Donna Karan Management Company UK Ltd

Report and Financial Statements

31 December 2002

ERNST & YOUNG

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COMPANIES HOUSE 03/10/03

Directors
F Wilson
P Kalberer
X de Royère

Secretary
Jordan Company Secretaries Limited

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

Bankers
HSBC Bank plc
9 Wellesley Road
Croydon
Surrey
CR9 AA

Registered office
20-22 Bedford Row
London
WC1R 4JS

Directors' report

The directors present their report and financial statements for the year ended 31 December 2002.

Results and dividends

The profit for the year amounted to £145,470. The directors do not recommend the payment of any dividends.

Principal activities and review of the business

The principal activity of the company during the year continued to be the provision of 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

The directors who served the company during the year were as follows:

G Brusone	(Resigned 17 January 2003)
P Kalberer	(Appointed 9 July 2002)
X de Royère	(Appointed 9 July 2002)
D I Karan	(Resigned 9 July 2002)

There are no directors' interests requiring disclosure under the Companies Act 1985.

Subsequent to the year end, the following was appointed as a director of the company:
F Wilson (appointed 26 March 2003).

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the board

P Kalberer
Director
26 September 2003

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing those financial statements, 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 financial statements 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 financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of Donna Karan Management Company UK Ltd

We have audited the company's financial statements for the year ended 31 December 2002 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 14. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

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Independent auditors' report

to the members of Donna Karan Management Company UK Ltd (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

26 September 2003

Profit and loss account
for the year ended 31 December 2002

	Notes	2002 £	2001 £
Turnover	2	2,569,969	3,186,409
Administrative expenses		2,424,499	2,994,606
Profit on ordinary activities before taxation	3	145,470	191,803
Tax on profit on ordinary activities	5	–	–
Profit retained for the financial year		145,470	191,803

Statement of total recognised gains and losses
There are no recognised gains or losses other than the profit of £145,470 attributable to the shareholders for the year ended 31 December 2002 (2001 - profit of £191,803).

Balance sheet
at 31 December 2002

	Notes	2002 £	2001 £
Fixed assets			
Tangible assets	6	18,703	181,510
Current assets			
Debtors	7	553,139	241,179
Cash at bank		113,063	154,754
		666,202	395,933
Creditors: amounts falling due within one year	8	235,311	135,327
Net current assets		430,891	260,606
Total assets less current liabilities		449,594	442,116
Creditors: amounts falling due after more than one year	9	–	137,992
		449,594	304,124
Capital and reserves			
Called up share capital	11	2	2
Profit and loss account	12	449,592	304,122
Equity shareholders' funds	12	449,594	304,124

P Kalberer
Director

26 September 2003

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Notes to the financial statements
at 31 December 2002

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention.

In preparing the financial statements for the current year, the company has adopted FRS 18 'Accounting Policies' and FRS 19 'Deferred taxation'. Adoption of these standards has not required any revisions to the financial statements in either the current or prior periods.

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement on the grounds that the company is a small company.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

Leasehold improvements	-	over the lease term
Fixtures and fittings	-	7 years

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Notes to the financial statements
at 31 December 2002

1. Accounting policies (continued)
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.

Operating lease agreements
Rentals payable under operating leases are charged in the Profit and Loss Account on a straight line basis over the lease term.

Tenants' inducements
Amounts received are credited to a deferred income account and amortised over the term to the first rent review in the lease.

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

3. Profit on ordinary activities before taxation
This is stated after charging/(crediting):

	2002 £	*2001* £
Directors' emoluments	–	–
Depreciation of owned fixed assets	162,807	17,806
Operating lease rentals - land and buildings	247,100	290,343
Net loss/(profit) on foreign currency translation	57,573	(11,440)

Auditors' remuneration has been paid by an intermediate parent undertaking.

4. Staff costs

	2002 £	*2001* £
Wages and salaries	1,477,280	2,240,522
Social security costs	239,721	350,459
	1,717,001	2,590,981

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

	2002 No.	*2001* No.
Administrative staff	26	57

Notes to the financial statements

at 31 December 2002

5. Tax

The company has no current tax liability in the period ended 31 December 2002 due to the availability of group relief within the Donna Karan Company Stores UK Holding Ltd group.

(a) Factors affecting current tax

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2001 - 30%). The differences are reconciled below:

	2002 £	*2001* £
Profit on ordinary activities before taxation	145,470	191,803
Tax on profit on ordinary activities	43,641	57,541
Expenses not deductible for tax purposes	23,578	5,199
Decelerated/(accelerated) capital allowances	27,886	(4,298)
Group relief	(95,105)	(58,442)
Total current tax (note 5(a))	–	–

(b) Deferred tax

The company has a deferred tax asset of £14,072, which has not been recognised in accordance with FRS 19 as there is currently not sufficient certainty as to future recoverability.

6. Tangible fixed assets

	Leasehold improvements £	*Fixtures and fittings* £	*Total* £
Cost:			
At 1 January 2002 and 31 December 2002	202,474	13,303	215,777
Depreciation:			
At 1 January 2002	31,224	3,043	34,267
Provided during the year	154,447	8,360	162,807
At 31 December 2002	185,671	11,403	197,074
Net book value:			
At 31 December 2002	16,803	1,900	18,703
At 1 January 2002	171,250	10,260	181,510

Notes to the financial statements

at 31 December 2002

7. Debtors

	2002	*2001*
	£	*£*
Amounts owed by group undertakings	396,425	48,010
Other debtors	70,315	–
Prepayments and accrued income	86,399	193,169
	553,139	241,179

8. Creditors: amounts falling due within one year

	2002	*2001*
	£	*£*
Corporation tax	–	41,000
Other taxation and social security	34,429	25,723
Accruals and deferred income	200,882	68,604
	235,311	135,327

9. Creditors: amounts falling due after more than one year

	2002	*2001*
	£	*£*
Accruals and deferred income	–	137,992

10. Commitments under operating leases

At 31 December 2002 the company had annual commitments under non-cancellable operating leases as set out below.

	Land and buildings	
	2002	*2001*
	£	*£*
Operating leases which expire:		
In over five years	247,100	247,100

11. Share capital

		Authorised
	2002	*2001*
	£	*£*
Ordinary shares of £1 each	2	2

	Allotted, called up and fully paid			
		2002		*2001*
	No.	*£*	*No.*	*£*
Ordinary shares of £1 each	2	2	2	2

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Notes to the financial statements
at 31 December 2002

12. Reconciliation of shareholders' funds and movement on reserves

	Share capital	*Profit and loss account*	*Total shareholders' funds*
	£	*£*	*£*
At 1 January 2001	2	112,319	112,321
Profit for the year	–	191,803	191,803
At 31 December 2001	2	304,122	304,124
Profit for the year	–	145,470	145,470
At 31 December 2002	2	449,592	449,594

13. Related party transactions

The company's turnover all derives from services to other companies in the Donna Karen International Inc group. At 31 December 2002 the company was owed £396,425 by Donna Karen International Inc group companies (2001 - £48,010).

14. Ultimate parent undertaking

The immediate parent undertaking is Donna Karan Company Stores (UK) Holding Ltd.

The directors consider the ultimate parent undertaking to be LVMH Moet Hennessy Louis Vuitton SA. LVMH Moet Hennessy Louis Vuitton SA is the parent undertaking of the smallest and largest largest group in which the financial statements of the company are consolidated.

Copies of these financial statements can be obtained from 30 Avenue Hoche, 75008 Paris, France.

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