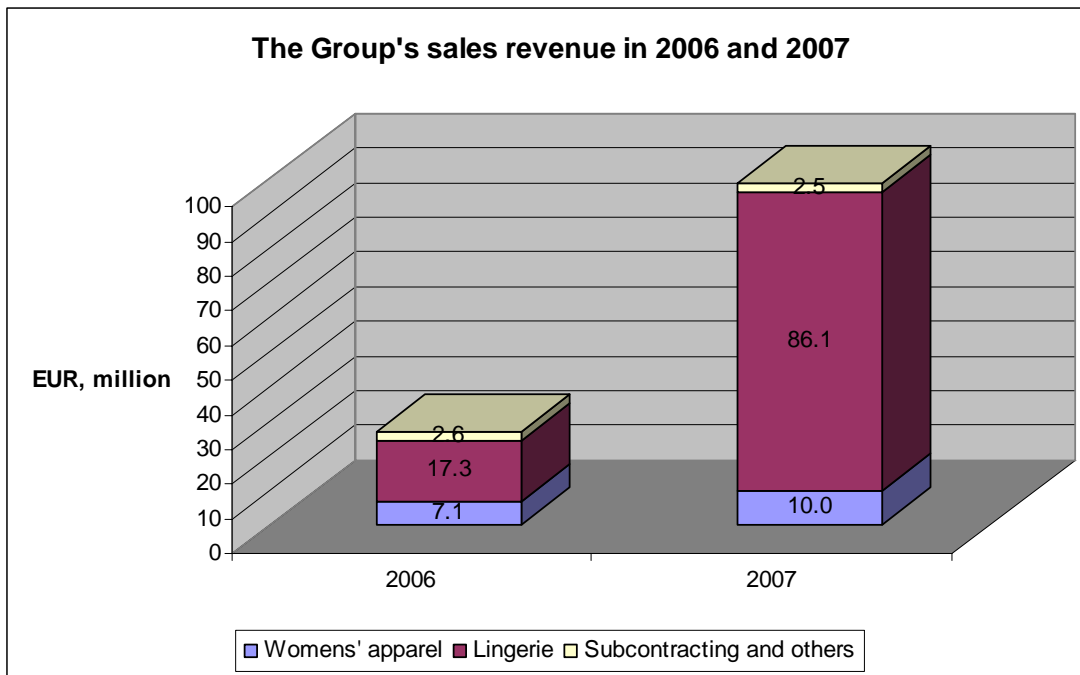
Current and non-current loans and borrowings dropped by EUR 0.7 million to EUR 1.9 million. Loans received and loans repaid during the period amounted to EUR 1.3 million and EUR 2.3 million respectively. This includes finance lease liabilities of EUR 0.7 million.

Equity grew by EUR 15.2 million to reach EUR 55.6 million. As a result of the share issue, SFG’s share capital increased by EUR 1.3 million and the share premium grew by EUR 9.0 million.

### SALES

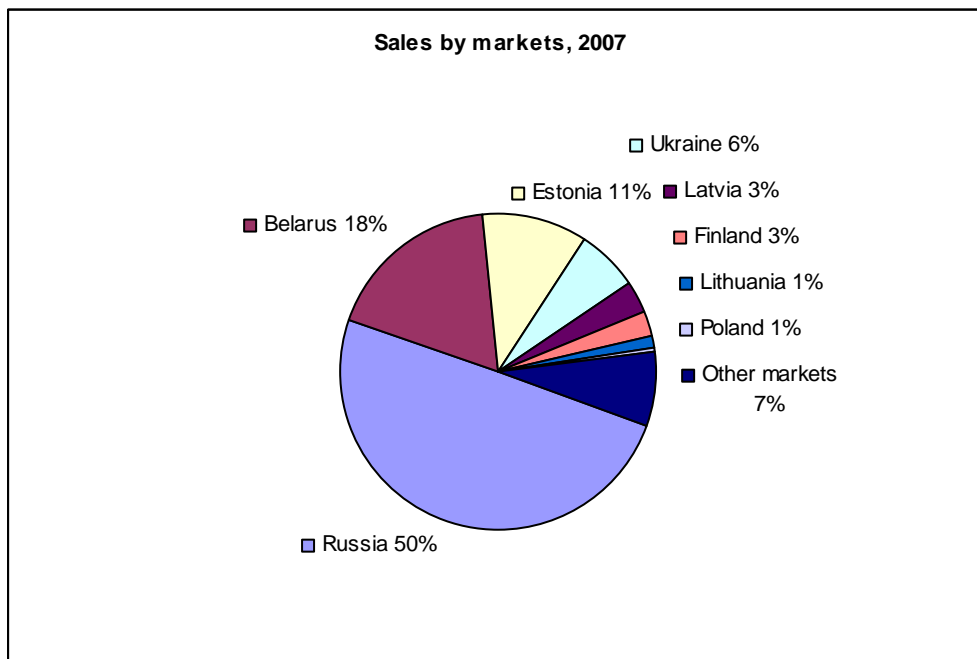
#### Sales by business segments

In EUR million	2007	2006	Change
Women’s apparel	10.0	7.1	+40.8%
Lingerie	86.1	17.3	+397.7%
Subcontracting services and other sales	2.5	2.6	–3.8%
<b>Total</b>	<b>98.6</b>	<b>27.0</b>	<b>+265.2%</b>



#### Sales by markets

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



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

#### Retail operations

Total retail sales of the Group in 2007 amounted to EUR 17.9 million, representing a 2.2-fold increase on 2006.



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

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

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

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

#### The number of stores at 31 December:

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

In 2007, women's apparel retail revenue increased by 46%, amounting to EUR 7.6 million. The retail increase was supported by the sales increase in the like-for-like spaces and by the considerably greater number of stores. The increase in retail of women's apparel in the like-for-like spaces was 9%. In the Baltics, PTA retail revenue growth was 22%. The growth in the Baltics was supported by expansion into the Lithuanian market. As Russia and Ukraine are new markets for women's apparel, comparable figures are not available.

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

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

#### Wholesale

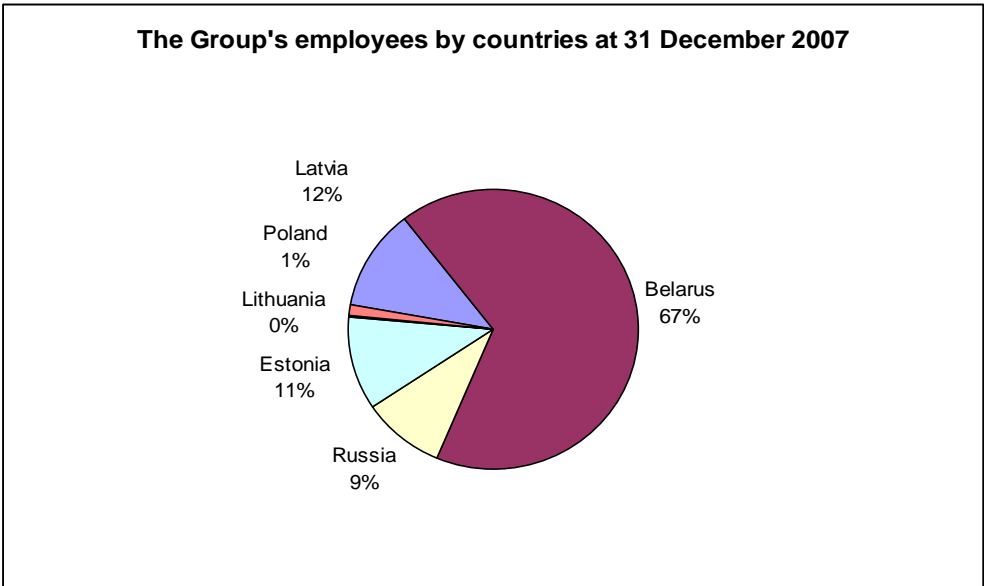
In 2007, wholesale amounted to EUR 78.2 million, representing 79.3% of the Group's total revenue. The main wholesale regions were Russia, Ukraine, the Baltic states and Belarus for lingerie, and Finland and the Baltic states for women's apparel. In 2007, revenue from wholesale of women's apparel increased by 28.9%, amounting to EUR 2.8 million. Most of the lingerie wholesale partners are located in Russia.

#### Investment

In 2007, the Group's investments totalled EUR 9.6 million. A total of EUR 2.8 million was invested in retail operations, while other investments were made in plant and facilities to maintain effective production. Investments in IT development totalled EUR 0.6 million.

**Personnel**

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



The total salaries and wages for 2007 amounted to EUR 18.8 million. The remuneration paid to members of the Management Board totalled EUR 0.2 million. Four members of the Management Board also serve as executives for the portfolio companies.

## Outlook for 2008

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

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

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

Most of the capital expenditure will go towards developing retail operations. According to our plan, capital investments in retail expansion will amount to EUR 2.6 million. Our planned investments in plant will amount to EUR 2.3 million.

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

## Selected financial data

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

Key figures and ratios	2007	2006	Change
Sales revenue, in EUR thousand	98,580	27,014	71,566
Revenue, in EUR thousand	105,341	27,827	77,514
EBITDA, in EUR thousand	23,014	5,814	17,200
EBIT, in EUR thousand	20,551	5,069	15,482
Operating margin, %	20.8%	18.8%	–
Profit/loss for the period, in EUR thousand	11,946	2,876	9,070
Net margin, %	12.1%	10.6%	–
ROA, %	19.7%	10.4%	–
ROE, %	31.5%	19.3%	–
EPS, in EUR	0.31	0.26	0.05
Current ratio	3.64	3.63	–
Quick ratio	2.07	2.28	–

Underlying formulas:

Operating margin = operating profit / sales revenue

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

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

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

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

Current ratio = current assets / current liabilities

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

Dmitry Ditchkovsky  
Chairman of the Management Board  
24 April 2008

## AS Silvano Fashion Group shares

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

### *Information on SFG shares*

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

SFG share details:

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

<b>Key share details</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Number of shares outstanding at year end	1,896,875	1,896,875	1,946,875	37,947,198	40,000,000
Weighted average number of shares	1,643,245	1,896,875	1,935,505	11,020,929	38,852,681
Year-end share price, in EUR	2.00	1.81	2.24	3.93	4.40
Earnings per share, in EUR	-0.84	-0.40	0.35	0.26	0.31

### *Share price performance and trading history*

In 2007, SFG's share price rose by 11.96% and the Group's market capitalisation increased by about EUR 27 million, but the OMX Tallinn Index fell by 13.29%.

<b>Trading history</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
High, in EUR	2.15	2.05	2.25	4.45	7.12
Low, in EUR	1.17	1.75	1.50	2.00	3.49
Last, in EUR	2.00	1.81	2.24	3.93	4.40
Traded volume	110,494	132,516	297,502	3,784,919	13,057,062
Turnover, in EUR million	0.20	0.25	0.60	13.81	64.29
Market capitalisation, in EUR million	3.79	3.43	4.36	149.13	176.0

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



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

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

### Shareholder structure

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

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

The distribution of shares at 31 December:

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

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

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

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

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

### *Share capital*

At 31 December 2007, SFG's registered share capital was EUR 25,564,659, consisting of 40,000,000 ordinary shares with a par value of EUR 0.64.

In 2007, share capital was increased by EUR 1,313 thousands through issuing 2,052,802 new ordinary shares with a par value of EUR 0.64. Under its Articles of Association, the Company's share capital may amount to EUR 63.9 million.

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			
<b>31 December 2002</b>				<b>1,321,875</b>	<b>845</b>	<b>1,972</b>
10 June 2003	Share issue	1.76	575,000	1,896,875	367	643
10 June 2003	Issue costs					-40
<b>31 December 2003</b>				<b>1,896,875</b>	<b>1,212</b>	<b>2,575</b>
<b>31 December 2004</b>				<b>1,896,875</b>	<b>1,212</b>	<b>2,575</b>
24 March 2005	Swap of shares for P.T.A. Group OY's bonds	1.53	50,000	1,946,875	32	45
<b>31 December 2005</b>				<b>1,946,875</b>	<b>1 244</b>	<b>2,620</b>
16 October 2006	Share issue	2.50	36,000,323	37,947,198	23,008	2,828
16 October 2006	Issue costs					-143
<b>31 December 2006</b>				<b>37,947,198</b>	<b>24,252</b>	<b>5,305</b>
24 July 2007	Share issue	5.25	2,052,802	40,000,000	1,313	9,464
24 July 2007	Issue costs					-498
<b>31 December 2007</b>				<b>40,000,000</b>	<b>25,565</b>	<b>14,271</b>

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

## Corporate governance report

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

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

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

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

### **General Meeting**

#### General Remarks

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

#### General Meetings of AS Silvano Fashion Group

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

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

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

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

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

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

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

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

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

### ***Supervisory Board***

#### **General Remarks**

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

#### **Supervisory Board of AS Silvano Fashion Group**

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

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

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

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



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

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

### ***Management Board***

#### General Remarks

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

#### Management Board of AS Silvano Fashion Group

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

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

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

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

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

### ***Disclosure of Information***

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

### ***Reporting***

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

## MANAGEMENT'S CONFIRMATION TO THE MANAGEMENT REPORT

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

---

Dmitry Ditchkovsky  
Chairman of Management Board  
24 April 2008

---

Sergei Kusonski  
Member of Management Board  
24 April 2008

---

Peeter Larin  
Member of Management Board  
24 April 2008

---

Dmitri Podolinski  
Member of Management Board  
24 April 2008

---

Dace Markevica  
Member of Management Board  
24 April 2008

---

Remigiusz Pilat  
Member of Management Board  
24 April 2008

## CONSOLIDATED FINANCIAL STATEMENTS

### Statement of management responsibility

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

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

---

Dmitry Ditchkovsky  
Chairman of Management Board  
24 April 2008

---

Sergei Kusonski  
Member of Management Board  
24 April 2008

---

Peeter Larin  
Member of Management Board  
24 April 2008

---

Dmitri Podolinski  
Member of Management Board  
24 April 2008

---

Dace Markevica  
Member of Management Board  
24 April 2008

---

Remigiusz Pilat  
Member of Management Board  
24 April 2008