Company Registration No. 4169969

Stella McCartney Limited

Report and Financial Statements

31 December 2005

Stella McCartney Limited

Report and financial statements 2005

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Stella McCartney Limited

Report and financial statements 2005

Officers and professional advisers

Directors

A Babeau
J McArthur
S McCartney
H Newman
R Polet
A Willis

Secretary

Chalfen Secretaries Limited

Registered office

Chalegrove House
34-36 Perrymount Road
Haywards Heath
West Sussex
RH16 3DN

Bankers

HSBC Bank plc
40 South Road
Haywards Heath
West Sussex
RH16 4LU

Independent auditors

Deloitte & Touche LLP
Chartered Accountants
Crawley

Stella McCartney Limited

Directors' report

The directors present their annual report and the audited financial statements for the 11 month period from 1 February 2005 to 31 December 2005, together with an update of activity for the subsequent period to the date of the filing of the accounts.

Change of accounting reference date

During the period, for the purposes of being co-terminous with the ultimate parent Pinault-Printemps-Redoute, the company changed its accounting reference date from 31 January to 31 December.

Principal activity

Stella McCartney Limited is the legal entity within the worldwide Stella McCartney business that is responsible for the strategic development of the Stella McCartney brand worldwide and management (directly or through third parties) of the related businesses, in particular through the provision of design services and administration of trademarks and licenses. The company operates directly the Stella McCartney flagship store located at 30 Bruton St. London. However, the brand's substantial wholesale activities and the operation of its retail stores located at 429 West 14th Street in New York (opened in September 2002) and at 8823 Beverley Boulevard in Los Angeles (opened in September 2003) are handled through related entities whose results are not reflected in the accounts of Stella McCartney Limited. As such, the financial statements presented in this report do not reflect a worldwide financial overview of the Stella McCartney business and should not be interpreted as such.

Review of developments and future prospects

The Stella McCartney brand and business was established in April 2001, with its first collection of ready-to-wear unveiled to the world's media and leading wholesale clients in October that year. Since then, the Stella McCartney business has developed at a strong pace, and during the period ending December 2005 has achieved worldwide revenues (generated through Gucci Group companies only and excluding the revenues generated by licensing partners or other third parties) in excess of €34 million. Indicatively, if all sales were measured at retail prices, this revenue figure would suggest that the brand has a retail footprint worldwide in the region of € 120 million at the end of the 2005 year.

The Directors of Stella McCartney Limited continue to be satisfied with the progress that has been made with the Stella McCartney business during 2005, in terms of both growth in the revenue base and the reduction in losses. Operating losses of the Company have been cut three-fold during the year. The Directors believe that the overall business will reach its target of profitability by 2007. Gucci Group and Stella McCartney herself, as ultimate shareholders of the business, have expressed their satisfaction with this progress and have confirmed to the Directors their intention to continue to give the business their full support, in accordance with the agreed strategic plan for the business.

The primary product focus of the Stella McCartney business continues to be on its successful core womens ready-to-wear collections. Press coverage of these collections has been strong, and performance at retail has shown strong results. The Company is now investing more heavily behind the development of its accessories collections as well, still respecting the brand's principles to avoid use of leather and other animal products. The enlarged range of accessories is scheduled to be available in the brand's points of sale from mid 2006.

In recent years, the Company has also focussed on putting in place the foundations for strategically important and attractive partnerships with specialists in related domains of the global luxury business. The strength of the Stella McCartney brand name has ensured strong interest from a large number of potential partners. The Company has selected carefully amongst those that have demonstrated the capability to respect and promote the brand's identity and values while at the same time evincing the entrepreneurial spirit and talent necessary to develop a material worldwide business in conjunction with the Company.

In this context, the brand's first fragrance line was launched under license through YSL Beauté (part of Gucci Group) in 2003. The line continues to meet with considerable success (including receiving major international awards) and has increased its sizeable activity during the current year 2005. The brand also offers eyewear through a license with Sàfilo since January 2003.

Stella McCartney Limited

Directors' report (continued)

Review of developments (continued)

In 2004, an important license partnership has also been established with adidas for women's technical performance sportswear. The first "adidas by Stella McCartney" products became available from early 2005 through a limited number of selected adidas stores and leading adidas wholesale clients primarily in the USA, Europe and Japan. Starting from Spring 2006, distribution has been expanded to selected other regions of Asia. These collections have met with unprecedented sell-through success, reportedly becoming one of adidas' most successful-ever product launch. A newly introduced tennis line is scheduled to reach stores in February 2006.

In similar vein, H&M approached Stella McCartney in early 2005 for a major one-season collaboration broadly along the lines of their highly successful project with Karl Lagerfeld of the prior year. Not surprisingly, H&M's consumer testing had clearly confirmed the aspirational nature and brand appeal of the Stella McCartney brand. The one-off collection launched in November 2005 proved a tremendous success and sold out virtually immediately, creating extremely high awareness for the brand worldwide.

Press enquiries should be directed to Stephane Jaspar at 0207-518-3111 or sjaspar@stellamccartney.com

All euro-denominated revenue streams referred to in this report are unaudited, in line with common auditing practice.

Results and dividends

The results for the period/year are set out in the profit and loss account on page 6. The directors do not recommend the payment of a dividend (31 January 2005 - £nil).

Directors and their interests

The directors of the company during the period ended 31 December 2005 were as follows:

A Babeau
J McArthur
S McCartney
H Newman
R Polet
J Seuss (resigned 1 October 2005)
A Willis (appointed 2 October 2005)

None of the directors held any interest in the ordinary share capital of the company or any other UK group company during the period with the exception noted below:

	'A' ordinary shares of £1 each	
	31 December 2005	**31 January 2005**
S McCartney	100	100

Stella McCartney and Gucci Group each own 50% of the ordinary share capital of Stella McCartney Limited.

Auditors

The company has passed an elective resolution dispensing with the obligation to appoint auditors annually, and accordingly Deloitte & Touche LLP shall remain in office until the company or Deloitte & Touche LLP otherwise determine.

Approved by the Board of Directors and signed on behalf of the Board

J McArthur
Director
08 February 2006

Statement of directors' responsibilities

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of Stella McCartney Limited

We have audited the financial statements of Stella McCartney Limited for the period from 1 February 2005 to 31 December 2005 which comprise the profit and loss account, the balance sheet, the cash flow statement and its related notes and the related notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practices, of the state of the company's affairs as at 31 December 2005 and of its loss for the period from 1 February 2005 to 31 December 2005; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Crawley

10 February 2006

Stella McCartney Limited

Profit and loss account
Period from 1 February 2005 to 31 December 2005

	Note	Period from 1 February 2005 to 31 December 2005 £	Year ended 31 January 2005 £
Turnover	2	7,292,067	3,714,752
Cost of sales		(796,173)	(697,342)
Gross profit		6,495,894	3,017,410
Administrative expenses		(7,534,568)	(6,320,680)
Other operating income		69,643	120,581
Operating loss	3	(969,031)	(3,182,689)
Interest receivable and similar income	5	23,345	14,561
Interest payable and similar charges	6	(3,213)	(2,046)
Loss on ordinary activities before taxation		(948,899)	(3,170,174)
Tax on loss on ordinary activities	7	-	-
Retained loss for the financial period/year	15	(948,899)	(3,170,174)

All results relate to continuing operations.

There are no recognised gains or losses other than those passing through the profit and loss account and therefore no separate statement of total recognised gains and losses has been presented.

Turnover and loss on ordinary activities before taxation are wholly attributable to the company's principal activity and arises in the United Kingdom; therefore Turnover does not reflect worldwide sales of the Stella McCartney brand. UK turnover almost doubled while the operating loss was cut threefold during the financial period 1 February 2005 to 31 December 2005. Revenues from wholesale and overseas retail stores are included in the Group entity in which those sales are made, but are not reflected in the accounts presented in this report.

Stella McCartney Limited

Balance sheet
31 December 2005

	Note	31 December 2005 £	31 January 2005 £
Fixed assets			
Intangible assets	8	5,674,010	6,046,743
Tangible assets	9	2,051,415	2,186,756
Investments	10	24,510	24,510
		7,749,935	8,258,009
Current assets			
Stocks	11	403,118	537,406
Debtors	12	5,247,022	5,043,410
Cash at bank and in hand		265,551	98,590
		5,915,691	5,679,406
Creditors: amounts falling due within one year	13	(8,145,449)	(7,468,339)
Net current liabilities		(2,229,758)	(1,788,933)
Total assets less current liabilities		5,520,177	6,469,076
Capital and reserves			
Called up share capital	14	201	201
Share premium account	15	7,016,361	7,016,361
Other reserve	15	13,826,637	13,826,637
Profit and loss account	15	(15,323,022)	(14,374,123)
Total equity shareholders' funds	15	5,520,177	6,469,076

These financial statements were approved by the Board of Directors on 08 February 2006.

Signed on behalf of the Board of Directors

J McArthur
Director

Stella McCartney Limited

Cash flow statement
Period from 1 February 2005 to 31 December 2005

	Note	Period from 1 February *2005 to* 31 December 2005 £	*Year ended* 31 January 2005 £
Net cash inflow/(outflow) from operating activities	A	296,545	(472,145)
Returns on investment and servicing of finance			
Interest received		23,345	14,561
Interest paid		(3,213)	(2,046)
Net cash inflow from returns on investment and servicing of finance		20,132	12,515
Capital expenditure and financial investment			
Purchase of tangible assets		(133,669)	(92,411)
Purchase of intangible assets		(16,047)	(123,921)
Net cash outflow from capital expenditure and financial investments		(149,716)	(216,332)
Increase/(decrease) in cash	B, C	166,961	(675,962)

Stella McCartney Limited

Notes to the cash flow statement
Period from 1 February 2005 to 31 December 2005

A. Reconciliation of operating loss to net cash inflow/(outflow) from operating activities

	Period from 1 February 2005 to 31 December 2005 £	Year ended 31 January 2005 £
Operating loss	(969,031)	(3,182,689)
Depreciation charges	269,010	270,099
Amortisation	388,780	413,938
Increase in creditors	677,110	4,035,125
Decrease/(increase) in stock	134,288	(106,540)
Increase in debtors	(203,612)	(1,902,078)
Net cash inflow/(outflow) from operating activities	296,545	(472,145)

B. Analysis of movement in net funds

	Period from 1 February 2005 to 31 December 2005 £	Year ended 31 January 2005 £
Changes in net funds resulting from cash flows	166,961	(675,962)
Net funds at start of year	98,590	774,552
Net funds at end of year	265,551	98,590

C. Reconciliation of net cash flow to movement in net funds

	At 1 February 2005 £	Cash flow £	At 31 December 2005 £
Cash at bank and in hand	98,590	166,961	265,551

Stella McCartney Limited

Notes to the accounts
Period from 1 February 2005 to 31 December 2005

1. Accounting policies

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Consolidation

As the company is consolidated within the accounts of Pinault-Printemps-Redoute, it has therefore taken advantage of the exemption provided in s228 of the Companies Act 1985 not to prepare group accounts. Therefore, these financial statements present information about the company as an individual undertaking and not about its group.

Turnover

The turnover shown in the profit and loss account, with the exception of royalty income, represents the invoiced value of goods and services supplied, exclusive of value added tax and settlement discounts. Royalties are recognised when receivable. Turnover does not reflect the worldwide sales of the Stella McCartney brand and therefore it is not indicative of the scale, resonance or momentum of the brand on a consolidated worldwide basis.

Intangible fixed assets

Trademarks are capitalised at cost and are amortised over their useful economic lives. The directors estimate these to be between five and twenty years.

Tangible fixed assets

Fixed assets are stated at cost less depreciation and, when appropriate, provision for impairment. Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Leasehold improvements	7% – 33% per annum
Fixtures and fittings	20% per annum
Computer equipment	20% per annum

Investments

Investments are stated at cost, less any provision for impairment.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Operating leases

Rentals paid under operating leases are charged on a straight line basis over the lease term.

Deferred taxation

Deferred taxation is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Notes to the accounts
Period from 1 February 2005 to 31 December 2005

1. Accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All exchange differences are taken to the profit and loss account.

Pension scheme arrangements

The company contributes to employees' personal pension schemes. Contributions are charged to the profit and loss account in the period in which they are made.

2. Turnover

Turnover and loss on ordinary activities before taxation are wholly attributable to the company's principal activity and arises in the United Kingdom.

3. Operating loss

	Period from 1 February 2005 to 31 December 2005 £	Year ended 31 January 2005 £
Operating loss is stated after charging/(crediting):		
Depreciation charge for the period/year	269,010	270,099
Amortisation charge for the period/year	388,780	413,938
Auditors' remuneration:		
audit fees	4,100	5,890
Operating leases – other	448,647	476,077
Loss/(gain) on foreign exchange transactions	66,759	(29,129)

4. Information regarding directors and employees

	Period from 1 February 2005 to 31 December 2005 £	Year ended 31 January 2005 £
Directors' emoluments		
Aggregate emoluments	514,514	696,747

	£	£
Total remuneration stated above includes the following amount paid to the highest paid director:		
Aggregate emoluments	514,514	553,467

Notes to the accounts
Period from 1 February 2005 to 31 December 2005

4. Information regarding directors and employees (continued)

	Period from 1 February 2005 to 31 December 2005 No.	Year ended 31 January 2005 No.
Average number of persons employed (including executive directors) during the period/year:		
Design	7	7
Administration	23	20
	30	27

	£	£
Staff costs (including executive directors) during the period/year		
Wages and salaries	1,819,197	2,120,036
Social security costs	181,895	186,866
Other pension costs	21,075	3,496
	2,022,167	2,310,398

5. Interest receivable and similar income

	Period from 1 February 2005 to 31 December 2005 £	Year ended 31 January 2005 £
Bank interest receivable	23,345	14,561

6. Interest payable and similar charges

	Period from 1 February 2005 to 31 December 2005 £	Year ended 31 January 2005 £
Bank interest payable	-	2
Interest payable to group companies	3,213	2,044
	3,213	2,046

Stella McCartney Limited

Notes to the accounts
Period from 1 February 2005 to 31 December 2005

7. Tax on loss on ordinary activities

(a) Tax on loss on ordinary activities

No current tax charge has been recognised in the financial statements as the company has taxable losses.

At 31 December 2005, there is an unprovided deferred tax asset as follows:

	Period from 1 February 2005 to 31 December 2005 £	Year ended 31 January 2005 £
Tax effect of timing differences due to:		
Tax losses carried forward	4,005,214	3,822,047
Accelerated capital allowances	(78,904)	(113,352)
Total	3,925,310	3,708,695

The amount has not been recognised in the financial statements on the basis that there is insufficient evidence that the asset will be recovered through future taxable profits.

(b) Factors affecting current tax charge for the period/year

The tax assessed for the period/year is lower than that resulting from applying the standard rate of corporation tax in the UK 30% (31 January 2005 - 30%). The differences are explained below:

	Period from 1 February 2005 to 31 December 2005 £	Year ended 31 January 2005 £
Loss on ordinary activities before taxation	(948,899)	(3,170,174)
Current tax charge		
Tax on loss on ordinary activities at standard rate of corporation tax in the UK	(284,670)	(951,052)
Effects of:		
Disallowed expenses and non-taxable income	119,634	127,181
Capital allowances in excess of depreciation	(18,132)	121,500
Tax losses not utilised	183,168	702,371
Total actual amount of current tax	-	-

Notes to the accounts
Period from 1 February 2005 to 31 December 2005

8. Intangible fixed assets

	Trademarks
	£
Cost	
At 1 February 2005	7,441,016
Additions	16,047
At 31 December 2005	7,457,063
Amortisation	
At 1 February 2005	1,394,273
Charge for the period	388,780
At 31 December 2005	1,783,053
Net book value	
At 31 December 2005	5,674,010
At 31 January 2005	6,046,743

9. Tangible fixed assets

	Leasehold *improvements*	Fixtures and *fittings*	Computer *equipment*	Total
	£	£	£	£
Cost				
At 1 February 2005	2,337,641	159,237	156,499	2,653,377
Additions	50,900	54,715	28,054	133,669
At 31 December 2005	2,388,541	213,952	184,553	2,787,046
Accumulated depreciation				
At 1 February 2005	365,872	48,987	51,762	466,621
Charge for the period	206,338	32,151	30,521	269,010
At 31 December 2005	572,210	81,138	82,283	735,631
Net book value				
At 31 December 2005	1,816,331	132,814	102,270	2,051,415
At 31 January 2005	1,971,769	110,250	104,737	2,186,756

Notes to the accounts
Period from 1 February 2005 to 31 December 2005

10. *Investments*

	31 December 2005 £	31 January 2005 £
Cost and net book value at 31 December/31 January	24,510	24,510

The investment represents the cost of a 100% ordinary share capital holding in Stella McCartney France SAS, a company incorporated in France, and the cost of a 100% ordinary share capital holding in Stella McCartney America Inc., a company incorporated in the USA.

11. Stocks

	31 December 2005 £	31 January 2005 £
Finished goods and goods for resale	403,118	537,406

12. *Debtors*

	31 December 2005 £	31 January 2005 £
Trade debtors	5,345	15,282
Amounts due from group undertakings	5,005,083	4,659,793
Other debtors	95,571	205,881
Prepayments	141,023	162,454
	5,247,022	5,043,410

13. Creditors: amounts falling due within one year

	31 December 2005 £	31 January 2005 £
Trade creditors	199,074	126,706
Amounts owed to group undertakings	7,231,516	7,103,828
Other taxes and social security	*65,738*	*59,043*
Accruals and deferred income	649,121	178,762
	8,145,449	7,468,339

Notes to the accounts
Period from 1 February 2005 to 31 December 2005

14. Called up share capital

	31 December 2005 £	31 January 2005 £
Authorised, called up, allotted and fully paid:		
100 'A' ordinary shares of £1 each	100	100
100 'B' ordinary shares of £1 each	100	100
1 Preference share of £1 each	1	1
	201	201

The 'A' ordinary shares have no rights to dividends other than that recommended by the directors. The shares carry 50% of the voting rights of the company and have a preferential right to a return of capital on a winding up of the company.

The 'B' ordinary shares have no rights to dividends other than that recommended by the directors. The shares carry 50% of the voting rights of the company and have no preferential rights to a return of capital on a winding up of the company.

The issued preference share has no rights to a dividend, is non-voting and has no right to receive notice of or attend any general meeting of the company.

15. Combined reconciliation of movements in equity shareholders' funds and statement of movements on reserves

	Share capital £	Share *premium* account £	Other reserve - *capital* contribution £	Profit *and loss* account £	Total Period from 1 February 2005 to 31 December 2005 £	Total Year ended 31 January 2005 £
Opening equity shareholders' funds	201	7,016,361	13,826,637	(14,374,123)	6,469,076	9,639,250
Loss for the financial period/year	-	-	-	(948,899)	(948,899)	(3,170,174)
Closing equity shareholders' funds	201	7,016,361	13,826,637	(15,323,022)	5,520,177	6,469,076

16. Financial commitments

At 31 December 2005 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings 31 December 2005 £	Land and buildings 31 January 2005 £
Expiring after five years	490,500	490,500

Notes to the accounts
Period from 1 February 2005 to 31 December 2005

17. Related party transactions

During the period, transactions were entered into, in the ordinary course of business, with the following fellow Gucci Group undertakings:

Boucheron UK
Alexander McQueen Trading
Gucci Group NV
Gucci Logistica S.p.A.
G.F. Services S.r.l.
Luxury Goods International S.A.
Stella McCartney America Inc.
Stella McCartney France SAS
Bottega Veneta SRL
SMC Parfums
GF Logistica S.p.A.
Gucci (UK) Limited
Gucci Services Limited
Guccio Gucci

The nature and amounts of the transactions are as follows:

The company recharged operating expenses totalling £172,877 (31 January 2005 - £1,170,342). At the period end the amount due was £202,458 (31 January 2005 - £2,521,628).

The company made purchases and incurred operating expenses recharges totalling £3,765,561 (31 January 2005 - £4,281,234). At the period end the amount owed was £7,231,516 (31 January 2005 - £6,869,513).

The company billed £1,375,309 (31 January 2005 - £2,783,622), for royalty income. The amount due at the period end was £1,376,125 (31 January 2005 - £2,153,850).

The company billed £3,426,500 to Gucci Group NV (31 January 2005 - £nil) for other licence related income. The amount due at the period end was £3,426,500 (31 January 2005 - £nil).

18. Ultimate holding company and controlling party

The immediate parent company was Gucci Group NV, a company incorporated in the Netherlands.

The ultimate parent company and controlling entity was Pinault-Printemps-Redoute, a company incorporated in France.

Pinault-Printemps-Redoute is the parent undertaking of the smallest and largest group to consolidate these financial statements. Consolidated accounts including the results of the company are available from 10 Avenue Hoche, 75381, Paris Cedex 08.