BILANCIO CONSOLIDATO 2005

AEFFE FASHION GROUP

2005 CONSOLIDATED FINANCIAL STATEMENTS

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2005 CONSOLIDATED FINANCIAL STATEMENTS

2.

AEFFE FASHION GROUP

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AEFFE S.P.A.

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AEFFE FASHION GROUP

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AEFFE S.P.A.

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Consiglio di Amministrazione

Presidente
Massimo Ferretti

Vice Presidente
Alberta Ferretti

Amministratore Delegato
Simone Badioli

Consiglieri
Marcello Tassinari
Umberto Paolucci
Gianfranco Vanzini

Collegio Sindacale

Presidente
Romano Del Bianco

Sindaci Effettivi
Vittorio Baiocchi
Bruno Piccioni

Sindaci Supplenti
Pier Francesco Gamberini

Board of Directors

Chairman
Massimo Ferretti

Deputy Chairman
Alberta Ferretti

Chief Executive Officer
Simone Badioli

Directors
Marcello Tassinari
Umberto Paolucci
Gianfranco Vanzini

Board of Statutory Auditors

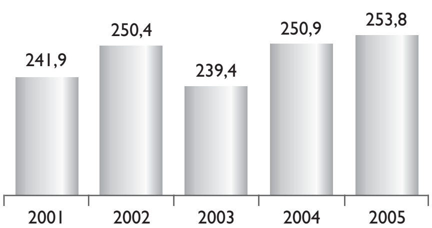
Chairman
Romano Del Bianco

Effective Members
Vittorio Baiocchi
Bruno Piccioni

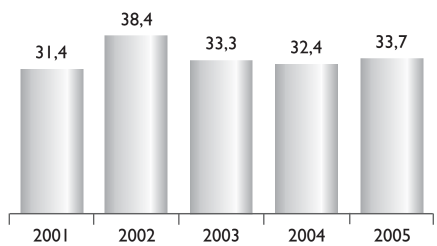
Alternative Members
Pier Francesco Gamberini

PRINCIPALI INDICI ECONOMICI-FINANZIARI
MAIN ECONOMIC-FINANCIAL RATIOS
(Euro/1.000.000)

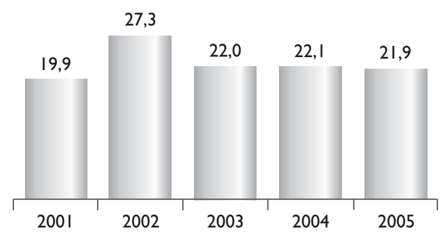
TOTALE RICAVI NETTI
TOTAL NET REVENUES



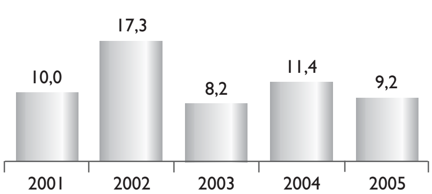
MARGINE OPERATIVO LORDO
EBITDA



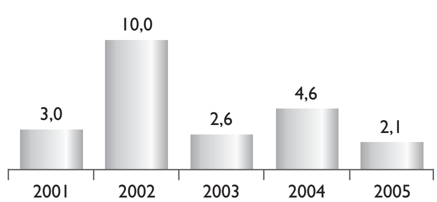
UTILE OPERATIVO
EBIT



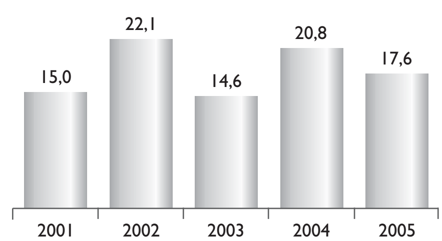
RISULTATO PRE-TAX
PROFIT BEFORE TAXES



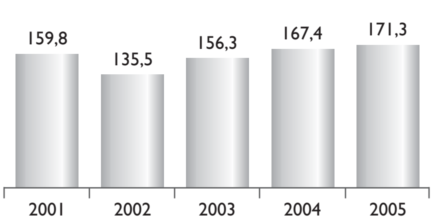
UTILE NETTO DEL GRUPPO
GROUP NET PROFIT



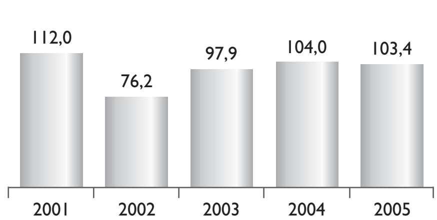
CASH FLOW (utile d'esercizio + ammortamenti)
CASH FLOW (net profit after taxes+depreciation)



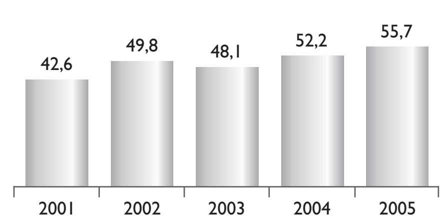
CAPITALE INVESTITO NETTO
NET CAPITAL INVESTED



INDEBITAMENTO FINANZIARIO NETTO
NET FINANCIAL POSITION



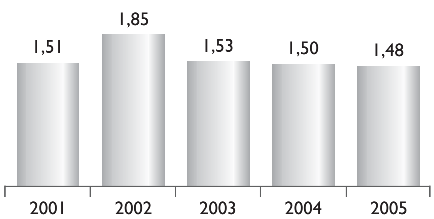
PATRIMONIO NETTO GRUPPO
GROUP NET EQUITY



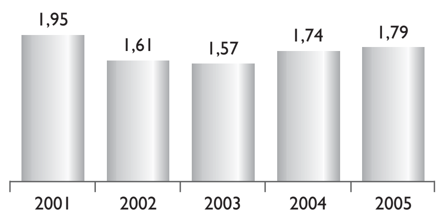
PRINCIPALI INDICI ECONOMICI-FINANZIARI
MAIN ECONOMIC-FINANCIAL RATIOS

Valori in €/.000.000 - Values in €/.000.000

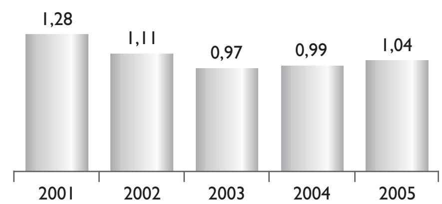
TOTALE RICAVI/CAPITALE INVESTITO NETTO
TOTAL REVENUES/NET CAPITAL INVESTED



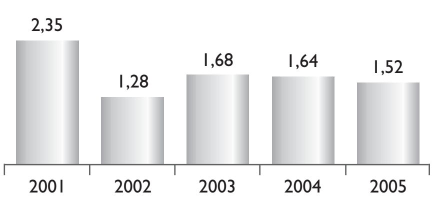
ATTIVITÀ A BREVE/PASSIVITÀ A BREVE
CURRENT ASSETS/CURRENT LIABILITIES



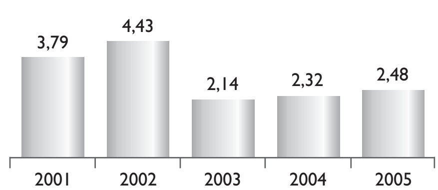
ATTIVITÀ A BREVE-MAGAZZINO/PASSIVITÀ A BREVE
CURRENT ASSETS LESS INVENT./CURRENT LIABILITIES
(ACID TEST)



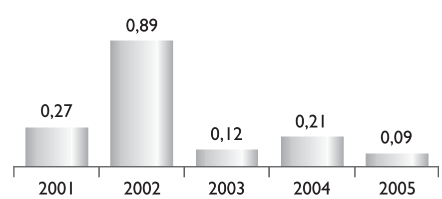
INDEBITAMENTO FINANZ. NETTO/PATRIMONIO NETTO
NET FINANCIAL INDEBTEDNESS/NET EQUITY



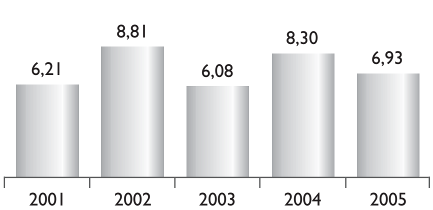
PATRIMONIO NETTO PER AZIONE
NET EQUITY PER SHARE
(EURO)



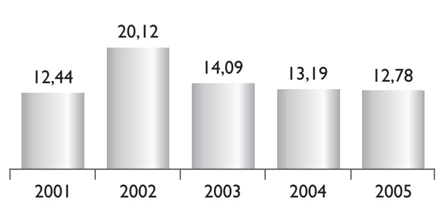
UTILE NETTO PER AZIONE
NET PROFIT PER SHARE
(EURO)



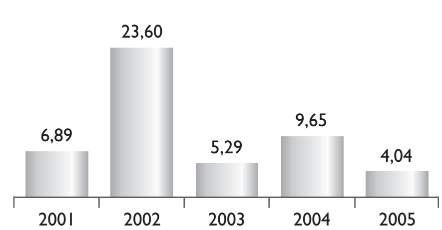
CASH FLOW/TOTALE RICAVI
CASH FLOW/TOTAL REVENUES

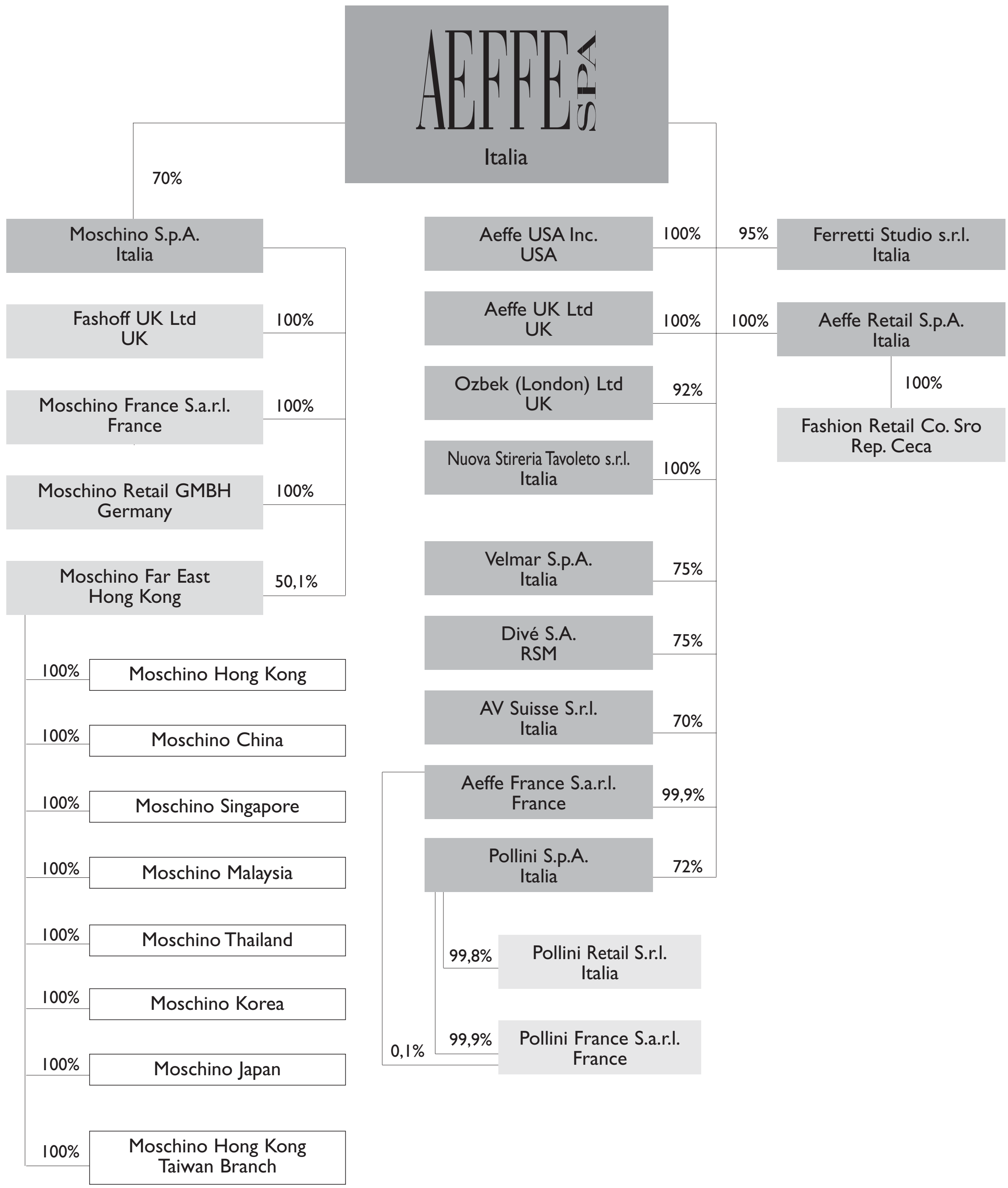


ROI: UTILE OPERATIVO/CAPITALE INVESTITO NETTO
ROI: OPERATING PROFIT/NET CAPITAL INVESTED



ROE: UTILE NETTO GRUPPO/PATRIMONIO NETTO GRUPPO
ROE: GROUP NET PROFIT/GROUP NET EQUITY




AEFFE SPA
Italia
70%
Moschino S.p.A.
Italia
Fashoff UK Ltd
UK
100%
Moschino France S.a.r.l.
France
100%
Moschino Retail GMBH
Germany
100%
Moschino Far East
Hong Kong
50,1%
100%
Moschino Hong Kong
100%
Moschino China
100%
Moschino Singapore
100%
Moschino Malaysia
100%
Moschino Thailand
100%
Moschino Korea
100%
Moschino Japan
100%
Moschino Hong Kong
Taiwan Branch
Aeffe USA Inc.
USA
100%
Aeffe UK Ltd
UK
100%
Ozbek (London) Ltd
UK
92%
Nuova Stireria Tavoleto s.r.l.
Italia
100%
Velmar S.p.A.
Italia
75%
Divé S.A.
RSM
75%
AV Suisse S.r.l.
Italia
70%
Aeffe France S.a.r.l.
France
99,9%
Pollini S.p.A.
Italia
72%
99,8%
Pollini Retail S.r.l.
Italia
0,1%
99,9%
Pollini France S.a.r.l.
France
95%
Ferretti Studio s.r.l.
Italia
100%
Aeffe Retail S.p.A.
Italia
100%
Fashion Retail Co. Sro
Rep. Ceca

Aeffe
Abbigliamento - Accessori
Clothing - Accessories

ALBERTA FERRETTI
Jean Paul GAULTIER
narciso rodriguez
POLLINI
Basso & Brooke POWER PRINTS
Authier

PHILOSOPHY DI ALBERTA FERRETTI
MOSCHINO
MOSCHINO CHEAPANDCHIC
SINHA—STANIC
GAULTIER²

Pollini
Calzature - Pelletteria
Shoes - Leather Goods

POLLINI
STUDIO POLLINI
MOSCHINO
MOSCHINO CHEAPANDCHIC
MOSCHINO® JEANS

Moschino
Licenze - Design - Retail
Licences - Design - Retail

MOSCHINO
MOSCHINO CHEAPANDCHIC
MOSCHINO® JEANS

Velmar
Mare - Intimo
Beachwear - Underwear

ALBERTA FERRETTI
BLUGIRL BEACHWEAR
BLUGIRL UNDERWEAR
philosophy ALBERTA FERRETTI
MOSCHINO
VERDEMARE
BLUTANGO

Aeffe Spa

Pollini Spa

Velmar Spa

Milano Aeffe

New York Aeffe

Milano Moschino


Milano Moschino


Milano Pollini


Milano Aeffe

AEFFE HEADQUARTER
Via Delle Querce, 51
San Giovanni in Marignano (RN)
47842 - Italia

AEFFE SHOWROOM MILANO
Via Donizzetti, 48,
20122 - Milano
Italia

AEFFE SHOWROOM NEW YORK
30 West 56th Street
10019 - New York
USA

AEFFE SHOWROOM LONDON
205-206 Sloane Street
FW1X9UX - London
UK

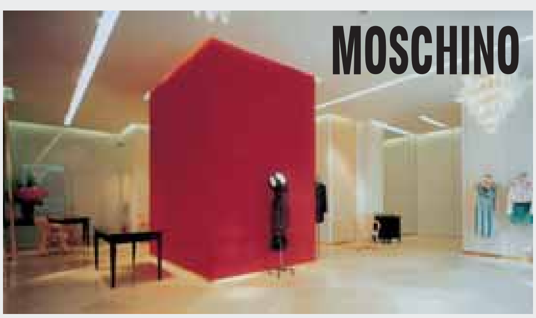
AEFFE SHOWROOM PARIS
Place de la Republique, 15
75003 - Paris
France

MOSCHINO HEADQUARTER
Via San Gregorio, 28
20124 - Milano
Italia

POLLINI HEADQUARTER
Via Erbosa, 2/B
Gatteo (FC)
47030 - Italia

POLLINI SHOWROOM MILANO
Via Bezzecca, 5
20135 – Milano
Italia

VELMAR HEADQUARTER
Via Delle Robinie, 3
San Giovanni in Marignano (RN)
47842 - Italia



ALBERTA FERRETTI
Milano
Roma
Capri
Paris
London

PHILOSOPHY
Milano
Capri
New York

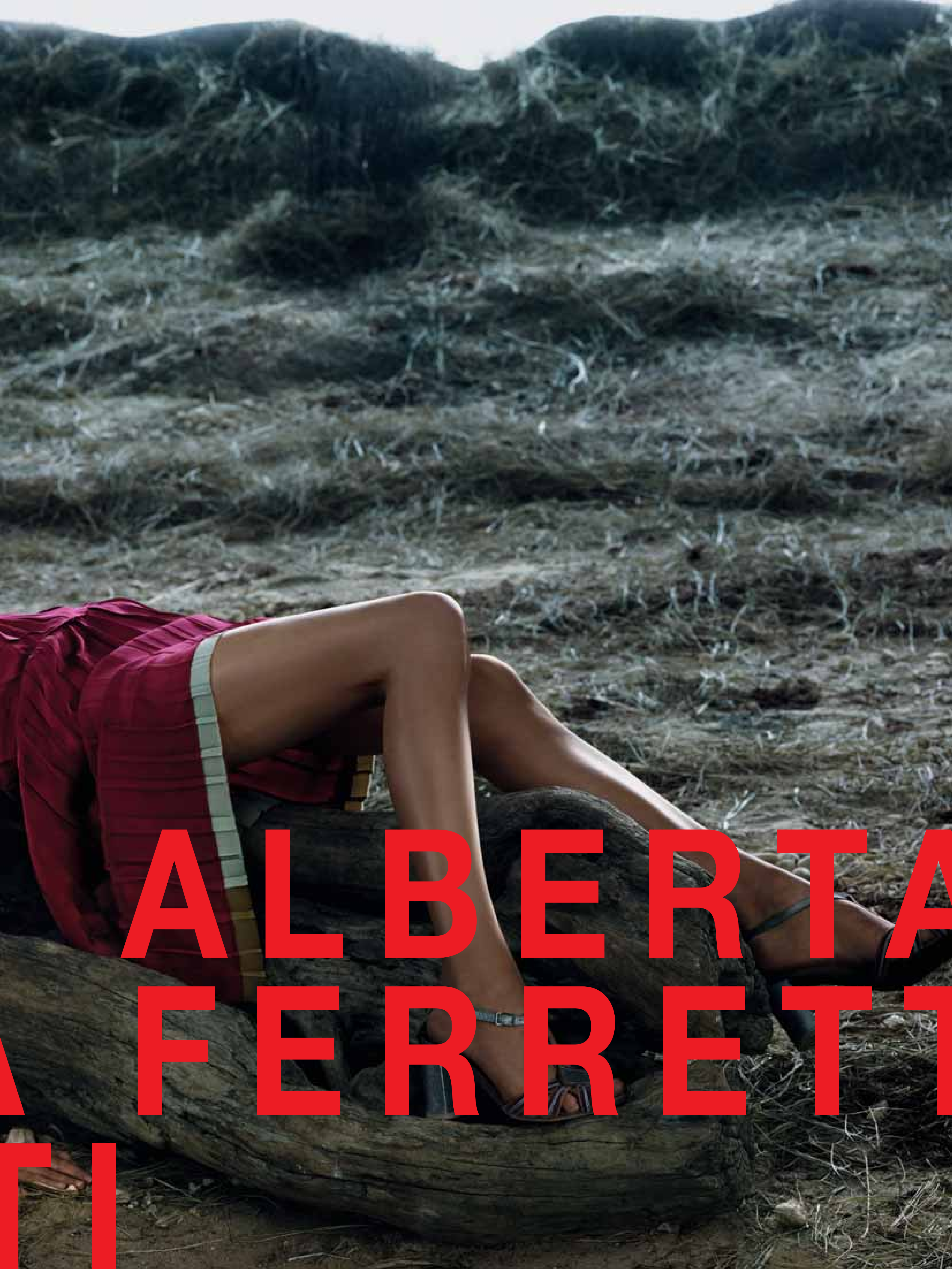
MOSCHINO
Milano (2)
Capri
Paris
London
Berlin
Beijing
Shanghai
Osaka
Hong Kong (3)
Kuala Lumpur
Singapore
Taipei (2)
Bangkok

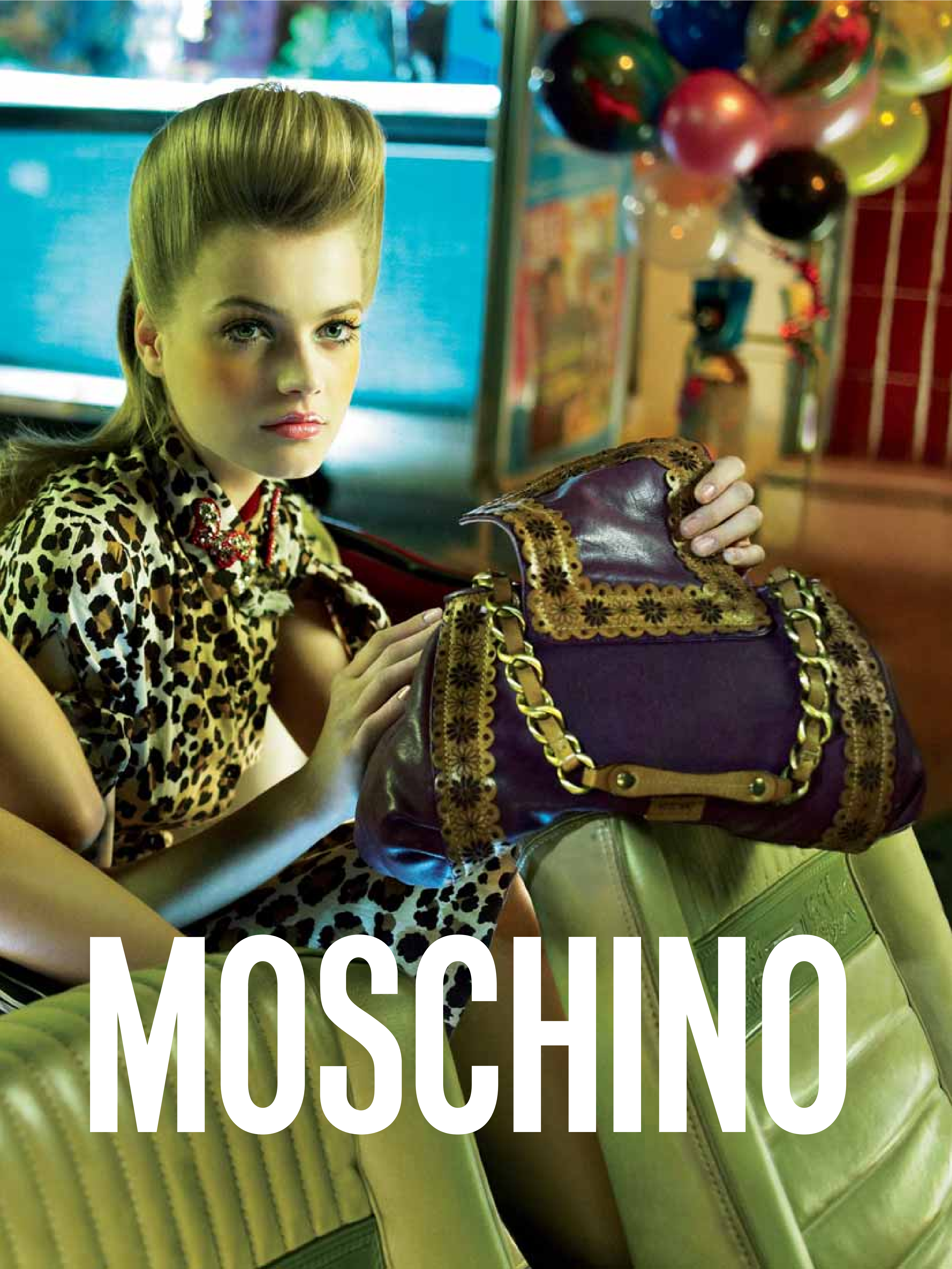
POLLINI
Milano
Bologna
Roma
Firenze (2)
Venezia
Bolzano
Parma
Ravenna
Rimini
Varese
Verona
Paris

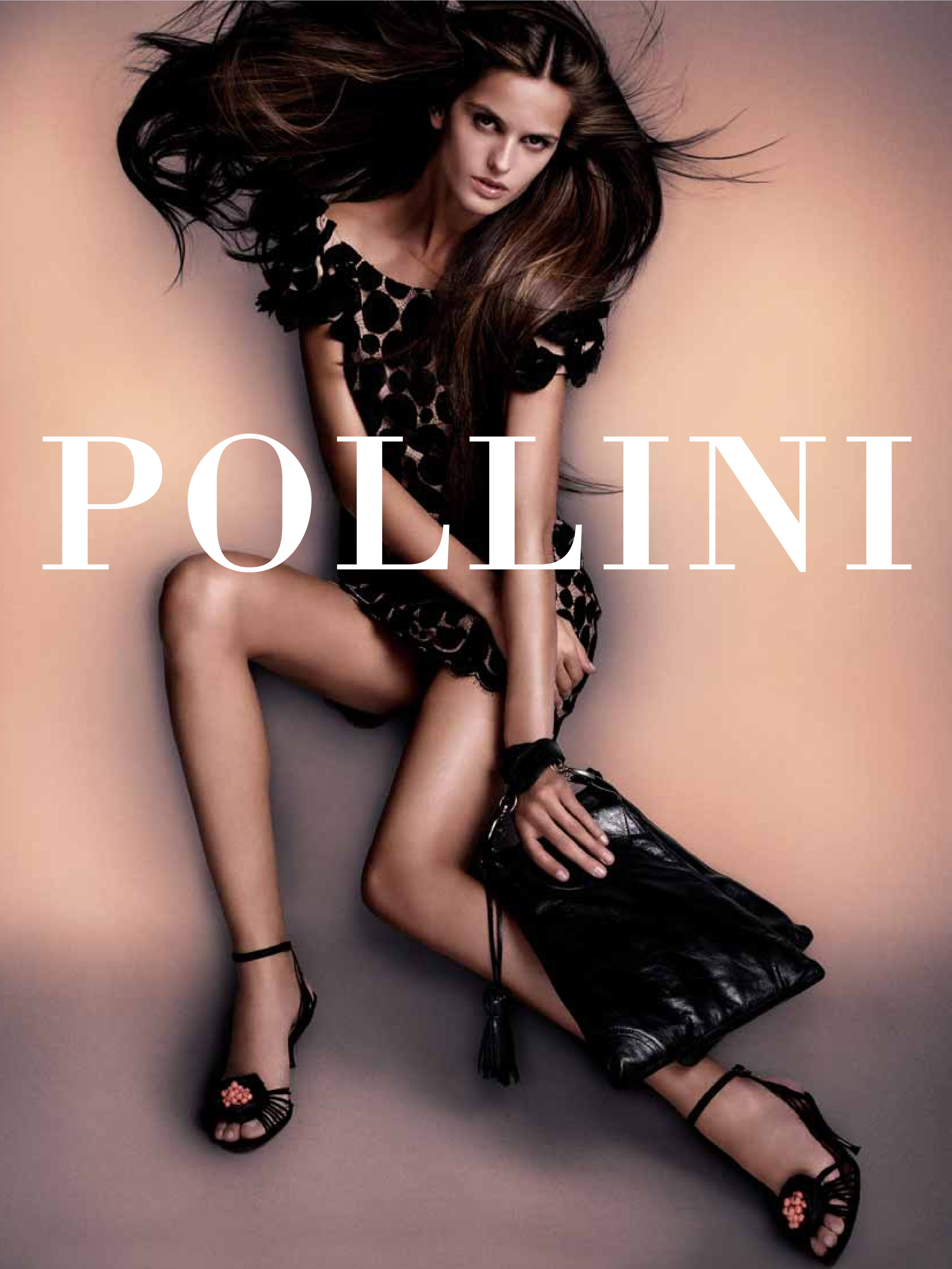
NARCISO RODRIGUEZ
Milano

P-BOX
Milano (2)

SPAZIO A
Firenze
Venezia

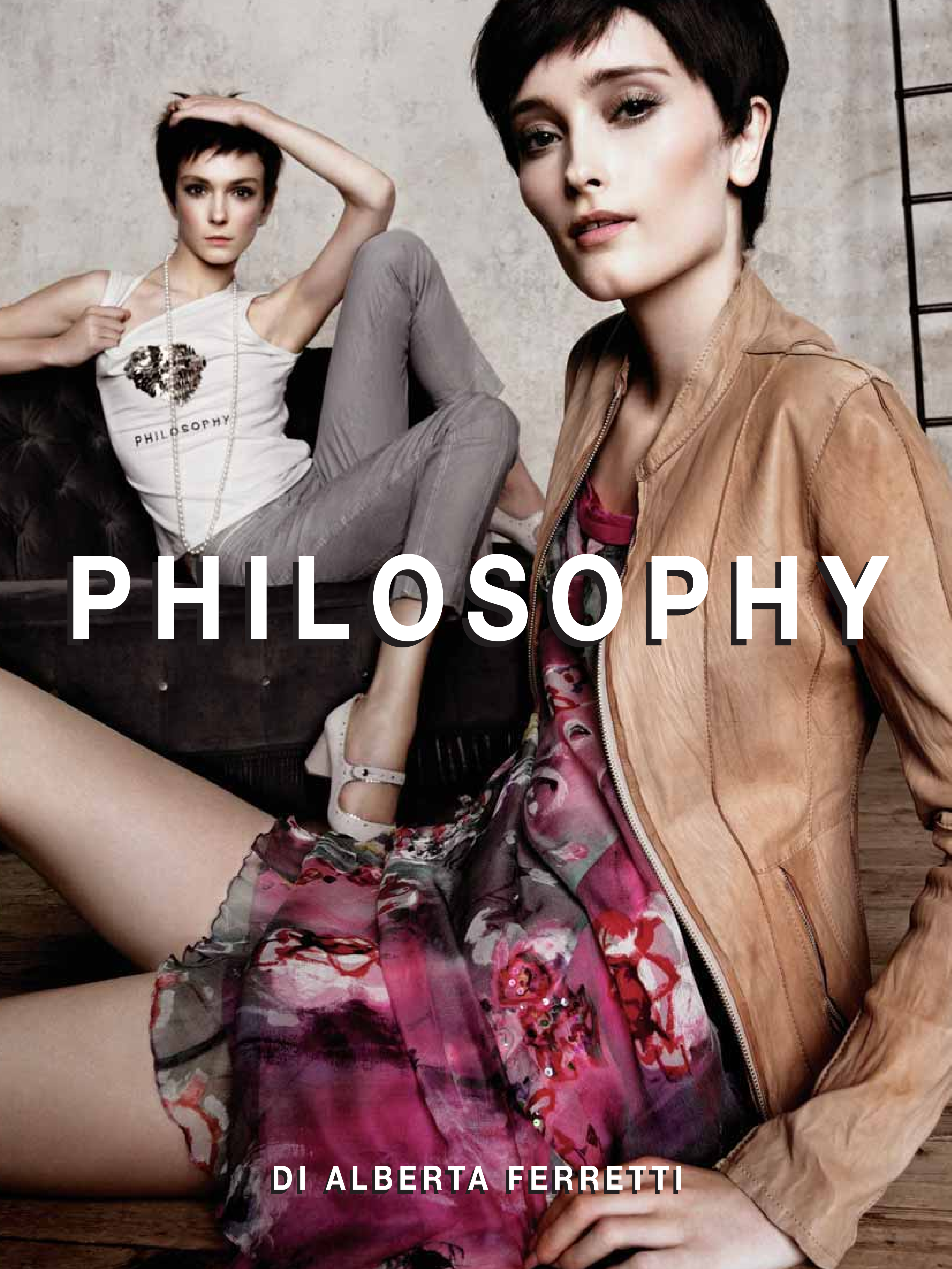

ALBERTA
A FERRETT
TI


MOSCHINO


POLLINI

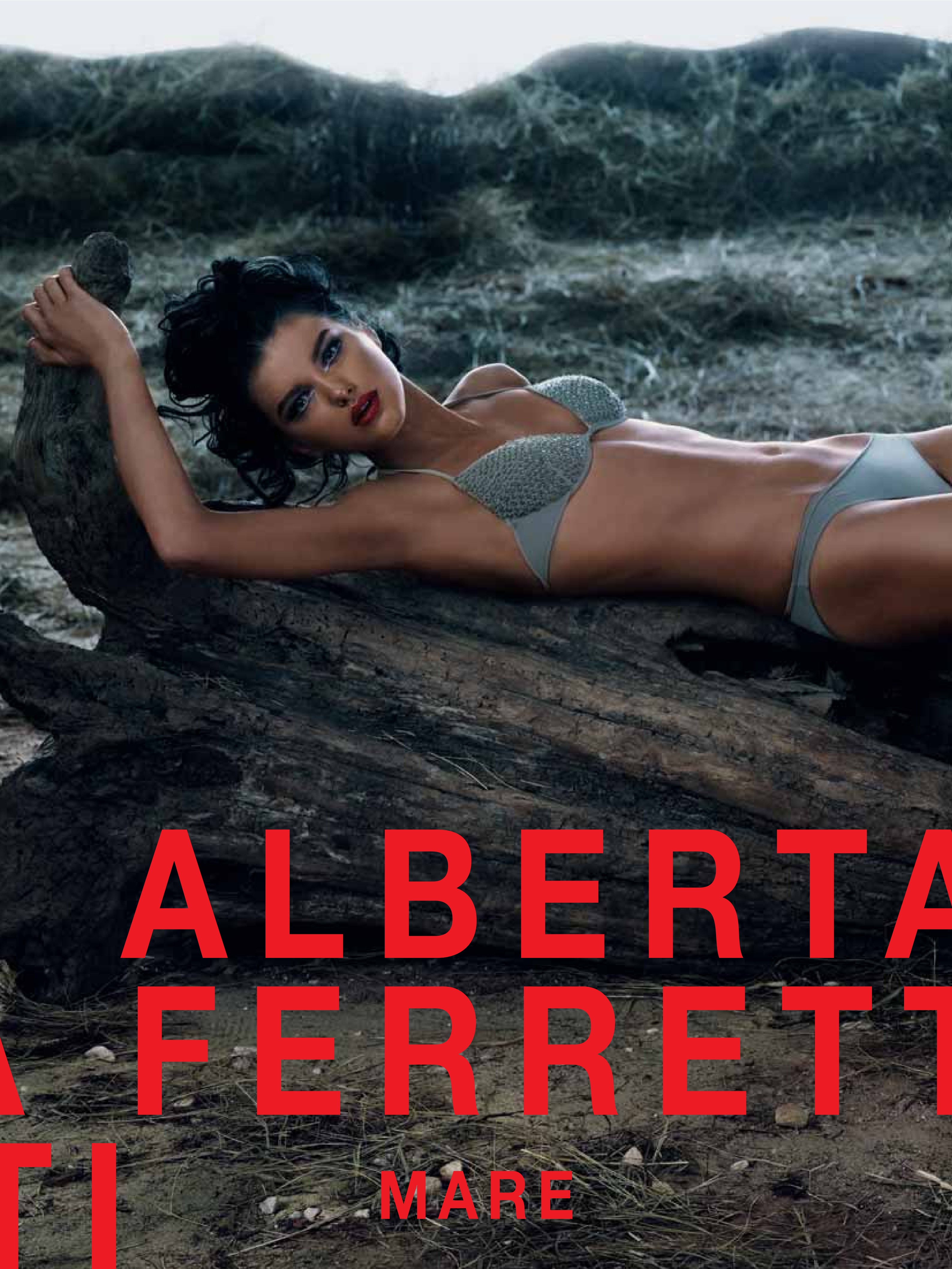

Jean Paul
GAULTIER


narciso rodriguez


PHILOSOPHY
PHILOSOPHY
DI ALBERTA FERRETTI

SINHA—STANIC


Basso & Brooke
POWER PRINTS


ALBERTA
FERRETTI
MARE


philosophy
ALBERTA FERRETTI


BLUGIRL
UNDERWEAR
BLUGIRL
BEACHWEAR

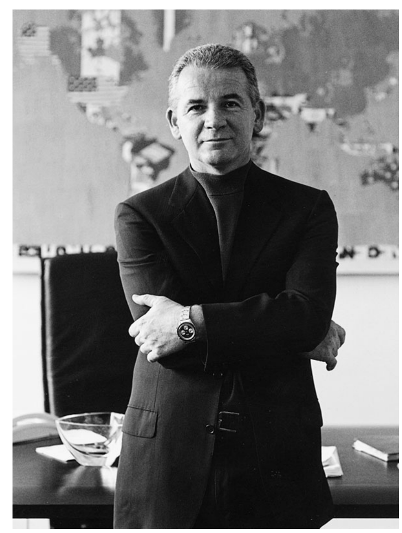
Chairman's Message

Aeffe Fashion Group continued its growth also in 2005, despite the negative international economic situation.

This important result was possible thanks to the commitment of the Directors and all the managers operating with expertise and professionalism on a daily basis in all the Group companies.

It also shows how the Group's strategic model can develop synergies and respond to the difficulties the sector is undergoing. In fact, the 5.6% increase in turnover is higher than the growth levels of the world economy.

This year the parent company Aeffe improved its results thanks to an increase in the wholesale of the well-known lines and a big boost in revenues realised by the directly managed flagship stores. Along with the increase in sales, significant efforts were made to cut operating costs and optimise margins without penalising the quality of our products.



Moschino is following a strategy of integrating licences within the Group, strengthening and developing the network of franchising sales points, and geographically expanding into new markets such as Russia, China and India.

This year Pollini, the Group company operating in the field of accessories, footwear and leather goods, achieved excellent results thanks to the big investments made in previous years and which are making Pollini a leading player in the sector. The growth and development was possible also due to the creation of synergies with the rest of the Group, which further increased the importance of the sales of accessories on the total.

This year Velmar started the production and distribution on a world level of the Alberta Ferretti and Alberta Ferretti Philosophy lingerie and beachwear lines, with interesting prospects for future growth, and confirmed the growth of the well-known lines despite the big difficulties the lingerie sector is experiencing worldwide.

Aware that our Group's future growth involves difficult and global challenges, I wish to thank all 1,400 of our employees, largely responsible for these results, our collaborators who work with our Group every day, the suppliers and trade partners who enable us to create ever better products, and lastly our all-important customers whose enthusiasm and participation stimulate us in our quest for constant improvement.

The Chairman of the Board
of Directors
Massimo Ferretti

CONSOLIDATED INCOME STATEMENT

	AMOUNTS AS AT 31.12.05	% on tot. revenues	AMOUNTS AS AT 31.12.04	% on tot. revenues	Changes 31.12.05 / 31.12.04	
NET REVENUES FROM SALES AND SERVICES	**245,895,946**	**96.9%**	**246,081,460**	**98.1%**	***-185,514***	***-0.1%***
Other revenues and income	7,879,579	3.1%	4,851,817	1.9%	*3,027,762*	*62.4%*
TOTAL NET REVENUESS	**253,775,525**	**100.0%**	**250,933,277**	**100.0%**	***2,842,248***	***1.1%***
Inventory changes of work in process, semi-finished, finished goods	1,087,118	0.4%	1,420,741	0.6%	*-333,623*	*-23.5%*
PRODUCTION VALUE	**254,862,643**	**100.4%**	**252,354,018**	**100.6%**	***2,508,625***	***1.0%***
Costs of raw materials, consumables and goods for resale	-71,258,358	-28.1%	-72,565,058	-28.9%	*1,306,700*	*-1.8%*
Inventory changes of raw materials, consumables and goods for resale	-188,985	-0.1%	330,105	0.1%	*-519,090*	*n.s.*
Costs of services	-80,302,430	-31.6%	-80,677,324	-32.2%	*374,894*	*-0.5%*
Costs for use of third parties goods	-15,383,623	-6.1%	-15,059,049	-6.0%	*-324,574*	*2.2%*
Total Operating Costs	**-167,133,396**	**-65.9%**	**-167,971,326**	**-66.9%**	***837,930***	***-0.5%***
VALUE ADDED	**87,729,247**	**34.6%**	**84,382,692**	**33.6%**	***3,346,555***	***4.0%***
Labour costs	-53,989,777	-21.3%	-52,027,295	-20.7%	*-1,962,482*	*3.8%*
GROSS OPERATING MARGIN (EBITDA)	**33,739,470**	**13.3%**	**32,355,397**	**12.9%**	***1,384,073***	***4.3%***
Amortization of intangible fixed assets	-5,342,634	-2.1%	-5,198,206	-2.1%	*-144,428*	*2.8%*
Depreciation of tangible fixed assets	-3,497,674	-1.4%	-3,669,406	-1.5%	*171,732*	*-4.7%*
Losses on bad debts, accruals and write-downs	-1,211,671	-0.5%	-337,212	-0.1%	*-874,459*	*259.3%*
Other operating expenses	-1,795,452	-0.7%	-1,074,117	-0.4%	*-721,335*	*67.2%*
NET OPERATING PROFIT (EBIT)	**21,892,039**	**8.6%**	**22,076,456**	**8.8%**	***-184,417***	***-0.8%***
Income from investments	-	0.0%	-	0.0%	*-*	*n.s.*
Net financial income/expenses	-4,973,941	-2.0%	-5,020,874	-2.0%	*46,933*	*0.9%*
RESULT OF CURRENT OPERATIONS	**16,918,098**	**6.7%**	**17,055,582**	**6.8%**	***-137,484***	***-0.8%***
Amortization of goodwill/brands	-5,853,577	-2.3%	-6,376,744	-2.5%	*523,167*	*-8.2%*
Write-downs	-575,591	-0.2%	-530,721	-0.2%	*-44,870*	*8.5%*
Revaluations	-	0.0%	-	0.0%	*-*	*n.s.*
Extraordinary income	155,814	0.1%	15,094,568	6.0%	*-14,938,754*	*-99.0%*
Extraordinary expenses	-1,432,095	-0.6%	-13,881,673	-5.5%	*12,449,578*	*-89.7%*
Total Extraordinary Income / (Expenses)	**-7,705,449**	**-3.0%**	**-5,694,570**	**-2.3%**	***-2,010,879***	***35.3%***
PROFIT BEFORE TAXES	**9,212,649**	**3.6%**	**11,361,012**	**4.5%**	***-2,148,363***	***-18.9%***
Current taxes	-5,235,193	-2.1%	-6,046,080	-2.4%	*810,887*	*-13.4%*
Anticipated/(deferred) taxes	-1,090,782	-0.4%	274,860	0.1%	*-1,365,642*	*n.s.*
Total Taxes on the Profit for the Year	**-6,325,975**	**-2.5%**	**-5,771,220**	**-2.3%**	***-554,755***	***9.6%***
PROFIT NET OF TAXES	**2,886,674**	**1.1%**	**5,589,792**	**2.2%**	***-2,703,118***	***-48.4%***
Loss/(Profit) attributable to minority shareholders	-780,513	-0.3%	-945,942	0.4%	*165,429*	*-17.5%*
NET PROFIT FOR THE GROUP	**2,106,161**	**0.8%**	**4,643,850**	**1.9%**	***-2,537,689***	***-54.6%***

CONSOLIDATED BALANCE SHEET

	AMOUNTS AS AT 31.12.05	AMOUNTS AS AT 31.12.04	*Changes 31.12.05 / 31.12.04*	
Trade receivables	35,563,370	32,833,829	*2,729,541*	*8.3%*
Other receivables	34,607,684	32,396,313	*2,211,371*	*6.8%*
Stocks and inventories	50,799,084	49,260,770	*1,538,314*	*3.1%*
Trade payables	-47,380,797	-46,526,952	*-853,845*	*1.8%*
Short-term sundry payables	-20,314,376	-19,328,034	*-986,342*	*5.1%*
A) Net working capital	**53,274,965**	**48,635,926**	***4,639,039***	***9.5%***
Receivables over 12 months	9,098,525	10,887,399	*-1,788,874*	*-16.4%*
Equity investments	556,850	674,425	*-117,575*	*-17.4%*
Tangible fixed assets	45,111,665	47,298,353	*-2,186,688*	*-4.6%*
Intangible fixed assets	128,276,293	143,057,744	*-14,781,451*	*-10.3%*
B) Net fixed assets	**183,043,333**	**201,917,921**	***-18,874,588***	***-9.3%***
C) Staff termination indemnity reserves and other medium long-term non-financial payables	**-59,251,924**	**-79,671,669**	***20,419,745***	***-25.6%***
D) Reserve for deferred taxes	**-5,775,706**	**-3,471,574**	***-2,304,132***	***66.4%***
E) NET CAPITAL INVESTED (A+B+C+D)	**171,290,668**	**167,410,604**	***3,880,064***	***2.3%***
Financed by:				
Short-term financial debts	61,991,161	81,010,886	*-19,019,725*	*-23.5%*
Cash/short-term financial credits	-6,997,939	-10,846,179	*3,848,240*	*-35.5%*
Medium/long-term financial debts	53,092,735	38,370,029	*14,722,706*	*38.4%*
Medium/long-term financial credits	-4,656,275	-4,491,323	*--164,952*	*3.7%*
F) DIFFERENCE BETWEEN PAYABLES TO BANKS AND FINANCIAL CREDITS	**103,429,682**	**104,043,413**	***-613,731***	***-0.6%***
G) Group net equity at year's end	**55,727,230**	**52,187,954**	***3,539,276***	***6.8%***
H) Minority shareholders	**12,133,756**	**11,179,237**	***954,519***	***8.5%***
I) TOTAL SHAREHOLDERS' EQUITY	**67,860,986**	**63,367,191**	***4,493,795***	***7.1%***
L) TOTAL (F+I) as in E	**171,290,668**	**167,410,604**	***3,880,064***	***2.3%***

CONSOLIDATED FREE CASH FLOW STATEMENT

	AMOUNTS AS AT 31.12.05	AMOUNTS AS AT 31.12.04
Net operating profit	21,892,039	22,076,456
Operating amortization/depreciation	8,840,308	8,867,612
Net financial expenses	-4,973,941	-5,020,874
Taxes	-6,325,975	-5,771,220
(A) OPERATING CASH FLOW	**19,432,431**	**20,151,974**
(Increase) / decrease in net working capital	-4,639,039	-3,725,279
(Increase) / decrease in medium/long-term debt	-18,115,613	-1,493,394
(Increase) / decrease in medium/long-term receivables	1,788,874	3,275,707
Investments in tangible and intangible assets and multiannual costs	-5,292,000	-26,741,845
Disinvestments	7,566,254	493,000
(B) NON-OPERATING CASH FLOW	**-18,691,524**	**-28,191,811**
Extraordinary income / (charges)	-7,705,499	-5,694,570
Amortization of goodwill/brands	5,853,577	6,376,744
Dividends from equity investments	-	-
(C) CASH FLOW FROM EXTRAORDINARY OPERATIONS	**-1,851,872**	**682,174**
(D) FREE CASH FLOW (A+B+C)	**-1,110,965**	**-7,357,663**
E) (Acquisitions) / Disinvestments of Equity Investments	**117,575**	**1,836,665**
F) Dividends Paid	**-97,500**	**-**
G) Other Changes in Net Equity	**1,433,115**	**-589,909**
H) Change in Minority Interests	**271,506**	**-18,987**
(I) CHANGES IN FINANCIAL POSITION	**613,731**	**-6,129,894**
DIFFERENCE BETWEEN PAYABLES TO BANKS AND FINANCIAL CREDITS AT THE BEGINNING OF THE YEAR	**-104,043,413**	**-97,913,519**
DIFFERENCE BETWEEN PAYABLES TO BANKS AND FINANCIAL CREDITS AT THE END OF THE YEAR	**-103,429,682**	**-104,043,413**

1. ECONOMIC SCENARIO

Dear Shareholders,

the international economic scenario in 2005 confirmed the complexity of the economic scenario characterising 2004. Therefore we shall examine the main macrovariables that had a decisive effect also on the results of our company and the Group as a whole.

INTERNATIONAL MACROECONOMIC SITUATION

In 2005 the world economy continued to grow rapidly, approaching 5% and just under the levels of the previous year.

International trade in goods and services increased by approx. 7% (10.3 in 2004). Like in the previous year, the USA and China were the principal driving forces of growth.

The growth differences between the main areas continued. In the USA, production (+ 3.5%) was sustained by consumption, which benefited from the further increase in property values and higher employment. In Japan the increase in GDP (2.7%) was boosted by the recovery in internal demand, which had stagnated in the previous two years. In the Euro area the growth rate was lower than expected at 1.3%; economic activities remained weak in the first half-year and improved in summer. In the United Kingdom, GDP (+ 1.8%) was affected by lower consumption in the first half-year. The growth rate in the emerging countries remained very high at around 7%, due to still exceptional growth rates in the Asian area and increased trade by raw material producers. In China growth approached 10%: strengthening of the foreign sector made up for the slowdown in investments.

The favourable international cycle continued to be affected by risks related to the price of oil, the balance of payment deficit, as well as geopolitical tensions.

In 2004-2005 the increase in world product was nearly 5% per annum; the international bodies estimate only a slightly lower rate for 2006. In the USA the big increase in employment and the increased confidence of families should favour a rapid recovery of consumption. For Japan, after the sharp increase in economic activities in the fourth quarter 2005, the GDP growth rate for 2006 is now forecast at 3.3%. The emerging countries should continue to benefit from favourable financial conditions. In Asia growth for 2006 is expected to be very high, above 7%, whereas in Latin America it should be around 4%. In the Euro area, in 2005, GDP slowed to 1.3% (2.1 in 2004); the dynamics of the activity were a little higher in France; 0.9% in Germany; nil in Italy. The economic trend defined by the quality indicators is positive: increased confidence, which initially mainly concerned the industrial concerns, is gradually spreading also to other sectors and to families. The latest European Commission and OECD estimates, based on a substantially favourable interpretation of such signs, foresee a rapid return of GDP in the area to growth rates of 2 to 2.5% per annum.

In 2005 the Italian economy stagnated, thus further widening the negative growth gap with respect to other countries in the area. In 2006 growth should occur at just over 1%. The dynamics of the GDP should be sustained by a recovery in exports which, while continuing to grow less than world trade, are expected to exceed a rate of 5%.

However, the above signs of recovery in the economic trend still do not define an overcoming of the growth gap the Italian economy suffers from, not only with respect to the more dynamic areas of the world, but also with respect to the main Euro countries, although behind on an international level.

ECONOMIC SCENARIO IN THE CLOTHING SECTOR

Also 2005 was characterised by a continuation, in the various geographic areas, of the difficult conditions of the sector in which our company operates. Difficulties such as the general economic situation of Europe and the increasingly important role, even in our sector, of China and India which, although exporting basic products, are taking away an increasing part of disposable income for the purchase of clothing products. The first estimates prepared for 2005 show an even more stationary situation in the Italian clothing, knitwear and stockings sector; they also show no clear signs of a reversal of the trend in terms of demand or production activities.

Operating in this difficult context, Italian Textile/Clothing firms overall recorded a stable turnover in the domestic market and a considerable improvement in exports compared with 2004.

Even if the general economic recovery much hoped for in past years has only showed weak signs, our Group achieved an important increase in sales in the footwear sector and in the domestic and foreign markets, concentrating and coordinating entrepreneurial efforts on cutting operating costs and consequent maintaining of margins.

Considering this very uncertain situation in which it has to operate, the operating results achieved by our Group must be considered as extremely satisfactory.

The following comments refer to the Group's results..

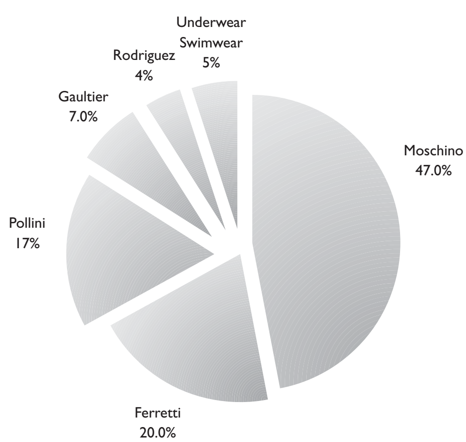
They are to be read together with the Explanatory Notes.

2. INCOME STATEMENT OF AEFFE FASHION GROUP

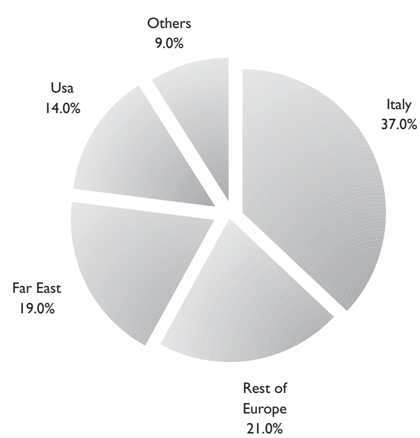
Turnover

The output value increased by 1%, going from Euro 252,354,000 in 2004 to Euro 254,863,000 in 2005. This increase is 5.6%, if compared with the 2004 value adjusted by royalties of Euro 10,993,000, collected by the Parent Company last year through an out of court agreement with the licensee.
Net revenues for 2005 were unchanged with respect to 2004, but increase by 4.6% if compared with net revenues for 2004 adjusted by royalties of Euro 10,993,000, collected by the Parent Company.
The main changes characterising net revenues for 2005 with respect to adjusted net revenues for 2004 were turnover increases in the main Group companies, such as the Parent Company Aeffe S.p.A. (+ Euro 936,000), Gruppo Pollini (+ Euro 5,963,000), Gruppo Moschino (+ Euro 667,000), Aeffe Usa Inc. (+ Euro 945,000) and Aeffe Retail S.p.A.(+ Euro 1,449,000).
In a 2005 market characterised by a fall in demand, these increases in turnover are to be considered extremely positive and show that the strategic model of our Group can react positively even in difficult times for the market, like the those of today characterised by a decline in consumption.
Including sales by licensees, the sales of Group brands totalled Euro 387,900,000 in 2005, against Euro 368,350,000 in 2004.
Given below is the breakdown of direct sales by brand, geographic area and distribution channel:

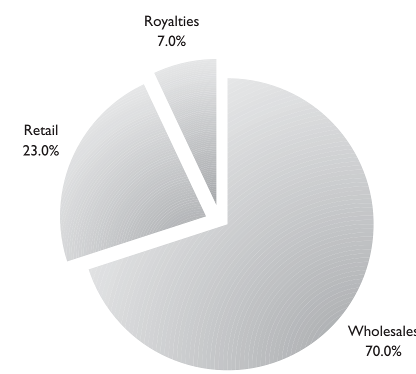
SALES BY BRAND



SALES BY GEOGRAPHIC AREA



SALES BY DISTRUBUTION CHANNEL



Italian Exchange Office average exchange rates

Compared with 2004, the main currencies used by the Group recorded the following trends with respect to the Euro:

Currency	Exchange rate at 31/12/2004	Exchange rate at 31/12/2005	Average exchange rate 2005	Average exchange rate 2004
USD	1.3621	1.1797	1.2448	1.2439
JPY	139.65	138.9	136.871	134.445
GBP	0.70505	0.6853	0.684	0.678671

Value added

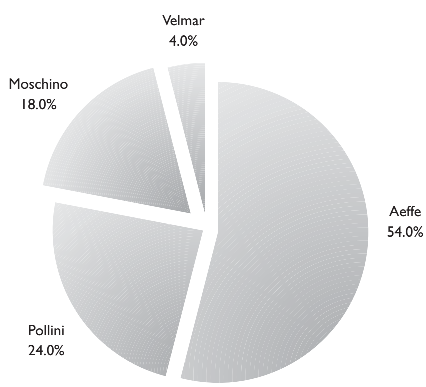
Value added amounted to Euro 87,729,000, equal to 34.6% of revenues, and increased with respect to the 33.6% in 2004. A homogeneous comparison with value added for 2004, adjusted by the effect of royalties for perfume equal to Euro 10,993,000, collected by the Parent Company in the previous period through an out of court agreement with the licensee, shows an increase of 4%, whereas improvement in absolute value would be Euro 14,339,000.

Cost of labour

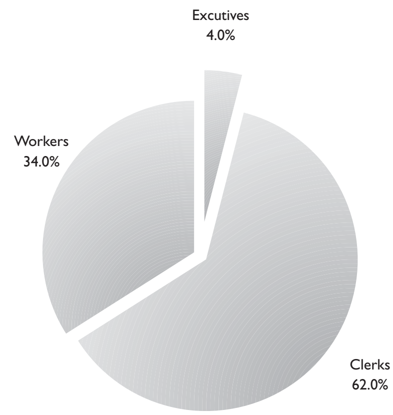
The incidence of labour costs on turnover increased by approx. 0.6% with respect to the previous year. The Euro 1,963,000 increase in absolute value mainly refers to Gruppo Pollini and Gruppo Moschino for the incidence, for all of 2005, of the cost relevant to boutiques included for the first time in 2005 or boutiques opened last year.

The number of Group employees at 31 December 2005 totalled 1,357 units compared with 1,391 for the previous year.

BREAKDOWN OF EMPLOYEES BY COMPANY



BREAKDOWN OF EMPLOYEES BY QUALIFICATION



Gross operating margin (EBITDA)

EBITDA increased by 4.3% in absolute value, going from 12.9% in 2004 to 13.3% in 2005.

The comparison with EBITDA 2004 neutralised by the effect of royalties for Euro 10,993,000 collected last year by the Parent Company through an out of court agreement with the licensee, shows an even higher improvement in EBITDA, which goes from 8.9% of total revenues in 2004 to 13.3% in 2005, increasing by 57.9% in absolute value.

The improvement in EBITDA is the result of a number of operations implemented as of 2004 and mainly aimed at increasing the margin. This aim mainly concerned the production sector through a reduction in production and structure costs, improving the effectiveness and efficiency of company processes, but maintaining the high quality that has always distinguished our products.

Operating result (EBIT)

The 2005 operating result falls by 0.2 percentage points in revenues with respect to the previous year.

Also in this case, a homogeneous comparison with the EBIT value for 2004 adjusted by the royalties collected last year by the Parent Company through an out of court agreement with the licensee, would show a 2005 EBIT improvement of 4 percentage points on net revenues, whereas in absolute value the increase would be equal to 97.5%.

Current operating result

The operating result is in line with that of the previous year.

Also in this case, a homogeneous comparison with the value for 2004 adjusted by the royalties collected last year by the Parent Company through an out of court agreement with the licensee, would show a 2005 improvement of 4.2 percentage points on net revenues, whereas in absolute value the increase would be equal to 179%.

Total extraordinary income/expenses

This result negatively affects the total result for Euro 7,705,000 against Euro 5,694.000 of 2004. The balance for 2005 is mainly the combined effect of:

a) The amortisation of goodwill and trademarks for Euro 5,854,000;
b) Extraordinary expenses of Euro 422,000 in the subsidiary Pollini Retail S.r.l. for capital losses on plant and equipment arising after the transfer of the boutiques in Milan and Bergamo during 2005;

c) extraordinary expenses of the subsidiary Moschino Far East Ltd. for Euro 279,000 concerning the establishment of a risk provision with respect to costs the company will incur in 2006 for restoring the original conditions of the Aoyama boutique in Tokyo, relevant to its subsequent closure.
d) write-down for Euro 158,000 of the equity investment of the subsidiary Aeffe Usa Inc. in Narciso Rodriguez LLC. and write-down for Euro 412,000 of the equity investment of the subsidiary Moschino S.p.A. in Moschino China.

Profit before taxes

Profit before taxes goes from Euro 11,361,000 in 2004 to Euro 9,213,000 in 2005, with a decrease in absolute value equal to 18.9%.

A homogeneous comparison with the value for 2004 adjusted by the royalties collected last year by the Parent Company through an out of court agreement with the licensee, net of the related legal and judicial costs incurred, would show a 2005 improvement of 1.2 percentage points on net revenues, whereas in absolute value the increase would be equal to 62%.

Net profit for the Group

Net profit for the Group goes from Euro 4,644,000 in 2004 to Euro 2,106,000 in 2005, with a decrease in absolute value equal to 54.6%. Also in this case, a homogeneous comparison with the value for 2004 adjusted by the royalties collected last year by the Parent Company through an out of court agreement with the licensee, net of the related legal and judicial costs incurred, would show an improvement of 0.4 percentage points on net revenues and 95% in absolute terms.

3. BALANCE SHEET

NET INVESTED CAPITAL

Invested capital, net of operating liabilities, increased by 2.3% with respect to 31 December 2004.

Net working capital

Net working capital increased by Euro 4,639,000; an increase (+ 9.5%) to be deemed limited with respect to the dynamics of revenues.

The changes in the main items are described below:

- increase of Euro 2,729,000 in trade receivables mainly due to the reasons given in the Explanatory Notes;
- increase of Euro 854,000 Euro in trade payables. This increase refers to a more efficient management of purchasing;
- increase of Euro 2,211,000 in other receivables mainly due to:
  a) increase of Euro 1,278,000 in credits for prepaid costs, following higher sample collection costs deferred for the Spring/Summer 2006 season with respect to the corresponding season of the previous year, based on the percentage of sales achieved;
  b) increase of Euro 824,000 in due from the Revenue for VAT;
  c) decrease of Euro 732,000 for tax advances and prepaid taxes;
  d) increase in "other receivables" for Euro 1,107,000, mainly regarding credit notes and due from suppliers and advances for royalties.
- increase of Euro 1,538,000 in stocks and inventories mainly due to the increased turnover of Gruppo Pollini and other Group companies.
- increase Euro 986,000 in other payables.

Net fixed assets

Fixed assets decrease by Euro 18,874,000 with respect to 31 December 2004.

The main changes are as follows:

- decrease in receivables after 12 months mainly due to the attribution, in the Parent Company, of rent invoiced in advance to the same;
- decrease in the item Equity investments mainly due to the write-down of the equity investment held by the subsidiary Aeffe Usa Inc. in Narciso Rodriguez LLC;
- decrease of Euro 2,187,000 in tangible assets, net of depreciation, mainly referring to:
  a) decrease for amortisation in the year;
  b) increases due to the exchange generated by the conversion of the balance sheets into non-EU currency.
- decrease of Euro 14,781,000 in intangible fixed assets, net of amortisation, with respect to 31 December 2004, mainl for:
  a) amortisation in the period;

b) decrease in the item Goodwill due to the transfer, by the subsidiary Pollini Retail S.r.l., of the two boutiques in Milan and in Bergamo, during 2005.

Staff termination indemnities fund and other medium/long-term non-financial payables

The decrease of Euro 20,420,000 in this item with respect to 31 December 2004 is mainly due to:

- the decrease of Euro 3,111,000 in Long-term trade payables, due to the reduction of the Parent Company's debt for purchasing the "Alberta Ferretti" brand and amounts due to the leasing company, and application of the financial method provided for by IAS no. 17 to the same property leasing contract in drawing up the Consolidated financial statements;
- decrease of Euro 5,165,000 in Other long-term debts following payment by the Parent Company of a part of the amount due to Four Pollini S.r.l.;
- decrease of Other provisions for risks for Euro 5,111,000 in the subsidiary Pollini S.p.A. and subsidiary Pollini Retail S.r.l., established last year, partly as a company restructuring Fund and for a Badwill provision. These provisions were utilised, as the company restructuring projects for which they were allocated were entirely completed and the company no longer has to incur costs for that purpose;
- increase in Staff termination indemnities fund and Provision for taxation.

DIFFERENCE BETWEEN PAYABLE TO BANKS AND FINANCIAL CREDITS

The Difference between Payable to banks and financial Credits at 31 December 2005 (equal to Euro 103,430,000) decreases by Euro 614,000 with respect to the previous year.

The consolidated Free cash flow statement shows a significant improvement in the non-operating cash flow and operating cash flow in line with 2004.

NET EQUITY

Net equity increased by Euro 4,494,000. The reasons for this increase are given in detail in the Explanatory Notes.

4. RESEARCH & DEVELOPMENT ACTIVITIES

Considering the particular nature of our production, research & development activities consisted of the continual technical/stylistic renewal of our models and constant improvement of the materials for manufacturing the product.

Although having all the requisites for entering among Research & Development costs of the intangible fixed assets, these costs were entirely entered in the Income Statement for 2005.

5. EXPECTED OPERATING TREND

The international economic situation is defining a general growth trend and therefore the economic crisis, that characterised previous years, appears to be slowly waning.
This will positively influence the trend of the financial markets and the confidence of operators, even if it will not be easy to accurately forecast the consumption demand trend, mainly because of the particular nature of the sector in which our Group operates and for the competition of Asian countries.
With all the due prudence, the prospects for our Company appear to be encouraging, as currently confirmed by an increase in orders for the 2006 winter season estimated at around 15% with respect to the corresponding season last year, both for the domestic and foreign markets.

for the Board of Directors
The Chairman
Massimo Ferretti

Aeffe S.p.A.
Auditor's report according to art. 2409 ter Civil Code

To the shareholders of Aeffe SpA

1. We have audited the consolidated financial statements of Aeffe S.p.A. as of 31 December 2005. These consolidated financial statements are the responsibility of Aeffe's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards and criteria. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provide a reasonable basis for our opinion.

   For the auditors' opinion on the prior year consolidated financial statements, which are presented for comparative purposes in accordance with the law, reference should be made to the auditors' report issued on 8 April 2005 by us.

3. In our opinion, the consolidated financial statements of the Aeffe S.p.A. as of 31 December 2005 comply with the laws governing the criteria for their preparation; accordingly, they give a true and fair view of the financial position and of the results of operations of the Group.

Bologna, 6 April 2006

Mazars & Guérard S.p.A.

Simone Del Bianco

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AEFFE FASHION GROUP

AEFFE FASHION GROUP - CONSOLIDATED BALANCE SHEET

ASSETS	31.12.2005		31.12.2004	
A. AMOUNTS DUE FROM SHAREHOLDERS				
B. FIXED ASSETS		**178,601,084**		**195,521,845**
I. Intangible fixed assets		128,276,293		143,057,744
1) Start-up and expansion costs	443,098		656,562	
2) Research, development and advertising costs				
3) Industrial patent and rights for the use of intellectual property	178,646		113,783	
4) Concessions, licences, trade marks and similar rights	44,831,205		47,962,903	
5) Goodwill	39,988,323		45,298,447	
5bis) Consolidation differences	26,848,160		28,596,952	
6) Fixed assets in progress and advances			2,000	
7) Other intangible assets	16,986,861		20,427,097	
II. Tangible fixed assets		45,111,666		47,298,353
1) Lands and buildings	34,804,368		34,255,493	
2) Plant and machinery	4,426,503		5,631,103	
3) Industrial and commercial equipment	157,741		197,767	
4) Other assets	3,372,404		4,173,634	
5) Assets in progress and advances	2,350,650		3,040,356	
III. Financial fixed assets		5,213,125		5,165,748
1) Investments in:				
a) Controlled companies	299,210		305,328	
d) Other companies	257,640		369,097	
2) Receivables				
a) Controlled companies	1,650,000		1,665,082	
b) Related companies	152,500		152,500	
d) Other receivables	2,853,775		2,673,741	
C. CURRENT ASSETS		**135,321,673**		**134,213,947**
I. Stocks and inventories		50,799,084		49,260,770
1) Raw and subsidiary materials	12,256,163		11,769,770	
2) Work in progress and semi-finished products	8,364,934		8,451,507	
4) Finished products	29,879,437		28,137,122	
5) Advances	298,550		902,371	
II. Receivables		77,524,650		74,106,998
1) Trade receivables	35,144,503		32,415,206	
2) From controlled companies	418,867		418,623	
3) From related companies				
4- bis) Tax receivables	3,650,279		4,072,488	
4 - ter) For anticipated taxes	6,204,187		5,702,119	
5) Other receivables	32,106,814		31,498,562	
III. Liquid financial assets				
5) Marketable securities				
IV. Liquid assets		6,997,939		10,846,179
1) Bank accounts	6,352,675		9,865,644	
2) Cheques	422,383		450,536	
3) Cash on hand	222,881		529,999	
D. ACCRUED INCOME AND PREPAID EXPENSES		**1,744,928**		**2,010,543**
- accrued income	80,785		71,508	
- prepaid expenses	1,664,143		1,939,035	
TOTAL ASSETS		**315,667,685**		**331,746,335**

LIABILITIES	31.12.2005		31.12.2004	
A. GROUP SHAREHOLDERS' EQUITY		**55,727,230**		**52,187,954**
I. Share capital	22,500,000		22,500,000	
II. Shares overprice reserve	11,345,480		11,345,480	
IV. Legal reserve	1,956,727		1,815,464	
VII. Other reserves	22,965,554		18,847,403	
VIII. Profits (losses) carried-forward	-5,146,692		-6,964,243	
IX. Net income (loss) for the year	2,106,161		4,643,850	
MINORITY INTERESTS		**12,133,756**		**11,179,237**
TOTAL CONSOLIDATED EQUITY		**67,860,986**		**63,367,191**
B. PROVISIONS FOR RISKS AND CHARGES		**8,790,030**		**11,266,362**
1) Provision for retirement benefits and similar obligations	2,045,575		2,032,196	
2) Provision for taxes	5,775,706		3,471,574	
3) Other provisions	968,749		5,762,592	
C. STAFF TERMINATION INDEMNITIES FUND		**12,448,360**		**11,682,952**
D. PAYABLES		**226,517,074**		**245,150,793**
3) Due to shareholders for loans	19,800,643		19,430,577	
4) Payables to banks	115,083,896		119,380,915	
5) Payables to other financial institutions	355,315		710,631	
6) Advances	5,918,976		4,585,135	
7) Trade payables	68,056,548		70,288,349	
9) Payables to controlled companies			25,146	
10) Payables to related companies				
12) Tax payables	3,120,624		3,821,785	
13) Social security	2,459,700		2,339,045	
14) Other debts	11,721,372		24,569,210	
E. ACCRUED EXPENSES AND DEFERRED INCOME		**51,235**		**279,037**
- accrued expenses	38,160		236,065	
- deferred income	13,075		42,972	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**315,667,685**		**331,746,335**
TOTAL MEMORANDUM ACCOUNTS		**3,673,000**		**4,197,000**
1) Leasing expenses due	215,000		338,000	
2) Guarantees given to the third parties	3,458,000		3,859,000	
3) Risks account				

AEFFE FASHION GROUP - CONSOLIDATED INCOME STATEMENT

	31.12.2005		31.12.2004	
A. OUTPUT VALUE				
1) Revenues from sales and services		245,895,946		246,081,460
2) Inventory changes		1,087,118		1,420,741
5) Other revenues		7,879,579		4,851,817
TOTAL OUTPUT VALUE		**254,862,643**		**252,354,018**
B. OUTPUT COSTS				
6) Raw materials, supplies and purchased goods		71,258,358		72,565,058
7) Services		80,302,430		80,677,324
8) Costs for use of third parties' goods		15,383,623		15,059,049
9) Staff costs:		53,989,777		52,027,295
a) salaries and wages	40,697,661		39,211,692	
b) social security costs	10,489,959		10,171,921	
c) termination indemnity	2,328,762		2,299,519	
e) other staff costs	473,395		344,163	
10) Depreciations, amortisations and writedowns		15,822,862		15,517,939
a) intangible assets amortisation	11,196,211		11,574,950	
b) tangible assets depreciation	3,497,674		3,669,406	
d) bad debts expense on current accounts receivable	1,128,977		273,583	
11) Changes in raw materials stocks		188,985		330,105
12) Provisions for risks				
13) Other accruals		82,694		63,629
14) Other operating costs		1,795,452		1,074,117
TOTAL OUTPUT COSTS		**238,824,181**		**236,654,306**
DIFFERENCE BETWEEN OUTPUT VALUE AND OUTPUT COSTS		**16,038,462**		**15,699,712**
C. FINANCIAL INCOME AND EXPENSES				
15) Income from investments:				
- from controlled companies				
116. *16) Other financial income from:*		1,398,922		1,861,332
c) from securities entered in the current assets				
d) other	1,398,922		1,861,332	
17) Interests and other financial charges:		6,440,245		6,983,565
- from parent holding company				
- other	6,440,245		6,983,565	
17 bis) *Exchanges profits and losses*		67,382		101,359
FINANCIAL INCOME AND EXPENSES		**-4,973,941**		**-5,020,874**
D. ADJUSTMENTS TO VALUE OF FINANCIAL ASSETS				
18) Revaluation:				
a) of equity investments				
19) Writedown:		575,591		530,721
a) of equity investments	575,591		530,721	
ADJUSTMENTS TO FINANCIAL ASSETS		**-575,591**		**-530,721**
E. EXTRAORDINARY INCOME AND EXPENSES				
20) Income:		155,814		15,094,568
- capital gain from sales of assets			5,715	
- other	155,814		15,088,853	
21) Expenses		1,432,095		13,881,673
- capital losses from sale of assets	559,041		66,265	
- taxes related to previous years	13,363		106,215	
- other	859,691		13,709,193	
TOTAL NET EXTRAORDINARY ITEMS		**1,276,281**		**1,212,895**
PROFIT BEFORE TAXES		**9,212,649**		**11,361,012**
22) Taxes on profit, deferred and anticipated taxes		6,325,975		5,771,220
a) Taxes on profit	5,235,193		6,046,080	
b) Deferred (anticipated) taxes	1,090,782		-274,860	
23) NET PROFIT		**2,886,674**		**5,589,792**
(Profit)/Loss attributable to minority shareholders		-780,513		-945,942
NET PROFIT FOR THE GROUP		**2,106,161**		**4,643,850**

1. STRUCTURE AND CONTENT OF THE FINANCIAL STATEMENTS

The consolidated financial statements were drawn up in compliance with provisions of Section III (art. 23 to 43) of Legislative Decree 127/91 supplemented and interpreted according to the accounting standards recommended by the Italian Accounting Profession accounting standards Board, or by the I.A.S.B. - International Accounting Standards Board, to the extent they are compatible with Italian regulations.

The Explanatory Notes are provided to illustrate, analyse and, in some cases, supplement the data in the consolidated financial statements, and contain the information required by art. 38 of Legislative Decree 127/91. They also supply all the additional information deemed necessary for providing a true and accurate account, even if not required by a specific provision of the law.

The consolidated financial statements as at 31 December 2005 were prepared using the statutory balance sheets of each consolidated company, approved, on the same date, by the company bodies.

These financial statements were drawn up according to the accounting principles and standards recognised by art. 2423 et seq. of the Italian Civil Code, and in line with those prepared by the Italian Accounting Profession. Some items of the financial statements have been reclassified and adjusted to comply with the Group accounting principles.

Significant events after year-end are described in the Directors' Report.

2. CONSOLIDATION PRINCIPLES

A) Consolidation methods

Consolidation is carried out with the line by line method. The criteria used for applying this method are mainly the following:

- the book value of equity investments, held by the Parent Company or other consolidated companies, was written-off against the related net equity at 31 December 2005 in relation to assumption of the assets and liabilities of the subsidiaries;
- the difference between the acquisition cost and net equity of the subsidiaries on the date of purchase of the equity investment is charged, where possible, to the assets and liabilities of the subsidiaries; any remaining difference is recorded under the item "consolidation difference" of the intangible fixed assets and amortised over 20 years;
- significant operations occurring between consolidated companies are written-off, and likewise credit and debit entries and profits not realised towards third parties arising from transactions between Group companies, net of any tax effect;
- minority quotas of Net equity and Profits or Losses for the year are recorded in the special Balance Sheet and Income Statement items;
- Companies acquired in the year are consolidated from the date the majority was obtained.

B) Converting the financial statements of foreign companies into Euro

The financial statements of foreign companies drawn up in non-Euro area currencies were converted into Euro, in relation to consolidation, using the average exchange rate for the year for Income Statement items and the year-end exchange rate for Balance Sheet items.

Exchange differences arising from the conversion of initial Net equity items at the current year-end exchange rate, with respect to the exchange rates at the previous year-end, as well as those arising from conversion of the operating result at average exchange rates with respect to conversion at current year-end exchange rates, are charged to change in consolidated Net equity.

The exchange rates against Euro are given in the following table:

Currency	Exchange rate at 31.12.04	Exchange rate at 31.12.05	Average exchange rate 2005	Average exchange rate 2004
USD	1.2439	1.1797	1.2448	1.2439
GBP	0.6786	0.6853	0.684	0.6786

3. SCOPE OF CONSOLIDATION

The Group consolidated financial statements include the financial statements as at 31 December 2005 of Aeffe S.p.A. (hereinafter also "Parent Company") and those of the Italian and foreign companies the Parent Company directly or indirectly controls pursuant to art. 2359 of the Italian Civil Code.

The list of consolidated subsidiaries is as follows:

Company	Headquarter	Currency	Share capital	Direct Interest	Indirect Interest
Companies consolidated with the line by line method:					
Italian companies					
Aeffe Retail S.p.A.	S. G. in Marignano (RN - Italy)	EURO	8,585,150	100%	
Ferretti Studio S.r.l.	S. G. in Marignano (RN - Italy)	EURO	10,400	95%	
Velmar S.p.A.	S. G. in Marignano (RN - Italy)	EURO	492,264	75%	
Pollini Retail S.r.l.	Gatteo (FC - Italy)	EURO	5,000,000		71.86%(1)
Pollini S.p.A.	Gatteo (FC - Italy)	EURO	6,000,000	72%	
Moschino S.p.A.	S. G. in Marignano (RN - Italy)	EURO	20,000,000	70%	
Nuova Stireria Tavoleto S.r.l.	Tavoleto (PU - Italy)	EURO	10,400	100%	
Foreign companies					
Aeffe Usa Inc.	New York (USA)	USD	600,000	100%	
Aeffe UK Ltd	London (GB)	GBP	310,000	100%	
Aeffe France S.a.r.l.	Paris (FR)	EUR	1,550,000	99.9%	
Ozbek (London) Ltd	London (GB)	GBP	300,000	92%	
Divè S.A.	Galazzano (RSM)	EURO	260,000	75%	
Fashoff UK Ltd	London (GB)	GBP	1,550,000		70% (2)
Moschino France S.a.r.l.	Paris (FR)	EURO	50,000		70% (2)
Moschino Retail GmbH	Berlin (D)	EURO	100,000		70% (2)
Moschino Far East Ltd	Hong Kong (HK)	USD	128,866		35.07% (3)
Equity investments evaluated with the equity method:					
Foreign companies					
Pollini France S.a.r.l.	Paris (FR)	EUR	200,000		72% (4)
Fashion Retail Company S.r.o.	Brno (Rep. Ceca)	CZK	200,000		100% (5)

Notes (breakdown of indirect holdings):
(1) 99.8% owned by Pollini S.p.A.;(2) 100% owned by Moschino S.p.A.;
(3) 50.1% owned by Moschino S.p.A.;
(4) 100% owned by Pollini S.p.A.;
(5) 100% owned by Aeffe Retail S.p.A.

No changes with respect to the previous year were recorded.

4. RECONCILIATION BETWEEN SHAREHOLDERS' EQUITY AND NET PROFIT FOR THE YEAR OF THE PARENT COMPANY WITH THE CORRESPONDING CONSOLIDATED VALUES

All amounts given in the following statements are expressed in EUR/000.

The statement of reconciliation between net equity and profit for the year resulting from the Balance Sheet of the Parent Company and the corresponding consolidated values as at 31 December 2005 is as follows:

	Shareholders' Equity	Net Profit for the year
Amounts resulting from the Balance Sheet of the Parent Company Aeffe S.p.A.	**59,684**	**1,950**
Consolidation Adjustments:		
a) Differences between the book value of equity investments and their valuation according to the equity method	7,991	429
b) Elimination of intragroup profits not realised towards third parties and included in the stocks and inventories	(1,438)	(66)
c) Elimination of the effects of the fiscal interferences relating to financial leasing operations (IAS 17)	1,624	573
Consolidated shareholders' equity and profit for the year pertaining to minority shareholders	(12,134)	(780)
Group Consolidated Shareholders' Equity and Net Profit	**55,727**	**2,106**

5. ACCOUNTING PRINCIPLES AND VALUATION CRITERIA

The criteria used in drawing up the financial statements as at 31 December 2005 are the same as those used for the previous year, in particular in the valuations and continuity of the same principles, except for changes due to application of the new principles introduced by Legislative Decree 6/2003 implementing the company law reform.

The most significant valuation criteria used for drawing up the consolidated financial statements as at 31 December 2005 and applied in a homogeneous way with respect to those of the previous year are as follows:

Intangible fixed assets

Intangible fixed assets are entered at purchase cost, inclusive of additional charges, and methodically amortised according to the period of their expected future life.

Start-up and expansion costs are amortised over 5 years; research, development and advertising costs are entirely charged at cost in the period they are incurred. Industrial patent and rights for the use of intellectual property are amortised over 3 years. Concessions, licences, trademarks and similar rights are amortised over 20 years according to the type of activity carried on, the consolidated presence on the market and the potential of the brands owned by the Group.

Goodwill acquired by subsidiaries against payment and entered in the assets with the consent of the respective Boards of Auditors is amortised over 20 years. The choice of an amortisation period exceeding 5 years is due to needs of a commercial nature, as the goodwill concerns the purchase of shop licences and/or company branches.

The Consolidation difference is amortised over 20 years in consideration of the period in which the competitive position acquired by the subsidiaries in their related markets is expected to be preserved and the procedures for obtaining economical advantages deriving from their activity within the Aeffe Fashion Group.

Fixed assets in progress mainly refer to restructuring work carried out on rented properties and not completed at year-end. These fixed assets will be amortised according to the length of the corresponding leases, including possible renewal periods.

The other fixed assets are formed of deferred charges not coming within the above classifications, and improvements to third parties' assets rented to the Companies, and are amortised at rates depending on the length of the contracts, including possible renewal periods.

Tangible assets

Tangible assets, stated net of their respective depreciation funds, are entered at purchase or production cost, excepting assets whose value was written-up according to the provisions of the law. The cost includes additional charges and costs directly imputable to the asset.

Fixed assets are methodically depreciated every year on straight-line basis according to the economic-technical rates determined in relation to their residual life; the rates applied are given in the assets section notes. The asset is correspondingly written down whenever, irrespective of the depreciation already recorded, there is a lasting loss of value.

These rates are reduced to 50% for assets coming into operation in the year.

Maintenance costs of a routine nature are entirely charged to the Income Statement. Maintenance costs of an incremental nature are attributed to the assets to which they refer and depreciated according to their residual life.

Assets in progress and advances to suppliers are entered in the assets according to the cost incurred, including directly chargeable expenses.

Leased assets

Leased assets are recorded according to the provisions of document no. 17 of the IAS/IFRS.

According to this set-up:

- the cost of leased assets is entered among the tangible assets and is depreciated on a straight-line basis over the useful life of the assets;
- rent is recorded in order to separate the financial element from the capital share, to be considered as a debt towards to lessor.

Financial fixed assets

Equity investments in subsidiaries have been consolidated in these financial statements.

The other equity investments where the Group does not exercise a considerable influence or that in any case carry on a limited activity, are reflected in the balance sheet according to the purchase cost or subscription method, or the equity method; the book value is prudentially adjusted in case of lasting loss of value of the subsidiary.

Receivables entered among the financial fixed assets are valued according to their probable realisation value.

Stocks and inventories

Stocks and inventories are entered at the lower of purchase or production cost and the corresponding market or probable realisation value.

Obsolete and slow-moving stocks are written-down in relation to their possible use or recovery.

The criteria adopted for the Parent Company were also used for the Italian and foreign subsidiaries.

Receivables

These are stated at their probable realisation value. Adjustment of the nominal value of receivables to the probable realisation value is obtained by means of a special provision for bad debts.

Liquid assets

Liquid assets at year-end are evaluated at their nominal value.

Accruals and prepayments

These items include costs and income common to two or more years, for recording on an accrual basis.

Provisions for risks and charges

The provisions for risks and charges are intended to cover losses or liabilities of a given nature and certain or probable existence, but whose exact amount or date of occurrence are not known at year-end. The allocations reflect the best possible estimate according to the elements available.

Risks for which a liability is only possible are indicated in the explanatory notes, without allocating a provision for risks and charges.

Staff termination indemnities fund

The staff termination indemnities fund is allocated to cover the entire liability accrued towards employees in compliance with current law and the collective labour and company agreements.

This liability is subject to revaluation by means of indexes.

Payables

Payables are stated at their nominal value.

Contributions of capital and for operating expenses

Contributions of capital are entered directly in a special Accruals and Prepayments item, when the related amounts become certain, and credited to the Income Statement in a period correlated to the useful life of the assets to which they refer.

Contributions for operating expenses are credited to the Income Statement when the related amounts become certain.

Recording of revenues and costs

Revenues for sales are entered in the Income Statement:

- for products, at the time of shipment;
- for services, at the time the service is performed.

Costs and charges are recorded on an accrual basis.

Costs incurred in the year for the production of sample collections and styling activities for the Spring/Summer and Autumn/Winter seasons, whose sales occur in the following year, are correlated to the related revenues and deferred to the following year.

Income tax

Income tax is entered according to the estimated taxable income of the consolidated Companies in accordance with current provisions, taking into account the applicable exemptions and tax credits due.

Prepaid taxes relevant to previous tax losses and expenses tax-deductible in several years, and deferred taxes payable for income and revenues taxable in several years are also allocated.

Lastly, prepaid and deferred taxes consequent to the adjustments made to the balance sheets of Group Companies with consolidation are allocated.

Prepaid taxes are recorded when there is reasonable certainty of future taxable profits in relation to which such credit balance can be used.

Conversion criteria for items in foreign currency

Receivables and payables originally expressed in foreign currency are entered in Euro at the historical exchange rates on the date of the related transactions. The exchange differences realised upon collection of the credits and payment of the liabilities in foreign currency are entered in the income statement.

In particular, assets and liabilities, not representing fixed assets, are entered at the spot exchange rate on the date of year-end and the related exchange profits and losses are entered in the Income Statement item 17 bis "Exchange profits and losses". Any net profit resulting from the adjustment of foreign currency items to the year-end exchange rates is allocated to a special reserve, not distributable until its realisation, for the part not absorbed by a possible operating loss.

6. NOTES ON THE MAIN ASSETS ITEMS

FIXED ASSETS

Special tables have been prepared for the fixed assets, indicating for each item the historical costs, previous amortisation an previous write-ups and write-downs, movements occurring in the year, closing balances, as well as the total of write-ups existing at year-end.

INTANGIBLE FIXED ASSETS

The change and composition of this item are given in Annex I.

The decrease in the item "Start-up and expansion costs" for approx. Euro 214,000 mainly refers to amortisation in the period.

The item "Industrial patent and rights for the use of intellectual property" mainly refers to the Parent Company and regards costs incurred for the purchase, upgrading and enhancing of software programs for the Administrative and Technical Departments. The increase for the year mainly concerns the Parent Company (Euro 102,000).

"Concessions, licences, trademarks and similar rights" mainly concerns the trademark entered in the balance sheet of Moschino S.p.A. and deriving from the merger with Moonshadow S.p.A., carried out in 2000, and the trademarks entered in the balance sheet of the Parent Company and deriving from the acquisition occurring in December 2002. These intangible fixed assets are amortised over 20 years in consideration of the type of activity carried on, consolidated presence on the market and potential of the trademarks. The change in the year mainly refers to amortisation for the period.

"Goodwill" includes the amounts paid for purchasing the licences of boutiques situated in the main shopping streets of Milan and Rome.

The increase for the year refers entirely to the reclassification from the item "Other intangible fixed assets", made by the Parent Company Aeffe S.p.A., of the amount paid for purchasing the licence of the boutique situated in Via Andegari, Milan, to better represent the balances.

The decrease in the item mainly refers to the transfer by the subsidiary Pollini Retail S.r.l. of the two boutiques situated in Milan and Bergamo, in 2005.

The item "Consolidation difference" includes the higher values paid, with respect to the corresponding fraction of the net equity value pertaining to the Group, for the equity investments in Pollini S.p.A., Divè S.A., Aeffe Retail S.p.A. and Velmar S.p.A..

The breakdown of this item is as follows:

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	Consolidation Difference	Amortisation and Devaluation Fund	Balance at 31.12.2005
Pollini S.p.A.	29,495	(7,018)	22,477
Pollini Retail S.r.l.	301	(15)	286
Aeffe Retail S.p.A.	3,056	(738)	2,318
Nuova Stireria Tavoleto S.r.l.	739	(111)	628
Sub-consolidated Moschino	249	(36)	213
Divè S.A.	655	(149)	506
Aeffe France Sarl	345	(52)	293
Velmar S.p.A.	159	(32)	127
Total	**34,999**	**(8,151)**	**26,848**

The item "Other intangible fixed assets" was reduced for the reclassification to the item "Goodwill" , made by the parent company Aeffe S.p.A., of the amount paid for purchasing the licence of the boutique situated in Via Andegari, Milan, to better represent the balances.

Increases in the year mainly refer to improvements to third party assets made by the subsidiary Moschino for Euro 2,509,000 and by the Parent Company for Euro 104,000.

In particular:

a) investments by the Moschino Group mainly refer to improvements to third party assets made by the subsidiary Moschino Far East Ltd. to the boutiques;

b) the investments made by Aeffe S.p.A. refer to improvements made to the building in Via Donizzetti and the building in Via Bezzecca situated in Milan.

These fixed assets were amortised during the year according to the length of the corresponding leases, including possible renewal periods.

TANGIBLE ASSETS

The change and composition of this item are given in Annex II.

The increase in the item "Land and buildings" mainly regards Euro 1,579,000 for the conversion difference referred to the subsidiary Aeffe Usa Inc.. The remaining decrease refers to depreciation in the year.

Decreases in the item "Plant and machinery" mainly concern amortisation in the year.

The decrease in "Assets in progress and advances" mainly refers to the recovery by Aeffe S.p.A. of advances originally paid for the purchase of properties, then subsequently not carried out.

The fixed assets were methodically depreciated on a straight-line basis according to the following rates, deemed representative of the residual life of the assets:

Buildings	2.56% - 3%
Plant and machinery	10% - 12.5%
Industrial and commercial equipment	25%
Electronic machines	20%
Motor vehicles	20%
Cars	25%

In the year of purchase the rates are applied at 50%, as this is the percentage deemed representative of the residual life of the asset.

The indication of write-ups of tangible assets made by Group companies in previous years, according to the law, is given in Annex IV.

FINANCIAL FIXED ASSETS

Equity investments

Equity investments comprise the following:

	31.12.2004	Increases	Decreases	31.12.2005
Subsidiaries	305	3	(9)	299
Other companies	369	-	(111)	258
Total	**674**	**3**	**(120)**	**557**

Non-consolidated subsidiaries

The increase for the year refers to the subscription by Aeffe S.p.A. of 70% of the share capital of the newly incorporated company AV Suisse, which owns the Autier brand. The decrease in the year refers entirely to the equity investment in Pollini Uk (100% owned by the subsidiary Pollini S.p.A.).

Other companies

The decrease in the year mainly concerns Narciso Rodriguez LLC for Euro 158,000, due to the write-down of the equity investment made in the year by the subsidiary Aeffe Usa Inc. and for Euro 55,000 due to the positive exchange rate effect relevant to the same.

Receivables

Due from subsidiaries

The balance includes loans to subsidiaries and non-consolidated companies.

The breakdown of the balance is as follows:

a) interest-free loan granted to the subsidiary Pollini France S.a.r.l. by Pollini S.p.A. for Euro 1,600,000;

b) interest-free loan granted to AV Suisse by the parent company Aeffe S.p.A. for Euro 50,000.

Due from associated companies

The balance includes the loan of Euro 152,500 granted by the subsidiary Aeffe France S.a.r.l. to Pollini France S.a.r.l. in turn controlled by Pollini S.p.A. and not included in the scope of consolidation.

Other receivables

The balance mainly includes receivables for guarantee deposits for Euro 2,807,000.

The increase mainly refers to the subsidiary Moschino Far East Ltd. for guarantee deposits in relation to shop leases.

CURRENT ASSETS

Stocks and inventories

The breakdown of this item is given in the following table.

	31.12.2005	31.12.2004	*Changes*
Raw and subsidiary materials	12,256	11,770	*486*
Work in progress and semi-finished products	8,365	8,451	*(86)*
Net finished products	29,879	28,137	*1,742*
Advances	299	902	*(603)*
Net stocks and inventories	**50,799**	**49,260**	***1,539***

The change in this item with respect to the previous year is mainly due to the following companies:

a) Gruppo Pollini, increase of Euro 2,478,000 following the increased turnover;

b) Aeffe S.p.A, decrease of Euro 1,081,000 following the higher number of shipments relevant to the spring-summer season, compared with the same season last year.

Receivables

Trade receivables

The breakdown of this item is given in the middle table.

	31.12.2005	31.12.2004	*Changes*
Trade receivables	36,152	33,324	*2,828*
(Provision for bad debts)	(1,008)	(909)	*(99)*
Net trade receivables	**35,144**	**32,415**	***2,729***
- of which short-term	35,144	32,415	*2,729*

The increase in short-term Trade receivables is mainly due to the increase in the parent company Aeffe S.p.A. due to a higher number of shipments relevant to the spring-summer season compared with the same season last year and the dollar exchange effect in the subsidiary Aeffe Usa.

Due from non-consolidated subsidiaries

The breakdown of this item is as follows:

	31.12.2005	31.12.2004	*Changes*
Due from non-consolidated subsidiaries within 12 months	419	419	-

The balance includes trade receivables due from non-consolidated subsidiaries at 31 December 2005.
In particular, it concerns trade receivables of Pollini S.p.A. due from Pollini France S.a.r.l. for Euro 419,000.

Other receivables

The table below gives the breakdown of this item.

	31.12.2005	31.12.2004	*Changes*
Other receivables within 12 months	32,863	30,386	2,477
Other receivables after 12 months	9,099	10,887	*(1,788)*
Total	**41,962**	**41,273**	***689***

The change in "Other receivables within 12 months" with respect to the previous year is due to the combined effect of increases and decreases, summarised as follows:

a) increase of Euro 824,000 in due from the Revenue for VAT;
b) increase of Euro 1,278,000 for prepaid expenses;
c) decrease of Euro 732,000 for current tax prepayments and prepaid taxes. The latter are commensurate with the future benefits linked to availment of taxed funds for the part reasonably realisable and losses in previous years, for which there is reasonable certainty of obtaining taxable incomes enabling their related recovery;
d) positive change in "other receivables" for Euro 1,107,000, mainly relevant to trade receivable for credit notes and due from suppliers and advances for royalties.

The balance at 31 December 2005 mainly includes:

- receivables for prepaid taxes for Euro 6,204,000;
- receivables for prepaid expenses for Euro 19,178,000;
- VAT credits for Euro 2,673,000;
- trade receivables for credit notes and due from suppliers for Euro 1,439,000;
- receivables for advances for royalties for Euro 1,229,000:
- due from the Revenue for advances for Euro 845,000;
- other receivables for Euro 1,295,000.

The change in the item "Other receivables after 12 months", with respect to the previous year, is mainly due to the decrease in receivables for rent in the Parent Company for the accruing of rent invoiced in advance and the decrease in receivable for rent paid in advance by the subsidiary Aeffe Retail S.p.A..

The balance includes:

- rent charged in advance to the Parent Company for Euro 7,276,000;
- receivables for advance rent paid by the subsidiary Aeffe Retail S.p.A. for Euro 1,418,000;
- due from the Revenue for Euro 404,000.

Liquid assets

The table below gives breakdown of this item.

	31.12.2005	31.12.2004	*Changes*
1) Bank accounts	6,353	9,866	*(3,513)*
2) Cheques	422	450	*(28)*
3) Cash on hand	223	530	*(307)*
Total	**6,998**	**10,846**	***(3,848)***

The balance represents the liquid assets and cash on hand at year-end.
For an analysis of Group net financial debt, refer to the attached cash flow statement.

ACCRUED INCOME AND PREPAID EXPENSES

The breakdown of this item at 31 December 2005 is as follows:

	31.12.2005	31.12.2004	*Changes*
Accrued income	81	71	*10*
Prepaid expenses	1,664	1,939	*(275)*
Total	**1,745**	**2,010**	***(265)***

The decrease in this item with respect to the previous year is mainly due to the reclassification under the Other short-term receivables, made by the parent company Aeffe S.p.A., of prepaid expenses relevant to Jean Paul Gautier which were entered as prepaid expenses in previous period.

7. NOTES ON THE MAIN LIABILITIES ITEMS

NET EQUITY

Described below are main categories making up Net equity at 31 December 2005, whereas the relevant changes are illustrated in Annex III.

	31.12.2005	31.12.2004
Share capital	22,500	22,500
Legal reserve	1,957	1,815
Share premium reserve	11,345	11,345
Extraordinary reserve	16,296	16,296
Other reserves	5,635	2,952
Conversion reserve	1,033	(399)
Losses carried forward	(5,145)	(6,965)
Net profit for the Group	2,106	4,644
Minority interests	12,134	11,179
Total	**67,861**	**63,367**

Share capital

The Share Capital of the Parent Company at 31 December 2005, fully subscribed and paid-up, consists of 22,500,000 registered shares of 1 Euro each, for a total value of Euro 22,500,000.

Legal reserve

The Legal reserve, which at 31 December 2004 totalled Euro 1,815,000, was increased by Euro 142,000 through allocation of 5% of the Parent Company's profit for the previous year, and therefore totals Euro 1,957,000 at 31 December 2005.

Share premium reserve

The Share premium reserve is unchanged with respect to 31 December 2004.

Other reserves

The Extraordinary reserve and Other reserves increased due to the statutory profits of F/Y 2004 which were not distributed.

The item Losses carried forward decreased due to 2004 consolidated profits being higher than the statutory of the same year.

Minority interests

The increase in the item Capital and reserves is mainly attributable to the share part of 2005 profits due to minority shareholders.

PROVISIONS FOR RISKS AND CHARGES

At 31 December 2005 the provisions total:

	31.12.2005	31.12.2004	*Changes*
Provisions for risks and charges	8,790	11,266	*(2,476)*

The composition of these provisions is as follows:

Provision for retirement benefits

Balance at 31.12.2004	**2,032**
Increases	49
Decreases	(36)
Balance at 31.12.2005	**2,045**

The year-end balance mainly concerns the Parent Company Aeffe S.p.A. for Euro 1,717,000 and the subsidiary Pollini S.p.A. for Euro 238,000 and refers to the Customer supplementary indemnity fund. The increases regard provisions in the year.

Accrued and advance income taxes

The balance at 31 December 2005 is as follows:

Balance at 31.12.2004	**3,471**
Increases	2,458
Decreases	(153)
Balance at 31.12.2005	**5,776**

and mainly concerns:

- deferred taxes recorded in the balance sheet of the Parent Company and the subsidiary Moschino S.p.A relevant to taxable temporary differences (accelerated depreciation and capital gains);
- the tax effects of consolidation adjustments, with particular reference to write-offs of intercompany profits on inventories and entries for harmonising the accounting principles of subsidiaries with those of the Parent Company.

Other provisions

Balance at 31.12.2004	**5,762**
Increases	317
Decreases	(5,111)
Balance at 31.12.2005	**968**

The increase for the period mainly includes the allocation made by the subsidiary Moschino Far East Ltd. for restructuring charges expected to be incurred for restoring the Aoyama boutique in Tokyo, in relation to its subsequent closure in 2006.

The decrease refers to availment of the provision for restructuring costs by Pollini S.p.A., for Euro 3,605,000, and availment of the Badwill fund by the subsidiary Pollini Retail S.r.l., for Euro 1,506,000. These provisions were utilised since the company restructuring projects for which they were allocated were entirely completed and the companies do not have to incur other future costs for that purpose.

STAFF TERMINATION INDEMNITIES FUND

The movement was as follows:

Balance at 31.12.2004	**11,683**
Allocations	2,328
Availment	(1,563)
Balance at 31.12.2005	**12,448**

The Fund provision represents the Group's liability towards employees at 31 December 2005, net of advance payments.

PAYABLES

Due to shareholders for loans

The breakdown of the balance is as follows:

	31.12.2005	31.12.2004	*Changes*
Due to shareholders within 12 months	-	-	-
Due to shareholders after 12 months	19,801	19,430	*371*
Total	**19,801**	**19,430**	***371***

"Due to shareholders after 12 months" refers to:

- residual debt of Euro 14,045,000, incurred by the subsidiary Moschino S.p.A. towards Sinv S.p.A. for a "shareholders interest-free loan";
- medium/long-term liability of Euro 5.755,000, obtained from the subsidiary Moschino Far East Ltd by Bluebell Far East Ltd. The change with respect to the previous year mainly refers to new disbursements in the period.

Payable to banks

The breakdown of the balance is as follows:

	31.12.2005	31.12.2004	*Changes*
Payables to banks within 12 months	61,991	81,011	*(19,020)*
Payables to banks after 12 months	53,093	38,370	*14,723*
Total	**115,084**	**119,381**	***(4,297)***

The balance of Payable to banks at 31 December2005, inclusive of loans payable, represents the actual debt for capital, interest and additional charges accrued and payable.

There are no "Payables to banks" after five years.

Net of short-term available funds and medium-term financial credits, consolidated financial borrowing at 31 December 2005 totalled Euro 103,430,000 against Euro 104,043,000 at 31 December 2004.

For the breakdown of Group net financial borrowing, refer to the consolidated Free Cash Flow statement.

Payables to other financial institutions

The breakdown of the balance is as follows:

	31.12.2005	31.12.2004	*Changes*
Payables within 12 months	355	357	*(2)*
Payables after 12 months	-	354	*(354)*
Total	**355**	**711**	***(356)***

"Payables within 12 months" refer to the short-term amount of the loan obtained in several tranches by Simest S.p.A from Parent Company, for the purpose of penetrating the United States market. The interest-free loan was used to open the Alberta Ferretti Philosophy boutique situated in New York.

The decrease in "Payables within 12 months" refers to the loan amount repaid in 2005.

Advances

The breakdown of the balance is as follows:

	31.12.2005	31.12.2004	*Changes*
Advances within 12 months	5,919	4,585	*1,334*

The item includes trade payables for advances received from Italian and foreign customers based on normally applicable sales terms, for outstanding orders.

Trade payables

Given below is the breakdown and comparison with the previous year:

	31.12.2005	31.12.2004	*Changes*
Trade payables within 12 months	50,025	49,146	*879*
Trade payables after 12 months	18,031	21,142	*(3,111)*
Total	**68,056**	**70,288**	***(2,232)***

The balance of "Trade payables after 12 months" mainly refers for Euro 7,276,000 to the Parent Company's debt arising after signing the above-mentioned property lease and for Euro 9,755,000 to the adoption, in drawing up the Consolidated Financial Statements, of the financial method provided for by IAS no. 17 for the same contract. The decrease in this item is due to the entering of lower payables in accordance with the above-mentioned IAS no. 17, and the decrease in the Parent Company's liabilities following payments for Euro 2,647,000.

Tax payables

Given below is the breakdown and comparison with the previous year:

	31.12.2005	31.12.2004	*Changes*
Payables within 12 months	2,774	3,475	*(701)*
Payables after 12 months	346	346	-
Total	**3,120**	**3,821**	***(701)***

The breakdown of "Tax payables within 12 months" is given in the following table and compared with the respective balances at 31 December 2004:

	31.12.2005	31.12.2004	*Changes*
Due for Irap (Regional business tax)	180	1,065	*(885)*
Due for Irpeg/Ires (corporate tax)	108	-	*108*
Due to the Revenue for withholdings	2,079	1,877	*202*
Due to the Revenue for VAT	303	232	*71*
Other	104	301	*(197)*
Total	**2,774**	**3,475**	***(701)***

Social Security

	31.12.2005	31.12.2004	*Changes*
Payables within 12 months	2,460	2,339	*121*

This item comprises Due to Social Security not outstanding at the balance-sheet date, regularly paid when due.

The balance mainly refers to:

- Aeffe S.p.A. for Euro 1,248,000;
- Gruppo Pollini for Euro 497,000;
- Gruppo Moschino for Euro 365,000.

Other payables

The balance totals:

	31.12.2005	31.12.2004	*Changes*
Payables within 12 months	11,688	14,890	*(3,202)*
Payables after 12 months	33	9,679	*(9,646)*
Total	**11,721**	**24,569**	***(12,848)***

The following table gives the breakdown and comparison with the previous year of "Other payables within 12 months":

	31.12.2005	31.12.2004	*Changes*
Due to employees for wages, salaries and deferred remuneration	3,653	3,454	*199*
Due to Four Pollini S.r.l.	5,578	9,241	*(3,663)*
Trade payables	1,006	844	*162*
Other	1,451	1,351	*100*
Total	**11,688**	**14,890**	***(3,202)***

Amounts due to Four Pollini S.r.l. at 31.12.2004 were entirely paid in the year; the balance at 31.12.2005 only refers to the Parent Company's residual debt, discharged in January 2006, and which was classified under the "Other payables after 12 months" in the previous period.

The following table gives the breakdown and comparison with the previous year of "Other payables after 12 months":

	31.12.2005	31.12.2004	*Changes*
Due to Four Pollini S.r.l.	-	9,655	*(9,655)*
Other payables	33	24	9
Total	**33**	***9,679***	***(9,646)***

The decrease in "Other payables after 12 months" refers to:

a) entering of the residual amount owed to Four Pollini s.r.l. by Parent Company for Euro 5,578,000 under the "Other payables within 12 months", as given above;

b) payment of the amount owed to Four Pollini s.r.l. by the subsidiary Pollini S.p.A for Euro 4,077,000 in the previous period.

ACCRUED EXPENSES AND DEFERRED INCOME

Accrued expenses

The balance totals:

	31.12.2005	31.12.2004	*Changes*
Accrued expenses	38	236	*(198)*

Deferred income

The balance totals:

	31.12.2005	31.12.2004	*Changes*
Deferred income	13	43	*(30)*

The balance mainly refers to deferred income on rent receivable.

8. MEMORANDUM ACCOUNTS

	31.12.2005	31.12.2004	*Changes*
Commitments	215	338	*(123)*
Guarantees	3,458	3,859	*(401)*
Total	**3,673**	**4,197**	***(524)***

The following table gives the breakdown of this item and comparison with the previous year.

"Guarantees" mainly comprises guarantees subscribed by the Parent Company and by the subsidiaries Pollini S.p.A. and Aeffe Retail S.p.A. in favour of third parties.

9. NOTES ON THE MAIN INCOME STATEMENT ITEMS

For an analysis of the operating trend, the distribution of profits by geographic area and business line, refer to the Directors' Report.

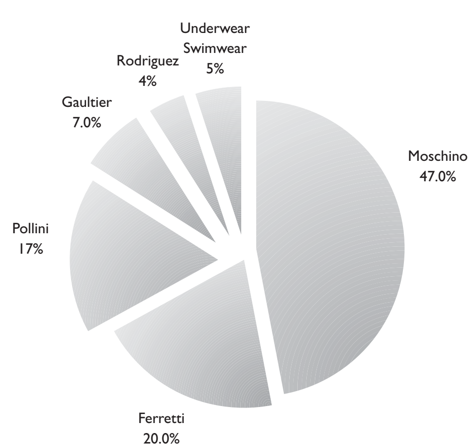
OUTPUT VALUE

Revenues from sales and services

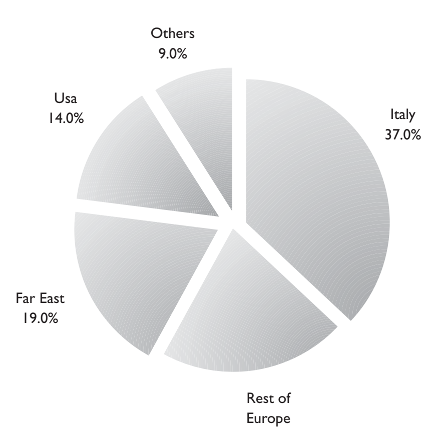
Revenues from the supply of goods and services increased by 4.6% when compared with 2004 rectified of revenues for royalties collected by the Parent Company for Euro 10,993,000 through an out of court agreement with the licensee. The main increases concerned the Parent Company Aeffe S.p.A. (+ Euro 936,000), Gruppo Pollini (+ Euro 5,963,000), Aeffe Retail S.p.A. (+ Euro 1,449,000), Aeffe Usa Inc. (+ Euro 946,000) and Gruppo Moschino (+ Euro 667,000).

The following charts illustrate the distribution of direct sales by brand, geographic area and distribution channel.

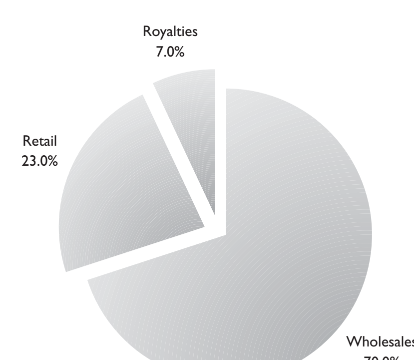
SALES BY BRAND



SALES BY GEOGRAPHIC AREA



SALES DISTRIBUTION CHANNEL



Other revenues

	31.12.2005	31.12.2004	*Changes*
Other revenues	7,879	4,852	*3,027*

"Other revenues" mainly refer to:

- availment of the restructuring provision and badwill provision by Pollini S.p.A. (for Euro 3,605,000) and Pollini Retail S.r.l. (for Euro 1,506,000). These provisions were utilised since the company restructuring projects for which they were allocated were entirely completed and the companies do not have to incur other future costs for that purpose;
- recovery of sundry costs and services for Euro 560,000;
- extraordinary income for Euro 1,025,000;
- sales of raw materials and packing for Euro 235,000;
- rent receivable for Euro 118,000.
- other for Euro 830,000.

OUTPUT COSTS

Costs of raw materials, supplies and purchased goods

The balance totals:

	31.12.2005	31.12.2004	*Changes*
Raw materials, supplies and purchased goods	71,258	72,565	*(1,307)*

Refer to the Directors' Report for an analysis of the economic trend in the year.

Costs for services

Given below is the breakdown of this item and comparison with the previous year.

	31.12.2005	31.12.2004	*Changes*
Costs for industrial services	32,072	32,472	*(400)*
Costs for commercial services	29,717	29,147	*570*
Costs for general services	14,662	15,378	*(716)*
Other costs	3,852	3,680	*172*
Total	**80,302**	**80,677**	***(375)***

The decrease in "Costs for industrial services" is due to the combined effect of the significant decrease in costs for work by the Parent Company Aeffe S.p.A. (- Euro 1,639,000) and the increase in the same costs in Gruppo Pollini (+ Euro 612,000 Euro) and the subsidiary Velmar S.p.A. (+ Euro 392,000).

The decrease in the Parent Company is due to the policy of limiting production and structure costs, with consequent improvement in the effectiveness and efficiency of company processes. The increase in Gruppo Pollini and the subsidiary Velmar S.p.A. refers to higher sales turnover.

The increase in "Costs for commercial services" mainly refers to the increase in transport costs in the Parent Company Aeffe S.p.A. and Gruppo Pollini, due to higher sales turnover.

The decrease in "Costs for general services" is mainly due to the decrease in directors' fees and insurance costs.

Costs for use of third parties' goods

Given below is the breakdown of this item and comparison with the previous year.

	31.12.2005	31.12.2004	*Changes*
Rent payable	11,186	10,689	*497*
Leasing instalments	36	-	*36*
Royalties	3,621	3,898	*(277)*
Hire and other	540	472	*68*
Total	**15,383**	**15,059**	***324***

The increase in Costs for rent payable is mainly due to the subsidiaries Moschino Far East Ltd. and Aeffe Retail S.p.A.. The decrease in costs for Royalties mainly refers to the Parent Company Aeffe S.p.A.

Staff costs

The breakdown of this item is as follows:

	31.12.2005	31.12.2004	*Changes*
Salaries and wages	40,698	39,212	*1,486*
Social security costs	10,490	10,172	*318*
Termination indemnity	2,329	2,299	*30*
Other staff costs	473	344	*129*
Total	**53,990**	**52,027**	***1,963***

The increase in staff costs mainly concerned Gruppo Pollini, following consolidation, for the first time, of the outlets in Serravalle, Rimini and Gatteo a Mare, and Gruppo Moschino, due to the incidence for all of 2005 of the costs of several boutiques opened in 2004. Other less significant increases were recorded in Aeffe Retail S.p.A., Aeffe Usa Inc. and Velmar S.p.A.. The Group workforce, distributed by category, recorded the following changes with respect to the previous year:

	31.12.2005	31.12.2004	*Changes*
Managers	26	32	*(6)*
Clerks	870	889	*(19)*
Workers	461	470	*(9)*
Total	**1,357**	**1,391**	***(34)***

The net decrease of 34 units in the workforce is mainly attributable to the Parent Company Aeffe S.p.A. and the subsidiary Pollini S.p.A.

Depreciation and write-downs

Depreciation decreased by a total of Euro 550,000. The breakdown is given in the income statement.

Other provisions

The balance mainly comprises allocations made to the Customer supplementary indemnity fund.

Other operating costs

The item refers to:

	31.12.2005	31.12.2004	*Changes*
Taxes other than income tax	592	626	*(34)*
Extraordinary losses	749	81	*668*
Gifts	124	179	*(55)*
Other operating costs	330	188	*142*
Total	**1,795**	**1,074**	***721***

The increase in Extraordinary losses mainly refers to losses on receivables entered in the subsidiaries Moschino S.p.A and Velmar S.p.A.

FINANCIAL INCOME AND EXPENSES

The net balance totals:

	31.12.2005	31.12.2004	*Changes*
Financial income and expenses	(4,974)	(5,021)	47

Other financial income

	31.12.2005	31.12.2004	*Changes*
Other income	1,399	1,861	*(462)*

The balance mainly includes interest income on current accounts and exchange differences receivable on currency transactions.

Interest and other financial charges

	31.12.2005	31.12.2004	*Changes*
Other interest and financial charges	6,440	6,983	*(543)*

The balance mainly includes interest payable on current accounts and negative exchange differences on currency transactions.

Exchange profits and losses

	31.12.2005	31.12.2004	*Changes*
Exchange profits and losses	67	101	*(34)*

This amount is entered in a reserve that cannot be distributed until the time of subsequent realisation.

ADJUSTMENTS TO VALUE OF FINANCIAL ASSETS

Write-down of equity investments

	31.12.2005	31.12.2004	*Changes*
Write-down of equity investments	575	531	*44*

This item mainly refers to the write-down in the balance sheet of the subsidiary Aeffe Usa Inc., of the investment in Narciso Rodriguez LLC. for Euro 158,000 and the write-down in Moschino Far East Ltd. of the investment in Moschino China for Euro 412,000.

EXTRAORDINARY INCOME AND EXPENSES

The net balance of this item goes from a positive value of Euro 1,213,000 for 2004 to a negative value of Euro 1,276,000 in 2005. The negative balance of 2005 mainly refers to:

a) capital losses on equipment for Euro 422,000 of the subsidiary Pollini Retail S.r.l. following the transfer of the two boutiques situated in Milan and Bergamo during 2005;
b) extraordinary expenses of the subsidiary Moschino Far East Ltd. for Euro 279,000 relevant to the establishment of a risk provision regarding costs to be incurred by the company in 2006 for restoring the original conditions of the Aoyama boutique in Tokyo, in relation to its subsequent closure;
c) capital losses on assets of other Group companies for Euro 137,000.

Taxes
The table below gives the breakdown of the balance

Description	31.12.2005	31.12.2004	*Changes*
Current taxes	5,235	6,046	*(811)*
Deferred (anticipated) taxes	1,091	(275)	*1,366*
Total	**6,326**	**5,771**	***555***

Deferred and prepaid taxes are calculated according to the tax rate applicable in the periods in which the tax effect is expected to apply.

The basis for calculation is represented by the temporary differences between the fiscal value of the assets and liabilities and the book value.

Assets for prepaid taxes were entered in relation to tax losses that can be carried forward, as the conditions required by the Accounting Standards for calculating the future tax relief, and therefore the reasonable certainty that the companies will achieve taxable income enabling the recovery of the above-mentioned sums, exist.

Liabilities for deferred taxes are recorded in the Deferred tax reserve entered in the Provisions for risks and charges of the Liabilities, whereas the assets for prepaid taxes are recorded in increase of Other receivables of working capital.

The Parent Company elected for the domestic tax consolidation regime in accordance with art. 117 et seq. of the C.I.T.L. By virtue of the option exercised, the taxable income produced was subject to taxation cumulatively with that transferred by the other Italian companies of the Group, as taxing the same is the Parent Company's responsibility.

10. OTHER INFORMATION

The total remuneration due to the Directors (Euro 3,013,000) and members of the Board of Auditors (Euro 105,000) is indicated according to the law.

for the Board of Directors
The Chairman
Massimo Ferretti

11. ANNEXES

The following annexes contain additional information to that given in the Explanatory Notes, of which they are an integral part:

- Table of changes in the intangible fixed assets (Annex I);
- Table of changes in the tangible fixed assets (Annex II);
- Table of changes in the net equity accounts (Annex III);
- Table of write-ups of tangible assets (Annex IV).

ANNEX I

CHANGES IN INTANGIBLE FIXED ASSETS

(amounts in thousands Euro)

	31.12.2004	Movements 2004					31.12.2005
	Net book value as at 31.12.2004	Increase	Reclassification	Decrease	Difference in the rate exchange	Amortisation	Net book value as at 31.12.2005
Start-up and expansious costs	657	5			8	-227	443
Research, development and advertising costs							
Industrial patent and rights for the use of intellectual property	114	119	119			-173	179
Concessions, licenses, trade marks and similar rights	47,962	98				-3,229	44,831
Goodwill	45,298		1,007	-6,326		-992	38,987
Consolidation difference	28,597					-1,749	26,848
Fixed assets in progress and advances	2			-2			
Other intangible assets	20,428	2,744	-1,126	-232		-4,826	16,988
	143,058	**2,966**		**-6,560**	**8**	**-11,196**	**128,276**

ANNEX II

CHANGES IN TANGIBLE FIXED ASSETS

(amounts in thousands Euro)

	31.12.2004			Movements 2005					31.12.2005		
	Historical cost	Accumulated depreciation	Net book value as at 31.12.2004	Increase	Reclassification	Decrease	Difference in the rate exchange	Amortisation	Historical cost	Accumulated depreciation	Net book value as at 31.12.2005
Land and buildings	47,434	-13,179	34,255	53	64		1,579	-1,147	49,130	-14,326	34,804
Plants and machinery	23,560	-17,929	5,631	116		-134	3	-1,189	23,545	-19,118	4,427
Industrial and commercial equipment	1,647	-1,449	198	31		-4		-67	1,674	-1,516	158
Other tangible assets	17,004	-12,830	4,174	429		-166	30	-1,095	17,297	-13,925	3,372
Assets in progress	3,040		3,040	77	-64	-702			2,351		2,351
	92,685	**-45,387**	**47,298**	**706**		**-1,006**	**1,612**	**-3,498**	**93,997**	**-48,885**	**45,112**

ANNEX III

CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AS AT 31 DECEMBER 2005

(amounts in thousands Euro)

	Share capital	Share premium sreserve	Legal reserve	Other reserve	Reserve for translation differences	Profits (losses) carried forward	Net income of the Group	Total Group
BALANCES AS AT 31 DECEMBER 2004	**22,500**	**11,345**	**1,815**	**19,248**	**-400**	**-6,964**	**4,644**	**52,188**
Allocation of 2004 profits			142	2,683		1,819	-4,644	
Dividends paid								
Exchange differences on translation					1,433			1,433
Net income for the year							2,106	2,106
Other movements								
BALANCES AS AT 31 DECEMBER 2005	**22,500**	**11,345**	**1,957**	**21,931**	**1,033**	**-5,145**	**2,106**	**55,727**

ANNEX IV

TABLE RELATING TANGIBLE ASSETS IN USE REVALUETED UNDER SPECIAL LAWS

(amounts in thousands Euro)

	Balance sheet items	
	Buildings	Plants and machinery
Law No. 408 of 29 December 1990	3,298	323
Law No. 413 of 30 December 1991	440	
	3,738	**323**

2005 FINANCIAL STATEMENTS

AEFFE SPA

INCOME STATEMENT

	AMOUNTS AS AT 31.12.05	% on tot. revenues	AMOUNTS AS AT 31.12.04	% on tot. revenues	*Changes 31.12.05 / 31.12.4*	
NET REVENUES FROM SALES AND SERVICES	**128,807,077**	**97.8%**	**137,576,955**	**96.7%**	***-8,769,878***	***-6.4%***
Other revenues and income	2,950,463	2.2%	4,667,133	3.3%	*-1,716,670*	*-36.8%*
TOTAL NET REVENUES	**131,757,540**	**100.0%**	**142,244,088**	**100.0%**	***-10,486,548***	***-7.4%***
Inventory changes of work in process, semi-finished, finished goods	-649,219	-0.5%	429,771	0.3%	*-1,078,990*	*n.s.*
PRODUCTION VALUE	**131,108,321**	**99.5%**	**142,673,859**	**100.3%**	***-11,565,538***	***-8.1%***
Costs of raw materials, consumables and goods for resale	-37,220,330	-28.2	-38,794,150	-27.3%	*1,573,820*	*-4.1%*
Inventory changes of raw materials, consumables and goods for resale	2,459	0.0%	-826,910	-0.6%	*829,369*	*n.s.*
Costs of services	-42,793,698	-32.5%	-45,011,082	-31.6%	*2,217,384*	*-4.9%*
Costs for use of third parties goods	-18,758,422	-14.2%	-18,326,093	-12.9%	*-432,329*	*2.4%*
Total Operational Costs	***-98,769,991***	***-75.0%***	***-102,958,235***	***-72.4%***	***4,188,244***	***-4.1%***
VALUE ADDED	**32,338,331**	**24.5%**	**39,715,624**	**27.9%**	***-7,377,294***	***-18.6%***
Labour costs	-21,265,010	-16.1%	-21,188,126	-14.9%	*-76,884*	*0.4%*
GROSS OPERATING MARGIN (EBITDA)	**11,073,320**	**8.4%**	**18,527,497**	**13.0%**	***-7,454,177***	***-40.2%***
Amortization of intangible fixed assets	-716,107	-0.5%	-801,057	-0.6%	*84,950*	*-10.6%*
Depreciation of tangible fixed assets	-1,028,559	-0.8%	-1,096,757	-0.8%	*68,198*	*-6.2%*
Losses on bad debts, accruals and write-downs	-335,499	-0.3%	-33,187	0.0%	*-302,312*	*n.s.*
Other operating expenses	-647,983	-0.5%	-666,215	-0.5%	*18,232*	*-2.7%*
NET OPERATING PROFIT (EBIT)	**8,345,171**	**6.3%**	**15,930,281**	**11.2%**	***-7,585,109***	***-47.6%***
Income from investments	292,523	0.2%	-	0.0%	*292,523*	*n.s.*
Net financial income/expenses	-3,350,967	-2.5%	-3,332,473	-2.3%	*-18,494*	*0.6%*
RESULT OF CURRENT OPERATIONS	**5,286,727**	**4.0%**	**12.597,808**	**8.9%**	***-7,311,080***	***-58.0%***
Amortization of goodwill/brands	-372,116	-0.3%	-370,874	-0.3%	*-1,242*	*0.3%*
Extraordinary income	29,024	0.0%	-	0.0%	*29,024*	*n.s.*
Extraordinary expenses	-190,959	-0.1%	-6,003,866	-4.2%	*5,812,907*	*-96.8%*
Total Extraordinary Income / (Expenses)	***-534,050***	***-0.4%***	***-6,374,740***	***-4.5%***	***5,840,689***	***-91.6%***
PROFIT BEFORE TAXES	**4,752,677**	**3.6%**	**6,223,068**	**4.4%**	***-1,470,391***	***-23.6%***
Current taxes	-2,973,398	-2.3%	-3,350,068	-2.4%	*376,670*	*-11.2%*
Anticipated/(deferred) taxes	170,748	0.1%	-47,748	0.0%	*218,496*	*n.s.*
Total Taxes on the Profit for the year	***-2,802,650***	***-2.1%***	***-3,397,816***	***-2.4%***	***595,166***	***-17.5%***
PROFIT NET OF TAXES	**1,950,027**	**1.5%**	**2,825,252**	**2.0%**	***-875,225***	***-31.0%***

BALANCE SHEET

	AMOUNTS AS AT 31.12.05	AMOUNTS AS AT 31.12.04	*Changes 31.12.05 / 31.12.04*	
Trade receivables	34,455,226	27,852,292	*6,602,935*	*23.7%*
Other receivables	16,049,308	14,373,772	*1,675,536*	*11.7%*
Stocks and Inventories	18,245,054	19,326,401	*-1,081,347*	*-5.6%*
Trade payables	-43,525,250	-39,699,530	*-3,825,720*	*9.6%*
Short-term sundry payables	-10,231,846	-8,818,242	*-1,413,604*	*16.0%*
A) Net working capital	**14,992,492**	**13,034,692**	***1,957,800***	***15.0%***
Receivables over 12 months	42,126,769	44,124,954	*-1,998,185*	*-4.5%*
Equity investments	87,835,241	86,330,333	*1,504,908-*	*1.7%*
Tangible fixed assets	10,324,220	11,772,757	*-1,448,538*	*-12.3%*
Intangible fixed assets	10,590,569	11,449,655	*-859,087*	*-7.5%*
B) Net fixed assets	**150,876,798**	**153,677,700**	***-2,800,902***	***-1.8%***
C) Staff termination indemnity reserves and other medium long-term non-financial payables	**-25,296,015**	**-33,349,264**	***8,053,249***	***-24.1%***
D) Reserve for deferred taxes	**-731,844**	**-677,466**	***-54,378***	***8.0%***
E) NET CAPITAL INVESTED (A+B+C+D)	**139,841,432**	**132,685,662**	***7,155,770***	***5.4%***
Financed by:				
Short-term financial debts	45,966,176	56,310,649	*-10,344,473*	*-18.4%*
Cash/short-term financial credits	-1,195,756	-878,762	*-316,995*	*36.1%*
Medium/long-term financial debts	52,055,147	38,311,586	*13,743,561*	*35.9%*
Medium/long-term financial credits	-16,667,967	-18,791,618	*2,123,650*	*-11.3%*
F) DIFFERENCE BETWEEN PAYABLES TO BANKS AND FINANCIAL CREDITS	**80,157,598**	**74,951,855**	***5,205,743***	***6.9%***
G) TOTAL SHAREHOLDERS' EQUITY	**59,683,833**	**57,733,807**	***1,950,026***	***3.4%***
L) TOTAL (F+G+H) as in E	**139,841,433**	**132,685,662**	***7,155,770***	***5.4%***

FREE CASH FLOW STATEMENT

	AMOUNTS AS AT 31.12.05	AMOUNTS AS AT 31.12.04
Net operating profit	8,345,171	15,930,281
Operating amortization/depreciation	1,744,667	1,897,814
Net financial expenses	-3,350,967	-3,332,473
Taxes	-2,802,650	-3,397,816
(A) OPERATING CASH FLOW	**3,936,221**	**11,097,807**
Increase / decrease in net working capital	-1,957,800	-1,492,440
(Increase) / decrease in medium/long-term debt	-7,998,872	-7,892,708
(Increase) / decrease in medium/long-term receivables	1,998,185	1,997,034
Investments in tangible and intangible assets and multiannual costs	-606,719	-2,526,713
Disinvestments	797,561	420,272
(B) NON-OPERATING CASH FLOW	**-7,767,644**	**-9,494,555**
Extraordinary income / (charges)	-534,050	-6,374,740
Amortization of goodwill/brands	372,116	370,874
Dividends from equity investments	292,523	-
(C) CASH FLOW FROM EXTRAORDINARY OPERATIONS	**130,588**	**-6,003,865**
(D) FREE CASH FLOW (A+B+C)	**-3,700,835**	**-4,400,613**
(E) (Acquisitions) / Disinvestments of Equity Investments	**-1,504,908**	**-**
(F) Dividends Paid	**-**	**-**
(G) Other Changes in Net Equity	**-**	**-**
(H) CHANGES IN FINANCIAL POSITION	**-5,205,743**	**-4,400,613**
DIFFERENCE BETWEEN PAYABLES TO BANKS AND FINANCIAL CREDITS AT THE BEGINNING OF THE YEAR	**-74,951,855**	**-70,551,242**
DIFFERENCE BETWEEN PAYABLES TO BANKS AND FINANCIAL CREDITS AT THE END OF THE YEAR	**-80,157,598**	**-74,951,855**

1. ECONOMIC SCENARIO

Dear Shareholders,

the international economic scenario in 2005 confirmed the complexity of the economic scenario characterising 2004. Therefore we shall examine the main macrovariables that had a decisive effect also on the results of our company and the Group as a whole.

INTERNATIONAL MACROECONOMIC SITUATION

In 2005 the world economy continued to grow rapidly, approaching 5% and just under the levels of the previous year.

International trade in goods and services increased by approx. 7% (10.3 in 2004). Like in the previous two years, the USA and China were the principal driving forces of growth.

The growth differences between the main areas continued. In the USA, production (+ 3.5%) was sustained by consumption, which benefited from the further increase in property values and higher employment. In Japan the increase in GDP (2.7%) was boosted by a recovery in internal demand, which had stagnated in the previous two years. In the Euro area the growth rate was lower than expected at 1.3%; economic activities remained weak in the first half-year and improved in summer. In the United Kingdom, GDP (+ 1.8%) was affected by lower consumption in the first half-year. The growth rate in the emerging countries remained very high at around 7%, due to still exceptional growth rates in the Asian area and increased trade by raw material producers. In China growth approached 10%: strengthening of the foreign sector made up for the slowdown in investments.

The favourable international cycle continued to be affected by risks related to the price of oil, the balance of payment deficit, as well as geopolitical tensions.

In 2004-2005 the increase in world product was nearly 5% per annum; the international bodies estimate only a slightly lower rate for 2006. In the USA the big increase in employment and the increased confidence of families should favour a rapid recovery of consumption. For Japan, after the sharp increase in economic activities in the fourth quarter 2005, the GDP growth rate for 2006 is now forecast at 3.3%. The emerging countries should continue to benefit from favourable financial conditions. In Asia growth for 2006 is expected to be very high, above 7%, whereas in Latin America it should be around 4%. In the Euro area, in 2005 GDP slowed to 1.3% (2.1% in 2004); the dynamics of the activity were a little higher in France; 0.9% in Germany; nil in Italy. The economic trend defined by the quality indicators is positive: increased confidence, which initially mainly concerned the industrial: concerns, is gradually spreading also to other sectors and to families. The latest European Commission and OECD estimates, based on a substantially favourable interpretation of such signs, foresee a rapid return of GDP in the area to growth rates of 2 to 2.5% per annum.

In 2005 the Italian economy stagnated, thus further widening the negative growth gap with respect to other countries in the area. In 2006 growth should occur at just over 1%. The dynamics of the GDP should be sustained by a recovery in exports which, while continuing to grow less than world trade, are expected to exceed a rate of 5%.

However, the above signs of recovery in the economic trend still do not define an overcoming of the growth gap the Italian economy suffers from, not only with respect to the more dynamic areas of the world, but also with respect to the main Euro countries, although behind on an international level.

ECONOMIC SCENARIO IN THE CLOTHING SECTOR

Also 2005 was characterised by a continuation, in the various geographic areas, of the difficult conditions of the sector in which our company operates. Difficulties such as the general economic situation of Europe and the increasingly important role, even in our sector, of China and India which, although exporting basic products, are taking away an increasing part of disposable income for the purchase of clothing products. The first estimates prepared for 2005 show an even more stationary situation in the Italian clothing, knitwear and stockings sector; they also show no clear signs of a reversal of the trend in terms of demand or production activities.

Operating in this difficult context, Italian Textile/Clothing firms overall recorded a stationary turnover in the domestic market and a considerable improvement in exports compared with 2004.

The operating results achieved by our company must be considered as extremely satisfactory, in view of this very uncertain situation in which it has to operate.

The following comments refer to the Group's results.

They are to be read together with the Explanatory Notes.

2. INCOME STATEMENT OF AEFFE S.p.A.

Turnover

The output value decreased by a total of 8.11%, going from Euro 142,674,000 in 2004 to Euro 131,108,000 in 2005.

The decrease is due exclusively to royalties of Euro 10,993,000 received in 2004 for perfume, following the positive result of an out of court settlement in favour of the company with recognition of the right to collect said sum. Adjusting the output value by these royalties, 2005 would remain almost unchanged with respect to 2004.

Net of that effect also net revenues for clothing and accessories increased by 1.76% going from Euro 126,584,000 in 2004 to Euro 128,807,000 in 2005. This increase mainly refers to the Alberta Ferretti and Moschino lines.

27% of turnover was achieved on the Italian market and 73% on the foreign markets, confirming the trend of previous years.

Value added

Value added amounted to Euro 32,338,000, equal to 24.5% of revenues, and decreased with respect to 27.9% in 2004. This decrease is due to that indicated in the note on the turnover trend.

In fact a homogeneous comparison with value added for 2004, adjusted by the effect of royalties for perfume, collected in the previous period through an out of court agreement with the licensee, would give an increase in value added going from Euro 28,722,000 in 2004 to Euro 32,338,000 in 2005 due to the following factors:

- a decrease in the incidence of costs of raw materials on turnover (including finished product inventory changes), which goes from 30.2% in 2004 to 28.2% in 2005;
- a decrease in costs for services, for Euro 2,217,000. This decrease is mainly due to the policy of limiting costs and creating synergies aimed at best exploiting the operating leverage implemented as of 2004.

Cost of labour

Staff costs remain constant, going from Euro 21,188,000 in 2004 to Euro 21,265,000 in 2005.

Gross operating margin (EBITDA)

Gross operating margin goes from 13% in 2004 to 8.4% in 2005. The reasons for this decrease reflect those indicated in the previous notes concerning turnover and value added.

In fact, net of the effect of royalties for perfume collected in 2004 through an out of court agreement with the licensee, gross operating margin goes from 5.7% in 2004 to 8.4% in 2005 with an absolute increase in value equal to Euro 3,538,000.

This result is due to a number of operations implemented as of 2004, with the main aim of reducing product and structure costs. This reduction was achieved by improving the effectiveness and efficiency of the company processes while maintaining the high quality that has always distinguished our products.

Operating result (EBIT)

The operating result goes from 11.2% in 2004 to 6.3% in 2005.

Also in this case, a homogeneous comparison with the EBIT value for 2004 adjusted by the effect of royalties for perfume, would show a 2005 EBIT improvement of 2.5 percentage points on net revenues, whereas in absolute value the increase would be equal to 69.02%.

Total extraordinary income/expenses

This result negatively affects the total result for Euro 534,000 against Euro 6,374,000 of 2004. These costs mainly refer to the amortisation of goodwill and trademarks.

Net profit

Pre-tax results decrease from Euro 6,223,000 in 2004 to Euro 4,752,000 in 2005.

Also in this case, a homogeneous comparison with the pre-tax result for 2004, adjusted by the effect of royalties for perfume collected last year through an out of court agreement with the licensee, net of the relevant legal and judicial costs incurred, would show an improvement for 2005 of 3.2 percentage points on net revenues, whereas in absolute value the increase would be equal to 778.39%.

3. EQUITY AND FINANCIAL PROFILE OF THE COMPANY

NET INVESTED CAPITAL

Invested capital, net of operating liabilities, increased by 5.39% with respect to 31 December 2004.

Net working capital

Net working capital increased by Euro 1,957,000. The changes in the main items are described below:

- trade receivables total Euro 6,602,000. This increase is mainly due to the increased turnover in the last quarter of the year and the increase in amounts owed by subsidiaries for VAT and taxes;
- other receivables increase by Euro 1,675,000 mainly due to the increase in VAT credit and the capitalisation of higher costs for the autumn/winter 2006 sample collection compared with autumn/winter 2005 following the different percentage relevant to the sample collection at 31 December 2005 with respect to 31 December 2004;
- stock on hand decreases by Euro 1,081,000 due to higher sales in the last quarter 2005;
- trade payables increase by Euro 3,825,000 following a more efficient management of payments implemented by the company and a higher concentration of purchasing in the second part of the year following the increase in turnover and the higher percentage relevant to the sample collection;
- other short-term sundry payables increase by approx. Euro 1,413,000 mainly following the increase in part payments received from our customers in 2005.

Net fixed assets

Fixed assets decrease by Euro 2,800,000 with respect to 31 December 2004. The changes in the main items are described below:

- "Receivables after 12 months" decrease by Euro 1,998,000 following the accruing of rent invoiced in advance for the property leasing transaction effected by the company in 2002;
- "Equity investments" increase by Euro 1,504,000 following the share capital increase of Euro 1,501,000 in Aeffe France on 30 June 2005, made through relinquishment of financial credits and subscription of 70% of the share capital of the new company Av Suisse S.r.l. established on 20 October 2005 for creating the new Authier distribution line;
- "Tangible fixed assets" decrease by Euro 1,448,000 following technological upgrading in the informatics section and for the cancellation of a preliminary sales contract relevant to a property, in addition to the normal decrease for the amortisation rates of the year;
- "Intangible fixed assets" decrease due to the amortisation rates of the year.

Staff termination indemnities fund and other medium long-term non-financial payables

This item decreases by Euro 8,053,000 with respect to the previous year. This decrease is mainly due to the reduction of the debt arising in 2000 for the purchase of the Pollini equity investment, a reduction of the debt arising in 2002 for the purchase of the "Alberta Ferretti" brand and the reduction of the debt towards leasing companies arising in 2002.

DIFFERENCE BETWEEN PAYABLE TO BANKS AND FINANCIAL CREDITS

The difference between payable to banks and financial credits equal to Euro 80,157,000 increases by Euro 5,205,000 with respect to 31 December 2004.

4. RESEARCH & DEVELOPMENT ACTIVITIES

Considering the particular nature of our production, research & development activities consisted of the continual technical/stylistic renewal of our models and constant improvement of the materials for manufacturing the product.

Although having all the requisites for entering among research & development costs of the intangible fixed assets, these costs were entered in the income statement for 2005 total Euro 20,142,000.

5. INTERGROUP OPERATIONS AND TRANSACTIONS WITH CORRELATED PARTIES

Aeffe S.p.A. also operates directly or indirectly through its own subsidiaries. Operations carried out with them mainly concern the exchange of goods, the performance of services and the provision of financial resources. All transactions refer to ordinary management and are regulated at market conditions, i.e. at the conditions that are or would be applied between two independent parties.

The following table gives the amounts of relations of a commercial and financial nature occurring with subsidiaries in 2005.

Companies	Financial credits	Trade receivables	Trade payables
Moschino Group	32,772	6,635	12,040
Aeffe USA Inc	1,294	5,708	100
Pollini Group	4,144	8,812	1,865
Aeffe Retail S.p.A	6,212	2,129	922
Aeffe UK Ltd	463	579	455
Aeffe France S.a.r.l.	4,099	15	917
Ferretti Studio S.r.l.		240	931
Velmar S.p.A	350	842	190
Narciso Rodriguez LLC		51	41
Nuova Stireria Tavoleto S.r.l.		243	832
Fashion Retail Company S.r.o.		109	
AV Suisse S.r.l.	50		
Ozbek (London) Ltd			274
Total	**49,384**	**25,363**	**18,537**

146.

Companies	Proceeds	Costs
Aeffe USA Inc.	18,467	181
Moschino Group	12,355	9,796
Aeffe Retail S.p.A	4,799	503
Fashoff Uk Ltd.	468	450
Aeffe UK Ltd.	486	486
Pollini Group	3,092	5,196
Aeffe France S.a.r.l.	428	457
Ferretti Studio S.r.l.	177	3,974
Nuova Stireria Tavoleto S.r.l.	162	1,492
Velmar S.p.A.	107	76
Total	**40,541**	**22,611**

6. EXPECTED OPERATING TREND

The international economic situation is defining a general growth trend and therefore the economic crisis that characterised previous years appears to be slowly waning.

This will positively influence the trend of the financial markets and the confidence of operators, even if it will not be easy to accurately forecast the consumption demand trend, mainly because of the particular nature of the sector in which our Group operates and for the competition of Asian countries.

With all the due prudence, the prospects for our Company appear to be encouraging, as currently confirmed by an increase in orders for the 2006 winter season estimated at around 12% with respect to the corresponding season last year, both for the domestic and foreign markets.

7. PRIVACY

In compliance with Annex B, par. 26 of Legislative Decree 196/2003 implementing the Law on the protection of personal data, the directors give notice that the Company has complied with the requirements of said decree, according to the terms and procedures indicated therein. In particular it is pointed out that the Safety Plan Document, lodged at the registered office and freely consultable, will be drawn up by 3 1 March 2006 and updated at 31 December 2005.

for the Board of Directors
The Chairman
Massimo Ferretti

Dear Shareholders,

You are gathered here at this Meeting to approve the Financial Statements for the year ended 31 December 2005.

The financial statements, comprising the balance sheet, Income Statement and Explanatory Notes, and provided with the Directors' Report, were made available to the Board of Auditors by the latter in accordance with the terms provided for by Art. 2429 of the Italian Civil Code.

With the coming into force of Legislative Decree no. 6 dated 17 January 2003, introducing important changes to company law, also the board of auditors' functions have changed, and regarding your Company the audit is no longer our responsibility and was entrusted to the company Mazars & Guerard, as already pointed out last year.

The accounting records examined by the Board show a profit for the year of Euro 1,950,027, which complies with the balance sheet and income statement items summarised below.

Summary of the balance sheet:

ASSETS	**237,490,110**
LIABILITIES	**177,806,277**
Net equity (excluding profit for the year)	57,733,806
Profit (loss) for the year	1,950,027
Accounts, commitments, risks and other memorandum accounts	16,767,097

The income statement comprises the following values:

Output value	131,108,322
Output costs	123,135,266
Difference	7,973,056
Financial income and expenses	(3,058,443)
Adjustments to value of financial assets	-
Extraordinary income and expenses	(161,936)
Profit before taxes	4,752,677
Income taxes	(2,802,650)
Profit for the year	**1,950,027**

In accordance with our specific duty and the principles of conduct recommended by the Italian Accounting Profession, we give notice of the following:

We controlled compliance with the law and the corporate charter and respect for the principles of proper management.

We checked compliance with the law provisions regarding the preparation of the directors' report, and in this respect we have no particular comments to make.

To our knowledge, in drawing up the financial statements the Directors did not deviate from the law provisions pursuant to art. 2423.4 of the Italian Civil Code.

We checked the agreement of the financial statements with the facts and information coming to our knowledge following the fulfilment of our duties and have no comments to make in that respect.

We acquired knowledge and controlled the adequacy of the company's organisation, also by gathering information from function managers, and in that respect we do not have any particular comments to make.

During the year we punctually fulfilled our obligations under art. 2403 of the Italian Civil Code, performing controls and checks at the company offices, always drawing up special reports, given in the board of auditors' book.

During the course of the above-mentioned control activity, no other significant facts requiring mentioning in this report emerged.

No reports pursuant to art. 2408 of the Italian Civil Code were received.

Also considering the results of the activity carried out by the audit body, and the results contained in the special report attached to the balance sheet, we ask the Meeting to approve the financial statements for the year ended 31/12/2005, as drawn up by the Directors.

San Giovanni in Marignano, 06/04/2006

The Board of Auditors

Aeffe S.p.A.
Auditor's report according to art. 2409 ter Civil Code

To the shareholders of Aeffe S.p.A.

1. We have audited the financial statements of Aeffe S.p.A. as of 31 December 2005. These financial statements are the responsibility of Aeffe's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards and criteria. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

   For the auditors' opinion on the prior year on the financial statements, which are presented for comparative purposes in accordance with the law, reference should be made to the auditors' report issued on 8 April 2005 by us.

3. In our opinion, the financial statements of the Aeffe S.p.A. as of 31 December 2005 comply with the laws governing the criteria for their preparation; accordingly, they give a true and fair view of the financial position and of the results of operations of the Company.

4. The company holds controlling equity holdings and, as such, has prepared, in conformity with current legislation, the consolidated financial statements of the Group. For a better understanding of the results of operations and financial position of the Company and the Group for the period, the statutory financial statements should be read in conjunction with the consolidated financial statements. Our auditors' report on the consolidated financial statements was issued as at the date hereof.

Bologna, 6 April 2005

Mazars & Guérard S.p.A.

Simone Del Bianco

socio

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MAZARS & GUERARD S.P.A. - CAPITALE SOCIALE € 1.895.000 INT. VERS. - SEDE LEGALE: C.SO DI PORTA VIGENTINA, 35 - 20122 MILANO – REG. IMPRESE DI MILANO N. 196093 - REA N. 1059307

COD. FISC. N. 01507630489 - PART. IVA 05902570158 - AUTORIZZATA AI SENSI DI LEGGE 23/11/1939 N. 1966 - ISCRITTA NELL'ALBO SPECIALE DELLE SOCIETÀ DI REVISIONE CON DELIBERA CONSOB N. 10829
UFFICI IN ITALIA: BOLOGNA - MILANO - NAPOLI - PADOVA - PALERMO - ROMA – TORINO - FIRENZE

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

ASSETS	31.12.2005		31.12.2004	
A. AMOUNTS DUE FROM SHAREHOLDERS				
B. FIXED ASSETS		**158,189,974**		**161,116,340**
I. Intangible fixed assets		10,590,569		11,449,655
1) Start-up and expansion costs	161,000		241,500	
3) Industrial patent and rights for the use of intellectual property	86,362		69,506	
4) Concessions, licences, trade marks and similar rights	4,573,454		4,817,449	
5) Goodwill	2,548,033		1,755,953	
6) Fixed assets in progress and advances			2,000	
7) Other intangible assets	3,221,720		4,563,247	
II. Tangible fixed assets		10,324,220		11,772,759
1) Land and buildings	6,210,341		6,427,979	
2) Plant and machinery	1,122,670		1,536,690	
3) Industrial and commercial equipment	1,279		1,848	
4) Other assets	639,280		765,885	
5) Assets in progress and advances	2,350,650		3,040,357	
III. Financial fixed assets		137,275,185		137,893,926
1) Investments in:		87,835,241		86,330,333
a) Controlled companies	87,831,786		86,326,878	
d) Other companies	3,455		3,455	
2) Receivables		49,439,944		51,563,593
a) Controlled companies	49,384,005		51,546,266	
d) Other receivables	55,939		17,327	
C. CURRENT ASSETS		**76,734,847**		**70,391,193**
I. Stocks and inventories		18,245,054		19,326,401
1) Raw and subsidiary materials	5,497,721		5,495,263	
2) Work in progress and semi-finished products	5,966,221		6,104,459	
4) Finished products	6,719,359		7,230,340	
5) Advances	61,753		496,339	
II. Receivables		57,294,037		50,186,030
1) Trade receivables	9,091,969		6,752,141	
2) From controlled companies	25,363,257		21,100,151	
4-bis) Tax receivables	2,313,204		1,886,641	
4-ter) For anticipated taxes	545,395		360,084	
5) Other receivables	19,980,212		20,087,013	
IV. Liquid assets		1,195,756		878,762
1) Bank accounts	971,664		856,674	
2) Cheques	203,841		9,217	
3) Cash on hand	20,251		12,871	
D. ACCRUED INCOME AND PREPAID EXPENSES		**2,565,289**		**3,393,012**
- Others	2,565,289		3,393,012	
TOTAL ASSETS		**237,490,110**		**234,900,545**

LIABILITIES	31.12.2005		31.12.2004	
A. SHAREHOLDERS' EQUITY		**59,683,833**		**57,733,805**
I. Share capital	22,500,000		22,500,000	
II. Shares overprice reserve	11,345,480		11,345,480	
IV. Legal reserve	1,956,727		1,815,464	
VII. Other reserves	21,931,599		19,247,609	
IX. Net income (loss) for the year	1,950,027		2,825,252	
B. PROVISIONS FOR RISKS AND CHARGES		**2,993,364**		**2,939,774**
1) Provision for retirement benefits and similar obligations	1,716,653		1,717,441	
2) Accrued income taxes	731,844		677,466	
3) Other provisions	544,867		544,867	
C. STAFF TERMINATION INDEMNITIES FUND		**7,063,064**		**6,586,860**
D. PAYABLES		**167,736,822**		**167,627,214**
3) Payables to banks	98,021,322		94,622,235	
4) Payables to other financial institutions	355,315		710,631	
5) Advances	2,188,547		1,085,466	
6) Trade payables	35,879,302		37,446,769	
8) Payables to controlled companies	20,684,262		18,301,505	
11) Tax payables	1,082,470		1,141,910	
12) Social security	1,247,609		1,129,235	
13) Other debts	8,277,995		13,189,463	
E. ACCRUED EXPENSES AND DEFERRED INCOME		**13,027**		**12,892**
- Others	13,027		12,892	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**237,490,110**		**234,900,545**
TOTAL MEMORANDUM ACCOUNTS		**16,767,097**		**24,884,836**
1) Leasing expenses due	11,257,277		12,904,683	
2) Guarantees given to third parties	5,509,820		11,980,153	

AEFFE S.p.A. - INCOME STATEMENT

	31.12.2005		31.12.2004	
A. OUTPUT VALUE				
1) Revenues from sales and services		128,807,077		137,576,955
2) Inventory changes		-649,219		429,771
5) Other revenues		2,950,464		4,667,133
TOTAL OUTPUT VALUE		**131,108,322**		**142,673,859**
B. OUTPUT COSTS				
6) Raw materials, supplies and purchased goods		37,220,330		38,794,150
7) Services		42,793,698		45,011,082
8) Costs for use of third parties' goods		18,758,422		18,326,093
9) Staff costs:		21,265,011		21,188,126
a) salaries and wages	15,162,770		15,119,041	
b) social security costs	4,834,961		4,812,222	
c) termination indemnity	1,267,280		1,256,863	
e) other staff costs				
10) Depreciations, amortisations and writedowns		2,416,782		2,268,689
a) intangible assets amortisation	1,088,223		1,171,932	
b) tangible assets depreciation	1,028,559		1,096,757	
d) bad debts expense on current accounts receivable	300,000			
11) Changes in raw materials stocks		-2,459		826,910
13) Other accruals		35,499		33,187
14) Other operating costs		647,983		666,215
TOTAL OUTPUT COSTS		**123,135,266**		**127,114,452**
DIFFERENCE BETWEEN OUTPUT VALUE AND OUTPUT COSTS		**7,973,056**		**15,559,407**
C. FINANCIAL INCOME AND EXPENSES				
15) Income from investments:		292,523		
- from controlled companies	292,523			
- other				
16) Other financial income from:		1,142,155		1,254,273
a) from non-current accounts receivables				
- from controlled companies	165,033		184,864	
c) from securities entered in the current assets				
d) other				
- other	977,122		1,069,409	
17) Interests and other financial charges:		-4,522,175		-4,648,623
- from controlled companies	-65,257		-46,039	
- other	-4,456,918		-4,602,584	
17 bis) Exchanges profits and losses:		29,054		61,876
TOTAL FINANCIAL INCOME AND EXPENSES		**-3,058,443**		**-3,332,474**
D. ADJUSTMENTS TO VALUE OF FINANCIAL ASSETS				
E. EXTRAORDINARY INCOME AND EXPENSES				
20) Income:		29,024		1
- capital gain from sale of assets				
- other	29,024		1	
21) Expenses		-190,960		-6,003,866
- capital losses from sales				
- taxes relating to previous years			-102,647	
- other	-190,960		-5,901,219	
TOTAL NET EXTRAORDINARY ITEMS		**-161,936**		**-6,003,865**
PROFIT BEFORE TAXES		**4,752,677**		**6,223,068**
22) Taxes on profit		-2,802,650		-3,397,816
23) NET PROFIT		**1,950,027**		**2,825,252**

1. STRUCTURE AND CONTENT OF THE FINANCIAL STATEMENTS

The financial statements of Aeffe S.p.A. were drawn up according to the provisions of the Italian Civil Code and are formed of the Balance Sheet (prepared in conformity with the layout provided for by art. 2424 and art. 2424 bis of the Italian Civil Code), the Income Statement (prepared in conformity with the provided for by art. 2425 and art. 2425 bis of the Italian Civil Code) and these Explanatory Notes.

The Explanatory Notes are provided to illustrate, analyse and, in some cases, supplement the balance sheet data and contain the information required by art. 2427 of the Italian Civil Code, and other provisions of Legislative Decree 127/1991 or by previous laws. They also supply all the additional information deemed necessary for providing a true and accurate account, even if not required by specific provisions of the law, whereas for that concerning information relevant to the Company's activity in 2005 and significant events after year-end, refer to the "Directors' Report".

The Company holds controlling stakes entered in the balance sheet at cost and has drawn up the Group consolidated financial statements. The financial statements provide adequate complementary information on the equity, financial and economic position of the Company and the Group and, together with the Directors' Report and that of the board of control, will be made public according to the Law.

2. ACCOUNTING PRINCIPLES AND VALUATION CRITERIA

The criteria used in drawing up the financial statements as at 31.12.2005 are the same as those used for the previous year.

The various items were evaluated according to general criteria of prudence and on an accrual basis, in view of a going concern, as well as taking into account the economic function or assets or liabilities element considered.

Application of the prudence principle involved the individual valuation of elements making up the single assets or liabilities entries or items, to avoid offsetting between losses that should have been recorded and profits not to be recorded because they were not realised.

In compliance with the pro-tempore principle, the effect of transactions and other events was recorded and attributed to the year in which they refer, and not that of the related cash flows (collections and payments).

The continuity in applying valuation criteria over time represents a necessary element for the purpose of comparing the company's balance sheets in various years.

Intangible Fixed Assets

Intangible fixed assets are entered at purchase or production cost, inclusive of additional charges, and methodically amortised for the period of their expected future life.

Start-up and expansion costs are amortised over 5 years.

Industrial patent and rights for the use of intellectual property are amortised over 3 years.

Trademarks and similar rights are amortised over 20 years.

Goodwill acquired against payment, was entered in the assets with the consent of the Board of Auditors for an amount equal to the cost incurred and is amortised over 20 years. The choice of an amortisation period exceeding 5 years is due to needs of a commercial nature, in concerning goodwill deriving from the purchase of licences for shops and/or company branches.

Research, development and advertising costs are charged to the income statement when incurred.

Other intangible fixed assets comprise costs of a multiyear nature not coming within the previous classifications, and improvements to third parties' goods rented to the Company and are amortised at rates according to contract length, including the possible renewal period.

Tangible Assets

Tangible assets are entered at purchase or production cost, or at the estimate value in case of contribution, adjusted for certain assets pursuant to specific revaluation/devaluation laws. The cost includes additional charges and direct and indirect costs for the amount reasonably imputable to the asset

Fixed assets are methodically depreciated every year on straight-line basis according to the economic-technical rates determined in relation to their residual life; the rates applied are given in the assets section notes. The asset is correspondingly written down whenever, irrespective of the depreciation already recorded, there is a lasting loss of value.

These rates are reduced to 50% for assets coming into operation in the year.

In previous years the Company benefited from the opportunity granted by the C.I.T.L. of accelerated depreciation only for tax purposes.

Maintenance costs of an ordinary nature are entirely charged to the income statement. Maintenance costs of an incremental nature are attributed to the assets to which they refer.

Leasing transactions

Leasing transactions are recorded according to the equity method, entering rent paid in the income statement on an accrual basis. A special section of the explanatory notes gives the complementary information provided for by the law on the recording of leasing contracts according to the financial method.

Equity investments and securities (entered in the fixed assets)

Equity investments are evaluated at cost. The book value is determined according to the purchase or subscription price or the value attributed to the assets assigned.

The cost is decreased for losses of lasting value whenever the subsidiaries have incurred losses and profits able to absorb the losses in the immediate future are not expected; the original value is restored in subsequent years if the reasons for the write-down no longer apply.

Stock and inventories

Stocks and inventories are entered at the lower of purchase or production cost and the corresponding market or probable realisation value.

Obsolete and slow-moving stocks are written-down in relation to their possible use or recovery.

Receivables

These are stated at their probable realisation value. Adjustment of the nominal value of receivables to the probable realisation value is obtained by means of a special provision for bad debts.

Liquid assets

Liquid assets are valued at nominal value.

Accruals and prepayments

These items include costs and income common to two or more years, recorded on an accrual basis.

Provisions for risks and charges

Provisions for risks and charges are allocated to cover losses or liabilities of certain or probable existence, but whose exact amount or date of occurrence are not known at year-end. The allocations reflect the best possible estimate according to the elements available.

Risks for which a liability is only possible are indicated in the explanatory notes, without allocating a provision for risks and charges.

Staff termination indemnities fund

The staff termination indemnities fund is allocated to cover the entire liability accrued towards employees in compliance with current law and the collective labour and company agreements. This liability is subject to revaluation by means of indexes.

Payables

Payables are stated at nominal value.

Commitments, guarantees and risks

Commitments and guarantees are stated in the memorandum accounts at their contractual value.

Contributions of capital and for operating expenses

Contributions of capital are entered directly in a special Accruals and Prepayments item, when the related amounts become certain, and recorded in the Income Statement in a period correlated to the useful life of the assets to which they refer.

Contributions for operating expenses are credited to the Income Statement when the related amounts become certain.

Recording of revenues and costs

Revenues for sales of products are recorded at the time of transfer of the risks related to ownership, which generally coincided with shipment.

Costs and charges are recorded on an accrual basis.

For greater compliance with the principle of correlation between costs and revenues, as of 1 January 2003 costs incurred in the year for the production of sample collections and styling activities for the next Spring/Summer and Autumn/Winter seasons, whose sales occur in the following year, are correlated to their revenues and deferred to the following year.

Income tax

Income tax is entered according to the estimated taxable income in compliance with current provisions, taking into account the applicable exemptions and tax credits due.

Deferred taxes receivable and payable on the temporary differences between the operating result and taxable income are also allocated. Deferred taxes receivable are recorded when there is reasonable certainty of their recovery.

Conversion criteria for items in foreign currency

Receivables and payables originally expressed in foreign currency, entered at the exchange rates in force on the date they arise, are adjusted to the year-end exchange rates.

In particular, assets and liabilities not representing fixed assets as well as frozen financial fixed assets are entered at the spot exchange rate at year-end. Profits and losses resulting from the conversion of receivables and payables are respectively credited and charged in the Income Statement item 17 bis "Exchange profits and losses".

Any net profit resulting from the adjustment of foreign currency items to the year-end exchange rates contributes to forming the operating result and, with approval of the balance sheet and subsequent allocation of the result to the legal reserve, is entered, for the part not absorbed by the possible operating loss, in a reserve not distributable until its subsequent realisation.

Fixed assets in foreign currency are entered at the exchange rate in force at the time of their purchase or at the lower rate at year-end only if the negative changes determined a lasting loss of value in the assets.

Exceptions pursuant to art. 2423.4

No exceptions pursuant to art. 2423.4 were made in the attached financial statements.

Notes on the main balance sheet items

To facilitate reading of the changes occurring in the main Balance Sheet and Income Statement items, the totals in all the statements are given in Euro/000.

3. NOTES ON THE MAIN ASSETS ITEMS

FIXED ASSETS

Special tables have been prepared for the fixed assets, indicating for each item the historical costs, previous amortisation and previous write-ups and write-downs, changes occurring in the year, closing balances, as well as the total of write-ups existing at year-end.

INTANGIBLE FIXED ASSETS

The change and composition of this item are given in Annex I.

The main increases concerned:

- the increase in the item "Industrial patent and rights for the use of intellectual property" for Euro 102,000, which mainly refers to costs incurred for the purchase, upgrading and enhancing of software programs for general accounts and analysis and software programs relevant to technical cards used by the Technical Department.
- the increase of Euro 25,000 in the item "Concessions, licences, trademarks and similar rights" due to costs incurred for maintenance and registration in the various international countries, of trademarks used by the Company;
- the increase of Euro 1,007,000 in the item "Goodwill" is due to the reclassification made for a better representation of the indemnity paid in 2002 for taking over the lease relevant to the P-box boutique in Via Andegari 18, Milan;

- the increase of Euro 104,000 in the item “Other intangible fixed assets” represented by multiyear costs and improvements to third parties' goods, made to the building in Via Bezzecca 5 (Milan), the building Donizetti 48 (Milan), the Corners Moschino and Cheap & Chic at Harrods London, Harvey Nichols and the Corner Philosophy at Printemps and Lafayette in Paris.

“Other intangible fixed assets” at year-end refers to the items given in the table below.

Description	31.12.2005	31.12.2004	*Changes*
Lease takeover indemnities	-	1,007	*(1,007)*
Improvements to third parties’ goods	15	23	*(8)*
Improvements to third parties’ goods B. London	180	221	*(41)*
Improvements to third parties’ goods B. Rome	811	892	*(81)*
Improvements to third parties’ goods B. Riccione	27	39	*(12)*
Improvements to third parties’ goods B. Milan Narciso	237	271	*(34)*
Amort. Corner Moschino Paris	46	50	*(4)*
Amort. Corner Moschino Printemps	22	24	*(2)*
Amort. Pollini Space c/ Harrods	-	3	*(3)*
Amort. Corner Moschino London	199	216	*(17)*
Improvements to third parties’ goods Outlet Serravalle	84	101	*(17)*
Renovation Building Donizetti 47	3	3	-
Renovation Building Donizetti 48	401	386	*15*
Renovation Via Bezzecca 5	1,127	1,250	*(123)*
Renovation B. Capri AF	30	40	*(10)*
Renovation B. Capri PH	30	37	*(7)*
Renovation Corner PH Printemps	5	-	*5*
Renovation Corner PH Lafayette	5	-	*5*
Total	**3,222**	**4,586**	***(1,341)***

The amortisation principles used for the various intangible fixed assets items are as follows:

- Start-up and expansion costs 5 years
- Software licences 3 years
- Trademarks and similar rights 20 years
- Goodwill 20 years

TANGIBLE ASSETS

The change and composition of this item is given in Annex II.

The main increases concerned:

- the increase of Euro 66,000 in the item “Land and buildings” which refers to the redemption value paid for the property situated in Via Degli Olmi in San Giovanni in Marignano (RN) relevant to the financial lease N.IF86915. The purchase contract for exercising the property option right occurred with index no. 20,622 file no. 7.175 dated 28 February 2005;
- the increase of Euro 31,000 in the item "Plant and machinery", which refers to purchases of machinery such as sewing machines, etc., for the production activity;
- the increase of Euro 8,000 in the item “Industrial and commercial equipment”, which refers to the purchase of various equipment such as shelving and small tools for industrial use;
- the increase of Euro 195,000 in the item "Other assets", which refers to the purchase of new electronic machines and various furnishings;
- the increase in "Assets in progress and advances" for Euro 76,000 refers to advances paid for the construction of a Company building intended for warehouse use expected to be completed in 2006.

The main decreases in the period concerned:

- the decrease of Euro 20,000 in the item "Plant and machinery" mainly refers to industrial machinery;
- the decrease of Euro 3,000 in the item “Industrial and commercial equipment” refers to the replacement of small tools for industrial use;

- the decrease of Euro 427,000 in the item "Other assets" refers to the replacement of company cars and obsolete electronic and informatics machines;
- the decrease of Euro 765,000 in "Assets in progress and advances" refers to the sale of civil buildings under construction, previously purchased through several advance payments.

During 2002, the Company purchased the industrial property situated in Gatteo (FC), the seat of the subsidiary, from Pollini S.p.A.. The Company subsequently transferred and acquired the property through a leasing contract. At the same time, the Company leased the industrial property to Pollini S.p.A.. The following accounting system complies with the statutory practice in force in Italy and provides for recording of rent paid in the Income Statement. Use of the financial method, also suggested by IAS no. 17, would have involved entering in the Income Statement interest on the residual capital underwritten, instead of rent, and amortisation rates on the value of the asset purchased under leasing, commensurate with the residual life of the asset, in addition to entering this asset and residual debt in the liabilities. The effects of this recalculation would have involved a positive effect on the profit for the year and net equity of the Company for approx. Euro 573,000 net of the tax effect.

Given below is the information provided for by document OIC NR. 1:

- leasing contract no. 7351 dated 26/11/02;
- duration of leasing contract: 120 months;
- asset used: industrial property complex in the municipality of Gatteo (FC) – Via Erbosa 2;
- cost of asset: Euro 17,500,000;
- advance rent ("Maxicanone") paid in November 2002, equal to Euro 3,500,000;
- actual value of rental payments not overdue Euro 11,257,000;
- actual related financial charge and referred to the year Euro 562,000;
- value of asset at year-end considered as capital expenditure Euro 15,925,000;
- virtual amortisation for the period Euro 525,000.

The following table gives detailed information, in Euro/000, on the effects that would have been produced on Net Equity and the Income Statement by recording the leasing transactions using the financial method compared with the so-called equity method of charging rent paid to the Income Statement.

Balance Sheet	**31.12.2005**
Assets	
a) Current contracts	
Leased goods at previous year-end, net of total depreciation equal to Euro at previous year-end	16,450
+ Goods acquired under leasing in the year	
- Leased goods redeemed in the year	
- Depreciation rates in the year	(525)
+ / - Value adjustments/write-backs of leased goods	
Leased goods at year-end, net of total depreciation equal to Euro	15,925
b) Redeemed goods	
Total higher value of redeemed goods, determined according to the financial method, compared with their net book value at year-end	
Liabilities	
c) Liabilities	
Implicit payables for leasing transactions at previous year-end	15,362
+ Profits carried forward	1,050
+ Implicit payables arising in the year	
- Decreases for capital share repayment	(1,400)
- Decreases for redemptions in the year	
Implicit payables for leasing transactions at year-end	15,012
d) Gross total effect at year-end (a+b-c)	**913**
e) Net tax effect	**340**
f) Effect on Shareholders' Equity at year-end (d-e)	**573**

Income Statement	31.12.2005
Write-back of rentals on leasing transactions	2,000
Recording of financial charges on leasing transactions	(562)
Recording of:	
• amortisation rates	
- on current contracts	(525)
- on redeemed goods	
• value adjustments/write-backs of leased goods	
Effect on profit before taxes	913
Recording of tax effect	340
Effect on operating result of leasing transactions recorded with the financial method	**573**

The composition of the item "Other assets" is as follows:

	31.12.2005	31.12.2004	*Changes*
Electronic office machines	280	248	*32*
Office furniture and equipment	338	431	*(93)*
Motor vehicles and cars	21	87	*(66)*
Total	**639**	**766**	***(127)***

The indication pursuant to art. 10 of Law 72/1983, of the write-ups made in previous years is reported in Annex III.

Fixed assets are methodically amortised on a straight-line basis according to the following rates, deemed to represent the residual life of the assets. The table below gives the breakdown of the rates used.

Buildings	3%
Plant and Machinery	12.5%
Industrial and commercial equipment	25%
Electronic machines	20%
Furniture and furnishings	12%
Motor vehicles	20%
Cars	25%
The rates are applied at 50% in the year of purchase.	

FINANCIAL FIXED ASSETS

Equity investments

This item comprises long-term investments in company shares. The composition of investments in subsidiaries and associated companies is given in Annex V, as well as the information required by art. 2427 of the Italian Civil Code.

Increases in the year mainly refer to the following operations:

- share capital increase of Euro 1,501,000 in Aeffe France on 30 June 2005 made through relinquishment of financial credits;
- subscription of 70% of the share capital of the new company Av Suisse S.r.l. established on 20 October 2005 for creating the new Authier distribution line.

Receivables

Due from subsidiaries

The breakdown of this item is given in the following table.

	31.12.2005	31.12.2004
Due from subsidiaries within 12 months	**4,144**	**4,494**
Ex Pollini Retail S.p.A.	-	-
Pollini S.p.A.	4,144	4,144
Velmar S.p.A.	-	350
Due from subsidiaries after 12 months	**45,240**	**47,052**
30 West 56 Corp.	-	-
Aeffe Usa	1,294	1,603
Aeffe UK Ltd	463	365
Moschino S.p.A.	32,772	32,772
Velmar S.p.A.	350	-
Aeffe France S.a.r.l.	4,099	6,100
Aeffe Retail S.p.A.	6,212	6,212
AV Suissse S.r.l.	50	-
Total	**49,384**	**51,546**

The decrease in the amount due from Aeffe France mainly refers to share capital increase made through relinquishment of financial credits and partly to repayment of a loan due.

The loan to AV Suisse regards the start-up of the recently formed company.

CURRENT ASSETS

Stocks and inventories

The composition of this item is as follows:

	31.12.2005	31.12.2004	*Changes*
Raw and subsidiary materials	5,498	5,495	*3*
Work in progress and semi-finished products	5,966	6,105	*(139)*
Finished goods	6,719	7,230	*(511)*
Trade advances	62	496	*(434)*
Total	**18,245**	**19,326**	***(1,081)***

The value of stock on hand decreased for finished products, with respect to the previous year, following higher sales in the last quarter 2005.

Receivables

The balance is divided according the times given in the following table.

	Within 12 months	After 12 months	Total
Trade	9,092		9,092
Due from subsidiaries	25,363		25,363
For tax credits	2,313		2,313
For anticipated taxes	546		546
Other	12,704	7,276	19,980
Total	**50,018**	**7,276**	**57,294**

The increase in "Trade receivables" with respect to 2004 (Euro 2,340,000) is mainly due to increased sales in the last quarter 2005.

The composition of trade receivables is as follows:

a) Euro 6,624,000 for trade receivables Italy for direct remittances collectible, bills receivable and on hand, net of the provision for bad debts for Euro 354,000 (Euro 299,000 at 31 December 2004);

b) Euro 2,468,000 for foreign trade receivables, insured for approx. 67.47%.

The nominal value of receivables was adjusted to the probable realisation value through a special provision for bad debts which underwent the following change in the year:

Balance at 31.12.2004	**299**
Provisions in the year	300
Availment in the year	(245)
Balance at 31.12.2005	**354**

Due from subsidiaries

The composition of this item at year-end is as follows:

	31.12.2005	31.12.2004	*Changes*
Aeffe France S.a.r.l.	15	-	*15*
Narciso Rodriguez LLC	51	68	*(17)*
Aeffe UK Ltd.	579	870	*(291)*
Aeffe Usa Inc.	5,708	4,775	*933*
Moschino GmbH	233	217	*16*
Ferretti Studio S.r.l.	240	113	*127*
Fashoff UK Ltd.	272	285	*(13)*
Moschino Japan Co. Ltd	-	6	*(6)*
Moschino France S.a.r.l.	158	298	*(140)*
Moschino S.p.A.	1,684	1,231	*453*
Pollini Retail S.r.l.	669	14	*655*
Pollini S.p.A.	8,066	5,084	*2,982*
Fashion Retail Company S.r.o.	109	53	*56*
Moschino Korea	650	406	*244*
Moschino Far East	3,638	3,951	(313)
Moschino Singapore	-	2	*(2)*
Nuova Stireria Tavoleto S.r.l.	243	81	*162*
Pollini France	77	62	*15*
Velmar S.p.A.	842	201	*641*
Aeffe Retail S.p.A.	2,129	3,383	*(1,254)*
Total	**25,363**	**21,100**	***4,263***

The increase in “Due from subsidiaries” mainly refers to increased sales in the last quarter 2005 and the increase in credit for VAT and Group taxes.

Tax credits

The statement below gives the breakdown and comparison with the previous year of the item "Tax credits".

	31.12.2005	31.12.204	*Changes*
Revenue/VAT	1,451	880	*571*
Withholding tax refund	1	1	-
Credit for foreign VAT refund	36	35	*1*
Withholding tax refund	1	-	*1*
Revenue/IRAP (Regional business tax) for advances	89	-	*89*
Revenue/IRES (corporate tax) for advances	735	971	*(236)*
Total	**2,313**	**1,887**	***426***

Receivables for prepaid taxes

	31.12.2005	31.12.2004	*Changes*
Receivables for anticipated taxes	545	360	*185*
Total	**545**	**360**	***185***

The item Receivables for prepaid taxes refers to future benefits regarding the availment of taxed reserves for the part reasonably realisable. This amount was prudentially determined according to the rates envisaged for the following financial years. For a description, refer to the relevant section in the last part of these explanatory notes.

Other receivables

The statement below gives the breakdown and comparison with the previous year of the item "Other receivables within 12 months":

	31.12.2005	31.12.2004	*Changes*
Prepaid costs	10,714	9,539	*1,175*
Trade credit notes receivable	614	514	*100*
Advances for royalties/commissions	1,161	1,041	*120*
Due from INAIL (National Insurance Institute for Industrial Accidents)	8	7	*1*
Due from INPS (Social Security)	31	36	*(5)*
Other trade advances	13	9	*4*
Due from employees for advances	4	5	*(1)*
Due from banks	38	-	38
Other receivables	121	13	*108*
Total	**12,704**	**11,164**	***1,540***

The increase in prepaid costs is mainly due to the higher capitalisation of sample collection costs for the 2006 autumn/winter season compared with their capitalisation for the 2005 autumn/winter season following the different percentage of sales in the last quarter 2005 with respect to the same period in 2004.

Given below is the comparison with the previous year of the item “Other receivables after 12 months”:

	31.12.2005	31.12.2004	*Changes*
Other receivables	7,276	8,923	*1,647*

The item decreased in the year following the attribution of leasing fees invoiced in advance.

The breakdown of receivables at 31 December 2005 by geographic area is given in the following table:

	Trade receivables	Receivables subsidiaries	Other receivables	Total
Italy	5,691	13,873	18,807	38,371
Rest of Europe	1,788	1,206	1,154	4,148
America	1,203	5,425	8	6,636
Far East	261	4,200	5	4,466
Other	149	659	6	814
Total	**9,092**	**25,363**	**19,980**	**54,435**

Liquid assets

Given below is the breakdown and comparison with the previous year:

	31.12.2005	31.12.2004	*Changes*
Bank accounts	972	857	*115*
Cheques	204	9	*195*
Cash on hand	20	13	7
Total	**1,196**	**879**	***317***

The balance represents the liquid assets and cash on hand at year-end.

The change with respect to the previous year is analysed in the cash flow statement attached to the Directors’ Report.

ACCRUED INCOME AND PREPAID EXPENSES

The breakdown of this item at 31 December 2005 is as follows:

	31.12.2005	31.12.2004	*Changes*
Multiyear prepaid expenses for leasing	2,430	2,782	*(352)*
Prepaid expenses for insurance	33	70	*(37)*
Prepaid expenses for rent	28	32	*(4)*
Other prepaid expenses	74	509	*(435)*
Total	**2,565**	**3,393**	***(828)***

“Multiyear prepaid expenses for leasing” decrease following the accrual of the leasing fee ("maxicanone") relevant to the property leasing transaction carried out by the company in 2002.

The decrease in the item "Other prepaid expenses" is due to the reclassification under the item "Prepaid costs" of the contribution paid by the company to Maison Jean Paul Gautier in 2004, for a better representation in the balance sheet.

4. NOTES ON THE MAIN LIABILITIES ITEMS

NET EQUITY

The composition of this grouping at 31 December 2005 is given in the following table.

Described below are main categories making up Net Equity, whereas the related changes are illustrated in Annex IV.

	31.12.2005	31.12.2004
Share capital	22,500	22,500
Share premium reserve	11,345	11,345
Legal reserve	1,957	1,816
Extraordinary reserve	21,932	16,295
Other Reserves		2,953
Profit for the year	1,950	2,825
Total	**59,684**	**57,734**

Share capital

At 31 December 2005 the share capital consists of 22,500,000 ordinary shares of par value Euro 1,00 each.

Legal reserve

The Legal reserve, which at 31 December 2004 totalled Euro 1,815,000, increased by Euro 141,000 due to the allocation of a portion of the previous year's profits and therefore totals Euro 1,956,000 at 31 December 2005.

Other reserves

The Extraordinary reserve increased by Euro 2,684,000 for the portion of previous year's profits not distributed and for Euro 2,953,000 for the reclassification of "Other reserves for accelerated depreciation available and unavailable" following the amendments introduced by 102 of the C.I.T.L.

PROVISIONS FOR RISKS AND CHARGES

The composition and change in these provisions are as follows:

	31.12.2004	Increases	Decreases	31.12.2005
Provisions for retirement benefits	1,718	35	(36)	1,717
For taxes	677	198	(143)	732
Other provisions	545	-	-	545
Total	**2,940**	**233**	**(104)**	**2,994**

The increase in the item "Provision for retirement benefits" refers to the allocation to the Staff Termination Indemnities Fund in the year. The provision mainly refers to future charges relevant to the agent customer supplementary indemnity.

The Tax funds include liabilities for deferred taxes referring to taxable temporary differences; for a description, refer to the "Income tax" section in the Income Statement.

The item "Other provisions" refers to the Exchange risk fund.

STAFF TERMINATION INDEMNITIES FUND

The change in the fund during the year was as follows:

Balance at 31 December 2004	**6,587**
Increase for allocation in the year	1,267
Decrease for availment in the year	(791)
Balance at 31 December 2005	**7,063**

The fund represents the Company's liability towards employees at 31 December 2005, net of advance payments.

PAYABLES

A description of the composition of this grouping is given below.

Payables are evaluated at nominal value and are due as listed in the middle table.

	Within 12 months	After 12 months	Total
Payables to banks	45,966	52,055	98,021
Payables to other financial institutions	355	-	355
Advances	2,189	-	2,189
Trade payables	27,603	8,276	35,879
Due to subsidiaries	18,567	2,118	20,685
Tax payables	1,082	-	1,082
Social Security	1,248	-	1,248
Other payables	8,278	-	8,278
Total	**105,288**	**62,449**	**167,737**

Payables to banks

Description	31.12.2005	31.12.2004	*Changes*
Payables to banks within 12 months	45,966	56,311	*(10,345)*
Payables to banks after 12 months	52,055	38,311	*13,744*
Total	**98,021**	**94,622**	***3,399***

The balance of "Payable to banks" at 31 December 2005, inclusive of loans payable, expresses the actual debt for capital, interest and additional charges accrued and payable.

There are no "Payables to banks" after five years.

The change with respect to the previous year is analysed in the "Cash Flow Statement" attached to the Directors' Report.

Payables to other financial institutions

"Payables to other financial institutions" include the loan obtained in several "tranches" from Simest S.p.A. for penetrating the United States market. This interest-free loan was used for opening the Alberta Ferretti Philosophy boutique in New York. The decrease of Euro 355,000 refers to the loan amount repaid in 2005.

Advances

The item "Advances" includes trade payables for advances received from Italian and foreign customers based on normally applicable sales terms, for outstanding orders.

Trade payables

	31.12.2005	31.12.2004	*Changes*
Trade payables within 12 months	27,603	26,523	*1,080*
Trade payables after 12 months	8,276	10,923	*(2,647)*
Total	**35,879**	**37,446**	***(1,567)***

"Trade payables" are entered net of trade discounts; cash discounts are recorded at the time of payment. These payables refer to liabilities for supplies of goods and services.

The amount after 12 months mainly refers to the liability towards the leasing company for the advance invoicing of fees in relation to the property lease contract previously described.

The increase in short-term Trade receivables is due to increased sales in 2005 and a net working capital limitation policy which determined an increase in the average days of payment.

Due to subsidiaries

"Due to subsidiaries" refers to short-term liabilities of a commercial nature whose breakdown is given in the following table.

	31.12.2005	31.12.2004	*Changes*
Aeffe France S.a.r.l.	917	852	*65*
Narciso Rodriguez LLC	41	307	*(266)*
Aeffe UK Ltd.	455	693	*(238)*
Aeffe Usa Inc.	100	109	*(9)*
Moschino France	206	347	*(141)*
Moschino Far East	-	2	*(2)*
Ferretti Studio S.r.l.	931	638	*293*
Nuova Stireria Tavoleto S.r.l.	832	399	*433*
Ozbek (London) Ltd.	273	266	*7*
Fashoff UK Ltd.	255	349	*(94)*
Moschino S.p.A.	11,579	8,056	*3,523*
Pollini Retail S.p.A.	720	-	*720*
Pollini S.p.A.	1,146	1,966	*(820)*
Velmar S.p.A.	190	201	*(11)*
Aeffe Retail S.p.A.	922	1,636	*(714)*
Total	**18,567**	**15,821**	**-2,746**

"Due to subsidiaries after 12 months", for Euro 2,118,000, refers to a liability towards Pollini S.p.A. arising from the purchase of the industrial property in Gatteo (FC).

Tax payables

The item "Tax payables" only comprises liabilities for certain or particular taxes, whereas payables for taxes whose amount and date of occurrence are probable or uncertain, or for deferred taxes, are entered in the liabilities item B.2 (Tax funds).

The item mainly comprises the liabilities for withholdings in relation to professionals, collaborators and employees.

Social Security

This item refers to payables to social security institutions at year-end for amounts chargeable to the Company and employees for salaries and wages in December, in addition to accrued and deferred remuneration.

Other payables

The following table gives the breakdown and comparison with the previous year of "Other payables within 12 months".

Other short-term payables	31.12.2005	31.12.2004	*Changes*
Salaries and wages payable	920	832	*88*
Payable to Four Pollini S.r.l.	5,578	5,165	*413*
Payable to employees for deferred remuneration	681	574	*107*
Trade payables	1,009	991	*18*
Other payables	90	50	*40*
Total	**8,278**	**7,612**	***666***

Due to Four Pollini s.r.l. refers to the last instalment of the liability arising following the purchase of another 65% of Pollini S.p.A by Aeffe S.p.A. under a sale and purchase contract stipulated in 2001. This debt was repaid in January 2006.

Trade payables mainly refer to credit notes repayable to our customers.

The breakdown of payables at 31 December 2005 by geographic is given in the following table:

	Trade payables	Payables Subsidiaries	Other payables	Total
Italy	31,569	18,544	8,211	58,324
Rest of Europe	2,302	1,851	61	4,214
America	294	141	1	436
Far East	1,510	-	-	1,510
Other	204	148	5	357
Total	**35,879**	**20,684**	**8,278**	**64,841**

ACCRUED EXPENSES AND DEFERRED INCOME

The balance of Euro 13,000 at 31 December 2005 refers to Deferred income on rent receivable.

5. MEMORANDUM ACCOUNTS

Given below is the breakdown and comparison with the previous year of the item "Memorandum accounts":

	31.12.2005	31.12.2004	*Changes*
Commitments undertaken by the Company	11,257	12,905	*(1,648)*
Personal guarantees	5,510	11,980	*(6,470)*
Total	**16,767**	**24,885**	***(8,118)***

"Commitments undertaken by the Company" mainly refer to payments due for the property lease contract stipulated on 26 November 2002.

"Personal guarantees" consist of guarantees subscribed by Aeffe S.p.A. in favour of third parties for Euro 834,000 and in favour of subsidiaries for Euro 4,675,000 at 31 December 2005.

6. NOTES ON THE MAIN INCOME STATEMENT ITEMS

OUTPUT VALUE

The following table gives the breakdown and comparison of this item with the previous year:

	31.12.2005	31.12.2004	*Changes*
Revenues from sales and services	128,807	137,577	*(8,770)*
Inventory changes	(649)	430	*(1,079)*
Other revenues and income	2,950	4,667	*(1,717)*
Total	**131,108**	**142,674**	***(11,566)***

The output value decreased by a total of 8.11%, going from Euro 142,674,000 in 2004 to Euro 131,108,000 in 2005.

The decrease is entirely due to royalties of Euro 10,993,000 for perfume, received in 2004 following the positive result of an out of court settlement in favour of the company with recognition of the right to collect said sum. Adjusting the output value by such royalties, 2005 remains almost unchanged with respect to 2004.

Net of that effect, also net revenues from clothing and accessories increased by 1.76%, going from Euro 126,584,000 in 2004 to Euro 128,807,000 in 2005. This increase is mainly due to the Alberta Ferretti and Moschino lines.

27% of turnover was achieved in the Italian market and 73% in the foreign markets, confirming the trend of previous years.

Given below is the breakdown of "Revenues from sales and services" by geographic area:

Revenues by geographic area	31.12.2005	31.12.2004	*Changes*
Italy	35,603	45,490	*(9,887)*
Europe	30,581	30,488	*93*
America	21,387	22,483	*(1,096)*
Far East	21,484	22,973	*(1,489)*
Other	19,752	16,143	*3,609*
Total	**128,807**	**137,577**	***(8,770)***

Net of the effect of royalties for perfume, totalling Euro 10,993,000 received in 2004 following an out of court agreement with the licensee, sales Italy would have increased by Euro 1,106,000 with respect to the previous year.

The composition of "Other revenues and income" is as follows:

	31.12.2005	31.12.2004	*Changes*
Rent income	2,445	2,404	*41*
Commission income	40	87	*(47)*
Extraordinary income	65	692	*(627)*
Other	400	1,484	*(1,084)*
Total	**2,950**	**4,667**	***(1,717)***

The decrease in this item is mainly due to the sale of software for planning and control of production in 2004 and for less extraordinary items recorded in 2005.

OUTPUT COSTS

Costs of raw materials, supplies and purchased goods

The composition of this item is as follows:

	31.12.2005	31.12.2004	*Changes*
Raw materials and semifinished products	22,310	23,627	*(1,317)*
Consumables and subsidiary materials	1,616	1,492	*124*
Goods for sale	13,138	13,516	*(378)*
Other purchases	156	159	*(3)*
Total	**37,220**	**38,794**	***(1,574)***

The decrease in this item arises from a number of operations implemented starting from 2004 and mainly aimed at reducing production and structure costs. This reduction was achieved by improving the effectiveness and efficiency of the company processes without altering the high quality which has always distinguished our products.

Costs for services

The breakdown of this item is as follows:

	31.12.2005	31.12.2004	Changes
Transport costs	3,779	3,360	*419*
Outside work external processing	20,941	22,807	*(1,866)*
Utilities	653	639	*14*
Insurance	396	560	*(164)*
Commissions	6,537	6,197	*340*
Promotional, publicity and advertising costs	2,093	2,678	*(585)*
Consulting costs	4,609	5,009	*(400)*
Motor vehicle maintenance and costs	575	564	*11*
Emoluments to company bodies	1,514	1,522	*(8)*
Reimbursements to employees	777	750	*27*
Other	920	925	*(5)*
Total	**42,794**	**45,011**	***(2,217)***

The decrease in service costs is mainly due to lower costs incurred for outside work consequent to the policy of limiting costs and creating synergies aimed at best exploiting the operating leverage implemented in 2004.

Emoluments to company bodies include directors' fees for Euro 1,439,000 (Euro 1,478,000 at 31 December 2004), and remuneration of members of the board of auditors for Euro 35,000 (Euro 37,000 at 31 December 2004).

Costs for use of third parties' goods

The breakdown of costs for use of third parties' goods is given in the following table.

	31.12.2005	31.12.2004	Changes
Rent payable and leasing instalments	3,544	3,519	*25*
Hire	351	330	*21*
Royalties	14,863	14,477	*386*
Total	**18,758**	**18,326**	***432***

Staff costs

This item comprises all staff costs, including the provisions according to the law and collective agreements, and remains unchanged with respect to the previous period.

The average company workforce, by category, recorded the following changes with respect to the previous year:

Workforce	31.12.2005	31.12.2004	Changes
Managers	16	19	*(3)*
Clerks	375	367	*8*
Workers	172	193	*(21)*
Total	**563**	**579**	***(16)***

The national labour agreement applied is that of the textile and clothing sector dated 28 May 2004.

Depreciation, amortisation and write-downs

The breakdown of the four subitems required is given in the Income Statement.

Other provisions

The balance refers to the allocation made to the Staff Termination Indemnities Fund in the year.

Other operating costs
The breakdown of this item is given in the following table.

	31.12.2005	**31.12.2004**	***Changes***
Other taxes	119	119	-
Gifts	117	138	*(21)*
Extraordinary losses	18	24	*(6)*
Other operating costs	394	385	*9*
Total	**648**	**666**	***(18)***

FINANCIAL INCOME AND CHARGES

Given below is the composition and breakdown of this item compared with the previous year:

	31.12.2005	**31.12.2004**	***Changes***
Income from equity investments	293	-	293
Other financial income	1,142	1,254	*(112)*
Interest and other financial charges	(4,522)	(4,649)	127
Exchange profits and losses	29	62	*(33)*
Total	**(3,058)**	**(3,332)**	**275**

Income from equity investments refers to the dividend paid by the subsidiary Divè S.A.

Other financial income

The breakdown of Other financial income is as follows:

	31.12.2005	**31.12.2004**	***Changes***
Interest from subsidiaries	165	185	*(20)*
Bank interest	2	3	*(1)*
Other income	37	59	*(22)*
Exchange profits	938	1,007	*(69)*
Total	**1,142**	**1,254**	***(112)***

Interest and other financial charges

The breakdown of this item is as follows:

	31.12.2005	**31.12.2004**	***Changes***
Interest due from subsidiaries	65	46	*19*
Bank interest	547	433	*114*
Interest income on loans	2,728	2,547	*181*
Discounts and financial charges	207	189	*18*
Exchange losses	975	1,434	*(459)*
Total	**4,522**	**4,649**	***(127)***

Exchange profits and losses

This item only comprises the non-realised valuation component.

This amount is entered in a reserve that cannot be distributed until the time of subsequent realisation.

EXTRAORDINARY INCOME AND EXPENSES

The following table gives the comparison of this item with the previous year:

	31.12.2005	31.12.2004	*Changes*
Taxes for previous years	29	20	9
Amnesty	-	(123)	*123*
Legal and court costs	-	(5,311)	*5,311*
Extraordinary losses	(152)	-	*(152)*
Other	(39)	(590)	*551*
Total extraordinary income (expenses)	**(162)**	**(6,004)**	**5,842**

Income tax

Given below is the composition and breakdown of this item compared with the previous year:

Taxes	31.12.2005	31.12.2004	*Changes*
Current taxes	**2,972**	**3,350**	***(378)***
IRAP (Regional business tax)	1,333	1,441	*(108)*
IRES (corporate tax)	1,639	1,909	*(270)*
Deferred (anticipated) taxes	**(170)**	**48**	***(218)***
IRAP (Regional business tax)	3	(3)	*6*
IRES (corporate tax)	(173)	51	*224*
Total	**2,802**	**3,398**	***(596)***

Deferred/anticipated taxes

Deferred and prepaid taxes are calculated according to the tax rate applicable in the periods in which the tax effect is expected to apply.

The basis for calculation is represented by the temporary differences between the fiscal value of the assets and liabilities and the book value.

Liabilities for deferred taxes are recorded in the "Deferred tax reserve" under the Provisions for risks and charges of the Liabilities, whereas the assets for prepaid taxes are recorded as an increase in "Receivables for prepaid taxes" of Working Capital. Prepaid taxes are entered only if their recovery is reasonably probable.

Recording of deferred and prepaid taxes and consequent effects: (Euro/000)

	previous year		current year	
	Total of temporary differences	**tax effect**	**Total of temporary differences**	**tax effect**
Rate applied	37.25%		37.25%	
increase (decrease) in the deferred tax fund				
Deferred taxes receivable:				
Allocation to the taxed provision for bad debts	46	15	(55)	(18)
Exchange fluctuation			(545)	(180)
Depreciation of inventories				
Other items	(29)	(11)	34	13
Total prepaid taxes	17	4	(566)	(185)
Deferred taxes payable				
Accelerated depreciation	140	52	86	32
Surplus write-downs	(321)	(120)	(311)	(116)
Capital gains	(22)	(8)	(17)	(6)
Availment taxed provision for bad debts	179	59	(21)	(7)
Customer supplementary indemnity	161	61		
Interest receivable not collected			6	2
Exchange profits not realised			29	10
brand depreciation allowance			269	100
Total deferred taxes	137	44	41	15
Net deferred (prepaid) taxes	154	48	(525)	(170)
Net effect: on profit of the year	48		(170)	

Reconciliation between notional rate and actual rate:

	previous year	**current year**
Notional IRES (corporate tax) rate	33.00%	33.00%
Effect of increase (decrease) change with respect to the notional rate:		
Other differences	(2.32%)	1.51%
Actual rate	30.68%	34.51%

These financial statements, comprising the Balance Sheet, Income Statement and Explanatory Notes, truthfully and accurately represent the equity and financial position as well as the operating result and agree with the results of the accounting records.

for the Board of Directors
The Chairman
Massimo Ferretti

7. ANNEXES

The following annexes contain additional information to that given in the Explanatory Notes, of which they are an integral part:

- Table of changes in the intangible fixed assets (Annex I);
- Table of changes in the tangible assets (Annex II);
- Table of write-ups of tangible assets (Annex III);
- Table of changes in the net equity accounts (Annex IV);
- List of equity investments in subsidiaries (Annex V).

ANNEX I

CHANGES IN INTANGIBLE FIXED ASSETS

(amounts in thousands Euro)

	31.12.2004		Movements 2005				31.12.2005	
	Net book value	Net book value as at 31.12.2004	Increase	Reclassification	Decrease	Amortisation and depreciation	Net book value	Net book value as at 31.12.2005
Start-up and expansious costs	242	242				-81	161	161
Research, development and advertising costs								
Industrial patent and rights for the use of intellectual property	69	69	102			-85	86	86
Concessions, licenses, trade marks and similar rights	4,817	4,817	25			-269	4,573	4,573
Goodwill	1,756	1,756		1,007		-215	2,548	2,548
Fixed assets in progress and advances	2	2			-2			
Other intangible assets	4,563	4,563	104	-1,007		-438	3,222	3,222
	11,449	**11,449**	**231**		**-2**	**-1,088**	**10,590**	**10,590**

ANNEX II

CHANGES IN TANGIBLE FIXED ASSETS

(amounts in thousands Euro)

	31.12.2004				Movements 2005			31.12.2005				
	Historical cost	Revaluation	Accumulated depreciation	Net book value as at 31.12.2004	Increase	Decrease	Amortisation	Historical costs	Revaluation	Availment of provision	Accumulated depreciation	Net book value as at 31.12.2005
Land and buildings	8,319	3,738	-5,629	6,428	66		-283	8,385	3,738		-5,912	6,211
Plants and machinery	12,054	323	-10,840	1,537	31	-20	-444	12,065	323	19	-11,265	1,123
Industrial and commercial equipment	859		-857	2	8	-3	-8	864		2	-863	1
Other tangible assets	6,409		-5,643	766	195	-427	-293	6,177		398	-5,538	639
Assets in progress	3,040			3,040	76	-765		2,351				2,351
	30,681	**4,061**	**-22,969**	**11,773**	**376**	**-1,215**	**-1,028**	**29,842**	**4,061**	**419**	**-23,578**	**10,325**

ANNEX III

TABLE RELATING TANGIBLE ASSETS IN USE REVALUETED UNDER SPECIAL LAWS

(amounts in thousands Euro)

	Balance sheet items	
	Buildings	Plants and machinery
Law No. 408 of 29 December 1990	3,298	323
Law No. 413 of 30 December 1991	440	
	3,738	**323**

ANNEX IV

CHANGES IN SHAREHOLDERS' EQUITY AS AT 31 DECEMBER 2005

(amounts in thousands Euro)

	Share capital	Legal reserve	Extraordinary reserve	Other reserve	Share premium reserve	Net income for the period	Total
BALANCES AS AT 31 DECEMBER 2004	**22,500**	**1,815**	**16,295**	**2,953**	**11,345**	**2,825**	**57,733**
Allocation of 2004 profits		141	2,684			-2,825	
Reclassification			2,953	-2,953			
Net income for the year						1,950	1,950
BALANCES AS AT 31 DECEMBER 2005	**22,500**	**1,956**	**21,932**		**11,345**	**1,950**	**59,683**

ANNEX V

LIST OF SUBSIDIARY COMPANIES AS AT 31 DECEMBER 2005 (ART. 2427 NO. CIVIL CODE)

(amounts in thousands Euro)

			Net equity		Result for the period		% owned	
Name	Registered Office	Share Capital	Total amount	Group's share of amount	Total amount	Group's share of amount	Direct	Book value
Subsidiary companies								
Italian Companies								
Ferretti Studio S.r.l.	San Giovanni in Marignano (RN)	10	525	499	-171	-162	95%	10
Pollini S.p.A.	Gatteo (FC)	6,000	23,286	16,766	2,462	1,773	72%	40,746
Moschino S.p.A.	Milano	20,000	24,742	17,319	1,191	834	70%	14,085
Velmar S.p.A.	San Giovanni in Marignano (RN)	493	549	412	8	6	75%	775
Nuova Stireria Tavoleto S.r.l.	Tavoleto (PU)	10	649	649	176	176	100%	773
Aeffe Retail S.p.A.	San Giovanni in Marignano (RN)	8,585	10,966	10,966	-709	-709	100%	16,493
AV Suisse S.r.l.	Contrà Canove 9 (VI)	10	9	6	-1	-1	70%	3
Foreign Companies								
Aeffe Usa Inc.	New York (USA)	USD 600	10,612	10,612	144	144	100%	10,664
Aeffe UK Ltd	London (GB)	GBP 310	282	282	-73	-73	100%	478
Aeffe France S.a.r.l.	Parigi (F)	1,550	1,254	1,253	-226	-226	99.9%	2,119
Ozbek (London) Ltd	London (GB)	GBP 300	248	228	-3	-3	92%	647
Divè S.A.	Repubblica di San Marino (RSM)	260	277	208	288	216	75%	1,038