

Company balance sheet

at 30 January 1999

	30 January 1999	31 January 1998 As restated	Notes
	£000	£000	
Fixed assets			
Intangible assets	60,320	62,205	31(l)
Tangible assets	41,193	31,803	31(b)
Investments	611,458	574,874	31(l)
	712,971	668,882	
Current assets			
Stocks	43,187	43,826	31(c)
Debtors (see note below)	59,853	76,945	31(d)
Cash at bank and in hand	47,086	7,674	31(e)
	150,126	128,445	
Creditors: amounts falling due within one year	(207,796)	(197,226)	31(f)
Net current liabilities (see note below)	(57,670)	(68,781)	
Total assets less current liabilities	655,301	600,101	
Creditors: amounts falling due after more than one year	(36,585)	–	31(g)
Provisions for liabilities and charges	(13,687)	(8,117)	31(h)
Total net assets	605,029	591,984	
Capital and reserves – Equity			
Called up share capital	8,439	8,438	20
Share premium account	34,025	33,983	31(i)
Revaluation reserve	4	4	31(i)
Special reserve	554,115	554,115	31(i)
Profit and loss account	8,446	(4,556)	31(i)
Shareholders' funds	605,029	591,984	

Note Debtors and net current liabilities include amounts recoverable after more than one year of £2,315,000 (1998: £2,134,000) (see note 31(d)).

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

Consolidated cash flow statement

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	
Net cash inflow from operating activities	102,622	143,352	109,397	26(a)
Returns on investments and servicing of finance:				
Interest received	1,461	2,422	6,505	
Interest paid	(14,870)	(24,835)	(34,642)	
Net cash outflow from returns on investments and servicing of finance	(13,409)	(22,413)	(28,137)	
Taxation	(17,810)	(11,381)	(1,754)	
Capital expenditure and financial investment:				
Purchase of tangible fixed assets	(30,887)	(28,556)	(15,202)	
Proceeds from sale of tangible fixed assets	5,289	955	5,262	
Payments arising on disposal of ESOT shares	-	-	(13,883)	
Net cash outflow for capital expenditure and financial investment	(25,598)	(27,601)	(23,823)	
Cash inflow before use of liquid resources and financing	45,805	81,957	55,683	
Management of liquid resources:				
(Increase)/decrease in bank deposits	(39,740)	122,134	(12,882)	
Financing:				
Costs of share capital reorganisation	-	(6,971)	-	
Proceeds from issue of shares	43	-	-	
Issue/(repayment) of loan notes	36,586	(41,120)	(5,175)	
Repayment of bank loans	(65,181)	(139,418)	(28,983)	
Cash outflow from financing	(28,552)	(187,509)	(34,158)	
(Decrease)/increase in cash in the period	(22,487)	16,582	8,643	

Reconciliation of net cash flow to movement in net debt

(Decrease)/increase in cash in the period	(22,487)	16,582	8,643	
Cash outflow from decrease in debt	28,595	180,538	34,158	
Cash outflow/(inflow) from increase/(decrease) in liquid resources	39,740	(122,134)	12,882	
Change in net debt resulting from cashflows	45,848	74,986	55,683	
Translation difference	516	7,356	12,292	
Movement in net debt in the period	46,364	82,342	67,975	
Opening net debt	(157,894)	(240,236)	(308,211)	26(b)
Closing net debt	(111,530)	(157,894)	(240,236)	26(b)

Consolidated statement of total recognised gains and losses

	52 weeks ended 30 January 1999	52 weeks ended 31 January 1998	52 weeks ended 1 February 1997
	£000	£000	£000
Profit for the financial period	65,223	50,862	33,855
Adjustment to property revaluation	-	-	700
Translation differences	588	(13,636)	(24,329)
Total recognised gains and losses relating to the period	65,811	37,226	10,226
Prior year adjustment as explained in note 18	(4,556)	-	-
Total gains and losses recognised since last annual report	61,255	37,226	10,226

Note of consolidated historical cost profits and losses

	52 weeks ended 30 January 1999	52 weeks ended 31 January 1998	52 weeks ended 1 February 1997
	£000	£000	£000
Profit on ordinary activities before taxation	89,197	68,732	45,066
Difference between historical cost depreciation and depreciation on revalued amounts	41	43	-
Realisation of property revaluation surplus	811	(67)	-
Historical cost profit on ordinary activities before taxation	90,049	68,708	45,066
Historical cost retained profit attributable to equity shareholders	49,327	205,369	7,547

Consolidated shareholders' funds

	Share capital			Share premium account	Revaluation reserve	Special reserve	Profit and loss account	Total
	Ordinary share capital	Preference share capital	Deferred share capital					
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 3 February 1996								
– as previously stated	29,306	36,976	–	175,128	1,084	61,241	(32,408)	271,327
– prior year adjustment (note 18)	–	–	–	–	–	–	(4,556)	(4,556)
– as restated ⁽¹⁾	29,306	36,976	–	175,128	1,084	61,241	(36,964)	266,771
Retained profit attributable to equity shareholders	–	–	–	–	–	–	7,457	7,457
Appropriation from equity to non-equity included therein	–	–	–	–	–	–	26,398	26,398
Conversion of 6.875p preference shares	–	(1)	–	1	–	–	–	–
Property revaluation	–	–	–	–	700	–	–	700
Translation differences	–	–	–	–	–	19,192	(24,329)	(5,137)
Balance at 1 February 1997 as restated ⁽¹⁾	29,306	36,975	–	175,129	1,784	80,433	(27,438)	296,189
Retained profit attributable to equity shareholders	–	–	–	–	–	–	205,393	205,393
Reversal of appropriation of preference share dividends	–	–	–	–	–	–	(161,502)	(161,502)
Bonus issue to preference shareholders	6,908	(36,975)	36,975	(6,908)	–	–	–	–
Conversion of ordinary shares	(27,841)	–	27,841	–	–	–	–	–
Capital reduction	–	–	(64,751)	(134,238)	–	–	198,989	–
Transfer on property disposals	–	–	–	–	(67)	–	67	–
Translation differences	–	–	–	–	–	10,232	(13,636)	(3,404)
Balance at 31 January 1998 as restated ⁽¹⁾	8,373	–	65	33,983	1,717	90,665	201,873	336,676
Retained profit attributable to equity shareholders	–	–	–	–	–	–	48,475	48,475
Exercise of share options	1	–	–	42	–	–	–	43
Transfer on property disposals	–	–	–	–	(811)	–	811	–
Translation differences	–	–	–	–	–	–	588	588
Balance at 30 January 1999	8,374	–	65	34,025	906	90,665	251,747	385,782

Shareholders' funds at 30 January 1999 include cumulative losses of £22,168,000 (1998: £22,756,000, 1997: £19,352,000) in respect of translation differences.

⁽¹⁾ The effect of the restatement is to reduce the profit and loss account balance and the total of consolidated shareholders' funds by £4,556,000.

Notes to the accounts

1 Principal accounting policies

The consolidated Accounts of Signet Group plc and subsidiary companies ('the Group') are prepared in accordance with applicable accounting standards in the UK. The following accounting policies are applied consistently in dealing with items which are considered material in relation to the accounts of the Group:

(a) Basis of preparation

The Group is a specialist retailer of fine jewellery in both the UK and the US.

The consolidated Accounts have been prepared in accordance with applicable UK accounting standards and under the UK historical cost convention as modified by the revaluation of freehold and long leasehold properties.

The preparation of consolidated Accounts in conformity with UK generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Accounts and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

These Accounts comply with the following Accounting Standards issued by the Accounting Standards Board since the previous Accounts: Financial Reporting Standard (FRS) 9 – Associates and Joint Ventures, FRS 10 – Goodwill and Intangible Assets, FRS 11 – Impairment of Fixed Assets and Goodwill, FRS 12 – Provisions, Contingent Liabilities and Contingent Assets, FRS 13 – Derivatives and Other Financial Instruments and FRS 14 – Earnings per Share. The adoption of FRS 12 has given rise to a prior year adjustment as described in Note 18.

FRS 15 – Tangible Fixed Assets applies to accounting periods ending on or after 23 March 2000. The Group has not yet evaluated the impact of FRS 15 on its profits or shareholders' funds.

The Company's accounts include a true and fair view override in respect of goodwill (see note 31(l)).

(b) Consolidation

(i) The consolidated balance sheet includes the assets and liabilities of the Group and the consolidated profit and loss account includes that proportion of the results of subsidiary undertakings acquired or disposed of during the period applicable to the effective period of control.

(ii) A separate profit and loss account dealing with the results of the Company is not presented as the exemption in section 230 of the Companies Act 1985 applies.

(c) Goodwill

With the exception of goodwill arising in the Company, purchased goodwill arising on consolidation in respect of acquisitions before 1 February 1998, when FRS 10 – Goodwill and Intangible Assets was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal. Goodwill arising in the Company is capitalised and amortised over its estimated useful economic life of 40 years.

Purchased goodwill arising on consolidation in respect of acquisitions since 1 February 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life.

Negative goodwill arising in respect of acquisitions since 1 February 1998 is included within fixed assets and released to the profit and loss account in the periods in which the fair values of the non-monetary assets purchased on the same acquisition are recovered, whether through depreciation or sale.

(d) Sales

Sales represents sales to customers outside the Group, exclusive of value added and sales taxes.

(e) Cost of sales

Cost of sales includes the cost of goods and selling costs. Advertising costs are expensed as incurred.

(f) Foreign currency translation

The results of overseas subsidiary undertakings are translated into sterling at the weighted average rates of exchange during the period and their balance sheets and attributable goodwill at the rates at the balance sheet date. Exchange differences arising from the translation of the results, net assets and attributable goodwill of overseas subsidiary undertakings and matched foreign currency borrowings less deposits are charged or credited to reserves. Exchange differences arising on appropriated but unpaid preference dividends are included in additional finance costs of non-equity shares. Other exchange differences arising from foreign currency transactions are included in profit before taxation.

Notes to the accounts

(g) Depreciation and amortisation

Depreciation and amortisation are not provided on freehold or long leasehold retail premises as it is the Group's policy to maintain such properties in a state of good repair and the directors consider that the lives of these properties and their residual values are such that any depreciation would not be significant. The Group's appraisal of residual values is based on prices prevailing at the time of acquisition or subsequent valuation of each property in question, and it is the Group's policy to make provision in the profit and loss account in the event of the occurrence of any diminution in property value that the Board expects to be permanent. Freehold warehouse premises are depreciated over 50 years.

Premiums paid to acquire short leasehold properties are amortised over their lease periods (up to 25 years) while incentives received are amortised over the period to the first rent review.

Depreciation on other fixed assets is provided on a straight line basis at the following annual rates assuming a residual value of nil:

Plant, machinery and vehicles	10%, 20%, 33 $\frac{1}{3}$ %
Shopfronts, fixtures and fittings	rates up to 33 $\frac{1}{3}$ %

(h) Stocks

Stocks represent goods held for resale and are valued at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method and includes appropriate overheads.

(i) Shares in subsidiary undertakings

Shares in subsidiary undertakings are stated at cost, less amounts written off.

(j) Leases

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the lease term. Following the adoption of FRS 12, it is the Group's policy to provide for the net present value of the estimated future costs of vacated, partially vacated and sublet properties taking into account any expected sublet income.

(k) Deferred taxation

Deferred taxation, calculated using the liability method, is provided where there is a reasonable probability that a liability will become payable. No provision is made for taxation that would arise on the remittance of retained profits by overseas subsidiary undertakings subsequent to the balance sheet date.

(l) Pension schemes

The Group operates a defined benefit pension scheme in the UK, covering one of the executive directors and all participating eligible employees, which provides benefits based on members' salaries at retirement. The assets are held by the trustees of the scheme and are completely separate from those of the Group. The expected cost of the Group's defined benefit scheme is charged to the profit and loss account so as to spread the cost of pensions over the remaining service lives of employees in the scheme. Variations from the regular cost are spread over the expected remaining service lives of current employees in the scheme. The pension cost is assessed in accordance with the advice of independent qualified actuaries. Contributions made under the Group's US defined contribution 401(k) Retirement Savings Plan are expensed in the profit and loss account as incurred.

Differences between the amounts charged in the profit and loss account and payments made to pension plans are treated as assets or liabilities. Deferred tax is accounted for on these assets and liabilities.

(m) Net interest payable and similar charges

Premiums paid in respect of the establishment and maintenance of borrowing facilities or purchased interest rate protection agreements are amortised to interest payable and similar charges over the term of the relevant agreement. All such interest rate protection agreements must be related to an asset or liability and must change the character of the interest rate by converting a variable rate to a fixed rate or vice versa to qualify for accrual accounting. In addition the term and notional amount of the swap, cap or floor must not exceed the term and principal amount of the debt or asset. Amounts payable or receivable under such agreements are accrued within net interest payable and similar charges in the profit and loss account.

Interest payments/receipts are accrued within net interest payable and similar charges and recorded as current assets or liabilities on the balance sheet. They are not revalued to fair value. If they are terminated early, the gain/loss is spread over the shorter of the remaining term of the original investment or the remaining term of the related debt.

(n) Liquid resources

Liquid resources comprise money market deposits and amounts placed with external fund managers with an original maturity of three months or less, and are carried at cost which approximates to fair value.

Notes to the accounts

2 Segment information

	1999	1998	1997
	£000	£000	£000
Sales by origin and destination:			
UK	353,996	352,370	343,495
US	637,210	575,541	558,457
	991,206	927,911	901,952
Operating profit (see note (a) below):			
UK	24,776	27,626	22,725
US	77,519	63,125	53,780
	102,295	90,751	76,505
Depreciation and amortisation			
UK	12,725	11,788	8,756
US	14,923	15,064	15,863
	27,648	26,852	24,619
Net interest payable/(receivable) and similar charges:			
UK	(2,037)	408	3,321
US	15,135	21,611	28,118
	13,098	22,019	31,439
Additions to tangible fixed assets:			
UK	14,428	14,087	9,270
US	16,459	14,469	5,932
	30,887	28,556	15,202
Tangible fixed assets:			
UK	60,096	61,791	60,967
US	65,983	64,740	67,971
	126,079	126,531	128,938
Total assets (see note (b) below):			
UK	239,443	261,265	283,379
US	527,280	422,764	557,216
	766,723	684,029	840,595
Net assets (see note (c) below):			
UK (as restated see note 18)	97,042	116,035	119,140
US	400,270	378,535	417,285
Net debt	(111,530)	(157,894)	(240,236)
	385,782	336,676	296,189

Notes:

(a) Group central costs of £7,586,000 (1998: £8,444,000, 1997: £11,357,000) are incurred in the UK and have therefore been 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.

(b) Total assets includes fixed and current assets but excludes current liabilities or debt.

(c) The net assets of the two geographic segments are stated after the elimination of attributable purchased goodwill. Net debt has been excluded from both segments.

The Group's results derive from one business segment – the retailing of jewellery, watches and gifts.

The Group's US stores are primarily located in enclosed shopping malls and operate nationally, under the names Kay Jewelers and Jared, and regionally under a variety of names. The Group's UK stores primarily operate under the names H. Samuel and Ernest Jones and are predominantly situated in prime 'High Street' locations (locations in main shopping streets with high pedestrian traffic), as well as in a significant majority of larger UK shopping malls.

The US and UK operations accounted for 64% and 36% respectively of Group sales from continuing operations for 1998/99.

The business is managed by the divisional boards in the UK and the US which report to the Group Board. Each divisional board is responsible for operating decisions within guidelines set by the Group Board.

Notes to the accounts

3 Net interest payable and similar charges

	1999	1998	1997
	£000	£000	£000
Bank loans and overdrafts	2,336	9,954	17,641
Interest expense of US receivables programme	8,372	8,423	8,741
Loan notes	1,347	343	4,861
Subordinated notes issued by subsidiary undertakings	-	299	526
Facilities fees and related costs	2,528	5,419	5,778
	14,583	24,438	37,547
Interest receivable	(1,485)	(2,419)	(6,108)
	13,098	22,019	31,439

4 Profit on ordinary activities before taxation

	1999	1998	1997
	£000	£000	£000
Profit on ordinary activities before taxation is stated after charging:			
Depreciation and amortisation	27,648	26,852	24,619
Auditors' remuneration	416	419	408
Non-audit fees payable to KPMG Audit Plc and their associates	94	353	525
Advertising	37,713	33,898	33,097
Operating lease rentals – plant, machinery and vehicles	2,618	2,340	2,512
– property	91,946	87,857	87,612
Revaluation deficit on freehold and long leasehold properties	-	-	3,559

An additional amount of £472,000 was paid to KPMG Audit Plc and their associates as part of the costs of the capital reorganisation in the year ended 31 January 1998.

5 Foreign currency translation

	1999	1998	1997
The exchange rates used for the translation of US dollar transactions and balances in these Accounts are as follows:			
Profit and loss account (average rate)	1.66	1.65	1.59
Balance sheet (year end rate)	1.64	1.64	1.60

The effect of translation on foreign currency borrowings less deposits in the period was to decrease the Group's net borrowings by £516,000 (1998: £7,356,000 decrease, 1997: £12,292,000 decrease). The net effect of exchange movements on foreign currency investments (excluding goodwill) and foreign currency borrowings less deposits in the period was a gain of £588,000 (1998: £3,404,000 loss, 1997: £5,137,000 loss). This amount has been taken to reserves in accordance with SSAP 20.

Notes to the accounts

6 Directors and employees

	1999	1998	1997
	£000	£000	£000
Directors' emoluments	2,482	2,257	1,494
Contributions to pension schemes	197	169	100

The aggregate emoluments of the highest paid director, Mr T Burman, US Chief Executive, were £1,227,000 (1998: £833,000, 1997: £179,000) and pension contributions of £44,000 (1998: £28,000, 1997: £1,000) were made to a money purchase scheme on his behalf. His aggregate emoluments in 1997 were in respect of the period after his appointment as a director in November 1996.

	1999	1998	1997
	Number of persons	Number of persons	Number of persons
Retirement benefits are accruing to the following numbers of directors under:			
Money purchase schemes	3	3	3
Defined benefit schemes	1	1	1
The average number of full-time equivalent persons employed by the Group (including directors) during the period, analysed by category, was:			
Management	396	346	331
Administration	1,101	1,069	1,090
Distribution and sales staff	9,422	9,525	9,797
	10,919	10,940	11,218

	1999	1998	1997
	£000	£000	£000
The aggregate payroll costs of those persons were as follows:			
Wages and salaries	175,442	162,141	158,121
Social security costs	14,365	13,241	13,166
Pension costs	1,071	905	674
	190,878	176,287	171,961

Notes to the accounts

7 Taxation

	1999	1998	1997
	£000	£000	£000
Profit before taxation:			
United Kingdom	26,813	27,217	19,403
United States	62,384	41,515	25,663
	89,197	68,732	45,066

	1999	1998	1997
	£000	£000	£000
Taxes on profit:			
UK corporation tax payable	10,468	9,419	9,759
US taxes	17,234	8,968	3,456
Deferred taxation:			
UK	(708)	383	966
US	(3,020)	(900)	(2,970)
	23,974	17,870	11,211

	1999	1998	1997
	£000	£000	£000
Sources of deferred taxation are as follows:			
Depreciation	(390)	(137)	834
Other timing differences	(3,338)	(380)	(2,838)
	(3,728)	(517)	(2,004)

	1999	1998	1997
	%	%	%
Statutory tax rate	31.0	31.3	33.0
Expenditure permanently disallowable for tax purposes, net of permanent undercharges	1.7	1.9	5.5
Utilisation of US brought forward tax losses	(9.1)	(7.9)	(17.7)
Differences between US and UK standard tax rates	1.6	1.2	-
Other	1.7	(0.5)	4.1
Effective tax rates in Accounts	26.9	26.0	24.9

Notes to the accounts

8 Dividends

Ordinary No interim dividend has been paid on the ordinary shares. The directors recommend the payment of a final dividend of 1.0p per share (1998: nil).

Preference On 20 January 1992 the directors announced that payment of dividends on all of the Company's various classes of preference shares would cease until further notice. No dividends have been paid since that date. Dividends on all classes of preference shares were cumulative and payment of arrears of preference dividends would have been due to be made before payment of dividends on ordinary shares recommenced.

On 21 July 1997, the effective date of the capital restructuring, all classes of the Company's preference shares were redesignated as deferred shares and all arrears and accruals of preference dividends were cancelled.

9 Earnings per share

	1999	1998	1997
	£000	£000	£000
Profit on ordinary activities after taxation	65,223	50,862	33,855
Appropriation from/(to) preference shareholders (see below)	-	154,531	(26,398)
Retained profit attributable to ordinary shareholders	65,223	205,393	7,457

	1999	1998	1997
Basic weighted average number of ordinary shares in issue (000)	1,674,787	1,030,364	293,064
Dilutive effect of share options (000)	7,248	496	217
Diluted weighted average ordinary shares (000)	1,682,035	1,030,860	293,281
Earnings per 0.5p ordinary share – basic	3.9p	19.9p	2.5p
– diluted	3.9p	19.9p	2.5p
– adjusted basic	3.9p	3.0p	2.0p

FRS 4 required the full finance cost of the Company's preference (non-equity) shares to be shown in its previous Accounts as appropriated from profits, even though the Company did not have sufficient distributable reserves to pay a dividend at that time. Between 1992 and 1997 the Company suspended dividend payments on these preference shares. Therefore such appropriations were made each year in the profit and loss account and were reversed in both the Company and consolidated balance sheets each year. The cancellation of the accrued preference dividends, as part of the capital restructuring approved by shareholders on 26 June 1997, resulted in a reversal of such appropriations and a net credit totalling £161,502,000 in the profit and loss account for the 52 weeks ended 31 January 1998 as described in note 22. However, there was a corresponding charge to reserves and there was, therefore, no net impact on either shareholders' funds or on reserves available for distribution.

The calculations of basic earnings per share derive from the retained profit attributable to ordinary shareholders and the weighted average number of ordinary shares in issue. In 1997/98 and 1996/97 basic earnings per share was, in the above circumstances, a technical calculation resulting from the FRS 4 treatment discussed above and reflected both the profit for the period and the corresponding credit arising from the reversal of appropriations, but did not reflect the corresponding charge to reserves.

In 1997/98 and 1996/97 adjusted basic earnings per share derived from profit after taxation for the financial period divided by the number of ordinary shares in issue on 21 July 1997 following the capital restructuring. In 1998/99 basic earnings per share and adjusted basic earnings per share are calculated on the same basis.

Notes to the accounts

10 Tangible fixed assets

	Land and buildings			Plant, machinery and vehicles	Shopfronts, fixtures and fittings	Total
	Freehold	Long leasehold	Short leasehold			
	£000	£000	£000	£000	£000	£000
Cost or valuation:						
At 31 January 1998	17,407	6,812	94,038	45,390	209,271	372,918
Additions	-	-	5,824	5,629	19,434	30,887
Disposals	-	(3,130)	(1,728)	(447)	(3,200)	(8,505)
Translation differences	-	-	52	25	84	161
At 30 January 1999	17,407	3,682	98,186	50,597	225,589	395,461
Depreciation and amortisation:						
At 31 January 1998	1,478	-	64,238	35,826	144,845	246,387
Charged in period	122	-	5,873	6,173	15,480	27,648
Disposals	-	-	(1,685)	(225)	(2,889)	(4,799)
Translation differences	-	-	50	22	74	146
At 30 January 1999	1,600	-	68,476	41,796	157,510	269,382
Net book value:						
At 30 January 1999	15,807	3,682	29,710	8,801	68,079	126,079
At 31 January 1998	15,929	6,812	29,800	9,564	64,426	126,531

Cost or valuation -All fixed assets as at 30 January 1999 are stated at cost, other than certain freehold and long leasehold properties which are stated on the basis of their latest professional open market valuation or depreciated replacement cost valuation. Properties with a net book value in the sum of £21,439,000 were subject to an external valuation by J. Trevor & Webster, Chartered Surveyors, as at 1 February 1997. The valuation was in accordance with the RICS Appraisal and Valuation Manual. Of these properties, a total of 21 were valued on an open market basis and are stated at net realisable value and one was valued on a depreciated replacement cost basis and is stated on that basis.

Freehold properties in the consolidated balance sheet include £8,000,000 of depreciable assets (1998: £8,000,000).

	1999	1998
	£000	£000
Freehold and long leasehold land and buildings are stated at:		
Cost	4,298	4,298
Valuation	16,791	19,921
	21,089	24,219
The net book value of freehold and long leasehold land and buildings on an historical cost basis would be:		
Cost	28,742	31,061
Depreciation	(6,508)	(6,393)
	22,234	24,668

Notes to the accounts

11 Stocks

Stocks constitute goods held for resale.

Subsidiary undertakings held £55,231,000 of consignment stocks as at 30 January 1999 (1998: £42,999,000) which is not recorded on the balance sheet. The principal terms of the consignment agreements, which can generally be terminated by either side, are such that the Group can return any or all of the stocks to the relevant suppliers without financial or commercial penalties and the supplier can vary stock prices.

Stock provisions

52 weeks ended	Balance at beginning of period	Charged to profit	Write offs	Balance at end of period
	£000	£000	£000	£000
1 February 1997	12,403	6,901	(8,260)	11,044
31 January 1998	11,044	7,941	(7,728)	11,257
30 January 1999	11,257	8,577	(7,192)	12,642

12 Debtors

	1999	1998
	£000	£000
Trade debtors (net of allowances):		
– US receivables programme	194,038	180,048
– Other	4,849	5,164
	198,887	185,212
Other debtors	11,393	8,328
Corporation tax recoverable	545	234
Prepayments and accrued income	10,419	8,561
Debtors recoverable within one year	221,244	202,335
Pension fund prepayment	19,117	19,117
Deferred taxation (see note 17)	4,207	441
Debtors recoverable after more than one year	23,324	19,558
Total debtors	244,568	221,893

Allowances for doubtful accounts

52 weeks ended	Balance at beginning of period	Charged to profit	Write offs	Balance at end of period
	£000	£000	£000	£000
1 February 1997	14,464	27,204	(26,631)	15,037
31 January 1998	15,037	25,100	(26,202)	13,935
30 January 1999	13,935	26,293	(25,121)	15,107

Notes to the accounts

13 Short term investments

	1999	1998
	£000	£000
Property developments (at estimated market value)	600	900

14 Cash at bank and in hand

	1999	1998
	£000	£000
Bank deposits	42,990	3,250
Other cash	22,169	22,685
	65,159	25,935

15 Creditors: amounts falling due within one year

	1999	1998
	£000	As restated £000
Bank overdrafts (see note 16)	23,347	–
Trade creditors	45,084	41,317
Corporation tax	37,371	26,958
Social security and PAYE	2,911	2,822
Other taxes	15,565	16,512
Other creditors	3,050	9,489
Accruals and deferred income	65,547	55,198
Proposed dividend	16,748	–
	209,623	152,296

The weighted average interest rate on short term borrowings at 30 January 1999 was 6.0%.

Following the adoption of FRS 12 – Provisions, Contingent Liabilities and Contingent Assets, £4,931,000 in respect of accruals for onerous leases previously included within creditors has been reclassified to provisions.

Notes to the accounts

16 Creditors: amounts falling due after more than one year

	1999	1998
	£000	£000
Bank loans falling due between one and two years	116,756	183,829
Loan notes falling due between two and five years	18,293	–
Loan notes falling due after five years	18,292	–
Other creditors	2,822	1,597
	156,163	185,426

In July 1998 the Group announced that it had entered into an unsecured \$250 million multi-currency revolving credit facility agreement with a new syndicate of banks for a period of five years at a variable interest rate at a margin of 0.75% above LIBOR. It also announced a \$60 million seven year senior unsecured note issue with a fixed interest rate of 7.25%. These facilities replaced the secured facilities entered into in February 1997.

Commitment fees are paid on the undrawn portion of the credit facility at an annual rate of 0.375%.

The covenants on the facilities are as follows:

- Gearing (net debt, excluding the US receivables funding, expressed as a percentage of total net assets) must not exceed 60%.
- Consolidated net worth (total net assets) must not fall below £300 million; and
- Interest cover must not fall below three times.

At 30 January 1999, the interest payable on the total borrowings was fixed or effectively fixed by interest rate swap agreements (see note 27).

In the US, the Group has financed its private label credit card receivable programme through a privately placed receivable securitisation. Under this securitisation, interests in the US receivable 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 approximated to \$191.5 million (£116.8 million) at 30 January 1999 and 31 January 1998. 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 receivable 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. The proceeds of this securitisation were used to refinance the Group's previous securitisation programme and to reduce net borrowings.

17 Deferred taxation

	30 January 1999			31 January 1998		
	Assets	(Liabilities)	Total	Assets	(Liabilities)	Total
	£000	£000	£000	£000	£000	£000
Accelerated capital allowances	1,208	–	1,208	817	–	817
Other timing differences	11,854	(8,855)	2,999	9,050	(9,426)	(376)
	13,062	(8,855)	4,207	9,867	(9,426)	441
UK			(3,346)			(4,055)
US			7,553			4,496
			4,207			441
Movement in deferred tax asset:						£000
At 31 January 1998						441
Credit for the period in the profit and loss account						3,728
Difference on translation						38
At 30 January 1999						4,207

Notes to the accounts

The total potential liability of the Group for deferred taxation on the full liability basis, including amounts already provided, was:

	30 January 1999			31 January 1998		
	Assets	(Liabilities)	Total	Assets	(Liabilities)	Total
	£000	£000	£000	£000	£000	£000
Accelerated capital allowances	1,208	-	1,208	817	-	817
UK property related	1,987	-	1,987	1,778	-	1,778
Other timing differences	14,427	(8,855)	5,572	9,050	(9,426)	(376)
Value of US net operating losses carried forward	7,029	-	7,029	16,162	-	16,162
Capital gains held over on property disposals	-	(2,508)	(2,508)	-	(3,289)	(3,289)
Value of UK capital losses carried forward	20,153	-	20,153	21,390	-	21,390
Total potential deferred tax asset/(liability)	44,804	(11,363)	33,441	49,197	(12,715)	36,482
Valuation allowance	(31,742)	2,508	(29,234)	(39,330)	3,289	(36,041)
Deferred tax asset/(liability)	13,062	(8,855)	4,207	9,867	(9,426)	441

The difference on translation in respect of deferred tax posted directly to reserves in the 52 weeks ended 30 January 1999 was a gain of £38,000 (1998: £85,000 loss).

None of the US net operating loss carryforwards will expire prior to 31 January 2004; UK capital losses do not expire.

18 Prior year adjustment

It was previously the Group's policy to provide for the estimated disposal costs of permanently vacated properties although no provisions in respect of future net lease obligations were made under UK GAAP. FRS 12 – Provisions, Contingent Liabilities and Contingent Assets, which the Group has adopted this year, requires a provision to be made for future net lease obligations in respect of onerous leases of vacant, partially vacant or sublet properties.

The impact of the above has led to the reclassification to provisions of amounts previously included within creditors and also a prior year adjustment of £4,556,000 charged directly to shareholders' funds. There is no material effect on the profit and loss account for the year ended 30 January 1999 or the preceding years.

19 Provisions for liabilities and charges

	Onerous leases	Other	Total
	£000	£000	£000
At 31 January 1998 – as previously stated	4,451	624	5,075
Prior year adjustment (see note 18)	4,556	-	4,556
At 31 January 1998 – as restated	9,007	624	9,631
Charges for the period in the profit and loss account	2,122	-	2,122
Reclassification (see note 15)	4,931	-	4,931
Utilisations	(905)	(624)	(1,529)
At 30 January 1999	15,155	-	15,155

The provision for onerous leases includes the discounted cash flows of future net lease obligations in respect of vacant and partially vacant properties and the rental shortfall on properties which are sublet at below the current rent.

Notes to the accounts

20 Share capital

	1999	1998
	£000	£000
Authorised:		
5,929,874,019 ordinary shares of 0.5p each (1998: 5,929,874,019)	29,649	29,649
5,568,226,621 Class A Sterling deferred shares of 0.5p each (1998: 5,568,226,621)	27,841	27,841
34,548,183 Class B Sterling deferred shares of 20p each (1998: 34,548,183)	6,910	6,910
3,000,000 Class C Sterling deferred shares of £10 each (1998: 3,000,000)	30,000	30,000
12,320,739 Class A Dollar deferred shares of US\$0.01 each (1998: 12,320,739)	63	63
2,500 Class B Dollar deferred shares of US\$1 each (1998: 2,500)	2	2
	94,465	94,465

	Number	£000
Allotted, called up and fully paid:		
Ordinary shares of 0.5p each		
At 31 January 1998	1,674,641,586	8,373
Share options exercised	201,163	1
At 30 January 1999	1,674,842,749	8,374
Class A Dollar deferred shares of US\$0.01 each		
At 30 January 1999 and at 31 January 1998	12,320,739	63
Class B Dollar deferred shares of US\$1 each		
At 30 January 1999 and at 31 January 1998	2,500	2
At 30 January 1999 total allotted, called up and fully paid (1998: £8,438,000)		8,439

The consideration received for options exercised during the year was £43,000 (1998: £ nil).

The deferred shares are not listed or quoted on any stock exchange and have minimal rights rendering them effectively valueless. The deferred shares are non-equity as defined by FRS 4.

Details of options in respect of ordinary shares are shown in note 28.

Notes to the accounts

21 Reserves

	Share premium account	Revaluation reserve	Special reserve	Profit and loss account
	£000	£000	£000	£000
At 31 January 1998 as previously stated	33,983	1,717	90,665	206,429
Prior year adjustment (see note 18)	-	-	-	(4,556)
At 31 January 1998 – as restated	33,983	1,717	90,665	201,873
Retained profit attributable to equity shareholders	-	-	-	48,475
Share options exercised	42	-	-	-
Transfer on disposal of fixed assets	-	(811)	-	811
Translation differences	-	-	-	588
At 30 January 1999	34,025	906	90,665	251,747

The revaluation reserve represents the unrealised surplus arising from revaluing freehold and long leasehold properties.

Exchange losses of £222,000 (1998: £ nil, 1997: £ nil) on foreign currency loans have been offset in reserves against exchange movements on the net investment in overseas subsidiary undertakings.

In accordance with undertakings given by the Company to the High Court in connection with previous reductions of share premium account, the special reserve is available to write-off existing goodwill resulting from acquisitions and otherwise only for purposes permitted in the case of the share premium account.

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 Group plc, 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. At 30 January 1999 the holding company had a distributable reserves balance of £8,446,000 (31 January 1998 (as restated): £4,556,000 deficit).

The prior year adjustment arises due to a change of accounting policy during the current financial year. The tax effect is £ nil.

Goodwill Exchange differences arising on the retranslation of purchased goodwill have been written off against the profit and loss account reserve. This amount has been transferred to the special reserve where the initial purchased goodwill had previously been eliminated. Cumulative goodwill write-offs at underlying foreign currency amounts included in the special reserve amount to £610,281,000 (1998: £610,281,000).

The Group's total recognised gains and losses differ from the net profit for the year (as set out in the Group profit and loss account) in respect of foreign currency translation adjustments amounting to an aggregate gain of £588,000 for the year ended 30 January 1999 (1998: loss of £3,404,000, 1997: loss of £5,137,000). The foreign currency translation adjustments are set out in the statement of total recognised gains and losses.

The cumulative exchange gains and losses on the translation of foreign currency financial statements into pounds are set out in the note below:

	1999	1998	1997
	£000	£000	£000
Balance at 31 January 1998	(22,756)	(19,352)	(14,215)
Movement in year	588	(3,404)	(5,137)
Balance at 30 January 1999	(22,168)	(22,756)	(19,352)

The tax effect of the cumulative exchange gains and losses is £ nil.

Notes to the accounts

The cumulative adjustments to property valuations are set out in the note below:

	1999	1998	1997
	£000	£000	£000
Balance at 31 January 1998	4,779	4,779	4,079
Movement in year	-	-	700
Balance at 30 January 1999	4,779	4,779	4,779

The tax effect of the cumulative adjustments to property valuations is £ nil.

22 Cancellation of dividend accruals and arrear

Before the capital restructuring became effective on 21 July 1997, there were in issue various classes of preference shares. Dividends on all the classes of preference shares were cumulative and payment of arrears of preference dividends would have been due to be made before payments of dividends on ordinary shares. Since no dividends had been paid since 20 January 1992, cumulative arrears and accruals of preference dividends as at 1 February 1997 amounted to £161,502,000. As part of the capital restructuring, all preference shares were redesignated as deferred shares and all arrears and accruals of preference dividends were cancelled.

FRS 4 required the full finance cost of non-equity shares to be shown as appropriated from profits, even if the Company did not have sufficient distributable reserves to pay a dividend at that time.

As it is not legally possible to show dividends payable if the Company has insufficient distributable profits to support a dividend, the appropriation was classed as an additional finance cost in respect of non-equity shares.

The cancellation of the accumulated arrears and accruals of dividends on preference shares was credited in the profit and loss account as follows:

	1999	1998	1997
	£000	£000	£000
Appropriation to preference shareholders in the period	-	(3,840)	(26,398)
Appropriation from preference shareholders arising from cancellation of dividend arrears and accruals	-	165,342	-
	-	161,502	(26,398)
Costs of share capital reorganisation	-	(6,971)	-
	-	154,531	(26,398)

The appropriations to preference shareholders in 1998 and 1997 are stated net of £6,634,000 and £5,012,000 exchange gains respectively.

Notes to the accounts

23 Pension schemes

The Group operates one defined benefit pension scheme in the UK. In the US the Group sponsors a defined contribution 401 (k) retirement savings plan for all eligible employees who meet minimum age and service requirements. Under the 401(k) plan, the Group matches 25% of up to the first 6% of employee elective salary deferrals. In addition, effective 15 July 1996, the Group established an unfunded nonqualified deferred compensation plan which permits certain management employees to annually elect to defer all or a portion of their remuneration and earn a guaranteed interest rate on the deferred amounts. The plan also provides for a Group matching contribution based on each participant's annual remuneration deferral. In connection with this plan, the Group has invested in trust-owned life insurance policies.

The assets of the UK scheme (the Signet Group Pension Scheme), which is a funded scheme, are held in a separate trustee administered fund which is independently managed. The Law Debenture Trust Corporation p.l.c. was appointed to the scheme during fiscal 1993 as an independent trustee in addition to the existing individual trustees. Contributions to the scheme, which are assessed in accordance with the advice of independent qualified actuaries primarily using the projected unit method of valuation, are charged to the consolidated profit and loss account so as to spread the cost of pensions over employees' working lives with the Group.

The most recent actuarial valuation of the Signet Group Pension Scheme was as at 5 April 1997 and its results form the basis of SSAP24 accounting in 1998/99. The principal actuarial assumptions adopted in the valuation were that, over the long-term, the investment rate of return would be 9% per annum and that this would exceed future pensionable earnings increases by 1.5% per annum and increases to present and future pensions in payment in excess of the guaranteed minimum pension by 5% per annum. It was also assumed that dividend increases on the equity portfolio would average 4.5% per annum. The actuarial value of the assets was sufficient to cover 143% of the benefits that had accrued to members at the valuation date, after allowing for expected future increases in earnings and pensions. The market value of the plan's assets at 5 April 1997 was £93.8 million. In view of the surplus over plan liabilities resulting from this valuation and amounting to approximately £25.1 million, the scheme's actuary has recommended that the participating employers continue to pay no contribution to the Signet Group Pension Scheme until the position is reviewed at the next actuarial valuation. In December 1997, the Trustees, following consultation with the Group, announced a 5% enhancement of accrued benefits which is in addition to the 15% enhancement of accrued benefits announced in November 1996. As a result, the trustees, following consultation with the scheme actuary, have been advised that the surplus in the UK scheme is now within the statutory prescribed limit on the basis that the suspension of employer contributions is maintained.

In accordance with SSAP24, previous valuation surpluses arising from the Signet Group Pension Scheme have been included in the consolidated balance sheet as a prepayment and amortised to the consolidated profit and loss account. At 30 January 1999 the resulting prepayment amounted to £19.1 million. The additional surplus of £6.0 million revealed by the results of the April 1997 valuation, subject to any benefit improvements, would normally be credited to the consolidated profit and loss account over 13 years, being the estimated remaining service lives of the current members of the scheme as calculated in accordance with the guidelines of the UK Institute of Actuaries. While the application of SSAP 24 to this surplus would give rise to a credit to the consolidated profit and loss account in the year, pending the outcome of the Government's current review for the provision of pensions, the Board does not consider it appropriate to increase the pension prepayments held on the balance sheet. Accordingly, no benefit has been taken in the period ended 30 January 1999.

	1999	1998	1997
	£000	£000	£000
The Group pension cost for the period comprises:			
Normal UK cost under SSAP 24	(1,392)	(1,389)	(1,271)
Spreading of additional UK surplus	(275)	(280)	(397)
Interest on UK surpluses	1,667	1,669	1,668
Other UK costs	(3)	(3)	(3)
US retirement savings plan	(1,068)	(902)	(671)
	(1,071)	(905)	(674)

Notes to the accounts

24 Commitments

The Group occupies certain properties and holds plant, machinery and vehicles under operating leases. The property leases usually include renewal options and escalation clauses and in the US generally provide for contingent rentals based on a percentage of lease defined revenues.

The minimum payments in respect of operating leases for the 52 weeks to 29 January 2000 to which the Group was committed as at 30 January 1999 were as follows:

	Plant, machinery & vehicles	Leasehold premises	Total
	£000	£000	£000
Operating leases which expire:			
Within one year	411	6,859	7,270
In the second to fifth years	2,150	23,108	25,258
Over five years	–	55,448	55,448
At 30 January 1999	2,561	85,415	87,976
At 31 January 1998	2,774	78,218	80,992

The future minimum payments for operating leases having initial or non cancellable terms in excess of one year are as follows:

	£000
Year ending on or about 30 January:	
2000	87,976
2001	79,832
2002	71,196
2003	64,824
2004	60,362
Thereafter	524,089
	888,279

Capital commitments at 30 January 1999 for which no provision has been made in these consolidated Accounts, were as follows:

	1999	1998
	£000	£000
Contracted	10,189	5,205

Notes to the accounts

25 Contingent liabilities

The Group is not party to any legal proceedings considered to be material to its profit, financial position or cash flow.

The Group has assigned or sub-let UK property leases in the normal course of business. Should the assignees or sub-tenants fail to fulfil any obligations in respect of these leases, the Group 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.

The Group's US operation gives its customers the option of purchasing a lifetime service plan on most of the products sold. Such service plans cover the costs of repair subject to certain terms and conditions. An accrual has been made to cover the cost of expected claims under plans sold up to the balance sheet date.

26 Notes to the consolidated cash flow statement**a Reconciliation of operating profit to operating cash flows**

	1999	1998	1997
	£000	£000	£000
Operating profit	102,295	90,751	76,505
Depreciation charges	27,648	26,852	24,619
Write down of short term investments	300	–	–
Loss/(profit) on sale of tangible fixed assets	(1,567)	610	(359)
Loss on property revaluation	–	–	3,559
Profit on sale of ESOT investment	–	–	(1,112)
(Increase)/decrease in stocks	(24,749)	12,684	2,940
Increase in debtors	(19,045)	(5,245)	(4,150)
Increase in creditors	11,608	18,817	7,874
Increase/(decrease) in other provisions	6,132	(1,117)	(479)
Net cash inflow from operating activities	102,622	143,352	109,397

b Analysis of net debt

	At 31 Jan 1998	Cash flow	Exchange movement	At 30 Jan 1999
	£000	£000	£000	£000
Cash in hand and at bank	22,685	(506)	(10)	22,169
Bank overdrafts	–	(21,981)	(268)	(22,249)
	22,685	(22,487)	(278)	(80)
Debt due after more than one year	(183,829)	29,680	807	(153,342)
Debt due within one year	–	(1,085)	(13)	(1,098)
Bank deposits	3,250	39,740	–	42,990
	(180,579)	68,335	794	(111,450)
Total	(157,894)	45,848	516	(111,530)

Notes to the accounts

27 Financial instruments

The Group has entered into various interest rate protection agreements, particularly interest rate swaps, in order to limit the impact of movements in interest rates on its borrowings. It is the policy of the Group to enter into interest rate protection agreements on at least 75% of its floating rate US dollar borrowings. The Group does not hold or issue derivative financial instruments for trading purposes. Details of borrowings are shown in note 16.

Fair value of financial instruments

These financial instruments involve varying degrees of off-balance sheet market risk whereby changes in interest rates, foreign currency exchange rates or market values of the underlying financial instruments may result in changes in the value of the financial instrument.

The Group is exposed to credit related losses in the event of non performance by counterparties to financial instruments. Concentrations of credit risk exist due to the Group operating customer receivables programmes in the United States as part of its trading strategy.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore cannot be determined precisely. Changes in assumptions could significantly affect the estimates.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

Interest rate protection agreements

The final net cash outflow of the interest rate swap agreements in March 1999 was £256,000 which approximates to their fair value at 30 January 1999. The fair value of the interest rate floor was approximately £260,000 at 30 January 1999.

Cash at bank and in hand, trade accounts payable

The carrying amount approximates to fair value because of the short maturity of these instruments.

Accounts receivable

Accounts receivable are primarily comprised of credit card receivables. The carrying value of credit card receivables approximates to fair value because of their short-term nature and the interest rates being used approximating current market origination rates. Other accounts receivables' carrying amounts approximate to fair value because of the short maturity of these instruments.

Debt

The fair value of the Group's debt approximates to carrying value at 30 January 1999 since the rates associated with the debt at that time are consistent with the new facilities agreement announced in July 1998. The rates in the facilities agreement are deemed to be current market rates.

As at 31 January 1998 the Group was a party to the following interest rate protection agreements (all received fixed interest and paid variable interest of LIBOR + 0.75%):

Aggregate nominal amounts	Type of interest rate protection	Interest rate obtained	Term
\$50m	Swap	6.464%	June 1997 to March 1999
\$50m	Swap	6.475%	June 1997 to March 1999
\$12.5m	Swap	6.615%	June 1997 to March 1999
\$25m	Swap	6.615%	June 1997 to March 1999

As at 30 January 1999 the Group was a party to the following interest rate protection agreements (all the swaps received fixed interest and paid variable interest of LIBOR + 0.75%, the floor paid a minimum of 7%):

Aggregate nominal amounts	Type of interest rate protection	Interest rate obtained	Term
\$50m	Swap	6.464%	June 1997 to March 1999
\$50m	Swap	6.475%	June 1997 to March 1999
\$12.5m	Swap	6.615%	June 1997 to March 1999
\$25m	Swap	6.615%	June 1997 to March 1999
£20m	Floor	7.000%	Dec 1998 to Dec 1999

Notes to the accounts

28 Share options

At 30 January 1999 options in respect of 48,710,335 ordinary shares were outstanding (including 19,057,550 for directors and officers of the Group) under the Company's executive share option schemes as follows:

Date granted	Number of shares	Exercise price per share
May 1989	87,929	214.60p
October 1989	298,944	\$3.78
November 1989	160,345	243.60p
October 1991	235,000	\$1.46
November 1991	112,000	83.00p
September 1993	2,645,000	32.50p
November 1994	511,628	21.50p
November 1994	758,931	\$0.35
October 1997	9,396,804	33.75p
October 1997	10,964,216	\$0.55
April 1998	5,249,210	43.25p
April 1998	7,802,489	\$0.72
October 1998	1,884,450	\$0.38
November 1998	8,511,694	21.25p
November 1998	91,695	21.25p
	48,710,335	

The Company's share option schemes comprise two executive share option schemes (the "1983 Scheme" and the "1993 Scheme"), an executive share option plan for residents of the US (the "US Plan"), (together the "Executive Share Option Schemes"), a 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"), (together the "Sharesave Schemes"). The 1993 Scheme was established to replace the 1983 Scheme and the US Plan. Options granted under the Executive Share Option Schemes are generally only exercisable between three and ten years from the date of grant. Where appropriate the number of shares under option and their exercise prices have been adjusted following the rights issue made by the Company in 1990. Additional conditions were attached to the options granted in 1993, 1994, 1997 and 1998. Options granted under the Sharesave Scheme and the Irish Sharesave Scheme are generally only exercisable between 36 and 42 months of the commencement of the relevant savings contract. Options granted under the Employee Stock Savings Plan are generally only exercisable between 24 and 27 months of the grant date.

Certain provisions of all the share option schemes may be amended by the Board, but certain basic provisions (and in particular most of the limitations on individual participation, the numbers of ordinary shares and the percentage of ordinary share capital that may be issued thereunder) cannot be altered to the advantage of the participants except with the approval of the shareholders of the Company or in accordance with the adjustment provisions in the schemes.

The following table summarises the status of the Company's share option schemes as at 1 February 1997, 31 January 1998 and 30 January 1999, and changes during the years ended on those dates:

	1999	1998	1997
	000	000	000
Outstanding at beginning of period (at prices from 32.50p to 362.91p)	27,480	6,932	8,541
Granted at 21.25p, 43.25p, \$0.38 and \$0.72 (1998:33.75p and \$0.55)	23,810	21,340	–
Exercised	(201)	–	–
Cancelled/lapsed	(2,379)	(792)	(1,609)
	48,710	27,480	6,932

Notes to the accounts

Share Scheme limits

The 1993 Scheme is subject to the following limits on the number of ordinary shares that may be issued:

- (a) the maximum number of ordinary shares that may be issued pursuant to options granted up to and including 20 September 2003 under the 1993 Scheme and any other executive share option scheme adopted by the Company on or after 10 September 1993 may not exceed 5% of the ordinary shares from time to time in issue;
- (b) the maximum number of ordinary shares that have been or may be issued pursuant to options granted under the 1993 Scheme in any period of ten years ending at the time of grant of an option, or which have been or may otherwise be issued other than in the pursuance of options granted during that period, under any employee share scheme adopted by the Company may not exceed 10% of the ordinary shares from time to time in issue;
- (c) a maximum of 29,305,420 ordinary shares (representing 10% of the issued share capital on 4 August 1993) may be issued pursuant to incentive options granted under the US Section of the 1993 Scheme.

The Sharesave Schemes are subject to the following limits on the number of ordinary shares that may be issued:

- (a) in any period of 5 years not more than 5% of the issued ordinary share capital of the Company may in aggregate be issued or issuable pursuant to rights acquired under the Sharesave Schemes or any other employee share schemes adopted by the Company;
- (b) in any 10 year period not more than 10% of the issued ordinary share capital of the Company may in aggregate be issued or issuable pursuant to rights acquired under the Sharesave Schemes or any other employee share schemes adopted by the Company.

Outstanding options

Certain information concerning options outstanding under the Company's share option schemes at 30 January 1999 is set forth below:

Outstanding options	Number of shares issuable upon exercise	Range of exercise prices per share	Weighted average exercise prices per share	Range of expiration dates
1983 Scheme	3,005,274	32.50p–243.60p	50.97p	5/1999–9/2003
US Plan	533,944	\$1.46–\$3.78	\$2.76	11/1999–10/2001
1993 Plan	34,683,278	21.50p–43.25p	36.63p	11/2004–4/2008
		\$0.35–\$0.72	\$0.61	11/2004–4/2008
Sharesave Scheme	8,511,694	21.25p	21.25p	7/2002
Employee Stock Savings Plan	1,884,450	\$0.38	\$0.38	1/2001
Irish Sharesave Scheme	91,695	21.25p	21.25p	7/2002

Fixed share option schemes

The Company has five fixed option schemes; the 1983 Scheme and the US Plan (both of which have now been superseded) and the Sharesave Schemes.

A summary of the status of the Company's fixed share option schemes as at 30 January 1999, 31 January 1998 and 1 February 1997 and changes during the years ended on those dates is presented below:

Fixed options	30 January 1999		31 January 1998		1 February 1997	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price	Shares	Weighted average exercise price
	000	pence	000	pence	000	pence
Outstanding at beginning of period	1,635	198	2,428	212	2,940	211
Granted	10,488	22	–	–	–	–
Lapsed	(628)	235	(706)	238	–	–
Forfeited	(113)	163	(87)	225	(512)	186
Outstanding at end of period	11,382	34	1,635	198	2,428	212
Options exercisable at end of period	894	176	1,635	198	2,428	212

Notes to the accounts

The following table summarises the information about fixed stock options outstanding at 30 January 1999:

Range of exercise prices	Number	Weighted average remaining contractual life	Weighted average exercise price
	000	years	pence
0p to 50p	10,488	3.2	22
51p to 100p	347	2.8	87
201p to 250p	547	0.7	232
0p to 250p	11,382	3.1	34

Performance-based share option schemes

The Company has one performance based share option scheme – the 1993 Scheme together with certain options granted in 1993 under the 1983 Scheme.

A summary of the status of the Company's performance based share options as at 30 January 1999, 31 January 1998 and 1 February 1997 and changes during the years ended on those dates is presented below:

Performance-based options	30 January 1999		31 January 1998		1 February 1997	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price	Shares	Weighted average exercise price
	000	pence	000	pence	000	pence
Outstanding at beginning of period	25,845	35	4,505	43	5,602	40
Granted	13,304	44	21,340	34	–	–
Exercised	(201)	22	–	–	–	–
Lapsed	(388)	193	–	–	–	–
Forfeited	(1,232)	36	–	–	(1,097)	26
Outstanding at end of period	37,328	37	25,845	35	4,505	43
Options exercisable at end of period	3,157	31	–	–	–	–

The following table summarises the information about performance-based share options outstanding at 30 January 1999:

Range of exercise prices	Number	Weighted average remaining contractual life	Weighted average exercise price
	000	years	pence
1p to 25p	1,271	5.8	21
26p to 50p	36,057	8.6	37
1p to 50p	37,328	8.5	37

Notes to the accounts

29 Principal subsidiary undertakings

	Share capital issued and fully paid
Retail jewellers	
H. Samuel Limited	£23,343,000
Signet US Holdings Inc (USA) (formerly Ratners US Holdings Inc)	\$337,379,000
Sterling Jewelers Inc* (USA)	–
Sterling Inc* (USA)	–
Sterling Jewelers LLC* (USA)	–
Ernest Jones & Co (London) Limited*	£5,000
Ernest Jones Limited	£2,000,000
James Walker, Goldsmith and Silversmith, Limited*	£20,476,000
Property holding company	
Checkbury Limited*†	£16,400,000

*Owned by subsidiary undertakings.

†Holds only Group UK freehold and long leasehold retail and warehouse premises.

All subsidiary undertakings are wholly owned and included in the consolidation.

The information given in this note is only with respect to such undertakings as are described in section 231(5) of the Companies Act 1985.

30 Related party transactions

There are no related party transactions which require disclosure in these accounts.

Notes to the accounts

31 Company balance sheet**(a) Profit/(loss) for the financial period**

The profit attributable to shareholders dealt with in the accounts of the Company is £29,751,000 (1998: £7,337,000 loss, 1997: £8,875,000 loss). The profit is stated after foreign exchange gains of £8,000 (1998: £ nil, 1997: £66,000 gain) attributable to intra-group dollar balances (see note 5).

The auditor's remuneration in note 4 includes £174,000 (1998: £153,000, 1997: £138,000) relating to the audit of the Company.

(b) Tangible fixed assets

	Land and buildings			Plant, machinery and vehicles	Shopfronts, fixtures and fittings	Total
	Freehold	Long leasehold	Short leasehold			
	£000	£000	£000	£000	£000	£000
Cost or valuation:						
At 31 January 1998	140	1,500	9,749	20,243	95,656	127,288
Additions	-	-	85	3,172	10,972	14,229
Group transfers	-	1,630	(2,292)	2,542	11,758	13,638
Disposals	-	(3,130)	(229)	(30)	(1,858)	(5,247)
At 30 January 1999	140	-	7,313	25,927	116,528	149,908
Depreciation and amortisation:						
At 31 January 1998	140	-	5,216	17,746	72,383	95,485
Charged in period	-	-	230	4,161	7,957	12,348
Group transfers	-	-	(1,642)	1,062	3,311	2,731
Disposals	-	-	(150)	(30)	(1,669)	(1,849)
At 30 January 1999	140	-	3,654	22,939	81,982	108,715
Net book value:						
At 30 January 1999	-	-	3,659	2,988	34,546	41,193
At 31 January 1998	-	1,500	4,533	2,497	23,273	31,803

Freehold properties in the Company balance sheet include £140,000 of depreciable assets (1998: £140,000).

Freehold and long leasehold land and buildings are stated at valuation (see note 10).

The net book value of freehold and long leasehold land and buildings on an historical cost basis would be:

	1999	1998
	£000	£000
Cost	3,834	5,334
Depreciation	(3,458)	(3,458)
	376	1,876

(c) Stocks

The Company held £2,304,000 of consignment stocks as at 30 January 1999 which is not recorded on the balance sheet. The principal terms of the consignment agreements, which can generally be terminated by either side, are such that the Company can return any or all of the stocks to the relevant suppliers without financial or commercial penalties and the supplier can vary the stock prices.

Notes to the accounts

(d) Debtors

	1999	1998
	£000	£000
Trade debtors	1,560	1,674
Amounts owed by subsidiary undertakings	50,303	68,486
Other debtors	2,997	2,360
Prepayments and accrued income	2,678	2,291
Debtors recoverable within one year	57,538	74,811
Pension fund prepayment	428	428
Deferred taxation	1,887	1,706
Debtors recoverable after more than one year	2,315	2,134
Total debtors	59,853	76,945

(e) Cash at bank and in hand

	1999	1998
	£000	£000
Bank deposits	42,990	3,250
Other cash	4,096	4,424
	47,086	7,674

(f) Creditors: amounts falling due within one year

	1999	1998
	£000	£000
Trade creditors	1,029	912
Amounts owed to subsidiary undertakings	165,977	165,971
Corporation tax	9,884	9,509
Social security and PAYE	-	11
Other taxes	4,022	4,360
Other creditors	894	5,803
Accruals and deferred income	9,242	10,660
Proposed dividend	16,748	-
	207,796	197,226

The number of days' purchases outstanding at 30 January 1999 was 4.

Following the adoption of FRS 12 – Provisions, Contingent Liabilities and Contingent Assets, £5,164,000 previously included within creditors has been reclassified to provisions.

Notes to the accounts

(g) Creditors: amounts falling due after more than one year

	1999	1998
	£000	£000
Loan notes falling due between two and five years	18,293	–
Loan notes falling due after five years	18,292	–
	36,585	–

Details of loan notes are shown in note 16.

(h) Provisions for liabilities and charges

	Onerous leases £000	Other £000	Total £000
At 31 January 1998 – as previously stated	2,937	624	3,561
Prior year adjustment (note 18)	4,556	–	4,556
At 31 January 1998 – as restated	7,493	624	8,117
Charges for the period in the profit and loss account	1,563		1,563
Reclassifications (note 31(f))	5,164	–	5,164
Utilisations	(533)	(624)	(1,157)
At 30 January 1999	13,687	–	13,687

The provision for onerous leases includes the discounted cash flows of future lease obligations in respect of vacant and partially vacant properties and the rental shortfall on properties which are sublet at below current rent.

(i) Reserves

	Share premium account £000	Revaluation reserve £000	Special reserve £000	Profit and loss account £000
At 31 January 1998 as previously stated	33,983	4	554,115	–
Prior year adjustment (note 18)	–	–	–	(4,556)
At 31 January 1998 – as restated	33,983	4	554,115	(4,556)
Retained profit attributable to equity shareholders excluding translation differences	–	–	–	12,994
Share options exercised	42	–	–	–
Translation differences	–	–	–	8
At 30 January 1999	34,025	4	554,115	8,446

Notes to the accounts

(j) Commitments

The Company occupies certain properties and holds plant, machinery and vehicles under operating leases. The property leases usually include renewal options and escalation clauses.

The minimum payments in respect of operating leases for the 52 weeks to 29 January 2000 to which the Company was committed as at 30 January 1999 were as follows:

	Plant, machinery & vehicles	Leasehold premises	Total
	£000	£000	£000
Operating leases which expire:			
Within one year	128	309	437
In the second to fifth years	403	2,106	2,509
Over five years	–	12,392	12,392
At 30 January 1999	531	14,807	15,338
At 31 January 1998	577	13,729	14,306

Capital commitments at 30 January 1999 for which no provision has been made in the Company accounts, were as follows:

	1999	1998
	£000	£000
Contracted	2,235	5,205

(k) Contingent liabilities

The Company is not party to any legal proceedings considered to be material to its financial position.

The Company has assigned or sub-let UK property leases in the normal course of business. Should the assignees or sub-tenants fail to fulfil any obligations in respect of these leases, the Company 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.

The Company has given guarantees in respect of certain subsidiary undertakings' borrowings amounting to £ nil at 30 January 1999 (1998: £67,073,000).

Notes to the accounts

(I) Intangible assets and investments (held as fixed assets)

	Shares in subsidiary undertakings	Goodwill
	£000	£000
Cost at 31 January 1998	574,874	75,400
Additions (preference shares issued by subsidiary)	36,584	-
At 30 January 1999	611,458	75,400
Amortisation and amounts written off:		
At 31 January 1998	-	13,195
Charged in period	-	1,885
At 30 January 1999	-	15,080
Net book value:		
At 30 January 1999	611,458	60,320
At 31 January 1998	574,874	62,205

See note 29 for details of subsidiary undertakings.

True and fair override on divisionalisation of subsidiary undertakings As part of a rationalisation of the Group in previous years, the trade and net assets of a subsidiary undertaking were transferred to the Company at their book value, which was less than their fair value. The cost of the Company's investment in that subsidiary undertaking reflected the underlying fair value of its net assets and goodwill at the time of acquisition. As a result of this transfer, the value of the Company's investment in that subsidiary undertaking fell below the amount at which it was stated in the Company's accounting records. Schedule 4 to the Companies Act 1985 requires that the investment be written down accordingly and that the amount be charged as a loss in the Company's profit and loss account. However, the directors consider that, as there had been no overall loss to the Group, it would fail to give a true and fair view to charge the diminution to the Company's profit and loss account and it should instead be re-allocated to goodwill and the identifiable net assets transferred, so as to recognise in the Company's individual balance sheet the effective cost to the Company of those net assets and goodwill. The effect on the Company's balance sheet of this departure is to recognise goodwill of £60,320,000 (1998: £62,205,000), net of amortisation of £15,080,000 (1998: £13,195,000). The Group Accounts are not affected by this transfer.

Given that the business concerned operates in a generally stable market, the directors have concluded that the estimated economic life of the resulting intangible asset was 40 years at the date the transfer took place.

This asset is reviewed annually for impairment. The review at 30 January 1999 indicated that no such impairment had arisen.

Summary of differences between UK and US generally accepted accounting principles

The Group's consolidated Accounts are prepared in accordance with generally accepted accounting principles in the United Kingdom ('UK GAAP'), which differ in certain respects from generally accepted accounting principles in the United States ('US GAAP'). Differences which have a significant effect on the consolidated net profit and shareholders' funds of the Group are set out below. While this is not a comprehensive summary of all differences between UK and US GAAP, other differences would not have a significant effect on the consolidated net profit or shareholders' funds of the Group.

In accordance with best practice the differences have been shown as gross of tax with the related taxation shown separately.

Cost of sales

Under UK GAAP, selling costs have been included in cost of sales. Under US GAAP, gross profit is determined before deducting selling costs, as they are not included in cost of sales. Selling costs which have been included under UK GAAP for the 52 weeks ended 1 February 1997 were £208,200,000, for the 52 weeks ended 31 January 1998 were £209,609,000 and for the 52 weeks ended 30 January 1999 were £225,857,000.

Goodwill

Pre FRS 10, in the Group's consolidated Accounts prepared under UK GAAP, goodwill arising on the acquisition of a subsidiary is written off against reserves in the consolidated balance sheet in the year in which the acquisition is made. Under US GAAP such goodwill is capitalised and is amortised through the consolidated profit and loss account over its estimated useful life (not to exceed 40 years). Additionally, UK GAAP requires that on subsequent disposal or closure of a previously acquired subsidiary, any goodwill previously taken directly to shareholders' funds is then charged to the profit and loss account as part of profit or loss on disposal or closure. Under US GAAP the appropriate balance to be written off on the disposal of the business is the remaining unamortised balance for goodwill.

For the purposes of calculating the effect of capitalising the goodwill on the consolidated balance sheet and its amortisation through the consolidated profit and loss account, a life of 40 years has generally been assumed. However, the value of the goodwill is reviewed periodically by comparing the undiscounted cash flows from operating activities with the carrying value of goodwill. An additional charge to the consolidated profit and loss account is made where a permanent diminution in net book value is

identified. The adjustment to goodwill of £5,910,000 (1998: £8,198,00) represents the benefit of acquired tax losses utilised in the current year credited to income under UK GAAP, and credited to goodwill for US GAAP purposes.

In the Group's consolidated balance sheet, goodwill written off on the acquisition of Sterling Jewelers has been calculated based upon consideration valued at \$17.00 per share of the US convertible preference shares issued to the shareholders of Sterling Jewelers. Under US GAAP, as the fair value of the consideration received by the shareholders is more clearly evident than the fair value of the consideration given, the former is used for determining fair value. The fair value of the US convertible preference shares for the purposes of US GAAP has been taken as the initial trading price of the convertible preference shares upon issuance of \$11.125.

Favourable lease terms

In the Group's consolidated Accounts prepared under UK GAAP, no value is attributed to leases owned by acquired companies where the rental is below comparable current market rentals. Under US GAAP the present value of these favourable lease terms is capitalised and amortised over the period up to the next rent review.

Sale and leaseback transactions

In the Group's consolidated Accounts prepared under UK GAAP, sale and leaseback transactions of freehold and long leasehold properties are accounted for by including in profit before taxation the full gain arising in the fiscal year in which the transaction took place. Under US GAAP the gain arising is credited to the consolidated profit and loss account in equal instalments over the life of the lease. Adjustments to the amortisation are reflected in periods when the leases are disposed of.

Extended service plan revenues

Under UK GAAP, provision is made for the estimated costs of claims and the revenue from the sales of extended service plans is recognised at the date of sale. Under US GAAP, revenues from such sales are deferred and recognised in profit over the expected claim period.

Pensions

Under UK GAAP, a prepayment representing the surplus of pension fund assets over projected accrued benefit obligations, has

Summary of differences between UK and US generally accepted accounting principles

been recognised in shareholders' funds. Under US GAAP the benefit of such prepayment is spread evenly over the remaining service lives of relevant employees.

Under UK and US GAAP, pension costs are determined on a systematic basis over the length of service of employees. US GAAP is more prescriptive in the application of the actuarial method and assumptions to be applied in the calculation of pension costs. As a result, the calculations under US GAAP are more liable to amendment from year to year, giving rise to adjustments by comparison with UK GAAP.

Stock compensation

In the Group's consolidated Accounts prepared under UK GAAP, no cost is accrued for the share options awarded to employees. Under US GAAP the cost is calculated as the difference between the option price and the market price at the date of grant and additionally at the end of the reporting period for performance related plans. This cost is amortised over the period from the date the options are granted to the date they are first exercisable.

At 30 January 1999, the Company had six share option plans, which are described in note 28. The Group recognises compensation cost for US GAAP purposes in accordance with the requirements of APB Opinion No. 25.

Depreciation of properties

Depreciation is not provided on freehold and long leasehold retail properties in the Group's consolidated Accounts prepared under UK GAAP, as it is the Group's policy to maintain its properties in a state of good repair. Under US GAAP depreciation is required on the buildings element of properties, and this element of freehold and long leasehold properties is written off over a period up to 50 years in equal annual instalments.

ESOT adjustment

Under UK GAAP shares acquired by the ESOT were included in the consolidated balance sheet as an asset. Under US GAAP they were treated as a reduction in shareholders' funds.

Lease cost adjustment

UK GAAP, prior to the adoption of FRS 12, did not require the provision of future net lease obligations in respect of vacant or partially vacant properties although it is the Group's policy to provide for the estimated disposal costs of permanently vacated properties. US GAAP requires that the estimated net present value of all future net lease obligations be provided in respect of all vacant and partially vacant properties, notwithstanding the anticipated operating benefits which may be realised.

Following the issue of FRS12, the treatment of these costs under UK GAAP and US GAAP is the same.

Revaluation of properties

Under UK GAAP properties may be restated on the basis of appraised values in consolidated Accounts prepared in all other respects in accordance with the historical cost convention. Increases in value are credited directly to the revaluation reserve. When revalued properties are sold the gain or loss on sale is calculated based on revalued carrying amounts. Under US GAAP properties are only revalued if a permanent impairment is deemed to have occurred.

Preference shares

Under UK GAAP the 6.875p convertible preference shares of 20p each and the cumulative redeemable preference shares 1997 of £10 each were treated as shareholders' equity. Under US GAAP these shares together with their redemption premium and accrued unpaid dividends were not classified as shareholders' equity, as they had a mandatory redemption feature.

Under UK GAAP no charge was made to retained income in respect of the dividends on the cumulative preference shares. Under US GAAP, a charge was made each year to retained income in respect of the unpaid dividends on these cumulative preference shares.

Securitised customer receivables

Under UK GAAP securitised US customer receivables of £116,756,000 (1998: £116,756,000) are included within trade debtors and bank loans, as the related financing is of a revolving nature and does not represent an outright sale of such accounts receivable. Under US GAAP these amounts would qualify for off balance sheet treatment.

Costs of capital reorganisation

Under UK GAAP the costs of the capital reorganisation in 1997 have been included in the appropriation from preference shareholders. Under US GAAP these costs would be reflected as a charge to the profit and loss account.

Deferred taxes

Under UK GAAP, deferred taxes are accounted for to the extent that it is considered probable that a liability or asset will crystallise in the foreseeable future. Under US GAAP, deferred taxes are accounted for on all timing differences and a valuation allowance is established in respect of those deferred tax assets where it is more likely than not that some portion will remain unrealised. No

Summary of differences between UK and US generally accepted accounting principles

US GAAP adjustment arises in respect of the unprovided UK GAAP deferred tax liability as it is offset by unrecognised deferred tax assets on application of US GAAP. Deferred tax also arises in relation to the tax effect of the other US GAAP adjustments.

Dividends

Under UK GAAP, dividends are provided for in the year in respect of which they are declared or proposed. Under US GAAP, dividends are given effect only in the period in which they are formally declared.

Cash flows

Under UK GAAP the Group complies with Financial Reporting Standard No. 1 (Revised) Cash Flow Statements (FRS 1-Revised). Its objective and principles are similar to those set out in SFAS No. 95 Statement of Cash Flows. The principal difference between the standards is in respect of classification. Under FRS 1 – Revised, the Group presents its cash flows for (a) operating activities; (b) returns on investments and servicing of finance; (c) taxation; (d) capital expenditure and financial investment; (e) management of liquid resources; and (f) financing activities. SFAS No. 95 requires only three categories of cash flow activity (a) operating; (b) investing; and (c) financing.

Cash flows arising from taxation and returns on investments and servicing of finance under FRS–1 Revised would be included as operating activities and cash flows arising from management of liquid resources would be included as cash and cash equivalents under SFAS No. 95. Payments arising on disposal of ESOT shares would be included as investing activities under SFAS No. 95. In addition, under FRS 1– Revised cash includes only cash in hand plus deposits repayable on demand, less overdrafts repayable on demand. Under SFAS No. 95 cash and cash equivalents include all highly liquid short term investments with original maturities of three months or less.

Earnings per share/ADS ('EPS')

Following the adoption of FRS 14 in the UK and SFAS 128 in the US, the computation of the weighted average number of shares and adjusted weighted average number of shares outstanding is generally consistent. The calculation of fully diluted EPS for the year ended 30 January 1999 excludes a total of 22,076,034 shares (1998: 26,007,793) under share options as the effect on basic EPS was anti-dilutive.

During 1997/98 the number of ordinary shares represented by one ADS was increased from three to 30. Prior periods' figures have been restated accordingly.

Summary of differences between UK and US generally accepted accounting principles

Details of the approximate effect on the Group's consolidated profit for the financial period and shareholders' funds of differences between UK GAAP and US GAAP are as follows:

Estimated effect on profit for the financial period of differences between UK and US GAAP

	52 weeks ended 30 January 1999	52 weeks ended 31 January 1998	52 weeks ended 1 February 1997
	£000	£000	£000
Profit for the financial period in accordance with UK GAAP	65,223	50,862	33,855
US GAAP adjustments:			
Goodwill amortisation and write-offs	(12,001)	(12,033)	(12,370)
Amortisation of favourable lease terms	-	-	(500)
Sale and leaseback transactions	(1,018)	2,080	720
Revaluation of properties	811	67	-
Extended service plan revenues	(2,170)	887	4,204
Pensions	1,629	3,335	4,326
Depreciation of properties	(101)	(78)	(81)
Lease cost adjustment	3,241	1,371	282
Stock compensation	(652)	(234)	-
Costs of capital reorganisation	-	(6,971)	-
ESOT adjustment	-	-	(1,112)
US GAAP adjustments before taxation	(10,261)	(11,576)	(4,531)
Taxation	570	(2,442)	(3,230)
Goodwill adjustment – utilisation of acquired tax losses	(5,910)	(8,198)	-
US GAAP adjustments after taxation	(15,601)	(22,216)	(7,761)
Net income in accordance with US GAAP	49,622	28,646	26,094
Additional finance costs of non-equity shares not classified within shareholders' equity under US GAAP	-	(2,560)	(5,482)
Additional finance costs of other non-equity shares classified within shareholders' equity under US GAAP	-	(1,280)	(20,916)
Retained profit/(loss) attributable to ordinary shareholders in accordance with US GAAP	49,622	24,806	(304)
Earnings/(loss) per ADS in accordance with US GAAP – basic	88.9p	72.2p	(3.1)p
– diluted	88.7p	72.2p	-
Weighted average number of ADSs outstanding (in thousands)	55,826	34,345	9,769

Summary of differences between UK and US generally accepted accounting principles

Estimated cumulative effect on shareholders' funds of differences between UK and US GAAP

	30 January 1999	31 January 1998	1 February 1997
	£000	£000	£000
Shareholders' funds in accordance with UK GAAP as previously stated	385,782	341,232	300,745
Prior year adjustment (note 18)	-	(4,556)	(4,556)
Shareholders' funds in accordance with UK GAAP as restated	385,782	336,676	296,189
US GAAP adjustments:			
Goodwill in respect of acquisitions (gross)	530,153	530,153	540,385
Consideration adjustment to goodwill	(44,348)	(44,348)	(45,457)
Accumulated goodwill amortisation	(126,292)	(114,211)	(103,902)
Goodwill adjustment	(14,180)	(8,198)	-
Favourable lease terms (valuation)	10,677	10,677	10,677
Accumulated amortisation of favourable lease terms	(10,677)	(10,677)	(10,677)
Sale and leaseback transactions	(12,729)	(11,711)	(13,791)
Extended service plan revenues	(6,694)	(4,498)	(5,525)
Pensions	2,905	1,276	(2,059)
Depreciation of properties	(3,102)	(3,001)	(2,923)
Revaluation of properties	(906)	(1,717)	(1,784)
Preference shares excluded from shareholders' funds	-	-	(94,274)
Lease cost adjustment	-	(3,241)	(4,612)
Dividends	16,748	-	-
US GAAP adjustments before taxation	341,555	340,504	266,058
Taxation	8,227	7,648	10,189
US GAAP adjustments after taxation	349,782	348,152	276,247
Shareholders' funds in accordance with US GAAP	735,564	684,828	572,436
Shareholders' funds in accordance with US GAAP at beginning of year	684,828	572,436	567,255
Net income in accordance with US GAAP	49,622	28,646	26,094
ESOT adjustment	-	-	3,584
Issue of shares	43	-	-
Increase in additional paid in capital	652	234	-
Translation differences	419	(10,762)	(19,022)
Additional finance costs of shares not classified as equity under US GAAP	-	-	(5,482)
Conversions of shares not classified as equity under US GAAP	-	94,274	7
Shareholders' funds in accordance with US GAAP at end of year	735,564	684,828	572,436

Summary of differences between UK and US generally accepted accounting principles

Employee share schemes

A description of the terms of the Company's employee share schemes is set out in note 28 to the consolidated Accounts.

For the year ended 30 January 1999, in compliance with the disclosure requirements of SFAS No. 123, Accounting for Stock-Based Compensation, the fair value of options granted during the year has been computed. SFAS No. 123 sets out an alternative methodology for recognising the compensation expense based on the fair value at grant date. Had the Company adopted this methodology, earnings per ordinary ADS under US GAAP would have been reduced to the pro forma amounts indicated below for the financial periods ended 30 January 1999 and 31 January 1998:

	1999	1998
	£000	£000
Net income in accordance with US GAAP:		
As reported	49,622	24,806
Pro forma	49,121	24,865
	1999	1998
	Pence	Pence
Earnings per ADS in accordance with US GAAP:		
As reported	88.9	72.2
Pro forma	88.0	72.4

These pro forma amounts may not be representative of future results as they are subjective in nature and involve uncertainties and matters of judgement, and therefore cannot be determined precisely. Changes in assumptions could affect the estimates.

The fair value of options granted which, in determining the pro forma impact, is assumed to be amortised in the profit and loss account over the option vesting period, is estimated on the date of grant using the Black-Scholes option-pricing model using the following weighted average assumptions for the financial periods ended 30 January 1999 and 31 January 1998:

	1999	1998
Weighted average price of options whose exercise price equals the market price on the grant date	43.25p	33.75p
Weighted average assumptions:		
Risk free interest rate	5.50%	7.25%
Expected life of options	4 years	4 years
Expected volatility	31%	31%
Dividend yield	2.1%	3.0%
Weighted average grant date fair value of option over one share	12p	10p
	1999	1998
Weighted average price of options whose exercise price is less than the market price on the grant date	22p	–
Weighted average assumptions:		
Risk free interest rate	5.50%	–
Expected life of options	3 years	–
Expected volatility	31%	–
Dividend yield	2.1%	–
Weighted average grant date fair value of option over one share	9p	–

Summary of differences between UK and US generally accepted accounting principles

Post employment benefits

The following table shows a reconciliation of the opening and closing balances of the projected benefit obligation under the Signet Group Pension Scheme:

	1999	1998
	£000	£000
At 31 January 1998	64,198	60,155
Service cost	1,734	1,382
Interest cost	4,979	4,686
Members' contributions	325	280
Plan amendments	-	2,879
Actuarial loss/(gain)	7,483	(2,015)
Benefits paid	(3,922)	(3,169)
At 30 January 1999	74,797	64,198

The following table shows a reconciliation of the opening and closing balances of the fair value of the assets of the Signet Group Pension Scheme:

	1999	1998
	£000	£000
At 31 January 1998	104,610	96,035
Actual return on assets	11,850	11,464
Employer contributions	-	-
Members' contributions	325	280
Benefits paid	(3,922)	(3,169)
At 30 January 1999	112,863	104,610

The components of pension expense which arise under SFAS 87 for the Group's pension plans are estimated to be as follows:

	52 weeks ended 30 January 1999	52 weeks ended 31 January 1998	52 weeks ended 1 February 1997
	£000	£000	£000
Service cost	1,734	1,382	1,176
Interest cost	4,979	4,686	3,933
Expected return on plan assets	(6,169)	(7,568)	(7,061)
Amortisation of transition asset	(1,774)	(1,774)	(1,774)
Amortisation of prior service cost	604	604	383
Recognised actuarial gain	(1,003)	(665)	(983)
Net periodic pension cost	(1,629)	(3,335)	(4,326)

Summary of differences between UK and US generally accepted accounting principles

The following table presents the estimated funded status of the Group's pension plans under SFAS 87:

	30 January 1999	31 January 1998
	£000	£000
Accumulated benefit obligation, comprising vested benefits	68,813	54,568
Projected benefit obligation	74,797	64,198
Plan assets at fair value, primarily UK equities	112,863	104,610
Plan assets in excess of projected benefit obligation	38,066	40,412
Unrecognised net gain	(20,691)	(23,496)
Unrecognised prior service cost	9,517	10,121
Unrecognised net assets	(5,320)	(7,094)
Prepaid pension cost	21,572	19,943

The weighted average discount rate and the rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 6% (1998: 8%) and 4.5% (1998: 6.5%) respectively. The expected long-term rate of return on plan assets was 6% (1998: 6%). The excess of plan assets over the projected benefit obligation at the transition date is recognised as a reduction of pension expense on a prospective basis over 13 years. See note 23 for further information on the Group's pension plans.

For US GAAP purposes, the pension fund liability included in the Group's consolidated balance sheet would be classified as a non-current liability.

New US accounting standards adopted

SFAS No. 130 – 'Reporting Comprehensive Income'. This statement was issued in June 1997 and established standards for the reporting and display of comprehensive income and its components. SFAS No. 130 is effective for financial years beginning after 15 December 1997. Reclassification of Accounts for earlier periods provided for comparative purposes is required. The information set out in the statement of total recognised gains and losses and note 21 is consistent with the requirements of SFAS No. 130.

SFAS No. 131 – 'Disclosures about Segments of an Enterprise and Related Information'. This statement was issued in June 1997 and establishes standards for the reporting of information about operating segments in annual and interim Accounts issued to shareholders. It also establishes standards for related disclosure of products and services, geographic areas, and major customers. The information set out in note 2 to the financial statements reflects the requirements of SFAS No. 131.

SFAS No. 132 – 'Employers' Disclosures about Pensions and Other Post Retirement Benefits' was issued in February 1998 and revises employers' disclosures about pension and other post retirement benefits plans. The information set out above reflects the requirements of SFAS No. 132.

New US accounting standards not yet adopted

SFAS No. 133 – 'Accounting for Derivative Instruments and Hedging Activities' was issued in June 1998 and establishes accounting and reporting standards for derivative instruments and hedging activities. It is effective for financial years beginning after 15 June 1999. The Group has not yet determined the effect on the Accounts of the adoption of the standard.

During January 1998, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position 98-1 'Accounting for the Costs of Computer Software Developed or Obtained for Internal Use' ('SOP 98-1'). SOP 98-1 becomes effective for all financial years beginning after 15 December 1998 and provides guidance on when costs incurred for internal use computer software are and are not capitalised. The Group does not expect adoption of SOP 98-1 to have a material impact on its Accounts.

The AICPA issued Statement of Position 98-5. 'Reporting on the Costs of Start-up Activities' ('SOP 98-5') in April 1998 which is effective for financial periods beginning after 15 December 1998. SOP 98-5 provides guidance on the financial reporting of start-up costs and organisation costs. It requires costs of start-up activities and organisation costs to be expensed as incurred. The Group is evaluating the effect of the pronouncement.

Shareholder information

History

Signet Group plc, an English public limited company, and its subsidiaries constitute the world's largest specialist retail jeweller with operations in the US and the UK. The Company was incorporated in England and Wales on 27 January 1950 under the name Ratners (Jewellers) Limited. The name of the Company was changed on 10 December 1981 to Ratners (Jewellers) Public Limited Company, on 9 February 1987 to Ratners Group plc and on 10 September 1993 to Signet Group plc. The Company is now a public limited company registered in England and Wales under the name Signet Group plc. The Company's registered number is 477692. The Company's registered office is Zenith House, The Hyde, London NW9 6EW.

Following a period of rapid growth by acquisition in the late 1980s and early 1990s a new management team began to be appointed in January 1992. The new management rationalised and restructured the business in both the US and the UK. This affected both the operations of the Group and its balance sheet.

On 30 January 1994 the Company's issued share capital was £66,219,495.70 and \$125,707.39 comprising 293,057,753 ordinary shares of 10p, 34,568,602 6.875p convertible preference shares 2008 of 20p each, 3,000,000 cumulative redeemable preference shares 1997 of £10 each, 2,500 variable term preference shares of US\$1 each and 12,320,739 convertible preference shares of US\$0.01 each. Since that date the following changes have occurred:

- (a) on 15 July 1994 885 ordinary shares of 10p each were issued on conversion of 2,654 6.875p convertible preference shares 2008;
- (b) on 1 September 1995 3,735 ordinary shares of 10p each were issued on conversion of 11,205 6.875p convertible preference shares 2008;
- (c) on 17 July 1996 2,186 ordinary shares of 10p each were issued on conversion of 6,560 6.875p convertible preference shares 2008;
- (d) at an extraordinary general meeting and class meetings held

on 26 June 1997 shareholders approved proposals for a capital restructuring and capital reduction. The capital restructuring involved the conversion of the existing 10p ordinary shares into new 0.5p ordinary shares, a bonus issue of new 0.5p ordinary shares to the holders of all classes of the Company's preference shares, the redesignation of the preference shares as deferred shares and the cancellation of all accumulated arrears and accruals of dividends on preference shares. The capital restructuring became effective on 21 July 1997 and 1,381,577,027 new 0.5p ordinary shares were issued.

The capital reduction, which was approved by shareholders at the same time as the capital restructuring, became effective in September 1997 and allowed the Company to eliminate the deficit on distributable reserves as at 1 February 1997. The Company is permitted to make distributions (including dividends, share buy-backs and other transactions classed as distributions) out of income earned after 2 August 1997; and

- (e) on 12 May 1998 201,163 ordinary shares of 0.5p each were issued on the exercise of options priced at 21.5p each.

Nature of trading market

The ordinary shares are traded on the London Stock Exchange and the American Depositary Shares ("ADSs") representing the ordinary shares are included for trading on the Nasdaq Stock Market. The ADSs are evidenced by American Depositary Receipts ("ADRs") issued pursuant to an Amended and Restated Deposit Agreement, dated as of 4 September 1997, and made between the Company, The Bank of New York, as depositary (the "Depositary"), and the holders from time to time of the ADRs. Each ADS represents 30 ordinary shares. Prior to 4 September 1997 the ratio of ordinary shares per ADS had been three.

The following table sets forth, for the periods indicated, (i) the reported high and low middle market quotations for the ordinary shares based on the Daily Official List of the London Stock Exchange and (ii) the reported high and low closing sales prices of the ADSs on the Nasdaq Stock Market as reported by Bloomberg.

Shareholder information

	London Stock Exchange Pence per ordinary share		Nasdaq US dollars per ADS	
	High	Low	High	Low
1996/97				
First Quarter	33½	15½	16¼	6¼
Second Quarter	27½	21½	15	9¾
Third Quarter	26¼	23	11⅞	10
Fourth Quarter	32½	25½	16⅞	11¼
1997/98				
First Quarter	36½	28½	18⅞	12½
Second Quarter	37	29	17½	13¾
Third Quarter	34¼	29¾	16½	13¾
Fourth Quarter	34	28	16½	13⅞
1998/99				
First Quarter	44½	34	22⅝	16¾
Second Quarter	51¼	40¼	24⅞	19¾
Third Quarter	45¼	24¼	19⅞	12⅞
Fourth Quarter	33	24½	19¼	14⅞
1999/00				
First Quarter (up to 30 March 1999)	48¼	31	23⅞	18⅞

As of 30 March 1999, 104,539 ordinary shares and 5,905,133 ADSs (representing 177,153,990 ordinary shares) were held of record in the US. These ordinary shares and ADSs were held by 18 record holders and 506 record holders, respectively, and collectively represented approximately 10.58% of the total

numbers of ordinary shares outstanding. Since certain of the ordinary shares and ADSs are held by brokers or other nominees, the number of record holders in the US is not representative of the number of beneficial holders or of where the beneficial holders are resident.

Shareholder information

Substantial shareholdings and control of Company

	Number of shares	Percentage of issued ordinary shares
Credit Suisse First Boston (Europe) Limited	111,007,227	6.63
M.D. Sass Associates, Inc. ⁽¹⁾	100,544,430	6.00
Everest Capital Limited ⁽²⁾	79,787,845	4.76

Notes:

- ⁽¹⁾ Includes interests in all of such shares of M.D. Sass Re/Enterprise Partners L.P., M.D. Sass Re/Enterprise II L.P., M.D. Sass Re/Enterprise International, Ltd., M.D. Sass Associates Employee Profit Sharing Plan, M.D. Sass Parallax Partners L.P., The Erisa Plan – Private Account managed by M.D. Sass, Inc., G.G. Rubin, J.B. Rubin Defined Contribution Plan, J.B. Rubin, Martin D Sass, M.D. Sass Management, Inc, M.D. Sass Investors Services, Inc., M.D. Sass G.P.U., Inc, Corporate Renaissance Group Inc and The UK Pension Plan – Private Account managed by M.D. Sass, Inc, notified on their behalf by Resurgence Asset Management, L.L.C. as notification agent for M.D. Sass Associates, Inc and the other parties.
- ⁽²⁾ Includes interests of Everest Capital Master Fund L.P. in 57,059,845 of such shares, Quantum Emerging Growth Partners CV in 22,728,000 of such shares and E Holding Limited in all of such shares, notified on their behalf by Everest Capital Limited.

So far as the Company is aware, it is neither directly nor indirectly owned by or controlled by one or more corporations or by any government.

As at 30 March 1999 the interests set out in the table above in the issued ordinary shares had been notified to the Company in accordance with sections 198 to 208 of the Companies Act 1985 (including interests represented by the American Depository Shares ('ADSs')).

As at 30 March 1999, the total amount of the Company's voting securities owned by directors and officers of the Company as a group was 294,000, all of which securities were ordinary shares.

The Company does not know of any arrangements the operation of which might result in a change of control of the Company.

Exchange controls and other limitations affecting security holders

Except in relation to Iraq, Libya, the governments of the Federal Republic of Yugoslavia and the Republic of Serbia and senior officials of Uniao Nacional para a Independencia Total de Angola (UNITA) and certain of their family members and persons acting on their behalf, there are currently no UK laws, decrees or regulations restricting the import or export of capital or affecting the remittance of dividends or other payments to holders of ordinary shares or ADSs who are non-residents of the UK.

Subject to certain restrictions in relation to the countries, governments and persons referred to above, under English law and the Company's Memorandum and Articles of Association, persons who are neither residents nor nationals of the UK may

freely hold, vote and transfer ordinary shares (including ordinary shares represented by ADSs) in the same manner as UK residents or nationals. However, under the Company's Articles of Association, holders of ordinary shares with an address on the share register outside the UK are not entitled to notice of general meetings of the Company's shareholders unless they provide the Group with a UK address at which notices may be delivered.

The application of the restrictions referred to above depends, in the case of Iraq, upon residence or being the Government and in the case of Libya upon being the Government or exercising public functions or being controlled by or acting on behalf of certain persons or bodies.

Taxation

Taxation for US residents

The following summary sets forth the principal US federal and UK tax consequences of the purchase and ownership of the Company's ordinary shares or ADSs in respect of such ordinary shares by residents of the US and is not intended to be a complete analysis or listing of all of the possible tax consequences of such purchase or ownership. As used herein a "US holder" means: a citizen or resident of the US; a corporation, partnership or other entity created or organised in or under the laws of the US, or any state thereof; an estate, the income of which is subject to US federal income tax regardless of its source; or a trust, if the trust is subject to the supervision of a court within the US and one or more US persons have the authority to control all substantial decisions of the trust. This summary deals only with ordinary shares and ADSs held as capital assets and does not address any special tax consequences that may be applicable to US holders that

Shareholder information

are subject to special treatment under the current income tax convention between the US and the UK (the “Convention”) or the US Internal Revenue Code of 1986, as amended, such as dealers in securities, traders who elect mark-to-market accounting, financial institutions, life insurance companies, or corporations which alone, or together with one or more associated companies, control (directly or indirectly) 10% or more of the voting shares of the Company.

Prospective investors are advised to consult their tax advisers with respect to the tax consequences of the purchase and ownership of ordinary shares or ADSs, including specifically the consequences under state and local tax laws. The statements regarding US and UK tax laws set out below are based on US federal and UK tax laws and UK Inland Revenue practice in force on the date of this Annual Report and are subject to change after that date. In particular, the UK Finance Bill 1999 was not available at the date on which this Annual Report was finalised for Board approval. Such Finance Bill, if enacted, will include detailed provisions which may change the tax position described below.

US holders of ADSs will be treated as the owners of the underlying ordinary shares for purposes of the double taxation conventions relating to income and estate and gift taxes between the US and the UK and for the purposes of the US Internal Revenue Code of 1986, as amended.

Taxation of dividends

The Company will not pay a dividend (or other qualifying distribution) prior to 6 April 1999 when advance corporation tax (“ACT”) will be abolished following changes introduced in the Finance Act 1998. For illustrative purposes, however, the paragraph below describes the difference between the results of a US holder of ordinary shares or ADSs who received a dividend prior to 6 April 1999 and such a US holder receiving a dividend after that date.

Under the provisions of the Convention and current UK law, a US holder of ordinary shares or ADSs who is an individual or a corporate portfolio holder (which is broadly defined as a shareholder who holds less than 10% of the voting shares of the Company) would be entitled to receive from the UK Inland Revenue a refund (the “Tax Treaty Payment”) of an amount equal to the tax credit in respect of ACT minus a withholding tax of 15% of the sum of the cash dividend plus the tax credit (limited to the tax credit). The rate of ACT is currently 25% of the cash dividend paid. On the basis of an ACT rate of 25% of the dividend, an £80 dividend (which amount and rate of ACT have been selected for

illustrative purposes only) would result in a £20 payment of ACT by the Company. The tax credit related to the dividend would be equal to £20 (20% of the sum of the £80 dividend and the £20 tax credit). A US holder who is an individual or corporate portfolio holder would be entitled to receive a £5 Tax Treaty Payment, calculated by reducing the £20 tax credit by withholding tax of £15 (15% of the sum of the £80 dividend and the £20 tax credit). Accordingly, such US holder would have a total net receipt of £85 (cash dividend of £80 plus a net tax credit of £5). Under the new UK law, the rate of tax credits will be halved from 20% to 10% of the gross dividend for dividends paid on or after 6 April 1999, with the result that a US holder who is an individual or a corporate portfolio holder would not be entitled to receive any Tax Treaty Payment. Thus, using the example set out above, an £80 dividend will result in the US holder only receiving £80.

For dividends paid on or after 6 April 1999 (assuming that no further relevant changes in law occur), a US holder who is an individual or a corporate portfolio holder who receives the £80 dividend in the above example should be considered for US federal income tax purposes to receive a dividend of £88.89 (£80 dividend plus the £8.89 tax credit) and would include that amount in income. Such US holder also should be considered to have paid £8.89 of UK tax that, subject to the applicable limitations, would be creditable against such US holder’s US federal income tax liability.

The aggregate of the dividend paid to a US holder who is an individual or a corporate portfolio holder and the gross tax credit in respect of it will be treated as dividend income for US federal income tax purposes to the extent made from the Company’s current or accumulated earnings and profits, as determined under US federal income tax principles. The amount of any dividend paid in pounds sterling will equal the US dollar value of the pounds sterling received calculated by reference to the exchange rate in effect on the day that the dividend is received by the US holder, in the case of ordinary shares, or by the Depositary (or its Custodian), in the case of ADSs, regardless of whether converted into US dollars. Foreign currency exchange gain or loss, if any, realised in a subsequent sale or other disposition of pounds will be treated as ordinary income or loss to the US holder.

Dividends received on the ordinary shares or ADSs will generally not be eligible for the dividends received deduction allowed to US corporations under Section 245 of the US Internal Revenue Code. However, the withholding tax will be treated as foreign income tax eligible for credit or deduction against such US

Shareholder information

holder's US federal income tax liability at such US holder's option, subject to applicable limitations. US holders should consult their tax advisers as to the method of claiming such foreign tax credit or deduction and compliance with special tax return disclosure objectives that may apply to US holders who claim the benefit of the foreign tax credit on such US holder's US federal income tax return.

A US holder will be denied a foreign tax credit (and instead allowed a deduction) for foreign taxes imposed on a dividend if the US holder has not held the ordinary shares or ADSs for at least 16 days in the 30-day holding period beginning 15 days before the ex-dividend date. Any days during which a US holder has substantially diminished its risk of loss on the ordinary shares or ADSs are not counted towards meeting the 16-day holding period required by the statute. A US holder that is under an obligation to make related payments with respect to the ordinary shares or ADSs (or substantially similar or related property) also is not entitled to claim a foreign tax credit with respect to a foreign tax imposed on a dividend.

Under current US Treasury regulations, dividends paid on ordinary shares or ADSs will not be subject to US backup withholding tax. However, under final regulations that will be effective for payments after 31 December 1999, dividends paid on ordinary shares or ADSs to a US holder or to a non-US holder in the US or through US or US-related persons may be subject to a 31% US backup withholding tax in certain circumstances. In addition, under both current US Treasury regulations and those scheduled to take effect for payments after 31 December 1999, the payment of proceeds of a sale, exchange or redemption of ordinary shares or ADSs to a US holder or non-US holder in the US or through US or US-related persons may be subject to US information reporting requirements and/or backup withholding tax.

US holders can avoid the imposition of backup withholding tax by reporting their tax payer identification number to their broker or paying agent on US Internal Revenue Service Form W-9. Non-US holders can avoid the imposition of backup withholding tax by providing a duly completed US Internal Revenue Service Form W-8 to their broker or paying agent. Any amounts withheld under the backup withholding rules from a payment to a holder will be allowed as a refund or a credit against such holder's US federal income tax liability, provided that the required returns are filed with US Internal Revenue Service on a timely basis.

Taxation of capital gains

A US holder who is neither resident nor ordinarily resident for tax purposes in the UK will not be liable for UK tax on capital gains realised or accrued on the sale or other disposal of ordinary shares or ADSs unless, in the year of assessment in which the gain accrues to such holder, that US holder carries on a trade in the UK through a branch or agency and the ordinary shares or ADSs are or have been used by, held by, or acquired for use by or for the purpose of such trade, branch or agency.

A US holder who is resident or ordinarily resident for tax purposes in the UK, or a US corporation which is resident in the UK by reason of being managed and controlled in the UK, or a US holder who, or a US corporation which, is trading in the UK through a branch or agency where ordinary shares or ADSs are or have been acquired, used or held for the purposes of such trade, branch or agency, may be liable for both UK tax and US federal income tax on a gain on the disposal of the ordinary shares or ADSs. Such US holder generally will be entitled to offset a credit for UK tax against its US federal income tax liability in respect of such gain.

A US holder of ordinary shares or ADSs will be liable for US federal income tax on gains realised or accrued on the sale or disposal of ordinary shares or ADSs to the same extent as on any other gains from sales of shares. Such gain will be a capital gain if the ordinary shares or ADSs were capital assets in the hands of such US holder.

Inheritance tax

Ordinary shares or ADSs held by an individual who is domiciled in the US for the purposes of the double taxation convention relating to estate and gift taxes between the US and the UK and for the purposes of the convention is not a national of the UK will not be subject to UK inheritance tax on the individual's death or on a lifetime transfer of ordinary shares or ADSs, except in certain cases where the ordinary shares or ADSs are placed in trust other than by a settlor domiciled in the US who is not a national of the UK and, in the exceptional case, where the ordinary shares or ADSs are part of the business property of a UK permanent establishment of an enterprise or pertains to a UK fixed base of an individual used for the performance of independent personal services. The convention generally provides a credit for the amount of any tax paid in the UK against the US federal tax liability in a case where the ordinary shares or ADSs are subject both to UK inheritance tax and to US federal gift or estate tax.

Shareholder information

UK stamp duty and stamp duty reserve tax

Stamp duty is (subject to exceptions for charities) currently payable at the rate of 1.5% on any instrument transferring ordinary shares to the Custodian of the Depositary, on the value of such ordinary shares. In accordance with the terms of the Deposit Agreement relating to the ordinary shares, any tax or duty payable by the Depositary or the Custodian of the Depositary on future deposits of ordinary shares will be charged by the Depositary to the party to whom ADSs are delivered against such deposits.

No UK stamp duty will be payable on transfer of an ADS, provided that the ADS (and any separate instrument of transfer) is executed and retained at all times outside the UK. A transfer of an ADS in the US thus will not give rise to UK stamp duty provided the instrument of transfer is not brought into the UK. A transfer of an ADS in the UK may attract stamp duty at a rate of 0.5% of the consideration. Any transfer (which will include a transfer from the Depositary to an ADS holder) of the ordinary shares, including ordinary shares underlying an ADS, may result in a stamp duty liability at the rate of 0.5% of the consideration. There is no charge to ad valorem stamp duty on gifts. On a transfer of ordinary shares from a nominee to the beneficial owner (the nominee having at all times held the ordinary shares on behalf of the transferee) under which no beneficial interest passes and which is neither on sale, nor arises under or following a contract of sale, nor is in contemplation of sale, a fixed stamp duty will be payable. Proposals in the Chancellor of the Exchequer's Budget Statement dated 9 March 1999, if enacted, will result in such fixed stamp duty increasing from its former rate of 50p to £5. The amount of ad valorem stamp duty payable is generally calculated at the applicable rate on the purchase price of the ordinary shares.

Stamp duty reserve tax generally at a rate of 0.5% of the consideration is currently payable on any agreement to transfer ordinary shares or any interest therein unless: (i) an instrument transferring the ordinary shares is executed; (ii) stamp duty, generally at a rate of 0.5%, is paid; and (iii) generally the instrument is stamped on or before the last day of the month following the month in which the agreement is made, or, where

the agreement is conditional, the last day of the month following the month in which it becomes unconditional. The duty will, however, be refundable if within six years the agreement is completed by an instrument which has been duly stamped, generally at the rate of 0.5%. Stamp duty reserve tax will not be payable on any agreement to transfer ADSs.

ADS information

The ADS programme is administered on behalf of the Company by The Bank of New York and enquiries should be addressed to:

The Bank of New York

ADS Department (22W), 101 Barclay Street, New York, NY 10286.

The Company is subject to the regulations of the United States Securities and Exchange Commission ("SEC") as they apply to foreign private issuers and will file with the SEC its annual report on Form 20-F and other information as required.

Enquiries concerning share certificates and changes of address should be made as follows:

UK:

IRG plc
Bourne House
34 Beckenham Road
Beckenham, Kent BR3 4TU
Telephone: 0181 639 2000

US:

The Bank of New York
ADS Dept. (22W)
101 Barclay Street
New York, NY 10286
Telephone: 212 815 5204
or toll free 888 269 2377

Registered Office

Zenith House
The Hyde
London NW9 6EW
Telephone: 0181 905 9000

Financial information about the Group including the Annual and Interim reports, public announcements and share price data are available from UK Equities Direct on the Internet at www.hemscott.com

Glossary of terms

Terms used in Annual Report & Accounts

Accounts

Advance Corporation Tax or ACT

Allotted

Called-up share capital

Capital allowances

Cash at bank

Creditors

Debtors

Finance lease

Freehold

Interest receivable

Interest payable

Like for like

Net asset value

Pension scheme

Profit

Profit and loss account

Profit and loss account reserve

Profit attributable to shareholders

Share capital

Share option

Share option scheme

Share premium account

Shares in issue

Shareholders' funds

Stock

Tangible fixed assets

US equivalent or brief description

Financial statements

No direct US equivalent. Tax paid on Company distribution capable of offset against UK taxes due on income

Issued

Ordinary shares, issued and fully paid

Tax term equivalent to US tax depreciation allowances

Cash

Payables

Receivables

Capital lease

Ownership with absolute rights in perpetuity

Interest income

Interest expense

Comparable stores

Net book value

Pension plan

Income

Income statement

Retained earnings

Net income

Ordinary shares, capital stock or common stock

Stock option

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Additional paid-up capital or paid-in surplus (not generally distributable)

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