Company Registration No. 4169969

Stella McCartney Limited

Report and Financial Statements

31 December 2006

Stella McCartney Limited

Report and financial statements 2006

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Officers and professional advisers

Directors

A Babeau
C Solomon
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

KPMG Audit Plc
Chartered Accountants
8 Salisbury Square
London
EC4Y 8BB

Stella McCartney Limited

Directors' report (continued)

The directors present their annual report and the audited financial statements for the year ending 31 December 2006, together with an update of activity for the subsequent period to the date of the filing of the accounts

Principal activity

The profit and loss account for the year is included on page 9

The principal activity of the company is the strategic development of the Stella McCartney brand and also the operation of a UK retail business

Business Review

The Directors of Stella McCartney Limited are pleased with the progress that has been made with the Stella McCartney business during 2006, and particularly with the results of Stella McCartney Limited which recorded a profit after the previous years characterised by the strong investments necessary to properly launch and support a new brand in the worldwide arena In 2006 Stella McCartney Limited posted an operating profit of £395,000, which compares to a £1 2m operating loss in the 11-months period of 2005, and to the £3 2m operating loss posted in 2004

Gucci Group and Stella McCartney herself, as ultimate shareholders of the business, have expressed their satisfaction with this result 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

Company structure

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

Strategy

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

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 has recently been 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 favourably meeting our customers' expectations

Also, 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 has met with considerable success (including receiving major international awards) and in summer 2006 a second fragrance – Stella In Two – was successfully launched

Directors' report (continued)

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 during 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 adidas' most successful-ever product launch

Given the structure of the Stella McCartney business and the Company within that, management do not consider it meaningful to discuss KPIs within the statutory accounts of Stella McCartney Limited other than those relating to turnover and profit included in the profit and loss accounts on page 9

Performance for the year

Following the first years characterised by the strong investment necessary to properly launch and support a new brand in the worldwide arena, 2006 saw Stella McCartney Limited post an operating profit of £395,000, which compares to a £1 2m operating loss in the 11-months period of 2005, and to the £3 2m operating loss posted in 2004

This is the result of both

A The improved trading performance of the London flagship store, fuelled - as, more in general, the whole Stella McCartney business - by continuously improving designed and merchandised collections over 50% up compared to the previous 12-months period The new accessory lines, the strong focus of the team in constantly reviewing the merchandise ranges, the successful advertising and promotional campaigns have all contributed to this improvement, also supported by a strong logistic and distribution network

B The increased royalty income, which reflects the growing success of the strategic partnerships put in place in the past few years

Directors note that this turnaround is not unexpected It is instead the result of the clear strategy developed a few years ago and the management focus in consistently pursuing it and executing the necessary actions

The Directors of Stella McCartney Limited are satisfied with the progress that has been made with the Stella McCartney business during 2006, and particularly with the results of Stella McCartney Limited which recorded a profit after the previous years characterised by the strong investments needed to adequately launch a new brand Gucci Group and Stella McCartney herself, as ultimate shareholders of the business, have expressed their satisfaction with this result 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

People

Mention has to be made of the company's loyal and hard working staff Directors note that it would not be possible to achieve such results without the energy and dedication of our management and staff, providing customers with a pleasant shopping experience and driving sales

Risks

The principal risk to the business remains the unpredictable market conditions as a fashion and lifestyle company every new season confronts Stella McCartney with the risk that the new collections may be received less positively than anticipated Constant market observation and regular attendance of international fashion events ensure that trends are identified early on to serve as a basis for the collection development

Another risk lies in trademark protection Trademark protection is enforced mainly by securing and defending industrial property rights in various product categories and countries

Directors' report (continued)

Outlook

Management feels there is a significant opportunity to increase performance through leveraging the existing assets of people, brand, products, range, clients, taking into account risks mentioned above

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 year are set out in the profit and loss account on page 9 The directors do not recommend the payment of a dividend (31 December 2005 - £nil)

Directors and their interests

The directors of the company during the period ended 31 December 2006 were as follows

A Babeau	
J McArthur	(Resigned 11 May 2007)
S McCartney	
H Newman	
R Polet	
C Solomon	(Appointed 7 June 2007)
A Willis	

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 2006	31 December 2005
S McCartney	100	100

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

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Political and charitable contributions

The Company has not made any political or significant charitable donations or incurred any political expenditure during the year The report does not reflect Stella McCartney's personal charity work or donations

Stella McCartney Limited

Directors' report (continued)

Auditors

KPMG Audit Plc were appointed as auditors of the company during the year to replace Deloitte and Touche LLP The company has passed an elective resolution dispensing with the obligation to appoint auditors annually, and accordingly KPMG Audit Plc shall remain in office until the company or KPMG Audit Plc otherwise determine

Going Concern

The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £1,863,342 which the directors believe to be appropriate for the following reasons The company is dependent for its working capital on funds provided to it by Gucci Group NV, the company's parent company Gucci Group NV has provided the company with an undertaking that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the company and in particular will not seek repayment of the amounts currently made available This should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment

Based on this undertaking the directors believe that it remains appropriate to prepare the financial statements on a going concern basis The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate

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

A Babeau
Director

October 1, 2007

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The company financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985 They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

Independent auditors' report to the members of Stella McCartney Limited

We have audited the financial statements (the "financial statements") of Stella McCartney Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the cash flow statement and the related notes 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 auditor's 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

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 6

Our responsibility is to audit the financial statements in accordance with relevant 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 to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit 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 judgments 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

Independent auditors' report to the members of Stella McCartney Limited (continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31st December 2006 and of the company's profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG Audit Plc

KPMG Audit Plc 1 October **2007**

Chartered Accountants

Registered Auditor

Stella McCartney Limited

Profit and loss account
For year ended 31 December 2006

	Note	Year ended 31 December 2006 £	Period from 1 February 2005 to 31 December 2005 (Restated) £
Turnover	2	9,122,502	7,292,067
Cost of sales		(1,111,576)	(796,173)
Gross profit		8,010,926	6,495,894
Administrative expenses		(7,685,293)	(7,766,114)
Other operating income		69,312	69,643
Operating profit/(loss)	3	394,945	(1,200,577)
Interest receivable and similar income	6	26,537	23,345
Interest payable and similar charges	7	(240,804)	(3,213)
Profit/(Loss) on ordinary activities before taxation		180,678	(1,180,445)
Tax on profit/loss on ordinary activities	8	-	-
Retained profit/(loss) for the financial year/period	16	180,678	(1,180,445)

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 profit 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 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
At 31 December 2006

	Note	31 December 2006 £	31 December 2005 (Restated) £
Fixed assets			
Intangible assets	9	5,338,439	5,674,010
Tangible assets	10	1,969,702	2,051,415
Investments	11	24,510	24,510
		7,332,651	7,749,935
Current assets			
Stocks	12	500,625	403,118
Debtors	13	7,766,680	5,247,022
Cash at bank and in hand		1,952,534	265,551
		10,219,839	5,915,691
Creditors: amounts falling due within one year	14	(12,083,181)	(8,376,995)
Net current liabilities		(1,863,342)	(2,461,304)
Total assets less current liabilities		5,469,309	5,288,631
Capital and reserves			
Called up share capital	15	201	201
Share premium account	16	7,016,361	7,016,361
Other reserve	16	13,826,637	13,826,637
Profit and loss account	16	(15,373,890)	(15,554,568)
Total equity shareholders' funds	16	5,469,309	5,288,631

These financial statements were approved by the Board of Directors on October 1st 2007

Signed on behalf of the Board of Directors

A Babeau
Director

Stella McCartney Limited

Cash flow statement
For year ended 31 December 2006

	Note	Year ended 31 December 2006 £	Period from 1 February 2005 to 31 December 2005 (restated) £
Net cash (outflow)/inflow from operating activities	A	(4,480,445)	296,545
Returns on investment and servicing of finance			
Interest received		26,537	23,345
Interest paid		(105,860)	(3,213)
Net cash (outflow)/inflow from returns on investment and servicing of finance		(79,323)	20,132
Capital expenditure and financial investment			
Purchase of intangible assets		(79,598)	(16,047)
Purchase of tangible assets		(273,651)	(133,669)
Net cash outflow from capital expenditure and financial investments		(353,249)	(149,716)
Net cash (outflow)/inflow before financing		(4,913,017)	166,961
Financing			
Loans received from group undertakings		6,600,000	-
Net inflow from Financing		6,600,000	-
Increase in cash in the year/period	B, C	1,686,983	166,961

Notes to the cash flow statement
For year ended 31 December 2006

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

	Year ended 31 December 2006 £	Period from 1 February 2005 to 31 December 2005 (Restated) £
Operating profit/(loss)	394,339	(1,200,577)
Loss on disposal of fixed assets	5,941	-
Depreciation charges	349,423	269,010
Amortisation	415,169	388,780
(Decrease)/Increase in creditors	(3,028,758)	908,656
(Increase)/Decrease in stock	(97,507)	134,288
Increase in debtors	(2,519,658)	(203,612)
Net cash (outflow)/inflow from operating activities	(4,480,445)	296,545

B. Reconciliation of net cash flow to movement in net debt

	Year ended 31 December 2006 £	Period from 1 February 2005 to 31 December 2005 £
Increase in cash in year/period	1,686,983	166,961
Cash inflow from increase in debt	(6,600,000)	-
Change in net debt/funds resulting from cash flows	(4,913,017)	166,961
Opening net funds	265,551	98,590
Closing net debt/funds	(4,647,466)	265,551

C. Analysis of net debt

	At 1 January 2006 £	Cashflow £	At 31 December 2006 £
Cash at bank and in hand	265,551	1,686,983	1,952,534
Debt due within 1 year (included within intercompany creditors – See note 14)	-	(6,600,000)	(6,600,000)
Net funds/(debt)	265,551	(4,913,017)	(4,647,466)

Notes to the accounts
For year ended 31 December 2006

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except for FRS 20 'Share-based payments', which has been adopted for the first time

The accounting policies under the new standard is set out below together with an indication of the effects of their adoption The corresponding amounts in these financial statements are restated in accordance with the new policies

Accounting convention

The financial statements are prepared under the historical cost convention

Consolidation

As the company is consolidated within the accounts of Gucci Group NV, 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% - 33% 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 as incurred over the lease term

Notes to the accounts
For year ended 31 December 2006

1. **Accounting policies (continued)**

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

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

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

Share based payments

Certain employees and Directors of the Company were granted Gucci Group Share Appreciation Rights (SARs) by their parent company, which constitute cash-settled share based payments

For cash settled share based payment transactions, the fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to payment The fair value is measured based on an option pricing model taking in to account the terms and conditions upon which the instruments were granted The liability is revalued at each balance sheet date and settlement date with any changes to fair value being recognised in the profit and loss account

Long term incentive plans

In 2006, certain executives of the Company were offered an annual bonus grant which is based on the achievement of financial targets by its parent Company, Gucci Group, over the course of a three year time frame

The obligation of the Company over the term of this plan is estimated and its costs are spread over the length of the plan (3 years)

Notes to the accounts
For year ended 31 December 2006

1b. Change in accounting policy

The company has adopted FRS 20, 'Share-based Payment' The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly

As a result, comparative figures for the period ended 31 December 2005 have been adjusted as follows

	Profit and Loss account £	Net Assets £
As previously reported	(948,899)	5,520,177
Effect of the change from accounting for 'share-based payments'	(231,546)	(231,546)
As restated	(1,180,445)	5,288,631

2. Turnover

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

3. Operating profit/(loss)

	Year ended 31 December 2006 £	Period from 1 February 2005 to 31 December 2005 £
Operating profit/(loss) is stated after charging/(crediting).		
Depreciation charge for the year/period	349,423	269,010
Amortisation charge for the year/period	415,169	388,780
Auditors' remuneration		
audit fees	7,970	4,100
Operating leases – other	490,811	448,647
Loss on disposal of fixed assets	5,941	-
Loss on foreign exchange transactions	83,504	66,759

Notes to the accounts
For year ended 31 December 2006

4. Information regarding directors and employees

	Year ended 31 December 2006 £	Period from 1 February 2005 to 31 December 2005 £
Directors' emoluments		
Aggregate emoluments	952,269	514,514

	£	£
Total remuneration stated above includes the following amount paid to the highest paid director:		
Aggregate emoluments	952,269	514,514

Retirement benefits are accruing to one Director under a money purchase scheme The aggregate of emoluments included Company pension contributions of £208,813 (2005 £nil) to a money purchase scheme on her behalf

During the year, the highest paid director, being the only Director holding share options, exercised Share Appreciation Rights (SARs) (see note 5)

Certain employees/Directors were granted Gucci Group Share Appreciation Rights (SARs) which constitute cash-settled share-based payments

The Directors who held office at the end of the period had the following outstanding rights

	Number of options			
	At start of year	At end of year	Exercise price €/c	Exercise price £/p
Stella McCartney	27,700	2,200	44 13	29 64

	Year ended 31 December 2006 No.	Period from 1 February 2005 to 31 December 2005 No
Average number of persons employed (including executive directors) during the year/period:		
Design	7	7
Administration	21	23
	28	30

Stella McCartney Limited

Notes to the accounts
For year ended 31 December 2006

4. Information regarding directors and employees (continued)

	Year ended 31 December 2006 £	Period from 1 February 2005 to 31 December 2005 (Restated) £
Staff costs (including executive directors) during the year/period		
Wages and salaries	3,028,556	1,819,197
Long term incentive plan	194,394	-
Share based payments (see note 5)		
- Buy-back program	780,626	-
- Change in the net liability and exercise of options	(103,225)	231,546
Social security costs	259,306	181,895
Other pension costs	259,516	21,075
	4,419,173	2,253,713

5. Cash-settled share-based payment transactions

The Gucci Group grants certain Stella McCartney Ltd employees Share Appreciation Rights (SARs) which constitute cash-settled share-based plans In addition, the Gucci Group has committed to an early buy back programme of SARs

The nature and principle characteristics of these plans are presented below

Plans for SARs

SARS outstanding as at 01 01 06	38,700		
Weighted Average exercise price (in €/£)		*€47 52*	*£31 90*
SARS granted in 2006	Nil		
Weighted Average exercise price (in €/£)		*N/A*	*N/A*
SARS exercised in 2006	1,500		
Weighted Average exercise price (in €/£)		*€40 18*	*£26 98*
SARS covered by the early buyback program in 2006	30,600		
Weighted Average exercise price (in €/£)		*€49 17*	*£33 02*
SARS expired/forfeited in 2006	Nil		
Weighted Average exercise price (in €/£)		*N/A*	*N/A*
SARs outstanding as of 31 12 2006	6,600		
Weighted Average exercise price (in €/£)		*€41 50*	*£27 86*
SARs exercisable as of 31 12 2006	Nil		
Weighted Average exercise price (in €/£)		*N/A*	*N/A*

Notes to the accounts
For year ended 31 December 2006

5. Cash-settled share-based payment transactions (continued)

All SARs plans have a term of 10 years commencing on the grant date

SARs vest at a rate of 20% per full year of presence, except on redundancy (excluding dismissal for gross negligence or misconduct) when all rights vest immediately If an employee is dismissed for gross negligence or misconduct, all rights are lost

The SAR exercise price is determined by applying price-earnings ratios for a basket of comparable companies to the results of the Gucci Group

The weighted average exercise price of SARs outstanding as of 31 December 2006 range between €40 18 to €54 68 And the weighted average residual contractual term is 7 7 years

The fair value of services rendered by beneficiaries is recalculated at each balance sheet date by an independent expert using an option valuation model corresponding to the intrinsic value, which is then adjusted for the time value of money

The fair value of the share appreciation rights at grant date is determined using a model such as the Black Scholes model with a trinomial algorithm The model inputs included an expected volatility of 23%, and expected dividends of between €2 30 and €3 57 The fair value of the liability is remeasured at each balance sheet date and at settlememt date

The intrinsic value of the remaining SARs at 31st December 2006 is nil

The total expenses recognised for the period arising from share based payments are as follows

	Year ended 31 December 2006 £	Period from 1 February 2005 to 31 December 2005 £
Cash settled share based payments	704,226	231,546
Total carrying amount of liabilities	908,947	231,546

The total profit recognised in 2006 in respect of SARs is £103,225 (£231,546 charge in 2005) In addition, the Gucci Group has committed to an early buy back programme of SARs Accordingly an expense of £780,626 was recorded on the period

The carrying amount of the SAR liability as of 31 December 2006 is £908,947, including £780,626 related to the 2006 cash out program (exercised SARs paid in 2007 part of the early buy-back program)

Notes to the accounts
For year ended 31 December 2006

6. Interest receivable and similar income

	Year ended 31 December 2006 £	Period from 1 February 2005 to 31 December 2005 £
Bank interest receivable	26,537	23,345

7. Interest payable and similar charges

	Year ended 31 December 2006 £	Period from 1 February 2005 to 31 December 2005 £
Interest payable to group companies	240,804	3,213

Notes to the accounts
For year ended 31 December 2006

8. Tax on profit on ordinary activities

(a) Tax on profit on ordinary activities

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

At 31 December 2006, there is an unprovided deferred tax asset as follows

	Year ended 31 December 2006 £	Period from 1 February 2005 to 31 December 2005 (Restated) £
Tax effect of timing differences due to		
Tax losses carried forward	3,675,763	3,823,789
Accelerated capital allowances	79,351	(78,904)
Total	3,755,114	3,744,885

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 The above amounts are all tax amounts

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

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

	Year ended 31 December 2006 £	Period from 1 February 2005 to 31 December 2005 (Restated) £
Profit/(Loss) on ordinary activities before taxation	180,678	(1,180,445)
Current tax charge/(credit)		
Tax on profit/(loss) on ordinary activities at standard rate of corporation tax in the UK	54,203	(354,134)
Effects of		
Disallowed expenses and non-taxable income	105,322	119,634
Temporary differences relating to fixed assets not recognised	(40,254)	(18,132)
Utilisation of tax losses previously not recognised/Tax losses not recognised	(119,271)	252,632
Total actual amount of current tax	-	-

Notes to the accounts
For year ended 31 December 2006

9. Intangible fixed assets

	Trademarks
	£
Cost	
At 1 January 2006	7,457,063
Additions	79,598
At 31 December 2006	7,536,661
Amortisation	
At 1 January 2006	1,783,053
Charge for the period	415,169
At 31 December 2006	2,198,222
Net book value	
At 31 December 2006	5,338,439
At 31 December 2005	5,674,010

10. Tangible fixed assets

	Leasehold improvements	Fixtures and fittings	Computer equipment	Total
	£	£	£	£
Cost				
At 1 January 2006	2,388,541	213,952	184,553	2,787,046
Additions	20,868	203,253	49,530	273,651
Disposals	-	(9,393)	(1,579)	(10,972)
At 31 December 2006	2,409,409	407,812	232,504	3,049,725
Accumulated depreciation				
At 1 January 2006	572,210	81,138	82,283	735,631
Disposals		(4,296)	(735)	(5,031)
Charge for the period	264,472	45,582	39,369	349,423
At 31 December 2006	836,682	122,424	120,917	1,080,023
Net book value				
At 31 December 2006	1,572,727	285,388	111,587	1,969,702
At 31 December 2005	1,816,331	132,814	102,270	2,051,415

Notes to the accounts
For year ended 31 December 2006

11. Investments

	31 December 2006 £	31 December 2005 £
Cost and net book value at 31 December	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

12. Stocks

	31 December 2006 £	31 December 2005 £
Finished goods and goods for resale	500,625	403,118

13. Debtors

	31 December 2006 £	31 December 2005 £
Trade debtors	62,670	5,345
Amounts due from group undertakings	7,334,536	5,005,083
Other debtors	217,540	95,571
Prepayments	151,934	141,023
	7,766,680	5,247,022

14. Creditors: amounts falling due within one year

	31 December 2006 £	31 December 2005 (Restated) £
Trade creditors	159,969	199,074
Amounts owed to group undertakings	8,831,843	7,231,516
Other taxes and social security	75,889	65,738
Accruals and deferred income	3,015,480	880,667
	12,083,181	8,376,995

'Amounts owed to group undertakings' includes a £6 6m loan repayable in less than 1 year

Notes to the accounts
For year ended 31 December 2006

15. Called up share capital

	31 December 2006 £	31 December 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 no 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

16. 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 Year ended 31 December 2006 £	Total Period from 1 February 2005 to 31 December 2005 (Restated) £
Opening equity shareholders' funds	201	7,016,361	13,826,637	(15,323,022)	5,520,177	6,469,076
Prior year adjustment (note 1b)				(231,546)	(231,546)	
At beginning of year as restated	201	7,016,361	13,826,637	(15,554,568)	5,288,631	6,469,076
Profit/(Loss) for the financial year/period	-	-	-	180,678	180,678	(948,899)
Prior year adjustment (note 1b)	-	-	-			(231,546)
Closing equity shareholders' funds	201	7,016,361	13,826,637	(15,373,890)	5,469,309	5,288,631

Notes to the accounts
For year ended 31 December 2006

17. Financial commitments

At 31 December 2006 the company had annual commitments under non-cancellable operating leases as follows

	Land and buildings	
	31 December 2006	31 December 2005
	£	£
Expiring after five years	490,500	490,500

18. Related party transactions

During the year transactions were entered into, in the ordinary course of business, with the following fellow Gucci group undertakings

Alexander McQueen Trading Limited
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
YSL Beaute Ltd
SMC Parfums
GF Logistica S p A
Gucci (UK) Limited
Gucci Services Limited
Guccio Gucci S p A

The nature and amounts of the transactions are as follows

The company recharged operating expenses totalling £3,557,096 (31 December 2005 - £172,877) At the year end the amount due was £3,341,922 (31 December 2005 - £202,458)

The company made purchases and incurred operating expenses recharges totalling £5,322,828 (31 December 2005 - £3,765,561) At year end the amount owed was £2,330,428 (31 December 2005 - £7,231,516)

The company billed £5,783,070 (31 December 2005 - £4,801,809), for royalty and other license-related income The amount due at year end was £3,992,614 (31 December 2005 - £4,802,625)

The company was provided with working capital loans of £6,600,000 (31 December 2005 – £Nil) The amount owed at the period end was £6,600,000 (31 December 2005 – £Nil)

19. 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

Notes to the accounts
For year ended 31 December 2006

20. Subsequent event

The UK corporation tax rate will be reduced from 30% to 28% from 1 April 2008 This change is not expected to have a material effect on the company