

DONNA KARAN MANAGEMENT COMPANY UK LTD

Report and Accounts

2 January 2000

 ERNST & YOUNG



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Donna Karan Management Company UK Ltd

Registered No. 03693527

DIRECTORS

D I Karan
G Brusone

SECRETARY

Jordan Company Secretaries Limited

AUDITORS

Ernst & Young LLP
Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH

REGISTERED OFFICE

20-22 Bedford Row
London WC1R 4JS

 ERNST & YOUNG

DIRECTORS' REPORT

The directors present their first report and accounts for the period since incorporation to 2 January 2000.

RESULTS AND DIVIDENDS

The profit for the period, after taxation, amounted to £30,367. The directors do not recommend the payment of an ordinary dividend for the period which leaves a profit of £30,367 to be retained.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The company was incorporated on 5 January 1999 and commenced its business on 15 March 1999. During the period, the company issued 2 ordinary shares of £1 each at par for cash.

The company provides assistance to fellow group companies in relationships and contacts with European suppliers and with other general commercial advice as required.

This activity is expected to continue for the foreseeable future.

DIRECTORS AND THEIR INTERESTS

The directors during the period and appointed subsequently were as follows:

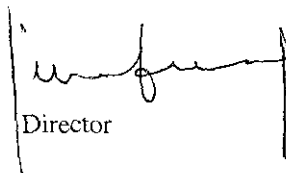
Instant Companies Limited	(appointed 5 January 1999, resigned 5 January 1999)
J B Parsons	(appointed 5 January 1999, resigned 16 November 2001)
A C Dove	(appointed 5 January 1999, resigned 19 February 1999)
J D Idol	(appointed 19 February 1999, resigned 13 July 2001)
D I Karan	(appointed 19 February 1999)
G Brusone	(appointed 26 September 2001)

None of the directors has any interest in the share capital of the company.

AUDITORS

On 28 June 2001, Ernst & Young, the company's auditor, transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28 June 2001. Ernst & Young LLP will be reappointed as the company's auditor in accordance with the elective resolution passed by the company under section 386 of the Companies Act 1985.

On behalf of the board


Director

20 DEC 2001

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE INDEPENDENT AUDITORS
to the members of Donna Karan Management Company UK Ltd

We have audited the company's accounts for the period ended 2 January 2000 which comprise the profit and loss account, the balance sheet and the related notes 1 to 11. These accounts have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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

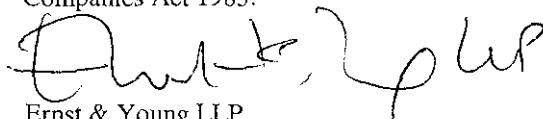
Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 2 January 2000 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
London

20 DEC 2001

Donna Karan Management Company UK Ltd

PROFIT AND LOSS ACCOUNT

for the period since incorporation to 2 January 2000

		<i>5 January 1999 to 2 January 2000</i>
	<i>Notes</i>	<i>£</i>
TURNOVER		534,976
Net operating expenses		(504,609)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>30,367</u>
Taxation	5	-
PROFIT FOR THE FINANCIAL PERIOD	9	<u><u>30,367</u></u>

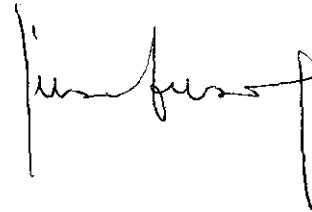
There are no recognised gains or losses other than as shown above.

Donna Karan Management Company UK Ltd

BALANCE SHEET
at 2 January 2000

	<i>Notes</i>	<i>2000</i> £
CURRENT ASSETS		
Debtors	6	19,140
Cash at bank and in hand		44,947
		<u>64,087</u>
CREDITORS: amounts falling due within one year	7	<u>33,718</u>
NET CURRENT ASSETS		<u><u>30,369</u></u>
CAPITAL AND RESERVES		
Called up share capital	8	2
Profit and loss account	9	30,367
		<u>30,369</u>
Shareholders funds: Equity	9	<u><u>30,369</u></u>

Director



20 DEC 2001

NOTES TO THE ACCOUNTS

at 2 January 2000

1. ACCOUNTING POLICIES

Accounting convention

The accounts are prepared under the historical cost convention in accordance with applicable accounting standards.

A statement of cash flows has not been prepared as the company is a wholly owned subsidiary of a company which prepares publicly available consolidated accounts.

Deferred taxation

Provision is made for deferred taxation, using the liability method on all timing differences, which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

2. TURNOVER

Turnover arises within the UK and Europe, is stated net of value added tax and all relates to the company's one continuing activity.

3. OPERATING PROFIT

This is stated after charging:

	5 January 1999 to 2 January 2000 £
Directors' remuneration	-
Auditors' remuneration	4,500
Profit on foreign exchange transactions	(85)
	<u> </u>

4. STAFF COSTS

	5 January 1999 to 2 January 2000 £
Wages and salaries	435,874
Social security costs	64,320
	<u> </u>
	<u>500,194</u>

Donna Karan Management Company UK Ltd

NOTES TO THE ACCOUNTS

at 2 January 2000

4. STAFF COSTS (continued)

The monthly average number of employees during the period was as follows:

	<i>No.</i>
Administration	32

5. TAXATION

The company has no tax charge for the period due to the availability of losses within the UK group. No charge is made for group relief.

6. DEBTORS

	<i>2000</i>
	<i>£</i>
Amounts due from group undertaking	19,140

7. CREDITORS: amounts falling due within one year

	<i>2000</i>
	<i>£</i>
Accruals	4,500
Other taxes and social security	29,218
	<u>33,718</u>

8. SHARE CAPITAL

	<i>Authorised</i>	
	<i>2000</i>	<i>2000</i>
	<i>No.</i>	<i>£</i>
Ordinary shares of £1 each	2	2
	<u> </u>	<u> </u>
	<i>Allotted, called up and fully paid</i>	
	<i>2000</i>	<i>2000</i>
	<i>No.</i>	<i>£</i>
Ordinary shares of £1 each	2	2
	<u> </u>	<u> </u>

During the period, 2 ordinary shares of £1 each, with an aggregate nominal value of £2, were issued fully paid for cash of £2.

Donna Karan Management Company UK Ltd

NOTES TO THE ACCOUNTS

at 2 January 2000

9. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	<i>Share capital</i>	<i>Profit and loss account</i>	<i>Total</i>
	£	£	£
Profit for the period		30,367	30,367
Other movements: shares issued	2	-	2
At 2 January 2000	<u>2</u>	<u>30,367</u>	<u>30,369</u>

10. ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking is Donna Karan Company Stores (UK) Holding Ltd, which is the parent of the smallest group in which the accounts of the company are consolidated.

The directors consider the ultimate parent undertaking to be Donna Karan International Inc., a company incorporated in the USA. Donna Karan International Inc. is the parent undertaking of the largest group in which the accounts of the company are consolidated.

Copies of these accounts can be obtained from Donna Karan International Inc., New York City, New York.

11. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption available under FRS 8 not to disclose transactions with other members of the Donna Karan International Inc. group.