

Donna Karan Management Company UK Ltd

Report and Financial Statements

31 December 2003

239/227



Donna Karan Management Company UK Ltd

Registered No: 03693527

Directors

P Kalberer
X de Royère
J M Aronsson

Secretary

Jordan Company Secretaries Limited

Auditors

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Bankers

Lloyds TSB Bank Plc
Piccadilly Branch
39 Piccadilly
London
W1J 0AA

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 2003.

Results and dividends

The profit for the year amounted to £101,774. 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:

P Kalberer	
X de Royère	
G Brusone	(Resigned 17 January 2003)
F Wilson	(Served from 26 March 2003 to 31 December 2003)

Subsequent to the year end, the following was appointed as director of the company:
J M Aronsson (appointed 1 January 2004)

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

On behalf of the board



P Kalberer
Director

2005

28 JAN 2005

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 2003 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.

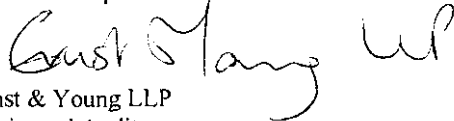
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

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 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
London

31 January 2005

Profit and loss account
for the year ended 31 December 2003

	<i>Notes</i>	2003 £	2002 £
Turnover	2	1,798,014	2,569,969
Administrative expenses		1,696,240	2,424,499
Profit on ordinary activities before taxation	3	101,774	145,470
Tax on profit on ordinary activities	5	—	—
Profit retained for the financial year		<u>101,774</u>	<u>145,470</u>

Statement of total recognised gains and losses

There are no recognised gains or losses other than the profit of £101,774 attributable to the shareholders for the year ended 31 December 2003 (2002 - profit of £145,470).

Balance sheet
at 31 December 2003

	Notes	2003 £	2002 £
Fixed assets			
Tangible assets	6	—	18,703
Current assets			
Debtors	7	1,474,497	553,139
Cash at bank and in hand		47,332	113,063
		1,521,829	666,202
Creditors: amounts falling due within one year	8	349,461	235,311
Net current assets		1,172,368	430,891
Total assets less current liabilities		1,172,368	449,594
Provisions for liabilities and charges			
	9	621,000	—
		551,368	449,594
Capital and reserves			
Called up share capital	11	2	2
Profit and loss account	12	551,366	449,592
Equity shareholders' funds	12	551,368	449,594



P Kalberer
Director

2005

28 JAN 2005

Notes to the financial statements

at 31 December 2003

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention.

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 exception:

- 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.

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.

Notes to the financial statements
at 31 December 2003

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):

	2003 £	2002 £
Directors' emoluments	—	—
Depreciation of owned fixed assets	18,703	162,807
Onerous lease provision	621,000	—
Operating lease rentals - land and buildings	237,665	247,100
Net (profit)/loss on foreign currency translation	(11,929)	57,573

Auditors' remuneration has been paid by a fellow subsidiary undertaking.

4. Staff costs

	2003 £	2002 £
Wages and salaries	769,273	1,477,280
Social security costs	174,920	239,721
	<u>944,193</u>	<u>1,717,001</u>

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

	2003 No.	2002 No.
Administrative staff	<u>14</u>	<u>26</u>

Notes to the financial statements
at 31 December 2003

5. Tax

(a) Tax on profit on ordinary activities

The company has no current tax liability in the period ended 31 December 2003 due to the availability of group relief within the Donna Karan Company Stores UK Holding Ltd group.

(b) 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% (2002 - 30%). The differences are reconciled below:

	2003 £	2002 £
Profit on ordinary activities before taxation	<u>101,774</u>	<u>145,470</u>
Profit on ordinary activities at 30%	30,532	43,641
Expenses not deductible for tax purposes	1,720	23,578
(Accelerated)/decelerated capital allowances	(600)	27,886
Group relief	<u>(31,652)</u>	<u>(95,105)</u>
Total current tax (note 5(a))	<u>—</u>	<u>—</u>

(c) Deferred tax

The company has a deferred tax asset of £13,472 (2002 - £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

	<i>Leasehold improvements</i> £	<i>Fixtures and fittings</i> £	<i>Total</i> £
Cost:			
At 1 January 2003 and 31 December 2003	<u>202,474</u>	<u>13,303</u>	<u>215,777</u>
Depreciation:			
At 1 January 2003	185,671	11,403	197,074
Provided during the year	16,803	1,900	18,703
At 31 December 2003	<u>202,474</u>	<u>13,303</u>	<u>215,777</u>
Net book value:			
At 31 December 2003	<u>—</u>	<u>—</u>	<u>—</u>
At 1 January 2003	<u>16,803</u>	<u>1,900</u>	<u>18,703</u>

Notes to the financial statements
at 31 December 2003

7. Debtors

	2003	2002
	£	£
Amounts owed by group undertakings	1,388,263	396,425
Other debtors	—	70,315
Prepayments and accrued income	86,234	86,399
	<u>1,474,497</u>	<u>553,139</u>

8. Creditors: amounts falling due within one year

	2003	2002
	£	£
Trade creditors	3,729	—
Other taxation and social security	175,874	34,429
Accruals and deferred income	169,858	200,882
	<u>349,461</u>	<u>235,311</u>

9. Provisions for liabilities and charges

	<i>Other provisions</i>
	£
Profit and Loss Account movement arising during the year	621,000
At 31 December 2003	<u>621,000</u>

The company is currently only occupying part of its office premises and hence has made an onerous lease provision for the remaining space based on estimated exit costs.

10. Commitments under operating leases

At 31 December 2003 the company had annual commitments under non-cancellable operating leases as set out below.

	<i>Land and buildings</i>	
	2003	2002
	£	£
Operating leases which expire:		
In over five years	<u>—</u>	<u>247,100</u>

Full provision has been made in the financial statements for the 2004 lease commitment (note 9).

Notes to the financial statements
at 31 December 2003

11. Share capital

	<i>Authorised</i>	
	<i>2003</i>	<i>2002</i>
	<i>£</i>	<i>£</i>
Ordinary shares of £1 each	<u>2</u>	<u>2</u>

	<i>Allotted, called up and fully paid</i>			
	<i>2003</i>		<i>2002</i>	
	<i>No.</i>	<i>£</i>	<i>No.</i>	<i>£</i>
Ordinary shares of £1 each	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

12. Reconciliation of shareholders' funds and movement on reserves

	<i>Share capital</i>	<i>Profit and loss</i>	<i>Total share-</i>
	<i>£</i>	<i>account</i>	<i>holders' funds</i>
	<i>£</i>	<i>£</i>	<i>£</i>
At 1 January 2002	2	304,122	304,124
Profit for the year	–	145,470	145,470
At 31 December 2002	<u>2</u>	<u>449,592</u>	<u>449,594</u>
Profit for the year	–	101,774	101,774
At 31 December 2003	<u>2</u>	<u>551,366</u>	<u>551,368</u>

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 2003 the company was owed £1,388,263 by Donna Karen International Inc group companies (2002 - £396,425).

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 group in which the financial statements of the company are consolidated.

Copies of these financial statements can be obtained from 22 Avenue Montaigne, 75008 Paris, France.