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EXECUTIVE DIRECTORS

Ka Sing LAW (*Chairman*)
Chi Kwong TO
Pansy Wai Man CHAU
Simon Kuen Fung OR
Ping Chuen FUNG
Dickie Shing Kwan FU

INDEPENDENT NON-EXECUTIVE DIRECTORS

David Sik Ho CHEUNG
Winnie Wing Yue WONG LEUNG

COMPANY SECRETARY

Chi Kwong TO

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Citibank, N.A.
Standard Chartered Bank

AUDITORS

Ernst & Young

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRARS

Computershare Hong Kong Investor Services Limited
Shops 1712–6, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Cedar House
41 Cedar Avenue
Hamilton HM12
Bermuda

PRINCIPAL OFFICE

6th Floor, Hong Kong Spinners Industrial Building
Phase 1 & 2
601–603 Tai Nan West Street
Kowloon
Hong Kong

Chairman's Statement



The Group faced a number of adversities during the year, and these caused quite disappointing results. Despite an increase in turnover of 6.5% compared to last year, we sustained a net loss attributable to shareholders of HK\$74.1 million.

During the year, the Group made changes in its product designs by offering more fashionable items with a younger look that were quite different in style from our usual offerings. Even though they attracted some new customers, they alienated a number of our core customers, who felt their needs were not being taken into account. As a result, our sales were seriously affected. In September 2002, our Design Department was restructured, and subsequently, the Director of Design and all newly recruited overseas designers left the group.

It was quite a painful exercise for us to have to rectify the product direction, after realising that we had taken the wrong approach. However, we completed the necessary adjustments with the launch of our 2003 Spring/Summer collection, which reverted to more easy-to-wear and basic apparel that is more appealing to our core customers and caters to their needs. As a result, the new products received positive market feedback, and our sales have improved since they were launched in March 2003.

The launch of the Sparkle brand in Mainland China was not very successful, due to management inefficiency and serious delays in the execution of our business plan, particularly the schedule of shop openings. In April 2003, the General Manager of our Mainland China operations was replaced.

As we go forward, we will continue to seek ways to improve our business practices and operations. At the same time, we will not forget the lessons we have learnt in the past months. The management team has now embarked on a process of revitalising the Group, so as to ensure that the business will continue to prosper in today's highly competitive market.

CORPORATE VISION AND MISSION SETTING

The management team believes that a shared view of the future is a necessary cornerstone for the Group's future success. In October 2002, we announced a new Vision and Mission Statement, "The Bossini Way", to our employees including those of overseas offices. Our Vision is: "To be the top-of-mind brand leader", while our Mission is: "To create incremental value for the brand everyday... in every way". A programme of training seminars was held for all our employees in Hong Kong, to ensure that they fully understand the true meaning of "The Bossini Way".

STRATEGIC PLANNING

In early 2003, our top management formulated a three-year strategic plan for the Group. The core strategy is to focus on the apparel business and on becoming a cost leader. The plan also defines our strategies for products, markets and people. The plan has been communicated to our people in every market. As a result, the Group is now better aligned and more strongly committed to its implementation in every business function, and wherever we do business.

MANAGEMENT DEVELOPMENT

A comprehensive training programme has been developed to upgrade our management team in Hong Kong. Each manager has to complete courses on a minimum of three core subjects and three elective subjects within one year. The core subjects include leadership, problem-solving and team-building skills, while the elective subjects offer a variety of choices, according to the individual needs of managers. The new focus of management intelligence such as knowledge-based management and supply chain management, are also being introduced through pilot programmes led by special task forces.

STAFF ENRICHMENT

Learning has become an important part of our culture. In the future, all our frontline staff in Hong Kong will go through systematic programmes covering customer service and professional selling skills. To keep them updated on product knowledge and fashion trends, they will attend new product briefings conducted by a store trainer known as a "Product Ambassador". The Group has also set up a Learning Resources Centre in the Hong Kong office to support the continuous learning of our employees.

SYSTEMS BUILDING

The Group has named 2003 as "The Year of Systems Building". Every employee of the Group is focusing his or her skills and energies on the goal of making our operations more efficient through continuously improving our operating systems.

In general, we will remain focused on our customers and we will continue to invest in our people and in building more efficient systems. These initiatives have been designed to help sustain the Group's growth in the years ahead.

On behalf of the Board of Directors, I extend my sincere thanks to our shareholders, customers, suppliers and employees. I look forward to your continued support for our endeavours to create a brighter future for the Group.

Ka Sing LAW

Chairman

Hong Kong

26 June 2003

Management Discussion and Analysis



FINANCIAL RESULTS AND BUSINESS REVIEW

For the year ended 31 March 2003, the Group recorded a consolidated turnover of HK\$1,691.4 million, representing an increase of 6.5% compared to the HK\$1,588.5 million for the previous year. The increase was attributable to continuous growth in sales in Mainland China as a result of the opening of new outlets and the launch of a new casual wear brand, whereas sales in other major markets declined during the year.

The Group recorded a net loss attributable to shareholders of HK\$74.1 million, compared with a net loss of HK\$38.8 million last year. The principal reasons for this loss were: (i) serious problems encountered with the design of products in those deliveries launched during the year which resulted in a poor response from consumers; (ii) a larger than expected loss incurred for the new brand, Sparkle; (iii) the poor performance of Taiwan operations and the writing-off of fixed assets due to the closure of 13 outlets there during the first quarter of 2003; and (iv) the impact of "SARS" on sales in Hong Kong and Singapore during March 2003.

There was a drop of 2.1 percentage points in the Group's gross margin to 41.4%, compared to last year's 43.5%. This resulted from the pressure that occurred in Mainland China to clear inventory at the end of each season, as well as the lower gross margin on sales of Sparkle brand products. A change in the Group's inventory provision policy during the year resulted in a reduction of inventory provision charged for the year of HK\$16.4 million. Excluding the effect of the change in the inventory provision policy, the gross margin declined by 3 percentage points.

Operating costs for the year ended 31 March 2003 totalled HK\$775.3 million, an increase of 7% compared to HK\$724.5 million for the previous year. This was mainly brought about by the expansion of the Group's retail network in Mainland China, and the percentage more or less aligned with the increase in the Group's turnover.

Hong Kong

	For the year ended 31 March		
	2003	2002	2001
Net retail sales (HK\$'000)	639,254	740,133	870,956
Retail floor area (sq.ft.) – <i>Note (a)</i>	112,705	121,541	119,629
Net sales per sq.ft. – <i>Note (b)</i>	5,463	5,933	7,434
No. of outlets – <i>Note (a)</i>	31	32	36

Notes:

(a) *As at 31 March*

(b) *On weighted average basis*

The Group maintained a conservative approach in its business activities in Hong Kong during the year, due to the weak economic conditions and intense market competition. As at 31 March 2003, the Group had a total of 31 outlets in Hong Kong and Macau, compared to last year's 32. Retail sales for the year amounted to HK\$639.3 million (last year: HK\$740.1 million), a decline of 13.6%. The outbreak of "SARS" began to affect business in mid-March 2003, resulting in a fall of about 30% in sales compared to last year's level. Apart from retail operations, the wholesale business contributed a turnover of HK\$119.1 million, an increase of 16.7% compared to last year's figure of HK\$102.1 million.

The Hong Kong operations recorded an operating loss of HK\$17.1 million, mainly incurred during the first half of the year; whereas business actually turned around during the second half.

Mainland China

	For the year ended 31 March		
	2003	2002	2001
Net sales from directly managed outlets (HK\$'000)	321,420	181,845	129,234
Retail floor area (sq.ft.) – <i>Note (a)</i>	308,126	120,819	39,276
Net sales per sq.ft. – <i>Note (b)</i>	1,273	2,373	3,979
No. of directly managed outlets – <i>Note (a)</i>	257	103	33

Notes:

(a) As at 31 March

(b) On weighted average basis

This market was the focus for the Group's expansion during the year. It became the Group's second largest market, with turnover of HK\$484.4 million, an increase of 81.2% compared to last year's figure of HK\$267.3 million. The operations in Mainland China recorded a loss of HK\$22.7 million. As at 31 March 2003, the Group operated 257 directly managed outlets on the Mainland, compared with the previous year's figure of 103. Of these, 170 (last year: 103) were Bossini brand outlets, while 87 (last year: Nil) were for Sparkle brand. In addition, there were 161 outlets operating under authorised dealer arrangements as at 31 March 2003 (last year: 72).

As a newly launched venture, Sparkle required substantial initial investment, particularly in large-scale advertising and promotional activities for building brand awareness. In addition, delays were encountered in the schedule for shop openings and sales did not increase at the planned rate, resulting in an accumulation of inventory. The pressure to clear this inventory caused a substantial fall in gross margin of its sales. The operating loss on the Sparkle venture amounted to HK\$29.7 million, which was much greater than expected. Excluding the operating loss from the Sparkle brand, the Bossini brand's business recorded an operating profit of HK\$7 million.

Singapore

	For the year ended 31 March		
	2003	2002	2001
Net retail sales (HK\$'000)	151,984	171,802	185,670
Retail floor area (sq.ft.) – <i>Note (a)</i>	32,167	31,320	27,811
Net sales per sq.ft. – <i>Note (b)</i>	4,735	5,678	7,780
No. of outlets – <i>Note (a)</i>	28	28	24

Notes:

(a) *As at 31 March*

(b) *On weighted average basis*

The continued economic downturn affected the results of the Group's operation in Singapore. Sales declined by 11.5%, from the previous year's figure of HK\$171.8 million to HK\$152 million. The operating profit was HK\$6.7 million, compared to the previous year's HK\$10.2 million. The business maintained approximately the same operating scale as last year.

Taiwan

	For the year ended 31 March		
	2003	2002	2001
Net retail sales (HK\$'000)	287,676	298,205	160,731
Retail floor area (sq.ft.) – <i>Note (a)</i>	135,040	119,835	85,332
Net sales per sq.ft. – <i>Note (b)</i>	2,107	2,954	3,735
No. of outlets – <i>Note (a)</i>	76	68	55

Notes:

(a) *As at 31 March*

(b) *On weighted average basis*

During the first half of the year, the Group began to explore further business opportunities by gradually increasing the number of outlets, with the objective of building a more extensive sales network to maintain long-term growth and improve its competitive advantage. However, the economy deteriorated further and competitors aggressively marked down prices to clear inventory, which put pressure on the Group's business. An operating loss of HK\$35.2 million was recorded for the year. In early 2003, the Group started to consolidate its network of outlets by closing 13 poorly performing stores. This resulted in the writing-off of fixed assets of HK\$5.9 million. As at 31 March 2003, the Group had 76 outlets (last year: 68) in Taiwan.

USE OF RIGHTS ISSUE PROCEEDS

In March 2002, the Group raised HK\$62.2 million from a rights issue. Of this, approximately HK\$50 million was utilised to expand its business in Mainland China, while the remaining proceeds of approximately HK\$12 million were used for general working capital, as planned.

LIQUIDITY AND FINANCIAL RESOURCES

Other than the HK\$62.2 million proceeds raised from the rights issue in March 2002, the Group relied on internally generated cash flows, bank borrowings and import and export-related banking facilities in order to finance its business development during the year.

Increased investment in Mainland China, the poorer than anticipated performance of the Sparkle brand and the businesses downturn increased the Group's total debt to equity ratio to 1.26 as at 31 March 2003 (31 March 2002: 0.72). The ratio was calculated by dividing total liabilities of HK\$322.3 million (31 March 2002: HK\$237.3 million, as restated) by the total shareholders' equity of HK\$256.8 million (31 March 2002: HK\$328.2 million, as restated). The current ratio dropped to 1.42 from the previous year end figure of 2.14. As at 31 March 2003, the Group had net bank borrowings (total bank borrowings minus total cash on hand) of HK\$53.4 million (31 March 2002: net cash balance of HK\$58.4 million).

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In order to improve its financial position and achieve future growth, the Group raised another rights issue in May 2003. This generated approximately HK\$55.7 million in net proceeds. The Group plans to apply about HK\$30 million of the net proceeds to repay bank borrowings, and about HK\$10 million to finance the expansion of its authorised dealer business in Mainland China. The balance of approximately HK\$15.7 million will be utilised as general working capital for the Group.

During the year, the Group entered into forward contracts to hedge its foreign currency denominated receivables against fluctuations in exchange rates. As at 31 March 2003, the Group had commitments amounting to approximately HK\$31.1 million in respect of foreign exchange contracts entered into with a bank.

HUMAN CAPITAL

As at 31 March 2003, the Group employed 3,425 full-time staff in Hong Kong, Macau, Mainland China, Singapore and Taiwan. It remunerates employees according to their performance, experience and prevailing industry practices. Benefits such as staff insurance, retirement schemes and discretionary bonuses are provided.

OUTLOOK

The Group faces another tough year. The economic downturn experienced in most Asian markets where the Group has major operations (other than Mainland China) is likely to continue. The widespread outbreak of “SARS” put more pressure on its businesses.

To counteract these difficulties, the Group has taken the following actions: (i) to refocus its product strategy to meet the needs of its core customers by offering more basic clothing items; (ii) to increase sales through optimum utilisation of retail floor space and improvement in the selling skills of frontline staff; (iii) to improve gross margin by increasing the percentage of products sourced from lower-cost areas, better management of product mix, and more effective formulation of discount policies; and (iv) to reduce operating expenses through cost-cutting measures and restructuring outlets.

The Hong Kong retail market is expected to remain soft during the coming year. Unemployment figures will stay at high levels, and deflation will persist. People are concerned about the security of their jobs, and more careful about their spending. In view of these factors, it is important for the Group to continue running its business in a prudent manner. The Group will explore every avenue to reduce operating costs. Measures are being implemented to minimise staff costs and increase the variable weighting in salary structures. Two more outlets have been closed since the year end date, and the Group expects to maintain its operating scale at approximately the current level in both Hong Kong and Macau during the coming year. Even so, Hong Kong will remain the Group's largest market.

The Group's long-term focus is to expand its business in Mainland China. Its two brands (Bossini and Sparkle) will be run in parallel. Following last year's expansion, the Group is now focusing on strengthening the foundations already built for its businesses, and driving results. The locations of outlets are being consolidated to improve operational efficiency. In view of the Sparkle brand's poor performance since its launch in September 2002, the Group has started to restructure its management and operating team, and to re-position its marketing and pricing strategies. Expenditure on advertising and promotional activities will be substantially curtailed. Nevertheless, the Group began to recruit authorised dealers to develop the brand in 2003. Approximately HK\$10 million from the rights issue in May 2003 has been put aside to finance the expansion of the Group's authorised dealer business.

Singapore faced similar difficulties to Hong Kong. Even so, the Group's operation there is still profitable, due to the effective cost-trimming measures it has implemented. The Group believes that its business performance in Singapore will continuously improve.

In view of the unsatisfactory results of the Taiwan operation, the Group has started to close unprofitable outlets, and to keep the operating scale at around 70 outlets. In order to reduce the cost of goods sold, the Group has adopted a local purchasing arrangement, with a target to purchase about 20% of its inventory from local suppliers by the end of next year. At the same time, local management will adopt a micro-marketing approach to increase sales, handle sales discounts and launch promotional activities.

Although 2003/04 will be a difficult year, the Group is confident that its results will substantially improve following the implementation of the above measures, which are already beginning to yield positive results.

Report of the Directors



The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 14 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 March 2003 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 20 to 58.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, extracted from the audited financial statements and reclassified as appropriate, is set out on page 59. This summary does not form part of the audited financial statements.

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FIXED ASSETS

Details of movements in the fixed assets of the Group are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year, together with the reasons therefor, are set out in note 22 to the financial statements.

CAPITAL RESOURCES

In March 2002, the Group, by way of a rights issue, raised HK\$62,210,000, after share issue expenses. Of this, approximately HK\$50,210,000 has been utilised for the expansion of the Group's operations in Mainland China, while HK\$12,000,000 has been utilised as general working capital for the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 23 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 March 2003, the Company's reserves available for distribution calculated in accordance with the provisions of the Companies Act 1981 of Bermuda, amounted to HK\$158,652,000. Under the laws of Bermuda, the Company's share premium account, in the amount of HK\$38,209,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year.

Purchases from the Group's five largest suppliers accounted for approximately 41% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 11%. As far as the directors are aware, neither the directors, their associates, nor any shareholders of the Company which, to the knowledge of the directors, own more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Ka Sing LAW

Mr. Chi Kwong TO

Ms. Pansy Wai Man CHAU

Mr. Simon Kuen Fung OR

Mr. Ping Chuen FUNG (*appointed on 31 August 2002*)

Ms. Irene CHEN (*resigned on 1 November 2002*)

DIRECTORS *(continued)*

Independent non-executive directors:

Mr. David Sik Ho CHEUNG

Mrs. Winnie Wing Yue WONG LEUNG

Subsequent to the balance sheet date, on 15 May 2003, Mr. Dickie Shing Kwan FU was appointed as an executive director of the Company.

In accordance with the Company's bye-laws, Mr. David Sik Ho CHEUNG, Mrs. Winnie Wing Yue WONG LEUNG, Mr. Ping Chuen FUNG and Mr. Dickie Shing Kwan FU will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' BIOGRAPHIES

Mr. Ka Sing LAW, aged 52, is the chairman and chief executive officer of the Group. Mr. Law joined the Group in 1991 and has over 23 years' experience in garment manufacturing, retailing and wholesale business. He is responsible for the overall management and strategic planning of the Group.

Mr. Chi Kwong TO, aged 41, is an executive director of the Group. Mr. To holds a Master's Degree in Commerce from the University of New South Wales in Australia, and is a fellow member of the Association of Chartered Certified Accountants. He joined the Group in 1997 and has over 14 years' experience in auditing, finance and accounting. Mr. To is responsible for the overall financial management and internal audit function of the Group.

Ms. Pansy Wai Man CHAU, aged 40, is an executive director of the Group. She holds a Higher Diploma in Fashion and Clothing Technology from the Hong Kong Polytechnic. Ms. Chau joined the Group in 2001 and has over 16 years' experience in sales planning and buying in leading fashion retail chains. She is responsible for strategic product planning and buying, and for overseeing the design function of the Group.

DIRECTORS' BIOGRAPHIES *(continued)*

Mr. Simon Kuen Fung OR, aged 32, is an executive director of the Group. He joined the Group in 2001 and has over 9 years' experience in garment manufacturing and merchandising. Mr. Or received his Bachelor of Arts Honours Degree in Economics and Industrial Relations from the University of Toronto, Canada. He is responsible for the Group's sourcing and production activities for apparel and accessories.

Mr. Ping Chuen FUNG, aged 43, was appointed as an executive director on 31 August 2002. He is responsible for the overall human resources and information technology management. Mr. Fung holds a Bachelor's Degree in Sociology from the Hong Kong Baptist College and a Master's Degree in Business Administration from the Asia International Open University, Macau. He is a member of the Hong Kong Institute of Human Resources Management. Prior to joining the Group, Mr. Fung had over 15 years' experience in the field of human resources management and is a practitioner and trainer in knowledge management and organisational learning practices. Over the years, he has also led initiatives in information security management.

Mr. Dickie Shing Kwan FU, aged 53, was appointed as an executive director on 15 May 2003. Mr. Fu joined the Group in 2003 and also holds the position of General Manager of the Group's retail operations in Mainland China. Prior to joining the Group, Mr. Fu had over 30 years' experience in the banking industry, and has held senior management positions with a number of international banks in the areas of internal audit, business operations and general management. He has also led initiatives in business process re-engineering and cost management in the past few years.

Mr. David Sik Ho CHEUNG, aged 51, is an independent non-executive director of the Group. Mr. Cheung is the managing director of a consultancy firm specialising in human potential training and executive search, and is also the president of a local licensee of a California-based international firm specialising in modern training technology in management and human potential. He has over 16 years' experience in the banking industry in Hong Kong and Canada.

Mrs. Winnie Wing Yue WONG LEUNG, aged 61, is an independent non-executive director of the Group. Mrs. Leung is the president and managing director of a number of business enterprises. She has over 33 years' experience in trading and property development in Hong Kong and in the United States of America. In addition, she has been involved in stock brokerage, business consultancy and property investment and management in Hong Kong and Mainland China for a number of years.

DIRECTORS' INTERESTS IN SHARES

At 31 March 2003, the interests of the Company's directors in the share capital of the Company, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Name of director	Nature of interests	Number of shares held
Mr. Ka Sing LAW	Personal	324,302,343

Save as disclosed above, none of the directors of the Company or their associates had any personal, family, corporate or other interests in the share capital of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 30 to the financial statements, no director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

SUBSTANTIAL SHAREHOLDERS

At 31 March 2003, the following individual was interested in 10% or more of the issued share capital of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Number of shares held	Percentage of the Company's issued share capital
Mr. Ka Sing LAW	324,302,343	63.06

Save as disclosed above, no person had registered an interest in the issued share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

CONNECTED TRANSACTIONS

The significant connected transactions undertaken by the Group during the year are set out in note 30 to the financial statements.

The directors are of the opinion that the transactions were made in the usual and ordinary course of the Group's business, and that the terms are fair and reasonable as far as the shareholders of the Company were concerned.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 29 to the financial statements.

THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's bye-laws.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Ka Sing LAW
Chairman

Hong Kong
26 June 2003



To the members

Bossini International Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 20 to 58 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an 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 and the Group'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 as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2003 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

ERNST & YOUNG

Certified Public Accountants

Hong Kong

26 June 2003

Consolidated Profit and Loss Account

Year ended 31 March 2003

	<i>Notes</i>	2003 HK\$'000	2002 HK\$'000 (Restated)
TURNOVER	<i>5</i>	1,691,443	1,588,473
Cost of sales		<u>(990,556)</u>	<u>(896,886)</u>
Gross profit		700,887	691,587
Other revenue	<i>5</i>	8,302	2,973
Selling and distribution costs		(563,076)	(506,855)
Administrative expenses		(160,566)	(138,084)
Other operating expenses		<u>(51,612)</u>	<u>(79,513)</u>
LOSS FROM OPERATING ACTIVITIES	<i>6</i>	(66,065)	(29,892)
Finance costs	<i>9</i>	<u>(6,712)</u>	<u>(5,333)</u>
LOSS BEFORE TAX		(72,777)	(35,225)
Tax	<i>10</i>	<u>(1,354)</u>	<u>(3,544)</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<i>11</i>	<u>(74,131)</u>	<u>(38,769)</u>
RELEASE FROM REVALUATION RESERVE		<u>–</u>	<u>404</u>
BASIC LOSS PER SHARE	<i>12</i>	<u>(14.41 cents)</u>	<u>(10.48 cents)</u>

Consolidated Balance Sheet

31 March 2003

	<i>Notes</i>	2003 HK\$'000	2002 HK\$'000 (Restated)
NON-CURRENT ASSETS			
Fixed assets	13	127,709	131,531
Intangible assets	15	–	–
Deposits paid		42,238	44,491
		<u>169,947</u>	<u>176,022</u>
CURRENT ASSETS			
Inventories	16	230,050	124,577
Debtors	17	49,300	41,112
Bills receivable		11,592	12,988
Deposits paid		25,020	20,790
Prepayments and other receivables		16,086	10,366
Tax recoverable		959	6,213
Cash and cash equivalents	18	76,134	173,454
		<u>409,141</u>	<u>389,500</u>
CURRENT LIABILITIES			
Creditors and accruals	19	151,057	109,313
Bills payable		41,521	12,337
Interest-bearing bank loans and overdrafts	20	94,576	60,026
		<u>287,154</u>	<u>181,676</u>
NET CURRENT ASSETS		<u>121,987</u>	<u>207,824</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		291,934	383,846
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	20	35,000	55,000
Deferred tax	21	176	658
		<u>35,176</u>	<u>55,658</u>
		<u>256,758</u>	<u>328,188</u>
CAPITAL AND RESERVES			
Share capital	22	51,431	41,145
Reserves	23	205,327	287,043
		<u>256,758</u>	<u>328,188</u>

Ka Sing LAW
Director

Chi Kwong TO
Director

Consolidated Statement of Changes in Equity

Year ended 31 March 2003

	Notes	Issued share capital HK\$'000	Share premium account HK\$'000	Con- tributed Capital reserve HK\$'000	Re- valuation surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Reserve funds HK\$'000	Retained profits HK\$'000	Total HK\$'000	
At 1 April 2001										
As previously reported		27,430	-	740	99,175	13,915	8,281	-	172,846	322,387
Prior year adjustment –										
SSAP 34 "Employee benefits"	2, 19	-	-	-	-	-	-	(4,000)	(4,000)	
As restated		27,430	-	740	99,175	13,915	8,281	-	168,846	318,387
Exchange realignment and net losses not recognised in the profit and loss account										
		-	-	-	-	(129)	-	-	(129)	
Issue of rights shares	22	13,715	49,374	-	-	-	-	-	63,089	
Share issue expenses	22	-	(879)	-	-	-	-	-	(879)	
Realisation on depreciation during the year		-	-	-	-	(404)	-	404	-	
Impairment of leasehold land and buildings		-	-	-	-	(13,511)	-	-	(13,511)	
Transfer to reserve funds		-	-	-	-	-	1,183	(1,183)	-	
Net loss for the year		-	-	-	-	-	-	(38,769)	(38,769)	
At 31 March 2002		<u>41,145</u>	<u>48,495*</u>	<u>740*</u>	<u>99,175*</u>	<u>-</u>	<u>8,152*</u>	<u>1,183*</u>	<u>129,298*</u>	<u>328,188</u>
At 1 April 2002										
As previously reported		41,145	48,495	740	99,175	-	8,152	1,183	133,298	332,188
Prior year adjustment –										
SSAP 34 "Employee benefits"	2, 19	-	-	-	-	-	-	(4,000)	(4,000)	
As restated		41,145	48,495	740	99,175	-	8,152	1,183	129,298	328,188
Exchange realignment and net gains not recognised in the profit and loss account										
		-	-	-	-	-	1,160	-	1,160	
Issue of bonus shares	22	10,286	(10,286)	-	-	-	-	-	-	
Impairment of goodwill	23	-	-	1,541	-	-	-	-	1,541	
Transfer to reserve funds		-	-	-	-	-	567	(567)	-	
Net loss for the year		-	-	-	-	-	-	(74,131)	(74,131)	
At 31 March 2003		<u>51,431</u>	<u>38,209*</u>	<u>2,281*</u>	<u>99,175*</u>	<u>-</u>	<u>9,312*</u>	<u>1,750*</u>	<u>54,600*</u>	<u>256,758</u>

* These reserve accounts comprise the consolidated reserves of HK\$205,327,000 (2002: HK\$287,043,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 March 2003

	<i>Notes</i>	2003 HK\$'000	2002 HK\$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(72,777)	(35,225)
Adjustments for:			
Finance costs	9	6,712	5,333
Interest income	5	(2,262)	(1,393)
Loss on disposal of fixed assets	6	6,459	3,194
Depreciation	6	60,125	56,181
Impairment of goodwill	6	1,541	–
Amortisation of intangible assets	6	–	4,291
Impairment of leasehold land and buildings	6	–	13,408
		<hr/>	<hr/>
Operating profit/(loss) before working capital changes		(202)	45,789
Decrease/(increase) in inventories		(105,302)	48,170
Increase in debtors		(8,165)	(28,409)
Decrease/(increase) in bills receivable		1,397	(1,619)
Increase in deposits paid		(1,872)	(1,006)
Decrease/(increase) in prepayments and other receivables		(5,684)	10,538
Increase in creditors and accruals		41,655	1,007
Increase/(decrease) in bills payable		29,158	(9,768)
		<hr/>	<hr/>
Cash generated from/(used in) operations		(49,015)	64,702
Interest paid		(6,712)	(5,333)
Hong Kong profits tax refunded/(paid)	24(a)	6,784	(1,534)
Overseas taxes paid	24(a)	(3,342)	(7,442)
		<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities – page 24		(52,285)	50,393
		<hr/>	<hr/>

Consolidated Cash Flow Statement

Year ended 31 March 2003

	<i>Notes</i>	2003	2002
		HK\$'000	HK\$'000
			(Restated)
Net cash inflow/(outflow) from operating activities – page 23		(52,285)	50,393
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	<i>24(a)</i>	2,262	1,393
Purchases of fixed assets	<i>13</i>	(62,529)	(56,045)
Proceeds from disposal of fixed assets		383	101
Net cash outflow from investing activities		(59,884)	(54,551)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of rights shares	<i>22</i>	–	63,089
Share issue expenses	<i>22</i>	–	(424)
New bank loans	<i>24(a)</i>	68,784	135,161
Repayment of bank loans	<i>24(a)</i>	(54,088)	(96,425)
Net cash inflow from financing activities		14,696	101,401
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		(97,473)	97,243
Cash and cash equivalents at beginning of year		173,311	76,536
Effect of foreign exchange rate changes, net		296	(468)
CASH AND CASH EQUIVALENTS AT END OF YEAR		76,134	173,311
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	<i>18</i>	51,934	62,454
Time deposits	<i>18</i>	24,200	111,000
Bank overdrafts	<i>20</i>	–	(143)
		76,134	173,311

Balance Sheet

31 March 2003

	<i>Notes</i>	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	14	248,415	314,689
CURRENT ASSETS			
Dividends receivable		–	10,735
Prepayments		217	–
Cash and cash equivalents	18	128	136
		<hr/>	<hr/>
		345	10,871
CURRENT LIABILITIES			
Creditors and accruals	19	333	788
Tax payable		135	–
		<hr/>	<hr/>
		468	788
NET CURRENT ASSETS/(LIABILITIES)			
		<hr/>	<hr/>
		(123)	10,083
		<hr/>	<hr/>
		248,292	324,772
CAPITAL AND RESERVES			
Share capital	22	51,431	41,145
Reserves	23	196,861	283,627
		<hr/>	<hr/>
		248,292	324,772
		<hr/>	<hr/>

Ka Sing LAW
Director

Chi Kwong TO
Director

1. CORPORATE INFORMATION

The Company is incorporated in Bermuda with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited. During the year, the Group was involved in investment holding and the retailing and distribution of garments.

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised) : “Presentation of financial statements”
- SSAP 11 (Revised) : “Foreign currency translation”
- SSAP 15 (Revised) : “Cash flow statements”
- SSAP 34 : “Employee benefits”

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significant effect on the financial statements, are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented on page 22 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserves note.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) *(continued)*

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes are included in the accounting policies for “Cash and cash equivalents” and “Foreign currencies” in note 3 and in note 24 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in the recognition of an accrual for paid holiday carried forward by the Group’s employees as at the balance sheet date. The recognition of this accrual has resulted in a prior year adjustment, further details of which are included under the heading “Employee benefits” in note 3 and in note 19 to the financial statements.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of certain fixed assets, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life.

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SSAP 30 "Business combinations" was adopted as at 1 April 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1 April 2001 is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

SSAP 30 "Business combinations" was adopted as at 1 April 2001. Prior to that date, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to 1 April 2001 is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets *(continued)*

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4%
Leasehold improvements	15% to 33% or over the lease terms, whichever is shorter
Plant and machinery	9% to 25%
Furniture, fixtures and office equipment	15% to 33% or over the lease terms, whichever is shorter
Motor vehicles	15% to 33%

Leasehold land is amortised over the lease terms or at a rate of 2% per annum, whichever is shorter.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fixed assets and depreciation *(continued)*

The revaluation reserve arising from the revaluation of fixed assets is realised and transferred directly to retained profits on a systematic basis, as the corresponding asset is used by the Group. The amount realised is the difference between the depreciation based on the revalued carrying amount of the asset and the depreciation based on the asset's original cost. If the total of this reserve is insufficient to cover an impairment loss, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Intangible assets

Intangible assets represent trademarks and are stated at cost and amortised on the straight-line basis over a period of three years.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices less any estimated costs necessary to make the sale.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories *(continued)*

With effect from the current year, the Group has changed its provisioning policies on inventories by decelerating the rates of provision applied to slow-moving inventories. This constitutes a change in accounting estimate. In the opinion of the directors, the net realisable value of inventories is more accurately reflected by the revised rates. This change has been applied prospectively and has resulted in a reduction in the provision for slow-moving inventories of approximately HK\$16,356,000 for the year.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent that it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries, and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. The adoption of the revised SSAP 15 has had no material effect on the amounts of the previously-reported cash flows of the prior year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, in the period in which services are rendered;
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (d) rental income, on a time proportion basis over the lease terms;
- (e) royalties, on a time proportion basis in accordance with the substance of the relevant agreements; and
- (f) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Prior to the adoption of SSAP 34 during the year, as explained in note 2 to the financial statements, the Group did not accrue for paid annual leave carried forward at the balance sheet date. This change in accounting policy has resulted in a prior year adjustment due to the initial recognition of the accrual, further details of which are included in note 19 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Pension schemes

The Group operates two retirement benefits schemes in Hong Kong, namely a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance and a defined contribution retirement benefits scheme as defined in the Occupational Retirement Schemes Ordinance (the "ORSO Scheme"), for all of its employees in Hong Kong.

Under the MPF Scheme, contributions of 5% of the employees' relevant income are made by each of the employer and the employees. The employer contributions are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The Company's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Under the ORSO Scheme, contributions of 5% of the employees' basic salaries are made by the employer and are charged to the profit and loss account as they become payable in accordance with the rules of the ORSO Scheme. The rates of contributions made by the employees are either 0% or 5% of the salary of each employee at the discretion of the employee. When an employee leaves the ORSO Scheme prior to his/her interest in the Group employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

The assets of the MPF and ORSO Schemes are held separately from those of the Group in independently administered funds.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

The Company's subsidiary in Singapore participates in a Central Provident Fund Scheme which is a contribution plan established by the Central Provident Fund Board in Singapore.

In Taiwan, as required by the Labour Standards Law, one of the Company's subsidiaries makes regular contributions to a retirement fund to meet its employees' retirement and termination benefits. Currently, the contributions have been approved to be made at 2% of the employees' total salaries. The fund is administered by a committee and is deposited in the committee's name with a government approved financial institution, which acts as the trustee.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Prior to the adoption of the revised SSAP 15 during the year, as explained in note 2 to the financial statements, cash equivalents in the consolidated cash flow statement also included advances from banks repayable within three months from the date of the advance, in addition to bank overdrafts. This change in definition has resulted in a prior year adjustment relating to trust receipt loans, further details of which are included in note 24 to the financial statements.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by geographical segment; and (ii) on a secondary segment reporting basis, by business segment.

In determining the Group's geographical segments, revenue and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Since over 90% of the Group's revenue, results, and assets and liabilities are derived from the retailing and distribution of garments, no separate analysis of financial information by business segment is presented in the financial statements.

5. TURNOVER AND REVENUE

Turnover represents the aggregate of the net invoiced value of goods sold, after allowances for returns and trade discounts, and the rendering of services, but excludes intra-group transactions.

An analysis of turnover and revenue is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Turnover:		
Retailing and distribution of garments	1,691,443	1,588,473
Other revenue:		
Interest income	2,262	1,393
Claims received	2,630	412
Royalty income	710	–
Gross rental income	895	509
Sample charges received	977	–
Others	828	659
	<hr/>	<hr/>
	8,302	2,973
	<hr/>	<hr/>
Total revenue for the year	<u>1,699,745</u>	<u>1,591,446</u>

Notes to Financial Statements

31 March 2003

6. LOSS FROM OPERATING ACTIVITIES

Loss from operating activities is arrived at after charging/(crediting):

		Group	
	<i>Note</i>	2003	2002
		HK\$'000	HK\$'000
Cost of sales:			
Cost of inventories sold		966,882	858,463
Inventory provision		23,674	38,423
		990,556	896,886
Staff costs (including directors' remuneration – <i>Note 7</i>):			
Wages and salaries		234,975	200,588
Pension scheme contributions		10,774	8,601
<i>Less: Forfeited contributions</i>		(807)	–
Net pension contributions – <i>Note (a)</i>		9,967	8,601
		244,942	209,189
Amortisation of intangible assets – <i>Note (b)</i>		–	4,291
Depreciation	13	60,125	56,181
Minimum lease payments under operating leases:			
Land and buildings		241,269	230,744
Contingent rent of retail shops		29,673	31,212
Plant and machinery		257	19
Auditors' remuneration		1,483	1,333
Loss on disposal of fixed assets		6,459	3,194
Foreign exchange losses/(gains), net		(349)	9,369
Impairment of leasehold land and buildings – <i>Note (b)</i>		–	13,408
Impairment of goodwill – <i>Note (c)</i>		1,541	–
Net rental income		(211)	(110)

6. LOSS FROM OPERATING ACTIVITIES *(continued)*

Notes:

- (a) As at 31 March 2003, forfeited contributions available to the Group to reduce its contributions to the ORSO Scheme in future years amounted to HK\$227,000 (2002: HK\$962,000).
- (b) The amortisation of intangible assets and the impairment of leasehold land and buildings in the prior year are included in "Other operating expenses" on the face of the consolidated profit and loss account.
- (c) The impairment of goodwill for the year is included in "Other operating expenses" on the face of the consolidated profit and loss account.

7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Executive directors:		
Fees	–	–
Salaries, allowances and benefits in kind	8,180	5,398
Pension scheme contributions	62	41
	<hr/>	<hr/>
	8,242	5,439
Independent non-executive directors:		
Fees	192	192
	<hr/>	<hr/>
	8,434	5,631
	<hr/>	<hr/>

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2003	2002
Nil to HK\$1,000,000	4	6
HK\$1,000,001 to HK\$1,500,000	2	–
HK\$1,500,001 to HK\$2,000,000	1	–
HK\$2,500,001 to HK\$3,000,000	1	1
	<hr/>	<hr/>
	8	7
	<hr/>	<hr/>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Notes to Financial Statements

31 March 2003

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2002: one) directors, details of whose remuneration are set out in note 7 above. The details of the remuneration of the remaining two (2002: four) non-director, highest paid employees are as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	2,550	5,163
Pension scheme contributions	101	148
	<u>2,651</u>	<u>5,311</u>

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Group	
	Number of employees	
	2003	2002
HK\$1,000,001 to HK\$1,500,000	2	3
HK\$1,500,001 to HK\$2,000,000	–	1
	<u>2</u>	<u>4</u>

9. FINANCE COSTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	<u>6,712</u>	<u>5,333</u>

10. TAX

Hong Kong profits tax has been provided at the rate of 16% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2003	2002
	HK\$'000	HK\$'000
Group:		
Hong Kong	1,253	307
Elsewhere	978	5,242
Overprovision in prior year	(364)	(2,085)
	<u>1,867</u>	<u>3,464</u>
Deferred tax – <i>Note 21</i>	<u>(513)</u>	<u>80</u>
Tax charge for the year	<u>1,354</u>	<u>3,544</u>

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2003 dealt with in the financial statements of the Company was HK\$76,480,000 (2002: HK\$69,000).

12. BASIC LOSS PER SHARE

The basic loss per share is calculated based on the net loss from ordinary activities attributable to shareholders for the year of HK\$74,131,000 (2002: HK\$38,769,000) and on the weighted average of 514,307,798 (2002: 369,901,835, as restated) shares in issue during the year, as adjusted to reflect the bonus shares issued during the year. The weighted average number of shares for the years ended 31 March 2003 and 2002 have not been adjusted retrospectively to reflect the rights issue after the balance sheet date.

Diluted loss per share amounts for the years ended 31 March 2003 and 2002 have not been calculated as no diluting events existed during these years.

Notes to Financial Statements

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13. FIXED ASSETS

Group	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:						
At beginning of year	82,154	209,565	5,680	90,441	5,314	393,154
Additions	–	46,098	58	16,267	106	62,529
Disposals	–	(25,524)	–	(1,924)	(408)	(27,856)
Exchange realignment	–	850	–	324	44	1,218
Reclassification	–	2,029	–	(2,029)	–	–
At 31 March 2003	82,154	233,018	5,738	103,079	5,056	429,045
Representing:						
At cost	42,154	233,018	5,738	103,079	5,056	389,045
At valuation	40,000	–	–	–	–	40,000
	82,154	233,018	5,738	103,079	5,056	429,045
Accumulated depreciation and impairment:						
At beginning of year	40,846	151,474	3,006	62,691	3,606	261,623
Depreciation provided during the year	2,244	44,315	428	12,484	654	60,125
Disposals	–	(19,126)	–	(1,565)	(323)	(21,014)
Exchange realignment	–	396	–	176	30	602
Reclassification	–	616	–	(616)	–	–
At 31 March 2003	43,090	177,675	3,434	73,170	3,967	301,336
Net book value:						
At 31 March 2003	39,064	55,343	2,304	29,909	1,089	127,709
At 31 March 2002	41,308	58,091	2,674	27,750	1,708	131,531

13. FIXED ASSETS *(continued)*

The land and buildings included above are held under medium term leases and are situated in:

	At cost	At valuation	Total
	HK\$'000	HK\$'000	HK\$'000
Hong Kong	21,654	40,000	61,654
Elsewhere	20,500	–	20,500
	<u>42,154</u>	<u>40,000</u>	<u>82,154</u>

Certain leasehold land and buildings were valued on 31 July 1993 by Chesterton Petty Limited, independent professionally qualified valuers, on an open market, existing use basis.

At 31 March 2003, had the Group's revalued land and buildings been carried at cost less accumulated depreciation and impairment loss, they would have been included in the financial statements at approximately HK\$13,795,000 (2002: HK\$15,000,000).

The Group adopted the transitional provision of SSAP 17 "Property, plant and equipment" of not making further regular revaluations of its leasehold land and buildings which had previously been revalued.

14. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	193,962	193,962
Due from subsidiaries	131,994	120,727
	<u>325,956</u>	314,689
Provision for impairment	(77,541)	–
	<u>248,415</u>	<u>314,689</u>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Notes to Financial Statements

31 March 2003

14. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Active Link Limited – <i>Note (c)</i>	Hong Kong	HK\$5,000,000	–	100	Garment retailing and wholesaling
Bossini Advertising Agency Limited	Hong Kong	HK\$2	–	100	Advertising and promotion
Bossini Enterprises Limited	Hong Kong	HK\$2	–	100	Retailing and distribution of garments
Bossini Garment Limited	Hong Kong	HK\$2	–	100	Distribution of garments
Bossini Investment Limited	British Virgin Islands	US\$11,928	100	–	Investment holding
Burling Limited	British Virgin Islands	US\$100	–	100	Licensing of trademarks
Guangzhou Bossini Enterprises Company Limited – <i>Notes (a) and (c)</i>	People's Republic of China ("PRC")/ Mainland China	RMB1,010,000	–	100	Retailing and distribution of garments
J&R Bossini Fashion Pte. Limited	Singapore	S\$2,000,000	–	100	Garment retailing and wholesaling
J&R Bossini Holdings Limited	Hong Kong	HK\$2	–	100	Investment holding

14. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Kacono Trading Limited	British Virgin Islands	HK\$2,000	–	100	Investment holding
Key Value Trading Limited	British Virgin Islands	US\$100	–	100	Investment holding
Land Challenger Limited	Hong Kong	HK\$2	–	100	Garment manufacture sub-contracting
Langzhi Fashion (Shenzhen) Company Limited – Notes (b) and (c)	PRC/ Mainland China	HK\$6,600,000	–	100	Garment manufacture sub-contracting
Lead Commence Limited	Hong Kong	HK\$2	–	100	Garment retailing and wholesaling
Onmay International Limited	Hong Kong	HK\$2	–	100	Garment retailing and wholesaling
Rapid City Limited	Hong Kong	HK\$2	–	100	Property holding and letting
Sun View Properties Limited	Hong Kong	HK\$2	–	100	Property holding and letting

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes to Financial Statements

31 March 2003

14. INTERESTS IN SUBSIDIARIES *(continued)*

Notes:

- (a) Guangzhou Bossini Enterprises Company Limited is a limited liability enterprise established in the PRC which obtained its business registration certificate on 14 July 1993.
- (b) Langzhi Fashion (Shenzhen) Company Limited is a wholly-owned foreign investment enterprise with limited liability established in the PRC which obtained its business registration certificate on 14 June 1993 and is licensed to conduct business for 25 years from the date of its business registration.
- (c) These subsidiaries were not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

15. INTANGIBLE ASSETS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Balance at beginning of year	–	4,291
Amortisation during the year	–	(4,291)
	<hr/>	<hr/>
Balance at end of year	–	–
	<hr/>	<hr/>

16. INVENTORIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Raw materials	4,176	3,046
Finished goods	225,874	121,531
	<hr/>	<hr/>
	230,050	124,577
	<hr/>	<hr/>

At the balance sheet date, no inventories were carried at net realisable value (2002: Nil).

17. DEBTORS

Other than cash and credit card sales, the Group normally allows credit periods of up to 60 days to its trade customers.

An aged analysis of trade debtors, based on invoice date, is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
0 to 30 days	39,899	26,170
31 to 60 days	9,255	14,320
61 to 90 days	26	370
Over 90 days	120	252
	<hr/>	<hr/>
Total	49,300	41,112
	<hr/>	<hr/>

18. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	51,934	62,454	128	136
Time deposits	24,200	111,000	—	—
	<hr/>	<hr/>	<hr/>	<hr/>
Cash and cash equivalents	76,134	173,454	128	136
	<hr/>	<hr/>	<hr/>	<hr/>

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$34,423,000 (2002: HK\$20,898,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Notes to Financial Statements

31 March 2003

19. CREDITORS AND ACCRUALS

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade creditors	75,975	50,911	–	–
Accruals	75,082	58,402	333	788
	151,057	109,313	333	788

An aged analysis of trade creditors, based on invoice date, is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
0 to 30 days	68,856	40,391
31 to 60 days	3,403	1,939
61 to 90 days	847	3,352
Over 90 days	2,869	5,229
Total	75,975	50,911

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, an accrual is now made at the balance sheet date for the expected future cost of paid annual leave earned during the year by employees, which remains untaken by the employees at the balance sheet date and is permitted to be carried forward and utilised in the following year.

This change in accounting policy has resulted in HK\$4,000,000 being included in the balance of the Group's accruals in respect of paid leave carried forward as at 31 March 2003 and 2002. As a consequence, the consolidated retained profits and the net assets at 1 April 2002 and 2001 have been reduced by HK\$4,000,000 as detailed in the consolidated statement of changes in equity. There is no impact on the Group's net loss from ordinary activities attributable to shareholders for both years presented.

20. INTEREST-BEARING BANK LOANS AND OVERDRAFTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Bank overdrafts repayable within one year or on demand	—	143
Trust receipt loans repayable within one year or on demand	49,098	2,004
Bank loans repayable:		
Within one year or on demand	45,478	57,879
In the second year	20,000	20,000
In the third to fifth years, inclusive	15,000	35,000
	80,478	112,879
	129,576	115,026
Portion classified as current liabilities	(94,576)	(60,026)
Long term portion	35,000	55,000

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21. DEFERRED TAX

	Group	
	2003	2002
	HK\$'000	HK\$'000
At beginning of year	658	596
Charge/(credit) for the year – <i>Note 10</i>	(513)	80
Exchange realignment	31	(18)
At end of year	176	658

Notes to Financial Statements

31 March 2003

21. DEFERRED TAX (continued)

The principal components of the Group's provision for deferred tax, and the net deferred tax asset position not recognised in the financial statements, calculated at 17.5% (2002: 16%), are as follows:

	Provided		Not provided	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accelerated depreciation allowances	176	658	(1,376)	(979)
Tax losses	—	—	(13,830)	(12,159)
	<u>176</u>	<u>658</u>	<u>(15,206)</u>	<u>(13,138)</u>

22. SHARE CAPITAL

	Company	
	2003	2002
	HK\$'000	HK\$'000
<i>Authorised:</i>		
2,000,000,000 (2002: 1,000,000,000) ordinary shares of HK\$0.10 each	<u>200,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
514,307,798 (2002: 411,446,239) ordinary shares of HK\$0.10 each	<u>51,431</u>	<u>41,145</u>

During the year, the movements in share capital were as follows:

- Pursuant to an ordinary resolution passed on 30 August 2002, the authorised share capital of the Company was increased from HK\$100,000,000 to HK\$200,000,000 by the creation of an additional 1,000,000,000 new shares of HK\$0.10 each, such new shares ranking pari passu in all respects with the existing issued shares of the Company.
- On 12 September 2002, the Company completed an issue of bonus shares on the basis of one bonus share for every four existing shares held. A total of 102,861,559 bonus shares of HK\$0.10 each were issued, credited as fully paid by way of the capitalisation of approximately HK\$10,286,000 of the Company's share premium account.

22. SHARE CAPITAL *(continued)*

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 April 2001	274,297,493	27,430	–	27,430
Issue of rights shares	137,148,746	13,715	49,374	63,089
Share issue expenses	–	–	(879)	(879)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2002 and 1 April 2002	411,446,239	41,145	48,495	89,640
Issue of bonus shares	102,861,559	10,286	(10,286)	–
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2003	<u>514,307,798</u>	<u>51,431</u>	<u>38,209</u>	<u>89,640</u>

23. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 22 of the financial statements.

The amounts of goodwill and negative goodwill arising on the acquisition of subsidiaries in prior years remaining in consolidated reserves, are as follows:

	Group	
	Goodwill eliminated against capital reserve and retained profits HK\$'000	Negative goodwill included in capital reserve HK\$'000
Cost:		
At beginning of year and at 31 March 2003	(28,174)	7,932
Accumulated impairment:		
At beginning of year	–	–
Impairment provided during the year	2,205	(664)
At 31 March 2003	2,205	(664)
Net amount:		
At 31 March 2003	(25,969)	7,268
At 31 March 2002	(28,174)	7,932

23. RESERVES (continued)**(b) Company**

	<i>Note</i>	Share premium account	Contributed surplus	Retained profits/ (accumulated losses)	Total
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2001		–	166,533	68,668	235,201
Issue of rights shares		49,374	–	–	49,374
Share issue expenses		(879)	–	–	(879)
Net loss for the year		–	–	(69)	(69)
		<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2002 and at 1 April 2002		48,495	166,533	68,599	283,627
Issue of bonus shares	22	(10,286)	–	–	(10,286)
Net loss for the year		–	–	(76,480)	(76,480)
		<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2003		<u>38,209</u>	<u>166,533</u>	<u>(7,881)</u>	<u>196,861</u>

The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued in exchange for the issued share capital of the subsidiaries and the aggregate net asset value of the subsidiaries acquired at the date of acquisition, at the time of the Group reorganisation prior to the listing of the Company's shares in 1993. Under the Companies Act 1981 of Bermuda, the Company may make distributions to its shareholders out of the contributed surplus.

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Prior year adjustments

SSAP 15 (Revised) was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that taxes paid are now included in cash flows from operating activities, and interest received is now included in cash flows from investing activities. The presentation of the 2002 comparative consolidated cash flow statement has been changed to accord with the new layout.

The method of calculation of certain items in the consolidated cash flow statement has changed under the revised SSAP 15, as explained under the heading "Foreign currencies" in note 3 to the financial statements. Cash flows of overseas subsidiaries are now translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year. Previously, the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. This change in accounting policy has had no material effect on the amounts previously reported in the prior year's cash flow statement.

Also, the definition of "cash equivalents" under the revised SSAP 15 has been revised from that under the previous SSAP 15, as explained under the heading "Cash and cash equivalents" in note 3 to the financial statements. This has resulted in trust receipt loans repayable within three months from date of advance no longer qualifying as cash equivalents. The amount of cash equivalents in the consolidated cash flow statement at 31 March 2002 has been adjusted to remove such trust receipt loans amounting to HK\$2,004,000 previously included at that date. The year's movement in trust receipt loans is now included in cash flows from financing activities and the comparative cash flow statement has been changed accordingly.

(b) Major non-cash transaction

During the year, the Company issued 102,861,559 bonus shares of HK\$0.10 each by capitalising an amount of approximately HK\$10,286,000 from the share premium account.

25. OPERATING LEASE ARRANGEMENTS**(a) As lessor**

The Group sub-leases one of its retail properties under an operating lease arrangement, with the lease negotiated for a term of five years. The terms of the lease also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 March 2003, the Group had total future minimum lease receivables under a non-cancellable operating lease with its tenant falling due as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	2,350	509
In the second to fifth years, inclusive	6,180	806
	<u>8,530</u>	<u>1,315</u>

(b) As lessee

The Group leases certain of its office, retail outlets and warehouse properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to six years.

At 31 March 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	207,282	195,815
In the second to fifth years, inclusive	270,047	236,493
After five years	49	239
	<u>477,378</u>	<u>432,547</u>

The operating lease rentals of certain retail outlets are based solely on the sales of those outlets. In the opinion of the directors, as the future sales of those retail outlets could not be accurately estimated, the relevant rental commitments have not been included above.

At the balance sheet date, the Company did not have any future minimum lease payments under non-cancellable operating leases.

26. COMMITMENTS

In addition to the operating lease commitments detailed in note 25(b) above, the Group had commitments under foreign exchange contracts as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Foreign exchange contracts	<u>31,113</u>	<u>17,940</u>

At the balance sheet date, the Company did not have any significant commitments.

27. CONTINGENT LIABILITIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Bank guarantees given in lieu of utility and property rental deposits	<u>2,520</u>	<u>4,581</u>

The Company has given guarantees in favour of banks to the extent of HK\$427,000,000 (2002: HK\$400,719,000) in respect of banking facilities granted to certain subsidiaries. These were utilised to the extent of HK\$175,197,000 as at 31 March 2003 (2002: HK\$149,884,000).

28. LITIGATION

- (a) A High Court action (the "WDC Action"), which commenced on 10 June 1998, was brought against J & R Bossini Trading Limited ("Bossini Trading"), a subsidiary of the Company, by Weiland Development Company Limited ("WDC"), for breach of a lease (the "Lease") relating to a property used by Bossini Trading as a warehouse for a minimum amount of approximately HK\$7,247,596. Bossini Trading is defending the action and has counter-claimed against WDC for a declaration that the Lease was lawfully terminated. As at the date of this report, the directors believe that it is not practicable to estimate the possible extent of the liability of Bossini Trading, if any, in respect of this action. However, the directors are of the opinion that the WDC claim is unlikely to succeed on the merits of the case and therefore, the directors consider that no material liability is likely to result therefrom.

28. LITIGATION *(continued)*

- (b) Two High Court actions (the “Actions”), both commenced on 24 July 1998, were brought against Bossini Trading by Sano Screen Manufacturing Limited and Tri-Star Fabric Printing Works Limited (collectively called the “Plaintiffs”), for breach of leases relating to properties used by Bossini Trading as warehouses. Judgements in respect of the Actions were awarded in favour of the Plaintiffs against Bossini Trading on 16 June 2000 for an amount not exceeding HK\$2,467,463, together with interest thereon from the date of the said judgements to the date of payment at the judgement rate, and the costs of the Actions. As at the date of this report, no payment has been made by Bossini Trading.

A winding-up order was made against Bossini Trading on 28 January 2002. So far as the directors are aware, with a winding-up order having been made against Bossini Trading, WDC would require the leave of the courts to continue the WDC Action and such leave has not been obtained.

With respect to the Actions, the Plaintiffs would likely rank as unsecured creditors in the event of any distribution of assets upon the winding-up of Bossini Trading.

As Bossini Trading has minimal assets and neither the Company, nor any of its subsidiaries has provided any guarantees or sureties in respect of the liabilities of Bossini Trading, the directors consider that there would be no significant adverse impact on the financial position of the Group as a result of any action taken by the Plaintiffs to enforce the judgements against Bossini Trading or any unfavourable judgement being made against Bossini Trading upon leave of the courts being granted to WDC to continue the WDC Action.

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29. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, on 13 May 2003, a rights issue on the basis of one rights share for every two existing shares held by shareholders on the register of members on 15 April 2003 was allotted, at an issue price of HK\$0.22 per rights share, resulting in the issue of 257,153,899 shares of HK\$0.10 each for a total cash consideration, before share issue expenses, of approximately HK\$56,574,000. The net proceeds from the rights issue of approximately HK\$55,670,000 will be used as follows:

- (a) as to approximately HK\$10 million to finance the expansion of the Group’s authorised dealer business in Mainland China;
- (b) as to approximately HK\$30 million for repayment of bank borrowings; and
- (c) as to approximately HK\$15.67 million as general working capital for the Group.

Notes to Financial Statements

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30. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the year:

		Group	
	Notes	2003	2002
		HK\$'000	HK\$'000
Rental paid for warehouse premises	(a)	1,240	1,240
Rental paid for office premises	(b)	<u>4,543</u>	<u>4,433</u>

Notes:

- (a) The rental for the period from 1 April 2002 to 24 March 2003 was paid to Laws International Group Limited ("Laws International") (formerly known as Laws Fashion Knitters Limited). Mr. Ka Sing LAW, a director of the Company, had a beneficial equity interest in Laws International during the year. The rental was determined by reference to open market rentals at the inception of the tenancy agreement.
- (b) The rental for the period from 1 April 2002 to 24 March 2003 was paid to Bright City International Limited ("Bright City"). Mr. Ka Sing LAW, a director of the Company, had a beneficial equity interest in Bright City during the year. The rental was determined by reference to open market rentals at the inception of the tenancy agreement.

In the prior year, the rental for the period from 1 April 2001 to 30 September 2001 was paid to First On International Limited ("First On"). Mr. Ka Sing LAW, a director of the Company, had a beneficial equity interest in First On. The rental for the period from 1 October 2001 to 31 March 2002 was paid to Bright City.

31. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 June 2003.

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, extracted from the audited financial statements and reclassified as appropriate, is set out below. The amounts for each year in the five year financial summary have been adjusted for the effects of the retrospective changes in accounting policy affecting the recognition of an accrual for paid holiday carried forward by the Group's employees as detailed in note 2 to the financial statements.

RESULTS

	Year ended 31 March				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000 (Restated)	2000 HK\$'000	1999 HK\$'000
TURNOVER	1,691,443	1,588,473	1,554,567	1,264,605	1,109,065
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	(66,065)	(29,892)	24,804	95,339	21,661
Finance costs	(6,712)	(5,333)	(2,827)	(2,044)	(3,125)
Share of profits/(losses) of associates	—	—	—	(141)	1,374
PROFIT/(LOSS) BEFORE TAX	(72,777)	(35,225)	21,977	93,154	19,910
Tax	(1,354)	(3,544)	(6,178)	(13,958)	(2,234)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	(74,131)	(38,769)	15,799	79,196	17,676
Minority interests	—	—	(144)	41	(82)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	(74,131)	(38,769)	15,655	79,237	17,594

ASSETS, LIABILITIES AND MINORITY INTERESTS

	31 March				
	2003 HK\$'000	2002 HK\$'000 (Restated)	2001 HK\$'000 (Restated)	2000 HK\$'000 (Restated)	1999 HK\$'000 (Restated)
TOTAL ASSETS	579,088	565,522	526,060	514,384	409,278
TOTAL LIABILITIES	322,330	237,334	207,673	167,543	121,401
MINORITY INTERESTS	—	—	—	—	103
	256,758	328,188	318,387	346,841	287,774

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at Tang Room I, 3rd Floor, Sheraton Hong Kong Hotel and Towers, 20 Nathan Road, Tsimshatsui, Kowloon, Hong Kong on Friday, 29 August 2003 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and auditors for the year ended 31 March 2003.
2. To elect directors.
3. To appoint auditors and to authorise the directors to fix their remuneration.
4. As special business, to consider and, if thought fit, to pass the following resolution as an Ordinary Resolution:

“THAT:

(A) a general mandate be and is hereby unconditionally given to the directors of the Company to issue and dispose of and to make or grant offers, agreements or options of or in relation to such of the Company’s unissued share capital during the Relevant Period (as hereinafter defined), as does not exceed 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this resolution and the said approval shall be limited accordingly; and

(B) for the purposes of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earlier of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; and
- (c) the revocation or variation of this resolution by an ordinary resolution of the members of the Company in general meeting.”

5. As special business, to consider and, if thought fit, to pass the following resolution as an Ordinary Resolution:

“THAT:

(A) the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase its own shares, subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;

- (B) the aggregate nominal amount of shares of the Company purchased by the Company pursuant to the approval in paragraph (A) of this resolution shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this resolution and the said approval be limited accordingly; and
 - (C) for the purposes of this resolution:
 - “Relevant Period” means the period from the passing of this resolution until whichever is the earlier of:
 - (a) the conclusion of the next annual general meeting of the Company;
 - (b) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; and
 - (c) the revocation or variation of this resolution by an ordinary resolution of the members of the Company in general meeting.”
6. As special business, to consider and, if thought fit, to pass the following resolution as an Ordinary Resolution:

“**THAT** conditional upon passing of the Ordinary Resolution numbered 5 set out in the notice of this meeting, the general mandate granted to the directors of the Company to issue, dispose of or otherwise deal with the unissued share capital of the Company pursuant to the Ordinary Resolution numbered 4 set out in the notice of this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to the Ordinary Resolution numbered 5 set out in the notice of this meeting, provided that such amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this resolution.”

By Order of the Board

Chi Kwong TO
Company Secretary

Hong Kong
14 July 2003

Notice of Annual General Meeting

Notes:

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. To be valid, the instrument appointing a proxy, together with the power of attorney or other authority (if any), must be deposited at the principal office of the Company at 6th Floor, Hong Kong Spinners Industrial Building, Phase 1 & 2, 601-603 Tai Nan West Street, Kowloon not less than 48 hours before the time appointed for holding the Meeting or any adjourned meeting.
2. With respect to the Ordinary Resolution numbered 4 above, approval is being sought from the members for a general mandate to authorise allotment of shares under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. However, the directors of the Company have no immediate plans to issue any new shares of the Company pursuant to such approval.
3. A circular containing further details regarding the Ordinary Resolutions numbered 4 and 5 will be sent to the members together with the Annual Report for the year ended 31 March 2003.