

Registered number: 3645629

DONNA KARAN COMPANY STORES UK RETAIL LTD

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2008

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DONNA KARAN COMPANY STORES UK RETAIL LTD

COMPANY INFORMATION

DIRECTORS	P Kalberer M Weber
COMPANY SECRETARY	L E Usdan
COMPANY NUMBER	3645629
REGISTERED OFFICE	20-22 Bedford Row London WC1R 4JS

DONNA KARAN COMPANY STORES UK RETAIL LTD

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DONNA KARAN COMPANY STORES UK RETAIL LTD

DIRECTORS' REPORT for the year ended 31 December 2008

The directors present their report and the financial statements for the year ended 31 December 2008.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- 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 that disclose with reasonable accuracy at any time the financial position of the company and 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.

PRINCIPAL ACTIVITIES

The principal activity of the company during the year was the retail sale of high quality clothing and accessories.

The directors recognise that there was still a loss for the year, but they are satisfied that in the context of the group as a whole, the results were satisfactory.

DONNA KARAN COMPANY STORES UK RETAIL LTD

DIRECTORS' REPORT for the year ended 31 December 2008

BUSINESS REVIEW

Turnover has increased slightly during the current year, due to the buoyant market conditions and the continued strength of the brand. The lines marketed were considered to be the best for some years, resulting in improved sales. The company has continued to make losses during the current year but is thought to make a valued contribution to the the status of its ultimate parent undertaking.

The directors consider the Key Performance Indicators of the company to consist of Gross Profit Percentage and Turnover per Employee.

Gross Profit Percentage - is calculated by comparing gross profit against turnover. This ratio reveals how much the company earns taking into consideration the direct costs it incurs for manufacturing its products. It is an indication of how profitable the company is at its most fundamental level.

Turnover per Employee - is calculated by dividing the year's turnover by the average number of staff employed during the year. This ratio is a measure of the productivity of the company, both in terms of investment in staff and the machinery utilised in the production process.

	2008	2007
Gross Profit Percentage	50%	50%
Turnover per Employee	£143,000	£118,000

All data utilised in the calculation of these ratios is derived from these financial statements.

RISKS AND UNCERTAINTIES

Any business faces a number of risks and these are reviewed thoroughly and regularly by the Board as part of its ongoing corporate governance procedures. This review considers only the principal risks and uncertainties.

RESULTS

The loss for the year, after taxation, amounted to £1,412,733 (2007 - loss £651,100).

DIRECTORS

The directors who served during the year were:

P Kalberer
M Weber

PROVISION OF INFORMATION TO AUDITORS

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information.

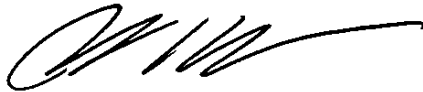
DONNA KARAN COMPANY STORES UK RETAIL LTD

DIRECTORS' REPORT
for the year ended 31 December 2008

AUDITORS

The auditors, Horwath Clark Whitehill LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on *27 October 2009* and signed on its behalf.



P Kalberer
Director

DONNA KARAN COMPANY STORES UK RETAIL LTD

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DONNA KARAN COMPANY STORES UK RETAIL LTD

We have audited the financial statements of Donna Karan Company Stores UK Retail Ltd for the year ended 31 December 2008, set out on pages 6 to 14. These financial statements have been prepared under 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions 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 International Standards on Auditing (UK and Ireland) 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 judgments 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.

DONNA KARAN COMPANY STORES UK RETAIL LTD

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DONNA KARAN COMPANY STORES
UK RETAIL LTD**

OPINION

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its loss, for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Horwath Clark Whitehill LLP

HORWATH CLARK WHITEHILL LLP

Statutory Auditors and Chartered Accountants

10 Palace Avenue
Maidstone
Kent
ME15 6NF

Date: *30 October 2009*

DONNA KARAN COMPANY STORES UK RETAIL LTD

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2008

	Note	2008 £	2007 £
TURNOVER	1,2	8,888,775	8,824,289
Cost of sales		<u>(4,405,922)</u>	<u>(4,384,235)</u>
GROSS PROFIT		4,482,853	4,440,054
Administrative expenses		<u>(5,923,090)</u>	<u>(6,653,268)</u>
OPERATING LOSS	3	(1,440,237)	(2,213,214)
EXCEPTIONAL ITEMS			
Other exceptional items	5	<u>-</u>	<u>1,530,244</u>
LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST		(1,440,237)	(682,970)
Interest receivable		<u>27,504</u>	<u>31,870</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(1,412,733)	(651,100)
Tax on loss on ordinary activities	6	<u>-</u>	<u>-</u>
LOSS FOR THE FINANCIAL YEAR	13	<u>(1,412,733)</u>	<u>(651,100)</u>

All amounts relate to continuing operations.

There were no recognised gains and losses for 2008 or 2007 other than those included in the profit and loss account.

The notes on pages 8 to 14 form part of these financial statements.

DONNA KARAN COMPANY STORES UK RETAIL LTD

**BALANCE SHEET
as at 31 December 2008**

	Note	£	2008 £	£	2007 £
FIXED ASSETS					
Tangible fixed assets	7		2,390,353		2,807,558
CURRENT ASSETS					
Stocks	8	348,834		408,612	
Debtors	9	912,420		947,274	
Cash at bank		460,712		353,092	
		<u>1,721,966</u>		<u>1,708,978</u>	
CREDITORS: amounts falling due within one year	10	<u>(15,018,026)</u>		<u>(14,009,510)</u>	
NET CURRENT LIABILITIES			<u>(13,296,060)</u>		<u>(12,300,532)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>(10,905,707)</u>		<u>(9,492,974)</u>
CREDITORS: amounts falling due after more than one year	11		<u>(2,230,461)</u>		<u>(2,230,461)</u>
NET LIABILITIES			<u><u>(13,136,168)</u></u>		<u><u>(11,723,435)</u></u>
CAPITAL AND RESERVES					
Called up share capital	12		1,100,000		1,100,000
Share premium account	13		2,929,285		2,929,285
Profit and loss account	13		<u>(17,165,453)</u>		<u>(15,752,720)</u>
SHAREHOLDERS' DEFICIT	14		<u><u>(13,136,168)</u></u>		<u><u>(11,723,435)</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on *27 October 2009*.



P Kalberer
Director

The notes on pages 8 to 14 form part of these financial statements.

DONNA KARAN COMPANY STORES UK RETAIL LTD

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008

1. ACCOUNTING POLICIES

1.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

1.2 GOING CONCERN

The financial statements have been prepared using the going concern assumption as the directors of the ultimate parent undertaking, LVMH Moët Hennessy Louis Vuitton SA, have provided the directors of the company with a letter of support confirming that the ultimate parent company will provide continued financial support for the next 12 months.

1.3 CASH FLOW

The company, being a subsidiary undertaking where 90% or more of the voting rights are controlled within the group whose consolidated financial statements are publicly available, is exempt from the requirement to draw up a cash flow statement in accordance with FRS 1.

1.4 TURNOVER

Turnover comprises revenue recognised by the company in respect of goods and services supplied, exclusive of Value Added Tax and trade discounts.

1.5 TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

L/Term Leasehold Property	-	over 7 - 10 years straight line
Fixtures & fittings	-	over 7 years straight line

1.6 OPERATING LEASES

Rentals under operating leases are charged on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

1.7 STOCKS

Stocks are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks. Cost includes all direct costs and an appropriate proportion of fixed and variable overheads.

DONNA KARAN COMPANY STORES UK RETAIL LTD

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

1.8 FOREIGN CURRENCIES

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the profit and loss account.

2. TURNOVER

The whole of the turnover is attributable to the retail of high quality clothing and accessories.

All turnover arose within the United Kingdom.

3. OPERATING LOSS

The operating loss is stated after charging/(crediting):

	2008 £	2007 £
Depreciation of tangible fixed assets:		
- owned by the company	474,734	366,608
Auditors' remuneration	20,800	20,000
Operating lease rentals:		
- other operating leases	1,288,329	1,816,605
Difference on foreign exchange	15,532	(6,006)
Auditors remuneration - non-audit in relation to taxation services	8,500	2,494
Auditors remuneration - non-audit in relation to payroll services	7,620	2,105
Auditors remuneration - non-audit in relation to other advice provided	6,500	6,375
	<u> </u>	<u> </u>

During the year, no director received any emoluments (2007 - £NIL).

DONNA KARAN COMPANY STORES UK RETAIL LTD

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008

4. STAFF COSTS

Staff costs were as follows:

	2008 £	2007 £
Wages and salaries	1,141,638	1,099,049
Social security costs	146,323	140,608
	<u>1,287,961</u>	<u>1,239,657</u>

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

	2008 No.	2007 No.
	<u>62</u>	<u>75</u>

5. EXCEPTIONAL ITEMS

	2008 £	2007 £
Release of lease to group company	<u>-</u>	<u>1,530,244</u>

6. TAXATION

	2008 £	2007 £
UK corporation tax charge on loss for the year	<u>-</u>	<u>-</u>

DONNA KARAN COMPANY STORES UK RETAIL LTD

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008

6. TAXATION (continued)

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is lower than (2007 - lower than) the standard rate of corporation tax in the UK (28.5%). The differences are explained below:

	2008 £	2007 £
Loss on ordinary activities before tax	(1,412,733)	(651,100)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 28.5% (2007 - 30%)	(402,629)	(195,330)
EFFECTS OF:		
Expenses not deductible for tax purposes	8,301	(450,000)
Capital allowances for year in excess of depreciation	(20,384)	(25,410)
Group relief surrendered before payment	302,208	106,929
Other short term timing differences	(3,784)	-
Depreciation on non-qualifying assets	116,288	74,648
Chargeable gains	-	459,073
Unrelieved tax losses and other deductions arising in the year	-	30,090
CURRENT TAX CHARGE FOR THE YEAR (see note above)	-	-

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

The company has £1,283,650 of losses carried forward.

DONNA KARAN COMPANY STORES UK RETAIL LTD

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008

7. TANGIBLE FIXED ASSETS

	Land and buildings £	Furniture, fittings and equipment £	Total £
COST			
At 1 January 2008	5,512,121	553,598	6,065,719
Additions	43,545	13,984	57,529
	<u>5,555,666</u>	<u>567,582</u>	<u>6,123,248</u>
DEPRECIATION			
At 1 January 2008	2,890,433	367,728	3,258,161
Charge for the year	414,212	60,522	474,734
	<u>3,304,645</u>	<u>428,250</u>	<u>3,732,895</u>
NET BOOK VALUE			
At 31 December 2008	<u>2,251,021</u>	<u>139,332</u>	<u>2,390,353</u>
At 31 December 2007	<u>2,621,688</u>	<u>185,870</u>	<u>2,807,558</u>

8. STOCKS

	2008 £	2007 £
Finished goods and goods for resale	<u>348,834</u>	<u>408,612</u>

9. DEBTORS

	2008 £	2007 £
Trade debtors	191,728	221,320
Other debtors	61,889	54,889
Prepayments and accrued income	658,803	671,065
	<u>912,420</u>	<u>947,274</u>

DONNA KARAN COMPANY STORES UK RETAIL LTD

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008

**10. CREDITORS:
AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2008 £	2007 £
Trade creditors	45,917	433,846
Amounts owed to group undertakings	14,269,748	12,853,146
Social security and other taxes	193,800	281,807
Accruals and deferred income	508,561	440,711
	<u>15,018,026</u>	<u>14,009,510</u>

**11. CREDITORS:
AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	2008 £	2007 £
Amounts owed to group undertakings	<u>2,230,461</u>	<u>2,230,461</u>

12. SHARE CAPITAL

	2008 £	2007 £
AUTHORISED		
3,000,000 Ordinary shares of £1 each	3,000,000	3,000,000
3,000,000 Redeemable shares of £1 each	3,000,000	3,000,000
	<u>6,000,000</u>	<u>6,000,000</u>
ALLOTTED, CALLED UP AND FULLY PAID		
550,000 Ordinary shares of £1 each	550,000	550,000
550,000 Redeemable shares of £1 each	550,000	550,000
	<u>1,100,000</u>	<u>1,100,000</u>

The redeemable shares, which are issued at par, are redeemable 12 months from the date of allotment at the option of the company, at par.

In all other respects, the shares rank equally with the ordinary shares.

DONNA KARAN COMPANY STORES UK RETAIL LTD

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008

13. RESERVES

	Share premium account £	Profit and loss account £
At 1 January 2008	2,929,285	(15,752,720)
Loss for the year		(1,412,733)
At 31 December 2008	<u>2,929,285</u>	<u>(17,165,453)</u>

14. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' DEFICIT

	2008 £	2007 £
Opening shareholders' deficit	(11,723,435)	(11,072,335)
Loss for the year	(1,412,733)	(651,100)
Closing shareholders' deficit	<u>(13,136,168)</u>	<u>(11,723,435)</u>

15. OPERATING LEASE COMMITMENTS

At 31 December 2008 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings 2008 £	2007 £
EXPIRY DATE:		
After more than 5 years	<u>1,340,407</u>	<u>1,465,000</u>

16. RELATED PARTY TRANSACTIONS

The company has taken advantage of the provisions of paragraph 3c of Financial Reporting Standard 8 'Related Party Transactions' and does not disclose transactions with companies within its group.

17. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent undertaking is Donna Karan Company Stores UK Holdings Limited, a company registered in England and Wales.

The directors consider the ultimate parent to be LVMH Moët Hennessy Louis Vuitton SA. LVMH Moët 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.