AEFFE FASHION GROUP

CONSOLIDATED FINANCIAL STATEMENTS 2006

During the course of 2006, the global economy continued to grow at a sustained pace. The gap between the GDP growth of industrialized and emerging economies such as China and India decreased; the latter have continued to contribute to the growth of the global economy in a significant manner.
Within this competitive scenario, Aeffe Fashion Group has managed to increase wholesale as well as retain sales of all the companies of the Group, reporting total consolidated revenues of 275 million Euro (+10%) and a net income of 8 million Euro (+45%). These results have been pursued by implementing a thorough cost management strategy which has yielded a significant increase in margins while continuing the process of quality optimization of our products.

In addition, these results confirm the validity of our business model which may be summarized in the phrase, "industry served by creativity". This model guarantees maximum autonomy and creativity for the various parts of the Group while at the same time providing the option of industrializing the models with constant cost control.

Another fundamental component of the success of Aeffe Fashion Group includes the elevated quality and commitment provided by the directors, managers and all the collaborators of the various companies who respond to the demands and dynamic requirements of a constantly evolving sector such as fashion in a timely manner and on a daily basis. This requires availability and commitment from all through constant teamwork.

News of an imminent IPO of Aeffe Fashion Group is recent. This process will provide new and significant developmental opportunities in the future and will accelerate growth due to the resources which will become available. At the same time - and in order to complete a process which has already required a significant commitment on the part of all the members of the Group - it will be necessary to adopt new strategies, values and rules relative to corporate governance. This will allow us to continue to provide maximum transparency of information relative to the performance of the Group for all stakeholders.

I would like to take this opportunity to thank all of those who will allow us to face this new challenge as a result of their unwavering enthusiasm, participation and professionalism.

The Chairman of the Board
of Directors

Massimo Ferretti

AEFFE FASHION GROUP

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AEFFE S.P.A.

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Board of Directors

Chairman
Massimo Ferretti

Deputy Chairman
Alberta Ferretti

Chief Executive Officer
Simone Badioli

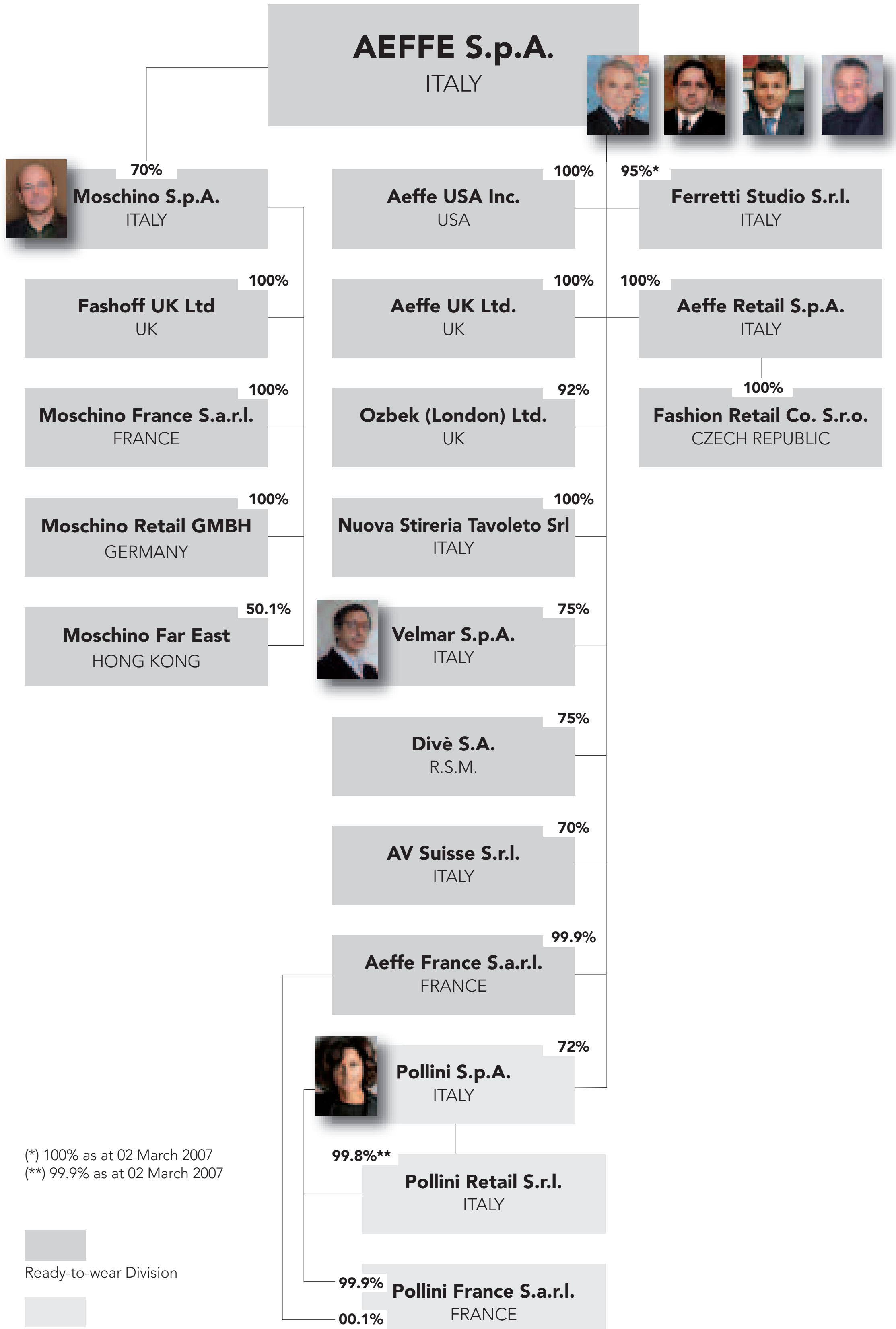
Directors
Marcello Tassinari - *Managing Director*
Umberto Paolucci
Gianfranco Vanzini

Board of Statutory Auditors

Presidente
Romano Del Bianco

Sindaci Effettivi
Vittorio Baiocchi
Bruno Piccioni

Sindaci Supplenti
Pier Francesco Gamberini



(*) 100% as at 02 March 2007
(**) 99.9% as at 02 March 2007

Ready-to-wear Division

Footwear and leather goods Division

AEFFE
CLOTING - ACCESSORIES

- ALBERTA FERRETTI
- Jean Paul GAULTIER
- narciso rodriguez
- POLLINI
- Basso & Brooke
- Authier
- PHILOSOPHY DI ALBERTA FERRETTI
- MOSCHINO
- MOSCHINO CHEAPANDCHIC
- GAULTIER²

POLLINI
SHOES - LEATHER GOODS

- POLLINI
- STUDIO POLLINI
- POLLINI way-out
- MOSCHINO
- MOSCHINO CHEAPANDCHIC
- MOSCHINO JEANS

MOSCHINO
LICENCES - DESIGN - RETAIL

- MOSCHINO
- MOSCHINO CHEAPANDCHIC
- MOSCHINO JEANS

VELMAR
BEACHWEAR - UNDERWEAR

- ALBERTA FERRETTI
- BLUGIRL UNDERWEAR
- BLUGIRL BEACHWEAR
- BLUGIRL FITNICE
- philosophy ALBERTA FERRETTI
- MOSCHINO
- VERDEMARE

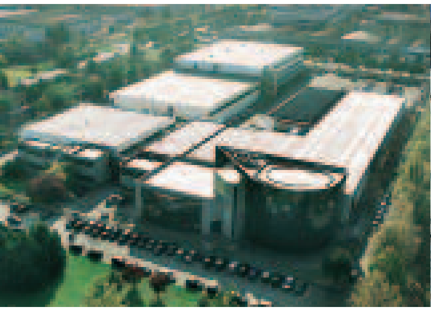
AEFFE GROUP
Via Delle Querce, 51
San Giovanni in Marignano (RN)
47842 - Italy

MOSCHINO
Via San Gregorio, 28
20124 - Milan
Italy

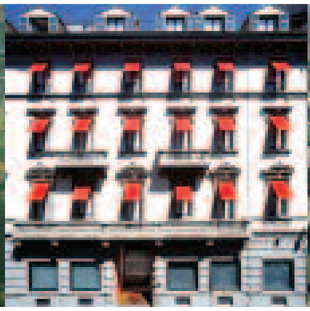
POLLINI
Via Erbosa, 2/B
Gatteo (FC)
47030 - Italy

VELMAR
Via Delle Robinie, 43
San Giovanni in Marignano (RN)
47842 - Italy

Aeffe SpA

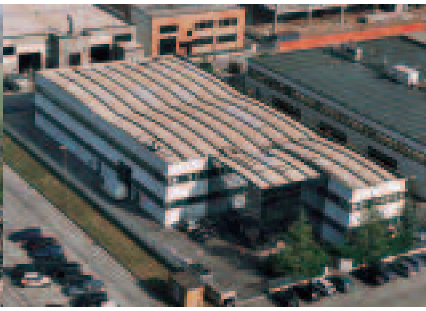


Moschino SpA



Pollini SpA

Velmar SpA



AEFFE MILAN
(FERRETTI - GAULTIER - RODRIGUEZ)
Via Donizetti, 48
20122 - Milan
Italy

POLLINI MILAN
Via Bezzecca, 5
20135 – Milan
Italy

AEFFE LONDON
(FERRETTI)
205-206 Sloane Street
SW1X9QX - London
UK

AEFFE PARIS
(ALL BRANDS GROUP)
15, Place de la Republique
75003 - Paris
France

AEFFE NEW YORK
(ALL BRANDS GROUP)
30 West 56th Street
10019 - New York
USA

MOSCHINO MILAN
Via San Gregorio, 28
20124 - Milan
Italy

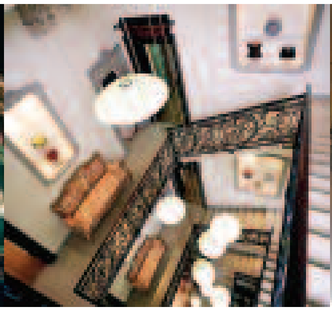
MOSCHINO LONDON
28-29 Conduit Street
W1R 9TA - London
UK

MOSCHINO JAPAN
Shin-Nogizaka Bldg. 5F
1-15-14, Minami Aoyama Minato-ku
107-0062 - Tokyo
Japan

MOSCHINO HONG KONG
21/F Dorset House, Taikoo Place
979 King's Road
Hong Kong

Milan Aeffe

Milan Moschino



Milan Pollini

New York Aeffe

Milan Aeffe

ALBERTA FERRETTI
Milan
Rome
Capri
Paris
London

PHILOSOPHY
Milan
Capri
New York

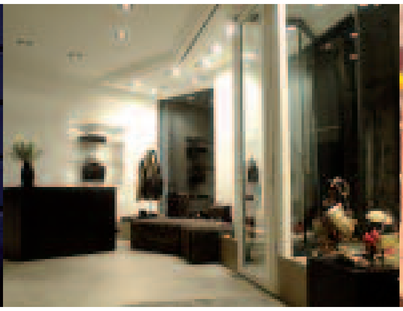
SPAZIO A
Florence
Venice

P_BOX
Milan

Alberta Ferretti

Moschino

Pollini

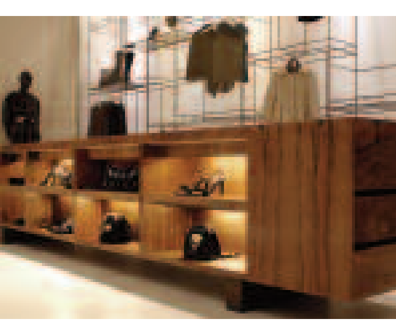


Moschino

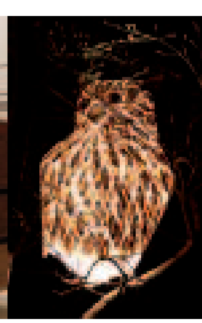
MOSCHINO
Milan (2)
Capri
Paris
London
Berlin
Beijing
Shanghai
Osaka
Hong Kong (3)
Kuala Lumpur
Singapore
Taipei (2)
Bangkok

POLLINI
Milan
Bologna
Rome
Florence (2)
Venice
Bolzano
Parma
Ravenna
Rimini
Varese
Verona
Paris

Alberta Ferretti



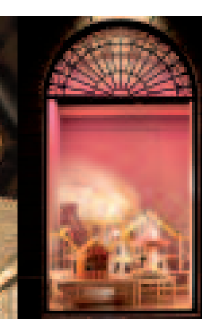
Moschino



Pollini

Alberta Ferretti

Moschino

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ALBERTA


FERRETTI


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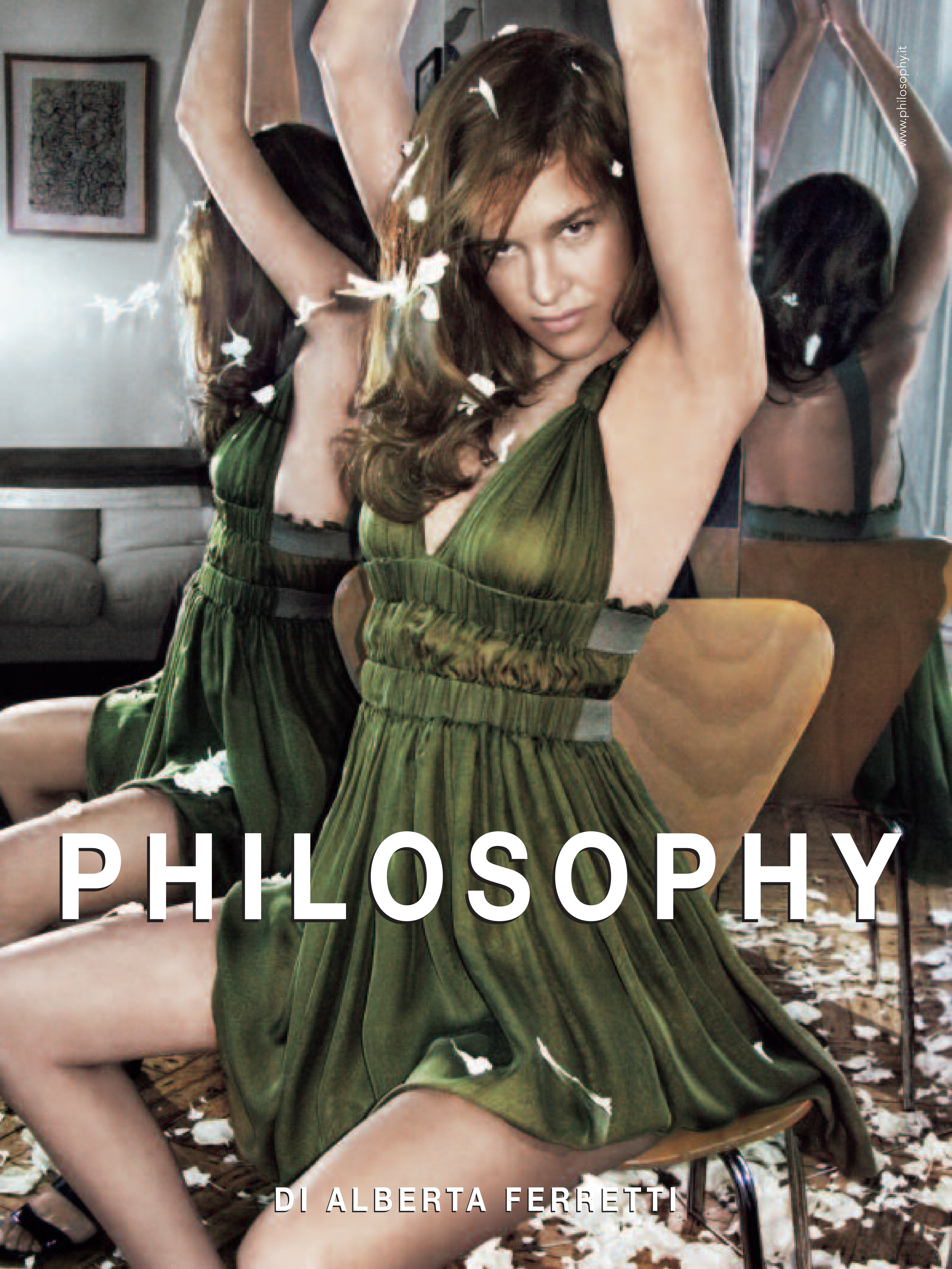
MOSC


CHINO


www.pollini.com
POLLINI


www.bassoandbrooke.com
Basso & Brooke
POWER PRINTS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DI ALBERTA FERRETTI


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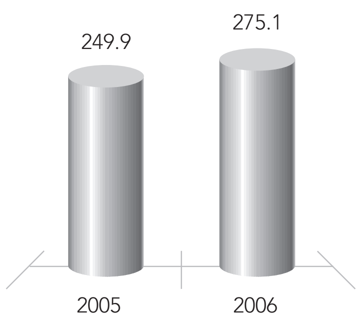
Authier

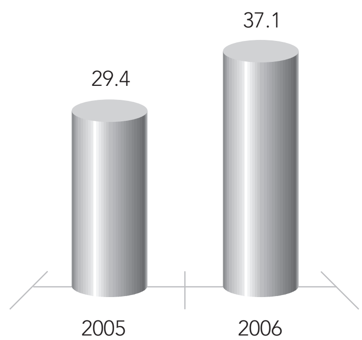
AEFFE FASHION GROUP

MAIN ECONOMIC-FINANCIAL DATA AND RATIOS

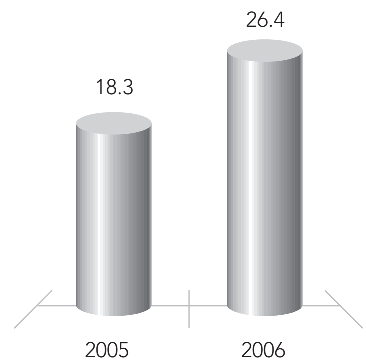
TOTAL NET REVENUES
(€/,000,000)



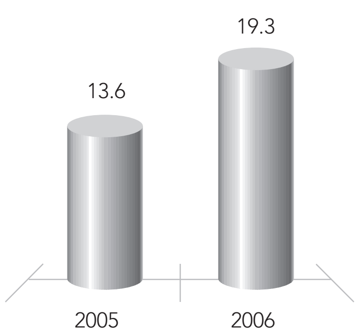
EBITDA
(€/,000,000)



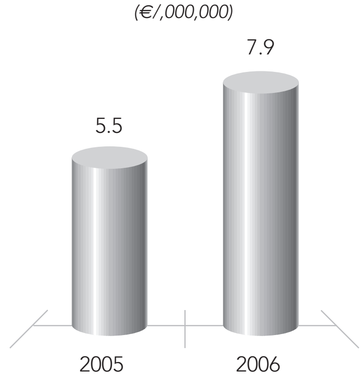
EBIT
(€/,000,000)



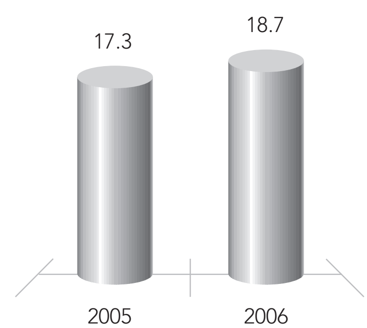
PROFIT BEFORE TAXES
(€/,000,000)



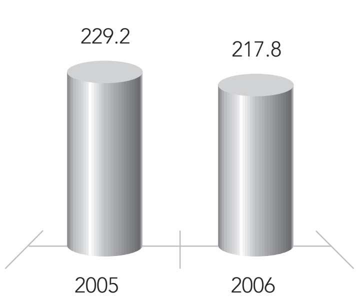
GROUP NET PROFIT
(€/,000,000)



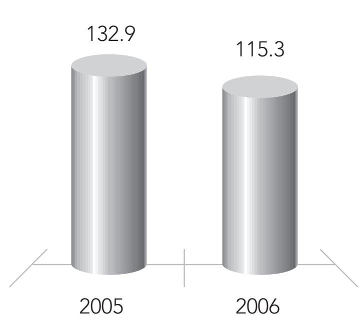
CASH FLOW
(net profit after taxes+depreciation)
(€/,000,000)



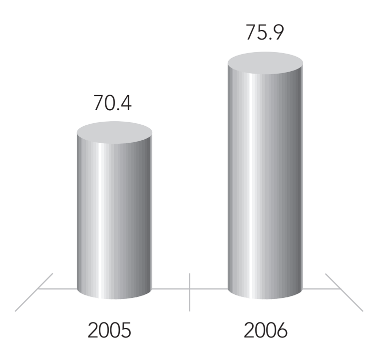
NET CAPITAL INVESTED
(€/,000,000)



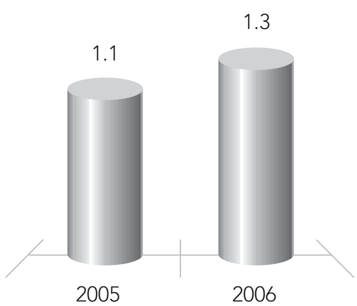
NET FINANCIAL POSITION
(€/,000,000)



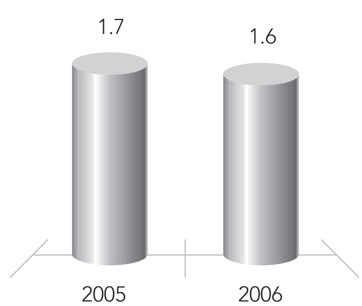
GROUP NET EQUITY
(€/,000,000)



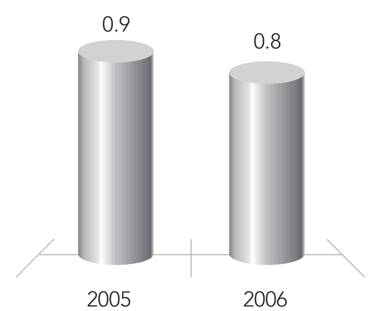
Total revenues/
Net capital invested
(€/,000,000)



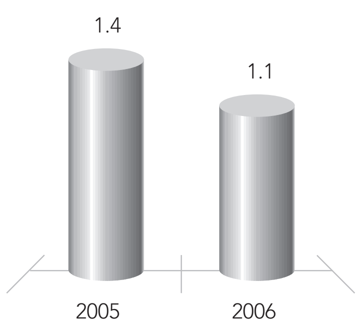
Current assets/
Current liabilities
(€/,000,000)



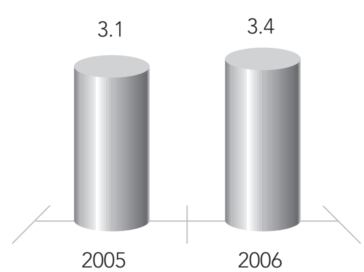
Current assets less invent./
Current liabilities (ACID Test)
(€/,000,000)



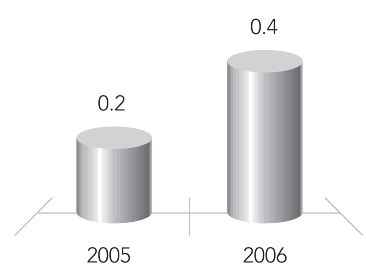
Net financial indebtedness/
Net equity
(€/,000,000)



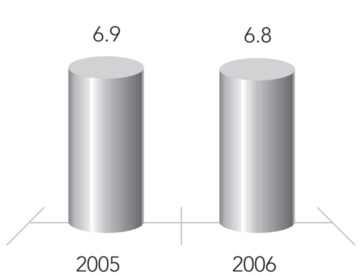
Net equity per share
(Euro)



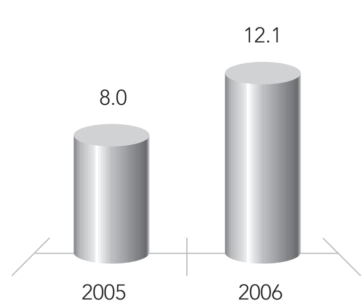
Net profit per share
(Euro)



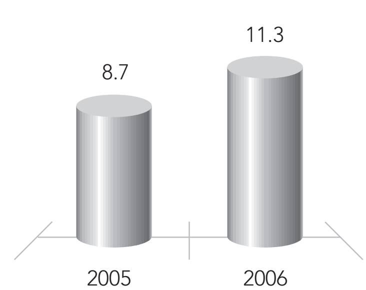
Cash flow/Total revenues
(Percent Values)



ROI:Operating profit/
Net capital invested
(Percent Values)



ROE:Net profit group/
Net equity group
(Percent Values)



AEFFE FASHION GROUP

BALANCE SHEET - INCOME STATEMENT - CASH FLOW

CONSOLIDATED IAS BALANCE SHEET

	amounts as at 31.12.2006	amounts as at 31.12.2005	Changes 2006/05
NON-CURRENT ASSETS			
Intangible fixed assets			
Goodwill	54,101,757	54,101,759	
Trade marks	120,799,010	124,313,522	- 3,514,512
Other intangible fixed assets	172,525	377,409	- 204,884
Total intangible fixed assets	175,073,292	178,792,690	- 3,719,398
Tangible fixed assets			
Lands	17,719,245	17,061,922	657,323
Buildings	34,265,872	31,040,657	3,225,215
Leasehold improvements	10,998,186	11,803,933	- 805,747
Plant and machinery	3,613,970	4,426,502	- 812,532
Equipment	207,035	243,918	- 36,883
Other tangible fixed assets	3,091,092	3,389,736	- 298,644
Total tangible fixed assets	69,895,400	67,966,667	1,928,733
Other fixed assets			
Real estate investments			
Equity investments	120,638	257,640	- 137,002
Other fixed assets	2,877,143	4,359,104	- 1,481,961
Deferred tax assets	10,741,117	11,714,293	- 973,175
Assets available for sale	1,636,885	1,688,606	- 51,721
Total other fixed assets	15,375,783	18,019,643	- 2,643,860
TOTAL NON-CURRENT ASSETS	**260,344,475**	**264,779,000**	**- 4,434,525**
CURRENT ASSETS			
Stocks and inventories	57,658,314	51,125,889	6,532,425
Trade receivables	33,429,957	33,454,634	- 24,677
Tax receivables	2,339,179	3,802,195	- 1,463,016
Cash	11,145,222	7,020,051	4,125,171
Short term financial receivables	4,175,000		4,175,000
Other receivables	25,857,607	22,946,764	2,910,843
TOTAL CURRENT ASSETS	**134,605,279**	**118,349,533**	**16,255,746**
TOTAL ASSETS	**394,949,753**	**383,128,533**	**11,821,221**
SHAREHOLDER'S EQUITY			
Group interest			
Share capital	22,500,000	22,500,000	
Share premium reserve	11,345,480	11,345,480	
Tresury stock			
Translation reserve	391,200	1,195,916	- 804,716
Financial sharing reserve	12,400,000		12,400,000
Other reserves	8,572,760	23,888,330	- 15,315,570
Fair Value reserve	7,448,484	3,051,769	4,396,715
IAS reserve	11,119,777	11,119,777	
Retained earnings (losses)	- 5,773,135	- 8,194,809	2,421,674
Income for the period	7,981,220	5,504,841	2,476,379
Group interest in shareholders' equity	75,985,786	70,411,305	5,574,481
Minority interest			
Minority interest in share capital and reserves	25,903,380	24,803,706	1,099,673
Minority interest in income for the period	561,929	1,104,515	- 542,586
Minority interest in shareholders' equity	26,465,309	25,908,221	557,087
TOTAL SHAREHOLDER'S EQUITY	**102,451,095**	**96,319,527**	**6,131,568**
NON-CURRENT LIABILITIES			
Provisions	1,741,230	1,924,882	- 183,652
Deferred tax liabilities	57,303,971	53,779,324	3,524,647
Post employment benefits	13,508,741	12,631,200	877,541
Long term financial liabilities	66,196,757	69,839,772	- 3,643,015
Long term not financial liabilities	14,045,132	14,045,132	
TOTAL NON-CURRENT LIABILITIES	**152,795,831**	**152,220,310**	**575,521**
CURRENT LIABILITIES			
Trade payables	57,545,124	49,678,625	7,866,499
Tax payables	4,951,812	2,779,715	2,172,097
Short term financial liabilities	64,437,341	70,064,307	- 5,626,966
Other liabilities	12,768,551	12,066,049	702,502
TOTAL CURRENT LIABILITIES	**139,702,827**	**134,588,696**	**5,114,131**
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES	**394,949,753**	**383,128,533**	**11,821,221**

CONSOLIDATED IAS INCOME STATEMENT

	amounts as at 31.12.2006	% on revenues	amounts as at 31.12.2005	% on revenues	Changes 2006/05	
REVENUES FROM SALES AND SERVICES	**266,135,146**	**100%**	**241,931,457**	**100%**	**24,203,690**	**10.0%**
Other revenues and income	8,938,830	3.4%	7,950,163	3.3%	988,667	12.4%
TOTAL REVENUES	**275,073,976**	**103.4%**	**249,881,619**	**103.3%**	**25,192,356**	**10.1%**
Inventory changes of work in process, semi-finished, finished goods	5,998,441	2.3%	2,086,043	0.9%	3,912.398	187.6%
Costs of raw materials, consumables and goods for resale	- 80,281,499	- 30.2%	- 70,123,464	- 29.0%	- 10,158,035	14.5%
Costs of services	- 87,811,086	- 33.0%	- 78,680,046	- 32.5%	- 9,131,040	11.6%
Costs for use of third parties goods	- 16,442,105	- 6.2%	- 15,431,660	- 6.4%	- 1,010,445	6.5%
Labour costs	- 56,283,623	- 21.1%	- 54,065,539	- 22.3%	- 2,218,084	4.1%
Other operating charges	- 3,152,756	- 1.2%	- 4,250,964	- 1.8%	1,098,208	- 25.8%
Total Operating Costs	- 237,972,628	- 89.4%	- 220,465,630	- 91.1%	- 17,506,998	7.9%
GROSS OPERATING MARGIN (EBITDA)	**37,101,348**	**13.9%**	**29,415,990**	**12.2%**	**7,685,358**	**26.1%**
Amortization of intangible fixed assets	- 3,761,118	- 1.4%	- 3.793,414	- 1.6%	32,296	- 0.9%
Depreciation of tangible fixed assets	- 6,464,281	- 2.4%	- 6.881,533	- 2.8%	417,252	- 6.1%
Revaluations (write-downs)	- 440,791	- 0.2%	- 412,493	- 0.2%	- 28,298	6.9%
Total Amortization and write-downs	- 10,666,190	- 4.0%	- 11,087,440	- 4.6%	421,250	- 3.8%
Provisions		0%		0%		n.s.
NET OPERATING PROFIT (EBIT)	**26,435,158**	**9.9%**	**18,328,549**	**7.6%**	**8,106,608**	**44.2%**
Financial income	410,179	0.2%	1,717,550	0.7%	- 1,307,371	- 76.1%
Financial expenses	- 7,432,356	- 2.8%	- 6,283,181	- 2.6%	- 1,149,175	18.3%
Total Financial Income (expenses)	- 7,022,177	- 2.6%	- 4,565,631	- 1.9%	- 2,456,546	53.8%
Income (expenses) from investments		0%		0%		n.s.
Profit (loss) from affiliates	- 119,455	0.0%	- 157,716	- 0.1%	38,261	- 24.3%
PROFIT BEFORE TAXES	**19,293,525**	**7.2%**	**13,605,202**	**5.6%**	**5,688,323**	**41.8%**
Current taxes	- 7,426,035	- 2.8%	- 5,954,855	- 2.5%	- 1,471,180	24.7%
Anticipated (deferred) taxes	- 3,324,342	- 1.2%	- 1,040,991	- 0.4%	- 2,283,351	219.3%
Total Taxes on the Profit for the Year	- 10,750,377	- 4.0%	- 6,995,846	- 2.9%	- 3,754,531	53.7%
PROFIT NET OF TAXES	**8,543,148**	**3.2%**	**6,609,356**	**2.7%**	**1,933,792**	**29.3%**
Profit (loss) attributable to minority shareholders	- 561,929	- 0.2%	- 1,104,515	- 0.5%	542,587	- 49.1%
NET PROFIT FOR THE GROUP	**7,981,220**	**3.0%**	**5,504,841**	**2.3%**	**2,476,379**	**45.0%**

CASH FLOW

(Values in €/.000)	amounts as at 31.12.2006	amounts as at 31.12.05
OPENING BALANCE	**7,020**	**10,910**
Profit before taxes	19,293	13,605
Amortizations, provisions and depreciations	10,225	10,675
Accrual (availment) of long term provisions	- 184	- 4,694
Accrual (availment) of post employment benefit	878	719
Taxes	- 8,571	- 7,716
Financial incomes and financial charges	7,022	4,565
Change in deferred assets and liabilities	3,720	2,621
Change in operating assets and liabilities	613	- 3,385
NET CASH FLOW FROM OPERATING ASSETS	**32,996**	**16,390**
Increase (decrease) in intangible fixed assets	-40	6,106
Increase (decrease) in tangible fixed assets	- 4,034	- 2,220
Investments	135	111
Assets available for sale	53	41
CASH FLOW GENERATED (ABSORBED) BY INVESTING ACTIVITIES	**-3,886**	**4,038**
Increase in reserves and profit carried-forward to shareholders' equity	- 6,000	
Proceeds (repayament) of financial payments	- 9,270	- 19,666
Increase (decrease) in long term financial receivables	1,482	- 87
Financial incomes and financial charges	- 7,022	- 4,565
CASH FLOW GENERATED (ABSORBED) BY FINANCING ACTIVITIES	**- 20,810**	**- 24,318**
CLOSING BALANCE	**15,320**	**7,020**

AEFFE FASHION GROUP

DIRECTOR'S REPORT

1. ECONOMIC SCENARIO

Shareholders,
In 2006, the global economic environment continued the positive trend for economic growth that began in 2005.
Therefore, we believe it is necessary to focus on the key macro-variables that had a decisive influence on the results of the Group.

INTERNATIONAL MACRO-ECONOMIC FRAMEWORK

In 2006, the global economy continued to enjoy steady growth. The gap between GDP growth in the major industrial regions is closing.
In Japan, economic growth stabilised at 3% of GDP on the strength of private investment boosted by high productivity, particularly among the larger firms.
In the US, growth stood at 3.4%, buoyed by the rise in household consumption, despite recording a slowdown in the second quarter due to a slump in the property market.
In Latin America, GDP continued to rise steadily. Short-term forecasts place it at 4.8%, following strong business growth in Brazil and Mexico.
Emerging countries, not least of all India and China, continued to make a significant contribution to the growth in the world's economy; the two Asian economies have grown at rates close to 10%, similar to the levels seen in 2005.
The acceleration witnessed in the manufacturing sector acted as a driver for fixed capital investment, while growth in consumption remained more or less unchanged from the previous year.
The upswing witnessed in the euro zone and in the UK since last summer continued. Economic growth stood at 2.5% of GDP, compared with 1.3% the previous year. Growth has been widespread, albeit to varying degrees in different countries. In parallel with the growth in global demand, the renewed competitiveness of European firms has been a boost to exports; the job market has also rallied, with significantly lower unemployment.
In Italy, after a lacklustre fourth quarter 2005, GDP began to rise following a revival of internal and external demand. In the first six months of 2006, GDP increased by more than 2% year-on-year compared with the previous six months. Capital goods production was first to benefit, while sectors more dependent on domestic demand continued to feel the effects of the modest growth in household consumption, the outlook for which remains extremely uncertain. The growth differential compared with the region's principal countries has fallen, but still remains negative, a sign of continuing structural problems in the Italian economy.
During the year, the inflationary pressure seen in 2005 intensified as the country approached full employment levels in the major industrial regions and with a considerable rise in the price of oil and other non-energy commodities. The central banks raised interest rates to prevent this from having a negative impact on medium and long-term business forecasts. For 2006 as a whole, an increase in global revenues of around 5% was witnessed. For 2007, the International Monetary Fund (IMF) predicts that this favourable cycle will continue, albeit more slowly.
There is growing consensus among financial analysts and international organisations that manufacturing in EU Member States will slow in line with the cyclical slowdown in the US and due to the presence of restrictive budgetary policies in Germany and Italy. Consumer and investor expectations will be crucial in the light of changes in the international climate and the economic policies implemented.

ECONOMIC SCENARIO IN THE CLOTHING SECTOR

In 2006, after four years of economic stagnation, the clothing sector in which the Group operates recorded a net increase in revenues. Emerging from behind the cloud that has cast a shadow over the sector since 2002, thrown into sharp focus by the expanding role of emerging economies such as India and China, the growth in both national and foreign demand came as a welcome relief for domestic production.
Despite the fact that the long-awaited economic upturn only became tangible last year, the

Group was already bucking the general economic trend in 2005. In 2006, the Group continued to enjoy the significant increase in revenues in the apparel, knitwear and footwear sector, partly driven by the international economic climate and partly by company policies aimed at reducing operating costs and protecting margins.
A brief description of the Group's performance can be found below.
This should be read in conjunction with the Notes to the Financial Statements

2. SUMMARY OF THE GROUP'S KEY ACTIVITIES

Aeffe Group operates worldwide in the fashion and luxury goods sector and is active in the design, production and distribution of a wide range of products that includes ready-to-wear, footwear and leather goods. The Group develops, produces and distributes, with a constant focus on the qualities of uniqueness and exclusivity, its own collections both under its own-label brands, including "Alberta Ferretti", "Moschino" and "Pollini", and under licensed brands, which include "Jean Paul Gaultier", "Narciso Rodriguez", "Blugirl" and "Authier". The Group has also licensed to key partners the production and distribution of other accessories and products with which it supplements its product range (perfumes, junior and children's lines, watches and sunglasses).
The Group's business is divided, based on the various product lines and brands it sells, into two segments: (i) ready-to-wear (which includes ready-to-wear lines, lingerie and swimwear); and (ii) footwear and leather goods.

READY-TO-WEAR DIVISION

The Ready-to-Wear Division, which is composed of the companies Aeffe, Moschino and Velmar, is mainly involved in the design, production and distribution of luxury ready-to-wear garments and lingerie, beachwear and loungewear.
In terms of the ready-to-wear collections, the activity is carried out by Aeffe, both for the production of the Group's proprietary brands ("Alberta Ferretti", "Philosophy di Alberta Ferretti", "Moschino", "Moschino Cheap and Chic" and "Pollini") and brands licensed from other companies (such as "Jean Paul Gaultier", "Narciso Rodriguez" and "Authier"). Aeffe also handles the distribution of all Division products both through the retail channel (via subsidiaries) and through the wholesale channel.
Velmar manufactures and distributes lingerie and swimwear collections, and specifically men's/women's lingerie, underwear and beachwear, and loungewear. Collections are produced and distributed under the Group's proprietary brands, which include "Alberta Ferretti", "Philosophy di Alberta Ferretti", "Moschino" and "Verdemare", and under third-party licensed brands such as "Blugirl".
The Ready-to-Wear Division also manages licensing agreements granted to other companies to manufacture Aeffe and "Moschino" branded product lines such as the "Moschino" brand licensing agreement relating to the jeans line, "Moschino" and "...Oh! de Moschino" branded perfumes and "Moschino" branded sunglasses.

Aeffe
Aeffe is the brainchild of designer Alberta Ferretti, who set up her own business in 1972. The history of the parent company has developed in parallel with that of its founder, whose personal involvement in fashion has been a key factor in Aeffe's development.
The growth of the parent company as an industrial and creative entity has been distinguished from the start by a multi-brand approach, with Aeffe producing and distributing the ready-to-wear collections of leading fashion houses utilising the know-how acquired in the production of luxury ready-to-wear lines.
This provides the context for the partnership between Aeffe and designer Franco Moschino, whose brand Moschino Couture! it has produced and distributed under an exclusive licence since 1983.
In 1995, Aeffe began collaborating with designer Jean Paul Gaultier, whose brand "Jean Paul Gaultier" and – since 2006 – "Gaultier²" it produces and distributes under licence.

In 1998, during the presentation of the Spring/Summer collection, Aeffe formed a partnership with designer Narciso Rodriguez, whose ready-to-wear collections it produces and distributes.
In 2001, Aeffe gained control of Pollini, an established manufacturer of footwear and leather goods. This allowed Aeffe to supplement the collections produced in-house with an accessories line.
In 2002, Aeffe took over Velmar, a firm that had collaborated with Aeffe for some time on the production and distribution of lingerie, beachwear and loungewear lines.
In 2003, Aeffe appointed Rifat Ozbek, the Turkish-born British designer who has been awarded accolades such as "*UK Designer of the Year*" (1988), as artistic director of Pollini ready-to-wear lines.
In 2004, as part of its commitment to uncover and showcase new talent, Aeffe began a partnership with an Anglo-Brazilian pair of up-and-coming designers, Bruno Basso and Christopher Brooke, who won the *London Fashion Fringe* in 2004.
In 2006, Aeffe commenced the licensed production and distribution of Authier skiwear and après-skiwear.

Moschino
Moschino was founded in 1983 and grew during the 1990s to become an internationally renowned brand. Following the disappearance in 1994 of its founder, Franco Moschino, his family, staff and friends have kept the designer's legacy alive, respecting his creative identity and philosophy. Rossella Jardini, who has worked for Franco Moschino since 1981, succeeded him as artistic director and is currently in charge of brand image and styling.
The company provides design, marketing and agency services from the Milan showroom for Moschino collections in Italy and overseas.
The company also directly manages three single-brand Moschino stores, two in Milan and one in Capri.

Velmar
Velmar was created in 1983 in San Giovanni in Marignano and is active in the production and distribution of lingerie, underwear, beachwear and loungewear.
In 1990, a partnership began between Velmar and designer Anna Molinari to manufacture lingerie and beachwear lines. That same year, talks began with Aeffe and Genny.
Between 1990 and 1995, Velmar worked with Genny and Fendi, producing all of the swimwear lines designed by the two fashion houses. Between 1990 and 2001, Velmar worked with Itierre and Prada on the design and production of the active and sportswear lines sold under the "Extee" and "Prada" menswear labels.
Between 1995 and 1998, Velmar produced and distributed under licence the beachwear line for Byblos menswear and womenswear.
In 1998, Velmar signed a licensing agreement with Blufin for the production and distribution of "Blugirl" lines.
In 2001, Aeffe acquired 75% of Velmar. Again, this represented a natural progression of the existing partnership between the two companies.
In 2001, Velmar began the production and distribution under licence of Alberta Ferretti lingerie, beachwear and loungewear lines.
In 2004, Velmar began the production and distribution of lingerie, beachwear and loungewear lines under the "Philosophy di Alberta Ferretti" brand.
In 2006, Velmar obtained a licence for the production and distribution of the men's beachwear and underwear lines and women's lingerie lines under the "Moschino" brand.

Aeffe Usa
Aeffe USA is 100% owned by Aeffe Spa and was incorporated in May 1987 under the laws of the State of New York.
The company operates in the wholesale segment of the North American market (United States and Canada) distributing items of clothing and accessories produced by the parent company, Pollini S.p.A. and Velmar S.p.A. and other third-party licensed manufacturers, with different collections, of the brands produced by the parent company. The company also acts

as agent for some of these lines. The company operates out of its own showroom located in midtown Manhattan. Aeffe USA also manages a single-brand store that sells the Philosophy di Alberta Ferretti brand in Soho, New York.

Aeffe Retail
Aeffe Retail operates in the retail segment of the Italian market and directly manages 10 stores, 5 of them single-brand and 5 multi-brand located in major Italian cities such as Milan, Rome, Venice, Florence and Capri.

Aeffe Uk
Aeffe UK is 100% owned by Aeffe S.p.A. and manages the store in London's Sloane Street, which sells clothing and accessories under the Alberta Ferretti and Philosophy di Alberta Ferretti labels. The company also acts as an agent for the UK market.

Aeffe France
Aeffe France is 99.9% owned by Aeffe S.p.A. and manages the store in Rue St. Honorè in Paris, selling apparel and accessories under the Alberta Ferretti and Philosophy di Alberta Ferretti brands. The company also acts as an agent for the French market.

Fashion Retail Sro
Fashion Sro is based in the Czech Republic and directly manages an outlet in Brno.

Ferretti Studio
The company was founded in 1984 and provides design and communications services to the creative Division of Alberta Ferretti for the Alberta Ferretti and Philosophy di Alberta Ferretti collections.

Av Suisse
Av Suisse was formed in 2005 together with the designer Gustavo Sangiorgi. It acts as a design consultancy for the creation of the Authier collection.

Nuova Stireria Tavoleto
Nuova Stireria Tavoleto, based in Tavoleto (Pesaro-Urbino), is 100% owned by Aeffe S.p.A. and provides industrial pressing services for the majority of Aeffe and Velmar production and for other clients outside the Group.

Moschino Far East
Moschino Far East is 50.1% owned by Moschino Spa and is based in Hong Kong.
The company operates in the wholesale segment of the Asian market (Hong Kong, China, Taiwan, Singapore, Malaysia, Thailand, Korea, Japan), distributing clothing and accessories from the Moschino lines produced by the parent company and Pollini.
The company also manages 38 stores in the Asia region.

Fashoff Uk
Fashoff UK operates from the showroom in London, acting as agent for the Moschino-branded collections produced by Aeffe, Pollini, Forall (men) and Falc (men's/children's shoes), and importing the other collections (jeans, umbrellas, gloves, scarves and Velmar collections).
The company also directly manages a single-brand Moschino store in London.

Moschino France
Moschino France is based in the Paris showroom and acts as agent for all Moschino collections except childrenswear, eyewear, perfumes and watches.
The company also manages a single-brand Moschino store in Paris.

Moschino Gmbh
Moschino Gmbh directly manages a single-brand store selling Moschino lines in Berlin.

FOOTWEAR AND LEATHER GOODS DIVISION

The footwear and leather goods Division, which is composed of Pollini and its subsidiaries, mainly handles the design, production and distribution of footwear, small leather goods, bags and matching accessories made from exclusive materials.
The operating activity is mainly carried out by Pollini, which directly handles the design, production and distribution of own-label products, as well as the production and distribution of brands licensed by Group companies.
The footwear and leather goods Division also manages licensing agreements granted to other companies to manufacture "Pollini" and "Studio Pollini" products such as sunglasses.

Pollini
Pollini was established in 1953 in the shoemaking district of San Mauro Pascoli, following in the Italian tradition of handmade leather goods and shoes. Italy is a leading producer of footwear: due to expertise required to make these products, nearly all production sites are located in areas with a long-standing shoemaking tradition, such as San Mauro Pascoli, Vigevano and Strà (PD). The company's philosophy is focused on promoting Pollini in other countries as an amalgam of traditional quality and Italian style, offering a range of products that include shoes, bags and matching accessories.
Between 1957 and 1961, Pollini produced the footwear collections of the designer Bruno Magli.
In the 1960s and early 1970s, Pollini began making shoes under its own label, presenting "themed" collections (such as the "Daytona" sports footwear collection, inspired by the world of motorbike racing).
In the 1970s, Pollini rose to international fame: at that point, its collections were shown in Düsseldorf, Paris and New York, as well as in Milan and Bologna. Around the same time, the first stores opened in Florence, Milan, Rome, Bologna, Parma, Verona, Bolzano, Bergamo, Varese and Venice.
In 1989, Pollini moved into its new office in Gatteo, in the Italian province of Forlì-Cesena. The new site measures 50,000 sq. m., (almost a third of it indoor), with a production workshop and seven-storey building housing the *showroom* and offices. The new site brought the footwear and leather goods Divisions and sales and administration offices under one roof.
In 2001, Aeffe and Pollini reached an agreement whereby Aeffe would acquire a controlling stake in Pollini. The acquisition was a natural progression of the increasingly concentrated partnership between the two companies, enabling the growth of the footwear and leather goods lines designed by Alberta Ferretti.
In 2003, the designer Rifat Ozbek, who has worked with the Group for some time, was named creative director of the new "Pollini" ready-to-wear line. In the same year, Pollini's *flagship store* opened in the Rue Saint Honorè, Paris.
In 2006, Pollini licensed the production and distribution of sunglasses and spectacles under the "Pollini" brand to Elite Group S.r.l.

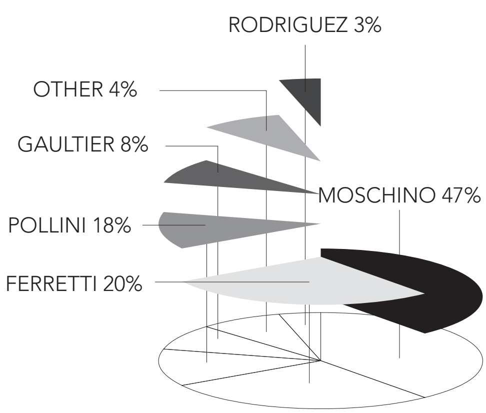
Pollini Retail
Pollini Retail is active in the retail segment of the Italian market and directly manages 16 stores in major Italian cities such as Milan, Rome, Venice and Florence.

3. INCOME STATEMENT OF AEFFE FASHION GROUP

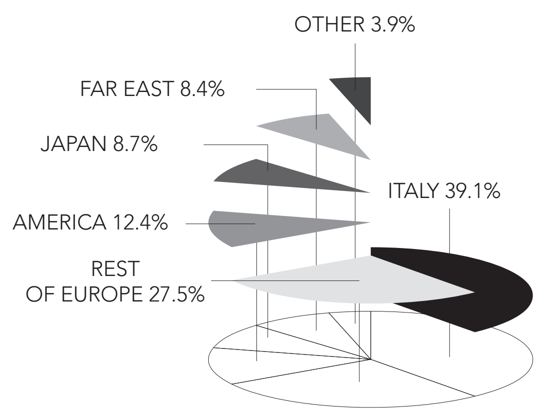
Turnover

Overall, the Group's consolidated revenue increased by 10%, from EUR 249,882 thousand in 2005 to EUR 275,074 thousand in 2006, due to an increase in turnover.
Turnover rose from EUR 241,931 thousand in 2005 to EUR 266,135 thousand in 2006, an increase of 10%.
This increase is due to the improved performance of the Group's key companies; in particular, an increase in turnover was recorded both in Ready-to-Wear (+8.9%) and in Footwear and Leather Goods (+16.1%).
The increased turnover is considered extremely positive and is a testimony to the strength of the Group's strategic model, partly due to the favourable international economic climate.
The distribution of direct sales by brand, geographical area and distribution channel is shown below.

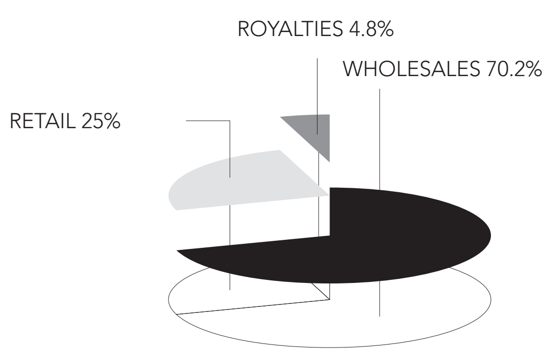
SALES BY BRAND



SALES BY GEOGRAPHICAL AREA



SALES BY DISTRIBUTION CHANNEL



The Group operates worldwide both in the Italian market and in key foreign markets. In 2006, the Group generated revenue of 39.1% in Italy, 27.5% in the rest of Europe, 12.4% in North America, 8.7% in Japan, 8.4% in the Far East and 3,9% in the rest of the world.
During the period, Europe recorded a jump in turnover from 21.4% in 2005 to 27.5% in 2006, Italy rose from 37.3% in 2005 to 39.1% in 2006.

The Group's revenue in 2006 was due to the following:

- 25% from direct sales to end clients via outlets managed directly by the Group (retail channel);
- 70.2% from sales made by the Group via its own sales structure, showrooms, agents and importers at multi-brand stores, franchised outlets, concessions and shops-in-shops (wholesale channel);
- 4.8% from royalties from licensing agreements with third parties for the production and distribution of the Group's branded product lines.

In 2006, positive trends were recorded across all brands. The best results were from the following:

- Jean Paul Gaultier lines +24.9%;
- Alberta Ferretti lines +14.3%;
- Pollini lines +12.8%.

In 2006, the Group generated 80.5% of its revenue (including royalties from Group brands licensed to third parties) in the ready-to-wear sector and 24.6% in the footwear and leather goods sector, after the elimination of intercompany transactions.

Within the Ready-to-Wear Division, the highest contribution in terms of revenue was from the following companies:

- Aeffe: turnover was up 7.5% on 2005 from EUR 126,053 thousand in 2005 to EUR 135,449 thousand in 2006. This increase is due to the widespread rise in sales across all company brands;
- Aeffe Retail: revenue increased by 16.6%, from EUR 9,826 thousand in 2005 to EUR 11,462 thousand in 2006;
- Velmar: revenue was up 52% from EUR 8,991 thousand in 2005 to EUR 13,651 thousand in 2006. This increase is due to the new licence acquired for the Moschino brand and increased sales of the main lingerie and beachwear lines, with notable growth in foreign sales.

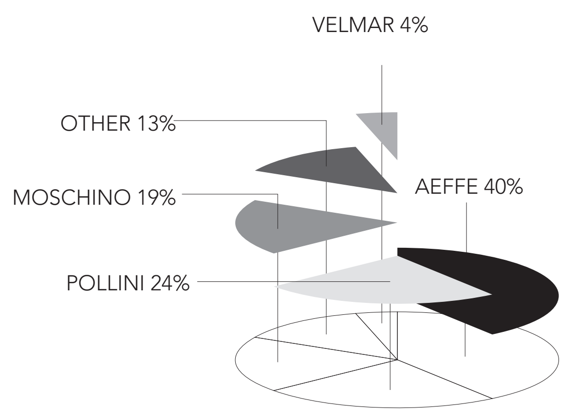
Within the Footwear and Leather Goods Division, the highest contribution in terms of revenue came from the following companies:

- Pollini: 11% increase in turnover from footwear and leather goods compared with 2005, from EUR 51,882 thousand in 2005 to EUR 57,612 thousand in 2006. This increase is mainly due to the expansion of production lines and an upturn in sales in the Italian market;
- Pollini Retail: 27.3% increase in turnover from footwear and leather goods, from EUR 14,323 thousand in 2005 to EUR 18,235 thousand in 2006. This increase is mainly due to the excellent performance recorded by all the company's stores and thus the increase in the volume of sales; the company also benefited in 2006 from the opening of a new sales outlet, which in the first nine months of 2006 generated a turnover of EUR 998 thousand.

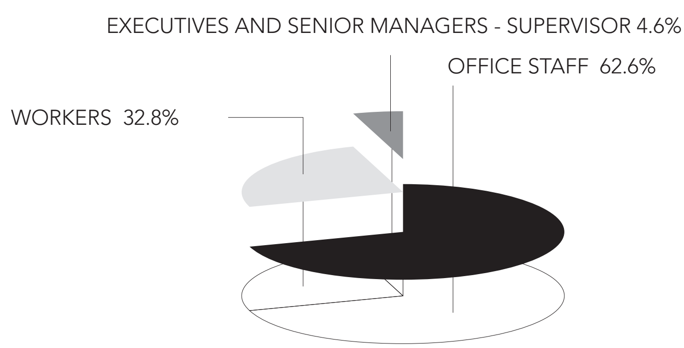
Costs of labour

The impact of costs of labour on revenue fell from 22.3% in 2005 to 21.1% in 2006. This decrease is the result of the organisational model adopted by the Group, which involves fully outsourcing production of the ready-to-wear, lingerie and beachwear lines and at the same time maintaining constant control of key phases of the value chain.
The increase in absolute value of this item is in line with the increase in the workforce, which grew from 1,357 units in 2005 to 1399 units in 2006.

BREAKDOWN OF EMPLOYEES BY COMPANY



BREAKDOWN OF EMPLOYEES BY CATEGORY



Gross operating margin (EBITDA)

EBITDA grew by 26.1% in absolute terms, and as a percentage of turnover, rose from 12.2% in 2005 to 13.9% in 2006. If we compare EBITDA adjusted to take account of the main non-recurring operations of 2006 and 2005, such as the payment of EUR 4,197 thousand for the sale of the Narciso Rodriguez store in Milan (Aeffe Retail) and the release of contingency reserves of EUR 5,188 thousand (Pollini), the improvement is even more marked. On that basis, EBITDA grew from EUR 24,450 thousand in 2005 to EUR 32,904 thousand in 2006, an increase of 34.6%.

The improvement in EBITDA witnessed in both Divisions is the result of a series of operations implemented since 2004 and mainly targeting an increase in profit margin. This mainly concerned the production sector, by reducing production and structural costs and improving the effectiveness and efficiency of company processes, while maintaining the high quality that has always distinguished our products.

In Ready-to-Wear, the highest contribution in terms of EBITDA came from the following companies:

- Aeffe: EBITDA was up 20.8% from EUR 11,964 thousand in 2005 to EUR 14,451 thousandin 2006. The impact of EBITDA on revenue rose from 9.5% in 2005 to 10.7% in 2006. This increase is due to the lower overall impact of costs, confirming the positive impact of the cost-cutting strategy.
- Moschino Group: EBITDA was up 12.6% from EUR 9,138 thousand in 2005 to EUR 10,293 thousand in 2006. The impact of EBITDA on revenue increased from 13.7% in 2005 to 15.3% in 2006. This increase is due to the lower overall impact of costs, with the Group writing off EUR 598 thousand of bad debts in 2005.
- Aeffe Retail: EBITDA, which rose from EUR 380 thousand in 2005 to EUR 5,242 thousand in 2006, benefited from the capital gain realised on the disposal of the Narciso Rodriguez store. After this operation, EBITDA stood at EUR 1,045 thousand. an increase of 175%. The impact of EBITDA on revenue after the non-recurring operation climbed from 3.9% in 2005 to 8.6% in 2006.
- Velmar: EBITDA grew from EUR 554 thousand in 2005 to EUR 1,567 thousand in 2006. Its contribution to revenue rose from 6% in 2005 to 11.4% in 2006.
- In Footwear and Leather Goods, the highest contribution in terms of EBITDA came from Pollini Retail, which, from a negative EBITDA of EUR -1,852 thousand in 2005, climbed to EUR 1,835 thousand in 2006, thanks to the new transfer price policy adopted by Pollini Group. Conversely, the 2006 EBITDA of Pollini S.p.A., which is essentially in line with that of the previous year, excludes the negative effect of this new policy.

Operating income (EBIT)

In 2006, operating income rose by 2.3 percentage points on revenue compared with the previous year. The main increases concern the parent company, Moschino Group, Aeffe Retail S.p.A. and Velmar S.p.A. The improvement in EBIT is for the same reasons as those described for EBITDA.

Pre-tax result

The pre-tax result rose from EUR 13,605 thousand in 2005 to EUR 19,294 thousand in 2006, an increase in absolute terms of 41.8%. This is due to improvements in EBITDA within the two Divisions. Please see the relevant section for more information.

Net profit, Group share

Net profit, Group share increased from EUR 5,505 thousand in 2005 to EUR 7,981 thousand in 2006, an increase in absolute terms of 44.8 %.

4. BALANCE SHEET

NET INVESTED CAPITAL

Net invested capital fell by 4.9% compared with 31st December 2005.

Net working capital

Net working capital fell by 5.9%, from EUR 46,805 thousand in 2005 to EUR 44,020 thousand in 2006.
This change is due to a combination of factors:

- inventories and trade payables: these increased by EUR 6,532 thousand and EUR 7,866 thousand respectively in 2006 due to the increase in turnover in 2006;
- other short-term financial receivables increase of Euro 2,911 thousand mainly due to:
    - the increase in credits for prepaid costs of EUR 1,135 thousand. These credits, which relate to the suspension of the portion of design and production costs for the Spring/Summer 2007 and Autumn/Winter 2007 sample collections, for which the corresponding revenue has not yet been generated, have increased due to the rise in turnover of Aeffe S.p.A.;
    - increase of EUR 292 thousand for increased payments on account for royalties and commission;
    - increase in prepaid expenses for leases of EUR 803 thousand;
- decrease in tax credits of EUR 1,463 thousand mainly due to the decrease in VAT credit of EUR 378 thousand and the decrease in corporate income tax (IRES) credit of EUR 752 thousand;
- increase of EUR 703 thousand in other current liabilities linked with the increase in amounts due to employees.
- increase of EUR 2,172 thousandmainly due to the increased tax burden for corporate income tax (IRES) and local business tax (IRAP).

Non-current assets

Fixed assets as at 31st December 2006 decreased by EUR 3,410 thousand compared with 31st December 2005.
The most significant changes were as follows:

- decrease of EUR 137 thousand in equity investments, mainly due to the write-down of the equity investment held by the subsidiary Aeffe USA Inc. in Narciso Rodriguez LLC;
- decrease in intangible fixed assets of EUR 3,719 thousand. mainly due to the amortisation of brands;
- increase in property, plant & equipment of EUR 1,929 thousand. This change is mainly linked with the increase in land and buildings following the restatement as at 31st December 2006 of the corresponding values based on the valuation of an independent expert. The fair values of these assets were calculated with direct reference to the prices at which, in recent arm's length transactions, similar assets to those valued were bought or sold;
- decrease in other long-term receivables of EUR 1,482 thousand. The decrease in this item, which mainly includes credits for security deposits, relates to the subsidiary Moschino Far East following the closure of the Tokyo store.

NET FINANCIAL POSITION

The net financial position of the Group as at 31st December 2006 improved by EUR 17,571 thousand compared with 31st December 2005, from EUR 132,884 thousand in 2005 to EUR 115,313 thousand in 2006.
This improvement is mainly due to positive cash flow from operations, linked with financial performance over the period and the positive change in net working capital.
Net financial position includes the recognition of the put/call option provided by the joint venture contract between Moschino Far East and Moschino S.p.A. If this option had not been recognised, the net financial position would total EUR 109,352 thousand rather than EUR 115,313 thousand.

SHAREHOLDERS' EQUITY

Total shareholders' equity increased by Euro 5,574 thousand. The reasons for this increase are described in detail in the Notes to the Financial Statements.

5. RESEARCH & DEVELOPMENT

In view of the nature of our products, R&D essentially consists of the ongoing technical and stylistic renewal of our designs and continuous improvement of the materials used.
While these costs qualify for recognition as R&D costs under intangible fixed assets, they were fully recognised in the income statement for 2006.

6. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

Following the reduction in share capital authorised on 26th October 2006, on 2nd March 2007, 2,700,000 own shares were cancelled.

7. OUTLOOK

The international economic climate is one of growth and the recession witnessed in recent years appears to be coming to an end.
This will have a positive influence on the financial markets and business confidence, even though it will not be easy to forecast demand accurately, especially in view of the particular nature of the sector in which our Group operates and in view of the competition from Asian countries.
With all due prudence, the prospects for the Group appear to be encouraging, as currently confirmed by the increase in orders for the 2007 winter season estimated at around +13% compared with the same season last year, in both domestic and foreign markets.

For the Board of Directors

Chairman

Massimo Ferretti

AEFFE FASHION GROUP

REPORT OF THE AUDITING COMPANY

Aeffe S.p.A.

Auditor's Report on the statements of reconciliation to International Financial Reporting Standards (IFRS), as adopted by the European Union, prepared for inclusion in the information prospectus

To the Board of Directors of Aeffe S.p.A.

1. We have audited the accompanying Reconciliation Statements, comprising the consolidated balance sheet as at 31 December 2005 and the consolidated income statement, the consolidated cash flow statement and the statement of changes in equity for the year ended 31 December 2005 (hereinafter the "IFRS Reconciliation Statements") of Aeffe S.p.A. and its Subsidiaries (the "Aeffe Group") and the related explanatory notes thereto, as restated in compliance with the International Financial Reporting Standards (IFRS) adopted by the European Union. The aforementioned IFRS Reconciliation Statements have been derived from the consolidated financial statements of the Aeffe Group for the year ended 31 December 2005, prepared in compliance with the laws governing the criteria for the preparation of consolidated financial statements, which we audited and on which we issued our reported dated 6 April 2006. The IFRS Reconciliation Statements have been prepared for Prospectus information purposes in connection with the application for the listing and trading of the ordinary shares of Aeffe S.p.A. on the *Mercato Telematico Azionario*, the Italian automated screen-based quotation system ("MTA") organized and administered by Borsa Italiana S.p.A.. The purpose of the Reconciliation Statements is to portray the state of affairs, financial condition, results of operation, cash flows and changes in equity of Gruppo Aeffe S.p.A. as at 31 December 2005 restated under the IFRS adopted by the European Union, as examined and discussed in the explanatory notes. The preparation of the Reconciliation Statements is the responsibility of the directors of Aeffe S.p.A. Our responsibility is to express an opinion on the Reconciliation Statements based on audit.

2. We conducted our audit in accordance with the auditing standards recommended by the Italian regulatory Board of Companies and the Stock Exchange ('Consob'). In accordance with those standards, we planned and performed our audit to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the IFRS Reconciliation Statements, taken as a whole, are free from material misstatement. An audit includes examination, on a test basis, of evidence supporting the amounts and disclosures contained in the IFRS Reconciliation Statements, as well as assessing the accounting principles used and significant estimates made by the Directors. We believe that our audit provides a reasonable basis for forming our audit.

3. In our opinion, the IFRS Reconciliation Statements referred to above, prepared solely for Prospectus information purposes pursuant to Regulation 809/2004/CE, have been drawn up in compliance with the standards examined and discussed in the explanatory notes and, accordingly, present fairly, taken as a whole, the impact arising from application of the IRS adopted by the European Union on the state of affairs, financial condition, results of operations, changes in equity and cash flows of the Aeffe Group as at 31 December 2005.

VIA CALZOLERIE, 1 - 40125 BOLOGNA - TEL: 051 22 05 66 - FAX: 051 22 08 11 – www.mazars.it

MAZARS & GUERARD S.P.A. - CAPITALE SOCIALE € 2.020.000 INT. VERS. - SEDE LEGALE: C.SO DI PORTA VIGENTINA, 35 - 20122 MILANO – REGISTRO 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 - UDINE

4. As placed in evidence by the directors in the explanatory notes, in accordance with the requirements set forth in Regulation 809/2004/CE and Recommendation 05-05 4b of the Committee of European Securities Regulators ("CESR"), not presented in the Reconciliation Statements, insofar as prepared solely for Prospectus information purposes, are those comparables and explanatory notes that would be required to present and portray the state of affairs, financial condition, results of operations, cash flows and changes in equity of the Aeffe Group in accordance with the IFRS adopted by the European Union and, in consequence, may not be considered to be an IFRS first-time adoption.

Bologna, 26 March 2007

Mazars & Guérard S.p.A.

Simone Del Bianco

Socio

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Aeffe S.p.A.
Independent Auditor's Report
pursuant to Art. 2409-ter of the Italian Civil Code

To the Shareholders of Aeffe S.p.A.

1. We have audited the consolidated financial statements of Aeffe S.p.A. and its Subsidiaries (the "Aeffe Group") as at and for the year ended 31 December 2006, which comprise the consolidated balance sheet, the consolidated income statement, the consolidated cash flow statement, the statement of changes in consolidated equity and the related Notes thereto. The preparation of the consolidated financial statements is the responsibility of the directors of Aeffe S.p.A.. Our responsibility is to express an opinion on the consolidated financial statements based on our audit. The consolidated financial statements referred to above have been prepared in accordance with the International Financial Reporting Standard (IFRS) adopted by the European Union and illustrated in the Notes. In application of the option contemplated in Art. 3, paragraph two, of Italian legislative decree no. 38 of 28 February 2005, the said consolidated financial statements represent the Aeffe Group's first annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

2. We conducted our audit in accordance with the auditing standards recommended by the Italian regulatory Board of Companies and the Stock Exchange ('Consob'). In accordance with those standards, we planned and performed our audit to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the consolidated financial statements are free from material misstatement. An audit includes examination, on a test basis, of evidence supporting the amounts and disclosures contained in the consolidated financial statements, as well as assessing the accounting principles used and significant estimates made by the directors. We believe that our provides a reasonable basis for forming our opinion.

   The consolidated financial statements present for comparative purposes the corresponding data for the year 2005 reconciled in accordance with the IFRS adopted by the European Union. We have audited the statements of reconciliation and, therefore, reference should be made to the special purpose auditor's report we issued on the date set forth below.

3. In our opinion, the aforementioned consolidated financial statements, identified in paragraph 1 of this report, and prepared in application of the option contemplated in Art. 3, paragraph two, of Italian legislative decree no. 38 of 28 February 2005, present fairly, in all material respects, the state of affairs, performance and financial position of the Aeffe Group as at 31 December 2006 and the results of its operation, cash flows and changes in consolidated equity for the year ended 31 December 2006.

Bologna, 26 March 2007

Mazars & Guérard S.p.A.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. INFORMATION ABOUT THE COMPANY

Aeffe Group operates worldwide in the luxury goods sector and is active in the design, production and distribution of a wide range of products that includes ready-to-wear, footwear and leather goods.
The Group develops, produces and distributes, with a constant focus on the qualities of uniqueness and exclusivity, its own collections both under its own-label brands, including "Alberta Ferretti", "Moschino" and "Pollini", and licensed brands, which include "Jean Paul Gaultier", "Narciso Rodriguez", "Blugirl" and "Authier".
The Group also has licensed to key partners the production and distribution of other accessories and products with which it supplements its product range (perfumes, junior and children's lines, watches and sunglasses).
The Group's business is divided, based on the various product lines and brands it sells, into two segments: ready-to-wear (which includes ready-to-wear, lingerie and swimwear) and footwear and leather goods.
Aeffe Group was incorporated under Italian law as a public limited company (società per azioni) and is domiciled in Italy. The company's head office is in S. Giovanni in Marignano (RN).
These consolidated financial statements include the financial statements of the parent company Aeffe and its subsidiaries and the Group's equity interests in affiliated companies. They consist of the balance sheet, income statement, statement of changes in equity, cash flow statement, these notes and the attached statement of the transition to international accounting standards.
The financial statements are expressed in euros, since this is the currency in which most of the Group's transactions are conducted. Foreign operations are included in the consolidated financial statements according to the principles stated in the notes that follow.

2. DECLARATION OF CONFORMITY AND REPORTING PRINCIPLES

In accordance with Article 3 of Legislative Decree 38/2005 of 28th February 2005, these consolidated financial statements were prepared in accordance with the International Accounting Standards (IAS/IFRS) published by the International Accounting Standards Board (IASB) and related Interpretations, approved by the European Commission according to the procedure referred to in Article 6 of Regulation (EC) 1606/2002.
Unless otherwise indicated in the measurement bases described below, these consolidated financial statements were prepared in accordance with the historic cost principle.
The measurement bases were applied uniformly by all Group companies.

3. FIRST-TIME ADOPTION OF INTERNATIONAL ACCOUNTING STANDARDS (IAS/IFRS)

The Group adopted the IFRS for the first time on 1st January 2005.
The consolidated financial statements include the reconciliation statements and the corresponding explanatory notes to illustrate the effects on the financial situation and equity of the company as at 31st December 2005 as a result of the transition to the new accounting standards. Annex A of this document contains the "Transition to International Accounting Standards", in which all of the information necessary for a thorough understanding of the effects of the transition process are described in detail, as required by IFRS 1. We refer to this section for information current as of the date of transition to the new standards (1st January 2005 and 31st December 2005).
The consolidation data used was taken from the financial and equity statements prepared by the directors of each subsidiary. This data was restated and adjusted as appropriate to

conform with international accounting standards and Group classification criteria. When preparing the financial statements as at 31st December 2006, the same principles and criteria were used as those applied in the preparation of the IFRS reconciliation statements contained in Annex A.
With reference to the exemptions provided by IFRS 1 regarding the first-time application of international accounting standards, it is noted that the Group applied IFRS 3 retrospectively to business combinations that occurred prior to the date of transition to IFRS (1st January 2005). For further information, please refer to the Annex.

4. NEW STANDARDS OR CHANGES TO EXISTING STANDARDS

The Group has retrospectively applied to all periods included in the first IFRS financial statements and to the initial balance sheet the accounting standards in force on 31st December 2006, save for any exemptions adopted by the Group in accordance with IFRS 1st described earlier. Please note that new versions or interpretations of the IFRS may be issued before the publication of the Group's consolidated financial statements as at 31st December 2006, possibly with retroactive effect. If this should happen, it could have an impact on the balance sheet and income statement reported according to the IFRS.
New standards or changes to existing standards applicable to the Group's activities, issued by the IASB but not yet effective as of the date of this document, were not used in the preparation of these consolidated financial statements.

5. CONSOLIDATION PRINCIPLES

The scope of consolidation at 31st December 2006 includes the financial statements of the parent company Aeffe and those of the Italian and foreign companies in which Aeffe holds control either directly or through its subsidiaries and associates or in which it exerts a dominant influence.
If necessary, adjustments were made to the financial statements of subsidiaries to bring their accounting polices into line with those adopted by the Group.
Companies are consolidated using the line-by-line method. The principles adopted for the application of this method are essentially as follows:

- the book value of equity investments held by the parent company or other consolidated companies is written-off against the corresponding net equity at 31st December 2006 in relation to assumption of the assets and liabilities of the subsidiaries;
- the difference between historical cost and fair value of the net equity of shareholdings on the acquisition date is allocated as much as possible to the assets and liabilities of the shareholdings. The remainder is allocated to goodwill. In accordance with the transitional provisions of IFRS 3, the Group has ceased to depreciate goodwill, instead subjecting it to impairment tests;
- significant transactions between consolidated companies are written-off, as are receivables and payables and earnings not yet realised from third parties arising from transactions between Group companies, excluding any tax effect;
- minority interests in shareholders' equity and net profit are reported in the relevant items of the consolidated balance sheet and income statement;
- companies acquired during the period are consolidated from the date on which majority control was achieved.

Subsidiaries

Subsidiaries are enterprises controlled by the company. Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are consolidated from the date on which the Group acquires control and until the date when such control ceases.

The acquisition of subsidiaries is accounted for using the historical method. Historical cost is determined by adding together the fair values of the assets contributed, the shares issued and the liabilities assumed on the acquisition date, plus the costs directly associated with the acquisition. Any surplus acquisition cost over the Group's percentage share of the fair value of the identifiable assets, liabilities and contingent liabilities of the associate is recognised as goodwill.

If the Group's percentage share of the fair value of the identifiable assets, liabilities and contingent liabilities of the associate exceeds historical cost, the difference is immediately recorded in the income statement.

Intercompany balances, transactions, revenue and costs are eliminated in the consolidated statements.

Furthermore, intercompany business combinations are recognised by maintaining the same book value of assets and liabilities as previously recorded in the consolidated financial statements.

Associates

An associate is an enterprise in which the Group has significant influence, but has neither sole or joint control, by taking part in decisions regarding the company's financial and operating strategy.

Trading results and the assets and liabilities of associates are accounted for in the consolidated financial statements based on the equity method, except where they are classified as held for sale (see below).

According to this method, equity interests in associates are recorded in the balance sheet at cost, adjusted to take account of changes following the acquisition of their net assets, excluding any loss in value of individual investments. Losses of associates that exceed the Group's percentage interest in them (including long-term receivables that essentially form part of the Group's net investment in the associate) are not recognised unless the Group has an obligation to cover them. The surplus acquisition cost over the parent's percentage share of the present value of the identifiable assets, liabilities and contingent liabilities of the associate on the acquisition date is recognised as goodwill. Goodwill is included in the carrying amount of the investment and is subjected to impairment tests. The historical cost deficit compared with the Group's percentage share of the fair value of the identifiable assets, liabilities and contingent liabilities of associates on the acquisition date is credited to the income statement in the year of acquisition. With reference to operations between a Group company and an associate, unrealised gains and losses are eliminated in equal measure to the Group's percentage interest in the associate, except for cases where the unrealised losses constitute evidence of impairment of the asset transferred.

6. SCOPE OF CONSOLIDATION

The companies included in the scope of consolidation are listed in the following table:

Company	Location	Currency	Share capital	Direct interest	Indirect interest
Italian companies					
Aeffe Retail	S. G. in Marignano (RN - Italy)	EUR	8,585,150	100	
Ferretti Studio	S. G. in Marignano (RN - Italy)	EUR	10,400	95	
Velmar	S. G. in Marignano (RN - Italy)	EUR	492,264	75	
Pollini Retail	Gatteo (FC - Italy)	EUR	5,000,000		71.9% (a)
Pollini	Gatteo (FC - Italy)	EUR	6,000,000	72	
Moschino	S. G. in Marignano (RN - Italy)	EUR	20,000,000	70	
Nuova Stireria Tavoleto	Tavoleto (PU - Italy)	EUR	10,400	100	
Av Suisse.	Contrà Canove (VI- Italy)	EUR	10,000	70	
Foreign companies					
Aeffe Usa	New York (USA)	USD	600,000	100	
Aeffe UK.	London (UK)	GBP	310,000	100	
Aeffe France	Paris (FR)	EUR	1.550,000	99.9	
Fashion Retail Company	Brno (Czech Republic)	CZK	200,000		100.0% (d)
Ozbek (London)	London (UK)	GBP	300,000	92	
Divè	Galazzano (RSM)	EUR	260,000	75	
Fashoff UK	London (UK)	GBP	1.550,000		70.0% (b)
Moschino France	Paris (FR)	EUR	50,000		70.0% (b)
Moschino Retail	Berlin (D)	EUR	100,000		70.0% (b)
Moschino Far East	Hong Kong (HK)	USD	128,866		35.1% (c)

Notes (details of indirect shareholdings):
(a) 99.8% owned by Pollini;
(b) 100% owned by Moschino;
(c) 50.1% owned by Moschino;
(d) 100% owned by Aeffe Retail.

No significant changes with respect to the previous year were recorded.

7. FOREIGN CURRENCIES

Functional and reporting currency

The amounts in the financial statements of each Group enterprise are measured using the operating currency or the currency of the economic area in which the enterprise operates. These consolidated financial statements are presented in euro, which is the operating and reporting currency of the parent company.

Foreign currency transactions

Foreign currency transactions are converted into the operating currency at the exchange rate in force on the transaction date. Cash assets and liabilities denominated in foreign currencies are converted at the exchange rate in force on the balance sheet date. Any exchange rate differences arising from the elimination of these transactions or from the conversion of cash assets and liabilities are posted to the income statement. Non-cash assets and liabilities in foreign currencies that are measured at fair value are converted at the exchange rates in force on the date on which the fair value was determined.

Financial statements of foreign companies

The financial statements of companies outside the euro zone are translated into euro based on the following procedures:

- assets and liabilities, including goodwill and fair value adjustments arising from consolidation are converted at the exchange rate in force on the balance sheet date;
- revenues and costs are converted at the average rate for the period, which must be close to the exchange rate in force on the transaction date;
- exchange rate differences are recognised in a separate account in shareholders' equity. When a foreign company is sold, the total amount of accumulated exchange rate differences relating to that company are recorded in the income statement.

The exchange rates used for the conversion into euro of the financial and equity statements of companies included in the scope of consolidation are listed in the following table:

Currency description	Actual exchange rate 31st December 2006	Average exchange rate 2006	Actual exchange rate 31st December 2005	Average exchange rate 2005
United States Dollars	1.317	1.256	1.180	1.245
United Kingdom Pounds	0.672	0.682	0.685	0.684
Japanese Yen	156.930	146.060	138.900	136.870
Czech Republic Koruny	27.000	28.000	29.000	30.000

8. RECONCILIATION BETWEEN SHAREHOLDERS' EQUITY AND NET PROFIT FOR THE PERIOD OF THE PARENT COMPANY AND THE CORRESPONDING CONSOLIDATED AMOUNTS

Reconciliation between shareholders' equity and net profit for the period *(in thousands of euro)*	**Shareholders' equity**	**Net profit for the period**
Taken from the corporate financial statements of the Aeffe parent company	74,449	2,366
Reversal of the carrying amount of equity interests	- 87,843	
Portion of shareholders' equity and profits	71,642	3,800
Purchase of own shares	- 18,400	
Reversal of intercompany inventory margin	- 1,695	-140
Transition to parent company accounting policies	810	-150
Deferred tax assets (liabilities)	- 44,063	-968
Leasing (IAS 17)	10,024	1,218
Discounting of Employee Benefits (IAS 19)	- 217	- 34
Intangible fixed assets	91,945	1,882
Fair value reserve	7,448	
Other	- 1,649	569
Total consolidation adjustments	**28,002**	**6,177**
Minority interests	**26,465**	**562**
Shareholders' equity, Group share	**75,986**	**7,981**
Total shareholders' equity	**102,451**	**8,543**

9. MEASUREMENT BASES

The main accounting policies and measurement bases adopted in preparing the consolidated financial statements as at 31st December 2006 are described below.

Presentation of financial statements

In the consideration of the options allowed by IAS 1 for the presentation of financial situation and equity, the Group has opted for a balance sheet that involves a separate classification of current and non-current assets and liabilities and an income statement based on the classification of costs by type, considered most representative of business performance. For the presentation of the cash flow statement, the "indirect" method was used.

Reopening of business combinations pursuant to IFRS-1 and IFRS-3

As expected, Aeffe Group has decided to retroactively apply the provisions of IAS 3 ("Business combinations") to its business combinations prior to the date of transition to IFRS (1st January 2005) and occurring since 2001.
This decision has allowed it to measure specific intangible fixed assets (mainly brands) and generic intangible fixed assets (goodwill) at fair value on the acquisition of the companies involved in the combination.
The reopening of business combinations pursuant to IFRS 3 has led to the reversal of consolidation differences relating to these business combinations. The cancellation of the acquisition cost of the shareholding against the portion of shareholders' equity adjusted by the fair value of intangible fixed assets, excluding deferred taxes and minorities, is described below. Following this cancellation, the following two facts were discovered:

- if the acquisition cost is higher than the Group's share in adjusted shareholders' equity, goodwill is recorded under assets and measured initially at cost;
- if the acquisition cost is less than the Group's share in adjusted shareholders' equity, the difference is recorded in the income statement and generates an equal amount of equity in the following period.

Deferred taxes should be considered figurative and are reduced proportionally to the depreciation of the intangible fixed assets recognised.

Intangible fixed assets

Intangible fixed assets are identifiable non-cash assets without physical substance controlled by the enterprise and able to cause future economic benefits to flow to the Group. Intangible fixed assets are initially recognised at historical cost (which in the case of business combinations corresponds to fair value), equal to the price paid for the acquisition including costs directly attributable to their preparation or production, if the assumptions exist for the capitalisation of costs incurred for internally generated assets. After the initial measurement, intangible fixed assets continue to be recognised at cost, after accumulated depreciation and write-downs for impairment losses, in accordance with IAS 36 (Impairment). The costs incurred for intangible fixed assets after acquisition can be capitalised only if they increase the future economic benefits generated by the intangible fixed asset concerned. All other costs are reported in the income statement for the period in which they are incurred.
Of intangible fixed assets, a distinction can be made between: a) those with an "infinite" useful life, such as goodwill and key money, which are not amortised but subjected to an annual impairment test (or whenever there is reason to believe that the asset may have been impaired) in accordance with IAS 36; b) those with a finite useful life or other intangible fixed assets, the valuation criteria for which are reported in the following paragraphs.

Goodwill

Goodwill arising from the acquisition of a subsidiary or joint venture represents the surplus acquisition cost over the Group's percentage share of the fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or joint venture on the acquisition date. Goodwill is recognised as an asset and reviewed annually to make sure that there is no impairment. Impairment losses are recognised in the income statement and are not restated. In case of the disposal of a subsidiary or joint venture, the amount of goodwill not yet amortised is included in the calculation of the capital gain or loss on disposal.

Goodwill represents the amount arising from the acquisition of equity interests in subsidiaries, associates and joint ventures and, for acquisitions since 1st January 2001, corresponds to the difference between the acquisition price and the net fair value of the Group's percentage interest in the identifiable assets, liabilities and contingent liabilities of the subsidiary on the acquisition date.

For acquisitions prior to 1st January 2001, goodwill is recognised based on restated cost, equivalent to the amount recognised in accordance with the previous accounting standards. Goodwill is measured at cost, excluding impairment losses, and is subjected to an impairment test at least once a year, or whenever there is an indication of an impairment loss, to check that the recoverable value exceeds the carrying amount.

Accumulated amortisation as at 31st December 2004, recorded on goodwill arising from acquisitions between 31st December 2000 and 31st December 2004, amortised until that date, was eliminated by increasing the carrying amount of the goodwill by this amount.

If the net fair value of the identifiable assets, liabilities and contingent liabilities of the shareholding exceeds the acquisition cost, the difference is immediately recorded in the income statement.

When the acquisition contract allows for the adjustment of the acquisition price based on future events, the estimated adjustment must be included in the acquisition cost if the adjustment seems probable and the amount can be reliably estimated. Any future adjustments to the estimate are recorded as a goodwill adjustment.

Key money

Intangible fixed assets also include key money, or amounts paid by the Group to take over contracts relating to directly managed stores or, in the case of business combinations, the fair value of these assets at the time of acquisition. These assets are treated as intangible fixed assets with an "infinite" useful life and as such are not amortised. "Infinite" useful life, according to IAS 38, does not mean an endless useful life, but a useful life with no fixed end. In this respect, based on the valuations of independent experts, the period linked with the lease term is not relevant. This includes protection given to the tenant by standard market conditions and by special legal provisions, together with a strategy of gradual expansion of the network by Group companies, which usually involves renewing lease agreements before they expire, regardless of whether the Group intends to maintain the stores or not, in view of the inherent value of the premises themselves. These values are subjected to impairment tests on the transition date and are recognised at the lesser of historical cost initially incurred and the value in use or the market value determined based on an expert valuation.

If, when financial statements are prepared in future, the impairment test carried out in accordance with IAS 36 must indicate a value in use and market value which are less than the carrying amount, impairment losses will be recorded in the income statement. Conversely, if the expert valuation indicates an increase in market value of some stores that were written down compared with their original historic values, the corresponding carrying amount may be increased so that it reflects the new market value, provided that it does not exceed the original cost.

Brands

Brands are recognised at cost and are amortised systematically on a straight-line basis during their estimated useful life (40 years) from when the asset is available for use. By applying IFRS 3, all business combinations since 31st December 2001 have been restated, with an indication, based on an independent estimate, of the new value of intangible fixed assets that were not reported when the shareholdings were acquired.

The Group has seen fit to give brands a finite life of 40 years in view of the policies adopted

by other market operators. Prudently, it has adopted an extremely long – although not infinite and thus unidentifiable – useful life for its own brands (reflecting the prolonged benefits derived from these). This decision is in line with intangible fixed assets typical of the fashion industry, based on previous experience of other international operators in the sector (market comparables).
The Group has seen fit to assign its brands a finite life of 40 years in consideration of their estimated useful life and key role in the Group's strategy.

Other intangible fixed assets

This item includes costs incurred for software purchases; these assets are amortised over a period of no more than three years.
The principal rates of depreciation used are the following:

Category	%
Royalties from patents and intellectual property	33%
Brands	2.5%

Research costs are reported in the income statement for the period in which they are incurred.

Tangible fixed assets

Assets recorded after the corresponding depreciation are recognised at historical or production cost, except for those assets revalued in accordance with statutory provisions. This amount includes ancillary costs and costs directly related to the asset.
Fixed assets are systematically depreciated each year on a straight-line basis based on the economic and technical rates determined in relation to the residual possibility of use of the assets; the rates applied are described in the section relating to the description of the asset. If, irrespective of depreciation previously booked, there is any impairment loss, the asset is written down accordingly.
Ordinary maintenance costs are charged directly to the income statement. Maintenance costs that add value to the asset are allocated to the assets concerned and are depreciated over the residual useful life of these assets.
Fixed assets in course of construction and advance payments to suppliers are recorded as assets based on the cost incurred, including direct expenses.
Land and buildings where the book value is aligned with the value obtained from the independent valuation are an exception to the general rule, partly so that the value of land previously included in the "land and buildings" category, and therefore subject to depreciation, can be reported separately. Depreciation is calculated on a straight-line basis over the new estimated useful life of 50 years (2%).
The depreciation rates used are the following:

Category	%
Industrial buildings	2%-2.56%
Plant and machinery	10%-12.5%
Industrial and commercial equipment	25%
Electronic machines	20%
Motor vehicles	20%
Cars	25%

Land is not depreciated

The leasehold improvement expense, which includes costs incurred for the preparation and modernisation of the network of directly managed stores and all other properties not owned (but instrumental to the Group's activities) are depreciated based on the expected term of the lease, including any renewal periods, or the useful life of the asset, whichever is the lesser.
The cost of unscheduled maintenance is included in the book value of an asset when it is probable that the future economic benefits exceeding those originally calculated will flow to the Group. This maintenance is depreciated based on the residual useful life of the assets concerned. All other maintenance costs are reported in the income statement for the period in which they are incurred.

Leasing

Financial leases
Assets owned under financial leases through which all the risks and benefits linked with ownership are essentially transferred to the Group are recognised as tangible assets at the lesser of their present value or the actual value of any minimum lease payments due, after accumulated depreciation. The corresponding liability towards the lessor is reported under financial payables. The assets are depreciated according to the rates shown above.
When the asset is sold or when there are no expected future economic benefits from its use, it is eliminated from the balance sheet and any gain or loss (calculated as the difference between the going-concern value and carrying amount) is recorded in the income statement in the year in which it is eliminated.

Operating leases
All lease contracts where the Group does not substantially assume all the risks and benefits associated with ownership of the asset are recognised as operating leases. Operating lease payments are recorded as a cost on a straight-line basis for the duration of the lease.

Impairment
Goodwill, key money and other intangible fixed assets are subjected to an impairment test at least once a year or whenever there is an indication of a possible loss in value.
Tangible assets and other non-current assets are subjected to an impairment test whenever there is an event or change in circumstances that might indicate a possible loss in value.
Impairment occurs and is recognised if the book value of an asset or cash-generating unit exceeds its recoverable value. The book value of the asset is adjusted to the recoverable value and the impairment is recorded in the income statement.

Determination of recoverable value
If there are indicators, events or changes in circumstances that suggest an impairment loss, IAS 36 requires property plant and equipment and intangible fixed assets to undergo impairment tests to ensure that the assets are not carried at a value that exceeds their recoverable amount. As previously mentioned, this test is carried out at least once a year for assets with an infinite useful life.
The recoverable amount of the asset is the greater of its book value on the balance sheet date and fair value, after selling costs, or value in use. When calculating value in use, future estimated cash flows are discounted using a gross rate that reflects current market assessments of the time value of money and the specific risks associated with the Group's business, in addition to cash flows arising from the sale of the assets at the end of their useful life. If it is not possible to estimate a separate financial flow for an individual asset, the cash-generating unit to which the asset belongs and with which it is possible to associate future independent cash flows must be identified.

Value restatement
The value restatement of a financial asset recorded at amortised cost must be recognised when the subsequent increase in recoverable value can be objectively attributed to an event

that occurred after the recognition of the impairment loss.
In the case of other non-financial assets, the value restatement takes place if there is an indication that the impairment loss no longer exists and there has been a change in the valuations used to determine the recoverable amount.
A value restatement must be booked immediately in the income statement, adjusting the book value of the asset to its proper recoverable amount. This must not exceed the book value that would have been calculated, excluding depreciation, if no impairment had been recognised in previous years.
It is not possible to restate the value of goodwill.

Investments (holdings)
Equity investments in non-consolidated subsidiaries, associates and joint ventures are recognised according to the equity method. The surplus cost over shareholders' equity on the acquisition date is treated in the same way as described in the section on consolidation principles. Other equity investments are recognised using the cost method, which is reduced for impairment losses. The original value is restated in subsequent years if the reasons for the write-down no longer apply.

Assets held for sale
This item includes assets where the book value will be recovered mainly through sale rather than continuous use. For this to happen, the asset (or group) must be available for sale in its current condition, subject to standard conditions applicable to the sale of such assets (or groups), and the sale must be highly probable. An asset classified as held for sale is recognised at the lesser of its book value and fair value, excluding selling costs, as stipulated in IFRS 5.

Trade and other receivables
Receivables are recognised at their estimated realisable value, which is the same as their nominal value, excluding any write-downs that reflect estimated losses. They are duly examined at regular intervals to anticipate adjustments for unexpected losses. Any medium and long-term receivables that include an implicit interest component are discounted at a suitable market rate. This item includes prepayments and deferred income relating to the share of costs and revenues for two or more financial years where the amount varies over time in accordance with the principle of accrual basis accounting.

Inventories
Inventories are recorded at the lesser of historical cost or production cost and the corresponding market value or estimated realisable value. The net realisable value is the estimated sales price in the normal course of business excluding estimated costs of completion, and the costs estimated as necessary to conclude the sale.
For finished products, cost of sales includes raw materials, other materials, subcontracted work and all other direct and indirect production costs for the portion reasonably attributable to the products, excluding financial expenses.
Obsolete or slow-moving stock in hand is written down in relation to its potential for future realisation or use.

Cash and cash equivalents
Cash and cash equivalents include cash balances and sight deposits and all liquid investments acquired with an original maturity of three months or less. Investments included in cash and cash equivalents are recognised at fair value.

Provisions
Provisions for risks and charges have been set aside to cover any known or probable losses or debts, the amount or timing of which could not be determined on the balance sheet date. Appropriations are booked to the balance sheet only when there is a legal or implicit obligation that determines the use of resources aimed at generating economic benefits to fulfil this and if their amount can be reliably estimated. If the effect is significant, provisions are calculated by discounting the future estimated financial flows based on a pre-tax discount

rate that reflects current market assessments of the time value of money and the specific risks associated with the liability.

Additional client expenses fund
This item, calculated based on fees to be paid at the end of the agency relationship in accordance with the law, has been estimated based on historical data, the average length of the agency relationship and revenues.

Tax reserve
This item reflects the estimated probable tax burden of some Group companies following current tax disputes with the tax authorities.

Legal disputes
This item reflects the estimated liabilities arising from current disputes.

Restructuring reserve
This item reflects the estimated financial outflows for business restructuring set aside in previous years. Provisions for restructuring costs are set aside when the Group formalises a detailed restructuring plan and communicates this to the interested parties.

Employee benefits
The severance indemnity fund comes under IAS 19 (Employee benefits), since similar to defined benefit plans. The Group's contributions to defined contribution plans are booked to the income statement in the period to which the contributions refer.
The net obligation for the Group arising from defined benefit plans is calculated on an actuarial basis using the projected unit credit method. All actuarial gains and losses at 1st January 2005, the IFRS transition date, have been recognised.
Actuarial gains and losses after 1st January 2005, following the calculation of the Group's obligation relating to the severance indemnity fund for Italian employees, are not deferred but are booked to the income statement in the period in which they are calculated.

Financial payables
Financial liabilities are recognised based on the amortised cost method.

Bank overdrafts and loans
Loans are initially measured at cost, which is close to their fair value, after transaction costs. They are subsequently measured at amortised cost, with any difference between the cost and repayment value during the term of the loan being posted to the income statement using the effective interest rate method.
Loans are classified as current liabilities, unless the Group has the unconditional right to defer repayment of these liabilities for at least 12 months after the balance sheet date.

Trade and other payables
Payables are carried at nominal value. The financial component included in medium and long-term payables is separated using a market rate.

Revenue
Revenue is carried net of returns, discounts and rebates, as well as taxes directly associated with the sale of goods and provision of services. Sales revenue is recognised once all significant risks and benefits connected with ownership of the goods have been transferred to the purchaser. In terms of the main types of income generated by the Group, these are recognised based on the following criteria:

- retail sales – on delivery of the goods;
- wholesale sales – on shipment of the goods;
- royalties – on an accrual basis.

Costs
Costs and expenses are recognised on an accrual basis.
Design and production costs for sample collections incurred during the period are correlated to the revenues from sales of collection and are thus carried in the income statement in proportion to the revenue generated. The remaining portion to be carried in the income statement during the period in which the corresponding revenue is generated is posted to other current assets.

Financial income and expenses
These include all items of a financial nature written to the income statement for the period, including interest payable on financial debts calculated using the effective interest method (mainly current account overdrafts and medium and long-term loans), foreign currency gains and losses, dividends received, and the portion of interest payable deriving from the accounting treatment of assets under finance leases (IAS 17).
Interest income and expenses are reported in the income statement for the period in which they are realised/incurred.
Dividends are recognised in the period when the Group's right to a dividend payment matures, subject to ratification.
The amount of interest payable on finance leases is booked to the income statement using the effective interest method.

Taxes
Income taxes for the period include current and deferred taxes. Income taxes for the period are recorded in the income statement; however, when they relate to components recorded directly as shareholders' equity, they are recognised as shareholders' equity.
Taxes other than income taxes, such as property tax, are reported under operating expenses.
Current taxes on income taxable in the period represent the tax burden calculated using current rates of taxation in force on the balance sheet date and any adjustments to tax liabilities calculated in prior periods.
Deferred taxes are recognised for all temporary differences existing on the balance sheet date between the book value of assets and liabilities and the corresponding values used to determine taxable income for tax purposes.
Deferred taxes relate to:

- temporary differences between the tax base of an asset or liability and its carrying amount in the consolidated financial statements, except for goodwill that is not tax deductible and differences arising from investments in subsidiaries that are not likely to be written off in the foreseeable future.
- positive components of income for the current period and prior periods, but taxable in future periods;
- credits for deferred tax assets are recognised;
- for all deductible temporary differences, if it is probable that taxable income will be generated for which the deductible temporary difference can be used, unless the deferred tax asset derives from the initial measurement of an asset or liability in a transaction other than a business combination that, on the transaction date, affects neither accounting profit nor taxable profit (tax loss);
- for the carryover of unused tax losses and tax credits, if it is probable that taxable income will be generated for which the tax loss or tax credit may be used.

Credits for deferred tax assets and debits for deferred tax liabilities are calculated based on the rates of taxation applicable to changes in income in periods in which temporary differences are reversed, based on the rate of taxation and tax regulations in force or essentially in force on the balance sheet date.
The impact on these taxes of any change in rates of taxation is posted to the income statement in the period in which the change occurs. Credits for deferred tax assets and debits for deferred tax liabilities are netted when they refer to taxes imposed by the same tax authorities.

Own shares
Own shares are recognised in a special reserve and are deducted from shareholders' equity. The carrying amount of own shares and revenue deriving from any subsequent sales are recorded as changes in shareholders' equity.

Earnings per share
Basic earnings per share is calculated by dividing the profit or loss attributable to shareholders of the parent company by the weighted average of ordinary shares in circulation during the period. Diluted earnings per share is calculated by dividing the profit or loss attributable to shareholders of the parent company by the weighted average of shares in circulation, taking account of the effects of all potential ordinary shares with a dilutive effect (such as employee stock option plans).

OTHER INFORMATION

Segment information
Within a group, various segments are distinguishable providing a series of homogeneous products or services (business segment) or providing products and services in a specific geographical area (geographical segment). Specifically, in Aeffe Group, two areas of activity are identified:

- ready-to-wear Division;
- footwear and leather goods Division.

In accordance with IAS 14, segment information can be found in the section entitled "Comments on the income statement and segment information".

Financial risk management
The management of financial requirements and the corresponding risks (mainly interest rate risks and exchange rate risks) is carried out at central treasury level and, apart from a few cases (Pollini Group and Moschini Far East), is managed by the individual companies, coordinated by the treasury based on the guidelines defined by the Group's general manager and approved by the managing director.
The main aim of these guidelines is:

- to ensure, on a consolidated basis, that the composition of liabilities and assets remains balanced so that a high degree of financial strength is maintained;
- to control and minimise the risk associated with fluctuations in exchange rates using operating hedges.

The most common financial instruments used are:

- medium and long-term loans with long-term repayment schedules to cover investments in fixed assets (mainly the acquisition of controlling interests);
- short-term loans and advances subject to collection on commercial portfolios to finance working capital and foreign currency loans to cover exchange rate risks.

The average cost of borrowing is essentially linked to 3-6 month Euribor, plus a spread that largely depends on the type of finance used. In general, the margins applied are aligned with the best market standards.
Credit facilities, although negotiated at Group level, are granted to the individual companies. Group companies are exposed to an interest rate risk that mainly stems from long-term financial liabilities. In the past, the cash flow risk on interest rates has never been managed by resorting to derivatives (interest rate swaps) that convert the variable rate into a fixed rate. Many Group companies perform commercial transactions in currencies other than the euro and are therefore exposed to an exchange rate risk.

Group companies exposed to the exchange rate risk hedge this by taking out foreign currency loans.
On 31st December 2006, the main Group companies with short and medium-term loans from financial institutions were the parent company, Pollini, Moschino and Velmar.
The credit risk is managed based on special analytical assessments, accompanied by valuations based on the historical analysis of bad debts, in terms of ageing, type of recovery measures taken and the status of the receivable (normal, disputed, etc).

Cash flow statement
In accordance with IAS 7, the Group's cash flow statement was prepared using the indirect method. Cash and cash equivalents written to the cash flow statement include cash balances on the balance sheet date. Other cash equivalents represent current financial commitments and other liquid investments that are readily convertible into cash and whose value is subject to a minimal risk of change. Therefore, a financial commitment is usually classified as a cash equivalent when it is short-term, i.e. due three months or less from the acquisition date.
Current account overdrafts usually come under financial assets, except where they are repayable on demand and are an integral part of the management of cash or cash equivalents of a company, in which case they are deducted from cash equivalents.
Financial flows in foreign currencies are converted at the average exchange rate for the period. Income and expenses relating to interest, dividends received and income taxes are included in cash flows generated by operating activities.
According to IAS 7, the cash flow statement must show cash flows generated by operating, investing and financing activities separately.

- cash flows from operating activities: cash flows from operating activities are primarily derived from the principal revenue-producing activities and are presented by the Group using the indirect method; under this method, the net profit or loss is adjusted by items that did not generate outflows or cash during the period (non-cash transactions);
- cash flows from investing activities: investing activities are reported separately, since this is indicative of the investments/divestments made with the aim of obtaining future revenue and cash inflows;
- cash flows from financing activities: financing activities are activities that result in changes in the size and composition of the equity and borrowings of the enterprise.

COMMENTS ON THE BALANCE SHEET

Tangible fixed assets

A breakdown of this item is given below:

(in thousands of euro)	31st December 2006	31st December 2005	Change Δ	%
Land	17,719	17,062	657	3.9%
Buildings	34,266	31,041	3,225	10.4%
Leasehold improvements	10,998	11,804	-806	-6.8%
Plant and machinery	3,614	4,427	-813	-18.4%
Industrial and commercial equipment	207	243	-36	-14.8%
Other tangible assets	3,091	3,389	-298	-8.8%
Total	**69,895**	**67,966**	**1.929**	**2.8%**

The changes breakdown as follows:

(in thousands of euro)	**Land**	**Buildings**	**Plant and machinery**	**Industrial and commercial equipment**	**Other tangible assets**	**Leasehold improvements**	**Total**
2006 financial year							
Historical cost	17,062	35,660	22,243	1,699	16,733	31,142	124,540
Accumulated depreciation		- 4,619	- 17,816	- 1,456	- 13,344	- 19,338	- 56,574
Initial net accounting value	**17,062**	**31,041**	**4,427**	**243**	**3,389**	**11,804**	**67,966**
Differences arising on translation	- 181	- 1,011		3	- 19	9	- 1,199
Increases		278	310	43	846	3,567	5,043
Disposals			-7	-3	-211	-788	- 1,009
Other changes	838	4,593	4	3	119		5,557
Depreciation		-635	- 1,119	-82	-1034	- 3.594	- 6,464
Changes for 2006	**657**	**3,225**	**- 813**	**- 36**	**- 299**	**- 806**	**- 1,929**
Historical cost	17,719	39,520	22,550	1,746	17,468	33,930	132,933
Accumulated depreciation		- 5,254	- 18,936	- 1,539	- 14,377	- 22,932	- 63,038
Closing net accounting value	**17,719**	**34,266**	**3,614**	**207**	**3,091**	**10,998**	**69,895**

As previously mentioned, tangible fixed assets are recognised at cost and subsequently reported net of any accumulated depreciation and impairment losses. This general principle does not apply to the measurement of land and buildings, for which the carrying amount has been adjusted based on an expert valuation. Based on the results of the expert valuation, the value of land has also been separated (this does not decrease in value over time, and is therefore no longer depreciated) from the value of the building constructed on it (depreciated since it has a finite useful life); the additional total value arising from the 2004 and 2006 valuations is equivalent to EUR 15,318 thousand after the tax effect, and relates to land and buildings owned by Aeffe and its subsidiary Nuova Stireria Tavoleto. Increases in land and buildings for the period are mainly due to the restatement as at 31st December 2006 of the corresponding values based on the independent valuation. The fair values of these assets were calculated with reference to the prices at which, in recent arm's length transactions, assets similar to those valued were bought or sold. Considering the static and functional efficiency of the buildings, their useful life has been estimated at 50 years.
If the Group had adopted the cost model, the net value of land and buildings as at 31st December 2006 would have been EUR 30,480 thousand. The adoption of the restatement method has resulted in an increase in consolidated shareholders' equity of EUR 7,448 thousand, excluding the corresponding tax effect.
The decrease due to differences arising on translation mainly refers to EUR 1,192 thousand for the conversion difference relating to the subsidiary Aeffe USA.
Increases in other tangible assets are due to purchases of electronic machines and furniture made by the parent company for EUR 369 thousand, by the subsidiary Pollini for EUR 207

thousand and by the subsidiary Moschino for EUR 105 thousand.
Increases in leasehold improvements mainly relate to leasehold improvements carried out by the subsidiary Moschino Far East at its stores. Conversely, the decreases mainly refer to the sale by the subsidiary Aeffe Retail of part of the business concerning the Narciso Rodriguez store in Milan and the sale by the subsidiary Moschino Far East of the Tokyo store.

Intangible fixed assets

The table below illustrates the changes in this item:

(in thousands of euro)	31st December 2006	31st December 2005	Change Δ	%
Brands	120,799	124,313	- 3,514	- 2.8%
Goodwill	54,102	54,102		
Other	172	378	- 206	- 54.5%
Total	**175,073**	**178,793**	**- 3,720**	**- 2.1%**

The changes break down as follows:

(in thousands of euro)	Brands	Goodwill	Software	Total
2006 financial year				
Historical cost	140,458	62,406	2,575	205,440
Accumulated amortisation	- 16,145	- 8,304	- 2,198	- 26,646
Initial net accounting value	**124,313**	**54,102**	**378**	**178,793**
Increases			96	96
Disposals			- 56	- 56
Depreciation	- 3,514		-247	- 3,761
Changes for 2006	**- 3,514**		**-207**	**- 3,721**
Historical cost	140,458	62,406	2,616	205,480
Accumulated amortisation	- 19,659	- 8,304	- 2,444	- 30,407
Closing net accounting value	**120,799**	**54,102**	**172**	**175,073**

The decrease in intangible fixed assets mainly refers to the amortisation of brands.
The increase in software mainly refers to costs incurred by the parent company and by the subsidiary Pollini to purchase, upgrade and utilise accounting and analysis software.

Brands

This item includes the Group's own-label brands ("Alberta Ferretti", "Philosophy di Alberta Ferretti", "Moschino", "Moschino Cheap & Chic", "Moschino Jeans", "Pollini", "Studio Pollini" and "Verdemare"). The residual value is divided between the different brands:

(in thousands of euro)	**31st December 2006**	**31st December 2005**
Alberta Ferretti	4,500	4,625
Moschino	66,896	68,823
Pollini	48,975	50,416
Verdemare	428	449
Total	**120,799**	**124,313**

By applying IFRS 3, all business combinations since 31st December 2001 have been restated, with an indication, based on an independent estimate, of the new value of intangible fixed assets that were not reported when the shareholdings were acquired.
The application of this accounting method resulted in a EUR 72,949 thousand increase in net brand value and a corresponding increase in consolidated net equity, taking account of the corresponding tax effect, of EUR 45,776 thousand.

Goodwill

Goodwill refers to the amounts paid by the Group to take over leases relating to directly managed stores or, in the case of business combinations, the fair value of these assets at the time of acquisition. Under Italian accounting standards, the amounts paid to previous tenants to take over commercial positions relating to stores were capitalised under intangible fixed assets and amortised over the term of the lease. When the Group switched to IFRS, the accounting treatment of goodwill changed, since these items are considered intangible fixed assets with an infinite useful life and as such are not amortised. In accordance with that provided by IAS 36, these assets are subjected to impairment tests and are therefore recognised at the lesser of historical cost and market value, determined based on an independent valuation. Based on the valuations of independent experts and in view of the Group's past experience, the duration of store leases is thought to have little relevance for maintaining key money values, given the strategy pursued successfully by the Group of renewing leases before their natural expiry date.
Following the adoption of IAS 38 (revised in 2004) and IFRS 3 (published in 2004), from 1st January 2001, goodwill ceased to be amortised. Furthermore, in accordance with the transitional provisions, on 1st January 2005, accumulated depreciation of EUR 2,757 thousand was cancelled, with a consequent increase in acquisition cost.
In accordance with IFRS 3, on 1st January 2005, consolidation differences of EUR 28,066 thousand relating to business combinations were eliminated from the consolidated financial statements.

OTHER NON-CURRENT ASSETS

Investments (holdings)

This item includes holdings in non-consolidated associates accounted for using the equity method, in addition to other holdings measured at fair value, mainly represented by the cost.
This item mainly refers to the holding in Narciso Rodriguez LLC held by the subsidiary Aeffe USA. The decrease compared with the previous financial year concerns the write-down of the shareholding of EUR 119 thousand and the corresponding exchange rate effect of EUR 21 thousand.

Deferred tax assets and liabilities

The table below illustrates the breakdown of this item at 31st December 2006 and 31st December 2005:

(in thousands of euro)	Receivables		Payables	
	2006	**2005**	**2006**	**2005**
Tangible fixed assets			- 674	- 764
Intangible fixed assets			- 2,126	- 2,020
Provisions	1,516	1,554	- 108	- 79
Costs deductible in future periods	85	87		
Income taxable in future periods	1	2	- 1,377	-28
Tax losses carried forward	3,111	4,015		
Other	160	204		
Technical deferred tax assets (liabilities) from transition to IAS	5,868	5,851	- 53,019	- 50,889
Total credits for deferred tax assets (debits for deferred tax liabilities)	**10,741**	**11,714**	**- 57,304**	**- 53,779**

Deferred tax assets were recognised for tax losses that can be carried forward, since there is reasonable certainty that the companies will generate taxable income enabling the recovery of these amounts. With regard to tax losses on which no credits for deferred tax assets were recognised, it is explained that the tax losses of the company Moschino Far East, totalling EUR 649 thousand, will lapse within nine years. Tax losses accrued by other foreign companies will not lapse. Changes in temporary differences during the period are illustrated in the following table:

(in thousands of euro)	Opening balance	Differences arising on translation	Recorded in income statement	Other	Closing balance
Tangible fixed assets	- 764		90		-674
Intangible fixed assets	- 2,020		- 106		- 2,126
Provisions	1,475		-68		1,408
Costs deductible in future periods	87		-2		85
Income taxable in future periods	- 25		- 1,326	- 24	- 1,376
Tax losses carried forward	4,015	40	- 944		3,111
Other	204	- 44			160
Technical deferred tax assets (liabilities) from transition to IAS	- 45,038		-968	- 1,145	- 47,151
Total credits for deferred tax assets (debits for deferred tax liabilities)	**- 42,065**	**- 5**	**- 3,324**	**- 1,169**	**- 46,563**

Other long-term financial receivables

This item mainly includes receivables for security deposits relating to commercial leases. The decrease for the period mainly relates to the subsidiary Moschino Far East following the closure of the Tokyo store.

Non-current assets held for sale
This item mainly refers to the fair value of the shareholding Pollini France and the corresponding financial receivable; the Group has already finalised the sale, which it intends to complete by 2007.

CURRENT ASSETS

Inventories
This item comprises:

(*in thousands of euro*)	31st December 2006	31st December 2005	Change Δ	%
Raw, ancillary and consumable materials	14,790	12,256	2,533	20.7%
Work in progress	9,691	8,365	1,326	15.9%
Finished products and goods for resale	32,677	30,206	2,471	8.2%
Advance payments received	500	299	201	67.2%
Total	**57,658**	**51,126**	**6,532**	**12.8%**

Inventories of raw materials and work in progress mainly relate to the production of the Spring/Summer 2007 collections.
Finished products mainly concern the Spring/Summer 2007 and Autumn/Winter 2006 collections and the Autumn/Winter 2007 sample collection.
The increase in inventories compared with the previous period is mainly due to inventories in hand of raw materials and finished products following the increase in the volume of sales of the Aeffe parent and Pollini and Velmar subsidiaries.
At 31st December 2006, inventories were adjusted by a provision for loss in value of stock and work in progress of EUR 3,473 thousand to reflect the obsolescence of inventories in hand of finished products and raw materials of the Group.

Trade receivables
This item is illustrated in detail in the following table:

(*in thousands of euro*)	31st December 2006	31st December 2005	Change Δ	%
Trade receivables	35,791	36,431	- 640	- 1.8%
(Allowance for doubtful accounts)	- 2,361	- 2,976	-615	- 20.7%
Total	**33,430**	**33,455**	**- 25**	**- 0.1%**

At 31st December 2006, trade receivables were in line with those of 31st December 2005 (EUR 33,455 thousand).
According to directors' estimates, the fair value of trade receivables is close to their carrying amount.

The provision for loss in value of sundry debtor accounts was calculated using analytical criteria based on the data available and on past performance in general. During the year ended 31st December 2006, the Group wrote off bad debts of EUR 398 thousand (31st December 2005: EUR 1,833 thousand). The decrease in 2006 compared with 2005 is due to the fact that in the previous financial year, Moschino wrote off a claim on a licensee that filed for bankruptcy.

Tax receivables
At 31st December 2006, the Group's receivables due from tax authorities totalled EUR 2,339 thousand (EUR 3,802 thousand in 2005), consisting mainly of EUR 2,092 thousand in VAT credits (EUR 2,470 thousandat 31st December the previous year). The reduction in the item in question compared with 31st December 2005 (EUR -1,463 thousand) was due to the decrease in VAT and income tax credits in 2006.

Short term financial receivables
At 31st December 2006, this item included EUR 4,175 thousand arising from the sale by the subsidiary Aeffe Retail of part of the business relating to the Narciso Rodriguez store in Milan. This receivable was settled on 10th January 2007.

Other current assets
This item comprises:

(*in thousands of euro*)	31st December 2006	31st December 2005	Change Δ	%
Credits for prepaid costs (costs of producing collections)	18,660	17,525	1,135	6.5%
Payments on account for royalties and commission	1,521	1,229	292	23.8%
Advances and payments on account to suppliers	1,352	1,186	166	14.0%
Accrued income and prepaid expenses	2,571	1,768	803	45.4%
Other	1,754	1,239	515	41.6%
Total	**25,858**	**22,947**	**2,911**	**12.7%**

Receivables for prepaid costs relate to the suspension of the portion of design and production costs for the Spring/Summer 2007 and Autumn/Winter 2007 sample collections for which the corresponding revenue has not yet been generated. The increase in this item mainly relates to the growth in revenues of the parent company.
Prepaid expenses and accrued income mainly increased due to lease prepayments.

Cash and cash equivalents
This item includes:

(*in thousands of euro*)	31st December 2006	31st December 2005	Change Δ	%
Bank and post office deposits	10,776	6,353	4,423	69.6%
Outstanding cheques	34	422	- 388	- 91.9%
Cash in hand	335	245	90	36.7%
Total	**11,145**	**7,020**	**4,125**	**58.7%**

Bank and postal deposits represent the nominal value of the balance of current accounts with credit institutions, including interest accrued on the balance sheet date.
Cash in hand represents the nominal value of cash in hand on the balance sheet date.
The increase in cash balances recorded during the year ended 31st December 2006 was EUR 4,125 thousand compared with the prior period. For an explanation of this change, please see the general changes in the cash flow statement.

SHAREHOLDERS' EQUITY

Described below are main categories of shareholders' equity at 31st December 2006, while the relevant changes are illustrated in Annex I.

(in thousands of euro)	31st December 2006	31st December 2005
Share capital	22,500	22,500
Legal reserve	2,054	1,957
Share premium reserve	11,345	11,345
Other reserves	6,520	21,931
Reserve for the issue of participatory financial instruments	12,400	
Conversion reserve	391	1,196
IAS reserve	11,120	11,120
Fair value reserve	7,448	3,052
Losses carried forward	- 5,773	- 8,195
Net profit for the Group	7,981	5,505
Minority interests	26,465	25,908
Total	**102,451**	**96,319**

On 26th October 2006, Aeffe held its ordinary and extraordinary shareholders' meeting with the following agenda:

- authorisation of the purchase of 1,800,000 own shares;
- the issue to shareholders in proportion to the shares held by them of convertible financial instruments within the meaning of Article 2346, final paragraph of the Italian Civil Code, for EUR 40,000 thousand, which gave rise to a receivable for the same amount in favour of IM Fashion, the sole subscribing shareholder, as explained in more detail below;
- the reduction in share capital from EUR 22,500 thousand to EUR 19,800 thousand by the acquisition of 2,700,000 own shares and their subsequent cancellation.

On 13th November 2006, the shareholders IM Fashion, Massimo Ferretti and Alberta Ferretti (the "Trustees") purchased from LDV SA, on behalf of the company but in their own name (under a special mandate without joint representation), 4,500,000 shares for EUR 46,000 thousand.
The shares had to be purchased by the Trustees in accordance with the procedures described above since the security representing them had been unilaterally transferred by its holder LDV Holding B.V. to them as part of a dispute (now settled) with the aforementioned shareholders concerning the lawfulness of the exercise by LDV Holding B.V. of an option to sell to them.
The shareholder IM Fashion has fully subscribed and paid for the participatory financial instruments issued in accordance with the Aeffe resolution of 26th October 2006 by assuming the debt of EUR 40,000 thousand taken out by Aeffe, through the Trustees, towards LDV Holding B.V. to settle the balance due on the share purchase transaction.
The transfer of 1,800,000 shares (corresponding to 8% of Aeffe's share capital), endorsed by the Trustees, took place on 13th December 2006 for EUR 18,400 thousand. Of this amount, EUR 6,000 thousand was paid and EUR 12,400 thousand netted against the receivable due from IM Fashion, which arose following the subscription of the participatory instrument.
The transfer of 2,700,000 own shares (corresponding to 12% of Aeffe's share capital),

endorsed by the Trustees, took place on 2nd March 2007 for EUR 27,600 thousand. This corresponded to the receivable due from IM Fashion, which arose following the subscription of the participatory instrument.
On 2nd March 2007, the parent company reduced share capital by 2,700,000 shares.
In accordance with the general principle of substance over form, the parent company anticipated the effect of the cancellation on 2nd March 2007, netting the EUR 27,600 thousand due from IM Fashion at 31st December 2006 for the subscription of the participatory instrument (considered equivalent to the purchase of own shares) against the reserve for the participatory instrument issued in accordance with Article 2346, final paragraph of the Italian Civil Code, in order to reflect better the actual amount of shareholders' equity.
The regulations of the financial instruments approved by the shareholders' meeting stipulate the following:

- the financial instruments must be converted into shares, free of charge, before 31st October 2012, without prejudice to the right of conversion prior to that date;
- until the conversion date, holders of financial instruments will be entitled to receive nominal annual interest equivalent to the 6-month Euribor plus a spread of 0.60 percentage points for the period between the subscription date and the first annual maturity (31st October 2007). For subsequent periods, the increase in spread will be equivalent to 1.30 percentage points;
- in accordance with the regulations, the holders of participatory financial instruments, until such time as these instruments have been converted into shares of the company, are not entitled to receive dividends or to vote at general meetings;
- the regulations allow for a specific conversion mechanism, which may be adjusted depending on whether the equity value of Aeffe on the conversion date is between EUR 219 million and EUR 234 million, or if it is less than EUR 219 million or more than EUR 234 million. The adjustment of the conversion criterion guarantees holders a minimum investment value, which may not be less than 75% of the nominal value of the financial instruments presented for conversion. It also allows Aeffe to retain a share of the profit realised on the shares if the equity value had exceeded EUR 234 million, since the regulations stipulate that holders cannot obtain shares with an actual value that exceeds by more than 50% the value of the financial instruments presented for conversion.

It is the intention of the holder of the participatory instrument to proceed with the early conversion of this in the event that it is listed.
Other changes in shareholders' equity relate to net profit for the period and the increase in the fair value reserve caused by the restatement of the value of land and buildings following the independent valuation at 31st December 2006.

Share capital
The share capital at 31st December 2005, fully subscribed and paid-up, consists of 22,500,000 shares with a par value of EUR 1 each, giving a total value of EUR 22,500 thousand.

Legal reserve
The legal reserve, which at 31st December 2005 totalled EUR 1,957 thousand, was increased by EUR 142 thousand through the allocation of 5% of the parent company's profit for the previous year. Therefore, at 31st December 2006 the legal reserve stood at EUR 2,054 thousand.

Share premium reserve
The share premium reserve is unchanged from 31st December 2005.

Other reserves
This item changed due to the share of the prior period's profit and the acquisition of own shares described above.

Financial sharing reserve (reserve for the issue of participatory financial instruments)
This item derives from the formation of reserves for the issue of participatory financial instruments as described earlier.

Fair value reserve

The fair value reserve derives from the application of IAS 16, which requires land and buildings to be measured at fair value by the parent company Aeffe and the subsidiary Nuova Stireria Tavoleto based on valuations carried out by an independent expert.
The effect of restating values is recorded in a special equity reserve.

IAS reserve

The IAS reserve, established during the first-time adoption of international accounting standards, represents the differences in value that emerged following the transition from Italian accounting standards to international accounting standards. The differences allocated to the equity reserve exclude the tax effect, as required by IFRS 1. Each difference was allocated on a pro rata basis to minority interests.

Retained earnings (losses)

Losses carried forward decreased due to 2005 consolidated profits being higher than company profits for the same period.

Minority interests

The increase in capital and reserves is mainly due to the portion of 2006 profit due to minority shareholders.
Minority interests represent the shareholders' equity of consolidated companies owned by other shareholders and includes the corresponding IAS reserves. At 31st December 2006, the portion of the IAS reserve held by minorities stood at EUR 12,721 thousand.

Statement of withdrawals and availability of reserves for distribution

	Amount	Possibility of withdrawal	Amount available	Taxes payable in the event of distribution	Summary of withdrawals made during the previous three years	
(in thousands of euro)					To cover losses	For other reasons
Capital reserves						
Share premium reserve	11,345	A, B				
Financial sharing reserve	12,400	A				
Total capital reserves	**23,745**					
Retained earnings						
Legal reserve	2,054	B				
Extraordinary reserve	5,384	A, B, C	5,384			A, C
Other reserves	1,136					
Total retained earnings	**8,573**					
IAS reserve	11,120					
Fair value reserve	7,448					
Conversion reserve	391					
Retained earnings (losses)	- 5,773					
Net profit (loss) for the period	7,981					
Issued capital	22,500					
Minority capital and reserves	26,465					
Total from consolidated financial statements	**102,451**					

A: For increase in capital stock B: To cover losses C: for distributions to shareholders

Provisions
Provisions are illustrated in the following statement:

(in thousands of euro)	31st December 2005	Increases	Decreases	31st December 2006
Pensions and similar obligations	1,501	100	- 46	1,556
Other	424	60	- 298	185
Total	**1,925**	**160**	**-344**	**1,741**

The additional client expenses reserve is determined based on an estimate of the liability relating to the severance of agency contracts, taking account of statutory provisions and any other relevant factor, such as statistical data, average duration of agency contracts and their rate of revenues. The item is calculated based on the actual value of the outflow necessary to extinguish the obligation.
Other reserves mainly refer to a reserve established by the subsidiary Moschino for the dispute concerning the registration of the Friends perfume brand. The reserve set aside represents the maximum liability that the company will face.
The reduction in other reserves relates to the withdrawal by the subsidiary Moschino Far East to cover the restructuring costs it incurred in 2006 for the refurbishment of the Aoyama store in Tokyo.
Potential tax liabilities for which no reserves have been established, since it is not considered probable that they will give rise to a liability for the Group, are described in the paragraph "Potential liabilities".

Employee benefits
This item refers to severance indemnity due to all employees of the Group's Italian companies at the end of their period of employment, recalculated based on IAS 19.
Each year, the Group sets aside an amount for each employee based partly on the employee's salary and partly on the revaluation of amounts previously set aside. This is a non-financed, fully provisioned liability.
The table below illustrates the changes over the period:

(in thousands of euro)	
Balance as at 31 December 2005	**12,631**
Provisions	2,603
Withdrawals	- 1,725
Balance as at 31 December 2006	**13,509**

Long-term financial liabilities
The following table contains details of long-term borrowings:

(in thousands of euro)	**31st December 2006**	**31st December 2005**	**Change Δ**	**%**
Loans from financial institutions	51,628	53,093	- 1,465	-2.8%
Amounts due to other creditors	14,569	16,747	- 2,178	-13.0%
Total long-term financial liabilities	**66,197**	**69,840**	**- 3,643**	**-5.2%**

Loans from financial institutions refers to the amount repayable in more than 12 months. The reduction in amounts due to other long-term creditors compared with the prior period consists of EUR 1,000 thousand in the reduction in the debt towards Alberta Ferretti and EUR 1,197 thousand in the reduction of the debt towards the leasing company.
The following table contains details of bank loans current as of 31st December 2006, including the current portion and long term portion:

(in thousands of euro)	**Residual amount**	**Current portion**	**Long-term portion**
Bank borrowings	63,097	11,469	51,628
Total	**63,097**	**11,469**	**51,628**

The following table contains a summary of long-term financial payables as at 31st December 2006:

(in thousands of euro)	Beneficiary	Amount issued	Term	Maturity	Long-term portion	Current portion	Residual amount
Cassa di Risparmio di Cesena	Aeffe	5,000	5 years	18/07/10	4,399	601	5,000
Unicredit	Aeffe	15,000	1,5 years	16/05/08	15,000		15,000
Banca Popolare dell'Emilia Romagna	Aeffe	5,000	4 years	30/08/08	1,313	1,270	2,583
Unipol Banca	Aeffe	4,000	5 years	30/09/10	2,295	779	3,074
Intesa BCI	Aeffe	4,000	4,5 years	31/12/10	3,684	316	4,000
Fortis Bank	Aeffe	10,000	1,5 years	15/08/08	10,000		10,000
Cariparma e Piacenza	Aeffe	5,000	5 years	27/04/10	3,205	1,210	4,415
Banca Antonveneta	Aeffe	5,000	5 years	31/01/10	3,000	1,000	4,000
Banca Nazionale del Lavoro	Aeffe	4,000	5 years	16/12/10	3,000	1,000	4,000
Caripescara	Aeffe	3,000	5 years	10/04/11	2,300	426	2,726
Intesa BCI	Pollini	2,000	4,5 years	31/12/10	1,842	158	2,000
Banca Antonveneta	Pollini	1,500	3 years	31/12/10	1,021	479	1,500
Cassa di risparmio di Cesena	Aeffe	4,000	1,5 years	15/02/07		4,000	4,000
Fortis Bank	Aeffe France	500	4 years	01/11/10	300	100	400
Shokichukin Bank	Moschino Far East	720	5 years	31/12/09	269	130	399
Total		**68,720**			**51,628**	**11,469**	**63,097**

The following table contains details of amounts due to other creditors:

(in thousands of euro)	31st December 2006	31st December 2005	Change Δ	%
Due to Alberta Ferretti		1,000	- 1,000	- 100.0%
Financial leases	8,558	9,755	- 1,197	- 12.3%
Due to other creditors	50	22	28	127.3%
Due to shareholders (Bluebell, Moschino Far East)	5,747	5,756	-9	- 0.2%
Long-term debt for Moschino Far East put/call.	214	214		
Total	**14,569**	**16,747**	**- 2,178**	**- 13.0%**

The reduction in amounts due to other long-term creditors compared with the previous period consists of EUR 1,000 thousand of the reduction in the debt to Alberta Ferretti and EUR 1,197 thousand in the reduction of the debt to the leasing company.
The amount due to Alberta Ferretti relates to the loan arranged by the parent company with the designer for the acquisition in 2002 of the brands "Alberta Ferretti", "Ferretti Studio", "Ferretti Jeans", "Ferretti Jeans Philosophy" and "Philosophy di Alberta Ferretti". These

brands were sold to the parent company for EUR 5,000 thousand, to be paid in five equal annual instalments from 1st January 2003.
The leasing payable relates to the leaseback operation conducted by the parent company for the Pollini site. The total amount of the loan arranged in 2002 was originally EUR 17,500 thousand. The contract makes provision for a loan repayment schedule that continues until September 2012. The contractual amount payable at maturity is EUR 1,750 thousand, due at the end of the contract.
Amounts due to other creditors mainly consists of the debt to Simest, paid as an export incentive.
The amount due to shareholders represents the loan granted by Bluebell Far East (which owns 49.9% of Moschino Far East) on 18th December 2002 to Moschino Far East under the joint venture agreement with Moschino. The contract stipulates that the loan will be repaid on the fifth anniversary of the subscription date, unless repaid earlier if the put and call options provided by the joint venture agreement are exercised.
The long-term payable for the recognition of the Moschino Far East put and call option relates to the put and call option provided by the joint venture agreement with Moschino. The contract stipulates a reciprocal put and call option mechanism granted to Bluebell and Moschino for the sale/purchase of the shareholding in Moschino Far East held by Bluebell at a price calculated based on a specific earn-out formula, the value of which partly depends on the financial performance of Moschino Far East.
The amounts entered following the recognition of the put and call option may be adjusted depending on the variable earn-out parameters.

Other long-term liabilities
This item includes EUR 14,045 thousand owed by the subsidiary Moschino to the shareholder Sinv as an interest-free shareholder loan. This liability is treated as a payment on capital account made on the acquisition of Moschino by the parent company and Sinv in 1999, divided into proportional shares according to the equity interest held by the parent company and Sinv in Moschino; the only changes to the item in question since it was first recognised consist of the conversion of the debt into share capital.

Trade payables and other current liabilities

This item comprises:

(in thousands of euro)	31st December 2006	31st December 2005	Change Δ	%
Trade payables	57,545	49,679	7,866	15.8%
Tax payables	4,952	2,780	2,172	78.1%
Other current liabilities	12,769	12,066	703	5.8%
Total	**75,266**	**64,525**	**10,741**	**16.6%**

The increase in trade payables reflects the increase in revenues in 2006.

A breakdown of tax payables is given in the following table and is compared with the respective balances at 31st December 2005:

(in thousands of euro)	31st December 2006	31st December 2005	Change Δ	%
Local business tax (IRAP)	507	180	327	181.7%
Corporate income tax (IRES)	1,352	108	1,244	1.151.9%
Amounts due to tax authority for deductions at source	2,177	2,079	98	4.7%
VAT due to tax authority	351	303	48	15.8%
Other	565	110	455	413.6%
Total	**4,952**	**2,780**	**2,172**	**78.1%**

Corporate income tax (IRES) and local business tax (IRAP) reflect the current tax burden excluding payments on account already paid during the period.

Other current liabilities are illustrated in the following statement and compared with the corresponding balances as at 31st December 2005:

(in thousands of euro)	31st December 2006	31st December 2005	Change Δ	Change %
Due to social security organisations	2,526	2,460	66	2.7%
Due to employees for deferred wages, stipends and salaries	4,352	3,663	689	18.8%
Trade debtors – credit balances	2,004	1,006	998	99.2%
Accrued expenses and deferred income	1,680	2,826	- 1,146	- 40.6%
Other	2,206	2,111	95	4.5%
Total	**12,768**	**12,066**	**702**	**5.8%**

Amounts due to social security organisations, recognised at face value, relate to the Group's employer contributions. This figure mainly relates to:

- Aeffe (EUR 1,306 thousand);
- Pollini Group (EUR 497 thousand);
- Moschino Group (EUR 389 thousand);
- Velmar (EUR 110 thousand).

Accrued expenses and deferred income mainly relate to the deferred income of the subsidiary Moschino, following the deferral of non-current revenue to the subsequent period. Other payables mainly include commission payable.

Current financial liabilities
A breakdown of this item is given below:

(in thousands of euro)	31st December 2006	31st December 2005	Change Δ	Change %
Due to banks	61,829	61,991	-162	- 0.3%
Due to other creditors	2,608	8,073	- 5,465	- 67.7%
Total	**64,437**	**70,064**	**- 5,627**	**- 8.0%**

Current bank debt includes advances granted by credit institutions, current loans and the current portion of long-term financing commitments. Advances mainly consist of withdrawals from short-term credit facilities to finance the working capital requirement. Current loans (due within 12 months) are loans granted by banks to the parent company and to other Group companies. At 31st December 2006, amounts due to other creditors mainly included financial payables recorded in the consolidated financial statements in application of the financial accounting method for leasing operations.
The decrease in this item compared with 31st December 2005 is mainly due to the repayment of the debt to Four Pollini of EUR 5,578 thousand.

The table below gives a breakdown of these items:

(in thousands of euro)	31st December 2006	31st December 2005	Change Δ	%
Current bank debt	50,360	58,020	- 7,660	- 13.2%
Long-term bank borrowings – current	11,469	3,971	7,498	188.8%
Due to Four Pollini		5,578	- 5,578	- 100.0%
Due to Alberta Ferretti	1,000	1,000		
Leasing payables – current	1,197	1,140	57	5.0%
Due to other creditors	411	355	56	15.8%
Total	**64,437**	**70,064**	**- 5,627**	**- 8.0%**

At 31st December 2006, current bank debt fell compared with 31st December 2005 by EUR 7,660 thousand (-13.2%) due to the reduced use of advances by the Group.

The following table illustrates the advances and loans secured by the company as at 31st December 2006:

Beneficiary *(in thousands of euro)*	**Technical form**	**Amount issued**	**Term**
Aeffe	Export advance	12,289	Withdrawal
Aeffe	Foreign currency export advance	7,210	Withdrawal
Aeffe	Hot Money	16,500	Withdrawal
Aeffe	All-purpose	3,403	Withdrawal
Moschino	Contract advance	1,006	Withdrawal
Moschino	Hot Money	1,007	Withdrawal
Moschino	Current account overdraft	333	Withdrawal
Velmar	Export advance	117	Withdrawal
Velmar	All-purpose	729	Withdrawal
Pollini	Export advance	228	Withdrawal
Pollini	All-purpose	1,553	Withdrawal
Moschino Far East	Foreign currency import advance	3,734	Withdrawal
Pollini Retail	Hot Money	2,251	Withdrawal
Total		**50,360**	

Interest rates on these technical types of finance are generally indexed to the 3-month Euribor, with spreads that vary on average between 0.25% and 0.40% for transactions in euro. With regard to advances in yen, interest rates are indexed to the Yen Libor plus a spread of 0.75%.

As 31st December 2006, the current portion of long-term bank borrowings increased by EUR 7,498 thousand (188.8%). This increase is due to current instalments falling due on unsecured loans arranged in the previous year.

The following table contains a summary of long-term financial payables as at 31st December 2006:

Issuer *(in thousands of euro)*	Beneficiary	Amount issued	Term	Maturity	Long-term portion	Current portion	Residual amount
Cassa di Risparmio di Cesena	Aeffe	5,000	5 years	18/07/10	4,399	601	5,000
Unicredit	Aeffe	15,000	1,5 years	16/05/08	15,000		15,000
Banca Popolare dell'Emilia Romagna	Aeffe	5,000	4 years	30/08/08	1,313	1,270	2,583
Unipol Banca	Aeffe	4,000	5 years	30/09/10	2,295	779	3,074
Intesa BCI	Aeffe	4,000	4,5 years	31/12/10	3,684	316	4,000
Fortis Bank	Aeffe	10,000	1,5 years	15/08/08	10,000		10,000
Cariparma e Piacenza	Aeffe	5,000	5 years	27/04/10	3,205	1,210	4,415
Banca Antonveneta	Aeffe	5,000	5 years	31/01/10	3,000	1,000	4,000
Banca Nazionale del Lavoro	Aeffe	4,000	5 years	16/12/10	3,000	1,000	4,000
Caripescara	Aeffe	3,000	5 years	10/04/11	2,300	426	2,726
Intesa BCI	Pollini	2,000	4,5 years	31/12/10	1,842	158	2,000
Banca Antonveneta	Pollini	1,500	3 years	31/12/10	1,021	479	1,500
Cassa di Risparmio di Cesena	Aeffe	4,000	1,5 years	15/02/07		4,000	4,000
Fortis Bank	Aeffe France	500	4 years	01/11/10	300	100	400
Shokichukin Bank	Moschino Far East	720	5 years	31/12/09	269	130	399
Totale		**68,720**			**51,628**	**11,469**	**63,097**

Interest rates on these technical types of finance are generally linked to 3-month or 6-month Euribor, with spreads that vary on average between 0.80% and 1.25% for transactions in euro. With regard to advances in yen, interest rates are linked to Yen Libor plus a spread of 1.6%.

COMMENTS ON THE INCOME STATEMENT AND SEGMENT INFORMATION

Segment information

A segment is part of a distinct group providing products and services (business segment) or providing products and services in a specific geographical area (geographical segment), subject to risks and benefits different from those of other sectors. Within the Group, business sectors have been identified at primary (numeric) level, while at a secondary level a geographical distribution has been applied from which information is derived on the distribution of net revenue and activities.

Economic performance by Division

At international level, the Group is divided into two main business sectors:

- ready-to-wear;
- footwear and leather goods.

Ready-to-wear is mainly represented by the companies Aeffe, Moschino and Velmar, operating in the design, production and distribution of luxury ready-to-wear and lingerie, beachwear and loungewear collections.
In terms of ready-to-wear collections, the activity is carried out by Aeffe, both for the production of the Group's own-label brands ("Alberta Ferretti", "Philosophy di Alberta Ferretti", "Moschino", "Moschino Cheap and Chic" and "Pollini") and brands licensed from other companies (such as "Jean Paul Gaultier", "Narciso Rodriguez" and "Authier"). Aeffe also handles the distribution of all Division products, which takes place via the retail channel

through subsidiaries and via the wholesale channel.
Velmar manufactures and distributes lingerie and swimwear collections, and specifically men's/women's lingerie, underwear and beachwear, and loungewear. Collections are produced and distributed under the Group's own-label brands such as "Alberta Ferretti", "Philosophy di Alberta Ferretti", "Moschino", and "Verdemare", and under third-party licensed brands such as "Blugirl".
The ready-to-wear Division also manages licensing agreements granted to other companies to manufacture Aeffe and Moschino product lines, such as the "Moschino" brand licensing agreement for jeanswear, "Moschino and ...Oh!" de "Moschino" branded perfumes and "Moschino" branded sunglasses.
The following table indicates the main economic data as at 31st December 2006 and 31st December 2005 for the ready-to-wear and footwear and leather goods Divisions:

(in thousands of euro)		2006		2005	
	Distribution of revenue by Division	**IFRS**	**% of total**	**IFRS**	**% of total**
Ready-to-wear	Revenue	214,280	80.5%	198,713	82.1%
	EBITDA after non-recurring operations (1)	28,797	87.5%	23,948	97.9%
	% EBITDA after non-recurring operations	13.4%		12.1%	
Footwear and leather goods	Revenue	65,478	24.6%	56,395	23.3%
	EBITDA after non-recurring operations (1)	4,108	12.5%	502	2.1%
	% EBITDA after non-recurring operations	6.3%		0.9%	
Elimination of intercompany transactions		- 13,623	-5.1%	- 13,177	-5.4%
Total	**Revenue**	**266,135**	**100.0%**	**241,931**	**100.0%**
	EBITDA after non-recurring operations (1)	**32,904**	**100.0%**	**24,450**	**100.0%**
	% EBITDA after non-recurring operations	**12.4%**		**10.1%**	

(1) EBITDA is earnings before interest, taxes, depreciation and amortisation. EBITDA is a measurement used by Group management to monitor and assess operating performance. It is not treated as an accounting measurement under Italian accounting standards or IFRS, and should not therefore be considered as an alternative way of measuring the Group's trading result. Since the calculation of EBITDA is not subject to the Group's standard accounting policies, the method used by the Group to calculate EBITDA may differ from that adopted by other groups, and is not therefore comparable.

Ready-to-wear Division
Revenues for the ready-to-wear Division increased from EUR 198,713 thousand in 2005 to EUR 214,280 thousand in 2006, an increase of 7.8%. This Division contributed 82.1% to consolidated revenue in 2005 and 80.5% in 2006 after intercompany transactions had been eliminated.
EBITDA of luxury ready-to-wear grew considerably, from EUR 23,904 thousand in 2005 to EUR 28,796 thousand in 2006. This was due to increased revenue and the reduced impact on costs, which fell from 90.1% in 2005 to 89.5% in 2006, largely as a result of the reduced impact of the payroll and hire purchase and leasing expense.
The increased contribution in terms of revenue and EBITDA within the Division was accounted for by the following companies:

- Aeffe: revenues was up 7.5% on 2005, from EUR 126,053 thousand in 2005 to EUR 135,449 thousand in 2006. This increase is due to the widespread growth in sales across all company brands. EBITDA was up 20.8%, from EUR 11,964 thousand in 2005 to EUR 14,451 thousand in 2006. The impact of EBITDA on revenues increased from 9.5% in 2005 to 10.7% in 2006. This improvement is due to the lower overall impact of costs, confirming the positive effect of the cost-cutting strategy.
- Moschino Group: revenues rose by 0.9% from EUR 66,799 thousand in 2005 to EUR 67,415 thousand in 2006; this improvement is due to the combined effect of the lower income from royalties, since in 2006, Moschino signed a licensing agreement with a new licensee for its eyewear business and, for one season, felt the effects of the transition from the previous licensee, and the increased revenue of the retail Division of Moschino Group, mainly caused by the positive performance of the London store. EBITDA was up 12.6%, from EUR 9,138 thousand in 2005 to EUR 10,293 thousand in 2006. The impact of EBITDA on revenues increased from 13.7% in 2005 to 15.3% in 2006. This increase is due to the lower overall impact of costs, caused by the fact that in 2005, the Group wrote off bad debts of EUR 598 thousand.
- Aeffe Retail: revenues was up 16.6%, from EUR 9,826 thousand in 2005 to EUR 11,462 thousand in 2006. EBITDA rose by 1,279.5%, from EUR 380 thousand in 2005 to EUR 5,242 thousand in 2006. The increase in sales is due to the increase in value of the Division's products and growth in the retail market witnessed during the year. EBITDA benefited from the capital gain realised on the disposal of the Narciso Rodriguez store. EBITDA stood at EUR 1,045 thousand after this operation, an increase of 175%. The impact of EBITDA on revenues after the non-recurring operation increased from 3.9% in 2005 to 8.6% in 2006. This increase is in line with the recovery of the retail sector in the Group's core market.
- Velmar: revenues was up 50.5% on 2005, from EUR 9,084 thousand to EUR 13,675 thousand in 2006. EBITDA increased from EUR 554 thousand in 2005 to EUR 1,567 thousand in 2006, a 182.9% rise. The increase in revenues relates to the new Moschino licence acquired by the Division, which had an impact only from the second half of 2006, and to increases in sales recorded for the main lingerie and beachwear lines. The new cost-cutting strategy adopted by the Group helped improve the incidence of costs on company revenues, with a leverage effect that increased the incidence of EBITDA on revenue from 6.1% in 2005 to 11.5% in 2006..

Footwear and leather goods Division
The footwear and leather goods Division mainly consists of the companies Pollini and its subsidiaries, which operate in the design, production and distribution of footwear, small leather goods, bags and matching accessories, made using exclusive materials. The operating activity is mainly carried out by Pollini, which handles the design, production and distribution of own-label products and the production and distribution of brands licensed by Group companies.
The footwear and leather goods Division also manages licensing agreements granted to other companies to manufacture Pollini and Studio Pollini branded product lines, such as licensing agreements for sunglasses production.
Revenues of the footwear and leather goods Division rose by 16.1% in 2006 from EUR 56,395 thousand in 2005 to EUR 65,478 thousand in 2006. EBITDA was down 25.5%. After non-

recurring operations, EBITDA increased by 653.3%, from EUR 545 thousand in 2005 to EUR 4,108 thousand in 2006. The impact of EBITDA on revenue after non-recurring operations rose from 1.0% in 2005 to 6.3% in 2006.
The contribution in terms of revenue and EBITDA was accounted for by the following companies:

- Pollini: 11% increase in revenues of footwear and leather goods compared with 2005, from EUR 51,882 thousand in 2005 to EUR 57,612 thousand in 2006. This increase is mainly due to the expansion of production lines and the pick-up in sales in the Italian market. In absolute terms, EBITDA in 2006 is essentially in line with the previous year. EBITDA is affected by the new transfer pricing policy adopted by Pollini Group.
- Pollini Retail: 27.3% increase in revenues of footwear and leather goods, from EUR 14,323 thousand in 2005 to EUR 18,235 thousand in 2006. This increase is mainly due to the excellent performance recorded by all of the company's stores and thus the increase in the volume of sales. In addition, the company benefited in 2006 from the opening of a new sales outlet in Barberino del Mugello, which in the first nine months of 2006 generated a revenues of EUR 998 thousand. EBITDA also increased, from -EUR 1,852 thousand in 2005 to EUR 1,835 thousand in 2006, as a result of the new transfer pricing policy adopted by Pollini Group.

Geographical distribution of revenues from sails by Division

Revenues from sails by geographical region is described below.

Revenues of EUR 241,931 thousand in 2005 and EUR 266,135 thousand in 2006 was mainly generated in Italy, Europe and the US, representing an overall share of total Group revenues of 72.7% in 2005 and 79% in 2006. The geographical distribution of revenues does not indicate dependency on any particular region. Revenues recorded in the summer of 2006 stood at 60.9% of total Group revenues. In 2006, the Group recorded a significant increase in revenues in Italy, from 37.3% in 2005 to 39.1% in 2006, and in Europe, from 21.4% in 2005 to 27.5% in 2006; in the latter case, the increase was partly due to the inclusion of Russia, which for 2005 had been included in the Rest of the World region. The remainder was generated in the Far East, Japan, the US and the Rest of the World.

(in thousands of euro)	Ready to-wear	Ready to-wear	Footwear and leather goods	Footwear and leather goods	Elimination of intercompany transactions	Elimination of intercompany transactions	Total	Total
IFRS	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Italy	70,298	66,008	43,486	32,764	- 9,666	- 8,418	104,118	90,354
Europe (excluding Italy)	58,096	38,366	15,340	13,696	- 196	- 260	73,240	51,802
Japan	21,598	22,534	372	1,575	- 175	-210	21,794	23,899
United States	32,464	33,684	3,608	3,756	- 3,087	- 3,666	32,985	33,774
Far East	22,382	21,151	1,628	1,564	- 498	- 373	23,512	22,342
Rest of the World	9,441	16,970	1,045	3,041	- 1	-251	10,485	19,760
Total	**214,279**	**198,713**	**65,479**	**56,396**	**- 13,623**	**- 13,178**	**266,135**	**241,931**

Other operating income

This item comprises:

(in thousands of euro)	31st December 2006	31st December 2005	Change Δ	%
Extraordinary income	1,843	1,642	201	12.2%
Exchange gains	1,797		1,797	n.s.
Sales of raw materials and packaging	433	235	198	84.3%
Rental income	105	118	- 13	- 11.0%
Other income	4,761	5,955	- 1,194	- 20.1%
Total	**8,939**	**7,950**	**989**	**12.4%**

The increase in this item mainly relates to the recognition of exchange gains on commercial transactions. The net balance between exchange gains and losses (recorded under other operating expenses) is positive for 2006 at EUR 1,184 thousand.
In the current financial year, other income mainly refers to EUR 4,197 thousand from the sale of the Narciso Rodriguez store by the subsidiary Aeffe Retail. For 2005, this item is represented by the release of a contingency reserve of EUR 5,188 thousand by the subsidiaries Pollini and Pollini Retail. These reserves were drawn down since the restructuring projects for which they were booked have been completed and the companies concerned do not face further costs for these projects.

Raw materials and consumables

(in thousands of euro)	31st December 2006	31st December 2005	Change Δ	%
Raw, ancillary and consumable materials and goods for resale	80,281	70,123	10,158	14.5%
Total	**80,281**	**70,123**	**10,158**	**14.5%**

This item mainly includes costs for the acquisition of raw materials such as fabrics, threads, skins and accessories, purchases of finished products for resale (products sold) and packaging.
The increase in this item is closely linked with the increase in volumes sold, with the consequent increase in revenue and production.

Costs of services
This item includes:

(in thousands of euro)	31st December 2006	31st December 2005	Change Δ	%
Subcontracted work	29,233	26,141	3,092	11.8%
Consultancy fees	12,564	10,049	2,515	25.0%
Advertising	15,532	14,776	756	5.1%
Commission	6,629	6,110	519	8.5%
Transport	5,564	4,851	713	14.7%
Utilities	2,515	2,408	107	4.4%
Directors' and auditors' fees	3,128	3,117	11	0.4%
Insurance	1,161	1,256	- 95	- 7.6%
Bank charges	1,074	1,103	- 29	- 2.6%
Employee refunds	1,117	970	147	15.2%
Travelling expenses	1,448	1,257	191	15.2%
Sundry industrial services	1,226	1,017	209	20.6%
Other services	6,620	5,625	995	17.7%
Total	**87,811**	**78,680**	**9,131**	**11.6%**

The increase in costs of services is mainly due to the growth in revenues that the Group recorded in 2006.

Costs for use of third parties goods

This item includes:

(in thousands of euro)	**31st December 2006**	**31st December 2005**	**Change Δ**	**%**
Rental expenses	11,219	11,235	- 16	- 0.1%
Royalties	4,129	3,621	508	14.0%
Hire charges and similar	943	540	403	74.6%
Operating lease fees	151	36	115	319.4%
Total	**16,442**	**15,432**	**1,010**	**6.5%**

Labour costs

This item includes:

(in thousands of euro)	**31st December 2006**	**31st December 2005**	**Change Δ**	**%**
Wages and salaries	42,437	40,766	1,671	4.1%
Social security contributions	10,814	10,490	324	3.1%
Reserve for employee severance pay	2,603	2,337	266	11.4%
Other costs	431	473	- 42	- 8.9%
Total	**56,284**	**54,066**	**2,218**	**4.1%**

The impact of labour costs on revenues fell from 22.3% in 2005 to 21.1% in 2006. This decrease is the result of the organisational model adopted by the Group, which involves fully outsourcing production of ready-to-wear, lingerie and beachwear lines and at the same time maintaining constant control of key phases of the value chain.

The increase in absolute value of this item is in line with the rise in headcount, as illustrated below.

At 31st December 2006, the Group's headcount was as follows:

	31st December 2006	31st December 2005
Workers	458	461
Office staff	916	870
Executives and senior managers - supervisor	25	26
Total	**1,399**	**1,357**

Other operating charges

This item includes:

(in thousands of euro)	31st December 2006	31st December 2005	Change Δ	%
Taxes	810	592	218	36.8%
Gifts	245	124	121	97.6%
Contingent liabilities	624	1,487	- 863	- 58.0%
Write-down of current receivables	399	1,833	- 1,434	- 78.2%
Exchange losses	613		613	n.s.
Other operating charges	462	215	247	114.9%
Total	**3,153**	**4,251**	**- 1,098**	**- 25.8%**

The decrease in contingent liabilities compared with the prior period is mainly due to capital losses on assets of the subsidiary Pollini Retail and the provision booked in 2005 by the subsidiary Moschino Far East to cover costs incurred in 2006 to re-establish the original conditions of the Aoyama store in Tokyo.
The decrease in the write-down of current receivables is mainly due to the write-down of a receivable made in the previous financial year by the subsidiary Moschino following the bankruptcy of a licensee.
The increase in other operating expenses predominantly relates to expenses for exchange rate differences on commercial transactions. The net balance between exchange gains (recognised as other operating income) and losses is positive for 2006 and totals EUR 1,184 thousand.

Amortisation, depreciation and write-downs
This item includes:

(in thousands of euro)	31st December 2006	31st December 2005	Change Δ	%
Amortisation of intangible fixed assets	3,761	3,793	-32	-0.8%
Amortisation of tangible fixed assets	6,464	6,882	- 418	-6.1%
Write-downs	441	412	29	7.0%
Total	**10,666**	**11,087**	**- 421**	**- 3.8%**

Amortisation of intangible fixed assets mainly refers to the amortisation of brands. Brands are amortised over 40 years.
Amortisation of tangible fixed assets has decreased by 6% due to the reduction in improvements to leases and rentals and plant and machinery relating to the sale of non-strategic stores, such as the Japan store, by the subsidiary Moschino Far East, and the sale of the Narciso Rodriguez store in Milan by the subsidiary Aeffe Retail.
Write-downs in 2006 and 2005 relate to the write-down of financial receivables owed to Moschino Far East by its Chinese agent.

Financial expenses
This item includes:

(in thousands of euro)	31st December 2006	31st December 2005	Change Δ	%
Bank interest payable	5,753	4,345	1,408	32%
Lease interest	507	562	- 55	- 9.8%
Foreign exchange losses	1,008	1,160	- 152	- 13%
Other expenses	164	216	- 53	- 24.5%
Total	**7,432**	**6,283**	**1,149**	**18.3%**

The increase in interest payable to banks is due to the increase in the cost of money (one percentage point in 2006), an increase that more than offset the reduction in the Group's net financial debt during the period.

Financial income
This item includes:

(in thousands of euro)	31st December 2006	31st December 2005	Change Δ	%
Interest income	99	88	11	12.5%
Foreign exchange gains	253	1,536	- 1,283	- 83.5%
Financial discounts	15	4	11	275.0%
Other income	43	88	-45	- 51.1%
Total	**410**	**1,718**	**- 1,306**	**76.1%**

The decrease in financial income is mainly due to the lower foreign exchange gains which, at 31st December 2006, were recognised as other income since connected with commercial transactions.

Gains (losses) on the valuation of equity interests in affiliates
This item mainly refers to the write-down in the accounts of the subsidiary Aeffe USA Inc., of the equity investment in Narciso Rodriguez by EUR 119 thousand in 2006 and EUR 158 thousand in 2005.

Income taxes
This item includes:

(in thousands of euro)	31st December 2006	31st December 2005
Current taxes for the period	7,426	5,955
Total current taxes	**7,426**	**5,955**
Fiscal expenses (income) from the occurrence or reversal of temporary differences	3,324	1,041
Total deferred taxes	**3,324**	**1,041**
Total income taxes	**10,750**	**6,996**

Details of deferred tax assets and liabilities and changes in this item are described in the paragraph on deferred tax assets and liabilities. The reconciliation between actual and theoretical taxation for 2005 and 2006 is illustrated in the following table:

(in thousands of euro)	**31st December 2006**	**31st December 2005**
Profit before taxes	19,294	13,605
Rate of taxation	33%	33%
Theoretical calculation of corporate income tax (IRES)	**6,367**	**4,490**
Local business tax (IRAP) (for Italian companies only)	**2,050**	**1,836**
Theoretical taxation	**8,417**	**6,326**
Tax adjustments (+)	6,747	4,713
Tax adjustments (-)	5,171	10,575
Actual income taxes recorded in the income statement	**10,750**	**6,996**

Taxes increased from EUR 6,996 thousand in 2005 to EUR 10,750 thousand in 2006 based on a consolidated actual rate of taxation of 51.5% and 55.6% respectively. Deferred tax assets and liabilities were calculated using a theoretical rate of 37.25% or 33%, and were calculated on all temporary differences between the taxable amount of an asset or liability and its carrying amount in the consolidated financial statements or income components deductible or taxable in a different period to the current period.

Net financial position

A summary of net financial position can be found below:

(in thousands of euro)	31st December 2006	31st December 2005
Current bank loans	*50,360*	*58,020*
Long-term bank borrowings – current	*11,469*	*3,971*
Loans from other financial institutions – current	2,608	8,073
Long-term borrowings – current	14,077	12,044
Subtotal – Current bank loans and current portion of long-term borrowings	**64,437**	**70,064**
Long-term bank loans	51,628	53,093
Due to other long-term creditors	14,569	16,747
Subtotal – Long-term financial payables	**66,197**	**69,840**
Total gross debt	**130,634**	**139,904**
Cash and cash equivalents	*- 15,320*	*- 7,020*
Net financial indebtedness	**115,314**	**132,884**

The net financial position of the Group as at 31st December 2006 improved by EUR 17,571 thousand compared with 31st December 2005, from EUR 132,884 thousand in 2005 to EUR 115,313 thousand in 2006.

This improvement is mainly due to a positive cash flow from operations, solid financial performance during the period and an increase in net working capital.

Net financial position includes the recognition of the put/call option under the joint venture agreement between Moschino Far East and Moschino. If this option had not been recognised, the net financial position would amount to EUR 109,352 thousand rather than EUR 115,313 thousand.

For a more detailed discussion of the items that make up net financial position, see the notes on bank borrowings and financial payables.

Earnings per share
Basic earnings per share

(in thousands of euro)	**31st December 2006**	**31st December 2005**
Consolidated earnings for the period for shareholders of the parent company	0.39	0.28
Average number of shares as at 31st December 2006	22,500,000	22,500,000
Basic earnings per share as at 31st December 2006		

Related party transactions
Reciprocal transactions and balances between Group companies included within the scope of consolidation are eliminated from the consolidated financial statements and as such will not be described here.
The Group's business dealings with other related parties are summarised below:

Parties involved and description of the transaction *(in thousands of euro)*	**31st December 2006**	**31st December 2005**	**Nature of the transaction**
Shareholder Alberta Ferretti with Aeffe			
Brand transfer agreement	1,000	1,000	Financial payable
Contract for the sale of artistic assets and design collaboration	300	300	Cost
Ferrim with Aeffe			
Property rental	200	200	Cost
Property rental	760	750	Cost
Property rental	47	46	Cost
Property rental	235	232	Cost
Ferrim with Moschino			
Property rental	760	755	Cost
Società Commerciale Valconca			
Commercial	183	264	Income
Commercial	992	778	Receivable

These transactions are arm's length transactions.

The following table contains information about the incidence of related party transactions and balances on the Group's financial situation, cash flow and equity as at 31st December 2006:

Related parties *(in thousands of euro)*	**Total**	**Amount**	**%**
Incidence of related party transactions on the balance sheet			
Current financial liabilities	64,437	1,000	1.6%
Trade receivables	33,430	992	3.0%
Incidence of related party transactions on the income statement			
Revenue	266,135	183	0.1%
Services	87,811	300	0.3%
Lease and rental expense	16,442	2,002	12.2%
Incidence of related party transactions on cash flow			
Net cash balances used in financing activities	- 20,810	1,000	-4.8%
Net cash balances used in operating activities	32,822	2,485	7.6%

Significant non-recurring events and transactions

Information about the impact of non-recurring or infrequent events and transactions on the Group's financial situation, cash flow and equity is described below.
In 2006, the subsidiary Aeffe Retail sold the Narciso Rodriguez store in Milan, generating income of EUR 4,197 thousand.

Contingent liabilities

Tax disputes

The Group's tax dispute refers to the following companies:
Aeffe: the provincial tax commission in Rimini, with its decision of 16th December 2006, handed down a judgment cancelling two notices of assessment issued by the Rimini tax office in November 2004 and relating to costs considered non-deductible and the write-down of the Moschino shareholding. The inspections concerned the 1999 and 2000 tax periods and there is a good indication that the dispute will end with a positive outcome.

On 22th June 2005, a formal notice of assessment was issued by the Emilia-Romagna provincial tax office for the 2003 and 2004 financial years, for costs considered non-deductible and for the unlawful deduction of VAT. In June 2005, an explanatory statement was submitted and so far, no notice of assessment has been issued. It is thought that the arguments put forward by the company and by the advisors appointed to handle the dispute will lead to a positive outcome of the dispute.

Pollini: the company has entered an appeal with the provincial tax commission in Forlì for two notices of assessment issued on 19th December 2006 by the tax office in Forlì-Cesena for costs considered non-deductible and for the unlawful deduction of VAT. In this case also, it is thought that the arguments put forward by the company and by the advisors appointed to handle the dispute will lead to a positive outcome of the dispute.

Ferretti Studio: in February 2007, a general audit was completed by the Guardia di Finanza in Cattolica for the 2004, 2005 and 2006 financial years. A formal notice of assessment was issued for a negligible amount.

No provision was set aside for these disputes, since it is thought that the arguments submitted by the company and its appointed advisors are wholly justifiable.
Having consulted their own tax advisors, the directors do not consider it probable that liabilities will arise from these disputes.

Other information
The total remuneration due to directors (EUR 3,023 thousand) and members of the Board of Statutory Auditors (EUR 105,000 thousand) is indicated in accordance with the law.

Events after the balance sheet date
On 2nd March 2007, following the reduction in share capital authorised on 26th October 2006, 2,700,000 own shares were cancelled.

ATTACHMENTS OF THE NOTES TO THE FINANCIAL STATEMENTS

ATTACHMENTS OF THE NOTES TO THE CONSOLIDATED FINANCIAL STATMENTS AEFFE FASHION GROUP

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CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AS AT 31 DECEMBER 2006
(in thousands Euro)

	Share capital	Share premium reserve	Legal reserve	Other reserve	Financial Sharing reserve	Reserve for translation differences	Fair Value Reserve	IAS Reserve	Profits (losses) carried forward	Net income of the Group	Total Group Net Equity	Total Minority Net Equity i	Total Net Equiity
BALANCES AS AT 31st DECEMBER 2005	**22,500**	**11,345**	**1,957**	**21,931**		**1,195**	**3,052**	**11,120**	**- 8,194**	**5,505**	**70,411**	**25,908**	**96,319**
Allocation of 2005 profits			97	2,988					2,420	- 5,505			
Dividends paid													
Exchange differences on translation						-804					- 804	- 5	- 809
Net income for the year										7,981	7,981	562	8,543
Other movements				- 18,400	12,400		4,397				- 1,603		- 1,603
BALANCES AS AT 31st DECEMBER 2006	**22,500**	**11,345**	**2,054**	**6,519**	**12,400**	**391**	**7,449**	**11,120**	**- 5,774**	**7,981**	**75,985**	**26,465**	**102,450**

CONSOLIDATED IAS BALANCE SHEET

	Amounts as at 31.12.2006	Amounts as at 31.12.2005	Changes 2006/05
Trade receivables	33,429,957	33,454,634	- 24,677
Stock and inventories	57,658,314	51,125,889	6,532,425
Trade payables	- 57,545,124	- 49,678,625	- 7,866,499
Operating net working capital	**33,543,147**	**34,901,897**	**- 1,358,750**
Other short term receivables	25,857,607	22,946,764	2,910,843
Tax receivables	2,339,179	3,802,195	- 1,463,016
Other short term liabilites	- 12,768,551	- 12,066,049	- 702,502
Tax payables	- 4,951,812	- 2,779,715	- 2,172,097
Net working capital	**44,019,570**	**46,805,092**	**-2,785,522**
Tangible fixed assets	69,895,400	67,966,667	1,928,733
Intangible fixed assets	175,073,292	178,792,690	- 3,719,398
Investment property			
Investments	120,638	257,640	- 137,002
Other long term receivables	2,877,143	4,359,104	- 1,481,961
Fixed assets	**247,966,473**	**251,376,102**	**- 3,409,629**
Post employment benefits	- 13,508,741	- 12,631,200	- 877,541
Long term provisions	- 1,741,230	- 1,924,882	183,652
Not financial assets available for sale	1,636,885	1,688,606	- 51,721
Other long term liabilites	- 14,045,132	- 14,045,132	
Deferred tax assets	10,741,117	11,714,293	- 973,175
Deferred tax liabilites	- 57,303,971	- 53,779,324	- 3,524,647
NET CAPITAL INVESTED	**217,764,971**	**229,203,554**	**- 11,438,583**
Capital issued	22,500,000	22,500,000	
Other reserves	51,277,701	50,601,273	676,428
Profits (Losses) carried-forward	- 5,773,135	- 8,194,809	2,421,674
Profits (Loss) for the period	7,981,220	5,504,841	2,476,379
Group share capital and reserves	**75,985,786**	**70,411,306**	**5,574,480**
Minority interests	26,465,309	25,908,221	557,087
Shareholders' equity	**102,451,095**	**96,319,527**	**6,131,568**
Other short term financial receivables	- 4,175,000		- 4,175,000
Negotiable securities recognized at fair value			
Cash	- 11,145,222	- 7,020,051	- 4,125,171
Long term financial payables	66,196,757	69,839,772	- 3,643,015
Long term derivates			
Short terms financial payables	64,437,341	70,064,307	- 5,626,966
Short terms derivates			
NET FINANCIAL POSITION	**115,313,876**	**132,884,028**	**- 17,570,151**
SHAREHOLDERS' EQUITY AND NET FINANCIAL INDEBTEDNESS	**217,764,971**	**229,203,555**	**- 11,438,584**

AEFFE FASHION GROUP

APPENDIX OF THE NOTES TO THE FINANCIAL STATEMENTS

TRANSITION TO INTERNATIONAL ACCOUNTING STANDARDS (IFRS)

Following the entry into force of Regulation (EC) No 1606/2002 issued in July 2002, companies with shares admitted to trading on a regulated market in one of the Member States of the European Union are now required to prepare consolidated financial statements in accordance with international accounting standards. Legislative Decree No. 38 of 28th February 2005, which contains the implementing provisions of Act No. 306 of 31st October 2003, in line with the power granted by the European regulation, grants unlisted companies preparing their consolidated financial statements the option of adopting international accounting standards from the year ended 31st December 2005.
The Group decided to make use of this option with effect from the year ended 31st December 2006. Therefore, the consolidated financial statements of the Group as at 31st December 2006 were prepared in accordance with international accounting standards. The date of transition to international accounting standards was 1st January 2005, while the last consolidated financial statements prepared in accordance with Italian accounting standards was for the year ended 31st December 2005.
Therefore, taking account of the Recommendation of the Committee of European Securities Regulators (CESR) published on 30th December 2003 and containing guidelines for listed companies in EU Member States on the transition to international accounting standards, as well as the Issuers' Regulations, the information required by IFRS 1 (First-time Adoption of International Financial Reporting Standards) can be found below. In particular, this information concerns the impact that the transition to international accounting standards has on the consolidated net worth and financial position, consolidated profit or loss and consolidated cash flows reported.
For the purposes of reporting the effects of the transition to international accounting standards and to satisfy the reporting requirements of paragraphs 39a) and b) and paragraph 40 of IFRS 1 on the effects arising from the first-time adoption of international accounting standards, the Group has followed the example contained in international accounting standard IFRS 1, IG 63.
For this purpose, the following have been prepared:

- he consolidated balance sheet as at 31st December 2005, the income statement and statement of changes in consolidated net equity for the financial year ended 31st December 2005, restated in accordance with international accounting standards;
- the main accounting policies and measurement bases concerning the application of international accounting standards and the principal IFRS selected;
- detailed reconciliation statements for the consolidated balance sheets as at 1st January 2005 and 31st December 2005 and the consolidated income statement for the year ended 31st December 2005, indicating the adjustments made to amounts determined in accordance with Italian accounting standards for the purposes of their restatement in accordance with international accounting standards;
- reconciliation statements between consolidated shareholders' equity and consolidated profit or loss recognised in accordance with Italian accounting standards and those recognised in accordance with international accounting standards on the date of transition to the international accounting standards (1st January 2005), at 31st December 2005 and for the year ended 31st December 2005;
- comments on the reconciliation statements.

FIRST-TIME ADOPTION OF THE IFRS

First IFRS financial statements

The attached reconciliation statements, prepared solely as part of the plan to prepare the first complete consolidated financial statements in accordance with international accounting standards approved by the European Commission, do not contain comparative figures and the necessary explanatory notes that would be required to represent fully the consolidated net worth and financial position and consolidated profit or loss of the Group in accordance with IFRS.

General principle
The Group has retrospectively applied to all periods included in the first IFRS financial statements and to the initial balance sheet the accounting standards in force for the year ended 31st December 2006, save any exemptions adopted by the Group in accordance with IFRS 1, as described in the paragraph below.
These 2005 financial statements contain the figures published for comparison purposes in the consolidated financial statements for the year ended 31st December 2006. These amounts could be subject to other changes that may be necessary if any international accounting standard should be revised or modified during 2007. It should be noted that new versions or interpretations of international accounting standards could be issued prior to the publication of the Group's consolidated financial statements as at 31st December 2006 with a potential retroactive impact. Should this happen, it could affect the 2005 balance sheet and income statement, restated according to the international accounting standards described here.
The initial balance sheet as at 1st January 2005 reflects the following differences in treatment compared with the consolidated financial statements for the year ended 31st December 2004, prepared in accordance with Italian accounting standards:

- all assets and liabilities to be reported under international accounting standards, including those not specified in accordance with Italian accounting standards, were measured and recognised according to international accounting standards;
- all assets and liabilities reported under Italian accounting principles but not allowed under international accounting standards have been eliminated;
- some items have been reclassified in accordance with international accounting standards.

The effects of these adjustments have been recognised directly in initial shareholders' equity. Details of the reclassifications and adjustments made for each item can be found in the tables below.

Optional exemptions adopted by the Group
During the first-time adoption of IFRS, the Group used some of the following optional exemptions granted by IFRS 1 when preparing its financial statements as of the date of transition to the new standards.
The principal options adopted concerned:

- employee benefits: as provided by IAS 19, the Group has decided to adopt the "corridor method" for actuarial gains and losses generated after 1st January 2005;
- business combinations: IFRS 3 was adopted retroactively for business combinations since 2001. This decision has allowed it to recognise specific intangible fixed assets (mainly brands) and generic intangible fixed assets (goodwill);
- measurement of tangible fixed assets and intangible fixed assets: during the transition to international accounting standards, the process of determining the cost of tangible fixed assets and intangible fixed assets may involve the assumption of fair value or alternatively revalued cost at 1st January 2004 rather than the original cost. The Group used this exemption only in relation to land and buildings where it had used fair value as a replacement value for the original cost depreciated;
- cumulative translation adjustment: during the transition to international accounting standards, the option was available to reclassify the cumulative translation adjustment arising from the translation of financial statements of consolidated companies operating in countries outside the euro zone as of the transition date in other available reserves. The Group did not use this option and instead maintained the cumulative net exchange differences previously determined.

The effects of these adjustments were recognised in initial shareholders' equity. Details of the reclassification and adjustments for each item have been supplied below in table form.

Balance sheet reconciliation statements between Italian and international accounting standards:

Balance sheet as at 1st January 2005

Consolidated Balance Sheet (in thousands of euro)	Italian GAAP accounting standards	Reclassifications	IFRS Adjustments	IFRS Principles	Notes
ASSETS					
Intangible fixed assets					
Goodwill	73,895	7,672	- 21,218	60,349	
Other intangible fixed assets	69,162	- 21,620	80,759	128,301	
Total intangible fixed assets	**143,057**	**- 13,948**	**59,541**	**188,650**	**A**
Tangible fixed assets					
Land and buildings	34,255	3,031	10,527	47,813	
Leasehold improvements		13,947	- 866	13,081	
Plant and machinery	5,631			5,631	
Equipment	198	9	95	302	
Other tangible fixed assets	7,214	- 3,040	21	4,195	
Total tangible fixed assets	**47,298**	**13,947**	**9,777**	**71,022**	**B**
Other fixed assets					
Non-instrumental property investments					
Equity investments	674	- 289	-16	369	
Deferred tax assets	5,702	102	7,540	13,344	
Other long-term receivables	15,378	- 11,040	-65	4,273	
Total other fixed assets	**21,754**	**- 11,227**	**7,459**	**17,986**	**C**
Total non-current assets	**212,109**	**- 11,228**	**76,777**	**277,658**	
Non-current assets held for sale		1,800	-70	1,730	
Assets held for sale		**1,800**	**-70**	**1,730**	**D**
Current assets					
Inventories	49,261	- 105	235	49,391	
Trade receivables	32,834	- 1,156	- 1,764	29,914	
Other short-term receivables	22,622	- 1,222	-32	21,368	
Current tax assets	4,072	-65		4,007	
Cash and cash balances	10,846		63	10,909	
Total current assets	**119,635**	**- 2,548**	**- 1,498**	**115,589**	**E**
Total assets	**331,744**	**- 11,976**	**75,209**	**394,977**	

Consolidated Balance Sheet (in thousands of euro)	Italian GAAP accounting standards	Reclassifications	IFRS Adjustments	IFRS Principles	Notes
LIABILITIES AND SHAREHOLDERS' EQUITY					
Shareholders' equity					
Share capital	22,500			22,500	
Share premium	11,345			11,345	
IAS reserve			11,120	11,120	
Fair value reserve			3,052	3,052	
Other reserves	20,663			20,663	
Retained earnings (loss)	- 6,964		- 2,999	- 9,963	
Profit (loss) for the period	4,644		-50	4,594	
Total Group shareholders' equity	**52,188**		**11,123**	**63,311**	**A**
Minorities	11,179		13,595	24,774	
Total shareholders' equity	**63,367**		**24,718**	**88,085**	**H**
Non-current liabilities					
Long-term financial liabilities	38,726	24,359	214	63,299	
Deferred tax liabilities	3,472	24	49,290	52,786	
Employee benefits	11,683		231	11,914	
Long-term reserves	7,795	-650	-526	6,619	
Other long-term liabilities	50,595	- 36,550		14,045	
Total non-current liabilities	**112,271**	**- 12,817**	**49,209**	**148,663**	**F**
Current liabilities					
Trade payables	53,757	- 5,528	994	49,223	
Other current liabilities	17,508	- 8,538	286	9,256	
Current tax liability	3,474		2	3,476	
Current financial liabilities	81,367	14,907		96,274	
Total current liabilities	**156,106**	**841**	**1,282**	**158,229**	**G**
Total liabilities and shareholders' equity	**331,744**	**- 11,976**	**75,209**	**394,977**	

Balance sheet as at 31st December 2005

Consolidated Balance Sheet (in thousands of euro)	Italian GAAP accounting standards	Reclassifications	IFRS Adjustments	IFRS Principles	Notes
ASSETS					
Intangible fixed assets					
Goodwill	65,836	6,665	- 18,399	54,102	
Other intangible fixed assets	62,440	- 19,236	81,487	124,691	
Total intangible fixed assets	**128,276**	**- 12,571**	**63,088**	**178,793**	**A**
Tangible fixed assets					
Land and buildings	34,804	2,340	10,959	48,103	
Leasehold improvements		12,571	-767	11,804	
Plant and machinery	4,427			4,427	
Equipment	158	8	78	244	
Other tangible fixed assets	5,723	- 2,352	18	3,389	
Total tangible fixed assets	**45,112**	**12,567**	**10,288**	**67,967**	**B**
Other fixed assets					
Non-instrumental property investments					
Equity investments	557	-290	-10	257	
Deferred tax assets	6,204	101	5,409	11,714	
Other long-term receivables	13,755	- 9,396		4,359	
Total other fixed assets	**20,516**	**- 9,585**	**5,399**	**16,330**	**C**
Total non-current assets	**193,904**	**- 9,589**	**78,775**	**263,090**	
Non-current assets held for sale		1,800	- 111	1,689	
Assets held for sale		**1,800**	**- 111**	**1,689**	**D**
Current assets					
Inventories	50,799		327	51,126	
Trade receivables	35,563	- 358	- 1,750	33,455	
Other short-term receivables	24,753	- 1,807	2	22,948	
Current tax assets	3,650	149	3	3,802	
Cash and cash balances	6,998		22	7,020	
Total current assets	**121,763**	**- 2,016**	**- 1,396**	**118,351**	**E**
Total assets	**315,667**	**- 9,805**	**77,268**	**383,130**	

Consolidated Balance Sheet (in thousands of euro)	Italian GAAP accounting standards	Reclassifications	IFRS Adjustments	IFRS Principles	Notes
LIABILITIES AND SHAREHOLDERS' EQUITY					
Shareholders' equity					
Share capital	22,500			22,500	
Share premium	11,346			11,346	
IAS reserve			11,120	11,120	
Fair value reserve			3,052	3,052	
Other reserves	24,922		162	25,084	
Retained earnings (loss)	- 5,147		- 3,048	- 8,195	
Profit (loss) for the period	2,106		3,399	5,505	
Total Group shareholders' equity	**55,727**		**14,685**	**70,412**	
Minorities	12,134		13,774	25,908	
Total shareholders' equity	**67,861**		**28,459**	**96,320**	**H**
Non-current liabilities					
Long-term financial liabilities	53,093	16,510	235	69,838	
Deferred tax liability	5,776		48,004	53,780	
Employee benefits	12,448		183	12,631	
Long-term reserves	3,014	- 545	- 544	1,925	
Other long-term liabilities	38,211	- 24,166		14,045	
Total non-current liabilities	**112,542**	**- 8,201**	**47,878**	**152,219**	**F**
Current liabilities					
Trade payables	55,944	- 7,056	791	49,679	
Other current liabilities	14,199	- 2,266	134	12,067	
Current tax liability	2,774		6	2,780	
Current financial liabilities	62,347	7,718		70,065	
Total current liabilities	**135,264**	**- 1,604**	**931**	**134,591**	**G**
Total liabilities and shareholders' equity	**315,667**	**- 9,805**	**77,268**	**383,130**	

Effects on shareholders' equity as at 31st December 2005

(in thousands of Euro)	Shareholders' equity	Profit or loss for the period
Aeffe Group (consolidated)	**67,861**	**2,887**
IFRS adjustments	**28,459**	**3,723**
of which:		
A) Goodwill	7,644	1,758
B) Brands	82,724	- 290
C) Land and buildings	10,959	415
D) Deferred tax assets/liabilities	- 42,595	- 670
E) Consolidation differences	- 26,043	1,672
F) Other IFRS adjustments	- 4,230	838
Aeffe consolidated including IFRS adjustments	**96,320**	**6,610**

NOTES TO THE MAIN RECONCILIATION ITEMS BETWEEN ITALIAN ACCOUNTING STANDARDS AND IFRS

The following paragraph provides a description of the main differences between Italian accounting principles and international accounting standards having an effect on the Aeffe consolidated financial statements.
As expected, the Group has decided to retroactively apply IFRS 3 (“Business combinations”) to its business combinations since 2001.
This decision has allowed it in particular to recognise specific intangible fixed assets (mainly brands) and generic intangible fixed assets (goodwill) at their original cost at the time of acquisition of the companies involved in the combination.

IMPLICATIONS OF THE APPLICATION OF IFRS 1

The reopening of business combinations pursuant to IFRS 3 has led to the reversal of consolidation differences relating to these business combinations. The cancellation of the acquisition cost of the shareholding against the portion of shareholders’ equity adjusted by the fair value of the intangible fixed assets, excluding the related deferred taxes and minorities, is described below.
Following this cancellation, the following two facts were discovered:

- the acquisition cost was higher than the Group’s share of the adjusted shareholders’ equity, so goodwill is recorded under assets and measured initially at cost;
- if the acquisition cost was less than the Group’s share of adjusted shareholders’ equity, this difference is recorded in the income statement and generated an equal amount of equity in the following period.

This decision has led to an increase in intangible fixed assets following the recognition of specific intangible fixed assets (brands).
Based on the provisions of IFRS 3, goodwill arising from business combinations and the consolidation differences identified earlier are no longer subjected to a process of systematic amortisation (since these assets have an infinite useful life), but are subjected to impairment tests in accordance with IAS 36 at least once a year and whenever there is an indication of an impairment loss.

A) INTANGIBLE FIXED ASSETS

Details of transactions that involved changes in goodwill are described below:

Goodwill (in thousands of euro)	Reclassifications	1st January 2005 Adjustments	Total
Reopening of Moschino business combination		- 91	- 91
Reopening of Pollini business combination		- 1,075	- 1,075
Reopening of Velmar business combination		-65	-65
Reopening of Aeffe Retail business combination		5,022	5,022
Reopening of Aeffe key money business combination	1,007		1,007
Recovery of 2001-2004 goodwill depreciation		2,757	1,931
From other Moschino key money intangible fixed assets	6,665		6,665
Goodwill arising on consolidation		- 27,766	- 27,766
Total	**7,672**	**- 21,218**	**- 13,546**

Goodwill *(in thousands of euro)*	**31st December 2005** **Reclassifications**	**Adjustments**	**Total**
Reopening of Moschino business combination		-30	-30
Reopening of Pollini business combination		- 1,009	- 1,009
Reopening of Velmar business combination		-62	-62
Reopening of Aeffe Retail business combination		5,917	5,917
Recovery of 2001-2005 goodwill depreciation		2,828	1,526
From other Moschino key money intangible fixed assets	6,665		6,665
From other Aeffe key money intangible fixed assets			
Goodwill arising on consolidation		- 26,043	- 26,043
Total	**6,665**	**- 18,399**	**- 11,734**

and in "other intangible fixed assets":

Other intangible fixed assets *(in thousands of euro)*	**1st January 2005** **Reclassifications**	**Adjustments**	**Total**
Pollini brand		57,618	57,618
Moschino brand (value restatement)		20,723	20,723
Velmar brands		385	385
Accumulated depreciation of Pollini brand		- 5,762	- 5,762
Recovery of depreciation on Moschino brand		10,328	10,328
Recovery of depreciation on Velmar brand		-14	-14
Write-off of non-capitalised ancillary costs		- 2,519	- 2,519
Leasehold improvements	- 13,947		- 13,947
Moschino key money goodwill	- 6,665		- 6,665
Aeffe key money goodwill	- 1,007		- 1,007
Total	**- 21,620**	**80,759**	**59,140**

Other intangible fixed assets *(in thousands of euro)*	**31st December 2005** **Reclassifications**	**Adjustments**	**Total**
Pollini brand		57,618	57,618
Moschino brand		20,723	20,723
Velmar brands		385	385
Accumulated depreciation of Pollini brand		- 7,202	- 7,202
Recovery of depreciation on Moschino brand		11,213	11,213
Recovery of depreciation on Velmar brand		- 13	- 13
Write-off of non-capitalised ancillary costs		- 1,237	- 1,237
Leasehold improvements	- 12,570		- 12,570
Moschino key money goodwill	- 6,666		- 6,666
Total	**-19,236**	**81,487**	**62,251**

Reclassifications:
Intangible fixed assets includes key money (contract transfer costs) reclassified as goodwill from other intangible fixed assets. When the Group switched to international accounting standards, the accounting treatment changed, since these items are considered as intangible fixed assets with an infinite useful life, and as such are not amortised. In accordance with that provided by IAS 36, these assets are subjected to impairment tests and are therefore recognised at the lesser of historical cost and market value, determined based on an independent valuation. Based on that indicated based on the valuations of independent experts and in consideration of the Group's past experience, it is believed that the term of store leases has little relevance in terms of maintaining key money values, given the strategy pursued successfully by the Group of renewing leases before their natural expiry date.
Other intangible fixed assets includes entries reclassified in accordance with IAS 16, which states that costs capitalised for leasehold improvements that are functionally independent should be reclassified in the relevant account of tangible fixed assets.

Adjustments:
Intangible fixed assets are initially recognised at historical cost (which in the case of business combinations corresponds to fair value). As already noted, the Group has opted for the application of IFRS 3.

At 1st January 2005, goodwill had undergone:

- negative adjustments of EUR 27,766 thousand following the reversal of goodwill arising on consolidation previously established;
- positive adjustments totalling EUR 3,791 thousand following the reopening of business combinations and the allocation of surplus goodwill to Aeffe Retail for the Rome store, as confirmed by an independent valuation;
- positive adjustments of EUR 2,757 thousand following the recovery of depreciation previously established.

At 31st December 2005, goodwill had undergone:

- negative adjustments of EUR 26,043 thousand following the reversal of goodwill arising on consolidation previously established;
- positive adjustments totalling EUR 4,816 thousand following the reopening of business combinations and the allocation of surplus goodwill to Aeffe Retail for the Rome store, as confirmed by an independent valuation;
- positive adjustments of EUR 2,828 thousand following the recovery of depreciation previously established.

For other intangible fixed assets, the application of IFRS 3 has allowed the Group to recognise specific intangible fixed assets (Pollini and Velmar brands) at their original cost at the time of acquisition of the companies involved in the combination.
The independent valuation of the Pollini brand, determined based on fair value on the acquisition date, has been estimated, after tax, as EUR 57,618 thousand. On 1st January 2005, the restated value, net of accumulated depreciation on the date of reopening of the business combinations and excluding the corresponding tax effect, was EUR 51,856 thousand. On 31st December 2005, the restated value, net of accumulated depreciation on the date of reopening of the business combinations and excluding the corresponding tax effect, was EUR 50,416 thousand.
The independent valuation of the Velmar brand, determined based on fair value on the acquisition date, has been estimated, after tax, as EUR 385 thousand. On 1st January 2005, the restated value, net of accumulated depreciation on the date of reopening of the business combinations and after the reversal of depreciation calculated at the previous rates used under Italian accounting standards, excluding the related tax effect, was EUR 371 thousand. On 31st December 2005, the restated value, net of accumulated depreciation on the date of reopening of the business combinations and after the reversal of depreciation calculated at

the previous rates used under Italian accounting standards, excluding the related tax effect, was EUR 372 thousand.
In addition, based on the independent valuation, the Issuer has restated the value of the write-down of the Moschino brand for a gross amount of EUR 20,273 thousand. The revaluation of the brand at 1st January 2005, excluding the reversal of amortisation previously calculated based on Italian accounting principles, and after addition amortisation determined based on the residual useful life indicated by the expert, gives a value of EUR 31,051 thousand. The revaluation of the brand at 31st December 2005, excluding the reversal of amortisation calculated previously based on Italian accounting principles, and after additional amortisation determined based on the residual useful life indicated by the expert, gives a value of EUR 31,936 thousand.
The write-down had been made by Moschino in 2000 following its merger with Moonshadow, since according to an independent valuation carried out on that date, based on the performance of the sector and the economy, an impairment loss was identified. The independent expert appointed by the company during the transition to IAS/IFRS estimated that the assumptions that led to the valuation in 2000 no longer existed. The application of IAS 36 from the date of reopening of the business combinations included the information available for the assessment of whether or not all of the conditions that led to the write-down still existed, since Italian accounting principles, in this particular case, did not offer any practical basis for Aeffe to assess whether or not all of the conditions that led to the impairment still applied.
The independent expert decided to assign the "brands" a finite life of 40 years in consideration of their estimated useful life and the key role they play in the Group's strategy. It should also be noted that the estimated useful life of 40 years is in line with the sort of intangible fixed assets that are typical of the fashion industry, and comparable with previous experience of other operators in the sector (market comparables).
Under Italian accounting standards, the Group capitalised certain costs that international accounting standards require to be charged to the income statement when they are incurred; in particular, preliminary and formation expenses were adjusted, excluding the corresponding depreciation previously booked, as were advertising expenses and start-up expenses, as indicated by IAS 38. The value of this adjustment at 1st January 2005 was EUR 2,519 thousand and mainly related to Aeffe, Aeffe Retail and Ferretti Studio. At 31st December 2005, this adjustment stood at EUR 1,237 thousand, relating mainly to Aeffe, Aeffe Retail and Ferretti Studio.

B) TANGIBLE FIXED ASSETS

The transition to IAS/IFRS of tangible fixed assets can be summarised as follows:

Tangible fixed assets (in thousands of euro)	1st January 2005 Reclassifications	Adjustments	Total
Land and buildings	3,031	10,527	13,558
Leasehold improvments	13,947	-866	13,081
Plant and machinery			
Equipment	9	95	104
Other	- 3,040	21	- 3,019
Total	**13,947**	**9,777**	**23,724**

Tangible fixed assets (in thousands of euro)	31st December 2005 Reclassifications	Adjustments	Total
Land and buildings	2,340	10,959	13,299
Leasehold improvments	12,570	- 767	11,803
Plant and machinery			
Equipment	8	78	86
Other	- 2,351	18	- 2,333
Total	**12,567**	**10,288**	**22,855**

In particular, the transactions that influenced the initial values of land and buildings are as follows:

Land and buildings (in thousands of euro)	Reclassifications	1st January 2005 Adjustments	Total
Revaluation of Aeffe land		13,652	13,652
Recovery of land depreciation		143	143
Reclassification from buildings	2,968		2,968
Total land	**2,968**	**13,795**	**16,763**
From other tangible fixed assets	3,040		3,040
Restatement as land	- 2,968		- 2,968
Revaluation of Aeffe building		1,101	1,101
Restatement as equipment	-9		-9
Consolidation adjustments		- 4,369	- 4,369
Total buildings	**63**	**- 3,268**	**- 3,205**
Total	**3,031**	**10,527**	**13,558**

Land and buildings (in thousands of euro)	Reclassifications	31st December 2005 Adjustments	Total
Revaluation Aeffe land		13,652	13,652
Recovery of land depreciation		165	165
From other tangible fixed assets	3,252		3,252
Total land	**3,252**	**13,817**	**17,069**
From other tangible fixed assets	2,351		2,351
Land reclassified	- 3,252		- 3,252
Revaluation of Aeffe building		1,101	1,101
Restatement as equipment	- 8		- 8
Additional building depreciation		-137	-137
Consolidation adjustments		- 3,822	- 3,822
Total buildings	**- 912**	**- 2,858**	**- 3,770**
Total	**2,340**	**10,959**	**13,299**

Land and buildings were recognised at their market value, calculated based on an independent valuation, partly so that the value of land previously included under "land and buildings" and depreciated in accordance with IAS 16 could be reported separately.

Reclassifications:
Land, originally acquired at the same time as the building, had been recognised together with the value of the buildings themselves and was thus depreciated at the same rate. However, since land has an infinite useful life, it should not be depreciated and the value has been reported separately using the latest independent valuations available and accumulated depreciation relating to the share attributed to land has been eliminated.
Based on that indicated earlier in section A), other intangible fixed assets have been reclassified in accordance with IAS 16, which states that costs capitalised for leasehold improvements that are functionally independent should be reclassified in a special account in tangible fixed assets.
Other entries have also been reclassified as buildings from other tangible fixed assets.

Adjustments:
The transactions that generated the most significant adjustments relate to land and buildings. The adjustments are due to the change in the independent valuation of land and buildings where Aeffe, Pollini and Nuova Stireria Tavoleto are based and the resulting recalculation of residual useful life. The higher land value determined by the independent expert on 1st January 2005 is equivalent to EUR 13,652 thousand, taking account of the related tax effects. This was maintained at 31st December 2005. The higher value determined for buildings by the independent expert on 1st January 2005 was EUR 1,101 thousand. This was maintained at 31st December 2005, taking account of the related tax effects.
Depreciation previously recognised in accordance with IAS 16 is also recovered, since this standard does not allow land to be depreciated as an asset with an infinite useful life, stipulating that for assets purchased through business combinations, the fair value should be calculated on the date of the business combination after any tax effect. Depreciation recovered at 1st January 2005 was EUR 143 thousand, compared with EUR 165 thousand at 31st December 2005, taking account of the corresponding tax effects.
The increase in book value of buildings resulted in additional appreciation of EUR 137 thousandat 31st December 2005, taking account of the corresponding tax effects.
The positive adjustments on equipment and "other tangible fixed assets" totalling EUR 116 thousand at 1st January 2005 and EUR 96 thousand at 31st December 2005 related to the inclusion in the scope of consolidation of Fashion Retail Co. in accordance with IAS 27.
Based on IAS 16, the incremental costs incurred for leasehold improvements that could not be identified were charged to the income statement. The adjustment value at 1st January 2005 was EUR 866 thousand and EUR 767 thousand at 31st December 2005, excluding the corresponding tax effect.

C) OTHER NON-CURRENT ASSETS

Reclassifications:
Pollini's holdings in Pollini France, previously recognised as equity investments, were reclassified as other fixed assets available for sale in accordance with IAS 35.
The long-term payable arising for the issuer due to advance charging of lease fees was reclassified from other long-term receivables.
Items were also reclassified as "deferred tax assets" rather than "current tax assets" in relation to Aeffe France.

Adjustments:
The main adjustments relate to "deferred tax assets". This item represents the net tax effect arising from differences existing between Italian accounting standards and IFRS. At 1st January 2005, the adjustments were positive at EUR 7,540 thousand, compared with EUR 5,409 thousand at 31st December 2005.
Adjustments relating to "equity investments" were recorded following the increase in the scope of consolidation, and specifically the inclusion of the companies Fashion Retail Co. and AV Suisse (acquired in 2005), as well as the write-down by Pollini of its holding in Pollini UK. At 1st January 2005, adjustments totalled EUR 16 thousand, compared with EUR 10 thousand at 31st December 2005.

D) ASSETS HELD FOR SALE

Reclassifications:
Receivables held by the Group and the related equity investment in Pollini France were reclassified as assets held for sale. Both during first-time adoption and at 31st December 2005, EUR 200 thousand was reclassified in relation to an equity investment and EUR 1,600 thousand in relation to trade receivables.

Adjustments:
Adjustments relate to the discounting of the receivable due from Pollini France; the adjustment was negative at EUR 70 thousand as of 1st January 2005, compared with EUR 111 thousand at 31st December 2005, excluding the tax effect.

E) CURRENT ASSETS

Reclassifications:
At 1st January 2005, the Group reclassified provisions for loss in value of stock and work in progress as inventories. These had previously been reported as provisions under liabilities.
The main reclassifications affecting trade receivables as at 1st January 2005 concerned provisions for trade risks, previously recognised as provisions for risks and expenses; other current trade assets were also restated. Reclassifications relating to 31st December 2005 only concerned the provision for trade risks.
The main reclassifications affecting other current receivables at 1st January 2005 and at 31st December 2005 related to the current portion of the deferred property lease for the Pollini site; this is due to the advance charging of lease fees, as described in section C).
At 1st January 2005 and 31st December 2005, reclassifications concerning current tax assets related to the correct reporting under "deferred tax assets" of the receivable due to Aeffe France.

Adjustments:
Adjustments relating to inventories both at 1st January 2005 and 31st December 2005 concern the consolidation of Fashion Retail Co. The positive adjustment at 1st January 2005 was EUR 235 thousand, compared with EUR 327 thousand at 31st December 2005, excluding the corresponding tax effect.
Adjustments made to trade receivables both at 1st January 2005 and 31st December 2005 were mainly due to the discounting of receivables when payment exceeded the standard customer payment terms. To determine the effect, the payment terms were estimated by applying a discount rate to the various financial flows corresponding to the average cost of money for the Group. The negative adjustment value at 1st January 2005 was EUR 1,764 thousand, compared with EUR 1,750 thousand at 31st December 2005, excluding the corresponding tax effect.
Adjustments relating to other current receivables as at 1st January 2005 concerned negative adjustments of EUR 34 thousand relating to the discounting of receivables due to Pollini and positive adjustments of EUR 2 thousand for the consolidation of Fashion Retail Co. At 31st December 2005, negative adjustments relating to the discounting of receivables due to Pollini stood at EUR 34 thousand, after tax, and positive adjustments for the inclusion of Fashion Retail Co. and AV Suisse in the scope of consolidation stood at EUR 36 thousand.
Adjustments affecting current tax assets at 31st December 2005 relate to the inclusion in the scope of consolidation of AV Suisse. These adjustments were positive at EUR 3 thousand.
Adjustments to cash balances relate to the inclusion in the scope of consolidation of AV Suisse. At 1st January 2005, these adjustments were positive at EUR 63 thousand, compared with EUR 22 thousand at 31st December 2005.

F) NON-CURRENT LIABILITIES

Reclassifications:
Reclassifications affecting long-term financial liabilities as at 1st January 2005 mainly concerned the recognition of the payable towards the leasing company previously recognised under other long-term liabilities, and the recognition of the existing payable relating to the acquisition of the brand from Alberta Ferretti; in addition, reclassifications were made relating to the recognition of the financial payable due to Four Pollini, previously recognised as other long-term payables, and the restatement of the amount due to Bluebell. At 31st December 2005, the same reclassifications were recorded, except for the payable due to Four Pollini, which was repaid in 2005.
Reclassifications affecting deferred tax liabilities at 1st January 2005 relate to the correct classification of the item in question as a payable to Aeffe USA, previously recognised as other long-term payables.
Long-term reserves recorded a negative change due to the classification of provisions for trade risks, reclassified as trade receivables, and provisions for loss in value of stock and work in progress for Pollini, correctly reclassified as inventories. At 31st December 2005, only the decrease in the item in question was recorded due to the inclusion of provisions for trade risks as trade receivables.
Other long-term liabilities at 1st January 2005 were reclassified due to the recognition of the payable towards the leasing company under long-term financial liabilities; in addition, this item is netted against the portion of the amount due relating to leasing fees charged in advance, as described in section C). The long-term portion of the existing debt relating to the acquisition of the brand from the shareholder Alberta Ferretti was also reclassified as long-term financial liabilities, while the payable due to Bluebell was reclassified under long-term financial liabilities, and the financial payable due to Four Pollini under long-term liabilities. At 31st December 2005, the same reclassifications were recorded, except for the payable due to Four Pollini, which was repaid in 2005.

Adjustments:
Long-term financial liabilities were adjusted due to the recognition of the put/call option as provided by IAS 39. At 1st January 2005, the positive adjustment stood at EUR 214 thousand, compared with EUR 235 thousand at 31st December 2005, excluding the related tax effect.
The item "deferred tax liabilities" represents the net tax effect arising from differences existing between Italian accounting standards and IFRS. At 1 January 2005, the adjustments were positive at EUR 49,290 thousand, compared with EUR 48,004 thousand at 31st December 2005.
With the adoption of international accounting standards, the severance indemnity fund was considered a defined benefit obligation to be recognised in accordance with IAS 19 (Employee benefits). Consequently, this must be recalculated by applying the projected unit credit method. The Group has decided to use the "corridor method", which means that the cost component calculated according to the method described represented by actuarial gains or losses is not recognised unless it exceeds 10% of the present value of the defined benefit obligation. Following the application of this method, positive adjustments were made to the item in question of EUR 231 thousand at 1st January 2005 and EUR 183 thousand at 31st December 2005, excluding the corresponding tax effect.
Provisions were adjusted due to the recognition of the additional client expenses fund at the value determined by the independent valuation. This fund is calculated based on the expected estimated outflow for this fund, calculated based on historical data for the company. The estimated amount due to the expiry of agency agreements, under the new accounting standards, was discounted based on a suitable discount rate, as determined by IAS 37. Following the application of this method, negative adjustments were made of EUR 526 thousand at 1st January 2005 and EUR 544 thousand at 31st December 2005. The assumptions of the independent valuation can be summarised as follows:

Demographic and financial assumptions	YEAR 2004-05-06
Mortality	ISTAT 2000
Disability	Separate INPS tables by age and gender
Retirement age	Enasarco requirements reached
Redundancy	5.00%
Discount rate	3.00%

G) CURRENT LIABILITIES

Reclassifications:

Trade payables decreased due to the reclassification of the current portion of the amount due on the acquisition of the brand from Alberta Ferretti in long-term financial liabilities. The amount due for payments on account received, for the current portion of the leasing payable and other amounts due to Pollini were also reclassified.

Other current liabilities at 1st January 2005 recorded negative changes due to the classification of the financial payable due to the company Four Pollini as current financial liabilities, and positive changes due to the correct classification of other payables to Pollini, previously recognised as trade payables. At 31st December 2005, this item recorded negative changes due to the current portion of the payable owed to the leasing company.

Current liabilities at 1st January 2005 and at 31st December 2005 recorded positive changes due to the correct classification within the current portion of the payable relating to the acquisition of the brand from the shareholder Alberta Ferretti, the financial payable due to Four Pollini and the current portion of the financial payable due to the leasing company in application of IAS 17.

Adjustments:

Trade payables were adjusted due to the inclusion in the scope of consolidation of the company Fashion Retail Co. At 1st January 2005, the positive adjustment was EUR 994 thousand, compared with EUR 791 thousand at 31st December 2005, when AV Suisse was also included in the scope of consolidation.

Other current liabilities were adjusted due to the consolidation of the company Fashion Retail Co. At 1st January 2005, the adjustment was EUR 286,000, compared with EUR 134 thousand at 31st December 2005, when AV Suisse was also included in the scope of consolidation.

Current tax liabilities were adjusted due to the consolidation of the company Fashion Retail Co. At 1st January 2005, the positive adjustment was EUR 2,000, compared with EUR 6 thousand at 31st December 2005, when AV Suisse was also included in the scope of consolidation.

H) SHAREHOLDERS' EQUITY

Shareholders' equity at 1st January 2005 includes adjustments due to the net effect, including positive and negative tax effects, of adjustments made to items recognised in the balance sheet in accordance with Italian accounting standards in preparation for the transition to international accounting standards.
Shareholders' equity at 31st December 2005 includes adjustments due to the net effect, including positive and negative tax effects, of adjustments made to items recognised in the balance sheet in accordance with Italian accounting standards in preparation for the transition to international accounting standards and the effect of IFRS adjustments to the income statement for 2005.

Economic effects as at 31st December 2005

Statement of reconciliation between Italian and international accounting standards, as relating to the income statement:

(in thousands of euro)	2005 ITA GAAP (**)	Reclassifications	Adjustments	2005 IFRS		Notes
A1) Revenue from sales and services	245,896	- 3,952	-12	241,932	Revenue from sales and services	(2) (1) (6) (5)
A2) Change in inventories – work in progress, semi-finished and finished products	1,087	- 1,087				(1)
A5a) Investment grants	17	- 17				(5)
A5b) Other	7,863	-97	184	7,950	Other revenues and income	(3) (4) (7) (5) (8)
A) OUTPUT VALUE	**254,863**	**- 5,153**	**172**	**249,882**	**A) TOTAL REVENUES**	
B6) Raw and ancillary materials, consumables and goods for resale	71,258	- 1,127	-8	70,123	Raw and ancillary materials, consumables and goods for resale	(4) (11)
B7) Services	80,302	- 1,771	149	78,680	Services	(2) (3) (10) (11)
B8) Lease and rental expenses	15,384		48	15,432	Lease and rental expenses	(11)
B9) Payroll	53,990	53	23	54,066	Payroll	(11)
B10a) Amortisation of intangible fixed assets	11,196	- 11,196				(9)
B10b) Amortisation of tangible fixed assets	3,498	- 3,498				(9)
B10c) Other write-downs of fixed assets						
B10d) Write-down of current receivables	1,129	- 1,129				
B11) Change in raw and ancillary materials, consumables and goods for resale	189	- 2,198	- 77	- 2,086	Change in inventories	(1) (11)
B13) Other provisions	83	-83				
B14) Sundry operating expenses	1,795	2,443	13	4,251	Other operating expenses	(8) (11)
B) OUTPUT COSTS	**238,824**	**-18,506**	**148**	**220,466**	**B) TOTAL OPERATING COSTS**	
A)-B) DIFFERENCE BETWEEN OUTPUT VALUE AND OUTPUT COSTS	**16,039**	**13,353**	**24**	**29,416**	**C) EBITDA (*) (A - B)**	
		7,383	-501	6,882	Amortisation of, tangible fixed assets	(9) (12) (14)
		7,311	- 3.518	3,793	Amortisation of intangible fixed assets	(9) (12) (15)
		413		413	Write-downs/revaluations of fixed assets	(13)
		15,107	**- 4,019**	**11,088**	**D) DEPRECIATION AND AMORTISATION**	
		- 1,754	**4,043**	**18,328**	**E) EBIT (C - D)**	
Financial income	1,510	- 192	400	1,718	Financial income	(4) (16)
Financial expenses	- 6,484	252	-51	- 6,283	Financial expenses	(4) (16)

(in thousands of euro)	2005 ITA GAAP (**)	Reclassifications	Adjustments	2005 IFRS		Notes
C) FINANCIAL INCOME AND EXPENSES	**- 4,974**	**60**	**349**	**- 4.566**	**F) TOTAL FINANCIAL INCOME AND EXPENSES**	
D) VALUE ADJUSTMENTS TO FIXED ASSETS	**-576**	**576**				**(13)**
E20) Extraordinary income	156	-156				(8)
E21) Extraordinary expenses	- 1,432	1,432				(8)
E) EXTRAORDINARY INCOME AND EXPENSES	**- 1,276**	**1,276**				
		- 158		- 158	Shareholding income (expense) Share of profit (loss) of associates	(13)
		- 158		**- 158**	**G) PROFIT (LOSS) ON ASSETS HELD FOR SALE**	
PRE-TAX PROFIT (LOSS)	**9,213**		**4,392**	**13,605**	**H) PRE-TAX PROFIT (E + F + G)**	
TAXES	**6,326**		**670**	**6,996**	**I) TAXES**	**(17)**
NET PROFIT	**2,887**		**3,722**	**6,609**	**L) NET PROFIT (H - I)**	
MINORITIES	**781**		**324**	**1,104**	**M) MINORITIES**	
NET PROFIT ATTRIBUTABLE TO THE GROUP	**2,106**		**3,398**	**5,505**	**N) GROUP PORTION OF NET PROFIT FOR THE PERIOD (L - M)**	

(*) EBITDA is earnings before interest, taxes, depreciation and amortisation. EBITDA is a measurement used by the company to monitor and assess its operating performance. It is not treated as an accounting measurement under Italian accounting standards or IFRS, and should not therefore be considered as an alternative method of measuring the Group's trading result. Since the calculation of EBITDA is not subject to the Group's standard accounting policies, the method used by the Group to calculate EBITDA may differ from that adopted by other groups, and therefore may not be comparable.

(**) The values shown do not take account of reclassifications made to economic items, as described in the introduction to this chapter. The values shown correspond to the Group's consolidated financial statements prepared according to the Seventh Council Directive 83/349/EEC of 13 June 1983.

At 31st December 2005, the transition to IFRS entailed changes that had a positive impact on consolidated pre-tax profit of EUR 4,392 thousand, increasing this from EUR 9,213 thousand to EUR 13,605 thousand.
The impact of the transition had an insignificant effect on EBITDA; both operating income and expenses were mainly influenced by reclassifications with a total impact on EBITDA of EUR 24 thousand.

REVENUE

Revenue reflects the following transactions resulting from the transition to international accounting standards.

Reclassifications:

(1) from changes in inventories of finished products (EUR 1,087 thousand) to changes in inventories of raw and ancillary materials and consumables, classified as operating costs; operating costs also includes EUR 923 thousand due to the reclassification of items previously recognised as raw materials in revenues;

(2) EUR 1,832 thousand relating to the reclassification of items previously recognised as revenues from sales and services;

(3) EUR 1,312 thousand in revenue deriving from the sale of raw materials to Pollini, recognised as other revenue and deducted from the cost of raw materials;

(4) foreign exchange gains/losses for a net amount of EUR 150 thousand, previously classified as financial income/ expenses, have been restated as revenue and costs for the acquisition of raw materials and finished products if they relate to purchases of materials;

(5) from revenues from sales and services and revenue from contributions to other income.

Adjustments:

(6) revenues from sales and services recorded negative consolidation adjustments of EUR 360 thousand, while the inclusion of the company Fashion Retail Co. within the scope of consolidation resulted in positive adjustments of EUR 348 thousand;

(7) within other revenue, positive adjustments of EUR 22 thousand were recorded arising from the discounting of the additional client expense fund, while the inclusion of the company Fashion Retail Co. in the scope of consolidation resulted in positive adjustments of EUR 162 thousand, excluding the corresponding tax effect.

OPERATING COSTS

Operating costs reflected the following transactions resulting from the transition to international accounting standards.

Reclassifications:

(8) the main reclassifications in the income statement in question affect the area in question since, in addition to that already noted in section A), the reclassification of extraordinary expenses of EUR 1,432 thousand is recorded within other operating expenses, within which the write-down of receivables reorganised as current assets is recorded of EUR 1,129 thousand and other provisions at 31st December 2005, in addition to extraordinary income of EUR 156 thousand;

(9) finally, the change in non-monetary costs is recorded due to the depreciation of intangible fixed assets and tangible fixed assets of EUR 11,196 thousand and EUR 3,498 thousand respectively, positioned after the calculation of EBITDA.

Adjustments:

(10) adjustments are recorded totalling EUR 148 thousand after the corresponding tax effect, mainly deriving from the application of IAS 19 relating to employee benefits of EUR 23 thousand;

(11) the inclusion of the company Fashion Retail Co. within the scope of consolidation resulted in total adjustments of EUR 460 thousand.

DEPRECIATION AND AMORTISATION AND WRITE-DOWNS/REVALUATIONS

Depreciation and amortisation and write-downs/revaluations of fixed assets reflected the following transactions arising from the transition to international accounting standards.

Reclassifications:

(12) EUR 3,885 thousand was restated from the amortisation of intangible fixed assets to the amortisation of tangible fixed assets resulting from the reclassification of costs capitalised for leasehold improvements as other tangible fixed assets within the leasehold improvements category;

(13) reclassification of EUR 158 thousand relating to the further write-down of the equity investment held by Aeffe USA in Narciso Rodriguez LLC under gains/losses arising from assets held for sale.

Adjustments:

(14) amortisation of tangible fixed assets was adjusted by EUR 501 thousand, excluding the corresponding tax effect. Of this, EUR 415 thousand derived from the net effect of the reversal of depreciation calculated on land and buildings in accordance with Italian accounting standards, and from the recognition of further depreciation calculated on buildings revalued based on the independent valuation and from the recovery of depreciation previously booked for fixed assets capitalised in accordance with Italian accounting standards, equivalent to EUR 112 thousand, since these did not satisfy IFRS criteria for recognition under this item, while the inclusion of the company Fashion Retail Co. within the scope of consolidation resulted in counterpart adjustments of EUR 26 thousand;

(15) the amortisation of intangible fixed assets was adjusted by EUR 3,518 thousand in total, excluding the corresponding tax effect, deriving from:

- the reversal of goodwill depreciation with an infinite useful life, measured in accordance with IFRS 3, for EUR 1,758 thousand;
- the reversal of depreciation arising from consolidation differences of EUR 1,672 thousand calculated in accordance with Italian accounting standards and reversed following the reopening of business combinations;
- the reversal of amortisation of intangible fixed assets of EUR 378 thousand, the cost of which according to international accounting standards should be charged to the income statement when incurred, as indicated by IAS 38;
- the effect, netted against previous entries, on brands equivalent to EUR 290 thousand caused by the reopening of business combinations and thus the reversal of earlier amortisation, mainly calculated for the Moschino brand, amortised according to Italian accounting standards over 20 years, and new amortisation values determined for the new restated brand values, and the new residual useful life determined based on the independent valuation.

The transition for these adjustments mainly affected EBIT.

FINANCIAL INCOME AND EXPENSES

Reclassifications
Restatements are described in section (4).

Adjustments:

(16) positive adjustments of financial income were recorded of EUR 400 thousand, excluding the corresponding tax effect, relating to Moschino. Conversely, adjustments made to financial expenses are due to the discounting of the receivable due to Pollini from Pollini France for EUR 41 thousand, excluding the corresponding tax effect; when payment is collected after the standard customer payment terms, the Group treats this by estimating the time to payment and by applying to the various projected financial flows a discount rate corresponding to the average cost of money for the Group. The inclusion of the company Fashion Retail Co. within the scope of consolidation resulted in negative adjustments of EUR 10 thousand.

TAXES

(17) the increases relate to the tax effects of the aforementioned adjustments.
To conclude, it is noted that the transition from Italian accounting standards to IFRS has had economic effects on the consolidated financial statements as at 31st December 2005, increasing the Group's pre-tax profit from EUR 9,213 thousand to EUR 13,605 thousand, while the Group's share of net profit increased from EUR 2,106 thousand to EUR 5,505 thousand. The inclusion of the company Fashion Retail Co. within the scope of consolidation resulted in positive adjustments on the Group's pre-tax profit of EUR 15 thousand as at 31st December 2005.

ANNUAL REPORT 2006

AEFFE SPA

Prepared in accordance with national accounting standards

RECLASSIFIED FINANCIAL STATEMENTS

INCOME STATEMENT

	amounts as at 31.12.2006	% on tot. revenues	amounts as at 31.12.2005	% on tot. revenues	Changes 2006/05	
NET REVENUES FROM SALES AND SERVICE	**138,392,105**	**97.5%**	**128,807,077**	**97.8%**	**9,585,028**	**7.4%**
Other revenues and income	3,615,045	2.5%	2,950,463	2.2%	664,582	22.5%
TOTAL NET REVENUES	**142,007,150**	**100.0%**	**131,757,540**	**100.0%**	**10,249,610**	**7.8%**
Inventory changes of work in process, semi-finished, finished goods	2,202,963	1.6%	-649,219	-0.5%	2,852,182	n.s.
PRODUCTION VALUE	**144,210,112**	**101.6%**	**131,108,321**	**99.5%**	**13,101,791**	**10.0%**
Costs of raw materials, consumables and goods for resale	-43,419,822	-30.6%	-37,220,330	-28.2%	-6,199,492	16.7%
Inventory changes of raw materials, consumables and goods for resale	889,728	0.6%	2,459	0.0%	887,269	n.s.
Costs of services	-47,027,243	-33.1%	-42,793,698	-32.5%	-4,233,545	9.9%
Costs for use of third parties goods	-19,507,942	-13.7%	-18,758,422	-14.2%	-749,520	4.0%
Total Operational Costs	-109,065,280	-76.8%	-98,769,991	-75.0%	-10,295,289	10.4%
VALUE ADDED	**35,144,833**	**24.7%**	**32,338,330**	**24.5%**	**2,806,503**	**8.7%**
Labour costs	-22,197,552	-15.6%	-21,265,010	-16.1%	-932,542	4.4%
GROSS OPERATING MARGIN (EBITDA)	**12,947,281**	**9.1%**	**11,073,320**	**8.4%**	**1,873,961**	**16.9%**
Amortization of intangible fixed assets	-701,080	-0.5%	-716,107	-0.5%	15,027	-2.1%
Depreciation of tangible fixed assets	-954,336	-0.7%	-1,028,559	-0.8%	74,223	-7.2%
Losses on bad debts, accruals and write-downs	-40,647	0.0%	-335,499	-0.3%	294,852	-87.9%
Other operating expenses	-749,176	-0.5%	-647,983	-0.5%	-101,193	15.6%
NET OPERATING PROFIT (EBIT)	**10,502,041**	**7.4%**	**8,345,172**	**6.3%**	**2,156,869**	**25.8%**
Income from investments			292,523	0.2%	-292,523	-100.0%
Net financial income/expenses	-4,313,722	-3.0%	-3,350,967	-2.5%	-962,755	28.7%
RESULT OF CURRENT OPERATIONS	**6,188,319**	**4.4%**	**5,286,728**	**4.0%**	**901,591**	**17.1%**
Amortization of goodwill/brands	-374,886	-0.3%	-372,116	-0.3%	-2,770	0.7%
Extraordinary income			29,024	0.0%	-29,024	-100.0%
Extraordinary expenses	-249,736	-0.2%	-190,959	-0.1%	-58,777	30.8%
Total Extraordinary Income / (Expenses)	-624,622	-0.4%	-534,051	-0.4%	-90,571	17.0%
PROFIT BEFORE TAXES	**5,563,697**	**3.9%**	**4,752,677**	**3.6%**	**811,020**	**17.1%**
Current taxes	-3,108,880	-2.2%	-2,973,398	-2.3%	-135,482	4.6%
Anticipated/(deferred) taxes	-89,154	-0.1%	170,748	0.1%	-259,902	-152.2%
Total Taxes on the Profit for the year	-3,198,035	-2.3%	-2,802,650	-2.1%	-395,385	14.1%
PROFIT NET OF TAXES	**2,365,662**	**1.7%**	**1,950,027**	**1.5%**	**415,635**	**21.3**

BALANCE SHEET

		amounts as at 31.12.2006	amounts as at 31.12.2005	Changes 2006/05	
	Trade receivables	34,537,256	34,455,226	82,030	0.2%
	Other receivables	17,123,087	16,049,308	1,073,779	6.7%
	Stocks and Inventories	21,348,664	18,245,054	3,103,610	17.0%
	Trade payables	-53,203,016	-43,525,250	-9,677,766	22.2%
	Short-term sundry payables	-12,807,498	-10,231,846	-2,575,652	25.2%
A)	**Net working capital**	**6,998,493**	**14,992,492**	**-7,994,000**	**-53.3%**
	Receivables over 12 months	40,128,960	42,126,769	-1,997,809	-4.7%
	Equity investments	106,239,741	87,835,241	18,404,500	21.0%
	Tangible fixed assets	10,030,470	10,324,220	-293,750	-2.8%
	Intangible fixed assets	9,683,877	10,590,569	-906,692	-8.6%
B)	**Net fixed assets**	**166,083,048**	**150,876,799**	**15,206,249**	**10.1%**
C)	**Staff termination indemnity reserves and other medium long-term non-financial payables**	**-17,118,214**	**-25,296,015**	**8,177,801**	**-32.3%**
D)	**Reserved for deferred taxes**	**-704,142**	**-731,844**	**27,702**	**-3.8%**
E)	**NET CAPITAL INVESTED (A+B+C+D)**	**155,259,186**	**139,841,432**	**15,417,754**	**11.0%**
	Financed by:				
	Short-term financial debts	50,380,901	45,966,176	4,414,725	9.6%
	Cash/short-term financial credits	-1,812,302	-1,195,756	-616,546	51.6%
	Medium/long-term financial debts	48,195,964	52,055,147	-3,859,183	-7.4%
	Medium/long-term financial credits	-15,954,874	-16,667,967	713,093	-4.3%
F)	**NET FINANCIAL BORROWING**	**80,809,690**	**80,157,600**	**652,090**	**0.8%**
G)	**TOTAL SHAREHOLDER'S EQUITY**	**74,449,496**	**59,683,833**	**14,765,663**	**24.7%**
L)	**TOTAL (F+G) as in E**	**155,259,186**	**139,841,433**	**15,417,753**	**11.0%**

CASH FLOW

		amounts as at 31.12.2006	amounts as at 31.12.2005
	Net operating profit	10,502,041	8,345,171
	Operating amortization/depreciation	1,655,416	1,744,667
	Net financial expenses	-4,313,722	-3,350,967
	Taxes	-3,198,035	-2,802,650
(A)	**OPERATING CASH FLOW**	**4,645,700**	**3,936,221**
	(Increase) / decrease in net working capital	7,993,999	-1,957,800
	Increase / (decrease) in medium/long-term debt	-8,205,503	-7,998,872
	(Increase) / decrease in medium/long-term receivables	1,997,809	1,998,185
	Investments in tangible, intangible fixed assets and multiannual costs	-1,086,686	-606,719
	Disinvestments	256,826	797,561
(B)	**NON-OPERATING CASH FLOW**	**956,445**	**-7,767,645**
	Extraordinary income / (charges)	-624,622	-534,050
	Amortization of goodwill/brands	374,886	372,116
	Dividends from equity investments		292,523
(C)	**CASH FLOW FROM EXTRAORDINARY OPERATIONS**	**-249,736**	**130,589**
(D)	**FREE CASH FLOW (A+B+C)**	**5,352,409**	**-3,700,835**
(E)	**(Acquisitions) / Disinvestments of Equity Investments**	**-18,404,500**	**-1,504,908**
(F)	**Dividends Paid**		
(G)	**Other Changes in Net Equity**	**12,400,000**	
(H)	**CHANGES IN FINANCIAL POSITION**	**-652,091**	**-5,205,743**
	NET FINANCIAL BORROWING AT THE BEGINNING OF THE YEAR	**-80,157,598**	**-74,951,855**
	NET FINANCIAL BORROWING AT THE END OF THE YEAR	**-80,809,689**	**-80,157,598**

AEFFE SPA

DIRECTOR'S REPORT

1. ECONOMIC SCENARIO

Shareholders,
In 2006, the global economic environment continued the positive trend for economic growth that began in 2005.
Therefore, we believe it is necessary to focus on the key macro-variables that had a decisive influence on the results of the company and of the Group as a whole.

INTERNATIONAL MACRO-ECONOMIC FRAMEWORK

In 2006, the global economy continued to enjoy steady growth. The gap between GDP growth in the major industrial regions is closing.
In Japan, economic growth stabilised at 3% of GDP on the strength of private investment boosted by high productivity, particularly among the larger firms.
In the US, growth stood at 3.4%, buoyed by the rise in household consumption, despite recording a slowdown in the second quarter due to a slump in the property market.
In Latin America, GDP continued to rise steadily. Short-term forecasts place it at 4.8%, following strong business growth in Brazil and Mexico.
Emerging countries, not least of all India and China, continued to make a significant contribution to the growth in the world's economy; the two Asian economies have grown at rates close to 10%, similar to the levels seen in 2005. The acceleration in the manufacturing sector acted as a driver for fixed capital investment, while growth in consumption remained more or less unchanged from the previous year.
The upswing witnessed in the euro zone and in the UK last summer continued. Economic growth stood at 2.5% of GDP, compared with 1.3% the previous year. Growth has been widespread, albeit to varying degrees in different countries. In parallel with the growth in global demand, the renewed competitiveness of European firms has been a boost to exports; the job market has also rallied, with significantly lower unemployment.
In Italy, after a lacklustre fourth quarter in 2005, GDP began to rise following a revival of internal and external demand. In the first six months of 2006, GDP increased by more than 2% year-on-year compared with the previous six months. Capital goods production was first to benefit, while sectors more dependent on domestic demand continued to feel the effects of the modest growth in household consumption, the outlook for which remains extremely uncertain. The growth differential with the region's principal countries has fallen, but still remains negative, a sign of continuing structural problems in the Italian economy.
During the year, the inflationary pressure seen in 2005 intensified as the country approached full employment levels in the major industrial regions and with a considerable rise in the price of oil and other non-energy commodities. The central banks raised interest rates to prevent this from having a negative impact on medium and long-term business forecasts.
For 2006 as a whole, an increase in global revenues of around 5% was witnessed For 2007, the International Monetary Fund (IMF) predicts that this favourable cycle will continue.

ECONOMIC SCENARIO IN THE READY-TO-WEAR SECTOR

In 2006, after four years of economic stagnation, the ready-to-wear sector in which the Group operates recorded a net increase in revenues. Emerging from behind the cloud that has cast a shadow over the sector since 2002, thrown into sharp focus by the expanding role of emerging economies such as India and China, the growth in both national and foreign demand came as a welcome relief for domestic production.
Despite the fact that the long-awaited economic upturn only became tangible last year, the Group was already bucking the general economic trend in 2005.
In 2006, the company continued to enjoy the significant increase in revenues in the prêt-a-porter, knitwear and accessories sector, partly driven by the international economic climate and partly by company policies aimed at boosting sales in emerging countries and consolidating sales in those countries where it already has a strong presence. At the same

time, the company has introduced policies aimed at increasing its margins and reducing operating costs.
A brief description of the company's satisfactory performance can be found below.
This should be read in conjunction with the Notes to the Financial Statements

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

Turnover

Production value was up 9.99% from EUR 131,108 thousand in 2005 to EUR 144,210 thousand in 2006, following the increase in income from goods and services witnessed across all of the company's brands.
More specifically, revenues of the following increased:

- Alberta Ferretti: 13.58% increase in income from goods and services;
- Jean-Paul Gautier: 24.81% increase in income from goods and services;
- Authier: 100% increase in income from goods and services, equivalent to revenues of around EUR 1,200 thousand for the A/W 06 season.
  The licensing agreement for this brand, which relates to the production of designer sportswear, was signed by the company on 2 January 2006.

In total, 28% of turnover was generated in the Italian market and 72% in foreign markets, confirming the trend of previous years.

Value added

Value added stood at EUR 35,145 thousand, equivalent to 24.7% of revenues and up 24.5% compared with 2005.

Cost of labour

Staff costs rose from EUR 21,265 thousand in 2005 to EUR 22,198 thousandin 2006. This increase is mainly due to the renewal of the national collective labour agreement for workers in the textile industry. It is worth emphasising that the impact of these costs on revenue fell from 16.1% in 2005 to 15.6% in 2006.

Gross operating margin (EBITDA)

EBITDA rose from 8.4% in 2005 to 9.1% in 2006, an increase in absolute terms of EUR 1,874 thousand.
There are two main reasons for this:
I motivi di tale incremento sono riconducibili a due importanti fattori:
- higher margin relating to the increase in revenues of clothing and accessories;
- reduced impact of the cost of sales.

Operating income (EBIT)

Operating income rose from 6.3% in 2005 to 7.4% in 2006.

Extraordinary income and expenses

This had a negative impact on the bottom line, standing at EUR 625 thousand compared with EUR 534 thousand in 2005. These costs mainly refer to depreciation of brands and goodwill.

Net profit

Pre-tax profit increased from EUR 4,753 thousand in 2005 to EUR 5,564 thousand in 2006, an increase of 17.06%.

3. COMPANY'S FINANCIAL POSITION AND EQUITY

NET INVESTED CAPITAL

Invested capital, before operating liabilities, increased by 11.03% compared with 31st December 2005.

Net working capital

Net working capital fell by EUR 7,994 thousand. The main changes are described below:

- sundry payables increased by EUR 1,074 thousand, largely due to the increase in VAT credit, the capitalisation of increased costs for the Autumn/Winter 06 sample collection compared with Autumn/Winter 2005, following the different percentage realisation of the sample collection as at 31st December 2006 compared with 31st December 2005, and the recognition of increased payments on account for royalties and commission;
- inventories in hand increased by EUR 3,104 thousand. This increase is mainly due to the increase in revenues and lower sales of the Spring/Summer collection in December 2006 compared with the same period the previous year;
- trade receivables increased by EUR 9,678 thousand following the company's more efficient payments management and a higher concentration of purchasing in the second part of the year following the growth in revenues;
- current non-financial payables increased by approximately EUR 2,576 thousand, mainly due to the increase in partial payments received from our clients in 2006 and the increased tax liability for corporate income tax and manufacturing tax.

Net fixed assets

Net fixed assets increased by EUR 15,206 thousand compared with 31st December 2005. The main changes are described below:

- "Receivables due after 12 months" fell by EUR 1,998 thousand following the accrual of rent invoiced in advance for the property leasing transaction carried out by the company in 2002;
- "Equity interests" increased by EUR 4,500 due to the payment in March 2006 of calls in arrear for the subscription of 70% of the share capital of the new company Av Suisse S.r.l., which took place on 24th November 2005;
- "Own shares" of EUR 18,400 thousand originate from the implementation of the resolution of the Ordinary General Meeting and Extraordinary General Meeting of Aeffe S.p.A. on 26th October 2006 with which it authorised the purchase of own shares pursuant to Articles 2357 and 2357 bis, paragraph 1 of the Italian Civil Code;
- "Tangible assets" and "Intangible fixed assets" fell by EUR 1,200 thousand due to depreciation over the period.

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

This item decreased by EUR 8,178 thousand compared with the previous period. This decrease is mainly due to the reduction of the debt arising in 2000 for the acquisition of the Pollini shareholding, the reduction in the debt arising in 2002 for the acquisition of the "Alberta Ferretti" brand and the reduction of the debt towards leasing companies arising in 2002.

NET FINANCIAL POSITION

The difference between bank payables and financial receivables, equivalent to EUR 80,809 thousand, increased by EUR 652 thousand compared with 31st December 2005.

SHAREHOLDERS' EQUITY

Shareholders' equity increased by EUR 14,766 thousand due to the profit for the period and the creation, following the meeting on 26th October 2006, of the reserve for the issue of participatory financial instruments within the meaning of the last paragraph of Article 2346 of the Italian Civil Code, which must be converted into common shares. For further explanation, please refer to the Notes to the Financial Statements.

4. RESEARCH & DEVELOPMENT ACTIVITIES

In view of the nature of our products, R&D essentially consists of the ongoing technical and stylistic renewal of our designs and continuous improvement of the materials used.
While these costs qualify for recognition as R&D costs under intangible fixed assets, these costs were recorded in the income statement for 2006 and total EUR 23,165 thousand.

5. INTERGROUP OPERATIONS AND TRANSACTIONS WITH CORRELATED PARTIES

Aeffe S.p.A. also operates through its directly and indirectly controlled subsidiaries. Transactions with these parties essentially consist of the exchange of goods, the provision of services and financing operations. All transactions refer to day-to-day business and are arm's length transactions, i.e. they take place under conditions that are or would be applied between two independent parties.
The following table gives the amounts of commercial and financial transactions with subsidiaries in 2006.

Company (values in €/,000)	Financial receivables	Trade receivables	Trade payables
Gruppo Moschino	32,772	6,851	17,956
Aeffe USA Inc	714	5,310	139
Gruppo Pollini	4,000	9,817	2,486
Aeffe Retail S.p.A	6,212	1,038	682
Aeffe UK Ltd	472	175	542
Aeffe France S.a.r.l.	4,099	10	845
Ferretti Studio s.r.l.		72	977
Velmar S.p.A	350	1,248	161
Narciso Rodriguez LLC		96	87
Nuova Stireria Tavoleto s.r.l.		140	960
Fashion Retail Company S.r.o.		234	
AV Suisse S.r.l.	50	195	140
Ozbek (London) Ltd			260
Total	**48,669**	**25,186**	**25,235**

Company (values in €/,000)	Revenue	Costs
Aeffe USA Inc.	17,778	162
Gruppo Moschino	11,679	9,464
Aeffe Retail S.p.A	5,349	501
Fashoff Uk Ltd.	618	459
Aeffe UK Ltd.	888	464
Gruppo Pollini	3,287	6,492
Aeffe France S.a.r.l.	420	541
Ferretti Studio S.r.l.	186	4,592
Nuova Stireria Tavolato S.r.l.	127	1,517
Fashion Retail Sro	125	
AV Suisse S.r.l.	13	147
Velmar S.p.A.	260	60
Total	**40,730**	**24,399**

6. OWN SHARES

Below is a detailed illustration of own shares held directly by the company.
As required by law, the percentage is within the limits laid down by Articles 2357 and 2357 bis of the Italian Civil Code and the appropriate non-disposable reserve for this amount has been established under shareholders' equity..

Shares/units purchased	Number	Face value	Capital (%)	Amount
Own Shares	1,800,000	1.00	8%	18,400,000

On 26th October 2006, Aeffe's shareholders resolved:

- to proceed with the acquisition of all shares held by the shareholder L.D.V. Holding, which represented 20% of the share capital. Therefore, in execution of the resolution dated 13rd December 2006, the company purchased 1,800,000 shares representing 8% of the share capital;
- to proceed with a reduction in the share capital pursuant to Article 2445 of the Italian Civil Code from EUR 22,500 thousand to EUR 19,800 thousand by purchasing and subsequently cancelling, after the opposition period granted to the company's creditors, 2,700,000 own shares through the majority shareholders (Alberta Ferretti, Massimo Ferretti and I.M. Fashion).
  This operation was finalised on 2nd March 2007.

These shares were purchased under a non-representation mandate entrusted by Aeffe to the shareholders I.M. Fashion S.A., Massimo Ferretti and Alberta Ferretti (the "Trustees").

7. INFORMATION PURSUANT TO ARTICLE 2428, PARAGRAPH 2, INDENT 6-BIS OF THE ITALIAN CIVIL CODE

Pursuant to Article 2428, paragraph 2, indent 6-bis of the Italian Civil Code, it is noted that the company does not use financial instruments.
Financial requirements and the associated risks are managed by the company's central cash department.
The main aim of these guidelines is to ensure that the debt structure is in balance with the assets in order to maintain a solid asset base.

The average cost of indebtedness is generally calculated based on the 3-6 month Euribor, plus a spread that largely depends on the type of finance used. In general, the margins applied are aligned with the best market standards.

The foreign exchange risk for commercial transactions in currencies other than the euro is covered by finance denominated in other currencies.

8. OUTLOOK

At present, the international economic climate is generally one of growth.
The 2006 financial year has left a positive legacy in terms of continuing foreign demand, and above all in terms of renewed domestic demand.
With all the due prudence, the prospects for our company seem encouraging, as currently confirmed by an increase in orders for the 2007 winter season estimated at around 17% compared with the corresponding season last year, both for the domestic and foreign markets.

9. PRIVACY

Pursuant to Annex B, section 26 of Legislative Decree No. 196/2003 (the Italian Data Protection Act), the directors recognise that the company is compliant with the data protection measures required by Legislative Decree 196/2003, in accordance with the terms and conditions indicated therein. In particular, it is noted that the Security Policy Document filed with head office and freely available for consultation was updated on 31st December 2005.

For the Board of Directors

Chairman

Massimo Ferretti

REPORT OF THE BOARD OF STATUTORY AUDITORS

Dear Shareholders,
We hereby confirm that during the year ended 31st December 2006, we performed the audit required of us by Article 2403 of the Italian Civil Code, ensuring that the Company operates in accordance with the law and with the Articles of Association.
This audit was carried out in accordance with the Code of Conduct of the Board of Statutory Auditors, as recommended by the Italian National Councils of Accountants and Tax Advisers.
Specifically:

- we examined compliance with the law and the corporate charter and respect for the principles of proper management;
- from the information supplied by the Company, we examined the suitability of the accounting and management system and its ability to provide a true and fair view of the management highlights. In this respect, we have no particular comments to make;
- based on the information received from the Board of Directors relating to the organisational structure of the Company, we believe these results to be adequate, in so far as we are required to assess them.

The directors have supplied us with the draft financial statements, with the assurance that these will be the documents approved by the Board of Directors at its next meeting. Therefore, the Board of Statutory Auditors declares that it waives the time limit provided by Article 2429 of the Italian Civil Code.
The document, comprising the Balance Sheet, Income Statement and Notes to the Financial Statements, accompanied by the Report on Operations, shows a net profit for the period of EUR 2,365,662. This is made up, in summary, of the following values (in EUR):

Assets	256,859,232
Liabilities	182,409,733
- Net equity (excluding profit for the year)	72,083,837
- Profit (loss) for the period	**2,365,662**
Accounts, commitments, risks and other memorandum accounts	13,409,507

The income statement shows the following results, in summary (in EUR):

Output value	144,210,113
Output costs	134,082,955
Difference	**10,127,158**
Financial income and expenses	- 4,313,722
Value adjustments on financial assets	
Extraordinary income and expenses	- 249,740
Profit before tax	5,563,696
Income tax expenses	3,198,034
Profit (loss) for the period	**2,365,662**

Since the Board is not required to analyse the merits of the content of the financial statements, we concentrated on the general layout of the financial statements and their overall conformity with the law in terms of presentation and structure.
The Board of Statutory Auditors has performed its own checks regarding the consistency of the presentation and layout of the Company's annual financial statements with the relevant legal provisions. Furthermore, the Board of Statutory Auditors has examined the valuation principles adopted in the preparation of the financial statements to verify their compliance with the legal requirements and financial position of the Company.
With regard to the consistency and composition of individual items in the Balance Sheet

and Income Statement, the Board of Directors has provided you, in the Notes to the Financial Statements, with information about the highlights of the year in question and the allocation of profit for the period.
The Board notes that:

- when preparing the financial statements in question, the principles provided by Article 2423 bis of the Italian Civil Code were adopted. Specifically, prudence and going-concern principles were applied correctly, in addition to the accounting policies referred to in the Notes to the Financial Statements within the meaning of Article 2427 of the Civil Code;
- the Board of Directors, when preparing the financial statements, adhered to the provisions of Article 2423, fourth paragraph, and Article 2423 bis, second paragraph of the Civil Code;
- the Balance Sheet and Income Statement conform to the requirements of Articles 2424 and 2425 [sic] of the Civil Code, as well as the provisions relating to individual items in the Balance Sheet, as laid down by Article 2424 bis;
- the audit also revealed that revenue, income, costs and expenses were allocated on an accrual basis and were recognised net of discounts, rebates and premiums, as well as sales taxes.

Furthermore, the criteria applied for balance sheet items are consistent with the provisions of Article 2426 of the Civil Code. Specifically:

- tangible assets and intangible fixed assets have been recorded at historical cost plus ancillary expenses;
- cash and cash equivalents are recorded at face value;
- creditors are recorded at face value;
- depreciation and amortisation of tangible assets and intangible fixed assets were calculated, in accordance with Article 2426, n. 2 of the Civil Code, based on a systematic depreciation plan that takes account of the residual useful life of the assets;
- deferred tax assets and liabilities are calculated and allocated fairly.

The Board believes that the layout of the statutory financial statements and the report on operations prepared by the directors, which will be presented at the shareholders' meeting, are consistent with the statutory requirements.
The Notes to the Financial Statements prepared by the Board of Directors were drafted in accordance with Articles 2423 et seq. of the Italian Civil Code, and specifically Article 2427 of that Code. They also contain information necessary for full disclosure, including fiscal information.
The Board of Statutory Auditors has been apprised of the key economic, financial and equity operations carried out in 2006 and these are illustrated fully and exhaustively in the Report on Operations prepared by the directors in accordance with Article 2428 of the Civil Code.

Compliance with the law and Articles of Association
During the financial year, we attended meetings of the Board of Directors and obtained information from directors about the activities and key economic, financial and equity operations carried out by the Company.
Based on the information available, we consider the operations consistent with the law and Articles of Association, not being manifestly imprudent or risky, representing a potential conflict of interests, contrary to the resolutions adopted by the shareholders' meeting or otherwise liable to compromise the integrity of the Company's assets.
The Board of Statutory Auditors did not identify any operations that could be considered atypical or unusual. This included inter-company transactions and transactions with related parties.
Ordinary inter-company transactions and transactions with related parties were performed under market conditions.
We have assessed and examined the suitability of the accounting and management system and its ability to provide a true and fair view of the highlights of the period by gathering information, examining company documents and analysing the results of the work of the independent auditors, without identifying any cause for complaint.

In accordance with the Articles of Association, during the financial year the Board of Directors advised us of the company's performance as at 31st December 2006 as well as the outlook.

During the period, we had meetings and discussions with the audit firm Mazars & Guerard S.p.a., exchanging information and opinions relevant to our task.

Complaints received by the Board
Based on information received to date, during the period no complaints were filed with the Board of Statutory Auditors within the meaning of Article 2408 of the Civil Code.

Special operations
No material facts emerged from the audit that are required to be reported or mentioned in this report.

Final opinion
Based on our audit, the Board of Statutory Auditors identifies no obstacle to the approval of the annual financial statements for the year ended 31/12/2006, nor does it have any objections concerning the proposal for a resolution presented by the Board of Directors for the allocation of earnings for the period.

Board of Statutory Auditors

Chairman

Rag. Romano Del Bianco

San Giovanni in Marignano, 23rd March 2007

AEFFE S.p.A. REPORT OF THE AUDITING COMPANY

Aeffe S.p.A.
Independent Auditor's Report
pursuant to Art. 2409-ter of the Italian Civil Code

To the shareholders of Aeffe S.p.A.

1. We have audited the statutory financial statements of Aeffe S.p.A. as at and for the year ended 31 December 2006. The preparation of the financial statements is the responsibility of the directors of Aeffe S.p.A. Our responsibility is to express an opinion on the financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards recommended by the Italian regulatory Board of Companies and the Stock Exchange ('Consob'). In accordance with those standards, we planned and performed our audit to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement. An audit includes examination, on a test basis, of evidence supporting the amounts and disclosures contained in the financial statements, as well as assessing the accounting principles used and significant estimates made by the directors. We believe that our provides a reasonable basis for forming our opinion. For the opinion on the prior year's financial statements, which are presented for comparative purposes as required by law, reference should be made to our auditor's report dated 6 April 2006.
3. In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the financial position of Aeffe S.p.A. as at 31 December 31, 2006 and its results of operations and cash for the year then ended, in accordance with the law related to statutory financial statements.
4. The company holds controlling interests and, therefore, in accordance with applicable laws and regulations, has drawn out the consolidated financial statements of the Group. The consolidated financial statements represent an integration to the statutory financial statements by way of providing adequate disclosure on the state of affairs, performance and financial condition of the company and of the Group. Issued on the date reported below was our auditor's report on those consolidated financial statements.

Bologna, 26 March 2007

Mazars & Guérard S.p.A.

Simone Del Bianco

Socio

This report has been translated into the English language solely for the convenience of international readers.

VIA CALZOLERIE, 1 - 40125 BOLOGNA - TEL: 051 22 05 66 - FAX: 051 22 08 11 – www.mazars.it

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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
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AEFFE SPA

BALANCE SHEET AND INCOME STATEMENT

BALANCE SHEET

ASSETS		31.12.2006		31.12.2005
A. AMOUNTS DUE FROM SHAREHOLDERS				
B. FIXED ASSETS		**174,680,940**		**158,189,974**
I. Intangible fixed assets		9,683,877		10,590,569
1) Start-up and expansion costs	80,500		161,000	
3) Industrial patent and rights for the use of intellectual property	56,696		86,362	
4) Concessions, licences, trade marks and similar rights	4,357,800		4,573,454	
5) Goodwill	2,332,887		2,548,033	
6) Fixed assets in progress and advances				
7) Other intangible fixed assets	2,855,994		3,221,720	
II. Tangible fixed assets		10,030,472		10,324,220
1) Land and buildings	5,940,144		6,210,341	
2) Plant and machinery	784,868		1,122,670	
3) Industrial and commercial equipment	5,097		1,279	
4) Other fixed assets	707,572		639,280	
5) Assets in progress and advances	2,592,791		2,350,650	
III. Financial fixed assets		154,966,591		137,275,185
1) Investments in:		87,839,741		87,835,241
a) Controlled companies	87,836,286		87,831,786	
d) Other companies	3,455		3,455	
2) Receivables		48,726,850		49,439,944
a) Controlled companies	48,669,161		49,384,005	
d) Other receivables	57,689		55,939	
4) Own shares		18,400,000		
C. CURRENT ASSETS		**79,573,035**		**76,734,847**
I. Stocks and inventories		21,348,664		18,245,054
1) Raw and subsidiary materials	6,387,449		5,497,721	
2) Work in progress and semi-finished products	6,468,967		5,966,221	
4) Finished products	8,419,575		6,719,359	
5) Advances	72,673		61,753	
II. Receivables		56,412,070		57,294,037
1) Trade receivables	9,351,166		9,091,969	
2) From controlled companies	25,186,091		25,363,257	
4-bis) Tax receivables	1,878,761		2,313,204	
4-ter) For anticipated taxes	428,539		545,395	
5) Other receivables	19,567,513		19,980,212	
IV. Liquid assets		1,812,301		1,195,756
1) Bank accounts	1,785,846		971,664	
2) Cheques	12,098		203,841	
3) Cash on hand	14,357		20,251	
D. ACCRUED INCOME AND PREPAID EXPENSES		**2,605,257**		**2,565,289**
Others	2,605,257		2,565,289	
TOTAL ASSETS		**256,859,232**		**237,490,110**

BALANCE SHEET

	LIABILITIES		31.12.2006		31.12.2005
A.	**SHAREHOLDERS' EQUITY**		**74,449,499**		**59,683,833**
	I. Share capital	22,500,000		22,500,000	
	II. Shares overprice reserve	11,345,480		11,345,480	
	IV. Legal reserve	2,054,228		1,956,727	
	VI. Own shares reserve	18,400,000			
	VII. Other reserves	17,784,129		21,931,599	
	IX. Net income (loss) for the year	2,365,662		1,950,027	
B.	**PROVISIONS FOR RISKS AND CHARGES**		**2,963,960**		**2,993,364**
	1) Provision for retirement benefits and similar obligations	1,714,951		1,716,653	
	2) Accrued income taxes	704,142		731,844	
	3) *Other provisions*	544,867		544,867	
C.	**STAFF TERMINATION INDEMNITIES FUND**		**7,475,129**		**7,063,064**
D.	**PAYABLES**		**171,957,108**		**167,736,822**
	3) Payable to banks	98,576,865		98,021,322	
	4) Payables to other financial institutions	411,029		355,315	
	5) Advances	2,646,439		2,188,547	
	6) Trade payables	36,241,246		35,879,302	
	8) Payables to controlled companies	26,989,653		20,684,262	
	11) Tax payables	2,601,970		1,082,470	
	12) Social security	1,305,691		1,247,609	
	13) Other debts	3,184,215		8,277,995	
E.	**ACCRUED EXPENSES AND DEFERRED INCOME**		**13,536**		**13,027**
	Others	13,536		13,027	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			**256,859,232**		**237,490,110**
TOTAL MEMORANDUM ACCOUNTS			**13,409,507**		**16,767,097**
	1) Leasing expenses due	9,609,870		11,257,277	
	2) Guarantees given to third parties	3,799,637		5,509,820	

INCOME STATEMENT

		31.12.2006		31.12.2005	
A. OUTPUT VALUE					
1)	Revenues from sales and services		138,392,105		128,807,077
2)	Inventory changes		2,202,963		-649,219
5)	Other revenues		3,615,045		2,950,464
TOTAL OUTPUT VALUE			**144,210,113**		**131,108,322**
B. OUTPUT COSTS					
6)	Raw materials, supplies and purchased goods		43,419,822		37,220,330
7)	Services		47,027,243		42,793,698
8)	Costs for use of third parties' goods		19,507,942		18,758,422
9)	Staff costs:		22,197,551		21,265,011
	a) salaries and wages	15,949,852		15,162,770	
	b) social security costs	4,923,349		4,834,961	
	c) termination indemnity	1,324,350		1,267,280	
	e) other staff costs				
10)	Depreciations, amortisations and writedowns		2,030,302		2,416,782
	a) intangible fixed assets amortisation	1,075,966		1,088,223	
	b) tangible fixed assets depreciation	954,336		1,028,559	
	d) bad debts expense on current accounts receivable	300,000		83,477	
11)	Changes in raw materials stocks		-889,728		-2,459
13)	Other accruals		40,647		35,499
14)	Other operating costs		749,176		647,983
TOTAL OUTPUT COSTS			**134,082,955**		**123,135,266**
DIFFERENCE BETWEEN OUTPUT VALUE AND OUTPUT COSTS			**10,127,158**		**7,973,056**
C. FINANCIAL INCOME AND EXPENSES					
15)	Income from investments:				292,523
	- from controlled companies			292,523	
	- other				
16)	Other financial income from:		222,440		1,142,155
	a) from non-current accounts receivables				
	- from controlled companies	183,334		165,033	
	c) from securities entered in the current assets				
	d) other interests				
	- other	39,106		977,122	
17)	Interests and other financial charges:		-5,237,978		-4,522,175
	- from controlled companies	-250,257		-65,257	
	- other	-4,987,721		-4,456,918	
17-bis)	Exchanges profits and losses:		701,816		29,054
TOTAL FINANCIAL INCOME AND EXPENSES			**-4,313,722**		**-3,058,443**
D. ADJUSTEMENTS TO VALUE OF FINANCIAL ASSETS					
E. EXTRAORDINARY INCOME AND EXPENSES					
20)	Income:				29,024
	- capital gain from sale of assets				
	- other				29,024
21)	Expenses		-249,740		-190,960
	- capital losses from sales				
	- taxes relating to previous years				
	- other	-249,740		-190,960	
TOTAL NET EXTRAORDINARY ITEMS			**-249,740**		**-161,936**
PROFIT BEFORE TAXES			**5,563,696**		**4,752,677**
22)	Taxes on profit		-3,198,034		-2,802,650
23)	NET PROFIT		2,365,662		1,950,027

AEFFE SPA NOTES TO THE FINANCIAL STATEMENTS

1. STRUCTURE AND CONTENT OF THE FINANCIAL STATEMENTS

The annual financial statements of Aeffe S.p.A. were prepared in accordance with the Italian Civil Code and are composed of the Balance Sheet (prepared in accordance with Articles 2424 and 2424 bis of the Civil Code), Income Statement (prepared in accordance with Articles 2425 and 2425 bis of the Italian Civil Code) and these Notes.
The Notes to the Financial Statements are used to provide an illustration, analysis and in some cases a supplement to the data in the financial statements. They contain the information required by Article 2427 of the Italian Civil Code, by Legislative Decree No. 127/1991 and by other laws. They also supply the additional information deemed necessary for providing a true and fair view of the company's position, even if not required by specific legal provisions. For information relating to the company's activity in 2006 and significant events after year-end, please see the "Report on Operations".
The company holds controlling interests, which are recognised at cost. It has also prepared the Group's consolidated financial statements. These financial statements provide additional information about the financial situation, cash flow and equity of the company and the Group, and together with the Report on Operations and Auditor's Report, will be published in accordance with the law.

2. ACCOUNTING PRINCIPLES AND VALUATION CRITERIA

The criteria used in drawing up the financial statements as at 31/12/2006 are the same as those used for the previous year.
Accounting entries were made prudently and on an accrual basis with the expectation that the business is a going concern and taking into account the economic function of the assets and liabilities concerned.
Application of the prudence concept has entailed the separate valuation of components of the individual items entered as assets and liabilities to avoid set-off between losses that should be recognised and unrealised profit that should not.
In accordance with the matching concept, the impact of operations and other events has been recognised and charged to the financial year to which these operations and events relate, and not that in which the associated cash transactions (collection and payment) take place.
The continuous application of these valuation principles over time is key to the comparability of the company's financial statements for different periods.

Intangible fixed assets
These are recognised at historical cost or production cost, including ancillary costs, and are depreciated over their estimated future useful life.
Preliminary and formation expenses have been depreciated over a five-year period.
Industrial patent rights and intellectual property rights are amortised over three years.
Trade marks and similar rights are amortised over a period of 20 years.
Goodwill acquired for consideration is recognised under assets, with the permission of the Board of Statutory Auditors, for an amount equivalent to the cost incurred. It is depreciated over a period of 20 years. The decision to use a depreciation period of more than five years stems from commercial requirements, since goodwill arises from the acquisition of sales licences and/or business divisions.
R&D and marketing costs are charged to the income statement when they are incurred.
Other intangible fixed assets consist of costs spread over several periods, which do not fall into the previous categories, and of leasehold improvements for assets leased by the company, which are depreciated depending on the length of the contract, including any renewal periods.

Tangible fixed assets
These are recognised at historical cost or production cost, or based on an independent valuation, adjusted in some cases in accordance with monetary revaluation laws. This amount

includes ancillary costs and direct and indirect costs reasonably chargeable to the asset. Fixed assets are systematically depreciated each year on a straight-line basis based on the economic and technical rates determined in relation to the residual possibility of use of the assets; the rates applied are described in the section relating to the description of the asset. If, irrespective of depreciation previously booked, there is any impairment loss, the asset is written down accordingly.
For assets placed in service during the year, these rates have been reduced by 50%.
In previous financial years, the company benefited from the option granted by the Italian Income Tax Code (TUIR) to set aside accelerated depreciation for tax purposes.
Ordinary maintenance costs are charged fully to the income statement. Value-added maintenance costs are allocated to the assets concerned.

Leasing transactions
Finance leases are reported according to the equity method, with lease expenses recognised in the income statement according to the principle of accrual basis accounting. A special section of the Notes to the Financial Statements contains the additional information required by law relating to the reporting of finance leases according to the financial method.

Equity investments and securities (held as fixed assets)
Equity investments are measured according to the cost method. The book value is determined based on the acquisition or subscription price or the value assigned to the assets contributed.
The cost is reduced due to impairment if the equity investments have incurred losses and future profits that could absorb the losses incurred are not foreseeable in the immediate future; the original value is restated in subsequent periods if the reasons for the write-down no longer apply.

Own shares
Own shares recognised as fixed assets represent an investment for the company and are measured at acquisition cost.

Inventories
Inventories are recognised at the lesser of historical cost or production cost and the corresponding market value or estimated realisable value.
Obsolete or slow-moving stock in hand is written down in relation to its potential for future realisation or use.

Receivables
These have been entered at their estimated realisable value. The nominal value of receivables is adjusted to take account of the estimated realisable value by a special provision for loss in value of debtor accounts.

Cash and cash equivalents
Cash and cash equivalents are carried at nominal value.

Prepayments and deferred income
This item includes the portion of costs and income for two or more financial years in accordance with the principle of accrual basis accounting.

Provisions for risks and expenses
Provisions for risks and expenses have been set aside to cover any known or probable losses or debts, the amount or timing of which could not be determined on the balance sheet date. Appropriations reflect the best possible estimate based on the information available. Risks where the resulting liability is only a possibility are described in the Notes to the Financial Statements and are not set aside in provisions for risks and expenses.

Staff termination indemnities fund
The reserve for employee severance indemnity is established to cover the entire liability accrued towards employees under current legislation and industry agreements and supplementary agreements of the company. This liability is subject to index-linked revaluation.

Payables
Payables are carried at nominal value.

Commitments, guarantees and risks
Commitments and guarantees are reported in memorandum accounts at their contractual value.

Contributions of capital and for operating expenses
Equipment grants are recognised when the corresponding amounts accrued become certain. They are recorded in a special item under prepayments and deferred income and are credited to the income statement over a period correlated to the useful life of the assets concerned.
Investment grants are posted to the income statement when the corresponding amounts become certain.

Recording of revenue and costs
Income from sales of products is recognised when the risks associated with ownership are transferred, which is normally upon delivery or shipment of the goods.
Costs and expenses are recognised on an accrual basis.
To allow greater correlation between costs and revenue, from 1st January 2003, costs incurred during the period for the production of sample collections and design activities relating to the following spring/summer and autumn/winter seasons, where sales will be generated in the following financial year, are correlated to the corresponding revenue and deferred until the following period.

Income tax for the period
This is recognised based on an estimate of taxable income in accordance with the regulations in force, taking account of any statutory tax relief and available tax credits.
Deferred taxes have also been set aside for temporary differences between the profit or loss for the period and positive or negative taxable income. Specifically, deferred tax assets are recorded when there is a reasonable certainty of their realisation.

Conversion criteria for items in foreing currency
Assets and liabilities originally expressed in a foreign currency and recognised according to the exchange rate in force on the issue date are aligned with exchange rates current as of the balance sheet date.
In particular, assets and liabilities other than fixed assets and long-term financial receivables are recognised at the spot exchange rate on the balance sheet date. The profit or loss arising from the conversion of payables and receivables are credited or charged to the income statement under caption C17 bis, "Exchange gains and losses".
Any net profit arising from the adjustment of year-end exchange rates of foreign currency items will help determine net income for the period and, when the financial statements are approved and earnings allocated to the legal reserve, the amount not absorbed by any loss for the period will be booked to a non-distributable reserve until subsequently realised.
Foreign currency assets are carried at the lesser of the exchange rate in force at the time of acquisition or the exchange rate on the balance sheet date, only if negative changes have resulted in impairment of the assets themselves.

Exemptions in accordance with Article 2423, paragraph 4
No exemptions were made in the financial statements under Article 2423, paragraph 4.

Comment on the main items in the balance sheet
In order to facilitate an understanding of the changes in the main items in the balance sheet and income statement, the amounts are expressed in thousands of euro.

3. COMMENTS ON THE MAIN BALANCE SHEET ASSETS

FIXED ASSETS
Special statements were prepared for fixed assets that indicate the historical cost, previous depreciation and previous revaluations and write-downs, changes during the period, closing balances and total revaluations existing at year-end for each item.

INTANGIBLE FIXED ASSETS
Annex 1 illustrates the composition of this item and changes during the period.
The main increases recorded during the year concerned:
- the increase of EUR 33 thousand in the item "Industrial patent and intellectual property rights", which refers to costs incurred to purchase, upgrade and utilise accounting and analysis software and to build an e-commerce portal for the sales division;
- the increase of EUR 57 thousand in "Concessions, licences, trademarks and similar rights", due to costs incurred for the maintenance and registration in the various countries of trade marks used by the company;
- the increase of EUR 317 thousand in the item "Other intangible fixed assets", represented by costs spread over several periods and leasehold improvements made to the Palazzo di Via Bezzecca 5 (Milan), Palazzo Donizetti 48 (Milan), and the Moschino and Philosophy concessions at Bergdorf Goodman in New York and Printemps in Paris.

The item "Other intangible fixed assets" at year-end refers to items reported in the following statement:

Description	31.12.2006	31.12.2005	Change
Leasehold improvements	4	15	-11
Leasehold improvements B. London	139	180	-41
Leasehold improvements B. Rome	730	811	-81
Leasehold improvements B. Riccione	14	27	-13
Leasehold improvements B. Milan Narciso		237	-237
Refurbishment of Moschino concession in Paris	41	46	-5
Refurbishment of Moschino Printemps concession	32	22	10
Refurbishment of Moschino London concession	179	199	-20
Leasehold improvements Serravalle outlet	67	84	-17
Refurbishment of Palazzo Donizetti 47	3	3	
Refurbishment of Palazzo Donizetti 48	423	401	22
Refurbishment of Via Bezzecca 5	1,128	1,127	1
Refurbishment of B. Capri AF	21	30	-9
Refurbishment of B. Capri PH	22	30	-8
Refurbishment of PH Printemps concession	21	5	16
Refurbishment of PH Lafayette concession	2	5	-3
Refurbishment of MS Bergdorf concession	30		30
Total	**2,856**	**3,222**	**-366**

The depreciation criteria adopted for the various intangible fixed assets are indicated below:

- Preliminary and formation expenses: 5 years
- Software licences: 3 years
- Trade marks and similar rights: 20 years
- Goodwill: 20 years

TANGIBLE FIXED ASSETS

Annex II illustrates the composition of this item and changes during the period.
The main increases recorded during the year concern:

- the increase of EUR 54 thousand in the item "Plant and machinery", which relates to purchases of production machinery such as sewing machines, etc.;
- the increase of EUR 11 thousand in the item "Industrial and commercial equipment", which relates to the purchase of various equipment such as shelving and tools for industrial use;
- the increase of EUR 369 thousand in the item "Other fixed assets", which relates to the purchase of new electronic machines and various furniture;
- the increase of EUR 242 thousand in the item "Fixed assets in course of construction" relates to payments on account made for the construction of a company warehouse, scheduled for completion in 2007.

The main decreases in the period related to the following:

- the decrease of EUR 6 thousand in the item "Plant and machinery" concerns the replacement of industrial machinery;
- the decrease of EUR 3 thousand in the item "Industrial and commercial equipment" refers to the replacement of small tools for industrial use;
- the decrease of EUR 99 thousand in the item "Other fixed assets" refers to the replacement of company cars and obsolete electronic machines and computer equipment.

In 2002, the company bought the Gatteo (FC) site, the former headquarters of its subsidiary Pollini S.p.A. It then performed a sale and leaseback operation for the site under a property lease agreement. The site is now leased by the company to Pollini S.p.A. The accounting policy adopted is consistent with standard practice in Italy and involves the recognition of the lease fees paid in the income statement. The adoption of the financial method, as suggested by IAS 17, would have entailed the recognition in the income statement, not of the lease fees, but of interest on the residual capital and the depreciation of the asset leased, commensurate with the residual useful lifetime of the asset, in addition to the recognition of this as an asset and the residual debt as a liability. The effects of this recalculation would have had a positive effect on profit for the year and net equity of approximately EUR 607 thousand net of the tax effect.
Below is the information required by the document OIC No. 1:

- lease agreement no. 7351 of 26/11/02
- term of the lease agreement: 120 months
- asset used: industrial complex situated in Gatteo (FC) – Via Erbosa 2;
- cost of the asset: EUR 17,500 thousand;
- down payment on lease agreement (maxicanone) paid in November 2002 equivalent to EUR 3,500 thousand;
- actual value of outstanding lease instalments EUR 9,610 thousand;
- actual related financial expense for the period EUR 507 thousand;
- value of asset at year-end considered as capital expenditure EUR 15,400 thousand;
- virtual depreciation for the period EUR 525 thousand.

The following schedule contains detailed information (in thousands of euro) about the potential impact on the income statement and balance sheet if the finance leases had been recognised using the financial method rather than the "equity" principle, charging fees paid to the income statement.

Balance sheet	31.12.2006
Assets	
a) Contracts in progress	
Finance-leased assets at year-end, net of total depreciation of EUR at prior year-end	15,925
+ Assets acquired under finance lease during the period	
- Assets under finance lease repurchased during the period	
- Amortisation rates in the yea	-525
+ / - Value adjustments/write-backs of finance-leased assets	
Finance-leased assets at year-end, net of total depreciation of EUR	15,400
b) Repurchased assets	
Surplus value of repurchased assets determined according to the financial method	
C) Liabilities	
Implicit payables on finance lease transactions at previous year-end	15,012
+ Retained earnings	1,625
Implicit payables arising during the period	
- Decreases in capital share repayment	-2,205
- Decreases for repurchases during the year	
Implicit payables for finance lease transactions at year-end	14,432
d) Gross total effect at year-end (a+b-c)	**968**
e) Net tax effect	**361**
f) Effect on net equity at year-end (d-e)	**607**

Income statement	31.12.2006
Write-back of fees on finance lease transactions	2,000
Recognition of financial expenses on finance lease transactions	-507
- depreciation and amortisation	
- on current contracts	-525
- on repurchased assets	
- value adjustments/write-backs of leased assets	
Effect on pre-tax profit	968
Recognition of the tax effect	361
Effect on net operating income of leasing transactions recognised according to the financial method	**607**

The "Other fixed assets" item comprises:

Description	31.12.2006	31.12.2005	Changes
Electronic office equipment	243	280	-37
Furniture and office supplies	297	338	-41
Cars and other motor vehicles	167	21	146
Total	**707**	**639**	**68**

Annex III contains information pursuant to Article 10 of Law No 72/1983 about revaluations made in prior periods.
Fixed assets are systematically depreciated each year on a straight-line basis based on the following rates, considered representative of the residual possibility of use of the assets. The rates used are illustrated in the following table:

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 rate of depreciation used in the year of purchase is 50%.

FINANCIAL FIXED ASSETS

Equity investments
This item includes long-term investments in shares of companies. The composition of equity investments in subsidiaries and associates can be found in Annex V, in addition to the information required by Article 2427 of the Italian Civil Code.
The increase for the period of EUR 4,500 relates to the payment in March 2006 of calls in arrear for the subscription of 70% of the share capital of the new company Av Suisse S.r.l., which took place on 24th November 2005 for the creation of the new Authier distribution channel.

Receivables

Due from subsidiaries
Details of this item can be found in the following table.

Description	31.12.2006	31.12.2005
Due from subsidiaries within 12 months	**4,000**	**4,144**
Pollini S.p.A.	4,000	4,144
Due from subsidiaries after 12 months	**44,669**	**45,240**
Aeffe Usa	714	1,294
Aeffe UK Ltd	472	463
Moschino S.p.A.	32,772	32,772
Velmar S.p.A.	350	350
Aeffe France S.a.r.l.	4,099	4,099
Aeffe Retail S.p.A.	6,212	6,212
AV Suissse S.r.l.	50	50
Total	**48,669**	**49,384**

Own shares
Below is a detailed illustration of own shares held by the company.
As required by law, the percentage is within the limits laid down by Articles 2357 and 2357 bis of the Italian Civil Code and the appropriate non-disposable reserve for this amount has been established under shareholders' equity.

Shares/units purchased	Number	Face value	Capital (%)	Amount
Own shares	1,800,000	1.00	8%	18,400,000

On 26 October 2006, Aeffe's shareholders resolved:

- to proceed with the acquisition of all shares held by the shareholder L.D.V. Holding, which represented 20% of the share capital. Therefore, in execution of the resolution dated 13th December 2006, the company purchased 1,800 thousand shares representing 8% of the share capital;
- to proceed with a reduction in the share capital pursuant to Article 2445 of the Italian Civil Code from EUR 22,500 thousand to EUR 19,800 thousand by purchasing and subsequently cancelling, after the opposition period granted to the company's creditors, 2,700 thousand own shares.
  This operation was finalised on 2nd March 2007.

These shares were purchased under a non-representation mandate entrusted by Aeffe to the shareholders I.M. Fashion S.A., Massimo Ferretti and Alberta Ferretti (the "Trustees").

CURRENT ASSETS

Inventories
This item comprises:

Description	31.12.2006	31.12.2005	Changes
Raw, ancillary and consumable materials	6,387	5,498	889
Work in progress and semi-finished products	6,469	5,966	503
Finished products and goods for resale	8,420	6,719	1,701
Advances and payments on account to suppliers	73	62	11
Total	**21,349**	**18,245**	**3,104**

The value of inventories in hand increased compared with the prior period due to the increase in revenues of finished products and lower sales of the spring/summer collection in December 2006 compared with the same period the previous year

Receivables
This is analysed by maturity, as shown below.

Description	Within 12 months	Beyond 12 months	Total
From customers	9,351		9,351
From subsidiaries	25,186		25,186
Tax receivables	1,879		1,879
For prepaid taxes	429		429
From others	13,938	5,629	19,567
Total	**50,783**	**5,629**	**56,412**

Trade receivables are composed as follows:

- EUR 5,407 thousand for trade receivables for direct payments due, notes receivable and bills of exchange;
- EUR 3,944 thousand for foreign trade receivables, insured for approximately 68.59%.

Changes in the provision for loss in value of sundry debtor accounts during the period were as follows:

Balance at 31.12.2005	**354**
Provisions in the year	
Profit for the period	-354
Balance at 31.12.2006	**0**

Due from subsidiaries

At year-end, this item was composed as follows:

Description	31.12.2006	31.12.2005	Changes
Aeffe France S.a.r.l.	10	15	-5
Narciso Rodriguez LLC	96	51	45
Aeffe UK Ltd.	175	579	-404
Aeffe Usa Inc.	5,310	5,708	-398
Moschino GmbH	195	233	-38
Ferretti Studio s.r.l.	72	240	-168
Fashoff UK Ltd.	392	272	120
Moschino France S.a.r.l.	306	158	148
Moschino S.p.A.	2,646	1,684	962
Pollini Retail S.r.l.	31	669	-638
Pollini S.p.A.	9,667	8,066	1,601
Fashion Retail Company S.r.o.	234	109	125
Moschino Korea	527	650	-123
Moschino Far East	2,784	3,638	-854
Nuova Stireria Tavoleto s.r.l.	140	243	-103
Pollini France	120	77	43
Velmar S.p.A.	1,248	842	406
Aeffe Retail S.p.A.	1,038	2,129	-1,091
AV Suisse s.r.l.	195		195
Total	**25,186**	**25,363**	**-177**

Tax credits

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

Description	31.12.2006	31.12.2005	Changes
State – VAT payable	1,839	1,451	388
Refund of withholding tax	1	1	
Credit for foreign VAT refund	39	36	3
Withholdings on commissions not paid		1	-1
State – local business tax payments on a/c		89	-89
State – corporate income tax payments on a/c		735	-735
Total	**1,879**	**2,313**	**-434**

Receivables for prepaid taxes

Description	31.12.2006	31.12.2005	Changes
Receivables for prepaid taxes	429	545	-116
Total	**429**	**545**	**-116**

Receivables for prepaid taxes refers to future benefits regarding the availment of taxed reserves for the part reasonably realisable. This amount was prudently calculated based on the expected rates for subsequent periods. For a description, please refer to the relevant section in the last part of these explanatory notes.

Other receivables

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

Description	31.12.2006	31.12.2005	Change
Costs paid in advance	11,652	10,714	938
Trade credits due	598	614	-16
Payments on account for royalties/commission	1,521	1,161	360
Amount due from the Italian Institute for Industrial Accident Insurance (INAIL)	4	8	-4
Amount due from the Italian Social Insurance Agency (INPS)	31	31	
Advance payments to suppliers	59	13	46
Due from employees for advances paid	20	4	16
Due from banks	47	38	9
Other receivables	7	121	-114
Total	**13,939**	**12,704**	**1,235**

The increase in prepaid costs is mainly due to the higher capitalisation of sample collection costs for the 2007 autumn/winter season compared with their capitalisation for the 2006 autumn/winter season, following the different percentage of sales in the last quarter 2006 with respect to the same period in 2005.

The statement below gives a comparison with the previous year of the item "Others receivables after 12 months":

Description	31.12.2006	31.12.2005	Change
Others receivables	5,629	7,276	-1,647

This item decreased during the period following the accrual of lease fees charged in advance.

The breakdown of receivables at 31/12/2006 by geographical area is given in the following table:

Description	**Trade receivables**	**Due from subsidiaries**	**Other**	**Total**
Italy	5,406	15,035	18,255	38,696
Rest of Europe	3,116	1,567	1,298	5,981
America	400	4,680	7	5,087
Japan	1,710	2	1,712	
Far East		1,404		1,404
Other	429	790	5	1,224
Total	**9,351**	**25,186**	**19,567**	**54,104**

Cash and cash equivalents

The statement below gives a breakdown and comparison with the previous period:

Description	**31.12.2006**	**31.12.2005**	**Changes**
Bank and postal deposits	1,786	972	814
Outstanding cheques	12	204	-192
Cash and cash equivalents	14	20	-6
Total	**1,812**	**1,196**	**616**

The balance represents cash balances and unpresented effects at the year-end.
The change with respect to the previous year is analysed in the cash flow statement attached to the Report on Operations.

ACCRUED INCOME AND PREPAID EXPENSES

The breakdown of this item at 31st December 2006 is as follows:

Description	31.12.2006	31.12.2005	Changes
Lease prepayments spread over several periods	2,077	2,430	-353
Other prepayments spread over several periods	8		8
Insurance prepayments	27	33	-6
Rental prepayments	347	28	319
Other prepayments	146	74	72
Total	**2,605**	**2,565**	**40**

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.

4. COMMENTS ON THE MAIN BALANCE SHEET LIABILITIES

SHAREHOLDERS' EQUITY

The composition of this group at 31st December 2006 is given in the following table.
Described below are the main categories making up shareholders' equity, whereas the relevant changes are illustrated in Annex III.

Description	31.12.2006	31.12.2005
Share capital	22,500	22,500
Additional paid-in capital	11,345	11,345
Legal reserve	2,054	1,957
Extraordinary reserve	5,384	21,932
Reserve for own shares	18,400	
Reserve for the issue of participatory financial instruments	12,400	
Net profit for the period	2,366	1,950
Total	**74,449**	**59,684**

Share capital

At 31st December 2006, the share capital consisted 22,500 thousand ordinary shares with a par value of EUR 1.00 each.

Legal reserve

The legal reserve, which at 31st December 2005 totalled EUR 1,957 thousand, increased by EUR 98 thousand due to the allocation of a portion of the previous year's profits, and therefore totalled EUR 2,054 thousand at 31st December 2006.

Extraordinary reserve
This item increased by EUR 1,852 thousand due to the share of the previous year's non-distributed profit and decreased by EUR 18,400 thousand due to the reclassification of the item "Reserve for own shares held in portfolio".

Reserves for own shares and for the issue of participatory financial instruments
In 2006, a reserve was established for own shares held in portfolio for EUR 18,400 thousand.

Reserve for the issue of participatory financial instruments
At the General Meeting of 26th October 2006, a reserve was established for the issue of 40 million participatory financial instruments with a total value of EUR 40,000 thousand. These instruments must be converted into ordinary shares pursuant to the last paragraph of Article 2346 of the Civil Code.

The shareholder IM Fashion has fully subscribed and paid for these participatory financial instruments by assuming the debt of EUR 40,000 thousand taken out by Aeffe, through the Trustees, towards LDV Holding B.V. to settle the balance due on the purchase of own shares.

On 31st December 2006, in accordance with further resolutions adopted during the General Meeting of 26th October 2006, referred to in the paragraph on "Own shares", according to the general principle of substance over form and thus for a precise and more accurate reflection of the amount of shareholders' equity, the receivable due from the Trustees for the Aeffe S.p.A. shares purchased on behalf of the company was cancelled using part of the related reserve equivalent to EUR 27,600 thousand.

The regulations of the financial instruments approved by the General Meeting stipulate the following:

- the financial instruments must be converted into shares, free of charge, before 31st October 2012, notwithstanding the right of conversion prior to that date;
- until the conversion date, holders of financial instruments will be entitled to receive nominal annual interest equivalent to the 6-month Euribor plus a spread of 0.60 percentage points for the period between the subscription date and the first annual maturity (31st October 2007). For subsequent periods, the increase in spread will be equivalent to 1.30 percentage points;
- in accordance with the regulations, the holders of participatory financial instruments, until such time as these instruments have been converted into shares of the company, are not entitled to receive dividends or to vote at general meetings
- the regulations allow for a specific conversion mechanism, which may be adjusted depending on whether the equity value of Aeffe on the conversion date is between EUR 219,000 thousand and EUR 234,000 thousand, or whether it is less than EUR 219,000 thousand or more than EUR 234,000 thousand. The adjustment of the conversion criterion guarantees holders a minimum investment value, which may not be less than 75% of the nominal value of the financial instruments presented for conversion. It also allows Aeffe to retain its share of the profit realised on the shares if the equity value had exceeded EUR 234,000 thousand, since the regulations stipulate that holders cannot obtain shares with an actual value of more than 50% of the value of the financial instruments presented for conversion.

It is the intention of the holder of the participatory instrument to proceed with the early conversion of this in the event that it is listed.

PROVISIONS FOR RISKS AND EXPENSES

A breakdown of these provisions and the changes during the period are illustrated in the following statement:

Description	31.12.2005	Increases	Decreases	31.12.2006
Pensions and similar obligations	1,717	41	42	1,716
Taxes	732		29	703
Other	545			545
Total	**2,994**	**41**	**71**	**2,964**

The increase in the item "Pensions and similar obligations" relates to the appropriation booked to the severance indemnity fund for the period. The provision mainly refers to future charges relevant to the additional client expenses fund.
Tax funds include liabilities for deferred taxes referring to taxable temporary differences; for a description, please refer to the "Income tax" section in the Income Statement.
"Other reserves" relates to provisions for exchange rate risks.

STAFF TERMINATION INDEMNITIES FUND

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

Balance as at 31st December 2005	7,063
Appropriations during the year	1,324
Withdrawals during the year	-912
Balance as at 31st December 2006	**7,475**

The fund represents the company's liability towards employees at 31st December 2006, net of advance payments.

PAYABLES

For comments on this category, see below.
Payables are recognised at nominal value. Their maturity is listed in the main statement.

Description	Within 12 months	After 12 months	Total
Payables to banks	50,381	48,196	98,577
Due to other creditors	411		411
Advance payments received	2,646		2,646
Accounts payable – suppliers	30,613	5,628	36,241
Subsidiary payables	25,235	1,755	26,990
Tax payables	2,602		2,602
Due to social security and pension institutions	1,306		1,306
Other payables	3,184		3,184
Total	**116,378**	**55,579**	**171,957**

Payables to banks

Description	31.12.2006	31.12.2005	Change
Payables to banks within 12 months	50,381	45,966	4,415
Payables to banks after 12 months	48,196	52,055	-3,859
Total	**98.577**	**98,021**	**556**

The balance of "Payables to banks" at 31st December 2006, inclusive of borrowings, expresses the actual debt for capital, interest and additional charges accrued and payable.
There are no payables to banks with a term of more than five years.
The change with respect to the previous year is analysed in the cash flow statement attached to the Report on Operations.

Payables to other financial intitutions

The item "Payables to other financial intitutions" includes the portion of interest accrued in 2006 in favour of the shareholder I.M. Fashion due to the subscription of participatory financial instruments.

Advance payments received

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

Trade payables

Description	31.12.2006	31.12.2005	Changes
Trade payables due within 12 months	30,613	27,603	3,010
Trade payables due after 12 months	5,628	8,276	-2,648
Total	**36,241**	**35,879**	**362**

"Trade payables" is recognised net of trade discounts. However, cash discounts are recognised at the time of payment. These payables relate to supplies of goods and services. The portion due after 12 months relates to the amount due to the leasing company for advance charging of lease fees under the property lease agreement, commented on earlier. The increase in current trade payables is due to the increase in revenues in 2006 and a policy of restricting net working capital which led to an increase in average payment terms.

Subsidiary payables

"Subsidiary payables" refers to short-term liabilities of a commercial nature. A breakdown is given in the following table:

Description	31.12.2006	31.12.2005	Changes
Aeffe France S.a.r.l.	845	917	-72
Narciso Rodriguez LLC	87	41	46
Aeffe UK Ltd.	542	455	87
Aeffe Usa Inc.	139	100	39
Moschino France	250	206	44
Moschino Far East	3		3
Ferretti Studio s.r.l.	977	931	46
Nuova Stireria Tavoleto s.r.l.	960	832	128
Ozbek (London) Ltd.	260	273	-13
Fashoff UK Ltd.	261	255	6
Moschino S.p.A.	17,442	11,579	5,863
Pollini Retail S.p.A.	298	720	-422
Pollini S.p.A.	2,187	1,146	1,041
Velmar S.p.A.	161	190	-29
AV Suisse s.r.l.	140		140
Aeffe Retail S.p.A.	683	922	-239
Total	**25,235**	**18,567**	**6,668**

The "Amount due to subsidiaries after 12 months" of EUR 1,755 thousand relates to the amount due to Pollini S.p.A. for the purchase of the industrial site in Gatteo (FC).

Tax payables

"Tax payables" includes liabilities for known and certain taxes, while tax payables for probable or uncertain liabilities whose exact timing and amount cannot be determined or for deferred taxes are recognised as a liability in caption B2 (tax reserve).
The item mainly comprises the liabilities for withholdings in relation to professionals, collaborators and employees.

Due to social security organisations

This item refers to the company's share and employee's share of amounts due at year-end to these organisations for wages and salaries in December, as well as deferred and accrued remuneration.

Other payables

The statement below gives a breakdown and comparison with the previous year of the item "Due from others within 12 months":

Sundry current payables	31.12.2006	31.12.2005	Change
Wages and salaries due	1,112	920	192
Due to Four Pollini		5,578	-5,578
Amount due to employees for deferred remuneration	810	681	129
Trade debtors – credit balances	1,111	1,009	102
Other payables	151	90	61
Total	**3,184**	**8,278**	**-5,094**

The decrease in the amount due to Four Pollini s.r.l. relates to the final tranche of the obligation arising from the purchase by Aeffe S.p.A. of the remaining 65% of Pollini S.p.A under a purchase and sale agreement signed in January 2001. This debt was repaid in January 2006.
Trade debtors – credit balances mainly refers to credit notes to be refunded to our customers.

The breakdown of payables at 31/12/2006 by geographical area is given in the following table:

Description	Accounts payable suppliers	Payables subsidaries	Other Payables	Totale
Italy	30,983	24,602	3,138	58,723
Rest of Europe	3,209	2,158	34	5,401
America	117	226	2	345
Japan		3		3
Far East	1,763		3	1,766
Other	169		7	176
Total	**36,241**	**26,989**	**3,184**	**66,414**

ACCRUED EXPENSES AND DEFERRED INCOME

The balance of EUR 14 thousand at 31st December 2006 refers to deferred income on rent receivable.

5. MEMORANDUM ACCOUNTS

The statement below gives a breakdown and comparison with the previous period of the item "Memorandum accounts":

Description	31.12.2006	31.12.2005	Change
Commitments assumed by the company	9,610	11,257	-1,647
Personal guarantees given:	3,800	5,510	-1,710
Total	**13,410**	**16,767**	**-3,357**

"Commitments assumed by the company" mainly relates to instalments due on the property lease agreement signed on 26th November 2002.

"Personal guarantees given" consists of surety underwritten by Aeffe S.p.A. in favour of third parties for EUR 659 thousand and in favour of subsidiaries for EUR 3,140 thousand on 31st December 2006.

6. NOTES ON THE MAIN INCOME STATEMENT ITEMS

OUTPUT VALUE

The statement below gives a breakdown and comparison with the previous year:

Description	31.12.2006	31.12.2005	Change
Revnues from sales and services	138,392	128,807	9,585
Change in product inventories	2,203	-649	2,852
Other revenues and income	3,615	2,950	665
Total	**144,210**	**131,108**	**13,102**

Net revenue was up 9.99% from EUR 131,108 thousand in 2005 to EUR 144,210 thousand in 2006, following the increase in revenues recorded across all of the company's brands.

More specifically, revenues from sales and services of the following increased:

- Alberta Ferretti: 13.58% increase in revenues from sales and services;
- Jean-Paul Gautier: 24.81% increase in revenues from sales and services;
- Authier: 100% increase in revenues from sales and services, equivalent to sales of around EUR 1,200 thousand for the A/W 06 season.
  The brand licensing agreement, relating to the production of designer sportswear, was signed by the company on 2nd January 2006.

In total, 28% of revenues from sales and services was generated in the Italian market and 72% in foreign markets, confirming the trend of previous years.

The distribution of revenues from sales and services by geographical region is shown below.

Revenue by geographical region	31.12.2006	31.12.2005	Change
Italy	38,978	36,092	2,886
Europe	46,291	40,186	6,105
America	22,136	22,447	-311
Japan	11,771	12,703	-932
Far East	9,428	9,113	315
Other	9,788	8,266	1,522
Total	**138,392**	**128,807**	**9,585**

Other revenue and income breaks down as follows:

Description	31.12.2006	31.12.2005	Change
Rental income	2,473	2,445	28
Extraordinary income	263	65	198
Other	879	440	439
Total	**3,615**	**2,950**	**665**

OUTPUT COSTS

Costs of raw materials, supplies and purchase goods

A breakdown of this item is given below:

Description	31.12.2006	31.12.2005	Changes
Raw materials and semi-finished products	25,042	22,310	2,732
Ancillary materials and consumables	1,741	1,616	125
Goods for resale	16,448	13,138	3,310
Other purchases	189	156	33
Total	**43,420**	**37,220**	**6,200**

The increase in this item reflects the increase in revenues in 2006.

Costs for services

This item comprises:

Description	31.12.2006	31.12.2005	Changes
Transport costs	3,810	3,779	31
Subcontracted work	22,273	20,941	1,332
Utilities	718	653	65
Insurance	326	396	-70
Commission	7,472	6,537	935
Promotional, advertising and marketing costs	2,243	2,093	150
Consultancy fees	6,046	4,609	1,437
Maintenance and vehicle costs	697	575	122
Directors' and auditors' emoluments	1,511	1,514	-3
Employee refunds	921	777	144
Other	1,010	920	90
Total	**47,027**	**42,794**	**4,233**

The increase in this item reflects the increase in revenues in 2006.

Directors' and auditors' emoluments include directors' fees of EUR 1,433 thousand (EUR 1,439 thousand, at 31st December 2005), and auditors' fees of EUR 36 thousand (EUR 35 thousand at 31st December 2004).

Costs for use of third parties' goods
The lease and rental expense is illustrated in the following statement.

Description	31.12.2006	31.12.2005	Changes
Rental costs and lease fees	3,736	3,544	192
Charter expenses	523	351	172
Royalties	15,249	14,863	386
Total	**19,508**	**18,758**	**750**

Staff costs
This item includes all employee expenditure, including statutory appropriations and those made under industry agreements. The increase is mainly linked with the effects of the renewal of the national industry agreement for workers in the textile industry and other supplementary agreements.

The average headcount for the company, divided into categories, has changed as follows from the previous year.

Category	31.12.2006	31.12.2005	Changes
Senior managers	16	16	
Clerical workers	380	375	5
Manual workers	172	172	
Total	**568**	**563**	**5**

The standard employment contract for the Italian garment and textile industry of 28th May 2004 applies (currently being updated).

Amortisation, depreciation and write-downs
The division into the four sub-headings was illustrated in the income statement.

Other provisions
This figure relates to the appropriation booked during the period to the severance indemnity fund.

Other operating costs

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

Description	31.12.2006	31.12.2005	Change
Other taxes and similar levies	158	119	39
Gifts	228	117	111
Contingent liabilities	57	18	39
Losses on receivables	14		14
Other operating expenses	292	394	-102
Total	**749**	**648**	**101**

FINANCIAL INCOME AND EXPENSES

The statement below gives a breakdown and comparison with the previous year:

Description	31.12.2006	31.12.2005	Changes
Income from equity investments		293	-293
Other financial income	222	1,142	-920
Interest and other financial expenses	-5,238	-4,522	-716
Exchange gains and losses	702	29	673
Total	**-4,314**	**-3,058**	**-1,256**

Other financial income

Other financial income is comprised as follows:

Description	31.12.2006	31.12.2005	Changes
Interest from subsidiaries	183	165	18
Bank and post office interest	4	2	2
Other income	35	37	-2
Exchange gains		938	-938
Total	**222**	**1,142**	**-920**

Interest and other financial expenses
This item comprises:

Description	31.12.2006	31.12.2005	Change
Interest from subsidiaries	250	65	185
Bank interest	850	547	303
Interest payable on loans	3,515	2,728	787
Financial charges and discounts	202	207	-5
Exchange losses		975	-975
Interest on participatory financial instruments	421		421
Total	**5,238**	**4,522**	**716**

Exchange gains and losses
As described in the first part of these notes, this item, as required under recent legislation, also includes unrealised exchange differences resulting from the time lag between the date of recognition of the receivable/payable and the conversion of the corresponding balances into foreign currencies at year-end exchange rates.
This item comprises:

Description	31.12.2006	31.12.2005	Changes
Realised exchange losses	-538		-538
Realised exchange gains	937		937
Unrealised exchange losses	-192	-451	259
Unrealised exchange gains	495	480	15
Total	**702**	**29**	**673**

EXTRAORDINARY INCOME AND EXPENSES
The statement below gives a breakdown and comparison with the previous year:

Description	31.12.2006	31.12.2005	Change
Prior period taxes		29	-29
Contingent liabilities		-152	152
Other	-250	-39	-211
Total extraordinary income(expenses)	**-250**	**-162**	**-88**

Income tax for the year

The statement below gives a breakdown and comparison with the previous year:

Taxes	31.12.2006	31.12.2005	Change
Current taxes:	**3,109**	**2,972**	**137**
Local business tax (IRAP)	1,153	1,333	-180
Corporate income tax (IRES)	1,956	1,639	317
Deferred (prepaid) taxes	**89**	**-170**	**259**
Local business tax (IRAP)	-13	3	-16
Corporate income tax (IRES)	102	-173	275
Total	**3,198**	**2,802**	**396**

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

Liabilities for deferred taxes are recorded in the "Deferred tax reserve" under provisions for risks and expenses, whereas the assets for prepaid taxes are recorded under current assets as an increase in "Receivables for prepaid taxes". Prepaid taxes are recognised only if a reasonable probability exists of their recovery.

	previous year		current year	
	Amount temporary differences	Tax of effect	Amount Tax temporary differences	Tax of effect
Rate applied	37.25%		37.25%	
Effect of change in rate from the previous year:				
Increase (decrease) in provisions for deferred taxes				
- Statutory write-down of doubtful accounts	-55	-18	354	117
- Exchange rate fluctuation	-545	-180		
- Other items	34	13		
Total prepaid taxes	**-566**	**-185**	**354**	**117**
Deferred taxes payable:				
- Accelerated depreciation	86	32	81	30
- Surplus depreciation	-311	-116	-355	-132
- Capital gains	-17	-6	-21	-8
- Write-down of receivables	-21	-7	-25	-8
- Interest income due	6	2	1	
- Unrealised exchange gains	29	10	274	90
- Brand depreciation allowance	269	100		
- Other items				
Total deferred taxes	**41**	**15**	**-45**	**-28**
Net deferred (prepaid) taxes	**-525**	**-170**	**309**	**89**
Net effect:				
- on profit for the year	-170		89	
- on shareholders' equity				

Reconciliation between theoretical and actual rate:	**Prior**	**Current**
Theoretical rate of taxation	33.00%	33.00%
Effect of increase (decrease) in theoretical rate:		
Other differences	1.51%	3.78%
Actual rate	**34.51%**	**36.78%**

These financial statements, composed of the Balance Sheet, Income Statement and Notes to the Accounts, provide a fair and true view of the financial situation and assets of the company and the company's trading result for the period, and are based on information contained in the company's accounting records.

For the Board of Directors

Chairman

Massimo Ferretti

AEFFE S.p.A.

ATTACHMENTS OF THE NOTES TO THE FINANCIAL STATEMENTS

ATTACHMENTS OF THE NOTES TO THE FINANCIAL STATEMENTS AEFFE SPA

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ANNEX I - CHANGES IN INTANGIBLE FIXED ASSETS
(amounts in thousands Euro)

	31.12.2005		Movements 2006			31.12.2006	
	Net book value	Net book value as at 31.12.2005	Increase	Decrease	Amortisation and depreciation	Net book value	Net book value as at 31.12.2006
Start-up and expansious costs	161	161			-81	80	80
Industrial patent and rights for the use of intellectual property	86	86	33		-62	57	57
Concessions, licenses, trade marks and similar rights	4,573	4,573	57		-272	4,358	4,358
Goodwill	2,548	2,548			-215	2,333	2,333
Other intangible fixed assets	3,222	3,222	317	-237	-446	2,856	2,856
	10,590	**10,590**	**407**	**-237**	**-1,076**	**9,684**	**9,684**

ANNEX II - CHANGES IN TANGIBLE FIXED ASSETS
(amounts in thousands Euro)

	31.12.2005				Movements 2006			31.12.2006				
	Historical cost	Revaluation	Accumulated depreciation	Net book value as at 31.12.2005	Increase	Decrease	Amortisation	Historical cost	Revaluation	Availment of provision	Accumulated depreciation	Net book value as at 31.12.2006
Land and buildings	8,385	3,738	-5,912	6,211	3		-274	8,388	3,738		-6,186	5,940
Plants and machinery	12,065	323	-11,265	1,123	54	-6	-390	12,113	323	4	-11,651	785
Industrial and commercial equipment	864		-863	1	11	-3	-7	872		3	-867	5
Other tangible fixed assets	6,177		-5,538	639	369	-99	-283	6,447		81	-5,740	707
Assets in progress	2,351			2,351	242			2,593				2,593
	29,842	**4,061**	**-23,578**	**10,325**	**679**	**-108**	**-954**	**30,413**	**4,061**	**88**	**-24,444**	**10,030**

ANNEX III - TABLE RELATING TANGIBLE FIXED 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 31st DECEMBER 2006
(amounts in thousands Euro)

	Share capital	Legal reserve	Extraordinary reserve	Own shares reserve	Financial Sharing reserve	Share premium reserve	Net income for the period	Total
Balances as at 31st December 2005	**22,500**	**1,956**	**21,932**			**11,345**	**1,950**	**59,683**
Allocation of 2005 profits		98	1,852				-1,950	
Allocation own shares reserve			-18,400	18,400				
Allocation financial sharing reserve					12,400			12,400
Net income for the year							2,366	2,366
Balances as at 31st December 2006	**22,500**	**2,054**	**5,384**	**18,400**	**12,400**	**11,345**	**2,366**	**74,449**

ANNEX V - LIST OF SUBSIDIARY COMPANIES AS AT 31st DECEMBER 2006 (ART. 2427 N. 5 C.C.)

(amounts in thousands Euro)

Name	Registered Office	Share Capital	Net equity		Result for the period		% owned	
			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	489	465	-35	-33	95%	10
Pollini S.p.A.	Via Erbosa 2/b -Gatteo (FC)	6,000	23,226	16,723	-60	-43	72%	40,746
Moschino S.p.A	Milano	20,000	25,633	17,943	891	624	70%	14,085
Velmar S.p.A.	San Giovanni in Marignano (RN)	493	1,062	797	513	385	75%	775
Nuova Stireria Tavoleto s.r.l.	Tavoleto (PU)	10	786	786	137	137	100%	773
Aeffe Retail S.p.A.	San Giovanni in Marignano (RN)	8,585	13,262	13,262	2,296	2,296	100%	16,493
AV Suisse S.r.l.	Contrà Canove 9 (VI)	10	6	4	15	11	70%	8
Foreign Companies								
Aeffe Usa Inc.	New York (USA)	USD 600	952	952	15	15	100%	10,664
Aeffe UK Ltd	London (GB)	GBP 310	382	382	92	92	100%	478
Aeffe France S.a.r.l.	Parigi (F)	1,550	1,101	1,100	-153	-153	99.9 %	2,119
Ozbek (London) Ltd	London (GB)	GBP 300	250	230	-4	-4	92%	647
Divè S.A.	Repubblica di San Marino (RSM)	260	258	194	-19	-14	75%	1,038

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