AEFFE FASHION GROUP

CONSOLIDATED QUARTERLY REPORT AS OF 31st MARCH 2007

AEFFE FASHION GROUP

Board of Directors

Chairman
Massimo Ferretti

Deputy Chairman
Alberta Ferretti

Chief Executive Officer
Simone Badioli

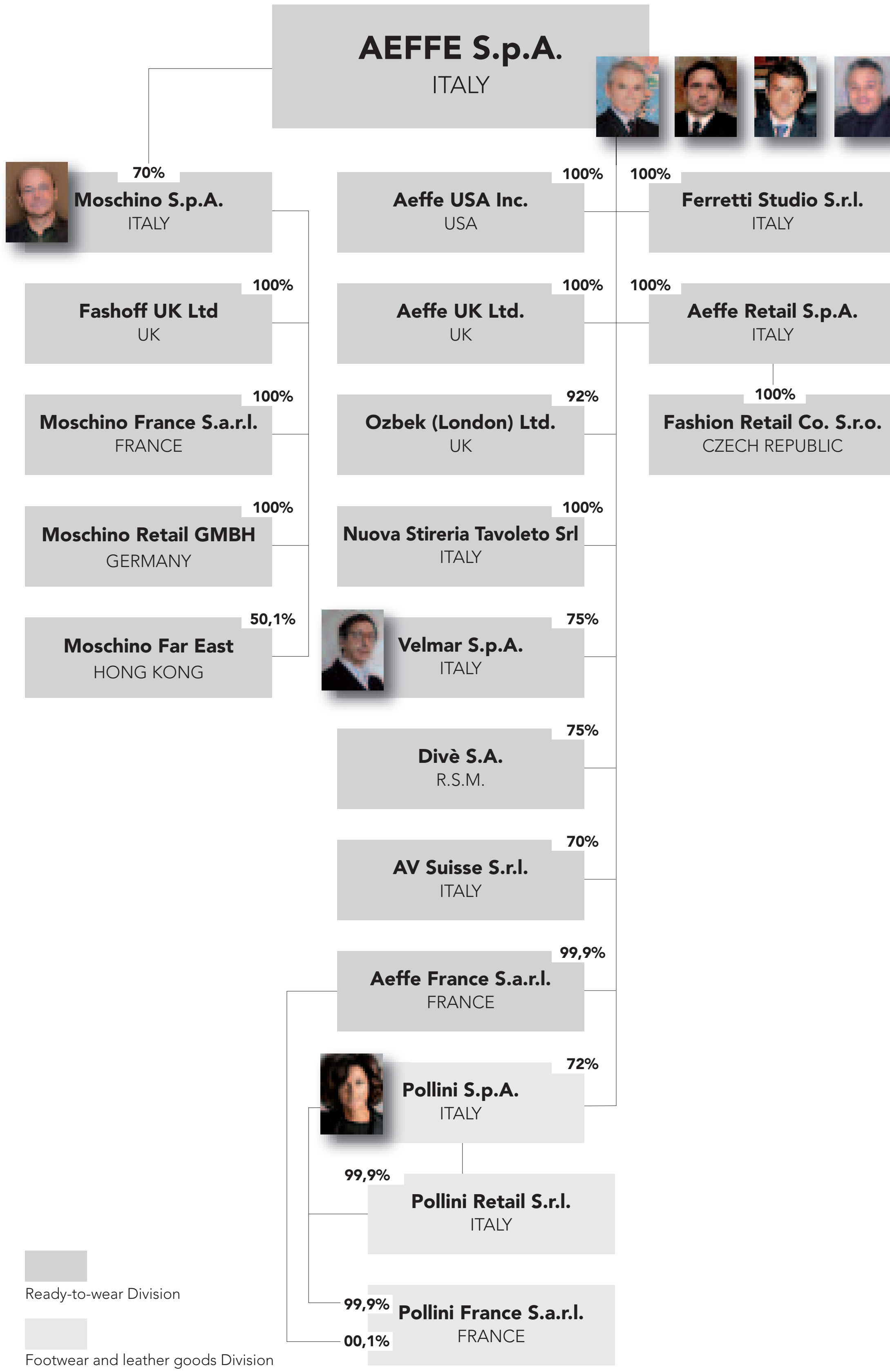
Directors
Marcello Tassinari - *Managing Director*
Umberto Paolucci
Gianfranco Vanzini

Board of Statutory Auditors

Presidente
Romano Del Bianco

Sindaci Effettivi
Vittorio Baiocchi
Bruno Piccioni

Sindaci Supplenti
Pier Francesco Gamberini


AEFFE S.p.A.
ITALY
70%
Moschino S.p.A.
ITALY
100%
Fashoff UK Ltd
UK
100%
Moschino France S.a.r.l.
FRANCE
100%
Moschino Retail GMBH
GERMANY
50,1%
Moschino Far East
HONG KONG
100%
Aeffe USA Inc.
USA
100%
Aeffe UK Ltd.
UK
92%
Ozbek (London) Ltd.
UK
100%
Nuova Stireria Tavoleto Srl
ITALY
75%
Velmar S.p.A.
ITALY
75%
Divè S.A.
R.S.M.
70%
AV Suisse S.r.l.
ITALY
99,9%
Aeffe France S.a.r.l.
FRANCE
72%
Pollini S.p.A.
ITALY
99,9%
Pollini Retail S.r.l.
ITALY
99,9%
00,1%
Pollini France S.a.r.l.
FRANCE
100%
Ferretti Studio S.r.l.
ITALY
100%
Aeffe Retail S.p.A.
ITALY
100%
Fashion Retail Co. S.r.o.
CZECH REPUBLIC
Ready-to-wear Division
Footwear and leather goods Division

AEFFE
ABBIGLIAMENTO - ACCESSORI

ALBERTA FERRETTI

Jean Paul GAULTIER

narciso rodriguez

POLLINI

Basso & Brooke POWER PRINTS

Authier

PHILOSOPHY DI ALBERTA FERRETTI

MOSCHINO

MOSCHINO CHEAPANDCHIC

GAULTIER²

POLLINI
CALZATURE - PELLETTERIA

POLLINI

STUDIO POLLINI

POLLINI way-out

MOSCHINO

MOSCHINO CHEAPANDCHIC

MOSCHINO JEANS

MOSCHINO
LICENZE - DESIGN - RETAIL

MOSCHINO

MOSCHINO CHEAPANDCHIC

MOSCHINO JEANS

VELMAR
MARE - INTIMO

ALBERTA FERRETTI

philosophy ALBERTA FERRETTI

MOSCHINO

BLUGIRL UNDERWEAR

BLUGIRL BEACHWEAR

BLUGIRL FITNICE

VERDEMARE

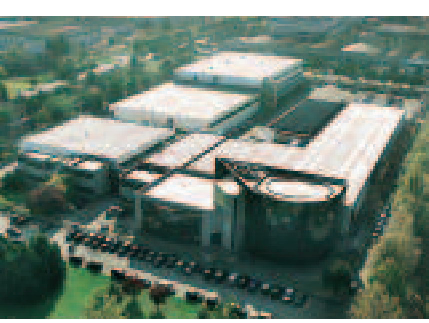
AEFFE GROUP
Via Delle Querce, 51
San Giovanni in Marignano (RN)
47842 - Italy

MOSCHINO
Via San Gregorio, 28
20124 - Milan
Italy

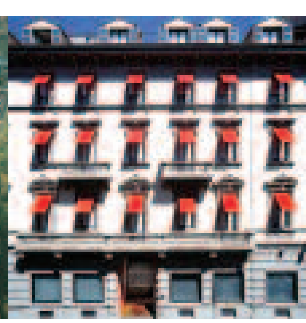
POLLINI
Via Erbosa, 2/B
Gatteo (FC)
47030 - Italy

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

Aeffe SpA

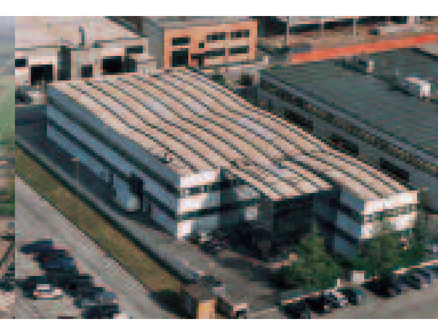


Moschino SpA



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

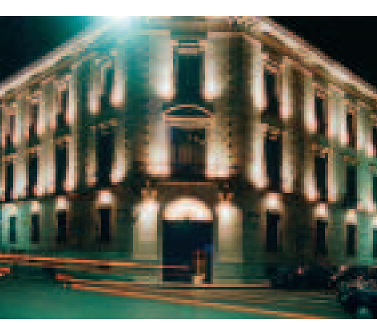
MOSCHINO MILAN
Via San Gregorio, 28
20124 - Milan
Italy

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

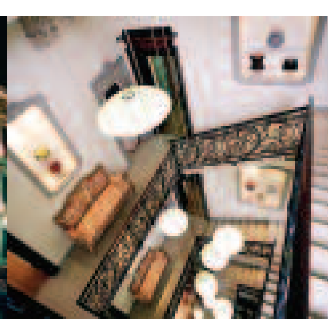
MOSCHINO JAPAN
Shin-Nogizaka Bldg. 5F
1-15-14, Minami Aoyama Minato-ku
107-0062 - Tokyo
Japan

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

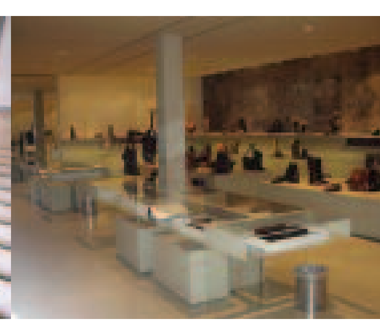
Milan Aeffe



Milan Moschino



Milan Pollini



New York Aeffe

Milan Aeffe

ALBERTA FERRETTI
Milan
Rome
Capri
Paris
London

PHILOSOPHY
Milan
Capri
New York

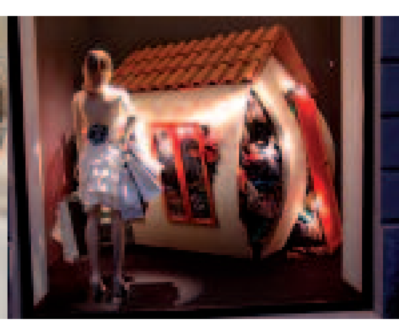
SPAZIO A
Florence
Venice

P_BOX
Milan

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



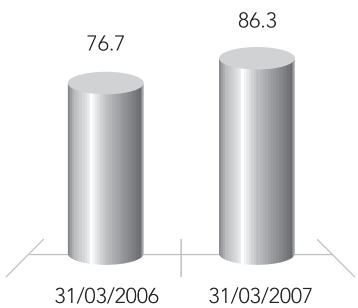
Moschino

Pollini

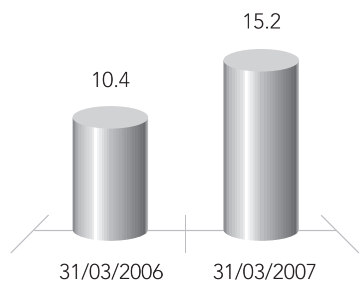
Moschino

MAIN ECONOMIC-FINANCIAL DATA AND RATIOS

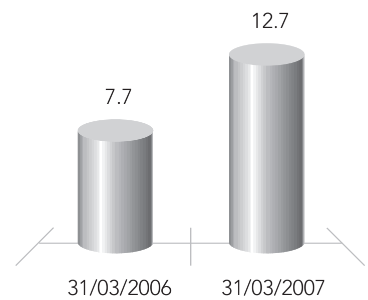
TOTAL NET REVENUES
(€/,000,000)



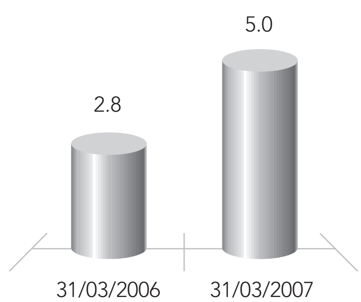
EBITDA
(€/,000,000)



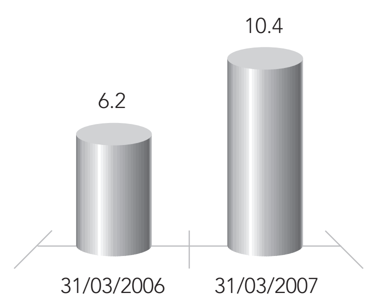
EBIT
(€/,000,000)



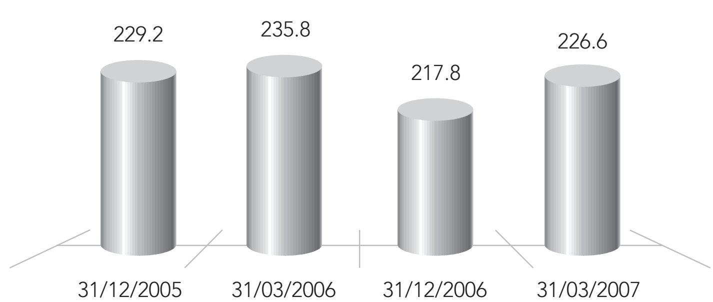
GROUP NET PROFIT
(€/,000,000)



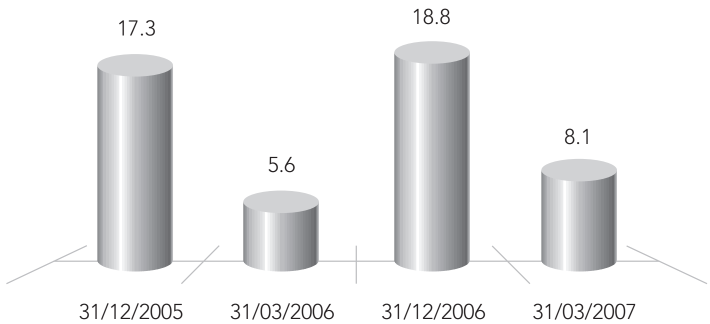
PROFIT BEFORE TAXES
(€/,000,000)



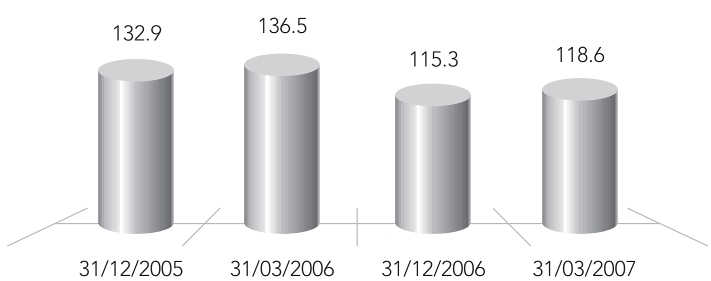
CAPITALE INVESTITO NETTO
(€/.000.000)



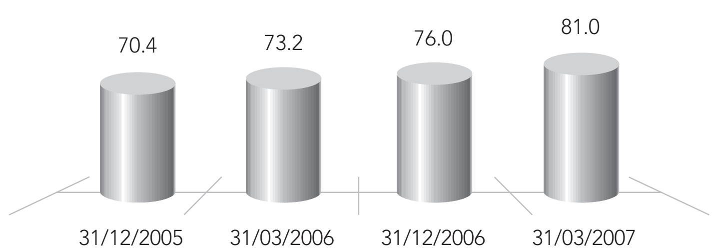
CASH FLOW (net profit after taxes+depreciation)
(€/,000,000)



NET FINANCIAL POSITION
(€/,000,000)



GROUP NET EQUITY
(€/,000,000)



AEFFE FASHION GROUP

FINANCIAL STATEMENTS

INCOME STATEMENT

	Amounts as at 31.03.2007	% on revenues	Amounts as at 31.03.2006	% on revenues	Changes Δ	%
REVENUES FROM SALES AND SERVICESI	**86.298.083**	**100%**	**76,734,530**	**100%**	**9,563,554**	**12%**
Other revenues and income	844,528	1%	946,755	1%	- 102,227	- 11%
TOTAL REVENUES	**87,142,611**	**101%**	**77,681,285**	**101%**	**9,461,326**	**12%**
Inventory changes of work in process, semi-finished, finished goods	- 1,486,746	- 2%	- 1,416,859	- 2%	- 69,887	5%
Costs of raw materials, consumables and goods for resale	- 23,592,457	- 27%	- 20,113,473	-26%	- 3,478,984	17%
Costs of services	- 26,111,906	- 30%	- 25,786,945	- 34%	- 324,961	1%
Costs for use of third parties goods	- 4,648,507	- 5%	- 4,644,030	- 6%	- 4,477	0%
Labour costs	- 15,441,388	- 18%	- 14,708,079	- 19%	- 733,309	5%
Other operating charges	- 633,466	- 1%	- 615,140	- 1%	- 18,325	3%
Total Operating Costs	- 71,914,469	- 83%	- 67,284,526	- 88%	- 4.629,944	7%
GROSS OPERATING MARGIN (EBITDA)	**15,228,142**	**17.6%**	**10,396,759**	**13.5%**	**4,831,382**	**46%**
Amortization of intangible fixed assets	- 908,556	- 1%	- 936,505	- 1%	27,949	- 3%
Depreciation of tangible fixed assets	- 1,549,315	- 2%	- 1,676,683	- 2%	127,368	- 8%
Revaluations (write-downs)	- 81,817	0%	- 111,972	0%	30,155	- 27%
Total Amortization and write-downs	- 2,539,688	- 3%	- 2,725,160	- 4%	185,472	- 7%
Provisions		0%		0%		n.d.
NET OPERATING PROFIT (EBIT)	**12,688,454**	**15%**	**7,671,600**	**10%**	**5,016,854**	**65%**
Financial income	74,575	0%	51,769	0%	22,806	44%
Financial expenses	- 2,291,697	- 3%	- 1,529,207	- 2%	- 762,490	50%
Total Financial Income (expenses)	- 2,217,122	- 3%	- 1,477,438	- 2%	- 739,684	50%
Income (expenses) from investments		0%		0%		n.d.
Profit (loss) from affiliates	- 28,615	0%	- 31,198	- 0%	2,583	- 8%
PROFIT BEFORE TAXES	**10,442,716**	**12%**	**6,162,964**	**8%**	**4,279,753**	**69%**
Total Taxes on the Profit for the Year	- 4,809,207	- 6%	- 3,131,027	- 4%	- 1,678,180	54%
Current taxes	- 4,389,332	- 5%	- 3,050,872	- 4%	- 1,338,461	44%
Anticipated (deferred) taxes	- 419,874	- 0%	- 80,155	0%	- 339,719	424%
PROFIT NET OF TAXES	**5,633,510**	**7%**	**3,031,937**	**4%**	**2,601,573**	**86%**
Profit (loss) attributable to minority shareholders'	- 617,144	- 1%	- 203,794	0%	-413,351	203%
NET PROFIT FOR THE GROUP	**5,016,365**	**6%**	**2,828,143**	**4%**	**2,188,222**	**77%**

BALANCE SHEET

	Amounts as atl 31.03.2007	Amounts as at 31.12.2006	Amounts as at 31.03.2006
NON-CURRENT ASSETS			
Intangible fixed assets			
Goodwill	54,491,930	54,101,757	54,101,759
Trade marks	119,920,383	120,799,010	123,434,948
Other intangible fixed assets	177,822	172,525	334,027
Total intangible fixed assets	174,590,135	175,073,292	177,870,734
Tangible fixed assets			
Lands	17,701,946	17,719,245	17,017,847
Buildings	34,496,113	34,265,872	30,638,224
Leasehold improvements	11,071,592	10,998,186	11,519,743
Plant and machinery	3,494,529	3,613,970	4,190,708
Equipment	194,887	207,035	242,543
Other tangible fixed assets	3,135,574	3,091,092	3,718,917
Total tangible fixed assets	70,094,641	69,895,400	67,327,982
Real estate investments			
Equity investments	91,400	120,638	220,525
Other fixed assets	2,886,910	2,877,143	4,275,598
Deferred tax assets	10,520,941	10,741,117	11,361,353
Assets available for sale	1,623,955	1,636,885	1,675,676
Total other fixed assets	15,123,206	15,375,783	17,533,151
TOTAL NON-CURRENT ASSETS	**259,807,982**	**260,344,475**	**262,731,867**
CURRENT ASSETS			
Stocks and inventories	57,132,257	57,658,314	50,493,505
Trade receivables	49,654,921	33,429,957	52,545,322
Tax receivables	1,948,678	2,339,179	1,976,063
Cash	14,229,064	11,145,222	12,091,974
Short term financial receivables		4,175,000	
Other receivables	26,675,680	25,857,607	23,238,225
TOTAL CURRENT ASSETS	**149,640,601**	**134,605.279**	**140,345,090**
TOTAL ASSETS	**409,448,583**	**394,949,754**	**403,076,957**
SHAREHOLDER'S EQUITY			
Group interest			
Share capital	19,800,000	22,500,000	22,500,000
Share premium reserve	11,345,480	11,345,480	11,345,480
Tresury stock			
Translation reserve	391,200	391,200	1,163,204
Financial sharing reserve	15,100,000	12,400,000	
Other reserves	9,804,016	8,572,760	26,972,760
Fair Value reserve	7,448,484	7,448,484	3,051,769
IAS reserve	11,119,778	11,119,777	11,119,778
Retained earnings (losses)	976,428	- 5,773,135	- 5,774,397
Income for the period	5,016,365	7,981,220	2,828,145
Group interest in shareholders' equity	81,001,750	75,985,786	73,206,738
Minority interest			
Minority interest in share capital and reserves	26,430,952	25,903,380	25,908,350
Minority interest in income for the period	617,144	561,929	203,794
Minority interest in shareholders' equity	27,048,096	26,465,309	26,112,144
TOTAL SHAREHOLDER'S EQUITY	**108,049,846**	**102,451,095**	**99,318,882**
NON-CURRENT LIABILITIES			
Provisions	1,783,037	1,741,230	1,607,854
Deferred tax liabilities	57,494,786	57,303,971	54,130,795
Post employment benefits	13,640,111	13,508,741	12,685,444
Long term financial liabilities	63,987,101	66,196,757	66,761,286
Long term not financial liabilities	14,045,242	14,045,132	14,045,132
TOTAL NON-CURRENT LIABILITIES	**150,950,276**	**152,795,831**	**149,230,510**
CURRENT LIABILITIES			
Trade payables	61,411,951	57,545,124	55,718,640
Tax payables	8,045,618	4,951,812	4,506,062
Short term financial liabilities	68,817,179	64,437,341	81,796,217
Other liabilities	12,173,713	12,768,552	12,506,645
TOTAL CURRENT LIABILITIES	**150,448,461**	**139,702,828**	**154,527,565**
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES	**409,448,583**	**394,949,754**	**403,076,957**

CASH FLOW

	31.03.2007	31.12.2006	31.03.2006
OPENING BALANCE	**15.320**	**7.020**	**7.020**
Profit before taxes	10.443	19.293	6.163
Amortizations, provisions and depreciations	2.458	10.225	2.613
Accrual /availment of long term provisions	42	-184	-317
Accrual /availment of post employment benefit	131	878	54
Taxes	-1.540	-8.571	-1.031
Financial incomes and financial charges	2.217	7.022	1.477
Change in deferred assets and liabilities	411	3.720	704
Change in operating assets and liabilities	-12.854	613	-10.448
NET CASH FLOW FROM OPERATING ASSETS	**1.307**	**32.996**	**-783**
Increase / decrease in intangible fixed assets	-425	-40	-15
Increase / decrease in tangible fixed assets	-1.881	-4.034	-1.390
Investments	-0	135	-0
Assets available for sale	0	53	0
CASH FLOW GENERATED (ABSORBED) BY INVESTING ACTIVITIES	**-2.307**	**-3.886**	**-1.404**
Increase in reserves and profit carried-forward to shareholders' equity	-35	-6.000	0
Proceeds (repayament) of financial payments	2.170	-9.270	8.653
Increase (decrease) in long term financial receivables	-10	1.482	84
Financial incomes and financial charges	-2.217	-7.022	-1.477
CASH FLOW GENERATED (ABSORBED) BY FINANCING ACTIVITIES	**-91**	**-20.810**	**7.259**
CLOSING BALANCE	**14.229**	**15.320**	**12.092**

AEFFE FASHION GROUP

REPORT ON OPERATIONS

INTRODUCTION

The Aeffe Group operates at an international level in the luxury sector, producing and distributing a wide range of products that include prêt-à-porter, footwear and leather goods. With a constant focus on uniqueness and exclusivity, the Group designs, produces and distributes collections for both its house brands, including Alberta Ferretti, Moschino and Pollini, and for licenced brands, including Jean Paul Gaultier, Narciso Rodriguez, Blugirl and Authier.
In addition, the Group has licenced the production and distribution of additional accessories and products to leading partners, in order to complete its range (perfumes, kids and junior lines, watches and eyewear).
The various product lines and brands presented by the Group are divided into two segments: Prêt-à-porter (comprising the prêt-à-porter lines, lingerie and beachwear) and Footwear and leather goods.
The Parent Company, Aeffe, was formed under Italian law as a company with liability limited by shares and is domiciled in Italy. Its headquarters are located in S. Giovanni in Marignano (Rimini).
These consolidated financial statements comprise the financial statements of the Parent Company, Aeffe, and its subsidiaries, together with the Group's interest in the equity of associates. They consist of the balance sheet, the income statement, the statement of changes in shareholders' equity, the cash flow statement and these explanatory notes.
These financial statements are denominated in euro, since this is the currency in which the majority of the Group's transactions are conducted. Foreign activities are included in the consolidated financial statements on the basis described in the following notes.
Analysis of the economic and financial information for individual quarters is not completely meaningful, since these interim statistics are affected by fluctuations in the monthly flow of revenues and costs deriving from the Group's industrial activities. Given this, it would be misleading to consider the income statement for the quarter as proportionally representative of the entire year.

GROUP RESULTS

A) INCOME STATEMENT

Revenues

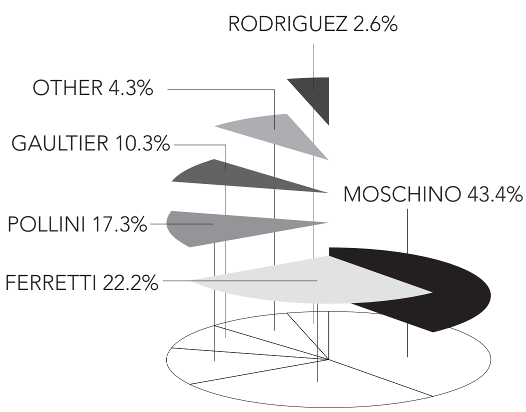
Consolidated revenues from sales and services rose by 12% (14% holding exchange rates constant) from Euro 76,735 thousand in the first quarter of 2006 to Euro 86,298 thousand in the first quarter of 2007.

This improvement reflects the progress made by the Group's principal companies. In particular the revenues from sales by the Prêt-à-porter Division were 10% higher, while those of the Footwear and leather goods Division rose 19%.

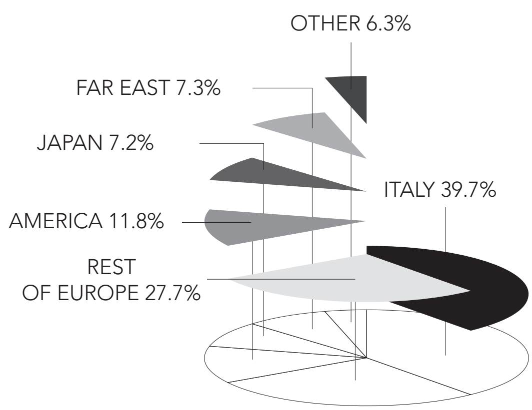
These rises in revenues are highly satisfactory and confirm the optimal nature of the strategic model adopted by the Group, given favourable conditions internationally.

The following table analyses direct sales by brand, geographical area and distribution channel.

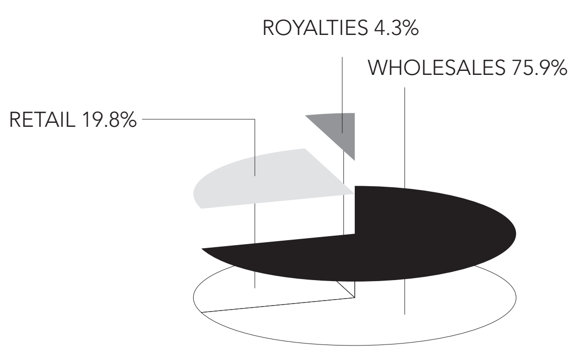
SALES BY BRAND



SALES BY GEOGRAPHICAL AREA



SALES BY DISTRIBUTION CHANNEL



The Group operates at an international level in both Italy and the principal foreign markets. The volume of business generated by the Group during the first quarter of 2007 was considerably higher in all countries with respect to the comparative period in 2006. In particular, significant growth was seen in Italy (+18%), America (+17%) and the Rest of Europe (+15%).
The revenues generated by the Group during the first quarter of 2007 were earned as follows:

- 19.8% from direct sales to end customers via the retail outlets managed directly by the Group (retail channel);
- 75.9% from sales made by the Group's commercial organisation, the Group's showrooms, agents, importers for multi-brand shops, franchised outlets, retail corners and shop-in-shops (wholesale channel);
- 4.3% from royalties deriving from licences granted to third parties for the production and distribution of product lines sold under the Group's brand names.

All the principal brands performed well during the first quarter of 2007. The best results were generated by:

- Alberta Ferretti lines +16%;
- Moschino lines +14%;
- Pollini lines +18%.

The Group earned 77.1% of revenues (including the royalties deriving from the licensing of Group brands to third parties) from the Prêt-à-porter segment and 22.9% from the Footwear and leather goods segment, before inter-Divisional eliminations.

The revenues of the Prêt-à-porter Division rose by 10%. The following companies made the largest contribution in terms of revenues earned:

- Aeffe Spa: revenues from sales rose by 10% with respect to the first quarter of 2006, from Euro 43,038 thousand to Euro 47,527 thousand in the first quarter of 2007. This increase was due to higher sales by all the brands promoted by the company;
- Moschino Group: revenues from sales rose by 2.3% from Euro 18,393 thousand in the first quarter of 2006 to Euro 18,812 thousand in the first quarter of 2007; this improvement reflects an increase in royalty income following higher sales for the SS/07 season with respect to SS/06, as offset by lower retail revenues due, in the main, to the closure of the Tokyo boutique;
- Aeffe Retail: revenues rose by 19% from Euro 2,500 thousand in the first quarter of 2006 to Euro 2,977 thousand in the first quarter of 2007;
- Aeffe Usa: revenues from sales rose by 10% from Euro 8,242 thousand in the first quarter of 2006 to Euro 9,052 thousand in the first quarter of 2007.

The revenues of the Footwear and leather goods Division rose by 19%. The following companies made the largest contribution in terms of revenues earned:

- Pollini Spa: revenues from the sale of footwear and leather goods rose by 12.8% with respect to the first quarter of 2006, increasing from Euro 15,995 thousand to Euro 18,040 thousand in the first quarter of 2007. This increase was mainly due to the expansion of production and the recovery of sales in the Italian market;
- Pollini Retail: revenues from the sale of footwear and leather goods rose by 22%, from Euro 3,982 thousand in the first quarter of 2006 to Euro 4,858 thousand in the first quarter of 2007. This increase was mainly due to the excellent performance of all the company's shops and, therefore, to the higher volume of sales; the company also benefited in the first quarter of 2007 from a new outlet not open during the first quarter of 2006.

Payroll costs

The incidence of payroll costs on revenues from sales fell from 19.2% in the first quarter of 2006 to 17.9% in the first quarter of 2007. This reduction stems from the organisational model adopted by the Group, which envisages the complete outsourcing of production for the prêt-à-porter, lingerie and beachwear lines while, at the same time, maintaining constant control over the principal stages in the value chain.

Gross profit (EBITDA)

EBITDA rose by 46.5% in absolute terms (49% holding exchange rates constant), increasing from 13.5% of revenues from sales in the first quarter of 2006 to 17.6% in the first quarter of 2007.

The improvement in the EBITDA of both Divisions derives from work that commenced in 2004, essentially with a view to increasing margins. This objective mainly involved the manufacturing sector, with a reduction in production and overhead costs, and improvements in the effectiveness and efficiency of business processes, while maintaining the high quality for which our products are reknowned.

The EBITDA of the Prêt-à-porter Division rose by 46% with respect to the first quarter of 2006. The following companies made the largest contribution in terms of EBITDA:

- Aeffe Spa: EBITDA rose by 37% from Euro 6,450 thousand in the first quarter of 2006 to Euro 8,838 thousand in the first quarter of 2007. The incidence of EBITDA on revenues from sales increased from 15% in the first quarter of 2006 to 19% in the first quarter of 2007; this improvement was due to the lower overall incidence of costs following successful application of the cost-rationalisation policy;
- Moschino Group: EBITDA rose by 71% from Euro 2,634 thousand in the first quarter of 2006 to Euro 4,506 thousand in the first quarter of 2007. The incidence of EBITDA on revenues from sales increased from 14% in the first quarter of 2006 to 24% in the first quarter of 2007; this improvement was due to the lower overall incidence of cost of sales at Moschino Far East and all shops, as well as to the reduction in service costs given the promotional expenses incurred during the first quarter of 2006 in relation to the Turin Winter Olympics;
- Aeffe Retail: EBITDA improved 133% from Euro - 133 thousand in the first quarter of 2006 to Euro 44 thousand in the first quarter of 2007. The rise in sales reflects better reception of the collections, as well as expansion of the retail market during the year;
- Aeffe Usa: EBITDA rose from Euro 257 thousand in the first quarter of 2006 to Euro 621 thousand in the first quarter of 2007, reflecting higher sales of the Spring-Summer collection with respect to the first quarter of last year.

The EBITDA of the Footwear and leather goods Division rose by 54% in the first quarter of 2007 with respect to the first quarter of 2006. The EBITDA of Pollini S.p.A. rose by 65.5% with respect to the first quarter of 2006. The EBITDA of Pollini.Retail rose by 32.4% compared with the same period of the previous year. These increments, more than proportional to the expansion of sales, are due to the lower overall incidence of costs confirming the successful application of the cost-rationalisation policy.

Net operating profit (EBIT)
Net operating profit rose by 65% in absolute terms, from Euro 7,672 thousand in the first quarter of 2006 to Euro 12,688 thousand in the first quarter of 2007. This represents an increase of 4.7 percentage points in the incidence on revenues with respect to the comparative period. The principal improvements were achieved by the Parent Company, the Moschino Group, Aeffe Retail S.p.A. and Aeffe U.S.A..

Profit before taxation
Profit before taxation rose from Euro 6,163 thousand in the first quarter of 2006 to Euro 10,443 thousand in the first quarter of 2007, up 69.4% in absolute terms. This progress reflects the improvement of EBITDA at the two Divisions, to which reference is made for further details.

Net profit attributable to the Group
The net profit attributable to the Group rose from Euro 2,828 thousand in the first quarter of 2006 to Euro 5,016 thousand in the first quarter of 2007, up 77.4% in absolute terms.

B) BALANCE SHEET

Net capital invested
Net capital invested has increased by 4.1% since 31st December 2006.

Net working capital
Net working capital has increased by 22% from Euro 44,020 thousand as of 31st December 2006 to Euro 53,780 thousand as of 31st March 2007.
This change was mainly due to seasonality, reflecting the timing of the economic-financial cycle associated with the Spring-Summer 2007 collection and resulting in an increase in the amounts due from customers.

Fixed assets
Fixed assets as of 31st March 2007 are down Euro 303 thousand with respect to 31st December 2006, due to the effect of depreciation and amortisation.

Net financial position
The net financial position totals Euro 118,575 thousand as of 31st March 2007. The deterioration of Euro 3,261 thousand since 31st December 2007 was due to seasonal effects (see above).

Shareholders' equity
Total shareholders' equity has increased by Euro 5,599 thousand. The reasons for this are discussed in full in the balance of this report.

Significant events subsequent to period end
There have not been any significant events subsequent to 31st March 2007.

Forecast for operations
The results of operations during the first quarter of 2007 were fully consistent with management's expectations, and with earlier forecasts for an improvement over the entire year. In particular, both revenues and margins were higher than in the corresponding period of the prior year.

AEFFE FASHION GROUP

REPORT OF THE AUDITING COMPANY

MAZARS

MAZARS & GUÉRARD

Aeffe S.p.A.
Independent Auditor's Report

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

1. We conducted the limited review of the consolidated interim financial statements of Aeffe SpA, consisting of the consolidated balance sheet and income statement, as at and for the three-months ended March 31, 2006. The consolidated interim financial statements have been prepared in accordance with the criteria required by International Financial Reporting Standards ("IFRS") endorsed by the European Commission. These consolidated interim financial statements are the responsibility of AEFFE SpA's directors. Our responsibility is to express an opinion on these consolidated interim financial statements based on the limited review.

2. We conducted our limited review in accordance with the auditing standards and criteria recommended by CONSOB (Italian National Commission for Companies and Stock Exchange). The limited review consists principally of applying analysis of the items included in the financial statement and making inquiries of persons responsible for financial and accounting matters on items and accounting criteria. This review does not include standard auditing procedures such as conformity and audit tests and validation procedures and it's substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of wich is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion on the quarterly consolidated financial statements.

3. Based on our review, we are not aware of any material modification that should be made to the accompanying quarterly consolidated financial statements, as specified in paragraph 1 of this report, for them to be in compliance with International Financial Reporting Standards ("IFRS") endorsed by the European Commission.

Bologna, May 16, 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
MAZARS & GUERARD S.P.A. - CAPITALE SOCIALE € 2.020.000 INT. VERS. - SEDE LEGALE: C.SO DI PORTA VIGENTINA, 35 - 20122 MILANO – REG. IMPRESE DI MILANO N. 196093 - REA N. 1059307
COD. FISC. N. 01507630489 - PART. IVA 05902570158 - AUTORIZZATA AI SENSI DI LEGGE 23/11/1939 N. 1966 - ISCRITTA NELL'ALBO SPECIALE DELLE SOCIETÀ DI REVISIONE CON DELIBERA CONSOB N. 10829
UFFICI IN ITALIA: BOLOGNA - MILANO - NAPOLI - PADOVA - PALERMO - ROMA – TORINO – FIRENZE - UDINE

MAZARS

MAZARS & GUÉRARD

Aeffe S.p.A.
Independent Auditor's Report

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

1. We conducted the limited review of the consolidated interim financial statements of Aeffe S.p.A., consisting of the consolidated balance sheet, income statement, statement of cash flows, statement of changes in shareholders' equity and related explanatory notes as at and for the three-months ended March 31, 2007. The consolidated interim financial statements have been prepared in accordance with the criteria required by International Financial Reporting Standards ("IFRS") endorsed by the European Commission. These consolidated interim financial statements are the responsibility of Aeffe S.p.A.'s Directors. Our responsibility is to express an opinion on these consolidated interim financial statements based on the limited review.

2. We conducted our limited review in accordance with the auditing standards and criteria recommended by CONSOB (Italian National Commission for Companies and Stock Exchange). The limited review consists principally of applying analysis of the items included in the financial statement and making inquiries of persons responsible for financial and accounting matters on items and accounting criteria. This review does not include standard auditing procedures such as conformity and audit tests and validation procedures and it's substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion on the quarterly consolidated financial statements.
For the opinion on the comparative financial information for three-month ended March 31, 2006 reference is made to our report issued on May 16, 2007.

3. Based on our review, we are not aware of any material modification that should be made to the accompanying quarterly consolidated financial statements, as specified in paragraph 1 of this report, for them to be in compliance with International Financial Reporting Standards ("IFRS") endorsed by the European Commission.

Bologna, May 16, 2007

Mazars & Guérard S.p.A.
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EXPLANATORY NOTES

ACCOUNTING POLICIES

Pursuant to art. 3 of Decree 38/2005 dated 28th February 2005, these consolidated financial statements have been prepared under the IFRS issued by the International Accounting Standards Board (IASB), and related interpretations, as endorsed by the European Commission in accordance with art. 6 of EC Regulation 1606/2002.
The accounting policies adopted for the preparation of this quarterly report in accordance with IAS 34 – Interim Financial Statements are the same as those applied for the preparation of the consolidated financial statements as of 31st December 2006.
The preparation of interim financial statements requires management to make suitable estimates and assumptions. Should these estimates and assumptions not reflect actual future circumstances, they will be revised in the period in which such changes in circumstance are identified.
The accounting policies are applied on a consistent basis by all Group companies.

SCOPE OF CONSOLIDATION

The scope of consolidation as of 31st March 2007 comprises the financial statements of Aeffe, the Parent Company, and of those Italian and foreign companies over which Aeffe exercises control or, in any case, a dominant influence either directly or via its subsidiaries and associates.
Where necessary, the financial statements of subsidiaries are adjusted for consistency with the accounting policies adopted by the Group.
Consolidation is carried out on a line-by-line basis. The principal criteria used for the application of this method are summarised below:

- the book value of equity investments held by the Parent Company or other consolidated companies is eliminated against the Group's interest in their shareholders' equity as of 31st March 2007, and their assets and liabilities are combined with those of the Parent Company;
- the difference between purchase cost and the fair value of the interests held in the equity of Group companies at the time of acquisition is allocated, where possible, to their assets and liabilities; any residual amount is treated as goodwill. In accordance with the transition provisions of IFRS 3, the Group has ceased to amortise goodwill and now subjects it to impairment testing;
- all significant transactions between consolidated companies are eliminated, together with the receivables, payables and unrealised profits deriving from transactions between Group companies, net of any tax effect;
- the minority interests in shareholders' equity and the net profit or loss for the year are classified separately in the balance sheet and the income statement;
- companies acquired during the year are consolidated from the date that control was obtained.

Subsidiaries
Subsidiaries are entities controlled by the Company. Control is defined as the power to determine, directly or indirectly, the financial and managerial policies of an entity in order to obtain benefits from its activities. The financial statements of subsidiaries are consolidated from the date that control commences until the date on which control ceases.
The acquisition of subsidiaries is recorded using the purchase method. The cost of the acquisition is determined to be the sum of the fair value of the assets transferred, the shares issued and the liabilities taken over at the acquisition date, plus the costs directly attributable to the acquisition. Any excess of acquisition cost over the purchaser’s interest in the net fair value of the assets, liabilities and identifiable contingent liabilities of the subsidiary acquired is recorded as goodwill.
If the purchaser’s interest in the net fair value of the assets, liabilities and identifiable

contingent liabilities of the subsidiary acquired exceeds acquisition cost, the difference is credited immediately to the income statement.
Intercompany balances and transactions are eliminated on consolidation, together with any unrealised revenues and costs.
In addition, intercompany business combinations are recorded so as to maintain the carrying amounts already recorded in the consolidated financial statements for the assets and liabilities concerned.

Associates
An associate is a company over which the Group exercises considerable influence, but not control or joint control, by participating in decisions concerning its financial and operating policies.
The results and the assets and liabilities of associates are recorded in the consolidated financial statements using the equity method, except when the companies concerned are classified as held for sale.
In accordance with this methodology, the equity investments concerned are recorded in the balance sheet at cost, as adjusted for post-acquisition changes in their net assets and any impairment in the value of the individual interests. The losses of associates that exceed the Group's equity interest in them (including non-current receivables that, in substance, represent part of the Group's net investment in the companies concerned) are not recognised, unless the Group is committed to covering such losses. The excess of acquisition cost over the Parent Company's interest in the fair value of the assets, liabilities and identifiable contingent liabilities of associates at the time of acquisition is recognised as goodwill. The goodwill included in the carrying amount of investments in associates is subjected to impairment testing. If acquisition cost is lower than the Group's interest in the fair value of the assets, liabilities and identifiable contingent liabilities of associates at the time of acquisition, the difference is credited to the income statement in the year of acquisition. With reference to the transactions between Group companies and associates, any unrealised profits or losses are eliminated in proportion to the Group's equity interest in the companies concerned, unless the unrealised losses represent evidence that the value of the asset transferred is impaired.

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

Company	Location	Currency	Share capital	Direct interest	Indirect interest
Companies consolidated using the line-by-line method:					
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	100%	
Velmar	S. G. in Marignano (RN – Italy)	EUR	492,264	75%	
Pollini Retail	Gatteo (FC – Italy)	EUR	5,000,000		72% (i)
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 (Rep. Ceca)	CZK	200,000		100.0% (iv)
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% (ii)
Moschino France	Paris (FR)	EUR	50,000		70.0% (ii)
Moschino Retail	Berlin (D)	EUR	100,000		70.0% (ii)
Moschino Far East	Hong Kong (HK)	USD	128,866		35.1% (iii)

Notes (analysis of indirect holdings):
(i) held 99.9% by Pollini;
(ii) held 100% by Moschino;
(iii) held 50.1% by Moschino;
(iv) held 100% by Aeffe Retail.
The following transactions took place during the period:
a) Aeffe Spa acquired the remaining 5% interest in Ferretti Studio;
b) Pollini Spa acquired a further 0.146% interest in Pollini Retail

FOREIGN CURRENCY

Functional currency and presentation currency

The amounts included in the financial statements of each Group company are measured using the functional currency, being the currency of the principal economic area in which the company operates. These consolidated financial statements are prepared in euro, the Parent Company's functional and presentation currency.

Foreign currency transactions and balances

Transactions denominated in foreign currencies are translated to the functional currency using the exchange rates applying at the transaction dates. Monetary foreign currency assets and liabilities are translated using the period-end exchange rates. Exchange differences deriving from the settlement of these transactions or the translation of monetary assets and liabilities are recorded in the income statement. Non-monetary assets and liabilities measured at their fair value in a foreign currency are translated using the exchange rate applying on the date that such fair value was determined.

Financial statements of foreign companies

The financial statements of foreign companies whose functional currency is not the euro are translated to euro on the following basis:

- assets and liabilities, including goodwill and the fair-value adjustments recorded on consolidation, are translated using the period-end exchange rates;
- revenues and costs are translated using the average rates for the period, which approximate the transaction date exchange rates;
- exchange differences are recorded as a separate component of shareholders' equity. On the disposal of a foreign company, the total exchange differences accumulated in relation to that company are released to the income statement.

The exchange rates used to translate to euro the financial statements of the companies included within the scope of consolidation are presented 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	1.3318	1.3105	1.2104	1.2020
United Kingdom Pounds	0.6798	0.6705	0.6964	0.686
Japanese Yen	157.32	156.4677	142.42	140.514
Czech Republic Koruny	28.01	28.0434	28.595	28.595

RECONCILIATION OF THE SHAREHOLDERS' EQUITY AND NET PROFIT OF THE PARENT COMPANY WITH 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	**70,443**	**3,782**
Reversal of the carrying amount of equity interests	- 87,843	
Portion of shareholders' equity and profits	128,299	1,940
Reversal of intercompany inventory margin	- 1,835	-140
Deferred tax assets (liabilities)	- 117	52
Transition to parent company accounting policies	810	
Other	- 1,705	
Total consolidation adjustments	**37,607**	**1,852**
Minority interests	**27,049**	**617**
Shareholders' equity, Group share	**81,002**	**5,016**
Total shareholders' equity	**108,050**	**5,634**

ATTACHMENT 1 - STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY DURING THE PERIOD ENDED 31st MARCH 2007

(in thousands of 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**	**2,054**	**6,519**	**12,400**	**391**	**7,448**	**11,120**	**- 5,774**	**7,981**	**75,986**	**26,465**	**102,451**
Allocation of 2005 profits			118	1,113					6,750	-7,981			
Dividends paid													
Exchange differences on translation													
Net income for the year										5,017	5,017	617	5,634
Other movements	- 2,700				2,700							- 35	- 35
BALANCES AS AT 31st DECEMBER 2006	**19,800**	**11,345**	**2,172**	**7,632**	**15,100**	**391**	**7,448**	**11,120**	**976**	**5,017**	**81,003**	**27,047**	**108,050**

ATTACHMENT 2 - RECLASSIFIED BALANCE SHEET AS OF 31st MARCH 2007

	Amounts as at 31.03.2007	Amounts as at 31.12.2006	Amounts as at 31.03.2006
Trade receivables	49,654,921	33,429,957	52,545,322
Stock and inventories	57,132,257	57,658,314	50,493,505
Trade payables	- 61,411,951	- 57,545,124	- 55,718,640
Operating net working capital	**45,375,228**	**33,543,147**	**47,320,188**
Other short term receivables	26,675,680	25,857,607	23,238,225
Tax receivables	1,948,678	2,339,179	1,976,063
Other short term liabilites	- 12,173,713	- 12,768,552	- 12,506,645
Tax payables	- 8,045,618	- 4,951,812	- 4,506,062
Net working capital	**53,780,256**	**44,019,570**	**55,521,768**
Tangible fixed assets	70,094,641	69,895,400	67,327,982
Intangible fixed assets	174,590,135	175,073,292	177,870,734
Investment property			
Investments	91,400	120,638	220,525
Other long term receivables	2,886,910	2,877,143	4,275,598
Fixed assets	**247,663,085**	**247,966,473**	**249,694,838**
Post employment benefits	- 13,640,111	- 13,508,741	- 12,685,444
Long term provisions	- 1,783,037	- 1,741,230	- 1,607,854
Not financial assets available for sale	1,623,955	1,636,885	1,675,676
Other long term liabilites	- 14,045,242	- 14,045,132	- 14,045,132
Deferred tax assets	10,520,941	10,741,117	11,361,353
Deferred tax liabilites	- 57,494,786	- 57,303,971	- 54,130,795
NET CAPITAL INVESTED	**226,625,062**	**217,764,971**	**235,784,411**
Capital issued	19,800,000	22,500,000	22,500,000
Other reserves	55,208,957	51,277,701	53,652,990
Profits (Losses) carried-forward	976,428	- 5,773,135	- 5,774,397
Profits (Loss) for the period	5,016,365	7,981,220	2,828,145
Group share capital and reserves	**81,001,750**	**75,985,786**	**73,206,738**
Minority interests	27,048,096	26,465,309	26,112,144
Shareholders' equity	**108,049,846**	**102,451,095**	**99,318,882**
Other short term financial receivables		- 4,175,000	
Negotiable securities recognized at fair value			
Cash	- 14,229,064	- 11,145,222	- 12,091,974
Long term financial payables	63,987,101	66,196,757	66,761,286
Short terms financial payables	68,817,179	64,437,341	81,796,217
NET FINANCIAL POSITION	**118,575,216**	**115,313,876**	**136,465,529**
SHAREHOLDERS' EQUITY AND NET FINANCIAL INDEBTEDNESS	**226,625.063**	**217,764,971**	**235,784,411**

COMMENTS ON THE PRINCIPAL BALANCE SHEET CAPTIONS

A) NON-CURRENT ASSETS

Intangible assets
These mainly consist of brand names and goodwill. The reduction with respect to 31st December 2006 was mainly due to amortisation of the Group's brands.

Property, plant and equipment
These principally consist of land, buildings and leasehold improvements.
The changes since 31st December 2006 comprise the depreciation charge, additions to buildings and leasehold improvements.
The increase in buildings was mainly due to the cost of renovating the building at San Giovanni in Marignano, Euro 518 thousand.

OTHER NON-CURRENT ASSETS

Equity investments
This caption comprises the investments in non-consolidated associates measured using the equity method, together with other equity investments measured at their fair value which is essentially represented by their cost.
This caption mainly relates to the investment in Narciso Rodriguez LLC held by Aeffe Usa. The reduction with respect to 31st December 2006 reflects the write-down of this investment and the related exchange-rate effect totalling Euro 29 thousand.

Financial receivables
This caption mainly includes the guarantee deposits and advance payments made in relation to commercial lease contracts. The balance as of 31st March 2007 is in line with that as of 31st December 2006.

Deferred tax assets
This caption mainly reflects the deferred tax assets recorded on the first-time adoption of IAS and in relation to tax losses carried forward, since it is reasonably certain that Group companies will earn sufficient taxable income for the recovery of these amounts.
The reduction mainly reflects the release of the deferred tax assets relating to Moschino Far East.

Assets held for sale
This caption mainly reflects the fair value of the investment in Pollini France and the related financial receivable; the Group is already working to complete the sale, which is expected to take place during 2007. The balance as of 31st March 2007 is in line with that as of 31st December 2006.

B) CURRENT ASSETS

Inventories
This caption comprises:
- Raw materials and work in process, Euro 22,329 thousand;
- Finished products, Euro 34,475 thousand;
- Advances for the purchase of raw materials, Euro 329 thousand.

The reduction since 31st December 2006 of Euro 526 thousand mainly reflects the lower inventories held in relation to the Spring-Summer 2007 collection.

Trade receivables

This caption comprises trade receivables, stated net of the allowance for doubtful accounts. The increase since 31st December 2006 of Euro 16,225 thousand was due to seasonal effects (see the note on net working capital).

Tax receivables

As of 31st March 2007, the Group's tax receivables from the various authorities amount to Euro 1,949 thousand, principally in relation to VAT recoverable. The reduction with respect to 31st December 2006 mainly reflects a decrease in VAT recoverable.

Cash and cash equivalents

Bank and postal deposits represent the nominal value of the current account balances with banks, including the interest accrued at period end.

Cash on hand and equivalents represents the nominal value of the cash held at period end. The increase in cash and cash equivalents during the first quarter of 2007 was Euro 3,084 thousand. The reasons for this are analysed in the cash flow statement, having regard for the fact that the opening balance for the period includes current financial receivables.

Current financial receivables

There are no current financial receivables as of 31st March 2007. As of 31st December 2006, this caption included Euro 4,175 thousand due to Aeffe Retail following the disposal of the line of business represented by the Narciso Rodriguez shop in Milan. This amount was collected on 10th January 2007.

Other current assets

This caption mainly comprises:

- Deferred costs, Euro 16,562 thousand, incurred to design and make samples for the Autumn-Winter 2007 and Spring-Summer 2008 collections, which will be matched with the corresponding revenue from sales.
- Advances against royalties and commissions, Euro 1,119 thousand, paid in accordance with the related contracts, which will be matched with the corresponding revenue from sales.
- Accrued income and prepaid expenses, Euro 4,115 thousand, mainly comprise prepaid property leases, insurance and royalties.

C) SHAREHOLDERS' EQUITY

Shareholders' equity is analysed as follows:

(in thousands of euro)	**31st March 2007**	**31st December 2006**
Share capital	19,800	22,500
Share premium reserve	11,345	11,345
Tresury stock		
Conversion reserve	391	391
Reserve for issue partecipatory financial instruments	15,100	12,400
Other reserves	9,804	8,573
Fair value reserve	7,448	7,448
Ias reserve	11,120	11,120
Retained earnings (losses)	976	- 5,773
Net profit (loss for the period)	5.016	7,981
Group interest in shareholders' equity	**81,002**	**75,986**
Minority capital and reserve	26,431	25,903
Minority intrest income for the period	617	562
Minority interest in shareholders' equity	**27,048**	**26,465**

As previously reported, the ordinary and extraordinary meeting of the shareholders of Aeffe held on 26th October 2006 had the following agenda:

- authorisation to purchase 1,800,000 treasury shares;
- issue to shareholders, in proportion to the shares held by them, of convertible financial instruments totalling Euro 40,000 thousand pursuant to the final paragraph of art. 2346 of the Italian Civil Code, which gave rise to a receivable for this amount due from IM Fashion which, as discussed later, was the only shareholder that subscribed;
- reduction of share capital from Euro 22,500 thousand to Euro 19,800 thousand via the purchase and subsequent cancellation of 2,700,000 treasury shares.

On 13th November 2006, IM Fashion, Massimo Ferretti and Alberta Ferretti (the Trustees) purchased 4,500,000 shares in their names but on behalf of the company (under a specific joint mandate without representation) for Euro 46,000 thousand from LDV SA.
The Shares had to be acquired via the Trustees, on the basis described above, since the related certificate representing them had been unilaterally signed over to the shareholders concerned by its holder, LDV Holding B.V. This was done in relation to a dispute (now completely settled) with the above shareholders regarding the legitimacy of the exercise by LDV Holding B.V. of a put option involving them.
I.M. Fashion subscribed for and paid for all the participating equity instruments issued in accordance with the Aeffe resolution dated 26th October 2006, by taking over the liability to LDV Holding B.V. of Euro 40,000 thousand, incurred by Aeffe via the Trustees on the purchase of the above shares.
The Trustees signed over 1,800,000 shares (representing 8% of the share capital of Aeffe) on 13th December 2006 for Euro 18,400 thousand, of which Euro 6,000 thousand was paid and Euro 12,400 thousand was offset against the amount due from IM Fashion following its subscription for the participating equity instrument.
The Trustees signed over 2,700,000 shares (representing 12% of the share capital of Aeffe)

on 2nd March 2007 for Euro 27,600 thousand, which was offset against the residual amount due from IM Fashion following its subscription for the participating equity instrument.
On 2nd March 2007, the Parent Company also reduced share capital in relation to these 2,700,000 shares.
In accordance with the general principle of substance over form, the Parent Company recognised as of 31st December 2006 the effects of the share cancellation that took place on 2nd March 2007. In particular, in order to reflect more fairly the value of shareholders' equity, the amount due from IM Fashion following its subscription for the equity instrument, Euro 27,600 thousand, was offset (since it effectively represented the purchase of treasury shares) against the reserve for participating equity instruments issued pursuant to the final paragraph of art. 2346 of the Italian Civil Code.
The regulations for the equity instruments approved at the shareholders' meeting include the following provisions:

- the equity instruments must be converted into shares on 31st October 2012, without charge, although they may be converted earlier;
- until converted, the holders of the equity instruments will be entitled to receive nominal annual interest linked to 6-month Euribor plus a spread of 0.60 points from the date of subscription until the first anniversary (31st October 2007). For the subsequent period, the spread will be increased to 1.30 points;
- holders of participating equity instruments, as defined in the regulations, are not entitled to share in the profits or vote at shareholders' meetings until such instruments have been converted into shares in the company;
- The regulations envisage the application of either an exact or an adjusted conversion mechanism, depending on whether the shareholders' equity of Aeffe on the conversion date is between Euro 219,000 thousand and Euro 234,000 thousand, or less than Euro 219,000 thousand or more than Euro 234,000 thousand. The adjustment of the conversion criterion enables the holders to guarantee the minimum value of their investment, which cannot be less than 75% of the nominal value of the financial instruments presented for conversion, and Aeffe to retain part of the additional value that the shares would have if the equity value of the company exceeded Euro 234,000 thousand. In particular, the regulations state that, on conversion, the true value of the shares obtained by the holders cannot exceed by more than 50% the value of the financial instruments presented for conversion.

The holder of the participating equity instruments intends to convert them early if the company obtains a stock exchange listing.

Share capital
Share capital as of 31st March 2007 is represented by 19,800,000 issued and fully-paid shares, par value Euro 1 each, totalling Euro 19,800 thousand.
The reduction of Euro 2,700 thousand since 31st December 2006 follows the cancellation of the treasury shares referred to above.

Share premium reserve
The Share premium reserve is unchanged with respect to 31st December 2006.

Reserve for participating equity instruments
This caption represents the reserve created on the issue of the participating equity instruments referred to above.

Other reserves
The changes in this caption comprise an allocation from the net profit of the prior year.

Fair value reserve
The Fair value reserve derives from the application of IAS 16 in order to measure the land and buildings owned by Aeffe and Nuova Stireria Tavoleto at their fair value, as determined with reference to an independent appraisal.

The effect of the above remeasurement is recorded separately in this equity reserve.

IAS reserve
The IAS reserve, formed on the first-time adoption of IFRS, reflects the differences in value that emerged on the transition from ITA GAAP to IFRS. The differences reflected in this equity reserve are stated net of tax effect, as required by IFRS 1. All the differences emerging were allocated on a proportional basis to the minority interests.

Minority interest in share capital and reserves
The increase in share capital and reserves mainly reflects the portion of net profit for the first quarter of 2007 attributable to the minority shareholders.
The minority interest comprises the interest in the shareholders' equity of consolidated companies owned by other shareholders and includes their share of the IAS reserve.

D) NON-CURRENT LIABILITIES

Provisions
Provisions comprise:

- Agents' termination indemnities: these reflect an estimate of the costs to be incurred on the termination of agency contracts, considering legal requirements and all other useful information, such as historical experience, the average duration of agency contracts and their rate of rotation. The amount stated represents the present value of the payments required to settle the obligation.
- Other provisions: these mainly comprise the provision recorded by Moschino in relation to the dispute over the filing of the Friends brand name for perfumes. The provision represents the maximum charge to be incurred by the company.

The amounts reported as of 31st March 2007 are in line with those as of 31st December 2006.

Deferred tax liabilities
Deferred tax liabilities as of 31st March 2007 amount to Euro 57,495 thousand and are essentially unchanged since 31st December 2006.

Post-employment benefits
This caption relates to the severance indemnities due to all employees of Italian Group companies on the termination of their employment, as recalculated in accordance with IAS 19.
Each year, the Group provides an amount for each employee based on their remuneration and on the revaluation of the amounts provided in prior years. This unfunded provision covers the entire liability to these employees.

Financial liabilities
This caption comprises amounts due to banks beyond 12 months, Euro 49,718 thousand, and amounts due to other providers of finance, Euro 14,269 thousand.
The reduction since 31st December 2006, Euro 2,210 thousand, mainly reflects the reclassification to current financial liabilities of the current portion of long-term loans.

Other non-current liabilities
This caption includes Euro 14,045 thousand due by Moschino in relation to an interest-free shareholder loan from Sinv. This payable is similar to a payment on capital account and arose on the purchase of Moschino by the Parent Company and Sinv in 1999. The loan was made in proportion to the equity interests held by the Parent Company and Sinv in Moschino; the only changes in this caption since the payable was initially recorded relate to the conversion of the loan into share capital.

E) CURRENT LIABILITIES

Trade payables
The increase since 31st December 2006 reflects progress in the production cycle for the Spring-Summer and Autumn-Winter 2007 collections.

Tax payables
This caption comprises VAT payable, Euro 521 thousand; Ires payable, Euro 4,603 thousand; Irap payable, Euro 1,210 thousand; withholding taxes payable, Euro 1,664 thousand, and other tax payables, Euro 47 thousand.
The increase since 31st December 2006 reflects the tax charge deriving from the calculation of taxable income for the first quarter of 2007.

Financial liabilities
This caption comprises amounts due to banks within 12 months, Euro 66,778 thousand, and amounts due to other providers of finance, Euro 2,039 thousand.
Bank overdrafts include advances from banks, short-term loans and the current portion of long-term loans. Advances mainly comprise the drawdown against short-term lines of credit arranged to finance working capital. Short-term loans (due within 12 months) represent loans granted by the banking system to the Parent Company and other Group companies.
As of 31st March 2007, other providers of finance principally include the financial payables recorded in the consolidated financial statements in accordance with finance lease accounting methodology.
The increase since 31st December 2006 reflects the reclassification of the current portion of long-term loans, as well as greater recourse to short-term bank borrowing due to the effects of seasonality on commercial flows.

Other current liabilities
Other current liabilities comprise: Amounts due to social security and pension institutions, Amounts due to employees, Amounts due to customers, Accrued expenses and deferred income, and other payables.
The amounts due to social security and pension institutions, recorded at nominal value, relate to the social security charges on the wages and salaries of Group employees.
Accrued expenses and deferred income mainly relate to the deferral of income to later periods by Moschino.
Other payables mainly comprise commissions due.

COMMENTS ON THE PRINCIPAL INCOME STATEMENT CAPTIONS

A) REVENUES FROM SALES AND SERVICES
This caption mainly comprises revenues from the sales of products, revenues from royalties, and revenues from commissions and other services.
The increase with respect to 31.03.06 is 12% or Euro 9,564 thousand. This was achieved due to the better performance of the Spring-Summer 2007 collection with respect to the Spring-Summer 2006 collection.

B) OTHER REVENUES AND INCOME

This caption is analysed below:

(in thousands of euro)	31st March 2007	31st March 2006	Δ	Change %
Extraordinary income	83	89	- 6	- 7%
Exchange gains	396	427	- 31	- 7%
Sales of raw materials and packaging	76	74	2	3%
Rental income	21	27	- 6	- 23%
Other income	269	330	- 61	- 19%
Total	**845**	**947**	**- 102**	**- 11%**

The reduction mainly relates to the exchange gains realised on commercial transactions.

C) RAW MATERIALS, CONSUMABLES AND GOODS FOR RESALE

This caption mainly reflects the purchase of raw materials, such as fabrics, yarns, hides and accessories, finished products acquired for resale and packaging.
The increase is closely linked with the rise in the volume of sales, which resulted in greater revenues and production.

D) SERVICES

This caption comprises:

(in thousands of euro)	31st March 2007	31st March 2006	Δ	Change %
Subcontracted work	9,044	8,738	306	4%
Consultancy fees	3,273	3,509	- 236	- 7%
Advertising	4,528	4,570	- 42	- 1%
Commissions	2,669	2,497	172	7%
Transport	1,750	1,782	- 31	- 2%
Utilities	639	625	15	2%
Directors' and auditors' fees	921	804	117	15%
Insurance	218	315	- 97	- 31%
Bank charges	245	289	- 44	- 15%
Employee refunds	268	300	- 32	- 11%
Travelling expenses	409	401	7	2%
Sundry industrial services	633	562	71	13%
Other services	1,514	1,394	119	9%
Total	**26,112**	**25,787**	**325**	**1%**

The principal increases relate to outsourcing costs, rebates and commissions deriving from the expansion in the Group's volume of business during the first quarter of 2007 with respect to the first quarter of 2006.
The principal decreases relate to insurance costs, following the reorganisation of Group policy in this area.

E) LEASES AND RENTALS

This caption comprises:

(in thousands of euro)	31st March 2007	31st March 2006	Change Δ	%
Rental expenses	2,868	2,882	- 14	0%
Royalties	1,542	1,556	- 14	-1%
Hire charges and similar	182	180	2	1%
Operating lease fees	57	26	31	121%
Total	**4,649**	**4,644**	**4**	**0%**

The amounts are essentially in line with those for the comparative period of last year.

F) PAYROLL COSTS

The incidence of payroll costs on revenues from sales fell from 19.2% in the first quarter of 2006 to 17.9% in the first quarter of 2007. This reduction stems from the organisational model adopted by the Group, which envisages the complete outsourcing of production for the prêt-à-porter, lingerie and beachwear lines while, at the same time, maintaining constant control over the principal stages in the value chain.

G) AMORTISATION, DEPRECIATION AND WRITE-DOWNS

The amortisation of intangible assets mainly relates to the Group's brand names. These are amortised over 40 years.
The depreciation of property, plant and equipment has decreased by 8% due to the reduction in leasehold improvements and plant and machinery following the disposal of non-strategic shops, such as the boutique in Japan operated by Moschino Far East and the Narciso Rodriguez boutique in Milan operated by Aeffe Retail.
Write-downs in the first quarters of 2007 and 2006 reflect the impairment of the financial receivables due to Moschino Far East by its Chinese correspondent.

H) FINANCIAL INCOME AND CHARGES

Financial income comprises: bank interest income, financial discounts, exchange gains and other financial income. The amount for the first quarter of 2007 is essentially in line with that for the first quarter of 2006.
Financial charges comprise: bank interest expense, leasing interest, exchange losses and other charges. The overall increase in financial charges reflects the rise in the cost of money, which more than offset the effect of lower net borrowing by the Group during the period with respect to the first quarter of 2006.

I) SHARE OF PROFITS (LOSSES) OF ASSOCIATES

This caption relates to the write-down of the investment in Narciso Rodriguez held by Aeffe Usa.

J) INCOME TAXES

Taxation increased from Euro 3,131 thousand in the first quarter of 2006 to Euro 4,809 thousand in the first quarter of 2007. The effective consolidated tax rates were 50.8% and 46.1% respectively. Deferred tax assets and liabilities were calculated using a theoretical rate of 37.25%, rather than 33%, with respect to all temporary differences between the tax value of assets and liabilities and their carrying amounts in the consolidated financial statements. These represent amounts which are tax allowable or taxable in periods other than the current year.

SEGMENT AND OTHER INFORMATION

Various segments can be identified within a group. These each represent a collection of product and services with similar characteristics (business segment), or relevant to a specific geographical area (geographical segment), which are subject to different risks and benefits with respect to other segments. The Group is primarily segmented for reporting purposes by business area, with secondary segmentation by geographical area, for which net revenues and assets are reported.

A) PERFORMANCE BY BUSINESS SEGMENT

The Group is organised worldwide into two principal business segments:

- Prêt-à-porter Division;
- Footwear and leather goods Division.

The Prêt-à-porter Division principally comprises Aeffe, Moschino and Velmar and essentially creates, produces and distributes collections of luxury prêt-à-porter clothing, and collections of lingerie, beachwear and loungewear.
Aeffe carries out activities relating to the prêt-à-porter clothing collections, both for the Group's house brands ("Alberta Ferretti", "Philosophy di Alberta Ferretti", "Moschino", "Moschino Cheap and Chic" and "Pollini"), and for the brands licenced by other maisons (such as "Jean Paul Gaultier", "Narciso Rodriguez" and "Authier"). Aeffe also manages the distribution of all the Division's products, both via the retail channel operated by subsidiaries, and via the wholesale channel.
Velmar produces and distributes collections of underwear and beachwear including, in particular, the collections of lingerie, underwear and beachwear for men and women, and loungewear. These collections are produced and distributed both using the Group's house brands, such as "Alberta Ferretti", "Philosophy di Alberta Ferretti", "Moschino" and "Verdemare", and using brands licenced from third parties, such as "Blugirl".
The Prêt-à-porter Division also manages the licences granted to non-Group companies for the production of lines under the brands owned by Aeffe and Moschino including, in particular, the licences to use the "Moschino" brand for jeans, to distribute perfumes under the "Moschino" and "...Oh! de Moschino" brands, and to use the "Moschino" brand on eyewear.

The principal economic information for the periods ended 31st March 2007 and 31st March 2006 relating to the Prêt-à-porter and Footwear and leather goods Divisions.

(in thousand of euro)		2007		2006	
	Distribution of revenue by Division	**31st March 2007**	**% of total**	**31st March 2006**	**% of total**
Ready-to-wear	Revenue	69,962	81.1%	63,481	82.7%
	EBITDA after non-recurring operations(1)	13,851	91%	9,501	91.4%
	% EBITDA after non-recurring operations	19.8%		15%	
Footwear and leather goods	Revenue	20,755	24.1%	17,409	22.7%
	EBITDA after non-recurring operations(1)	1,377	9%	895	8.6%
	% EBITDA after non-recurring operations	6.6%		5.1%	
Elimination of intercompany transactions		- 4,419	-5.1%	- 4,156	-5.4%
Total	**Revenue**	**86,298**	**100.0%**	**76,735**	**100.0%**
	EBITDA after non-recurring operations (1)	**15,228**	**100.0%**	**10,397**	**100.0%**
	%EBITDA after non-recurring operations	**17.6%**		**13.5%**	

(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.

Prêt-à-porter Division

Revenues from sales by the Prêt-à-porter Division rose from Euro 63,481 thousand in the first quarter of 2006 to Euro 69,962 thousand in the first quarter of 2007, up 10%. This Division contributed 82.7% of consolidated revenues in the first quarter of 2006 and 81.1% in the first quarter of 2007, before inter-Divisional eliminations.

The EBITDA of the luxury Prêt-à-porter Division rose significantly from Euro 9,501 thousand in the first quarter of 2006 to Euro 13,851 thousand in the first quarter of 2007, due to both higher revenues and the lower incidence of costs. These fell from 85% in the first quarter of 2006 to 80.2% in the first quarter of 2007, mainly because of the reduced incidence of payroll costs and services.

The following companies made the largest contribution within the Division in terms of revenues and EBITDA:

- Aeffe: revenues from sales rose by 10% with respect to the first quarter of 2006, from Euro 43,038 thousand to Euro 47,527 thousand in the first quarter of 2007. This increase was due to higher sales by all the brands promoted by the company. EBITDA rose by 37% from Euro 6,450 thousand in the first quarter of 2006 to Euro 8,838 thousand in the first quarter of 2007. The incidence of EBITDA on revenues from sales increased from 15% in the first quarter of 2006 to 19% in the first quarter of 2007; this improvement was due to the lower overall incidence of costs following successful application of the cost-rationalisation policy.
- Moschino Group: revenues from sales rose by 2.3% from Euro 18,393 thousand in the first quarter of 2006 to Euro 18,812 thousand in the first quarter of 2007; this

improvement reflects an increase in royalty income following higher sales for the SS/07 season with respect to SS/06, as offset by lower retail revenues due, in the main, to the closure of the Tokyo boutique. EBITDA rose by 71% from Euro 2,634 thousand in the first quarter of 2006 to Euro 4,506 thousand in the first quarter of 2007. The incidence of EBITDA on revenues from sales increased from 14% in the first quarter of 2006 to 24% in the first quarter of 2007; this improvement was due to the lower overall incidence of cost of sales at Moschino Far East and all shops, as well as to the reduction in service costs given the promotional expenses incurred during the first quarter of 2006 in relation to the Turin Winter Olympics;

- Aeffe Retail: revenues from sales rose by 19% from Euro 2,500 thousand in the first quarter of 2006 to Euro 2,977 thousand in the first quarter of 2007. EBITDA improved 133% from Euro - 133 thousand in the first quarter of 2006 to Euro 44 thousand in the first quarter of 2007. The rise in sales reflects better reception of the collections, as well as expansion of the retail market during the year.
- Aeffe Usa: revenues from sales increased by 10% from Euro 8,242 thousand in the first quarter of 2006 to Euro 9,052 thousand in the first quarter of 2007. EBITDA rose from Euro 257 thousand in the first quarter of 2006 to Euro 621 thousand in the first quarter of 2007, reflecting higher sales of the Spring-Summer collection with respect to the first quarter of last year.

Footwear and leather goods Division

The footwear and leather goods Division, comprising Pollini and its subsidiaries, mainly operates in the creation, production and distribution of footwear, small leather goods, bags and coordinated accessories, using exclusive-quality materials. Operations are mainly carried on by Pollini, which is directly responsible for the creation, production and distribution of own-brand products, as well as for the production and distribution of the brands licenced from other Group companies.

The Footwear and leather goods Division is also responsible for managing the licence contracts granted to non-Group companies for the creation of product lines branded Pollini and Studio Pollini, including the licences granted for the creation of eyewear.

Revenues from sales by the Footwear and leather goods Division rose by 19% in the first quarter of 2007 with respect to the comparative period in 2006, increasing from Euro 17,409 thousand to Euro 20,755 thouand in the first quarter of 2007. EBITDA rose by 54% from Euro 895 thousand in the first quarter of 2006 to Euro 1,377 thousand in the first quarter of 2007. The incidence of EBITDA on revenues from sales increased from 5.1% in the first quarter of 2006 to 6.6% in the first quarter of 2007.

The following companies contributed in terms of revenues and EBITDA:

- Pollini Spa: revenues from the sale of footwear and leather goods rose by 12.8% from Euro 15,995 thousand in the first quarter of 2006 to Euro 18,040 thousand in the first quarter of 2007. This increase was mainly due to the expansion of production and the recovery of sales in the Italian market. EBITDA in the first quarter of 2007 rose by 65.5% with respect to the first quarter of 2006. This increment confirms the successful application of the cost-rationalisation policy adopted by the Group and in particular by the footwear and leather goods Division since 2004.
- Pollini Retail: revenues from the sale of footwear and leather goods rose by 22%, from Euro 3,982 thousand in the first quarter of 2006 to Euro 4,858 thousand in the first quarter of 2007. This increase was mainly due to the excellent performance of all the company's shops and, therefore, to the higher volume of sales. The company also benefited in the first quarter of 2007 from a new outlet not open during the first quarter of 2006. EBITDA rose by 32.4% compared with the same period of the previous year. This increment, more than proportional to the expansion of sales, is due to the lower overall incidence of costs confirming the successful application of the cost-rationalisation policy.

B) ECONOMIC PERFORMANCE BY GEOGRAPHICAL AREA

Revenues from sales, amounting to Euro 76,735 thousand in the first quarter of 2006 and Euro 86,298 thousand in the first quarter of 2007, were mainly earned in Italy, Europe and the United States which together contributed 76.2% of total Group sales in the first quarter of 2006 and 79.2% in the first quarter of 2007. The geographical distribution of revenues from sales means that the Group is not dependent on any specific geographical area. Revenues from foreign sales represented 60.3% of the Group's total revenues from sales in the first quarter of 2007. There was a significant increase in the revenues from Group sales earned in Italy, from 37.8% in the first quarter of 2006 to 39.7% in the first quarter of 2007, while revenues from sales earned in Europe rise from 27% in the first quarter of 2006 to 27.7% in the first quarter of 2007. The balance was earned in the Far East, Japan and the rest of the world.

Revenues from sales are analysed by geographical area below:

(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	**31.03.07**	**31.03.06**	**31.03.07**	**31.03.06**	**31.03.07**	**31.03.06**	**31.03.07**	**31.03.06**
Italy	24,225	20,714	13,319	11,300	- 3,264	- 3,031	34,280	28,983
Europe (excluding Italy)	19,179	16,799	4,759	4,105	- 76	- 156	23,862	20,748
Japan	6,146	6,796	159	75	- 92	- 36	6,212	6,835
United States	10,134	8,799	948	663	- 863	- 732	10,219	8,730
Far East	6,135	6,614	245	485	- 90	- 200	6,290	6,899
Rest of the World	4,145	3,759	1,324	781	- 34		5,436	4,540
Total	**69,962**	**63,481**	**20,755**	**17,409**	**- 4,419**	**- 4,156**	**86,298**	**76,735**

C) EARNINGS PER SHARE

Basic earnings per share

(in thousand of euro)	**31st March 2007**	**31st March 2006**
Consolidated earnings for the period for shareholders of the parent company	0.2533	0.1257
Average number of shares as at 31st December 2006	19,800,000	22,500,000

D) TRANSACTIONS WITH RELATED PARTIES

Intercompany balances and transactions between Group companies included within the scope of consolidation have been eliminated from the consolidated financial statements; accordingly, they are not described here.
The following schedules summarise the Group's transactions with other related parties:

Parties involved and description of the transaction *(in thousands of euro)*	**31st March 2007**	**31st March 2006**	**Nature of the transaction**
Shareholder Alberta Ferretti with Aeffe			
Brand transfer agreement		1,000	Financial payable
Contract for the sale of artistic assets and design collaboration	54	53	Cost
Ferrim with Aeffe			
Property rental	50	50	Cost
Property rental	190	190	Cost
Property rental	12	12	Cost
Property rental	59	59	Cost
Ferrim with Moschino			
Property rental	193	190	Cost
Società Commerciale Valconca			
Commercial	25	24	Income
Commercial	616	831	Receivable

The transactions were carried out on arms'-length terms.

The following table analyses the incidence that the balances and transactions with related parties have on the Group's operating and financial position as of 31st March 2007:

Related parties *(in thousands of euro)*	**Total**	**Amount**	**%**
Incidence of related party transactions on the balance sheet			
Current financial liabilities	68,817		0.0%
Trade receivables	49,665	616	1.2%
Incidence of related party transactions on the income statement			
Revenue	86,298	25	0.0%
Services	26,112	54	0.2%
Lease and rental expense	4,649	504	10.8%
Incidence of related party transactions on cash flow			
Net cash balances used in financing activities	- 91		0.0%
Net cash balances used in operating activities	1,307	583	44.6%

E) NON-RECURRING EVENTS AND SIGNIFICANT TRANSACTIONS

There were no non-recurring events or significant transactions in the two quarters under review.

F) CONTINGENT LIABILITIES

Fiscal disputes

The Group's fiscal disputes relate to the following companies:
Aeffe: on 16th December 2006, the Rimini Provincial Tax Commissioners published a sentence that cancelled 2 notices of assessment issued by the Rimini Tax Authorities in November 2004 regarding costs deemed not allowable and the write-down of the investment in Moschino. These assessments related to the 1999 and 2000 tax years and the positive outcome means that further developments in this dispute can be considered in a positive light.
On 22th June 2005, the Emilia-Romagna Regional Tax Police issued inspection minutes regarding the 2003 and 2004 tax years in relation to costs not deemed deductible and the alleged improper recovery of VAT. A defence memorandum was presented in June 2005 and, to date, no notice of assessment has been received. The arguments supported by the company and the professional advisors appointed in relation to this dispute are expected to result in a positive outcome with regard to the costs deducted.
Pollini: the company has appealed to the Forlì Provincial Tax Commissioners against two notices of assessment received on 19th December 2006 from the Forlì-Cesena Tax Authorities regarding costs deemed not allowable and the alleged improper recovery of VAT. Here too, the arguments supported by the company and the professional advisors appointed are expected to result in a positive outcome for the dispute.
On 25th January 2007, Pollini Spa received two notices of assessment regarding the non-deductibility of IRAP and IRES taxes relating to the 2001 and 2002 tax years. The company has appealed to the Forlì Provincial Tax Commissioners. The Commissioners are expected to rule in the company's favour.
Ferretti Studio: in February 2007, the Cattolica Tax Police completed a general inspection regarding the 2004 – 2005 – 2006 tax years. The minutes of the inspection report matters of an insignificant amount.
No provisions have been recorded in relation to the above disputes, since the defensive arguments supported by the company and the professional advisors appointed are deemed to be fully sustainable.
Having heard the opinion of its tax consultants, the directors do not consider likely the crystallisation of liabilities in relation to the above disputes.