Registered No. 4169969

STELLA McCARTNEY LIMITED
(FORMERLY PRECIS (1995) LIMITED)

Annual report

For the period ended 31 January 2002

Stella McCartney Limited

Annual report for the period ended 31 January 2002

Directors and advisers

Directors
Domenico De Sole
Robert Singer
Stella McCartney
James McArthur
James Seuss
Helen Newman

Secretary and registered office
Reed Smith Corporate Services Limited
Minerva House
Montague Close
London
SE1 9BB

Solicitors
Reed Smith Warner Cranston
Minerva House
Montague Close
London
SE1 9BB

Registered auditors
PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

Bankers
HSBC
129 New Bond Street
London
W1A 2JA

Directors' report for the period ended 31 January 2002

The directors present their first report and the audited financial statements of the company for the period ended 31 January 2002. The company was incorporated on 28 February 2001 as Precis (1995) Limited before the name of the company was changed by special resolution to Stella McCartney Limited on 28 May 2001.

Principal activity

The principal activity of the company in the period under review was design services.

Review of business

The results for the period are set out in the profit and loss account on page 5.

Both the level of business and the period end financial position were in line with management's expectations based on an agreed business plan and budget. Gucci Group have committed to providing the company working capital callable in accordance with this plan and have contributed US$6m in the current financial period.

During the next financial year the company will begin receiving royalty income on wholesale business. A retail store was opened in London in April 2003.

Directors

The directors of the company during the period ended 31 January 2002 were as follows:

Peregrine Secretarial Services Limited (resigned on 6 April 2001)
Domenico De Sole (appointed 11 April 2001)
Robert Singer (appointed 11 April 2001)
Stella McCartney (appointed 6 April 2001)
James McArthur (appointed 11 April 2001)
James Seuss (appointed 6 April 2001)

On 29 July 2002 Helen Newman was appointed a director of the company.

Directors interests

None of the directors held any interest in the ordinary share capital of the company during the period with the exception noted below.

	Date of appointment	31 January 2002
Stella McCartney – 'A' ordinary shares of £1 each	100	100

The interests of Domenico De Sole, who is a director of the ultimate parent company, Gucci Group NV, are shown in the annual report of that company.

Post balance sheet events

Since the end of the year Gucci Group have contributed further funding as part of their commitment to provide working capital callable in accordance with an agreed business plan and budget. This funding is necessary to enable the company to pay its liabilities as they fall due.

In March 2002 the company acquired 100% of the ordinary share capital of Stella McCartney France SAS, a newly formed company incorporated in France, for €40,000. Its principal activity is the design of clothing.

Directors' responsibilities statement

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 and of the profit or loss of the company for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the period ended 31 January 2002 and that applicable accounting standards have been followed.

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 1985. 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.

By order of the board

James McArthur
Director

Independent auditors' report to the members of Stella McCartney Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cashflow statement and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of the directors and the auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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 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 is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with auditing standards 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 of the state of the company's affairs at 31 January 2002 and of the loss and cashflows for the period then ended, and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London 25 July 2003.

Profit and loss account
for the period ended 31 January 2002

	Notes	Period ended 31 January 2002 £
Operating expenses		(2,756,384)
Loss on ordinary activities before taxation	4	**(2,756,384)**
Taxation	5	-
Loss for the financial period		**(2,756,384)**

All amounts relate to activities which commenced during the period.

The company had no gains or losses than those included in the losses above. Therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before taxation and loss for the period stated above and their historical cost equivalents.

Balance Sheet
At 31 January 2002

	Notes	31 January 2002
		£
Fixed assets		
Intangible assets	6	**6,758,255**
Tangible assets	7	**35,226**
		6,793,481
Current assets		
Debtors	8	**88,065**
Cash at bank and in hand		**2,611,610**
		2,699,675
Creditors: amounts falling due within one year	9	**(1,142,324)**
Net current assets		**1,557,351**
Total assets less current liabilities		**8,350,832**
Capital and reserves		
Called up share capital	10	**201**
Share premium account	11	**7,016,361**
Capital contribution	12	**4,090,654**
Profit and loss account	13	**(2,756,384)**
Equity shareholders' funds	14	**8,350,832**

The financial statements on pages 5 to 15 were approved by the board of directors on 10 June 2003 and were signed on its behalf by:

James McArthur
Director

Cash flow statement
for the period ended 31 January 2002

	Notes	Period ended 31 January 2002	Period ended 31 January 2002 £
Net cash outflow from operating activities	15		**(1,410,537)**
Capital expenditure and financial investment			
Purchase of tangible assets		(38,995)	
Purchase of intangible assets		(7,021,564)	
Net cash outflow for capital expenditure and financial investment			**(7,060,559)**
Management of liquid resources			
Increase in cash on deposit			**(24,510)**
Net cash outflow before financing			**(8,495,606)**
Financing			
Issue of share capital		7,016,562	
Capital contribution		4,090,654	
Net cash inflow from financing			**11,107,216**
Increase in cash in the period	16, 17		**2,611,610**

Included as liquid resources is cash placed in escrow that has been used post year end to finance the company's purchase of Stella McCartney France SAS. See note 8 for further details.

Notes to the financial statements for the period ended 31 January 2002

1. Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Tangible fixed assets

Tangible fixed assets are stated at their purchase cost, together with any incidental costs of acquisition, less accumulated depreciation and when appropriate, provision for impairment.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, over the expected useful economic lives of the assets concerned. The annual rates used are as follows:

Fixtures and fittings	25%
Computer equipment	25%

Intangible assets

Trademarks are capitalised at cost and amortised over their estimated useful economic life which the Directors consider to be 20 years.

Foreign currency

Transactions in foreign currency are translated at the exchange rate ruling on the date on which the transaction occurred. Monetary assets and liabilities denominated in a foreign currency are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Deferred taxation

Deferred tax is recognised in respect of all timing differences arising from the different treatments for accounting and tax purposes of transactions or events recognised in the financial statements. An asset is not recognised to the extent that the transfer of economic benefits in the future is uncertain. Deferred taxation is calculated at the rates at which it is estimated that tax will arise. Deferred tax assets and liabilities recognised have not been discounted.

Pensions

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. Directors' emoluments

	2002
	£
Aggregate emoluments	918,933

The total remuneration stated above includes the following amount paid to the highest paid director:

	2002
	£
Aggregate emoluments	730,840

3. Employees

The average monthly number of persons (including executive directors) employed by the company during the period was:

	2002
	Number
By activity	
Design	5
Administration	3
	8

	2002
	£
Staff costs (for the above persons)	
Wages and salaries	1,080,559
Social security costs	124,465
Other pension costs	194
	1,205,218

4. Loss on ordinary activities before taxation

	2002
	£
Loss on ordinary activities before taxation is stated after charging:	
Depreciation charge for the period	3,769
Amortisation charge for the period	263,309
Auditors' remuneration	
- Audit services	7,000

5. 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 January 2002, there is an unprovided net deferred tax asset of £744,532 relating to trading losses and accelerated capital allowances. 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.

Factors affecting tax charge for the period

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%). The difference is explained below:

	2002
	£
Loss on ordinary activities before tax	(2,756,384)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	(826,915)
Effects of:	
Tax losses not utilised	745,839
Items not deductible for tax purposes	82,383
Capital allowances in excess of depreciation	(1,307)
Current tax charge for the period	-

6. Intangible fixed assets

	Trademarks
	£
Cost	
Additions	7,021,564
At 31 January 2002	**7,021,564**
Amortisation	
Charge for the period	(263,309)
At 31 January 2002	(263,309)
Net book value	
At 31 January 2002	**6,758,255**

On 11 April 2001, Gucci Group NV subscribed for 100% of the ordinary B shares and the one preference share of the company for US$10m. The company used the proceeds to purchase, from Stella McCartney, the right, title and interest in the McCartney Trademarks.

7. Tangible fixed assets

	Fixtures and fittings	Computer equipment	Total
	£	£	£
Cost			
Additions	1,019	37,976	38,995
At 31 January 2002	**1,019**	**37,976**	**38,995**
Depreciation			
Charge for the period	146	3,623	3,769
At 31 January 2002	**146**	**3,623**	**3,769**
Net book value			
At 31 January 2002	**873**	**34,353**	**35,226**

8. Debtors

	2002
	£
Amounts due from Group undertakings	47,066
Other debtors	38,770
Prepayments	2,229
	88,065

On 30 January 2002, the company paid €40,000 into an escrow account with CCF Elysees, Paris. The money was used, in March 2002, to pay for 100% of the ordinary share capital of Stella McCartney France SAS. The sterling value of this deposit, translated on 30 January 2002, is £24,510 and is included within other debtors.

9. Creditors: amounts falling due within one year

	2002
	£
Trade creditors	34,062
Amounts owed to group undertakings	530,025
Other taxes and social security	90,154
Accruals	488,083
	1,142,324

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

10. Called up share capital

	2002
	£
Authorised	
100 'A' ordinary shares of £1 each	100
100 'B' ordinary shares of £1 each	100
1 Preferences share of £1 each	1
	201

Allotted, called up and fully paid	
100 'A' ordinary shares of £1 each	100
100 'B' ordinary shares of £1 each	100
1 Preferences share of £1 each	1
	201

During the period 100 'A' ordinary shares of £1 each were issued for cash. The nominal value of these shares was £100 and the consideration received was £100.

During the period 100 'B' ordinary shares of £1 each were issued for cash. The nominal value of these shares was £100 and the consideration received was £7,016,461.

During the period 1 preference share of £1 was issued for cash. The nominal value of this share was £1 and the consideration received was £1.

The 'A' ordinary shares have no rights to dividends other than that recommended by the Directors. The shares are non-redeemable, 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 are non-redeemable, 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-redeemable, non-voting and has a preferential right over the 'B' shares to a return of capital on a winding up of the company.

11. Share premium

	2002
	£
Arising in the period	7,016,361
	7,016,361

The premium arose in the period on the issue of the 100 'B' shares as explained in note 10 above.

12. Capital contribution

In October 2001 US$6m was contributed to the company by Gucci Group NV in accordance with an agreed business plan and budget.

13. Profit and loss account

	2002
	£
Loss for the period	(2,756,384)
At 31 January 2002	(2,756,384)

14. Reconciliation of movements in shareholders' funds

	2002
	£
Loss for the period	(2,756,384)
Proceeds of share capital issues	7,016,562
Capital contribution	4,090,654
Closing shareholders' funds	8,350,832

15. Reconciliation of operating loss to net cash outflow from operating activities

	2002
	£
Operating loss	(2,756,384)
Depreciation	3,769
Amortisation	263,309
Increase in creditors	1,142,324
Increase in debtors	(63,555)
Net cash outflow from operating activities	(1,410,537)

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

	2002
	£
Changes in net debt resulting from cash flows	2,611,610
Opening net funds	-
Closing net funds	2,611,610

17. Analysis of net funds

	At incorporation	Cash flows	At 31 January 2002
	£	£	£
Cash at bank and in hand	-	2,611,610	2,611,610
Total	-	2,611,610	2,611,610

18. Post balance sheet events

During 2002 and 2003 further funding was contributed by Gucci Group, enabling the company to continue to pay its liabilities as they fall due.

In addition to the further capital contributions received post year-end, the company also set up a subsidiary, Stella McCartney France SAS. Stella McCartney Limited owns 100% of the ordinary share capital.

Further details of both the above post balance sheet events are disclosed in the Directors' report on pages 2 and 3.

19. Related party transactions

During the period the company entered into the following transactions, in the ordinary course of business, with the following group undertakings:

Related party	Capital contribution	Operating costs	Amounts owed at year end
Gucci Group NV	4,090,654		-
Gucci Logistica S.p.A.	-	45,290	45,290
Gucci Services Limited	-	5,302	5,302
G.F. Services S.r.l.	-	479,433	479,433
	4,090,654	530,025	530,025

The company also sub leases, free of charge, part of Swan House from Gucci Services Ltd. Swan House is located on Old Bond Street, London and the total space occupied is 2,035 square feet.

20. Ultimate controlling party

The immediate parent and ultimate and controlling party, which owns 50% of the ordinary share capital, was Gucci Group NV, a company incorporated in the Netherlands.

Consolidated accounts including the results of the company are available from Gucci Group NV, Rembrandt Tower, Amstelplein 1096 HA, Amsterdam, The Netherlands.