



SIGNET

World's largest retail jeweller

The consolidated Accounts of the Group appearing in this Annual Report are presented in pounds sterling and are prepared in accordance with accounting principles generally accepted in the United Kingdom ("UK GAAP"). UK GAAP differ in certain significant respects from accounting principles generally accepted in the United States ("US GAAP"). The significant differences between UK GAAP and US GAAP relevant to the Group are explained in the section entitled "Summary of differences between UK and US GAAP" in this Annual Report.

In this Annual Report, references to "US dollars", "\$" or "cents" are to United States currency and references to "pounds sterling", "£", "pounds", "pence" or "p" are to United Kingdom currency. Solely for the convenience of the reader, this Annual Report contains translations of certain pound sterling amounts into US dollars at a rate of \$1.64 = £1.00. The noon buying rate in New York City for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate") on 29 January 1999 was \$1.6457 = £1.00. These translations should not be construed as representations that the pound sterling amounts actually represent such US dollar amounts or could be converted into US dollars at the rate indicated. On 30 March 1999, the Noon Buying Rate was \$1.6115 = £1.00. For additional information on exchange rates between the pound sterling and the US dollar, see Effect of Currency Fluctuations on pages 29 and 30.

The Group's financial year end is the Saturday nearest to 31 January. Accordingly, in this Annual Report, "1994/95", "1995/96", "1996/97", "1997/98", "1998/99" and "1999/00", refer to, as appropriate, the 52 weeks ended 28 January 1995, or the 53 weeks ended 3 February 1996, or the 52 weeks ended 1 February 1997, 31 January 1998 or 30 January 1999 or the 52 weeks ending 29 January 2000.

In this Annual Report, references to operations in the "UK" include operations in the United Kingdom, the Republic of Ireland (where the Group had 13 stores as of 30 January 1999) and the Channel Islands (where the Group had three stores as of 30 January 1999). 'US' refers to the United States of America.

All statements other than statements of historical fact included in

this document, are or may be deemed to be, forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. Important factors that could cause actual results to differ materially from those discussed in such forward-looking statements include: adverse trends in the general economy which may impact negatively on discretionary consumer spending, including unemployment levels, wages and salaries, business conditions, interest rates, consumer debt levels and availability of credit and levels of taxation; the seasonality of the Group's business; fluctuations in the price and availability of gold, diamonds and other precious and semi-precious stones; fluctuations in exchange rates between the pound sterling and the US dollar which may affect reported revenues, costs and the amount of the Group's consolidated borrowings and the cost of such borrowings; timely "Year 2000" compliance by the Group and third party suppliers; the extent and results of the Group's store expansion and modernisation strategy; the development of new distribution channels in competition with the Group; the availability of inventory during the three months leading up to the Christmas season; the success of the Group's marketing and promotional programmes; and any changes in general consumer preferences for jewellery.

Signet Group plc is an English public limited company, whose shares are listed on the London Stock Exchange and whose American Depositary Shares are traded on the Nasdaq Stock Market.

This Annual Report is the Annual Report & Accounts for the Group for the 52 weeks ended 30 January 1999. It comprises, in a single document, the Annual Report & Accounts of the Group in accordance with United Kingdom requirements and the Annual Report on Form 20-F to be filed with the United States Securities and Exchange Commission.

An Annual Review on the year is produced as a separate document. This Annual Review is issued to shareholders with registered addresses in the UK unless they elected to receive the full Annual Report & Accounts. This includes the Chairman's statement, a description of business, an operating and financial review, a summary directors' report, the names of directors, summary accounts and summary remuneration report.

Signet Group plc

Annual Report & Accounts and Form 20-F 1999

Contents

2	Cross reference to Form 20-F
3	Chairman's statement
4	Operating and financial review
7	Description of business
24	Business review
32	Directors, officers and advisers
34	Report of the directors
36	Corporate governance statement
39	Board report on remuneration
44	Statement of directors' responsibilities
45	Auditors' report to the members of Signet Group plc
46	Consolidated profit and loss account
47	Consolidated balance sheet
48	Company balance sheet
49	Consolidated cash flow statement
50	Consolidated statement of total recognised gains and losses
50	Note of consolidated historical cost profits and losses
51	Consolidated shareholders' funds
52	Notes to the accounts
80	Summary of differences between UK and US GAAP
88	Shareholder information
94	Glossary of terms
95	Index

Throughout this report, "Signet" or the "Group" refers to Signet Group plc and its subsidiary undertakings and the "Company" refers to Signet Group plc.

Cross reference to Form 20-F

The information in this document that is referenced in the following table shall be deemed to be part of the Annual Report on Form 20-F for 1999 and to be filed with the United States Securities and Exchange Commission for all purposes.

Item	Page	Item	Page
1 Description of business		10 Directors and officers of registrant	
Description of business	7	Directors, officers and advisers	32
Shareholder information – History	88	Corporate governance statement	36
2 Description of property		11 Compensation of directors and officers	
Description of business		Board report on remuneration	39
– Description of property	23		
3 Legal proceedings		12 Options to purchase securities from Registrant or subsidiaries	
Notes to the Accounts – note 25	69	Board report on remuneration	39
		Notes to the accounts – note 28	71
4 Control of registrant		13 Interest of management in certain transactions	
Shareholder information		Not applicable	
– Substantial shareholdings and control of Company	90		
5 Nature of trading market		14 Description of securities to be registered	
Shareholder information		Not applicable	
– Nature of trading market	88		
6 Exchange controls and other limitations affecting security holders		15 Defaults upon senior securities	
Shareholder information		Not applicable	
– Exchange controls and other limitations affecting security holders	90		
7 Taxation		16 Changes in securities and changes in security for registered securities	
Shareholder information		Not applicable	
– Taxation for US residents	90		
8 Selected financial data		17 Financial statements	
Business review		Not applicable	
– Selected financial data	24		
– Outlook – Effect of Currency Fluctuations	29	18 Financial statements	
		Auditors’ report to the members of Signet Group plc	45
9 Management’s discussion and analysis of financial condition and results of operations		Consolidated profit and loss account	46
Operating and financial review	4	Consolidated balance sheet	47
Business review	24	Company balance sheet	48
		Consolidated cash flow statement	49
9a Quantitative and qualitative disclosures about market risk		Consolidated statement of total recognised gains and losses	50
Business review		Consolidated shareholders’ funds	51
– Market risk	30	Notes to the accounts	52
– Notes to the accounts – note 27	70	19 Financial statements and exhibits	
		(a) Not applicable	
		(b) Not applicable	

Chairman's statement

Results

I am pleased to report a further strong performance by the Group in the year to 30 January 1999, building on the track record of consistent growth in profitability during recent years.

In the financial year to 30 January 1999, Group profit before tax increased by 30% to £89.2 million (1997/98: £68.7 million). Sales were £991.2 million (1997/98: £927.9 million). The like for like increase was 5.9%.

Operating profit in the period rose to £102.3 million (1997/98: £90.8 million) an increase of 12.7%, the resultant Group operating margin being 10.3% (1997/98: 9.8%). The US business, which accounts for two thirds of Group sales, maintained its strong performance and again outperformed its main competitors. The UK business demonstrated commendable resilience in a very difficult market place, particularly over the important Christmas period.

Net debt was further reduced during the period by £46.4 million and stood at £111.5 million at the year end (31 January 1998: £157.9 million); interest cover rose to 7.8 times for the period compared to 4.1 times for the previous year. Earnings per share were 3.9p (1997/98 adjusted: 3.0p), a 30% increase.

Dividends

At the interim stage I stated that recommencement of dividend payments would be reconsidered once the full year results were known and on-going progress could be assessed. Consequently, against the background of the substantial increase in earnings and a further reduction in net debt, the Board is pleased to mark the return of the Company to the dividend list by recommending a final dividend payment of 1.0p in respect of the year 1998/99.

In future the policy will be to declare an interim dividend as well as a final dividend each year but, given the earnings pattern of the Group, the split between the interim and final payments will be heavily weighted in favour of the latter.

People

In early January Laurence Cooklin, Chief Executive of the UK Jewellery Division since 1993, tendered his resignation from the Board with effect from 15 April 1999. Action is presently being taken to recruit a successor. The Board wishes

Mr Cooklin every success in the future and thanks him for his invaluable contribution to the Group during the last six years.

I would also like to take this opportunity to thank all management and staff for their efforts and contribution to the success of the Group during the last year.

Corporate governance

The statement, as required by the Combined Code published in June 1998 by the London Stock Exchange, is given on pages 36 to 38.

The community

As I have previously indicated the Group believes it is best to give support to a limited number of charities rather than fragment the overall funds made available for this purpose. Therefore in the US support is primarily to The United Way and The Jeweller's Charity Fund. In the UK no charitable donations were made in the year, but the Group supports the Princess Royal Trust for Carers using Charities Aid funds set aside in previous years.

Prospects

Overall the Group again benefited from the geographic spread of its activities, the very strong performance in the US more than compensating for the effect of the difficult trading conditions in the UK. Pre-tax profit showed a significant advance for the fourth year in succession and net debt has been reduced by 67% during the same period. The trading strategies in place on both sides of the Atlantic should generate further growth for the Group and the Board remains confident about future prospects.

The Group intends to move to quarterly reporting of results with effect from the first quarter of the current year. The first quarter's sales figures will be announced in early May and the quarterly results will be first issued in early June.

The Group has made an encouraging start in the first eight weeks of this year. Following a very strong Valentine's Day period in the US, the pattern of trading has been broadly similar to that experienced in the second half of last year.



James McAdam
Executive Chairman
30 March 1999

Operating and financial review

Operating review

United States

Trading

The Group's US business again performed very strongly in an intensely competitive market place. Operating profit for 1998/99 rose by 22.8% to £77.5 million (1997/98: £63.1 million); operating profit as a percentage of sales increased to 12.2% (1997/98: 11.0%). The return on capital employed ("ROCE") was 20.4% (1997/98: 16.6%).

Sales totalled £637.2 million, an increase of 10.7% from £575.5 million in 1997/98. The like for like increase was 10.2%. In the important "holiday period" – 2 November 1998 to 24 December 1998 – the like for like increase was 10.6%. The business outperformed its main competitors both during that period and for the year as a whole. Gross margins were maintained at close to last year's level. Sales per store increased to an average of over \$1.3 million (1997/98: \$1.2 million). The ratio of bad debts to sales remained unchanged at 3.2%.

Developments

In the year 18 Kay stores, 5 regional stores and 8 Jared stores were opened. At 30 January 1999 total selling space was 7% higher than a year earlier, with 524 Kay stores, 249 regional stores and 15 Jared stores. As a result of the increased development of Jared the real estate and merchandise support functions were strengthened. Updated store designs were developed for all formats. Training programmes were improved.

Merchandising capabilities were strengthened with the enhancement of the assortment planning system further improving the ability to review product ranges. New products were tested and introduced, the development of white gold and platinum jewellery being particularly successful.

There was a further switch to television and radio advertising and away from catalogues. Increased support from advertising at the peak selling periods again proved to be beneficial. Sales benefited from new advertising campaigns to support the mall stores. A marketing Internet web site continues to be updated and could be developed for selling jewellery if justified by market growth.

United Kingdom

Trading

In the UK the general retailing environment deteriorated markedly from the second quarter. Against this background the Group's UK operations performed creditably with operating profit as a percentage of sales of 9.1% (1997/98: 10.2%) and ROCE of 21.6% (1997/98: 23.2%). UK Jewellery operating profit was £32.4 million (1997/98: £36.1 million) after charging costs of approximately £1.6 million associated with the H. Samuel modernisation programme (1997/98: £3.4 million) and £1.2 million related to Year 2000 information technology compliance (1997/98: £ nil).

UK Jewellery sales totalled £354.0 million compared to £352.4 million in 1997/98. On a like for like basis the decrease was 1.1%. However, as a result of tight control of discounting, gross margins showed a slight increase. Costs were also closely controlled.

Sales in H. Samuel were £237.9 million (1997/98: £241.1 million). The like for like decrease was 2.0% against a background of a generally weaker trend in consumer spending and heavy discounting in a number of other retail sectors. Sales in Ernest Jones were £109.4 million (1997/98: £104.5 million). The like for like increase was 0.9% and Ernest Jones performed well over the Christmas period compared to its competitors. At the year end there were 426 H. Samuel stores and 180 Ernest Jones stores.

Developments

The priority in the UK is to raise the average transaction value, particularly in H. Samuel, and increase customer footfall. The modernisation programmes for both H. Samuel and Ernest Jones continue. Expenditure on staff training and management development to improve customer service, product knowledge and selling skills was increased. Staff incentive schemes continue to be developed with an increased focus on performance in the key selling periods. During 1998/99 an upgraded Electronic Point of Sales system was implemented in all Ernest Jones stores and 20 H. Samuel stores and this should further improve customer service. It is planned that the upgraded system will be installed in the remaining H. Samuel stores during 1999/00.

Operating and financial review

Merchandising ranges were enhanced with the launch of new gift and fashion watch ranges. The merchandising systems allowed management to adjust intake quickly to reflect changes in consumer demand. Replenishment levels in the stores were improved.

The focus of marketing remained on improving point of sales material. New promotional programmes were introduced with the development of customer databases, direct mail trials and the launch of informational websites on the Internet. The Group continues to develop after sales services and products and its corporate sales initiatives.

Financial review

Results

Group profit before tax for the year was £89.2 million (1997/98: £68.7 million). After a tax charge of 26.9% (1997/98: 26%) earnings per share were 3.9p (1997/98: 3.0p, based on profit after tax and the number of shares in issue following the capital restructuring), an increase of 30%.

Operating profit increased by 12.7% to £102.3 million (1997/98: £90.8 million). Earnings before interest, tax and depreciation (EBITDA) increased to £128.4 million (1997/98: £118.2 million). The US achieved £92.7 million (1997/98: £79.0 million) and the UK £35.7 million (1997/98: £39.2 million) after charging Group central costs of £7.6 million (1997/98: £8.4 million). EBITDA to sales ratios increased to 14.6% in the US (1997/98: 13.7%) and declined to 12.7% in the UK (1997/98: 13.6%).

Return on capital employed

The Group's ROCE increased to 19.5% (1997/98: 17.1%) – US 20.4% (1997/98: 16.6%); UK 21.6% (1997/98: 23.2%). US capital employed includes the in-house credit card debtors amounting to £194.0 million at 30 January 1999 (31 January 1998: £180.0 million).

Depreciation and capital expenditure

Depreciation charges were £27.6 million (1997/98: £26.9 million) – £14.9 million in the US (1997/98: £15.1 million) and £12.7 million in the UK (1997/98: £11.8 million). Capital expenditure in the US was £16.5 million

(1997/98: £14.5 million) and in the UK was £14.4 million (1997/98: £14.1 million).

Group costs

Group central costs of £7.6 million (1997/98: £8.4 million) have been charged against UK operating profit. After the charge UK operating profit was £24.8 million (1997/98: £27.6 million). The figure for 1998/99 includes a charge of £2.1 million as a result of an increase in property provisions. This was largely offset by a gain on disposal of properties of £1.9 million.

Net interest payable and similar charges

Net interest payable and similar charges amounted to £13.1 million (1997/98: £22.0 million), a reduction of 40.5%. This reflected the lower level of net debt carried by the Group and a reduced level of banking fees.

Taxation

The tax charge of £24.0 million (1997/8: £17.9 million) reflects the benefit of US tax losses brought forward and used against US taxable profits. The 1997 capital reorganisation resulted in the utilisation of these losses being restricted. The losses are expected to be fully utilised during 1999/00. Credit for such tax losses is not carried on the balance sheet.

FRS 12

The Group has adopted this year the Financial Reporting Standard on Provisions, Contingent Liabilities and Contingent Assets, "FRS 12". It was previously the Group's policy to provide for the estimated disposal costs of permanently vacated properties but no provisions were made in respect of future net lease obligations. The adoption of FRS 12 has led to a reclassification to provisions of amounts previously included within creditors and a prior year adjustment of £4.6 million charged directly to shareholders' funds. Charges during the year total £2.1 million.

Group funding and cash flow

The improved financial standing of the Group enabled the replacement in July 1998 of the then existing secured bank facilities by unsecured longer term facilities on generally better terms. These new arrangements consist of a

Operating and financial review

\$250 million ½ve year multi-currency revolving credit facility and a \$60 million seven year senior unsecured note issue bearing a 7.25% coupon.

Net debt at 30 January 1999 was £111.5 million, a reduction of £46.4 million in the year (31 January 1998: £157.9 million). Group gearing (that is the ratio of net debt to shareholders' funds) at the year-end was 29% (31 January 1998: 46%). Excluding the US securitisation facility of £116.8 million, the Group had net cash of £5.3 million at 30 January 1999 (31 January 1998: net debt £41.1 million).

Operating activities generated £102.6 million (1997/8: £143.4 million) reflecting an increase in EBITDA offset by investment in working capital primarily due to the increase in the number of stores, particularly in the US. Cash flow before investing activities was £71.4 million (1997/8: £102.6 million).

Treasury policy

The Group's policy is to manage ½nancial risk resulting from exposure to currency and interest rate fluctuations. Translation exposure relating to non-sterling denominated assets in the US is principally hedged by borrowing in US

dollars. Interest rate exposure is managed through the use of ½xed rate swaps, caps and floors. The Group undertakes limited hedging of commodity requirements, such as gold, through the use of options, forward contracts and outright commodity purchasing.

The Board monitors treasury exposure each month and regularly reviews and approves policies that are considered to be appropriate.

Year 2000

The Group has undertaken a full review of all its systems to ensure that they are able to operate efficiently after 31 December 1999. Group expenditure in the period on information technology projects relating to Year 2000 which are charged to revenue amounted to £1.2 million (1997/98: £nil). It is estimated that the revenue cost of the programme will be some £2.3 million in total. The Group believes that all of its operating systems will have been modi½ed where necessary and that the problem does not pose a signi½cant operational issue for the Group. Discussions with the Group's external suppliers continue to take place to ensure that, as far as possible, they are taking similar action towards Year 2000 compliance in respect of their products and systems (see page 28).

Description of business

	1998/99		1997/98		1996/97	
	£000	%	£000	%	£000	%
Net sales:						
US	637,210	64.3	575,541	62.0	558,457	61.9
UK	353,996	35.7	352,370	38.0	343,495	38.1
Total	991,206	100.0	927,911	100.0	901,952	100.00
Operating income:						
US	77,519	75.8	63,125	69.6	53,780	70.3
UK	24,776	24.2	27,626	30.4	22,725	29.7
Total	102,295	100.0	90,751	100.0	76,505	100.0

Introduction

The Group, with operations in both the US and the UK, is the world's largest specialist retail jewellery company. In the US, based on publicly available information and trade information regarding competitors, the Group is the second largest specialist retailer of fine jewellery with 788 stores located in 44 states as of 30 January 1999 and an approximate 5% share of the specialist jewellery market. In the UK the Group is the largest retailer in the fine jewellery market with 606 stores as at 30 January 1999.

In 1998/99 the US and UK jewellery operations recorded net sales of £637.2 million (\$1,045.0 million) and £354.0 million (\$580.6 million) respectively, representing 64% and 36%, respectively, of consolidated net sales of £991.2 million (\$1,625.6 million).

There are significant differences between the US and UK jewellery markets. While both markets are characterised by fragmented competition, customer preferences in terms of products, store format and shopping habits vary and, accordingly, the Group has distinct operating strategies for each market.

The Group's US stores are primarily located in enclosed shopping malls and operate nationally under the name "Kay

Jewelers" and also under a variety of regional names. The Group also operates free standing "category-killer" stores in the US under the "Jared – The Galleria of Jewelry" logo.

In the UK the Group's stores operate primarily under the names H. Samuel, Ernest Jones and Leslie Davis and are predominantly situated in prime "High Street" locations (main shopping streets with high pedestrian traffic) and shopping malls.

Contributions to net sales and operating income

The Group operates in two geographical areas: the US and the UK. Set out above are the net sales and operating income attributable to each geographical area for 1996/97, 1997/98 and 1998/99. Group central costs of £7,586,000 (1997/98: £8,444,000, 1996/97: £11,357,000) are charged against operating profit of the UK. In 1996/97 these costs included a charge of £1,607,000 relating to the revaluation of freehold and long leasehold properties, net of other property gains and depreciation adjustments. Also included was a charge relating to an increase in the provision for disposal of a Group warehouse.

Description of business

United States operations

Operating environment

In the US the Group's retail jewellery business is managed and operated through its wholly owned subsidiary, Sterling Jewelers Inc. ("Sterling"). Sterling is the second largest specialist retailer of fine jewellery in the US operating 788 stores in 44 states at 30 January 1999. Sterling operates both mall-based jewellery stores and "category killer" destination stores in off-mall shopping centres. Its mall-based stores operate nationally under the Kay Jewelers name and regionally under a variety of recognised tradenames. Sterling's newest store concept, its off-mall, "category killer" destination stores, trade as "Jared – The Galleria of Jewelry" ("Jared").

In the US market each of Sterling's stores offers jewellery in a wide variety of styles and price points, with primary emphasis on fine diamond, gemstone and gold products. The majority (70%) of the Group's US sales are of diamond and gemstone merchandise. In 1998/99 the average price of diamond merchandise sold by Sterling was \$433 (£264) and the average retail price of all merchandise sold was approximately \$224 (£137).

Total consumer spending on jewellery and watches in the US approximated \$42 billion in 1997 and grew at a compound annual growth rate of 4.8% between 1992 and 1997 according to the US Department of Commerce. Sales of fine jewellery by specialist retail jewellery stores, the market segment in which Sterling principally competes, approximated \$19.5 billion and grew at a compound annual growth rate of 5.1% between 1992 and 1997. Sterling believes that its share of the US specialist jewellery retail market is approximately 4.9%.

Competition

The US retail jewellery industry is highly competitive and fragmented, with a large number of independent jewellery retailers. Competition is also encountered from a few national and larger regional retail jewellery chains,

independent retail jewellery stores, department stores, catalogue showrooms, discounters and television home shopping. The Group also believes that it competes for consumers' discretionary spending dollars with retailers who offer merchandise other than jewellery. Management believes that consumers make their buying decisions on the basis of price and the quality, selection and value of the retailer's merchandise, credit, store locations, advertising, the expertise of a store's sales personnel and its reputation for reliability and service.

The Group's main competitor in the US is Zale Corporation, the largest US jewellery retailer which has over 1,100 stores and a market share in excess of 6% of the specialist jewellery retail market.

The Group believes its ability to compete successfully in the US specialist jewellery retail market is attributable to a number of factors. Through effective national network television advertising strategies, Sterling has established and continues to enhance the name recognition of its national chain – Kay Jewelers. Regionally oriented advertising campaigns, principally utilising radio advertising, effectively support and enhance the recognition of Sterling's regional chains and Jared. Sterling's geographic spread, the diversity in its mall-based and off-mall store operating formats, its stable, industry-experienced management team, together with its well trained, highly motivated sales personnel and its superior information systems also contribute to Sterling's leading position in the industry. In addition, Sterling believes that the economies of scale derived from its size and the high sales productivity and the profitability of its stores give it a competitive advantage in purchasing, merchandising, real estate, advertising and operating infrastructure. As a result of its sophisticated merchandising systems, which track and respond to consumer preferences and are capable of quickly replenishing its stores, management believes the productivity of its inventory is higher than its main competitors. The direct sourcing of a significant portion of its merchandise allows Sterling to provide greater value in its merchandise assortment.

Description of business

OPERATING CONCEPTS AND STRATEGIES

The Group's operating concepts and strategies in the US are as follows:

Store operations

Sterling conducts its retail operations through three marketing divisions: Kay Jewelers, the regional chains and Jared. Its mall-based stores are primarily located in regional and super-regional enclosed malls. The Group seeks to standardise the design and appearance of its stores within a particular chain, adapting each store's design to its size and location in the mall. New design concepts will generally be introduced when new stores are opened or stores are remodelled. Revised store designs were developed for all formats in 1997/98 and 1998/99. The average mall-based store contains approximately 1,100 square feet of selling space.

Kay Jewelers

The Kay Jewelers division with 524 stores in 44 states at 30 January 1999 is Sterling's national chain. Since 1995, the development and expansion of Kay as Sterling's national chain has been an important element of its growth strategy. Approximately 68% of Sterling's mall-based stores currently operate under the Kay Jewelers name compared to 44% some three years ago. Sterling believes that tradename recognition by consumers is a critical factor in jewellery retailing as products are typically unbranded. As a result, advertising by national network and regional television, regional radio and direct mail are used to support the Kay division and to increase and/or reinforce consumer awareness of Kay Jewelers as a value-based jeweller. In addition, utilisation of a nationally recognised tradename, supported by effective national network television advertising campaigns, enables Sterling to enter cost-effectively new markets and expand into existing markets where the Group is under-represented. In 1999/00 Sterling plans to open approximately 35 new mall-based stores and the majority of these new stores will trade under the Kay Jewelers name.

Kay Jewelers is aimed at the middle income consumer. The average retail price of merchandise sold in the Kay division during 1998/99 was \$214 (£130) compared to \$212 (£129) in 1997/98.

Regional Chains

Sterling also operates mall-based stores under a variety of established regional trade names including JB Robinson Jewelers, Belden Jewelers, Friedlander's Jewelers, Goodman Jewelers, LeRoy Jewelers, Osterman Jewelers, Roger's Jewelers, Shaw's Jewelers and Weisfield Jewelers. The presence of these highly recognised regional chains and local market size enables Sterling to operate effectively more than one store in a number of malls. At 30 January 1999 Sterling had 249 stores in the regional store chains. Moreover, of the 581 malls and centres in which Sterling operates, it has two stores in 145 malls and three or more stores in 23 malls. Strategically the regional chains will be maintained and developed to supplement the Kay division, where appropriate. In addition, although the regional chains offer less scope for growth, additional stores will be opened to expand or sustain a regional chain when it is a strong name in the marketplace. The regional chains also are aimed at the middle income consumer and are principally supported with radio and direct mail advertising. The merchandise offered in the regional chains is at slightly higher price points than the merchandise offered in the Kay division. The average retail price of merchandise sold in the regional chains during 1998/99 was \$243 (£148) compared to \$240 (£146) in 1997/98.

Jared

The Jared stores are destination stores whose superior selection, value and customer service appeal to a more mature, better educated and higher income consumer. The typical Jared store is approximately five times larger than the average mall-based store with approximately five times more merchandise selection. In addition to carrying an extended range of jewellery and watches, the size of the Jared stores enables them to offer enhanced customer services such as in-store repair and custom design facilities, a private viewing room for large diamonds, a children's play area and a refreshment hospitality area.

Sterling believes that customer demand for stores that offer an extensive merchandise selection, enhanced customer services and competitive pricing has caused a shift in consumer shopping habits towards "category killer" destination stores such as those in other retail sectors like

Description of business

books, home improvement, electronics and toys. Recognising this trend, Sterling introduced its Jared “category killer” concept stores in 1993 and 1994 with the opening of three stores in the Detroit, Michigan and Akron, Ohio markets. Following an in-depth review of these three initial stores, the Jared strategy was refined and a more economically efficient prototype store was developed. This resulted in the opening of one new concept store in Denver, Colorado in 1996. The success of this store and of the three initial stores under the refined strategy led to the opening of three additional stores in 1997 and eight additional stores in 1998. Sterling considers that its Jared concept has great potential for growth and has identified over 100 potential markets for future expansion with many of these markets able to support multiple Jared locations. The Group plans to open up to 15 additional Jared stores during 1999.

The typical Jared store currently averages 5,800 square feet of selling space. The stores are generally highly visible, freestanding structures, and are located in retail centres that are in close proximity to strong regional malls. In addition, the retail centres in which Jared stores operate typically contain strong retail co-tenancy, including other “category killer” destination stores such as Border Books®, Barnes & Noble®, Best Buy®, Circuit City®, Bed, Bath & Beyond®, Linens N Things®, Home Depot®, and Toys R Us®. Sterling operated 15 Jared stores at 30 January 1999.

The average retail price of merchandise sold in Jared stores during 1998/99 was approximately \$400 (£244) compared to \$340 (£207) in 1997/98.

The following map shows the number and locations of the Group’s US stores at 30 January 1999:



Description of business

The following table sets forth information concerning the stores operated by Sterling during the periods indicated:

	1998/99	1997/98	1996/97
Number of stores:			
Opened during year	31	22	10
Closed or sold during year ⁽¹⁾	(11)	(32)	(71)
Open at end of year	788	768	778
Percentage increase in like for like sales	10%	9%	8%
Average sales per store in thousands ⁽²⁾	\$1,349	\$1,217	\$1,099

⁽¹⁾ Includes the disposal of the one remaining leased department in 1996/97.

⁽²⁾ Based upon stores operated for the full financial year.

Store Management, Personnel, Training and Incentives

Sterling considers its store personnel to be one of the most important elements of its operations. Each store is managed by a store manager. Each store manager reports to a district manager who is responsible for approximately 13 stores. The district managers report to a vice president for their region and the regional vice presidents report to a senior vice president at the Group's US headquarters.

Sterling seeks to provide a career path for its employees. Its policy is to promote regional vice presidents from district managers and district managers primarily from among its store managers, thereby helping to assure continuity and familiarity with individual store operations. Sterling has a number of sales personnel who are ready to advance to store manager level, thus assuring the availability of newly trained managers when required.

All store personnel have daily performance standards and are required to establish and commit to daily goals around such standards at the beginning of each day. Comparison of actual performance to the previous day's goals is provided each day through the store information system. In addition, performance against individual goals is monitored and factored into advancement decisions.

Sterling attaches great importance to training its personnel in order to maintain and enhance their quality and professionalism. It conducts in-house sales training seminars both at the local store level and at regularly scheduled classes facilitated by the district manager. Training at the store level is supplemented by computer-based training and testing programmes that utilise the store's personal

computer and are designed to strengthen and reinforce selling skills. In addition all US retail sales personnel are encouraged to graduate from a comprehensive diamond correspondence course provided by the Diamond Council of America in order to achieve 'Certified Diamontologist' status. The Group believes that it has more certified diamontologists than any other retail jeweller in the US. Upon completion of the diamond course, employees may continue their professional development through completion of a correspondence course on gemstones. Sterling also devotes considerable resources to training its managers and conducts a number of in-house management and career development programmes at its corporate headquarters that it considers to be comprehensive in scope. In-house training programmes have also been tailored to address specialised areas such as managing high volume stores and for new Jared store managers.

Sterling conducts monthly incentive programmes in which all employees of a store receive an additional bonus based on their individual sales if the store as a whole achieves certain sales goals for the month. Sterling believes that programmes based on overall as well as individual performance promote customer service and operating efficiency. In addition to these programmes, Sterling awards bonuses to store managers based on the profitability of their stores. Bonuses are also paid to district managers and are based on the achievement of certain objectives for the stores under their control, including sales and margin goals, operating cost control, training, attention to loss prevention matters and profitability. Sterling also frequently runs contests and incentive programmes rewarding achievement

Description of business

of specific goals with travel or additional bonuses. Approximately 25% of store personnel remuneration is incentive based.

Merchandising and purchasing

Merchandising

Over the past three years Sterling has strengthened its merchandising efforts through the development and implementation of sophisticated inventory management systems, with particular emphasis given to merchandise assortment planning, allocation and replenishment. These systems have enabled the Group to improve inventory management, better control its investment in inventory and maximise inventory productivity. Merchandise planning and allocation systems utilise a “pull” merchandising strategy which measures the rate of sale information to identify, purchase and distribute the appropriate merchandise in the proper quantities to specific retail locations in proportion to the customer demand. The assortment planning system, which was fully implemented in 1998/99, establishes the proper balance of stock for each individual store in each merchandise category in terms of product, price point and selection. Through the use of such systems, a model inventory plan is established and periodically revised for each store. Approximately 70% of the merchandise sold in an individual store is available for sale in all of Sterling’s stores, and the remainder is selected to reflect demand for merchandise within a particular market. The inventory management team determines the merchandise quantities needed to support catalogues and merchandise assortments utilising historical sales performance and forecasting

models. In addition this team co-ordinates merchandising and distribution activities to achieve “in-stock” performance goals.

Other merchandising initiatives endeavour to create a competitive advantage through distinguishable merchandise selection. Future enhancements to the assortment planning system are intended to provide “micro merchandising” capabilities which will enable Sterling to target more narrowly its merchandise assortments specific to each retail location. Exclusive merchandise programmes in conjunction with certain vendors are also being established. The expanded use of product ensembles in the merchandise selection is expected to encourage multiple sales. The Group believes that each of these initiatives will differentiate Sterling’s merchandise selection from that of its competitors.

Each of Sterling’s stores offers a broad selection of diamond, gemstone and gold jewellery and watches. The Group’s US stores typically offer a full range of diamonds up to one carat with a growing range of larger sized diamonds. The gemstone jewellery contains either precious gems (such as rubies, sapphires and emeralds), semi-precious gems (such as opals, amethysts and garnets) or created stones (such as created rubies, emeralds and sapphires). Diamond and gemstone jewellery is predominantly offered in 10 or 14 carat yellow gold settings. Popular styles of such merchandise are also available in white gold and platinum settings. The gold jewellery and chains sold in its stores are primarily 14 carat.

The following table sets forth Sterling’s merchandise sales mix as a percentage of net sales for 1996/97 to 1998/99:

	Percentage of net sales		
	1998/99	1997/98	1996/97
	%	%	%
Diamonds	61	61	60
Gold jewellery	19	19	20
Gemstones	9	9	10
Watches	7	7	6
Repairs	4	4	4
	100	100	100

Description of business

Sterling maintains a merchandising department at its US headquarters with experienced buyers concentrating on specific product lines. Sterling's buyers select and test market merchandise to be sold each season, develop and enforce merchandise quality standards, implement merchandising and pricing strategies for catalogues and other promotional activities, and develop relationships with suppliers in the US and abroad. Sterling's buyers also create programmes to appeal to regional merchandise preferences by visiting company stores and shopping in competitor stores that may reflect local trends.

Sterling provides customers with various guarantees including a 90-day money-back guarantee. Customers also receive, at no additional cost, a lifetime limited warranty on diamond purchases, which principally covers the loss of a diamond from its setting or damage to a diamond provided the customer presents the diamond for periodic inspection. Sterling accepts trade-ins of its own diamond merchandise and that of other companies. Sterling also offers jewellery repair services or customers may purchase a separately priced, optional extended service plan, which provides lifetime repairs at no charge on covered merchandise. The Group believes these programmes afford opportunities to establish relationships with customers and enhance its ability to increase both first time and repeat business.

Purchasing

Sterling obtains approximately 45% of its diamond merchandise through contract manufacturing. Under this method, which the Group believes provides a competitive cost and quality advantage, Sterling purchases diamonds, gold and other components of its jewellery items directly from suppliers in the world marketplace and then outsources the casting, assembly and finishing operations to manufacturers. The Group obtains its other merchandise as finished products from manufacturers, wholesalers and consignors in the US and abroad. Merchandise held on consignment is used to enhance Sterling's owned merchandise selection and to test new product. This minimises Sterling's exposure to changes in fashion trends and obsolescence and gives it the flexibility of returning or exchanging non-performing product. At 30 January 1999, Sterling held approximately \$81 million of merchandise on consignment.

Sterling currently purchases a significant amount of its basic gold chains directly from suppliers in Italy, thus eliminating the costs associated with purchasing merchandise through a broker.

The Group's US buyers travel abroad to major world markets to purchase loose diamonds and gemstones. More than 75% of loose diamonds are purchased directly from diamond cutters rather than other sources such as diamond brokers, thereby eliminating the costs associated with intermediaries. Sterling has developed a comprehensive internal quality control programme. All loose diamonds are inspected individually both at the time of purchase and upon receipt at Sterling's headquarters.

The supply and price of diamonds in the principal world markets are significantly influenced by a single entity, the Central Selling Organisation (the "CSO"), the marketing arm of De Beers Consolidated Mines Ltd. The CSO has traditionally controlled the marketing of a substantial majority of the world's supply of diamonds and sells rough diamonds to world-wide diamond cutters from its London office approximately ten times a year in quantities and at prices determined at its sole discretion. The availability of diamonds to the CSO and the Group's suppliers is to some extent dependent on the political situation in diamond producing countries, such as South Africa, Botswana, Democratic Republic of Congo, Russia and Australia, and on the continuance of the prevailing supply and marketing arrangements for rough diamonds. Until alternative sources can be developed, any substantial interruption in the supply of diamonds from the significant producing countries could adversely affect the Group's US operations and the retail jewellery industry as a whole.

In 1998/99 Sterling's five largest suppliers collectively accounted for approximately 22% of its total purchases, with the largest supplier accounting for approximately 5%.

Description of business

Advertising and marketing

The goals of the marketing and advertising initiatives implemented by Sterling are to increase purchases by new customers and to increase the repurchase frequency of current and former customers.

A strategic programme has been established by Sterling, which provides the framework for the execution and delivery of marketing and advertising activities. The foundation of this programme centres on gaining and maintaining a strong understanding of the jewellery consumer and of purchase frequency over time through in-depth market and demographic research. Sterling uses technology-based systems to perform database and direct marketing activities. Through such activities Sterling is able to statistically prospect its proprietary database of in excess of 12 million names, as well as customers utilising Sterling's in-house credit. Sterling also runs over 6,000 individual store special events throughout the year to strengthen its relationship with existing customers.

Media advertising activities are concentrated at those times during the year when customers are expected to be most receptive to the advertising message. As a result, media advertising is principally focused around key gift giving occasions such as Christmas, Valentine's Day and Mother's Day.

Since 1996 an important element of Sterling's advertising strategy has been the increased use of electronic broadcast media. The use of radio and television advertising enables Sterling to reach a broader audience and thereby increase the number of advertising messages to prospective customers, as well as reinforce and stimulate sales to existing customers. National network television is used to cost effectively promote Kay Jewelers in order to build brand name recognition and to promote its merchandise offers at key promotional periods. The use of national advertising generates efficiencies where additional markets or new stores can be promoted at a minimal additional cost. Management believes Sterling is one of only two national specialist retail jewellers that has the ability to utilise national network television advertising cost-effectively. The regional chains and Jared are principally supported by the use of radio advertising to target first time customers,

reinforce awareness with current customers and to add more impact during seasonal sales events. Regional cable television advertising is also used as a market development tool for Jared when entering new markets.

In addition to the above, all of the Group's US stores utilise advertising circulars which display a wide selection of merchandise. Eleven circulars are produced each year and placed in the stores. Several of these circulars are mailed direct to targeted customers. Preferred customer events, also utilising direct mail, target current customers with special savings and merchandise offers during the key promotional periods.

All advertising in the US is developed by Sterling personnel in conjunction with an outside advertising agency. In 1998/99 the Group spent \$59.7 million in the US (5.6% of the Group's US net sales) on advertising and promotions compared to \$53.5 million (5.6% of the Group's US net sales) in 1997/98 and \$49.3 million (5.5% of the Group's US net sales) in 1996/97.

Point of purchase signage and window displays typically feature value priced or seasonal merchandise offers and are used to deliver a series of advertising messages to customers already in the mall. Visual merchandising concentrates on store fixturing and display components which serve as in-store selling systems through the organisation, identification and enhancement of product for presentation to customers. Such display systems are also configured to encourage sales of larger, higher price point product by grouping similar items of various sizes in the same display component.

A marketing Internet site continues to be updated, which could be developed for selling jewellery, if justified by market growth.

Credit operations

Sterling offers a variety of in-house credit programmes for customers who wish to finance their purchases and who meet its credit standards. In-house credit sales represented approximately 50% of total US net sales in 1998/99. Certain programmes offer interest-free financing. To reduce credit risk, down-payments are generally required and averaged 12% of the purchase price in 1998/99. In addition, Sterling offers optional credit insurance to its

Description of business

	1998/99	1997/98	1996/97
Net credit sales (\$000s)	531,490	483,585	468,032
Credit sales as % of total net sales	50.3%	50.9%	52.7%
Number of active credit accounts at year end	603,807	568,360	550,150
Average outstanding account balance (\$)	604	595	598
Average monthly collection rate	13.9%	13.7%	13.2%
Bad debt as % of total net sales	3.2%	3.2%	3.6%
Bad debt as % of net credit sales	6.3%	6.3%	6.9%

customers through its “ChargeGard” and “Payment Protection” plans, which provide coverage for in-house credit purchases in the event of burglary, death, disabling injury or unemployment.

The Group believes that its various credit programmes, its granting of a credit line and its promotional efforts together with its guarantee and service plans, establish long-term relationships with customers and complement its overall marketing strategy by encouraging both additional purchases and higher unit sales. The above table presents data concerning Sterling’s in-house credit business in 1996/97, 1997/98 and 1998/99.

In addition to offering in-house credit, Sterling accepts major credit cards. Sales made with major credit cards are treated as cash sales and accounted for approximately 29% of total US net sales during 1998/99.

Management control and information systems

The Group’s US business operations are managed centrally by Sterling from its headquarters in Akron, Ohio. Central functions include finance, accounting, data processing, merchandising, distribution, advertising, human resources, training, credit administration and collection, and real estate, store planning and construction.

Sterling’s customised management information systems are designed to provide both US headquarters and field management with detailed timely information to monitor and evaluate virtually every aspect of the business. The information systems are highly integrated and comprehensive providing daily, weekly and monthly operating and statistical reports. These systems give the Group’s management timely information with respect to

inventories, sales, gross profit margins, payroll, receivables and operating costs, which are used to compare actual, budgeted and prior year performance on a store-by-store basis and to follow and analyse product and regional sales trends. Data warehouse and other end-user systems have been implemented permitting more in-depth analysis of specific aspects of the business and support the identification and development of sales or other operating strategies.

All of Sterling’s stores are supported by its internally developed personal computer based Store Information System (“SIS”). The primary components of this system include electronic point of sale (“EPOS”) processing, in-house credit authorisation and support, a district manager financial information system and a satellite-based communications system which supports data transmissions and company-wide electronic mail in real time. The transactional data captured by EPOS is automatically transmitted at the end of each day to Sterling’s headquarters and is used to update sales, in-house credit and perpetual inventory systems as well as to determine the replenishment of stores. During 1998/99 and 1999/00 the personal computers supporting SIS in each store are being upgraded to allow for the future development of added functionality. The Group believes the further automation of manual tasks at store level will result in additional operating efficiencies and improve customer service.

Sterling’s merchandise processing system encompasses inventory planning and control, purchase order management, receiving, ticketing, distribution, picking, shipping and replenishment. This system enables Sterling to automatically track each individual item of merchandise from receipt to ultimate sale and monitor sales, gross

Description of business

margins and inventory levels on the basis of individual store, merchandise category and individual merchandise item. In addition, to increase its operating efficiency, Sterling has developed an automated, paperless merchandise picking system, which is capable of replenishing up to approximately 140,000 pieces of merchandise to all stores in a single day.

Credit authorisation and collection are centralised at Sterling's headquarters and are supported by sophisticated information, communication and decision-support systems. The automated authorisation system is supported by on-line access to third party credit bureau data, which is incorporated into a statistically-based real time predictive scoring model. This system is capable of processing and approving a credit application, with the majority of credit

approvals completed in less than two minutes. The system establishes a maximum credit line for each approved customer and periodically updates the credit line on the account's anniversary date. Collection systems are supported by statistically-based scoring models to develop collection strategies and automated predictive dialers are utilised to maximise collector account contacts.

Regulation

The Group's US operations have to comply with numerous federal and state laws and regulations. These cover areas such as consumer protection, consumer credit regulations, consumer credit insurance regulations and employment legislation. Sterling endeavours to monitor changes in those laws and to conform its practices to the requirements of the applicable laws relating to such practices.

Description of business

United Kingdom operations

In the UK the Group is the largest specialist retailer of fine jewellery. It operates primarily through H. Samuel, which is targeted at the heart of the mass market, and Ernest Jones, which is directed at the upper end of the mass market. The Group's stores are predominantly situated in prime "High Street" (main shopping streets with high pedestrian traffic) or mall locations. There were 426 H. Samuel stores and 180 Ernest Jones stores at 30 January 1999. H. Samuel has national coverage, while Ernest Jones is represented in most of the appropriate markets.

As is the case in the US, jewellery sales in the UK are made through various channels of distribution, including specialist retail stores such as those operated by the Group, catalogue showrooms, jewellery departments in department stores, mail order catalogue suppliers and specialist discount jewellery retailers. Following changes to the categories of trade in statistics published by the UK government during 1996, the specialist retail jewellery market (consisting of fine gold and costume jewellery, watches, clocks and silverware) is no longer separately identifiable from other specialised non-food stores. Consequently reliable figures on the size of the UK jewellery market are not easy to obtain. The Group believes the size of the UK market in calendar 1998 for real jewellery, costume jewellery and watches to have been approximately £2.7 billion (including value added tax).

The retail sales of H. Samuel and Ernest Jones are derived from the core categories of gold and gem set jewellery, watches, collectibles, gifts, clocks, accessories and repairs. Costume and silver jewellery account for a small but growing proportion of the sales mix. The Group's UK operations are substantially dependent on the Christmas selling season, with approximately one third of its sales occurring in November and December on average during the last three financial years. The average retail price of items sold in the Group's UK jewellery stores was £34 (\$56) in 1998/99.

Competition

The UK retail jewellery industry is highly competitive and very fragmented, with a large number of independent

jewellery retailers. Only two other specialist retailers of jewellery have more than 50 outlets. H. Samuel's principal competition comes from catalogue showroom outlets such as Argos (with approximately 450 outlets) and Index, discount jewellery retailers, F Hinds (with approximately 100 outlets) and from a large number of independent specialist jewellery retailers. Ernest Jones faces competition from upmarket, specialist jewellery retailers, particularly independents, and also other upmarket multiples: Goldsmiths Group (with approximately 155 branches), Beaverbrooks (with approximately 35 branches) and Watches of Switzerland (with 25 branches). The Group believes there are in total approximately 6,900 specialist jewellery stores in the UK.

The Group believes that H. Samuel competes primarily on the basis of the broad selection and value for money of its merchandise, the convenience and accessibility of its prime locations and its specialist services and that Ernest Jones competes primarily on the basis of the value, range and quality of its merchandise, its prime locations, its presentational standards and customer service levels.

The Group believes that its UK operations have a competitive advantage due to their long established and strong brand names and national coverage, economies of scale in buying, merchandising, real estate, logistics, marketing and operating infrastructure. It has highly productive and profitable stores following the extensive rationalisation of its store portfolio since 1992. Over the same period it has invested in modern information systems, particularly buying and merchandising systems to improve the management of inventory levels, margin, inventory distribution and replenishment which it believes are not cost-effectively available to most of its competitors.

OPERATING CONCEPTS AND STRATEGIES

The Group's operating strategy in the UK involves building on its competitive advantages, raising the average transaction value, particularly in H. Samuel, and increasing customer footfall.

Store operations

The Group's H. Samuel and Ernest Jones stores are predominantly situated in High Street or mall locations. The

Description of business

chains employ extensive window displays that are divided into separate sections so that each product category can be easily recognised and selections can be made without assistance from store personnel.

The Group's core UK stores are primarily divided into the two chains described below.

H. Samuel

H. Samuel offers a wide range of jewellery, watches and gifts and is targeted at the heart of the UK mass market. In 1998/99 jewellery accounted for approximately 48% of H. Samuel's net sales, and watches, gifts and repairs accounted for approximately 25%, 23% and 4% respectively, of net sales. The average retail price of items sold during 1998/99 (excluding accessories, repairs and warranties) was £25 (\$41) (1997/98: £25 (\$41)). At 30 January 1999 the chain consisted of 426 stores with an average of 1,200 square feet of selling space.

Since 1996 H. Samuel has embarked on a store modernisation programme to address the under investment in its store environment since the mid 1980's. The objectives of this investment are to enhance the flexibility and customer appeal of its window based product displays and to modernise the interior of the stores. The Group believes that the improved store environment is necessary to help attract customers willing to purchase at a higher average transaction value. Following further testing of a revised H. Samuel format, the chain's modernisation programme has continued, with 70% of turnover coming from modernised stores by the end of 1998/99 (48% by the end of 1997/98). The Group plans to modernise a further 40 H. Samuel stores during 1999/00. Given the national coverage by H. Samuel there is limited scope to increase the number of its stores using the current format.

Ernest Jones

Ernest Jones is directed at the upper end of the mass market. The principal product categories of this chain are diamond and gold jewellery and branded watches, which are merchandised and marketed to appeal to the more affluent customer. The chain sells prestige watches such as Rolex, Cartier, Gucci, Tag Heuer and Breitling, as well as contemporary fashion watches from Armani and Calvin

Klein. In 1998/99 watches accounted for approximately 31% of Ernest Jones' net sales, and diamond jewellery, gold, gifts and repairs accounted for 29%, 27%, 9% and 4% respectively, of Ernest Jones' net sales. The average retail price of items sold during 1998/99 (excluding accessories, repairs and warranties) was £109 (\$179) (1997/98: £106 (\$174)). At 30 January 1999, the chain consisted of 180 stores with an average of 840 square feet of selling space. The Group established a dedicated management team for the Ernest Jones chain during 1995/96 to support and control the development of this chain.

In 1995 the Group began to modernise its Ernest Jones stores. The new store format was designed to give the chain a more upmarket appeal, with more emphasis on specialist branded watches and diamond inventory. Certain stores were only partially modernised during the first phase in 1995/96 and further upgrading continues to be carried out. Modernised stores contributed 51% of turnover by the end of 1998/99 (31% by the end of 1997/98). The Group plans to modernise a further 40 Ernest Jones stores during 1999/00.

The Group believes the upper end of the market shows the greatest potential for growth in the UK. As a result, in the larger metropolitan markets, the Ernest Jones division is pursuing a two-site strategy using the tradename "Leslie Davis". The Leslie Davis stores are positioned slightly more upmarket than Ernest Jones and provide a higher degree of exclusivity and styling in gold jewellery, better quality diamond merchandise and more aspirational dress and fashion watch brands. Figures given for Ernest Jones include the Leslie Davis stores.

The Group believes there is scope to increase the number of Ernest Jones stores to a total of about 220.

The table overleaf sets forth information concerning the stores operated by the Group in the UK during the last three financial years.

The Group believes it has identified a possible opportunity to increase the number of stores in both the H. Samuel and the Ernest Jones chains through the development of a lower cost, lower inventory level format suitable for trading in smaller markets. Tests are currently taking place.

Description of business

	1998/99	1997/98	1996/97
Number of stores:			
Opened during period	14	8	4
Closed during period	(6)	(4)	(10)
Open at end of period	606	598	594
Percentage increase/(decrease) in like for like sales	(1)%	4%	4%
Average sales per store in thousands ⁽¹⁾	£580	£589	£576

⁽¹⁾ Includes only stores operated for the full financial year.

Store Personnel

The Group considers its store personnel to be one of the most important elements of its UK business. Each store in a chain is managed by a store manager who reports to a regional supervisor who, in turn, is responsible for about 20 stores. In H. Samuel the regional supervisors report to two regional general managers, while the smaller Ernest Jones chain has one general manager.

The Group introduced a system in 1994/95 that matched store personnel working hours to customer flows. The Group believes that this reduced its selling expenses and increased operational efficiencies and customer service although it did increase its reliance on part-time employees. The Group supplements core branch staff in seasonally key sales periods with temporary staff. In 1999/00 the Group intends to invest in a Year 2000 compliant labour scheduling system.

The Group is placing an increasing emphasis on staff training. UK jewellery stores close for one half hour per week for personnel training. All new branch personnel have to complete successfully a "selling skills" learning programme during their probationary period. Throughout each year sales associates undertake further training in selling, product knowledge and customer care training. Store managers and their deputies also undergo sales and store management training. In addition personnel are encouraged to pursue further education through courses such as the National Association of Goldsmiths' "Jewellers Training Programme", which is a two year course leading to certification by examination.

Each chain has a number of sales personnel who are able to advance to the store manager level, thus assuring the availability of a number of newly trained managers familiar

with the Group's operating standards and procedures.

The Group operates various incentive schemes to motivate and reward performance in the stores. Rather than operate a simple sales-based commission scheme, store sales associates are incentivised during the key gift giving periods of Valentine's Day, Mothering Sunday and Christmas based on a share of sales achieved above a target level per store. This approach was successful in 1998/99 and is being continued in 1999/00. Store managers also participate in a store contribution based bonus depending on the profitability of the store under their control.

In late 1997/98 the Group carried out a pilot upgrade of its EPOS system in Ernest Jones and H. Samuel. During 1998/99 the new system was successfully implemented in all the Ernest Jones stores and in 20 H. Samuel stores. It is planned that the upgraded EPOS system will be installed in all the remaining H. Samuel stores in 1999/00. The upgraded system is a personal computer based store system that will allow additional functionality to be developed in such areas as store e-mail, access to and updating of store operations and display manuals, the automation and simplification of back office functions and labour scheduling in key branches. It is intended that these initiatives will increase the amount of time store staff spend on selling and customer service and reduce time spent on non-selling administrative functions.

Purchasing and merchandising

The Group's UK jewellery chains carry an extensive range of merchandise including gold rings, earrings, chains and bracelets, diamond and gem set jewellery, watches, silver jewellery, silverplate, crystal and other giftware. Consistent with other UK specialist retail jewellers, most of the gold jewellery carried by the Group's UK chains is nine carat

Description of business

	Percentage of Net Sales		
	1998/99	1997/98	1996/97
	%	%	%
Gold jewellery	29	31	33
Watches	27	26	26
Diamond jewellery	19	17	15
Gifts	21	22	23
Repairs	4	4	3
	100	100	100

gold although an increasing amount is 18 carat gold. Sales of white gold and platinum jewellery continue to grow.

The above table sets forth the sales mix of the Group's UK jewellery stores for 1996/97 to 1998/99. Each chain maintains a buying department in which experienced buyers concentrate on product development, sourcing and supplier management. Merchandising teams working alongside the buyers focus on assortment planning, branch grading, repeat orders, inventory levels and margin management.

The Group focuses closely on adjusting inventory levels and future buying commitments to changes in product sales forecasts.

Initial orders for merchandise items are placed by buyers. Repeat orders are placed based upon sales forecasts by merchandise analysts who work alongside buyers using computer-generated sales data derived from the branch EPOS system.

Currently, the Group purchases the majority of its UK merchandise from manufacturers and importers in the UK. A significant amount of its gold jewellery is manufactured on a contract basis in Italy through a Group operated buying office in Vicenza, thus eliminating the costs associated with intermediaries. Gift and jewellery buyers also acquire merchandise in the Far East. The Group has a large number of suppliers and, in 1998/99, the three largest (all watch suppliers) accounted for approximately 13% of the total purchases of the Group's UK jewellery chains, with the largest supplier accounting for approximately 5%. Only a small proportion of merchandise is purchased on consignment. The Group purchases diamonds for Ernest

Jones and H. Samuel stores on the world markets, which are then set into castings by manufacturers in the UK. This type of manufacturing provides significant cost savings. The Group believes that the individual chains benefit from their combined volume of purchases.

The Group is seeking to increase the average transaction value by continual enhancement to assortment plans. The Group has strict test marketing procedures to trial new products and only extends the distribution of tested lines against known rates of sale. During 1996/97 and 1997/98 the Group strengthened its product ranges through innovation in watch brands, gold and diamond jewellery, semi-precious stone set products and the extension and upgrading of gift ranges in its UK stores. During 1998/99 the emphasis was on growing the diamond business together with fashion watches, gifts, and silver, white gold and platinum jewellery.

Within each store in a chain, the range of merchandise has historically been virtually identical, although the depth of that range differed depending on the size and location of that store. In order to maximise sales potential and efficiency with respect to inventory management, the Group implemented in the UK a new integrated merchandise planning and distribution system during 1995/96. The system monitors rates of sale, inventory levels and margins at store and item levels. Together with more flexible window displays following the modernisation of the stores, this enabled branches to receive and display a range of merchandise more appropriate to local buying patterns. The system also improved the tracking of inventory from delivery to the point of sale.

The investment in merchandising and inventory systems has

Description of business

allowed the Group to move to a UK merchandising strategy based on the measurement of the rate of sale of product lines at store level and in total. These measures are the key driver to line selection, for reordering and the quantities to be purchased. As well as helping to support sales these systems have significantly improved the management of inventory and margins and inventory replenishment at store level. The Group continues to invest in systems to enhance its performance in these areas.

During 1998/99 the Group continued the process of improving the replenishment of best selling lines. Core merchandising lines have been identified which the business commits to having in stock all year round on a 95% service level. During Christmas of 1998/99 the in-stock level of core lines reached 98%. A further initiative was launched in 1998/99 with the phased introduction of a computer stock tracking system that has improved the movement and control of goods through the warehouse and distribution system. The system should be fully operational during 1999/00.

Advertising and marketing

Expenditure on advertising and marketing amounted to 1.5% of sales in 1998/99 (1997/98: 1.3%). Print advertising remains the principal advertising medium with some tactical regional radio advertising at the key gift giving times.

The Group's marketing efforts are intended to enhance each particular chain's image, expand the overall customer base and improve customer loyalty. The Group has traditionally done little media advertising in the UK, but has instead relied on its prime store locations, the distribution of catalogues at Christmas and store-based promotional techniques to attract customers. The Group now uses tailored marketing campaigns for its H. Samuel and Ernest Jones chains in order to develop the distinct brand identities of H. Samuel as a middle-market jewellery and gift chain and Ernest Jones as a more up-market diamond and prestige watch specialist.

The marketing strategy for both brands is to focus increasing amounts of advertising and promotional spending at the key gift giving times of Valentine's Day,

Mothering Sunday and Christmas, and tactical promotional programmes at other times of the year. The store-based programmes in windows and point of sale activities are targeted on key value line promotions in H. Samuel and merchandise themes or brands in both Ernest Jones and H. Samuel. 1998/99 has seen the start of the development of customer databases and direct mail trials. The trialing and testing of the database will continue in 1999/00.

In January 1999 H. Samuel and Ernest Jones launched informational web-sites on the Internet. The Group does not intend, in the near future, to sell jewellery over the Internet.

The Group believes that by offering a full range of after sales services and products, it can better differentiate itself from its competitors at the lower end of the market. The products offered include replacement batteries and watch straps as well as watch and jewellery repairs. The Group has also developed in conjunction with a third party supplier a separately priced insurance product which is increasingly being sold to customers.

As well as developing retail products the Group has been expanding its corporate services. These include growing its insurance replacement business by strengthening links with key insurance companies and loss adjusters. A corporate incentives and gifts operation is also being developed. These initiatives have been supported by investing in home office systems and a field sales force.

Credit operations

In addition to accepting major credit and debit cards, which are treated as cash transactions and accounted for approximately 28% of net sales during 1998/99, the Group offers certain credit programmes. During 1998/99 approximately 2% of net sales in the UK were made pursuant to six, nine or twelve month "interest free" programmes available for purchases over a particular price. The receivables for the "interest free" programmes are sold at a discount on a limited recourse basis and administered by an unaffiliated company. The primary aim of the Group's "interest free" programmes is to generate additional business.

Description of business

Management control and communications

The administration centre at Colindale in North London contains the finance, human resources, payroll and buying and merchandising functions for H. Samuel and Ernest Jones, together with Group finance and Group company secretarial functions. The distribution centre for H. Samuel and Ernest Jones is located in Birmingham.

All of the Group's UK stores are equipped with EPOS terminals that permit the warehouse and distribution centre to receive information from all stores in its chain. Sales data collected overnight from the EPOS terminals forms the basis for the Group's automatic inventory replenishment system. Under this system employees in the warehouse and distribution centre collect merchandise for distribution to a store based solely upon a computer-generated "pick list". The Group's systems are capable of replacing from available inventory any merchandise sold in its jewellery stores within 24 hours. During non-peak periods the Group's stores are replenished between one and four times each week depending on sales performance. Inventory is replenished based on daily EPOS driven sales and inventory data to optimise product placement and inventory turn.

A new inventory tracking system is now being developed to give warehouse management the ability to track inventory by means of bar coding from receipt into the warehouse to despatch to the stores.

During 1998/99 the tills in all the Ernest Jones and Leslie Davis stores were replaced with new personal computer driven tills. It is also planned to replace all the H. Samuel tills during 1999/00. This will result in all the Group's UK

stores operating on a common information technology platform. The improved personal computer technology will allow the Group to develop additional functionality with a view to enhancing customer service and automating store operating procedures.

The Retail Management Systems cover the areas of inventory planning and control, purchase order management, merchandising, replenishment and distribution. The system is package based and allows management to track performance against budget and forecast for sales, gross margin and inventory by merchandise category and at individual store level. An "Open to Buy" system enables management effectively to monitor and control merchandise purchase levels based on actual and forecast sales levels.

All the Group's stores receive monthly operating statements detailing financial performance against budget. The statements monitor performance in sales, store payroll expenditure and other operating expenses, allowing store and area management to concentrate on any issues that impact on store profitability.

As part of the Year 2000 compliance programme the Group invested in upgrading its core hardware systems and head office personal computer environment.

Regulation

The Group's UK operations are affected by various laws and regulations. These cover areas such as consumer protection legislation, consumer credit regulations, data protection requirements, health and safety regulations, employment legislation and planning and development regulations.

The Company endeavours to monitor changes in these laws and to conform its practices to the requirements of the applicable laws and regulations.

Description of business

Group employees

In 1998/99 the Group had 4,304 full-time equivalent employees in the UK and 6,519 full-time equivalent employees in the US. Additional personnel are employed during the Group's peak Christmas selling season. The significant majority of the Group's employees are employed in its stores.

None of the Group's employees in the UK and less than 1% of the Group's employees in the US are covered by collective bargaining agreements. The Group considers its relationship with its employees to be excellent.

Description of property

The Group attributes great importance to the location and appearance of its stores. Accordingly, in both the Group's US and UK operations, decisions on selecting sites and refurbishing stores are made centrally.

US Substantially all of the Group's US stores are leased. Annual payments range from 2% to 8% of sales (typically defined in the leases as total receipts, net of returns, exchanges and sales taxes) subject to a minimum annual rental, which as of 30 January 1999 averaged approximately \$54 per square foot. Under the terms of the typical lease, the Group is required to conform and maintain its usage to agreed standards, including meeting required advertising expenditures as a percentage of sales, and is responsible for its proportionate share of expenses associated with common area maintenance, utilities and taxes of the mall. The initial term of a store lease is generally ten years. As of 30 January 1999, the average unexpired lease term of the Group's leased premises in the US was 4.9 years and some 62% of US store leases had terms expiring within five years.

During the past five fiscal years the Group generally has been successful in renewing its US store leases as they expire. The Group has not experienced difficulty in securing suitable locations for its US stores. The Group does not believe that any of its store leases is individually material to the Group's US operations.

The Group leases a 337,000 square foot headquarters facility in Akron, Ohio. As of 30 January 1999 the Group had sublet approximately 58,000 square feet of this facility.

UK As of 30 January 1999 the Group held 13 freehold premises, eight long leasehold premises (premises where the lease had an original term in excess of 25 years) and 669 other leasehold premises. As is typically the case in retailing in the UK, the Group's stores are leased for terms of up to 25 years, generally under full repairing and insuring leases (equivalent to triple net leases in the US). Rents are usually subject to upward review every five years if market conditions warrant. At the end of the lease period, subject to certain limited exceptions, leaseholders have statutory rights to enter into a new lease of the premises generally on negotiated terms. As of 30 January 1999, the average unexpired lease term of the Group's leased premises in the UK was 14 years. As current leases expire, the Group believes that it will be able either to obtain renewal leases, if desired, for present store locations or to obtain leases in equivalent or improved locations in the same general areas. To date the Group has not experienced difficulty in securing leases for suitable locations for its UK stores.

The Group owns a 255,000 square foot warehouse and distribution centre in Birmingham and a 120,000 square foot administration centre at Colindale in North London.

Business review

Selected financial data

The selected consolidated financial data set forth below for the 52 weeks ended 28 January 1995, the 53 weeks ended 3 February 1996 and the 52 weeks ended 1 February 1997, 31 January 1998 and 30 January 1999 has been

derived, in part, from the audited Consolidated Accounts for such periods included elsewhere in this Annual Report.

The selected consolidated financial data should be read in conjunction with the Accounts including the Notes thereto, and the Financial review included on pages 5 and 6 of this Annual Report.

	1998/99	1998/99 ⁽⁸⁾	1997/98	1996/97	1995/96	1994/95
	£	\$	£	£	£	£
	(In thousands, except per share and per ADS and store data)					
PROFIT AND LOSS ACCOUNT DATA⁽¹⁾						
Amounts under UK GAAP:						
Net sales	991,206	1,625,578	927,911	901,952	894,682	924,079
Cost of sales ⁽²⁾	(843,528)	(1,383,386)	(794,743)	(781,119)	(784,343)	(827,303)
Gross profit	147,678	242,192	133,168	120,833	110,339	96,776
Administrative expenses	(45,383)	(74,428)	(42,417)	(44,328)	(46,400)	(52,313)
Operating profit	102,295	167,764	90,751	76,505	63,939	44,463
Net interest payable	(13,098)	(21,481)	(22,019)	(31,439)	(38,923)	(36,320)
Profit before tax	89,197	146,283	68,732	45,066	25,016	8,143
Profit for the period	65,223	106,966	50,862	33,855	17,517	2,351
Earnings/(loss) per share ⁽³⁾	3.9p	\$0.06	3.0p	2.5p	(8.4)p	(9.0)p
Earnings/(loss) per ADS	117.0p	\$1.92	90.0p	75.0p	(252.0)p	(270.0)p
Amounts under US GAAP:						
Net sales	991,206	1,625,578	927,911	901,952	894,682	924,079
Operating income	93,052	152,605	77,095	71,254	52,702	30,722
Net income/(loss)	48,617	79,732	28,646	26,094	7,882	(9,723)
Income/(loss) per share ⁽³⁾						
– basic and diluted	3.0p	\$0.05	2.4p	(0.1)p	(11.7)p	(13.1)p
Income/(loss) per ADS – basic	88.9p	\$1.46	72.2p	(3.1)p	(351.0)p	(393.0)p
– diluted	88.7p	\$1.45	72.2p	–	–	–
STORE DATA:						
Number of stores open at end of period:						
US	788		768	778	839	871
UK	606		598	594	600	611
Percentage increase/(decrease) in like for like store sales:						
US	10%		9%	8%	3%	4%
UK	(1)%		4%	4%	(1)%	2%
Average sales per store: (in thousands) ⁽⁴⁾						
US	823	1,349	745	691	661	620
UK	580	951	589	576	556	548

Notes:

- (1) Prior to 1995/96 the interest costs of funding the US credit card receivables programmes were included within cost of sales. As these costs are deemed to relate to the funding of the Group's working capital, they have been reclassified as interest payable for all periods shown.
- (2) Cost of sales includes costs of goods sold, rental expense and non-headquarter's selling, general and administrative expenses.
- (3) In 1997/98 earnings per share data derive from profit for the period divided by the number of Ordinary Shares in issue on 21 July 1997 following the capital restructuring.
- (4) Includes only stores operated for the full financial year.

Business review

	1998/99	1998/99 ⁽⁸⁾	1997/98	1996/97	1995/96	1994/95
	£000	\$000	£000	£000	£000	£000
BALANCE SHEET DATA (at period end)						
Amounts in accordance with UK GAAP:						
Working capital ⁽⁵⁾	407,697	668,623	385,644	283,499	522,015	96,892
Total assets	766,723	1,257,426	684,029	840,595	874,368	872,241
Total debt	176,689	289,770	183,829	403,264	461,054	473,775
Long-term debt	153,342	251,481	183,829	123,738	394,824	4,083
Cash at bank and in hand	65,159	106,861	25,935	163,033	152,843	140,260
Shareholders' funds (as restated) ⁽⁶⁾	385,782	632,682	336,676	296,189	266,771	244,336
Amounts in accordance with US GAAP:						
Total assets	1,007,084	1,651,618	938,930	1,119,041	1,168,604	1,236,956
Total debt	59,933	98,290	67,073	283,594	335,904	417,171
Long-term debt	36,586	60,000	67,073	152,813	269,661	335,847
Cash at bank and in hand	65,159	106,861	25,935	163,033	152,843	140,260
Preference shares under UK GAAP classified outside shareholders' funds under US GAAP ⁽⁷⁾	-	-	-	94,274	88,799	83,224
Shareholders' funds	735,564	1,206,325	684,828	572,436	567,255	546,810

⁽⁵⁾ Working capital represents current assets (excluding amounts recoverable after more than one year) less current liabilities.

⁽⁶⁾ During 1998/99 the Group adopted UK Financial Reporting Standard 12 – Provisions, Contingent Liabilities and Contingent Assets. The adoption of the standard has resulted in prior year adjustments affecting UK GAAP shareholders' funds for 1994/95, 1995/96, 1996/97 and 1997/98.

⁽⁷⁾ The Group's Convertible Preference Shares 2008 and Redeemable Preference Shares 1997 had mandatory redemption provisions and therefore were classified outside shareholders' funds under US GAAP.

⁽⁸⁾ Amounts in pounds sterling are translated into US dollars solely for the convenience of the reader, at a rate £1.00 to \$1.64, the closing rate on 29 January 1999 (which approximates to the Noon Buying Rate).

GENERAL

A table showing selected financial data for the last five years is shown above.

This business review discusses:

- the results for the 52 weeks ended 30 January 1999 compared to the 52 weeks ended 31 January 1998 (pages 26 and 27).
- the financial position at 30 January 1999 (pages 27 and 28).

and in accordance with US requirements:

- the results for the 52 weeks ended 31 January 1998 compared to the 52 weeks ended 1 February 1997 (page 31).

The Accounts of the Group have been prepared in accordance with UK GAAP which differ in certain respects from US GAAP. See pages 80 to 87 for information on the material differences between UK GAAP and US GAAP that affect the Group's profit and shareholders' funds.

Business review

Results of operations

The following table sets forth certain consolidated financial data as a percentage of reported net sales.

	Percentage of Net Sales		
	1998/99	1997/98	1996/97
	%	%	%
Net Sales	100.0	100.0	100.0
Cost of sales ⁽¹⁾	(85.1)	(85.6)	(86.6)
Gross profit	14.9	14.4	13.4
Administrative expenses	(4.6)	(4.6)	(4.9)
Operating profit	10.3	9.8	8.5
Net interest expense	(1.3)	(2.4)	(3.5)
Profit before taxation	9.0	7.4	5.0
Taxation	(2.4)	(1.9)	(1.2)
Net profit	6.6	5.5	3.8

⁽¹⁾ Cost of sales includes cost of goods sold, rental expense and non-headquarters' selling, general and administrative expenses.

52 WEEKS ENDED 30 JANUARY 1999

Sales

Total Group sales for 1998/99 rose by 6.8% to £991.2 million compared to £927.9 million in 1997/98. The like for like increase over the 52 week period was 5.9%.

US

Sales totalled £637.2 million, an increase of 10.7% from £575.5 million in 1997/98. The like for like increase was 10.2%. Sales growth in the US was driven by a robust economy and the increased number of stores. Store openings during the year totalled 31 including eight Jared stores. A total of eleven under-performing stores were closed.

UK

The UK Jewellery business performed creditably against the background of a markedly deteriorating general retailing environment. Total UK sales increased by 0.5% to £354.0 million compared to £352.4 million in 1997/98 due to the opening of new stores which was offset by the decrease in like for like sales of 1.1%.

H. Samuel, the Group's UK mass market jewellery chain, recorded a like for like sales decline of 2% due to weaker consumer demand and heavy discounting in other retail sectors. Ernest Jones, the Group's UK premium jewellery chain, recorded a like for like sales increase of 0.9%.

Operating profit

The Group's operating profit for 1998/99 increased by 12.7% to £102.3 million compared to £90.8 million in 1997/98. The improved performance was driven by the increased sales in the US together with continued control of operating costs.

US

The US business generated operating profits of £77.5 million in 1998/99 compared to £63.1 million in 1997/98, an increase of 22.8%.

UK

The UK Jewellery operating profit fell to £32.4 million in 1998/99 from £36.1 million in 1997/98 after charging costs of £1.6 million (1997/98: £3.4 million) associated with the H. Samuel modernisation programme and £1.2 million (1997/98: £ nil) related to Year 2000 compliance.

Group central costs fell by 10.2% from £8.4 million in 1997/98 to £7.6 million in 1998/99 due to lower professional fees.

Interest charges

Net interest payable and similar charges amounted to £13.1 million compared to £22.0 million in 1997/98, a reduction of £8.9 million. The lower charge was due to the lower average level of Group net debt and a reduced level of banking fees.

Taxation

The tax charge of £24.0 million increased from £17.9 million in 1997/98. The tax rate reflects the benefit of US tax losses brought forward and used against US taxable profits. The losses are expected to be fully utilised during 1999/00. Credit for such tax losses is not carried in the balance sheet.

Dividends

Under English law, dividends can only be paid out of profits available for distribution (generally defined as accumulated realised profits less accumulated realised losses less net unrealised losses) and not out of share capital or share premiums (generally equivalent in US terms to paid-in surplus).

Following the 1997 capital reduction, the holding company, Signet, is permitted to make distributions (including dividends, share buy-backs and other transactions classed as distributions) out of profits earned after 2 August 1997, the end of its 1997/98 half year. As at 30 January 1999 the holding company had a distributable reserves balance of £8,446,000 (1998 (as restated): £4,556,000 deficit).

In order to make a further distribution in excess of this figure, the holding company would first need to receive dividends from its subsidiaries or accumulate distributable reserves through trading. In addition to restrictions imposed at the time of the capital reduction on the distribution of dividends received from subsidiaries, the payments of dividends from other tax jurisdictions, such as the US, may not be tax efficient. Furthermore, there may be other reasons why dividends may not be paid by subsidiaries to the holding company.

If declared by the Board of Directors (and, in the case of a final dividend, if approved by shareholders in general meeting) dividends are paid to holders of ordinary shares as of record dates that are decided by the Board. The Board of Directors has recommended to shareholders a final dividend of 1.0p per ordinary share for 1998/99, to be paid on 1 July 1999 to shareholders on the register of members at close of business on 21 May 1999.

In future the intention will be to declare an interim dividend as well as a final dividend each year but, given the earnings pattern of the Group, the split between the interim

and final payments will be heavily weighted in favour of the latter. Future dividends will depend upon the capital needs of the business, the level of gearing and the amount of profits available for distribution.

Liquidity and capital resources

The Group requires significant working capital to support its inventory requirements. The Group's working capital requirements fluctuate during the year as a result of the seasonal nature of its business and normally reach their highest levels in the late Autumn in preparation for the Christmas season.

The Group generated £102.6 million of net cash from operating activities in 1998/99 (1997/98: £143.4 million). The reduction in cash generated was due to the investment in working capital required to support existing stores' sales growth and to open new stores in the US. Capital expenditure and financial investment (net of disposal proceeds) utilised £25.6 million and £27.6 million of net cash during 1998/99 and 1997/98 respectively. The Group spent £30.9 million and £28.6 million on construction and refurbishment of stores, systems improvements and other capital expenditures during 1998/99 and 1997/98 respectively.

The Group expended net cash on financing activities of £28.6 million and £187.5 million during 1998/99 and 1997/98 respectively, principally in reducing its total borrowing obligations.

In the US the Company has financed its private label credit card receivables programme through a privately placed receivables securitisation. Under this securitisation, interests in the US receivables portfolio held by a trust were sold principally to institutional investors in the form of fixed-rate Class A and Class B investor certificates. The aggregate outstanding principal amount of the certificates approximates to \$191.5 million. The certificates have a weighted average interest rate of 7.26% and interest is paid monthly in arrears from the finance charges collections generated by the receivables portfolio. The revolving period of the securitisation ends in October 2000. Principal payments on the outstanding investor certificates will be made monthly from the collections received on customer accounts held by the trust beginning in December 2000.

Business review

Under UK Financial Reporting Standard No. 5, bank loans and overdrafts at 30 January 1999 include £116.8 million in respect of securitised US customer receivables at the exchange rate then applicable (1998: £116.8 million).

In July 1998 the Group and certain of its subsidiaries entered into a \$250 million unsecured multi-currency five year credit facility agreement ("Facility Agreement") made available by a syndicate of banks ("Facility Lenders"). The Facility Agreement, together with a \$60 million seven year senior unsecured note issue bearing a 7.25% coupon, replaced the existing secured facilities entered into in February 1997. At 30 March 1999 the amount outstanding under these two facilities was \$60 million (£36.6 million) which bore an interest rate of 7.25%.

Pursuant to the Facility Agreement, the Facility Lenders made available to the Group on an unsecured basis for a term of five years a multi-currency revolving facility in an aggregate amount of \$250 million comprising multi-currency cash advances, sterling acceptance credits and letters of credit on, inter alia, the following terms:

- the Facility Agreement bears interest at a margin of 0.75% above LIBOR; and
- the Facility Agreement is guaranteed by the Company's principal holding and operating subsidiaries.

It is the policy of the Group to enter into interest rate hedges on at least 75% of its floating rate US dollar borrowings. At 30 January 1999 all of the Group's floating rate US dollar borrowings were hedged by interest rate swaps with a weighted average interest rate of 6.5%. The weighted average interest rate on these borrowings before the effect of such arrangements was 6.0%. The interest rate swaps, originally purchased in 1997, have now expired and have been replaced by interest rate caps at an effective rate of 5.8%.

Management believes that through store portfolio management approximately 183 UK property leases had been assigned by the Group up to the end of January 1999 (and remained unexpired and occupied by assignees at that date) and approximately 47 additional stores were sublet at that date, to a large number of assignees or sub-tenants. Should the assignees or sub-tenants fail to fulfil any obligations in respect of those leases or any other leases which have at any other time been assigned or sublet, the Group or one of its UK subsidiaries may be liable for those

defaults. The number of such claims arising to date has been small, and the liability, which is charged to the profit and loss account as it arises, has not been material.

Year 2000

In common with most companies, Signet faces a major challenge in ensuring that Year 2000 does not significantly impact its operations. The problem is caused by the inability of certain computer systems to process four digit date fields. As a result, such systems will not treat dates on or after 1 January 2000 in a predictable manner. This could affect the Group in a number of ways. In particular the processing of sales transactions and the replenishment of inventory could be impaired.

Teams have been set up in both the UK and US businesses to address the issues. The Year 2000 programme is on schedule and it is expected that systems both in the UK and US will operate effectively post 31 December 1999. However, there can be no assurance that Signet's internal systems do not contain undetected Year 2000 problems. These problems, should they exist, cannot be addressed until they manifest themselves.

Much of the modification is being undertaken as part of the ongoing process of upgrading and improving both hardware and software in the normal course of business. It is estimated that the revenue costs of addressing the internal Year 2000 issue will be some £2.3 million in total. The revenue cost in 1998/99 was £1.2 million (1997/98: £ nil).

Discussions with external suppliers are taking place to ensure that, as far as possible, they are taking similar action towards Year 2000 compliance in respect of their products and systems. Where a supplier is deemed to be critical (i.e. a supplier whose failure to achieve Year 2000 readiness would have a serious adverse effect on the operations of the Group) alternative sources of supply are being identified.

Whilst the Group expects to identify and deal with all internal factors likely to affect its Year 2000 readiness, it is not possible to address all possible external factors. There is considerable uncertainty about the impact the Year 2000 issue will have upon the broader environment. Should this impact prove to be significant it could adversely affect the Group's operations.

Business review

The Euro

The first stage of European Monetary Union (EMU) commenced on 1 January 1999. EMU will involve the replacement of participating countries' currencies with a new currency, the "Euro". This replacement is expected to take place by July 2002.

The Republic of Ireland, in which the Group operates 13 stores, is one of the first eleven countries which joined EMU. It is not certain if, or when, the UK will join.

The Group has set up an EMU Committee to oversee the preparations for EMU. It is envisaged that the Group's stores in the Republic of Ireland will have implemented the procedures necessary to accept Euros by the end of the first half of 2000. This will give the Group the opportunity to assess the potential impact of EMU on its UK stores.

Preparations for the introduction of the Euro are not expected to result in significant revenue costs. The effect of EMU on interest and foreign exchange rates will also affect the Group's operations but the Group does not expect the impact to be material.

Outlook

Impact of General Economic Conditions

Jewellery purchases are discretionary for consumers and may be particularly affected by adverse trends in the general economy. The success of the Group's operations depends to a significant extent upon a number of factors relating to discretionary consumer spending, including economic conditions (and perceptions of such conditions by consumers) affecting disposable consumer income such as employment, wages and salaries, business conditions, interest rates, consumer debt levels, availability of credit and levels of taxation for the economy as a whole and in regional and local markets where the Group operates. In addition, the Group's US operations are dependent upon the continued popularity of malls as a shopping destination and the ability of malls, their tenants and other mall attractions to generate consumer traffic for its stores. There can be no assurance that consumer spending will not be adversely affected by general economic conditions or that mall traffic will not decrease, either of which could negatively impact the Group's results of operations or financial condition.

In addition, because a substantial portion of the Group's US sales are made on credit, any significant deterioration in general economic conditions or consumer debt levels may inhibit consumers' use of credit and cause a material adverse effect on the Group's revenues and profitability. Furthermore, the Group expects that any downturn in general or local economic conditions in the markets in which it operates would adversely affect its collection of outstanding credit accounts receivables and the Group's revenues and profitability. There are currently historically high levels of consumer debt in the US.

Seasonality and General Economic Conditions

The Group's business is highly seasonal, with a very significant portion of its sales and most of its operating profit generated during its fourth quarter, which includes the Christmas season. The Group expects to continue to experience a seasonal fluctuation in its sales and profit. Because a very significant percentage of the Group's total sales and earnings for a fiscal year results from operations in the fourth quarter, the Group has limited ability to compensate for shortfalls in fourth quarter sales or earnings by changes in its operations or strategies in other quarters. A significant shortfall in results for the fourth quarter of any fiscal year can thus be expected to have a material adverse effect on the Group's annual results of operations.

Effect of Currency Fluctuations

The Group publishes its consolidated Accounts in pounds sterling. The Group held approximately 69% of its total assets in US dollars at 31 January 1999 and generated approximately 64% of its net sales and 76% of its operating income in US dollars for the financial year then ended. Thus, even though the Group's US operations make substantially all of their net sales and incur substantially all of their expenses in US dollars, in translating the results of its US operations the Group is subject to fluctuations in the exchange rates between the pound sterling and the US dollar. Accordingly, depreciation in the weighted average value of the US dollar against the pound sterling could decrease reported revenues and operating profit (as was the case in 1995/96, 1996/97, 1997/98 and 1998/99), and appreciation in the weighted average value of the US dollar against the pound sterling could increase reported revenues

Business review

Calendar Year	Average ⁽¹⁾	High	Low	At period end
1994	1.54	1.64	1.46	1.57
1995	1.58	1.64	1.53	1.55
1996	1.57	1.71	1.49	1.71
1997	1.64	1.69	1.58	1.64
1998	1.66	1.72	1.61	1.67
1999 (up to 30 March)	1.63	1.66	1.59	1.61

⁽¹⁾ The average of the exchange rates on the last day of each full month during the period.

and operating profit.

Cash dividends paid by the Group with respect to the ordinary shares will be in pounds sterling, and fluctuations in the exchange rate between the pound sterling and the US dollar will affect the dollar amount received by holders of ADSs upon conversion by the Depositary of such dividends. Moreover, fluctuations in the exchange rate between the pound sterling and the US dollar will affect the US dollar equivalents of the pound sterling price of the Ordinary Shares on the London Stock Exchange and, as a result, are likely to affect the market price of the ADSs in the US.

The table above sets forth, for the calendar years indicated, the average, high, low and period end exchange rates for pounds sterling expressed in US dollars per £1.00.

As part of its long-term strategy, the Group seeks to finance its US net assets with borrowings denominated in US dollars as a hedge against exchange rate fluctuations. Currently all of the Group's borrowings are denominated in US dollars. However, fluctuations in exchange rates between the pound sterling and the US dollar affect the amount of the Group's consolidated borrowings.

Utilisation of US Net Operating Losses

At 30 January 1999 the Group had £20.1 million of net operating losses ('NOLs') for US federal income tax purposes. Subject to certain limitations under the US Internal Revenue Code, the Group is entitled to utilise these NOLs to reduce its future US federal taxable income. As a result of the changes in the Group's share ownership following its 1997 capital restructuring, the Group anticipates that its ability to utilise these NOLs will be restricted. As NOLs must be utilised within the 15-year period following the taxable period in which the loss was incurred, certain of these NOLs may expire unutilised. This

limitation could increase the future US federal income taxes payable by the Group, possibly by a significant amount. The Group is unable to be precise regarding the impact that these limitations will have on the amount of future US federal income taxes to be paid by the Group as that will depend upon, among other things, the future US federal taxable profits of the Group's US operations, the remittance of these profits to the UK and Group indebtedness. The losses are expected to be fully utilised during 1999/00. The deferred tax benefits of the NOLs have not been reflected in the Group's consolidated balance sheet as at 30 January 1999. The losses are expected to be fully utilised during 1999/00.

Market risk

The Group's funding, liquidity and exposure to interest rate and exchange rate risks are managed by the Group's treasury department. The Group uses derivative instruments for risk management purposes only, and these are transacted by specialist treasury personnel.

For financial instruments held, the Group has used a sensitivity analysis technique that measures the change in the fair value of the Group's financial instruments from hypothetical changes in market rates.

The amounts generated from the sensitivity analysis are forward-looking estimates of market risk assuming certain adverse market conditions occur. Actual results in the future may differ materially from those projected results due to changes in the portfolio of financial instruments held and actual developments in the global financial markets which may cause fluctuations in interest and exchange rates to exceed the hypothetical amounts disclosed in the table above. The analysis method used by the group to assess and mitigate risk discussed below should not be considered a

Business review

	Estimated fair value at period end	Fair value changes arising from	
		1% decrease in interest rates favourable/ (unfavourable)	10% weakening in £ against \$ favourable/ (unfavourable)
	£000	£000	£000
Borrowings	(176,689)	(6,413)	(19,632)
Interest rate floor	260	192	-
Foreign currency receivables	194,038	-	21,560

projection of likely future events and losses.

The estimated changes in the fair values of borrowings and associated derivative financial instruments at 30 January 1999 are set out above. The fair values of borrowings and derivative financial instruments are estimated by discounting the future cash flows to net present values using appropriate market rates prevailing at the period end.

The estimated changes in fair values for interest rate movements are based on an instantaneous decrease of 1% (100 basis points) in the specific rate of interest applicable to each class of financial instruments from the levels effective at 30 January 1999 with all other variables remaining constant. The estimated changes in the fair value for foreign exchange rates are based on an instantaneous 10% weakening of pounds sterling against the US dollar from the levels applicable at 30 January 1999 with all other variables remaining constant.

52 WEEKS ENDED 31 JANUARY 1998

Net sales for 1997/98 increased by 2.9% to £927.9 million compared to £902.0 million in 1996/97. This increase was achieved in spite of a further depreciation in the weighted average value of the US dollar against the pound sterling. Like for like sales growth during 1997/98 for all the Group's stores was 6.9%.

US sales in 1997/98 increased by 3.1% to £575.6 million compared to £558.5 million in 1996/97. This represents an increase of 6.9% in constant dollars. During the period a like for like store sales growth of 9.1% was partially offset by the depreciation in the weighted average value of the US dollar against the pound sterling and net closures of ten stores. The US operation performed well throughout the year and benefited from particularly strong growth during

the critical Christmas trading period.

UK sales in 1997/98 increased by 2.6% to £352.4 million from £343.5 million in 1996/97. Ernest Jones, the Group's UK premium jewellery chain (11% of Group sales), continued to perform well, recording like for like sales growth of 7.8%. H. Samuel (26% of Group sales) achieved comparable store sales growth of 1.8% in the very competitive mass market sector.

The Group's operating profit increased by 18.7% to £90.8 million in 1997/98 compared to £76.5 million in 1996/97. The main contributors to the increase were higher sales together with continuing control of gross margins and expenses.

US operating profit in 1997/98 was £63.1 million compared to £53.8 million in 1996/97, a 17.3% increase. This represents an increase of 21.8% in constant dollars. The increase in the sales drove the profit growth during the year.

In the UK operating profit before central costs grew from £34.1 million in 1996/97 to £36.1 million in 1997/98. Profits benefited from an increase in gross margin as well as higher sales. Costs of £3.4 million were incurred in the ongoing modernisation of the H. Samuel stores. Central costs showed a reduction to £8.4 million in 1997/98 compared to £11.4 million in 1996/97. 1996/97 costs included one-off charges relating to properties and a higher level of professional fees.

The net interest charge fell from £31.4 million in 1996/97 to £22.0 million in 1997/98. The lower charge resulted from the reduced level of borrowings and a reduction in the Company's effective borrowing rates following the agreement of new banking facilities.

The tax charge of £17.9 million in 1997/98 reflects the

Directors, officers and advisers

Directors

James McAdam CBE, 68, Executive Chairman and Group Chief Executive, appointed in 1992. He was formerly Deputy Chairman and Chief Operating Officer of Coats Viyella plc.

Lee Abraham*, 71, appointed in 1994. Until 1998 he was the senior non-executive director of Liz Claiborne Inc., a leading international fashion manufacturer and retailer based in the US and has wide experience in US retailing over many years. He is also a director of Galey & Lord Inc., a leading global manufacturer of textiles for sportswear, and R G Barry Corporation, the world's largest manufacturer of comfort footwear.

Walker Boyd, 46, appointed Group Finance Director in 1995. He is a member of the Institute of Chartered Accountants of Scotland. From 1992 he was Finance Director of the UK Jewellery division.

Terry Burman, 53, Chief Executive Officer of Sterling Jewelers Inc. (USA) since he joined the Group in September 1995. Mr Burman was appointed to the Board in November 1996. Prior to joining the Group he was Chief Executive Officer of Barry's Jewelers, Inc.

Laurence Cooklin, 54, Chief Executive UK Jewellery, appointed in 1993. From 1970 until 1992 he held various positions at the Burton Group, latterly as Chief Executive. It has been announced that Mr Cooklin intends to resign as a director on 15 April 1999.

Brook Land*, 50, appointed in 1995. Until April 1996 he was a senior partner of, and is now a consultant to, solicitors Nabarro Nathanson. He is also non-executive Chairman of RPS Group plc.

David Supino*, 65, appointed in 1997. Since 1975 he has been a member of Lazard Freres & Co. LLC in the US. He is also a non-executive director of Lazard Brothers & Co., Limited in the UK and of Mack Trucks Inc. in the US.

David Wellings*, 58, appointed in 1992. He was Group Chief Executive of Cadbury Schweppes PLC until his retirement in 1996. He was nominated as the senior independent director of Signet in November 1998.

* non-executive directors, all of whom are considered by the Board to be independent.

Alternate director

Richard Miller, 54, Executive Vice President and Chief Financial Officer of Sterling Jewelers Inc. (USA). He was appointed in 1994 and serves as an alternate director to Terry Burman.

Committees

Remuneration David Wellings (Chairman), Lee Abraham, Brook Land, David Supino.

Audit Brook Land (Chairman), Lee Abraham, David Supino, David Wellings.

Nomination David Wellings (Chairman), Lee Abraham, Brook Land, James McAdam and David Supino.

Under the Company's Articles of Association, directors appointed by the Board since the last annual general meeting either to fill a vacancy or as an additional director must retire at the next annual general meeting. At every annual general meeting, one-third (or the nearest number to but not exceeding one-third) of the directors, other than those retiring as above, must retire from office, and all directorships so vacated may, subject to compliance with applicable notice procedures under the Articles of Association, be filled at that meeting.

The directors to retire in each year are the directors who have been longest in office since their last election. A retiring director is eligible for re-election. Although the Company's Articles of Association do not require directors over the age of 70 to retire at every annual general meeting, this is a policy that the Company has adopted this year. Any director retiring in accordance with this policy will not be included in the calculation of the one third of directors required to retire by rotation. Under the Articles of Association, the one-third of directors who would be required to retire as stated above is reduced by the number (if any) who retire and do not seek re-election.

However, the directors have decided that where the requirements of the Articles would permit a director to remain in office, without re-election, beyond the third annual general meeting following his last re-election, he will retire at that meeting, but may seek re-election.

Messrs. Abraham, Land and Wellings retire from the Board at the annual general meeting. Following consideration by the Board of the recommendations of the Nominations Committee, they offer themselves for re-election.

Officers

Stephen Card, 39, Group Treasurer, appointed in 1999. Previously he was Treasury Manager of Nycomed Amersham plc, and prior to that Group Treasurer of Scapa plc.

Timothy Jackson, 40, Company Secretary and Investor Relations Director, appointed in 1998. Previously he was Company Secretary and Director of Investor Relations of Cordiant Communications Group plc and prior to that Director of Investor Relations of Cordiant plc.

Advisers

Auditors KPMG Audit Plc, 8 Salisbury Square, London EC4Y 8BB.

Financial advisers Lazard Brothers & Co., Limited, 21 Moorfields, London EC2P 2HT.

Stockbrokers BT Alex.Brown International, 135 Bishopsgate, London EC2M 3XT.

Cazenove & Co., 12 Tokenhouse Yard, London EC2R 7AN.

UK lawyers Theodore Goddard, 150 Aldersgate Street, London EC1A 4EJ.

US lawyers Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York, NY 10153 USA.

Principal bankers Barclays Bank PLC, 160 Piccadilly, London W1A 2AB.

Midland Bank plc, 130 New Street, Birmingham B2 4JU.

Registrars IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

Report of the directors

for the 52 weeks ended 30 January 1999

Business review

The principal activity of the Group is the retailing of jewellery, watches and gifts with branches throughout the UK and the US.

A review of the Group's performance during the year, with comments on the financial results and likely future developments, is contained in the Operating and financial review on pages 4 to 6 which is adopted as part of this Report.

Results and dividends

The results of the Group for the period appear on page 46.

No interim dividend has been paid. The directors recommend the payment of a final dividend of 1.0p per ordinary share, to be paid on 1 July 1999 to shareholders on the register of members at close of business on 21 May 1999.

Supplier payment policy

It is Group policy that the operating businesses are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted rather than follow any particular code or standard on payment practice. Suppliers are accordingly aware of the terms of payment and it is Group policy to ensure that payments to suppliers are made in accordance with these agreed terms.

The number of days' Company purchases outstanding at 30 January 1999 is shown in note 31(f) to the Accounts.

Properties

In the opinion of the directors, the market value at 30 January 1999 of the Group's freehold and long leasehold properties was not materially different from their book value following a revaluation at 1 February 1997 (see note 10 to the Accounts).

Directors

The directors who served during the period were, James McAdam, Lee Abraham, Walker Boyd, Terry Burman, Laurence Cooklin, Brook Land, David Supino and David Wellings. Details of these directors are shown on page 32. In early January Laurence Cooklin, Chief Executive of the UK Jewellery division since 1993, tendered his resignation with effect from 15 April 1999.

Alternate director

Richard Miller was first appointed an alternate director in 1994 and served as alternate to Terry Burman during the period under review.

Directors' contracts

Details of directors' contracts are given in the Board report on remuneration on page 40.

Directors' interests

The interests in the share capital of the Company of the directors and their immediate families as at 30 January 1999 are shown in section 3 on page 42 of the Board report on remuneration.

Going concern

On the basis of current financial projections and facilities available, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and, accordingly, consider that it is appropriate to continue to adopt the going concern basis in preparing accounts.

Employment policies

The Group keeps its employees informed of all matters affecting their interests through normal management channels and through store, area and regional management meetings. These meetings facilitate consultation during which the views of employees can be expressed and taken into account in making decisions likely to affect their interests. Staff are also kept informed of the Group's performance and objectives through management contact supplemented by staff publications in both the UK and US.

The involvement of employees in the Group's performance is encouraged where appropriate through participation in performance-related incentive payment schemes. The Group's policy is to provide equal opportunities to its employees. Full and fair consideration is given to the employment, opportunities for training, career development and promotion of people with disabilities according to their skills and capacity. The services of any existing employee who becomes disabled are retained and appropriate training is arranged for them wherever possible.

Report of the directors

Sharesave scheme

In 1998 the Company established an Inland Revenue approved savings related share option scheme (a Sharesave Scheme) for the incentivisation and benefit of all eligible UK employees. At the same time a US Section 423 Plan was established to offer savings related share options to US employees and a separate scheme similar to the Sharesave Scheme was established for employees in the Republic of Ireland.

Purchase of own shares

At 30 January 1999 there was outstanding an authority, granted by the shareholders at the annual general meeting in 1998, to purchase, in the market, up to 167,464,158 ordinary shares of 0.5p each in the Company at a minimum price of 0.5p per share and a maximum price of 105% of the average of the market values derived from the London Stock Exchange Daily Official List for the preceding five business days. During the financial year no purchases were made or proposed to be made and no purchases or options or contracts to make purchases have been made or entered into since the end of the financial year. The authority expires at the forthcoming annual general meeting and a resolution to renew it will be proposed at the meeting.

Pension funds

The Group operates a defined benefit pension scheme in the UK, the Signet Group Pension Scheme. The assets of the scheme are held in a separate trustee administered fund which is independently managed. The trustees of the scheme during the year were Walker Boyd, John Gillum,

John Hartwright and The Law Debenture Trust Corporation plc (independent trustee).

In the US a defined contribution 401(k) Retirement Savings Plan is sponsored by Sterling Inc. The assets of this plan are held in a separate trust managed by Key Bank.

Information about pension arrangements for executive directors is set out in the Board report on remuneration.

Charitable and political contributions

During the period the Group's UK operating companies made no contributions for charitable purposes (1998: £ nil). However, the Group supports the Princess Royal Trust for Carers using Charities Aid funds set aside in previous years. No political donations were made in the period (1998: £ nil).

Significant shareholdings

Details of significant shareholdings are set out on page 90 and constitute part of this report.

AGM

The annual general meeting is to be held at 12.00 noon on 2 June 1999 at the New Connaught Rooms, Great Queen Street, London WC2B 5DA. A description of the business to be transacted at the annual general meeting is included with the notice of the meeting.

By order of the Board

T J Jackson

Secretary

30 March 1999

Corporate governance statement

The Board

The Board of Directors has as its prime objective, the enhancement of business performance and shareholder value over time. It carries the responsibility for determining all major policies, for ensuring that effective strategies are in place, and for reviewing the system of internal control. The Board also seeks to present a balanced and coherent assessment of the Company's position and outlook to investors and other interested parties.

The Board has reserved certain items for its review, including the approval of annual and interim results, other trading statements, acquisitions and disposals as well as material agreements, major capital expenditures, budgets, long range plans and senior executive appointments. Other matters are delegated to Board Committees and executive management. Where appropriate, the Board monitors the implementation of the executives' management decisions. It also reviews regularly the performance of executive directors and certain senior managers.

APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES

The Board

The Board consists of four executive directors, including the Chairman and four independent non-executive directors, one of whom is nominated as the lead independent director. Incumbents are identified on page 32. The Board met eight times in 1998/99.

It is believed that the composition of the Board gives an appropriate balance of skills, experience, independence and executive involvement, whilst being small enough for efficient operation. No one individual has unfettered powers of decision and no individual or grouping is in a position to unduly influence the Board's decision making.

The structure of the Group comprises two separate operating divisions, one for the US and one for the UK, each with its own chief executive. Both Divisional Chief Executives and the Group Finance Director report to the Group Chairman and all sit on the Board. The Board believes that this management structure is appropriate to the current circumstances of the Group and that the combination of two Divisional Chief Executives together

with strong, experienced independent non-executive directors, avoids the danger of any concentration of power. The terms of reference of the Nomination Committee include the regular review of the composition and balance of the Board.

On appointment, new directors are given an opportunity to familiarise themselves with the Group's business and procedures. The Group also makes available the opportunity for all directors to attend relevant courses or receive appropriate training to equip them to carry out their duties as directors.

Directors are subject to periodic re-election by shareholders in annual general meeting (at the first annual general meeting after appointment and thereafter normally every three years). The Board is of the view that rigid term or age limits should not be set for non-executive directors as it considers it important that the particular contribution being made by individual directors must be taken into account in deciding when they should retire. However, any director over the age of seventy is expected to stand annually for election to the Board.

Board committees

The Group operates a number of committees to which specific tasks are delegated. These include:

The Audit Committee, which consists of the four non-executive directors and meets at least three times a year with the external auditor present. It has clear written terms of reference with an established channel of direct communication with the external auditor. It reviews and approves for submission to the Board all audited accounts and trading statements. Its responsibilities include review of the appropriateness and effectiveness of the Group's accounting policies, financial procedures and financial controls. The committee reviews reports from the Group's external auditors and management on these. Under the Combined Code it will in future also review procedures and controls covering operational, compliance and risk management. The appointment of the external auditor, together with the scope and results of the audit, their fees and non-audit fees, are also matters for this committee.

Corporate governance statement

The Nomination Committee, formed in September 1998, consists of the four non-executive directors and the Chairman of the Board. It is chaired by the lead independent director and will meet at least twice a year. It makes recommendations to the Board on all new Board appointments and nominations for re-election as directors. When the role and succession of the Group Chairman is discussed he is consulted, but the responsibility for making any recommendation to the Board rests solely with the non-executive directors. The committee also reviews a number of other senior appointments within the Group. The procedure for the election of directors is laid out on page 32.

The Remuneration Committee, which consists of the four non-executive directors only and is also chaired by the lead independent director, meets at least twice a year. It makes recommendations to the Board on the Group's framework of executive remuneration and its cost and sets salaries, benefits, and long term incentives for executive directors and certain other senior executives on behalf of the Board. The principles in deciding the level and make-up of remuneration of directors are set out in the Board report on remuneration on pages 39 to 44 together with the details of the remuneration of each director. No director is involved in deciding his own remuneration. The Remuneration Committee determines the remuneration of the Chairman of the Board and in consultation with him determines the remuneration of the other executive directors. For non-executive directors, the Board determines their remuneration following a recommendation by the Chairman of the Board that is based on consideration of external comparisons and consultations with the other executive directors.

The chairmen and members of these committees are set out on page 32.

Relations with shareholders

The Board communicates with shareholders about the Group's position, performance and prospects through documents sent to shareholders, stock exchange announcements and general meetings of shareholders. In addition it carries out a programme of meetings with

institutional investors and other major shareholders.

The Board recognises that the prime opportunity for private investors to question the Board is at a general meeting of shareholders. At the annual general meeting the chairmen of the Audit, Nomination and Remuneration Committees are expected to be available for questions relating to the function of their respective committees, in addition to the Chairman of the Board.

COMPLIANCE STATEMENT

In June 1998 the London Stock Exchange published the Principles of Good Corporate Governance and the Code of Best Practice ("the Combined Code") which embraces the work of the Cadbury, Greenbury and Hampel Committees and became effective in respect of accounting periods ending on or after 31 December 1998.

The Board of Directors considers that it has complied throughout the year with the Combined Code apart from those provisions set out below. These form two categories. First, those new provisions which have only been complied with for part of the year:

- The appointment of a lead independent director (since November 1998),
- The formation of a Nominations Committee (since September 1998),
- the announcement of the level of proxies lodged on each resolution at the AGM (which took place before the publication of the Combined Code).

Second, those existing provisions where the Board believes that the individual circumstances of the Group justify a departure from the Combined Code. These are:

- The notice period for executive directors (discussed on page 40),
- The appointment of non-executive directors for a fixed term (discussed on page 36).

Internal control

The Combined Code has introduced a new requirement, that the directors review the effectiveness of the Group's system of internal controls. This extends the previous

Corporate governance statement

corporate governance recommendation, which referred only to internal financial controls, to cover all controls including:

- financial
- compliance
- operational
- risk management

The Board is ultimately responsible for the Group's system of internal controls and for monitoring its effectiveness. Formal guidance as to how this monitoring should take place as required by the Combined Code has yet to be published.

However, following the guidelines issued by the London Stock Exchange in December 1998 the directors have continued to follow existing guidance. A Task Force has been established by the Institute of Chartered Accountants in England and Wales to develop guidance on internal control. The Board will seek to ensure that the Group is compliant with such guidance when it is issued. In line with the existing guidance the Board commissioned and reviewed a report summarising the results of the self-certification process carried out by the two operating divisions and the reviews and verification work carried out by the Group's central accounting function.

The Group's system of internal financial control is designed to ensure the maintenance of proper accounting records and the reliability of the financial information used within the business or for publication. However, the directors are aware such systems can only provide a reasonable, not absolute, assurance against material mis-statement or loss.

Key procedures that have been established and are designed to provide effective internal financial control are:

- Control environment – control is exercised through an organisation structure with clearly defined levels of responsibility and authority and appropriate reporting procedures, particularly with respect to capital expenditure, investment, granting of guarantees and the use of treasury products.

- Financial reporting and information systems – the Group has a comprehensive budgeting system with an annual budget approved by the Board. Monthly trading results and balance sheets are reported against the corresponding figures for the budget and the previous year with any significant variances examined by operating management and action taken as appropriate. A forecast of the full year's results is updated regularly based on performance to date and any changes in outlook.
- Risk management – the identification of major business risks is carried out in conjunction with operating management and appropriate steps are taken to monitor and mitigate risks.
- Control procedures – each operating company maintains documented financial controls and procedures appropriate to its own business environment and conforming to published standards and guidelines.
- Monitoring system – operating companies and corporate functions prepare written self-certification statements which confirm the extent of their compliance with all material internal financial controls. These statements are prepared by the chief financial officer on behalf of each operating division board and are reviewed by executive management. The control system is monitored by operating and executive management, who review the systems and procedures in all major operating companies with work focused on areas considered to be of greatest risk to the Group. The management report annually to the Audit Committee on these matters together with follow-up reports on matters arising.

The Board confirms that, through its Audit Committee, it has reviewed the effectiveness of the Group's internal financial control system during the financial year ended 30 January 1999 in relation to the criteria for assessing effectiveness described in Internal control and financial reporting issued by the working Group on Internal Control in December 1994.

Board report on remuneration

1 Policy on remuneration of executive directors and senior executives

(i) Total level of remuneration

The Remuneration Committee, when setting objectives on pay and benefits, aims to ensure that remuneration packages offered are competitive and designed to attract, retain and motivate executive directors and senior management of the highest quality.

(ii) The main components of remuneration

The Group has introduced performance-related reward policies to retain management and enhance shareholder value. These are designed to reduce the proportion of fixed remuneration and provide for a growing element of remuneration, the payment of which is contingent on the achievement of good results. In this way both shareholders and employees should share in success.

The main components are:

(a) Basic salary

Basic salaries are determined by the Remuneration Committee taking into account the performance of the individual and information from independent sources on the rates of salary in the competitive market.

(b) Annual incentive plan

Annual incentive targets are set each year to take account of current business plans and conditions, and there is a threshold performance below which no award is made. Annual incentive awards for directors are based on the achievement of real growth in either operating or net profit. Annual incentive payments are capped at 60% of salary for James McAdam, Laurence Cooklin and Walker Boyd and at 90% for Terry Burman, reflecting US market conditions.

(c) Share options

The Board is of the view that share option schemes and, where appropriate, long term incentive plans help increase both the performance and focus of key executives. They are also an essential tool for attracting and retaining individuals of high calibre. The policy, in the case of directors, is to make phased grants over a number of years.

The Group operates an executive share option scheme and options granted under this scheme since 1993 may be

exercised only in accordance with certain performance related criteria as detailed in Section 4 below.

In 1998/99 the Group started operating an Inland Revenue approved savings related share option scheme for UK employees (the “Sharesave Scheme”), a US Section 423 Plan (the “Employee Stock Savings Plan”) and a savings related share option scheme for employees in the Republic of Ireland (the “Irish Sharesave Scheme”). These schemes give those employees with qualifying service the opportunity to participate in the equity of the Company with the aim of aligning the interests of employees with those of shareholders.

(d) Long term incentive plan

The only director who is entitled to participate in a Long Term Incentive Plan (“LTIP”) is Terry Burman, who became a director of the Company in 1996. His entitlement to a LTIP was included in his service contract on his recruitment as Chief Executive Officer of Sterling in 1995, having been negotiated as part of the remuneration package which was considered necessary to recruit him.

The LTIP established for Terry Burman has a maximum annual payment of 70% of base salary. The plan provides for annual awards based on specified performance criteria measured over a three year cycle. These criteria are based on return on capital employed and growth in operating profit. The general criteria were detailed in the 1997/98 Annual Report and the full terms of Mr Burman’s LTIP are available for inspection with his service contract, as mentioned in the notes to the notice of the annual general meeting, at the registered office of the Company during normal business hours on any weekday (except Saturdays and public holidays) from the date of the notice of the annual general meeting until the date of the meeting and also at the place of the meeting for 15 minutes prior to and during the meeting. At the start of 1998/99 the performance criteria in respect of two three year cycles (1996/97 to 1998/99 and 1997/98 to 1999/00) had been set. During the year performance criteria were agreed by the Remuneration Committee in respect of the three year cycle 1998/99 to 2000/01. At the end of the period Mr Burman therefore had an interest in three awards. No payments were made in 1998/99. The first three year cycle

Board report on remuneration

was completed at the end of 1998/99 and the resulting amount earned is included in the table of directors' emoluments although the payment will be made in April 1999. The payment will be £327,000 and is the maximum payable under the LTIP as the performance exceeded the target criteria.

(iii) Companies used for comparison

In assessing all aspects of pay and benefits, the Group takes account of the packages offered by similar companies. These companies are chosen having regard to:

- (a) the size of the company, its turnover, profits and number of people employed; and
- (b) the nature of its business including its product line, diversity, complexity and geographic spread.

(iv) Service contracts

Walker Boyd has a service contract with the Company which requires two years' notice of termination by the Company and one year by him. Terry Burman has a service contract with a US subsidiary which requires three years' notice of termination by either party.

The Remuneration Committee believes that the terms of these contracts were appropriate at the time of appointment to attract and retain directors of an appropriate calibre. Having reviewed the current "best practice" in comparable companies and industries the Committee remains of that view.

The Executive Chairman has a service contract with the Company which can be terminated on one year's notice by the Company and on six months' notice by him.

None of the non-executive directors has a service contract with the Company.

(v) Early termination

The Remuneration Committee has considered providing explicitly in contracts for compensation for early termination and, where it believes it to be appropriate, such

provisions are included. As a principle however, the Committee believes that all the circumstances of early termination are different. It would expect a departing director or senior manager to mitigate his or her loss within the framework of those individual circumstances.

(vi) Executive directors – outside appointments

The Group recognises the benefits to the individual and to the Group of involvement by executive directors of the Company as non-executive directors of companies not associated with Signet. Subject to certain conditions, executive directors are permitted to accept an appointment as a non-executive director of another company. The executive director is permitted to retain any fees paid for such service. Unless otherwise determined by the Board, executive directors may not normally accept more than one such non-executive directorship.

(vii) Company pension policy for executive directors

The Company's UK executive directors are offered membership of the Signet Group Pension Scheme. The scheme is a funded, Inland Revenue approved, final salary, occupational pension scheme. Its main features are:

- (a) a normal pension age of 60;
- (b) pension at normal pension age of two thirds of final pensionable salary, subject to completion of 20 years' service;
- (c) life assurance cover of four times pensionable salary; and
- (d) spouse's pension on death.

Pensionable salary is the member's basic salary, excluding all bonuses. All scheme benefits are subject to Inland Revenue limits. Where such limitation is due to the earnings cap the Signet Group Funded Unapproved Retirement Benefit Scheme ("FURB") is used to provide life assurance cover and, in one case, to supplement pension benefits.

Board report on remuneration

2 Directors' emoluments

	Basic salary and fees		Benefits		Performance bonuses		Total emoluments	
	1999	1998	1999	1998	1999	1998	1999	1998
	£000	£000	£000	£000	£000	£000	£000	£000
Executive								
James McAdam	385	360	14	14	154	190	553	564
Walker Boyd	223	224 ⁽¹⁾	13	12	90	163 ⁽²⁾	326	399
Terry Burman	457	421	23	25	747 ⁽³⁾	387	1,227	833
Laurence Cooklin	268	255	16	15	-	99	284	369
Non-executive								
Lee Abraham	23	21	-	-	-	-	23	21
John Gillum	-	17	-	-	-	-	-	17
Brook Land	23	21	-	-	-	-	23	21
David Supino	23	12	-	-	-	-	23	12
David Wellings	23	21	-	-	-	-	23	21
Total⁽⁴⁾	1,425	1,352	66	66	991	839	2,482	2,257

⁽¹⁾Basic salary for Walker Boyd in 1998 included a one-off supplement of £12,000 in recognition of his dual role as Group Finance Director and UK Jewellery Finance Director.

⁽²⁾Performance bonus for Walker Boyd in 1998 included an ex-gratia post-reconstruction special bonus award of £50,000 in recognition of his exceptional efforts towards the achievement in 1997 of the voluntary refinancing of the Group's borrowings and the reorganisation of the holding company's share capital.

⁽³⁾Performance bonus for Terry Burman in 1999 included £327,000 (1998: nil) in respect of the LTIP and was the maximum payable as the performance exceeded the target criteria laid down.

⁽⁴⁾The total remuneration for directors and officers of the Group as a group for services in all capacities was £3,084,000 (1998: £2,764,000).

Benefits incorporate all benefits arising from employment by the Company, which relate in the main to the provision of a company car and private health insurance.

The figures above represent emoluments earned as directors during the relevant financial year. Such emoluments are paid in the same financial year with the exception of bonuses and payments under LTIP's which are paid in the year following that in which they are earned.

Supplementary life assurance for Messrs. McAdam, Boyd and Cooklin is provided under the FURB.

The Signet Group Pension Scheme is a defined benefits

pension scheme. Pension benefits are accruing to Walker Boyd, the only director who is a member of the Group Scheme. For Mr Boyd, the increase in accrued pension during the year, excluding any increase for inflation, was £3,019. The transfer value of the increase, calculated on the basis of actuarial advice in accordance with the Actuarial Guidance Note GN 11, was £31,183 and the accumulated total accrued pension entitlement at 30 January 1999, which would be paid annually on retirement based on service to the end of the year and excluding any increase for inflation, was £19,871. No Additional Voluntary Contributions were made.

Board report on remuneration

In addition, a supplement of £33,000 (1998: £26,000) was paid by the Company to the FURB in respect of Mr Boyd to take account of the Inland Revenue earnings cap. Life assurance contributions for Mr Boyd totalled £1,000 (1998: £1,000).

Messrs. McAdam and Cooklin are not in the Signet Group Pension Scheme and therefore pension provision is made outside the Group Scheme. The amounts paid in respect of Messrs. McAdam and Cooklin for both pension provision and life assurance in the period were £95,000 (1998: £73,000) and £49,000 (1998: £42,000) respectively.

Mr Burman is a member of the Sterling 401(k) Retirement Savings Plan and the Deferred Compensation Plan. Contributions made by Sterling during the period total £1,000 (1998: £1,000) and £43,000 (1998: £27,000) respectively.

3 Directors' interests

At 30 January 1999 and 30 March 1999, according to the register kept by the Company under Section 325 of the Companies Act 1985, the following directors had a beneficial interest in the ordinary shares in the Company: J McAdam 131,500 (1 February 1998: 31,500), W Boyd 60,000 (1 February 1998: 30,000), L Abraham 45,000 (1 February 1998: 15,000), D Wellings 32,500 (1 February 1998: 32,500), B Land 25,000 (1 February 1998: nil).

Directors' holdings of options over ordinary shares as at 30 January 1999 (which in each case were held for their own benefit) and their grant dates and exercise prices were as follows:

	J McAdam	L Cooklin	W Boyd	T Burman	Exercise price
Date granted					
September 1993	1,475,000	970,000	200,000	–	32.50p
November 1994	–	255,814	127,907	–	21.50p
October 1997	2,905,556	1,957,917	1,637,037	–	33.75p
October 1997	–	–	–	3,256,880	\$0.55
At beginning of year	4,380,556	3,183,731	1,964,944	3,256,880	
April 1998	1,075,145	601,156	745,665	–	43.25p
April 1998	–	–	–	1,968,122	\$0.72
October 1998 (SAYE)	–	–	–	25,020	\$0.38
November 1998 (SAYE)	45,588	45,588	45,588	–	21.25p
At end of year	5,501,289	3,830,475	2,756,197	5,250,022	
Weighted average price of options held*	35.17p	33.96p	35.45p	\$0.61	

*These are the weighted averages of the subscription prices per share for the shares under option at 30 January 1999. The options above were all granted under the 1983 Scheme and the 1993 Scheme except those marked SAYE which were granted under the terms of the Sharesave Scheme or, in the case of Mr Burman, the Employee Stock Savings Plan.

No director exercised any share options during the year.

Board report on remuneration

4 Executive share option schemes

Options granted in September 1993 and November 1994 are subject to performance related conditions whereby exercise is normally conditional on the announcement of consolidated profits attributable to shareholders (which occurred upon the announcement on 21 May 1997 of the preliminary results statement for 1996/7) together with share price performance criteria set by the Remuneration Committee at the time of issue and adjustable where the Committee consider it appropriate. Following completion of the share capital reorganisation in 1997, the Committee reviewed the operation of the Company's executive share option schemes. They decided that the criteria for exercise of all options granted in 1993 and in 1994 needed to be adjusted to reflect the original purpose of linking option exercise to a targeted increase in the total market capitalisation of the ordinary shares. Accordingly, the criteria set for exercise of such options were adjusted by the Remuneration Committee, so that the Company's ordinary share price must now average at least 35.2p (previously 60p) for a period of three months and must not fall below 33.5p (previously 50p) during that period. These criteria were met in April 1998.

The criteria set by the Remuneration Committee for exercise of options granted in October 1997 and April 1998 are based upon growth in earnings per share and exercise is only permissible where real growth in earnings per share exceeds 10% over any consecutive three year period.

Options under the executive share option schemes are normally only exercisable between three and ten years from the date of grant after which the options lapse.

Employee share schemes

The options under the Sharesave Scheme and the Irish Sharesave Scheme, are normally exercisable between 36 and 42 months from the date of the relevant savings contract. The options under these schemes were granted

at a price approximately 20% below the middle market price of the shares on the London Stock Exchange on the dealing day prior to the date that employees were invited to participate in the Sharesave Scheme and the Irish Sharesave Scheme.

The options under the Employee Stock Savings Plan, which is for employees in the US, are normally exercisable between 24 and 27 months from the date of grant, such date being the first business day of any period during which savings may be accumulated under a savings contract. The options under this plan were granted at a price approximately 15% below the middle market price of the shares on the London Stock Exchange.

Except as mentioned above, no director nor any member of any director's immediate family had an interest in, or was granted or exercised any right to subscribe for, shares or debentures of the Company or any subsidiary nor did any such right to subscribe lapse during the financial year nor was there any change between the end of the financial year and 30 March 1999 in the interests of any director of the Company disclosed to the Company under the provisions of Section 324 (duty of directors to disclose shareholdings in own company) as extended by Section 328 (extension of Section 324 to spouses and children) of the Companies Act 1985 nor in any right to subscribe for shares in, or debentures of, the Company.

The Company's Register of Directors' Interests, which is open to inspection at the Registered Office, contains full details of directors' shareholdings and share options.

Share price

The middle market price of Signet ordinary shares on the London Stock Exchange was 39p on 30 January 1999 and was 34p on 1 February 1998. During the 52 weeks ended 30 January 1999, the middle market prices of such shares on the London Stock Exchange ranged between a low of 24.25p and a high of 51.25p. On 30 March 1999 the share price was 47.5p.

Statement of directors' responsibilities

The directors are required to prepare Accounts for each financial period which give, in accordance with the Companies Act 1985, a true and fair view of the state of affairs of the Company and the Group as at the end of that financial period and of the profit or loss for that period. In preparing those Accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are in their opinion reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Accounts; and

- prepare the Accounts on a going concern basis unless in their view, based on the information then available to them, that basis of preparation would be inappropriate.

The directors are responsible for ensuring that the Company complies with the requirements of the Companies Act 1985 as to keeping adequate accounting records which disclose with reasonable accuracy, at any time, the financial position of the Company and to enable them to ensure that the Accounts comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Auditors' report to the members of Signet Group plc

We have audited the Accounts on pages 46 to 87. We have also examined the amounts disclosed relating to emoluments, share options and pension benefits of the directors which form part of the Board Report on Remuneration on pages 39 to 43.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report and 20-F including, as described on page 44, the Accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Standards generally accepted in the United Kingdom and in the United States, the Listing Rules of the London Stock Exchange, the regulations of the United States Securities and Exchange Commission and by our profession's ethical guidance.

We report to you our opinion as to whether the Accounts give a true and fair view and are properly prepared in accordance with the Companies Act and present fairly in all material respects, the financial position, the results of operations and the cash-flows of the Group. We also report to you if, in our opinion, the directors' report is not consistent with the Accounts, 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 or the Listing Rules regarding directors' remuneration and transactions with the company is not disclosed.

We review whether the statement on page 37 reflects the Group's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Group's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited Accounts. We consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the Accounts.

Basis of audit opinion

We conducted our audit in accordance with auditing standards generally accepted in the United Kingdom and in

the United States. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Accounts, and whether the accounting policies are appropriate to 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 that the Accounts are free from material mis-statement, 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 Accounts.

United Kingdom opinion

In our opinion the Accounts give a true and fair view of the state of affairs of the Company and the Group as at 30 January 1999 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

United States opinion

In our opinion the consolidated Accounts present fairly, in all material respects, the financial position of the Group at 30 January 1999 and 31 January 1998 and the results of its operations and its cash flows for the 52 week periods ended 30 January 1999, 31 January 1998 and 1 February 1997 in conformity with generally accepted accounting principles in the United Kingdom.

Generally accepted accounting principles in the United Kingdom vary in certain significant respects from generally accepted principles in the United States. Application of generally accepted accounting principles in the United States would have affected the profits for the 52 week periods ended 30 January 1999, 31 January 1998 and 1 February 1997 and the consolidated shareholders' funds at 30 January 1999 and 31 January 1998 to the extent summarised on pages 80 to 87.

KPMG Audit Plc

Chartered Accountants, Registered Auditor
London
30 March 1999

Consolidated profit and loss account

for the 52 weeks ended 30 January 1999

	52 weeks ended 30 January 1999	52 weeks ended 31 January 1998	52 weeks ended 1 February 1997	Notes
	£000	£000	£000	
Sales	991,206	927,911	901,952	2
Cost of sales	(843,528)	(794,743)	(781,119)	
Gross profit	147,678	133,168	120,833	
Administrative expenses	(45,383)	(42,417)	(44,328)	
Operating profit	102,295	90,751	76,505	2
Net interest payable and similar charges	(13,098)	(22,019)	(31,439)	2,3
Profit on ordinary activities before taxation	89,197	68,732	45,066	4
Tax on profit on ordinary activities	(23,974)	(17,870)	(11,211)	7
Profit for the financial period	65,223	50,862	33,855	
Appropriation from/(to) preference shareholders	-	154,531	(26,398)	22
Proposed dividend	(16,748)	-	-	8
Retained profit attributable to equity shareholders	48,475	205,393	7,457	
Earnings per 0.5p ordinary share – basic and diluted	3.9p	19.9p	2.5p	9
– adjusted basic	3.9p	3.0p	2.0p	9

All of the above relates to continuing activities.

Movements in reserves appear in note 21.

Consolidated balance sheet

at 30 January 1999

	30 January 1999	31 January 1998 As restated	Notes
	£000	£000	
Fixed assets			
Tangible assets	126,079	126,531	10
Current assets			
Stocks	330,317	308,770	11
Debtors (see note below)	244,568	221,893	12
Short term investments	600	900	13
Cash at bank and in hand	65,159	25,935	14
	640,644	557,498	
Creditors:: amounts falling due within one year	(209,623)	(152,296)	15
Net current assets (see note below)	431,021	405,202	
Total assets less current liabilities	557,100	531,733	
Creditors: amounts falling due after more than one year	(156,163)	(185,426)	16
Provisions for liabilities and charges	(15,155)	(9,631)	19
Total net assets	385,782	336,676	
Capital and reserves – Equity			
Called up share capital	8,439	8,438	20
Share premium account	34,025	33,983	21
Revaluation reserve	906	1,717	21
Special reserve	90,665	90,665	21
Profit and loss account	251,747	201,873	21
Shareholders' funds	385,782	336,676	

Note Debtors and net current assets include amounts recoverable after more than one year of £23,324,000 (1998: £19,558,000) (see note 12).

These Accounts were approved by the Board of Directors on 30 March 1999, and were signed on its behalf by:

James McAdam Director

Walker Boyd Director