

St. Gallen, December 20th, 2005

**Setila AG, Widnau in debt-restructuring moratorium
Information Regarding the Debt-Restructuring Moratorium and Invitation to the Creditors
Meeting**

Dear Creditors

With regard to the creditors meeting being held on January 25th, 2006 in CH-9443 Widnau (3 p.m. in the factory canteen, third floor of the main building of Setila AG, Widnau, door opening 2:30 p.m.) and in our quality as legally assigned administrator of Setila AG, Widnau in debt-restructuring, we now inform you about the previous development of the debt-restructuring moratorium as follows:

1. Moratorium

By order dated February 28th, 2005, the judge of the 'Kreisgericht Rheintal' granted Setila AG a provisional debt-restructuring moratorium. Provida Consulting AG, St. Gallen was appointed as provisional administrator. By order dated June 9th, 2005, the same judge granted a definitive debt-restructuring moratorium until November 30th, 2005 and appointed the provisional administrator as definitive. Until now the judge allowed the prolongation of the debt-restructuring moratorium until February 28th, 2006.

2. Main Duties and Activities of the Administrator and the Debtor during the Debt-Restructuring Moratorium

2.1 Principles

The main duties of the administrator are to register formally the debts, to assemble the claims and to submit them to the debtor for examination. Further, the administrator has to acquire the statement of assets and liabilities and to supervise the debtor's business activities.

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Immediately after appointment of the Provida Consulting AG, first talks with the responsible individuals of the Setila AG were held in order to get an overview of the actual situation.

The debtor was informed of the court assigned limitations and their rights and obligations in a moratorium. The rules regarding signatures relating to accounts were examined as well as the appropriate business situation being newly regulated and the set-up of a controlling system. Payment of old claims were clearly forbidden, new obligations result only after request and through the administrators consent.

2.2 Business Activities

With going concern activities until the end of September 2005, the debtor persecuted the objective to hold the market presence in order to achieve attractive negotiations regarding the selling of the assets.

The administrator had to partially take over management duties because the management was no longer completely occupied due to the debtors.

It was not successful in the consequence to set up a rescue company or to find interested parties who wanted to adhere to the production location Widnau. The business was therefore given up at end of September 2005 and the staff dismissed by end. Tidying and liquidation preparation work only is essentially under way since then.

The mentioned business activity during the dept-restructuring moratorium could be carried out cost-effectively. The pay and social additional costs are taken into account in the operative business.

2.3 Selling of the Assets

Normally, selling of the capitalization takes place in the liquidation stage, which follows the debt-restructuring moratorium. Because the value of the debtor is first of all dominated by the market position and the market presence, it was necessary to arrange for the selling of the main assets during the moratorium in order to intercept the constant rising asset losses. Simultaneously it was possible to try to save some employment.

The following resulted after failure of various negotiations regarding total and partial solutions.

With contract of September 15th, the assets of the sector 'Decora' have being sold to Miroglio S.p.A., I-Alba, for CHF 2.9 Mio.

The plant parts of the transformers sub-work Widnau have being sold to St. Gallisch-Appenzellische Kraftwerke AG (SAK) with contract of September 9th, 2005, for 1.3 Mio.

With contract of September 30th, the rest assets of the production plant of Setila AG (all machineries) have been sold to Iran Tak – Nakh Co. (PSI), Teheran. It is taken into account at this contract and price that the buyer is also responsible for the disposal of the not or heavily saleable machines and must vacate the business halls correspondingly well-sweptly. Unfortunately, the execution of the questionable contract started breaking off at the end of

November 2005 since according to information from the buyers the new government of Iran makes various restrictions to the buyers.

At present, the office furnishings and some smaller items are not sold yet.

3. Statement of Assets and Liabilities

Enclosed is a copy of the statement of assets and liability compiled by the administrator at the time of the commencement with explanatory remarks pertaining to the individual positions.

The debits were seized during the moratorium because of the submitted claims, books of account and the debtor's point of view. The statement of assets and liabilities will be listed in detail in an up to date version at the meeting of the creditors. Your questions in this respect may be submitted before in writing (see point 8).

4. Expected Liquidation Results

The attached status of the administrator dated February 28th, 2005 is a calculation of the presumed coverage quota for the claims of the third class creditors of an approximately 39% addition.

This quota requires specification. Due to the mentioned problems with the Iran Tak – Nak contract, the liquidation dividend for the third class creditors can change. However, we assume that the cover quota for the creditors of the third class probably should increase. However, a more reliable statement is not realistic at today's time. Nevertheless, it is important to observe that from the perspective of the creditors the out come is clearly more benign than it would have been in a bankruptcy.

5. Meeting of the Creditors

The meeting of the creditors takes place on

Wednesday, January 25th, 2006, 3 p.m. (door opening 2:30 p.m.)
in the **factory canteen, third floor of the main building of Setila AG** Viscosestrasse, CH-9443 **Widnau**

The meeting of the creditors will be held in German. In consideration of the necessary admission control, we kindly request you to come early.

You may perceive the items of the agenda from the enclosed agenda. The meeting of the creditors primarily serves the information of the creditors. A vote on the approval or rejection of the moratorium contract will not take place; this will be done in a written procedure (see 6 below). Nevertheless, the filled in declaration of consent may be submitted to the administrator subsequent to the meeting of the creditors.

Regarding the attendance at the meeting of the creditors and the carrying through of the same, we point out to you the following:

a. Admission

Only individuals who can identify themselves as creditors of Setila AG are admitted to the meeting of the creditors. Enclosed you will receive an admission card that you absolutely have to present at the entrance to the meeting on January 25th, 2006.

b. Right to Vote

At the meeting of the creditors, all creditors have the right to vote (elections for the creditor committee, liquidator). All creditors means the secured and the privileged creditors as well as the third class creditors, irrespective of whether the claim is filed on time, belated or not filed at all. Each creditor has the right to one vote regardless of the number or amount of the claim. Enclosed each creditor receives a red voting card.

The delivery of the voting card does not constitute as an acknowledgement of the filed claim or privileges against the debtor. By no means is the voting card valid for the written vote on the moratorium contract (see 6 below).

The elections regarding the creditor committee and liquidator will take place only if the moratorium contract has been accepted.

6. Consent to the Moratorium Contract / Further Steps

Enclosed you will find the moratorium contract with assignment of assets submitted by Setila AG.

For the acceptance of the moratorium, contract the consent of:

- a) the majority of the creditors of the third class who have filed their claims on time and who simultaneously represent two thirds of the decisive sum of claims

or

- b) a quarter of the creditors of the third class who have filed their claims on time and who simultaneously represent three quarters of the decisive sum of claims

is required (Art. 305 Federal Statute on Debt Enforcement and Bankruptcy).

In order to achieve the required quorums, we kindly request you to hand in subsequent to the meeting of the creditors or to deliver at the latest February 6th, 2006 to Provida Consulting AG, Schützengasse 12, 9000 St. Gallen, the moratorium contract submitted to you for examination and duly signed declaration of consent.

The creditors who have filed their claim on time receive a draft moratorium contract with a prepared declaration of consent. All other creditors receive only a draft moratorium contract without the declaration of consent, for their personal information.

7. Inspection of Files

Between January 3rd, 2006 and January 23rd, 2006, the dept-restructuring moratorium files may be inspected during usual working hours and upon appointment beforehand (Tel. +41 71 227 70 80) at our premises at Schützengasse 12 in St. Gallen.

8. Proceedings with Regard to Questions

Creditors have the possibility to ask questions at the meeting of the creditors. In order to organize the meeting in an efficient manner and to enable us to prepare eventual questions pertaining to details, we require your questions until January 23rd, 2006, at the latest (upon receipt; preferably by e-mail: pascal.straessle@provida.ch). The questions will be answered orally at the meeting of the creditors.

Yours sincerely



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Enclosures:

- Agenda
- Moratorium Status as of February 28th, 2005
- Draft of Moratorium Contract
- Declaration of Consent (yellow for creditors who filed claims on time)
- Entrance Card (green for all creditors)
- Voting Card (red for all creditors)