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European Union
Regional Development Fund

CONSOLIDATED Annual Report

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End of financial year: 31.12.2008

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CONSOLIDATED MANAGEMENT REPORT

Introduction

AS Chemi-Pharm (hereinafter also referred to as “parent company”) is an English-Estonian joint enterprise that manufactures and markets disinfectants, cleaning supplies and special treatment products. AS Chemi-Pharm was founded and entered into the Commercial Register on 7 March 1997. AS Chemi-Pharm’s offices and manufacturing facilities are located at Põllu 132, Tallinn.

The consolidation group comprises AS Chemi-Pharm, AS Chemi-Pharm’s 100%-owned subsidiary OÜ Rostherne and AS Chemi-Pharm’s 100%-owned subsidiary SIA Chemi-Pharm Group (hereinafter referred to together as the “Group”). SIA Chemi-Pharm Group is based in Latvia and is engaged in the wholesale trade of disinfectants and cleaning supplies made by AS Chemi-Pharm on the local market to about 800 customers. OÜ Rostherne was engaged in 2008 in distribution of textiles.

Since 2001, AS Chemi-Pharm holds EN ISO 9001:2000, 13485:2003, 14001:2004 certificates issued by Lloyd’s Register Quality Assurance. Disinfectants for medical equipment (18 products) have the CE label necessary to be sold. In May 2007, the company passed a full audit, in the course of which the certificates were renewed until 2010.

AS Chemi-Pharm has delegated its packaging collection obligation to MTÜ Eesti Pakendiringlus.

Revenue, expenses and profit

In 2008 the Group’s revenue amounted to 39,924 thousand kroons. Sale of its own products made up 58.5%; other wholesale trade, 29%; and research activities, 12.5%. Sales took primarily to Estonia (37.6%) and Latvia (28%), and to a lesser degree to Moldova (16%), Lithuania (9.6%), Russia (4.6%), Ukraine (1.6%), Sweden (1.9%) and Finland (0.7%).

The consolidated net profit in 2008 was 5,400 thousand kroons.

During the reporting period, efforts were made to reinforce the group’s positions in existing markets, to search for new markets, and to increase the customer, personnel and environmentally friendliness of Group’s products. The group’s products also contended in public procurements.

AS Chemi-Pharm’s CEO is Ruth Oltjer and the members of the supervisory board are Britta Oltjer and Andres Oltjer. Member of the supervisory board Vladimir Heinrichsen died in January 2009. The members of the management board and supervisory board received 783 thousand kroons in remuneration in the reporting year. Members of the supervisory board do not receive any privileges related to pensions from the company. Members of the management board and supervisory board do not have the right to severance pay. Members of the management boards of the subsidiaries received 255 thousand kroons in remuneration during the reporting year.

The average number of employees in the Group in 2008 was 32. Workforce expenses amounted to 7,640 thousand kroons, which is 1.4% less than in 2007. The decrease is

due to the transformation of Latvian sales personnel to sole proprietors. The sales bonus paid to them is recognized under "Goods, material, services".

The Group's return on sales was 0.137 kroons in 2008; it was 0.156 kroons in 2007. Return on sales indicates the return per kroon on sales turnover after all expenses are deducted. Return on sales = net profit/net sales. The decrease is due to improvements to the production facility performed in 2008 and a price rise that occurred in the interim.

The parent company's return on equity in 2008 was 0.32 kroons; and in 2007, 0.37 kroons. Return on equity shows the profitability of the shareholders' investments. Return on equity = Net profit/Average equity.

The Group's short-term debt ratio was 4.47 in 2008 and 3.3 in 2007, which are very good figures. The short-term debt ratio indicates the company's ability to cover short-term payables to creditors. Short-term debt ratio = current assets/short-term obligations

Related companies

The activities of OÜ Chemilex Group, a related company whose primary field of activity was the sale of veterinary medicines and supplies, were suspended in 2003. AS Chemi-Pharm's share in the company is 25.12%.

Research and development projects

July 2005 marked the beginning of a three-phase research and development project with a term of 28 months, during which two new products were developed. They were tested in 2006 in Estonian and German laboratories. In 2007, test batches were sent to customers in different European Union countries for evaluation and feedback was gathered. The project was extended by Enterprise Estonia up to 31 March 2008. The successful completion of the project is expected to grow the Group's sales revenue by 20% by 2010. The project is related to the Group's goal of increasing the product selection of surgical disinfectants. Unlike conventional hygienic products, surgical disinfectants must be capable of destroying hazardous infectious agents such as tuberculosis and HIV. At the moment, a number of hospitals use predominantly ethanol and isopropanol-based disinfectants, which do destroy infectious agents but which pose a problem: potential allergic effects suffered by medical staff. The Group desires to continue to develop a line of hypoallergenic and employee-friendly surgical disinfectants, in order to reduce the incidence of respiratory allergies among medical staff.

The total cost of the project was 3.5 million kroons, of which Enterprise Estonia provided 1.8 million kroons.

Project-based expenses in 2008 totalled 1,065,226 kroons, of which Enterprise Estonia financed 602,616 kroons.

Impact of the economic crisis

AS Chemi-Pharm's management has assessed the global liquidity crisis and the impacts of the related general economic crisis on the company's operating activity.

The management believes that the most significant threat is potential debtor payment difficulties, which may result in a drop in the value of the company's receivables. The company uses the assistance of the Estonian credit reporting agency Krediidiinfo to keep track of clients and is negotiating with Kredex to factor payables from Lithuanian clients. It is not possible for the management to reliably forecast what the impact of the economic crisis will be on the company's activity and financial position. The management believes that it has adopted all of the measures necessary to ensure the sustainability of the company in the current situation.

Development areas for the next financial year

In 2009, it is planned:

- 1) to introduce at least one new product to the product nomenclature, and to improve existing products based on the environmental management system;
- 2) to maintain a sales network in both Estonia and abroad, finding at least one new export partner;
- 3) to increase export by 10% (Sweden, Russia, Finland et al), entering at least one new market.

AS CHEMI-PHARM CEO
21.04.2009

RUTH OLTJER

FINANCIAL STATEMENTS

MANAGEMENT REPRESENTATION TO THE FINANCIAL STATEMENTS

I hereby take responsibility for the preparation of the consolidated financial statements set out on pages 6 to 29, and certify that:

1. the accounting principles used in preparing the financial statements are in compliance with the generally accepted accounting principles of Estonia;
2. the financial statements give a true and fair view of the Group's financial position and the results of its operations and cash flows;
3. the Group and the parent company are able to continue as a going concern.

Ruth Oltjer
Member of the board

21 April 2009

CONSOLIDATED INCOME STATEMENT

in kroons, for the year

	2008	2007	Note
Operating income			
Revenue	39 924 066	30 872 781	3
Change in residual finished goods	1 178 073	865 719	
Other operating income	178 934	36 848	
Total operating income	41 281 073	31 357 522	
Operating expenses			
Goods, material, services	-17 351 157	-13 247 844	
Other operating expenses	-9 955 005	-5 266 248	
Personnel expenses			
Wages and salaries	-5 894 360	-6 187 590	
Social taxes	-1 746 051	-1 562 354	
Depreciation of fixed assets and impairments	-808 057	-624 075	9
Other expenses	-37 489	-41 919	
Total operating expenses	-35 792 119	-26 930 030	
Operating profit	5 488 954	4 845 318	
Net financial items	49 051	351 030	4
Profit before taxation	5 538 005	5 196 348	
Income tax	-137 615	-110 836	5
Net profit for the year	5 400 390	5 085 512	
Including the parent company's owners' share of the net profit	5 400 390	5 000 042	
Including the minority owners' share of the net profit	0	85 470	

CONSOLIDATED BALANCE SHEET

in kroons, as of 31 December

ASSETS	31.12.2008	31.12.2007	Note
Current assets			
Cash and bank	2 909 159	2 590 054	
Accounts receivable	2 837 760	2 184 652	6
Prepaid and deferred taxes	408 978	74 812	6
Other short-term receivables	204 890	383 442	6,16
Prepayments for services	375 663	384 886	6
Inventories	8 340 778	5 545 327	7
Total current assets	15 077 228	11 163 173	
Fixed assets			
Long-term financial investments	11 329	11 329	8
Tangible fixed assets	8 694 450	6 786 638	9
Total fixed assets	8 705 779	6 797 967	
TOTAL ASSETS	23 783 007	17 961 140	
LIABILITIES AND OWNERS' EQUITY	31.12.2008	31.12.2007	
Liabilities			
Short-term liabilities			
Loans	780 103	745 136	10,18
Accounts payable	736 375	765 697	
Payables to employees	559 641	601 492	11
Taxes payable	447 935	440 663	12
Other debts	821 551	819 590	13
Advances received	23 118	10 732	
Total short-term liabilities	3 368 723	3 383 310	
Long-term liabilities			
Long-term loans	495 965	37 412	10,18
Deferred income tax liability	5 088	0	
Total long-term liabilities	501 053	37 412	
Owner's equity			
Share capital	400 000	400 000	
Mandatory legal reserve	40 000	40 000	
Unrealized currency exchange rate differences	-32 734	-5 157	
Retained earnings from previous periods	14 105 575	9 105 533	
Net profit for the year	5 400 390	5 000 042	
Total owner's equity	19 913 231	14 540 418	
LIABILITIES AND OWNERS' EQUITY	23 783 007	17 961 140	

CONSOLIDATED CASH FLOW STATEMENT
kroons, for the year

	2008	2007	Note
Cash flow from operating activities			
Operating profit	5 488 954	4 427 492	
Depreciation of fixed assets	808 057	624 075	9
Loss from disposals of fixed assets	35 299	-29 963	
TM appropriated	5 088	-7 425	
Change in receivables and prepayments related to operating activities	-799 499	190 336	
Change in inventories	-2 795 451	-854 797	2,7
Change in liabilities and prepayments related to operating activities	-49 554	-610 755	
Payment of income tax	-137 615	-110 836	
Total cash flow from operating activities	2 555 279	3 628 127	
Cash flow from investing activities			
Acquisition of fixed assets	-2 791 177	-311 237	9
Increasing share in subsidiaries	0	-44 486	
Payment of dividends	0	-285 714	
Disposal of fixed assets	40 000	29 963	
Interest received	66 109	3 620	
Total cash flow from investing activities	-2 685 068	-607 854	
Cash flow from financing activities			
Change in overdraft facility	108 804	-316 625	10
Long-term loans received	1 000 630	0	10
Loan repayments	-469 496	-877 644	10
Interest paid	-57 591	-69 422	4
Foreign exchange loss	-4 244	-27 200	
Repayments of principal, finance lease	-101 643	-64 117	
Total cash flow from financing activities	476 460	-1 355 008	
Total cash flow	346 671	1 665 265	
Cash at the beginning of the period	2 590 054	921 437	
Change in cash and bank	346 671	1 665 265	
Exchange rate difference, movement of equity	-27 566	3 352	
Cash at the end of the period	2 909 159	2 590 054	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(in kroons)

	Equity of parent company's owners				Exchange gains/losses reserve	Total	Minority	Shareholders
	Share capital	Mandatory legal reserve	Retained earnings	Net profit for the year			share	equity total
31.12.2006	400 000	40 000	7 776 277	2 329 256	-7 340	10 538 193	366 409	10 904 602
Retained profit			2 329 256	-2 329 256		0		0
Declared dividend			-1 000 000					-1 000 000
Minority share buy-out				322 859		322 859	-366 409	-43 550
Effect of exchange gains/losses in consolidated company					2 183	2 183		2 183
Net profit for the year				4 677 183		4 677 183		2 492 198
31.12.2007	400 000	40 000	9 105 533	5 000 042	-5 157	14 540 418	0	14 540 418
Retained profit			5 000 042	-5 000 042		0		0
Effect of exchange gains/losses in consolidated company					-27 577	-27 577		-27 577
Net profit for the year				5 400 390		5 400 390		5 400 390
31.12.2008	400 000	40 000	14 105 575	5 400 390	-32 734	19 913 231	0	19 913 231

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Basis of preparation of the financial statements and changes in accounting policies

The financial statements of AS Chemi-Pharm (hereinafter "Parent") and its subsidiaries (hereinafter referred to together as "Group") have been prepared in accordance with the generally accepted accounting principles of the Republic of Estonia, on a historical cost basis, unless otherwise stipulated in the accounting principles described below. The generally accepted accounting principles of Estonia are based on the internationally accepted accounting and reporting principles, the main requirements of which have been stipulated in the Accounting Act of the Republic of Estonia, and supplemented by the guidelines issued by the Accounting Board of the Republic of Estonia (hereinafter RTJ).

The annual accounts have been compiled in Estonian kroons.

The main accounting principles and basis of estimations have been laid out below.

Consolidation

The consolidated financial statements consist of the financial indicators for AS Chemi-Pharm and its subsidiaries consolidated line by line. Subsidiaries are consolidated as of the date when the dominant influence or joint control has been transferred to the Group and their consolidation is ceased effective on the date when the Group no longer has dominant influence or joint control.

A subsidiary is considered to be a company over which the parent company exercised control. A subsidiary is considered to be under the control of the parent company if the parent owns either directly or indirectly over 50% of the voting shares in the subsidiary or is otherwise capable of controlling the management and financial policy of the subsidiary.

For the purpose of consolidation, the subsidiary's financial statements have been changed, if necessary, so that they would conform to the accounting policies of the parent company. All transactions, accounts receivable and payable within the group along with unrealized profit and loss on transactions occurring between the Group's companies have been completely cancelled out.

A minority holding – the share of the profit or loss and net assets of the subsidiaries that does not belong to the Group, is recognized in the income statement and balance sheet (under equity) as a separate line.

Investment into related companies

A related company is a company over which the Group has material influence but which it does not control. In general, material influence is presumed to exist when the Group holds 20% to 50% of the voting shares in a company.

Related companies use the same accounting policies as the parent in preparing its reports.

As the activities of AS Chemi-Pharm's related company OÜ Chemilex Group have been suspended, the investment in the related company is recognized in the consolidated report at acquisition cost.

Investment into subsidiaries and related companies in the unconsolidated balance sheet

In the parent's unconsolidated balance sheet (laid out in Note 19), investments in subsidiaries and related companies are recognized using the acquisition cost method. This means that the investment is recorded initially at acquisition cost – the fair value of the amount paid upon acquisition - and that it is later discounted based on impairment of the investment if necessary.

Foreign currency transactions

The parent's transactions are recognized in Estonian kroons, which is also the presentation currency for the Group's consolidated statements and the parent's unconsolidated statements; all other currencies are considered foreign currencies.

Transactions denominated in foreign currency are recorded on the basis of the foreign currency exchange rates of the Bank of Estonia officially valid on the transaction date. Assets and liabilities denominated in foreign currency have been converted into Estonian kroons on the basis of the currency exchange rates of the Bank of Estonia officially valid on the balance sheet date.

Foreign exchange gains and losses resulting from revaluation are recorded in the income statement of the reporting period, whereas foreign exchange gains and losses related to settlements with suppliers and customers are recorded under operating revenue and operating expenses, and other changes arising from the exchange rate under net financial items.

If the currency used to recognize a subsidiary's transactions does not match that of the parent (SIA Chemi-Pharm Group) the following currency rates shall be used to convert the financial statements for the subsidiary prepared in a foreign currency:

- a) all entries for the subsidiary's assets and liabilities shall be revaluated on the basis of the exchange rate valid on the balance sheet date;
- b) the subsidiary's revenue, expenses and other changes in equity will be re-evaluated based on the weighted average exchange rate for the period.

The difference in revaluation due to the use of different exchange rates is recognized in the equity statement under "Unrealized currency exchange rate differences".

Revenue recognition

Revenue is recognized at the fair value of the received/receivable income. Revenue from sale of goods is recognized when all material risks related to ownership have been transferred to the buyer and the sales revenue and expenses related to the transaction can be reliably determined. Revenue from the sales of services is recorded upon rendering of the service.

Cash and Cash Equivalents

For the purposes of the cash flow statement cash and cash equivalents are short-term (with a term of up to three months), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in market value. Cash and cash equivalent include cash in hand and at bank, to the use of which no material restrictions have been established.

Accounts receivable

Short-term receivables that accrue in the ordinary business operations of the company are recorded as accounts receivable.

Receivables measured at amortised cost are written down, if it is probable that their recoverable amount is lower than their net book value. Impairment losses are recorded as expenses under "Other operating expenses" in the income statement.

Each buyer's outstanding accounts are evaluated separately.

If recovery of a receivable has become doubtful, these accounts receivable are recognized as off-balance-sheet assets or doubtful receivables under accounts receivable in the balance sheet.

Interest income from receivables is recorded in the income statement under “Net financial items” (under Note 3 as “other net financial items”) in the case of short-term receivables, and as “Net financial items from other long-term financial investments” in case of long-term receivables.

Inventories

Finished products are recognized at cost, consisting of the purchase price of the primary materials and remuneration for work paid to employees and overhead production costs distributed proportionally to the purchase price of the primary materials. Work in progress is recognized at cost, consisting of the purchase price of the primary materials and 50% of the remuneration for work paid to employees and overhead production costs distributed to finished goods. Inventories are recognized at acquisition cost, which consists of the purchase price, associated customs duty, other non-refundable taxes and transportation expenses directly related to the acquisition, less discounts. The acquisition cost of inventories is calculated based on the weighed average acquisition cost method. The FIFO method is used in the case of raw material.

Inventories are measured in the balance sheet according to whichever is lower: the acquisition cost or net realisable value. Discounts to the net realisable value of inventories are recognized as expenses in the reporting period and recorded in the income statement under “Goods, raw material, material and service”.

Tangible Fixed Assets

Assets with a useful life of over 1 year and an acquisition cost of over 10,000 kroons are considered to be tangible fixed assets. Assets with a useful life of over 1 year, but an acquisition cost of less than 10,000 kroons, are fully expensed. .

Tangible fixed assets are recorded at cost, consisting of the purchase price and expenditures directly related to the acquisition.

Subsequent to initial recognition, an item of tangible fixed assets is carried in the balance sheet at its cost, less accumulated depreciation and any accumulated impairment losses.

Depreciation of tangible fixed assets is calculated on a straight-line basis. Depreciation rates are determined for each fixed asset item individually, depending on its useful life. The following annual depreciation rates apply to fixed asset groups:

- Land 0%
- Buildings and facilities 5 %
- Machinery and equipment, vehicles 20 %
- Office equipment 30-35 %
- Other equipment; fixtures, fittings and tools 20-30 %

Tangible fixed assets ceases to be recognized upon transfer of the assets or if the Group no longer expects to receive an economic benefit from the use or sale of the assets. The gains and losses arising from cessation of recognition of tangible fixed assets is recognized in the period in which the recognition ceased, in the income statement under “Other operating revenue” or “Other operating expenses”.

Tangible fixed assets that will very likely be sold in the next 12 months are reclassified pending sale as fixed assets recognized in the balance sheet under a separate item under current assets. Depreciation is ceased for fixed assets pending sale and it is recognized either at carrying value or at fair value (less sale expenditures), whichever is lower.

Corporate income tax

Parent company and subsidiary registered in Estonia

Pursuant to the Income Tax Act, Estonian companies are not subject to pay income tax on the profit. Rather, they are subject to income tax on the paid dividends and certain disbursements as well as costs laid down in the Income Tax Act. The established tax rate for dividends in 2008 and 2009 is 21/79. Since income tax is paid on the dividends rather than profit, all temporary differences between the tax bases and carrying values of assets and liabilities, which would incur a deferred income tax receivable or payable, cease to exist.

The company's potential income tax liability related to the distribution of its retained earnings as dividends is not recorded in the balance sheet. The maximum income tax obligation entailed by payment of dividends is listed in Note 17.

Income tax on payment of dividends is recorded under expenses in the income statement at the moment that the dividends are announced.

Subsidiaries registered abroad

Pursuant to the Income Tax Act, a company's net profit adjusted by temporary and permanent differences set forth in the Income Tax is subject to income tax in Latvia (the tax rate is 15%).

Deferred income tax is recognized using the obligation method for all temporary differences present on the balance sheet date in financial accounting between the tax bases of assets and liabilities and their book value. Deferred income tax assets are recognized only if it is likely that gains will arise in future on account of which deferred income tax assets can be used.

Payable income tax obligations are recognized as short-term obligations; and deferred income tax obligations, as long-term obligations.

Mandatory legal reserve

Under the Republic of Estonia's Commercial Code, companies are required to annually allocate 5% of net profit to mandatory reserve until the reserve makes up at least 10% of the company's share capital. It cannot be paid out as dividends. Still, it can be used for covering losses, if the losses cannot be covered from the available equity. Mandatory reserve can also be used for increasing the share capital of the company.

Accounting for leases

Lease transactions, where all material risks and benefits from ownership of an asset are transferred to the lessee, are treated as finance lease. All other lease transactions are treated as operating lease.

Assets acquired on finance lease conditions are accounted for in the lessee's balance sheet at acquisition cost or in present value of the minimum rent payments if the latter is lower. The depreciation period for assets acquired on finance lease conditions is equal to the useful life of the asset or the lease period, whichever is shorter. Assets sold on finance lease conditions are recognized in the lessor's balance sheet as a receivable in the amount of the net investment made into the finance lease.

In case of operating lease, the assets are recorded in the lessor's balance sheet. Operating lease payments are recorded during the lease period as income (by lessor) and expenses (by lessee) based on the straight-line method.

Government grants

Targeted financing of operating expenses

The net method has been used for financing operating expenses, in the case of which income received through financing is recognized by discounting the corresponding expense. Targeted financing is recognized as expense in the periods of accrual of the expenses for which the financing was intended. Targeted financing is not recognized as revenue before there is sufficient certainty that the company conforms to the related conditions. Outstanding income from targeted financing is recognized in the balance sheet under "Other Short-Term Receivables" (Note 6, Note 16).

Events occurring after the balance sheet date

Material circumstances that have an effect on the valuation of assets and liabilities and became evident between the balance sheet date and the date of preparing the financial statements, but are related to transactions that took place in the reporting period or earlier periods, are recorded in the financial statements.

Events occurring after the balance sheet date that were not taken into account in assessing the assets and liabilities but which have a material effect on the results for the next financial year, are disclosed in the financial statements.

Note 2 Changes in accounting policies

In 2008 it was decided to change accounting policy for inventories by bringing it into conformity with 4 of the accounting guidelines, according to which the acquisition cost of finished goods must include, in addition to expenses on raw materials, a proportional part of the wages and salaries and overhead expenses on production. As a result, residual finished goods increased 48% in 2008 and residual work in progress increased 24%. An exception is that warehousing expenses are also accounted for as acquisition cost of inventories, as they are inevitable in the course of the production process. In line with the principle of comparability of reports and

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statements, the inventories were changed as of 31 Dec 2007: residual finished goods increased 44.4 % and residual work in progress increased 22,2%. In connection with the change, there were changes made to change in residual finished goods in the income statement and to the net profit for the 2007 financial year.

The table lists the indicators that were changed in the 2007 financial year - before and after the change.

in the parent company's balance sheet 31 Dec 2007	after the change	before the change	change
Inventories	5 245 317	4 827 491	417 826
Net profit for the year	4 307 397	3 889 571	417 826

in the Group' balance sheet 31 Dec 2007	after the change	before the change	change
Inventories	5 545 327	5 127 501	417 826
Net profit for the year	5 000 042	4 582 216	417 826

in the parent company's income statement, 2007	after the change	before the change	change
Change in residual finished goods	865 719	447 893	417 826
Net profit for the year	4 307 397	3 889 571	417 826

in the Group's income statement, 2007	after the change	before the change	change
Change in the residual finished goods	865 719	447 893	417 826
Net profit for the year	5 085 512	4 667 686	417 826

Note 3 Sales revenue
in kroons, for the year

The net revenue of the Group is divided into the following geographical areas and fields of activities.

Geographical areas	2008.	2007.
Estonia	14 983 632	16 058 533
Latvia	11 217 409	9 656 065
Moldova	6 386 843	
Lithuania	3 832 777	3 308 426
Russia	1 821 581	957 092
Ukraine	625 377	272 217
Sweden	758 089	225 003
Finland	298 358	395 445
Total	39 924 066	30 872 781

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Fields of activity	2008.	2007.
20411 – production of soap, detergents, cleaning and polishing supplies	23 380 463	17 107 496
46161 – Resale of textile, clothing, footwear and leather products	510 400	574 581
Unspecialized wholesale	11 033 203	12 240 704
74901 – Other professional, research and technology-related activity uncategorized elsewhere	5 000 000	950 000
Total	39 924 066	30 872 781

Note 4 Net financial items

in kroons, for the year

Net financial items	2008.	2007.
Interest income	66 109	3 621
Interest expenses	-57 591	-69 422
Foreign exchange gains/losses	40 533	8 502
Profit from acquisition of a share in a subsidiary	0	408 329
Total net financial items	49 051	351 030

The Group earned income from interest on overnight deposits and one-month deposits. Interest expenses were paid on overdraft facility and short-term and long-term loans. See Note 10 for loans.

Note 5 Income tax expenses

The Group's 2008 income tax expenses in the amount of 137,615 kroons consisted of income tax on profit earned by the Latvian-registered subsidiary. As of 31 December 2008, the deferred income tax obligation was 5088 kroons (due to the difference between the book value and tax base of tangible fixed assets).

Note 6 Receivables and prepayments

in kroons, as of 31 December

The Group's accounts receivable totalled 2,837,760 kroons, which includes doubtful receivables in the amount of 17,175 kroons.

Prepaid taxes in the amount of 408,978 kroons are equal to the data of the Tax and Customs Board. The tax debts listed in Note 12 were accrued in 2008, upon payment deadlines falling due, entries are made in the Group in harmony with the Tax and Customs Board to reduce the prepayment.

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Other short-term receivables	31.12.08	31.12.07
Income from targeted financing for future periods.	197 143	360 267
Other short-term receivables	7 747	23 175
Total other receivables	204 890	383 442

Note 16 describes income from targeted financing for future periods. Prepayments for services totalling 375,663 kroons consists of insurance for future periods, prepayments for operating lease for cars and other expenses for future periods.

Note 7 Inventories
in kroons, as of 31 December

	31.12.08	31.12.07
Raw materials	1 498 580	958 095
Work in progress	950 524	197 069
Finished goods	2 775 648	1 460 989
Goods purchased for sale	2 870 740	2 720 405
Prepayments to suppliers	223 261	208 769
Fixed assets pending sale	22 025	0
Total inventories	8 340 778	5 545 327

The inventories of goods are recognized pursuant to the inventory conducted on 31 December 2008. Finished goods and work in progress is recognized from 2008 (2007 entries have been changed as well) at production cost price, including price of basic material, wages and salaries and a proportional share of the overhead production costs. The effect of this change is listed in the table in Note 2. In 2008, a total of 28,305 kroons worth of purchased goods unfit for sale were recognized as expenses.

The automobile recognized under fixed assets pending sale had been sold as of the day of signing of the annual report.

Note 8 Investments into shares of subsidiaries and related companies
in kroons

OÜ Chemilex Group	
Holding	25.12%
Carrying value 31 December 2007	11 329
Investment value 31 December 2007	18 190
Losses in capital holdings in the reporting period	- 120
Investment value 31 December 2008	18 070

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OÜ Chemilex Group (Republic of Estonia) was not engaged in any practical activities from 2003-2008. Losses in 2008 for OÜ Chemilex Group amounted to 477 kroons (bank service fees). The equity method was not used. The investment is recognized in the balance sheet of AS Chemi-Pharm as 25.12% of its share capital and mandatory reserve in a total of 11,329 kroons.

	OÜ Rostherne	SIA Chemi-Pharm Group
Parent company's holding	100%	100%
Public or private share capital	40 000	147 985
Country	Republic of Estonia	Republic of Latvia
Carrying value 31 December 2007	40 000	148 076
The Group's share of the share capital 31 Dec 2007	91 770	1 712 883
Profit for the reporting period	130 232	545 317
Currency rate change		-27 577
The Group's share of the share capital 31 Dec 2008	222 002	2 230 623

AS Chemi-Pharm's subsidiaries are both going concerns. In light of the recession, it is not expected that their sales or profit will grow.

Note 9 Tangible fixed assets
(in kroons)

	Land	Buildings	Machinery and equipment	Miscellaneous equipment	Total
Acquisition cost 31.12.2006	322 247	8 946 470	847 866	437 134	10 553 717
Accumulated depreciation 31.12.2006		-2 622 732	-654 244	-290 732	-3 567 708
Residual value 31.12.2006	322 247	6 323 738	193 622	146 402	6 986 009
Purchases and improvements			310 981	113 471	424 452
Write-offs			-147 458	-32 203	-179 661
Sale			-160 000		-160 000
Depreciation for the accounting year		-447 336	-75 091	-101 648	-624 075
Sold and written off depreciation on fixed assets			307 458	32 203	339 661
Acquisition cost 31.12.2007	322 247	8 946 470	851 389	518 402	10 638 508

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Accumulated depreciation 31.12.2007		-3 070 068	-421 877	-360 177	-3 852 122
Residual value 31.12.2007	322 247	5 876 402	429 512	158 225	6 786 386

Exchange rate difference **252**
Total amount **6 786 638**

Purchases and improvements		1 867 179	573 741	350 257	2 791 177
Write-offs			-36 119	-33 051	-69 170
Sale			-61 992		-61 992
Depreciation for the accounting year		-512 260	-213 675	-82 122	-808 057
Sold and written off depreciation on fixed assets			22 812	33 051	55 863
Acquisition cost 31.12.2008	322 247	10 813 649	1 327 019	835 608	13 298 523
Accumulated depreciation 31.12.2008		-3 582 328	-612 740	-409 248	-4 604 316
Residual value 31.12.2008	322 247	7 231 321	714 279	426 360	8 694 207

Exchange rate difference **243**
Total amount **8 694 450**

The Group acquired new 2,791,177 kroons worth of fixed assets. The largest ones were the office in Tartu for a price of 1.7 million kroons, a platform lift for a price of 225,000 kroons and warehouse shelves for a price of 73 thousand kroons. A passenger vehicle was sold off for a sales price of 40,000 kroons (loss of 5196 kroons), a damaged passenger vehicle with a residual cost of 30,103 kroons was written off, of which insurance provided 75,000 kroons of indemnity.

Note 10 **Short-term and long-term debt obligations**
in kroons, as of 31 December

Short-term loan obligations	31.12.08	31.12.07
Repayments of long-term bank loans in the subsequent period	324 784	123 003
Repayments of other long-term borrowings in the subsequent period	108 327	319 714
Credit card payments	1 843	
Overdraft facility	331 466	224 505
Finance lease payments in the subsequent period	13 683	77 914
Total short-term loan obligations	780 103	745 136

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	31.12.08	31.12.07
Long-term loans		
Finance lease liabilities	0	37 412
Bank loan	495 965	0
Total long-term loan obligations	495 965	37 412

In 2008, a long-term loan of 1,000,630 kroons at an interest rate of the 6-month EURIBOR + 1.35% per year was received from SEB Eesti Ühispank for the purchase of the Tartu office. The loan repayment date is 19 May 2011.

In 2008, 789,648 kroons in bank loans was repaid. 2009. The amount paid in 2009, 327,784 kroons, is recognized as short-term obligations.

The Latvian subsidiary has 331,466 kroons of overdraft facility (15,000 LVL) at an interest rate consisting of the 3-month RIGIBOR + 3.2% per year. Credit conditions and extensions are reviewed at the end of each year.

In 2000, a long-term debt obligation agreement was signed with a partner in cooperation in England, The Corporate General Marketing Group Ltd., for a total of 53,000 GBP. The repayment date is August 2010. The interest rate is 6% per year. In 2008, 8300 GBP was repaid. In 2009, 6730.85 GBP will be repaid. There will be no remaining long-term obligation.

See Note 15 for finance lease.

Note 11 Payables to employees

in kroons, as of 31 December

	31.12.08	31.12.07
Wages and salaries payable	378 660	408 928
Holiday pay reserve	180 981	192 564
Total payables to employees	559 641	601 492

Note 12 Taxes payable

in kroons, as of 31 December

	31.12.08	31.12.07
Value added tax	19 003	67 123
Corporate income tax	5 164	0
Social security tax	298 174	261 254
Personal income tax	87 269	78 438
Income tax on fringe benefits	20 019	17 743
Unemployment insurance premium	5 728	4 792
Mandatory funded pension insurance payment	12 578	11 313
Total taxes payable	447 935	440 663

Note 13 Other payables

in kroons, as of 31 December

	31.12.08	31.12.07
Interest payable	76 083	88 052
Dividends payable	714 286	714 286
Other accrued expenses	31 182	17 252
Total accrued expenses	821 551	819 590

The interest payable in the amount of 76,083 kroons is comprised of the amount payable to The Corporate General Marketing Group Ltd.

In 2007, 1 million kroons of dividends were announced, of which 285,714 kroons were paid. The dividends payable amount to 714,286 kroons.

Other accrued payables, in the amount of 31,182 kroons, comprise payables to reporting persons, unpaid expenses from 2008 and refundables to buyers.

Note 14 Operating lease

The Group has leased 8 vehicles on the basis of operating lease agreements, the lease payments on which are expensed as soon as they are accrued. Lease payments of a total of 812,083 kroons were paid during the 2008 financial year.

Note 15 Financial leasing services

(in kroons)

Assets on finance lease	Machinery and equipment	Total
Acquisition cost 31.12.07	161 899	161 899
Carrying cost 31.12.07	136 266	136 266
Purchased during the reporting period	0	0
Agreements expired during the reporting period	-109 176	-109 176
Acquisition cost 31.12.08	52 723	52 723
Carrying cost 31.12.08	31 861	31 861
Finance lease payments paid in 2008	101 643	101 643
To be paid in 2009	13 683	13 683

The average interest rate is 5.5% per year.

Note 16 Government grants

in kroons, for the year

Financier	2008	2007
Enterprise Estonia	849 061	827 828

A total of 849,061 kroons in targeted financing was received by the parent company in 2008. As of 31 December 2008, the balance sheet lists a total of 197,143 kroons in training and export support – recognized as short-term receivables.

The net method has been used for financing operating expenses, in the case of which income received through targeted financing is recognized by discounting the corresponding expense.

Note 17 Potential income tax payable on dividends

In accordance with the Income Tax Act which entered into force in 2000, legal persons registered in Estonia no longer pay income tax on income earned but rather on distributed earnings.

The company paid dividends for the first time in 2002, in the amount of 50,000 kroons. The company's own income tax deduction right was applied in the amount of 60,500 kroons, along with right to deduct income tax transferred from OÜ Rostherne, in the amount of 232,379 kroons, and the right obtained from OÜ Chemilex Group in the amount of 159,663 kroons. As a result thereof, a total of 276,866 kroons was raised to cover future periods. In 2002, an additional 117,456 kroons was received from OÜ Rostherne and in 2003, 26,478 kroons from OÜ Chemilex.

In 2007, a total of 285,714 kroons in dividends was paid free of income tax. Of the dividends announced, 714,286 kroons was left to be paid. As of 31 December 2008, the available income-tax-deductible balance was 230,851 kroons. Thus it will be possible to pay out 868,439 kroons free of income tax in 2009.

Note 18 Loan collateral and pledged assets

The parent company has mortgaged the property located at Põllu 132 in Tallinn to secure loans taken from SEB Eesti Ühispank. The subsidiary's overdraft facility is secured by goods.

Note 19 Transactions with related parties

(in kroons)

Sales	2008	2007
Group's parent company	4 016 659	3 840 572
Subsidiary	186 942	143 289
Member of the supervisory board	211 200	

Purchases	2008	2007
Group's parent company	398 142	143 289
Subsidiary	4 016 659	3 840 572

Note 20 **Parent company's unconsolidated income statement**
 in kroons, for the year

	2008	2007
Operating income		
Revenue	32 212 916	24 482 707
Change in residual finished goods	1 178 073	865 719
Other operating income	167 347	24 136
Total operating income	33 558 336	25 372 562
Operating expenses		
Goods, material, services	14 597 543	10 415 476
Other operating expenses	6 518 429	4 084 626
Personnel expenses		
Wages and salaries	5 163 700	4 517 836
Social taxes	1 571 331	1 372 686
Depreciation of fixed assets and impairments	806 854	606 329
Other expenses	37 489	41 919
Total operating expenses	28 695 346	21 038 872
Operating profit	4 862 990	4 333 690
Net financial items	80 381	-26 293
Net profit for the year	4 943 371	4 307 397

Note 21 Parent company's unconsolidated balance sheet
in kroons, as of 31 December

ASSETS	31.12.2008	31.12.2007
Current assets		
Cash and bank	2 239 362	1 765 319
Accounts receivable	1 859 576	1 535 384
Prepaid and deferred taxes	364 978	71 974
Other short-term receivables	197 990	360 590
Prepayments for services	68 789	69 433
Inventory	7 776 721	5 245 317
Total current assets	12 507 416	9 048 017
Fixed assets		
Long-term financial investments	199 405	199 405
Tangible fixed assets	8 694 450	6 785 426
Total fixed assets	8 893 855	6 984 831
TOTAL ASSETS	21 401 271	16 032 848
LIABILITIES AND OWNERS' EQUITY	31.12.2008	31.12.2007
Liabilities		
Short-term liabilities		
Loans	448 637	520 631
Accounts payable	633 793	653 073
Payables to employees	477 205	491 574
Taxes payable	395 098	329 314
Other debts	821 551	819 590
Advances received	4 397	0
Total short-term liabilities	2 780 681	2 814 182
Long-term liabilities		
Long-term loans	495 965	37 412
Total long-term liabilities	495 965	37 412
Owner's equity		
Share capital	400 000	400 000
Reserves	40 000	40 000
Retained earnings from previous periods	12 741 254	8 433 857
Net profit for the year	4 943 371	4 307 397
Total owner's equity	18 124 625	13 181 254
LIABILITIES AND OWNERS' EQUITY	21 401 271	16 032 848

Note 22 Parent company's unconsolidated cash flow statement
in kroons, for the year

	2008	2007
Cash flow from operating activities		
Operating profit	4 862 990	4 358 158
Depreciation of fixed assets	806 854	606 329
Loss from disposals of fixed assets	35 299	-17 251
Change in receivables and prepayments related to operating activities	-453 952	470 750
Change in inventories	-2 531 404	-1 382 214
Change in liabilities and prepayments related to operating activities	38 494	-633 660
Total cash flow from operating activities	2 758 281	3 402 112
Cash flow from investing activities		
Acquisition of fixed assets	-2 791 177	-311 237
Increasing share in subsidiaries		-44 486
Payment of dividends		-285 714
Disposal of fixed assets	40 000	17 251
Interest received	65 898	3 402
Total cash flow from investing activities	-2 685 279	-620 784
Cash flow from financing activities		
Change in overdraft facility	0	-316 625
Credit card payments	1 843	0
Long-term loans received	1 000 630	0
Loan repayments	-469 496	-877 644
Foreign exchange profit	23 551	
Interest paid	-53 844	-65 399
Repayments of principal on finance lease	-101 643	-64 117
Total cash flow from financing activities	401 041	-1 323 785
Total cash flow	474 043	1 457 543
Cash at the beginning of the period	1 765 319	307 776
Cash change	474 043	1 457 543
Cash at the end of the period	2 239 362	1 765 319

Note 23 Parent company's unconsolidated statement of changes in equity

	Share capital	Mandatory legal reserve	Retained earnings	Net profit for the year	Total owner's equity
31.12.2006	400 000	40 000	7 519 705	1 914 152	9 873 857
Retained profit			1 914 152	-1 914 152	
Dividends declared			-1 000 000		-1 000 000
Net profit for the year				4 307 397	4 307 397
31.12.2007	400 000	40 000	8 433 857	4 307 397	13 181 254
Retained profit			4 307 397	-4 307 397	
Net profit for the year				4 943 371	4 943 371
31.12.2008	400 000	40 000	12 741 254	4 943 371	18 124 625

Note 24 Parent company's corrected unconsolidated equity as of 31 December

	2008.	2007.
Parent company's adjusted unconsolidated equity	18 124 625	13 181 254
Value of subsidiary, joint and related enterprises in the parent company's unconsolidated balance sheet (negative)	-199 405	-199 405
Value of subsidiary, joint and related enterprises calculated using the equity method (positive)	1 994 752	1 565 400
Total	19 919 972	14 547 249

PROFIT DISTRIBUTION PROPOSAL

The management of AS Chemi-Pharm proposes to the general meeting that the net Group's net profit for 2008 in the amount of 5,400,390 kroons be transferred to retained earnings, after which retained earnings shall amount to 19,913,231 kroons.

Ruth Oltjer

CEO, AS Chemi-Pharm

***SIGNATURES OF THE MANAGEMENT BOARD AND
SUPERVISORY BOARD TO THE ANNUAL REPORT 2008***

The signing of the Annual Report 2008 of AS Chemi-Pharm on 21 April 2009 (report approved by general meeting of shareholders on 21 April 2009):

Vladimir Heinrichsen
Chairman of the supervisory board
(deceased)

Andres Oltjer
Member of the supervisory board

Britta Oltjer
Member of the supervisory board

Ruth Oltjer
Member of the board