

CONDICI LIMITED

***DIRECTORS' REPORT AND
FINANCIAL STATEMENTS***

For the year ended 31st December 2002

Company Number: 1678961



DIRECTORS' REPORT*For the year ended 31 December 2002*

The directors submit their report together with the audited financial statements of the company for the year ended 31 December 2002.

FINANCIAL RESULTS AND DIVIDENDS

	£
Retained profits brought forward	474,673
Profit after taxation	589,949
Dividends	(600,000)
Retained profits carried forward	<u>464,622</u>

Directors propose a dividend of £600,000 (2001: £460,000)

REVIEW OF THE BUSINESS

The principal activities of the company remained that of wholesale suppliers, importers and exporters in the clothing and fashion trade.

FUTURE DEVELOPMENTS

The directors have continued to develop the business of the company in the light of prevailing trading conditions and the position as at 31 December 2002 is reflected in the audited financial statements for the year ended on that date. The company has made an positive start to 2003 and this is expected to continue into the foreseeable future.

DIRECTORS

The directors who served during the year were as follows:

D P Levy
M A Fallman
M D Jones

None of the directors at 31 December 2002 held shares in the company.

Mr D P Levy is a director of Rapallo Limited, the company's ultimate holding company, and his interest in the shares of that company is disclosed in its Directors' Report.

DIRECTORS' REPORT

For the year ended 31 December 2002 (continued)

DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period and have been properly prepared in accordance with the provisions of the Companies Act 1985.

In preparing these financial statements, the directors are required to:

- * select suitable accounting policies and then apply them consistently;*
- * make judgements and estimates that are reasonable and prudent;*
- * state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and*
- * prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.*

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

AUDITORS

Having received the resignation of Arthur Andersen as auditors, with effect from 31 July 2002 and having appointed Deloitte & Touche to fill the casual vacancy created, the directors will place a resolution before the Annual General Meeting to appoint Deloitte & Touche for the coming year.

This report was approved by the Board on 18 June 2003.



D P LEVY
Director

Registered office:
25 Manchester Square, London W1U 3PY

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CONDICI LIMITED

We have audited the financial statements of Condici Limited for the year ended 31 December 2002 which comprise the profit and loss account, the balance sheet and the related notes 1 to 15. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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

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

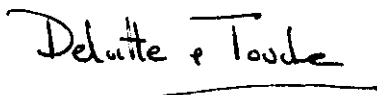
Basis of audit opinion

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

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

Opinion

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

**Deloitte & Touche**

Chartered Accountants and Registered Auditors
London

18 June 2003

PROFIT AND LOSS ACCOUNT*For the year ended 31 December 2002**Notes*

		2002 £	2001 £
Turnover	1,2	4,636,801	4,152,845
Cost of sales		(2,117,423)	(1,911,657)
Gross profit		<u>2,519,378</u>	<u>2,241,188</u>
Distribution costs		(664,623)	(663,984)
Administrative expenses		(1,044,638)	(943,096)
Operating profit	3	<u>810,117</u>	<u>634,108</u>
Interest receivable		32,613	36,955
Profit on ordinary activities before taxation		<u>842,730</u>	<u>671,063</u>
Tax on profit on ordinary activities	8	(252,781)	(204,838)
Profit on ordinary activities after taxation		<u>589,949</u>	<u>466,225</u>
Dividends	7	(600,000)	(460,000)
Profit for the year transferred to reserves		(10,051)	6,225
Retained profits brought forward		474,673	468,448
Retained profits carried forward		<u>464,622</u>	<u>474,673</u>

There were no recognised gains or losses in the current or preceding year other than as shown in the profit and loss account. All results relate to continuing operations.

BALANCE SHEET*As at 31 December 2002**Notes*

		£	2002	£	£	2001	£
FIXED ASSETS							
Tangible assets	9		22,334			24,514	
CURRENT ASSETS							
Stock	10	172,359			283,812		
Debtors	11	1,365,818			1,172,441		
Cash at bank and in hand		667,863			559,879		
			2,206,040			2,016,132	
CREDITORS: amounts falling due within one year	12	1,758,750			1,560,971		
Net current assets			447,290			455,161	
Total assets less current liabilities			469,624			479,675	
CAPITAL AND RESERVES							
Called up share capital	13		5,002			5,002	
Profit and loss account			464,622			474,673	
Equity Shareholders' funds	14		469,624			479,675	

The accompanying notes are an integral part of this balance sheet.

The financial statements were approved by the Board of Directors on 18 June 2003.



D P LEVY
Director

NOTES TO THE FINANCIAL STATEMENTS*For the year ended 31 December 2002***1. ACCOUNTING POLICIES**

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, with the exception of the accounting policy for deferred taxation (as described below), is set out below.

Basis of accounting

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

Turnover

Turnover represents the amounts receivable for goods invoiced during the year excluding VAT, trade discounts and similar charges.

Fixed assets and depreciation

Fixed assets are stated at cost and all repairs are written off as incurred. Fixed assets are written down evenly over their expected useful lives as follows:

<i>Fixtures and fittings</i>	<i>10 years</i>
<i>Computers and equipment</i>	<i>5 years</i>
<i>Leasehold improvements</i>	<i>2 years</i>

Stocks

Stocks are valued at replacement cost.

Deferred taxation

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted by the balance sheet date. Provision is made for deferred taxation using the liability method to take account of timing differences between the incidence of income and expenditure for taxation and accounting purposes except to the extent that the directors consider that a liability to taxation is unlikely to crystallise.

A new financial reporting standard FRS 19 "Deferred Taxation" has been adopted for the year. The effect of adopting FRS 19 is not material to the financial statements and accordingly the comparatives have not been restated.

Operating leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term.

Foreign currency

Transactions denominated in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Assets and liabilities are translated into sterling at the exchange rate ruling at the balance sheet date or, if appropriate, at the forward contract rate. All differences are taken to the profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002 (continued)

2. SEGMENT INFORMATION

*Business Activity:**The company's turnover and profit before taxation arise from the design and distribution of ladies' occasionwear.**Geographical Analysis by destination:*

	2002	2001
	£	£
United Kingdom	4,372,278	3,917,120
Other EC Countries	230,184	165,592
Other	34,339	70,133
	<u>4,636,801</u>	<u>4,152,845</u>

All turnover originates in the United Kingdom.

3. OPERATING PROFIT

is stated after charging/(crediting):

	2002	2001
	£	£
Depreciation	9,942	12,587
Auditors' remuneration	6,000	5,700
Operating lease rentals - land and buildings	76,863	80,673
Loss/(gain) on foreign exchange	29,030	(16,924)
Management charge to parent undertaking	300,000	250,000
	<u>421,835</u>	<u>317,036</u>

4. STAFF COSTS

The monthly average number of employees including executive directors during the year was 20 (2001: 20), made up as follows:

	2002	2001
	Number	Number
Administration and management	5	5
Distribution and sales	2	2
Production	13	13
	<u>20</u>	<u>20</u>

Their aggregate remuneration comprised:

	£	£
Salaries	412,698	333,866
Social security costs	8,882	10,601
	<u>421,580</u>	<u>344,467</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2002 (continued)

5. DIRECTORS' EMOLUMENTS

	2002	2001
	£	£
<i>Emoluments</i>	463,072	356,879

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2002	2001
	£	£
<i>Profit on ordinary activities before tax</i>	842,730	671,063
<i>Tax at 30% thereon</i>	252,819	201,319
<i>Capital allowances in excess of depreciation</i>	(80)	2,519
<i>Expenses not deductible for tax purposes</i>	42	1,000
	252,781	204,838

7. DIVIDENDS

	2002	2001
	£	£
<i>Interim dividend</i>	300,000	100,000
<i>Final dividend</i>	300,000	360,000
	600,000	460,000

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2002 (continued)

8. TANGIBLE FIXED ASSETS

	<i>Fixtures, fittings and equipment</i>	<i>Leasehold improvements</i>	<i>Total</i>
	£	£	£
<i>Cost</i>			
<i>At 1 January 2002</i>	99,128	11,488	110,616
<i>Additions</i>	7,762	-	7,762
<i>At 31 December 2002</i>	<u>106,890</u>	<u>11,488</u>	<u>118,378</u>
<i>Depreciation</i>			
<i>At 1 January 2002</i>	74,614	11,488	86,102
<i>Charge for the year</i>	9,942	-	9,942
<i>At 31 December 2002</i>	<u>84,556</u>	<u>11,488</u>	<u>96,044</u>
<i>Net book value</i>			
<i>At 31 December 2002</i>	<u>22,334</u>	<u>-</u>	<u>22,334</u>
<i>At 31 December 2001</i>	<u>24,514</u>	<u>-</u>	<u>24,514</u>

9. STOCK

	<i>2002</i>	<i>2001</i>
	£	£
<i>Raw materials & consumables</i>	27,271	68,987
<i>Finished goods & goods for resale</i>	145,088	214,825
	<u>172,359</u>	<u>283,812</u>

There is no material difference between the balance sheet value of stocks and their replacement value.

10. DEBTORS

	<i>2002</i>	<i>2001</i>
	£	£
<i>Trade debtors</i>	1,301,300	1,097,014
<i>Prepayments and accrued income</i>	64,518	75,427
	<u>1,365,818</u>	<u>1,172,441</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2002 (continued)

11. CREDITORS: amounts falling due within one year

	2002 £	2001 £
Trade creditors	357,055	338,644
Amounts owed to group undertakings	300,000	360,000
Other creditors including taxation and social security	406,520	338,442
Accruals and deferred income	695,175	523,885
	<u>1,758,750</u>	<u>1,560,971</u>

12. CALLED UP SHARE CAPITAL

	2002	Authorised 2001	Allotted, issued and fully paid 2002	2001
Ordinary shares of £1 each	100,000	100,000	5,002	5,002
	<u>100,000</u>	<u>100,000</u>	<u>5,002</u>	<u>5,002</u>

13. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

Equity Shareholders' funds	£
At 1 January 2002	479,675
Retained profit after tax for the year	589,949
Dividends	(600,000)
At 31 December 2002	<u>469,624</u>

14. LEASE OBLIGATIONS

At 31 December 2002 the company was committed to make payments during the following year under non-cancellable operating leases in respect of land and buildings as follows:

	2002 £	2001 £
Operating leases which expire within one year	27,802	-
Operating leases which expire within two to five years	-	31,648
	<u>27,802</u>	<u>31,648</u>

15. ULTIMATE PARENT COMPANY

The directors consider the ultimate parent company to be Rapallo Limited and the immediate parent company to be Condici Holdings Ltd. Both companies are incorporated in Great Britain and registered in England and Wales. Condici Holdings Limited is the parent of the smallest group of which the company is a member and for which group accounts are prepared. Rapallo Limited is the parent of the largest group of which the company is a member and for which group accounts are prepared. Copies of the group accounts of Rapallo Limited are available from the Registrar of Companies, Crown Way, Maindy, Cardiff CF14 3UZ.

The ultimate controlling party is Mr J Lewis.