

## Annual Report & Accounts and Form 20-F 2000

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

This document comprises the Annual Report & Accounts of the Group in accordance with United Kingdom requirements and the Annual Report on Form 20-F to be filed with the United States Securities and Exchange Commission.

The Group's financial year end is the Saturday nearest to 31 January. Accordingly, in this Annual Report, "1995/96", "1996/97", "1997/98", "1998/99", "1999/00" and "2000/01", refer to, as appropriate, the 53 weeks ended 3 February 1996 and ending 3 February 2001 or the 52 weeks ended 1 February 1997, 31 January 1998, 30 January 1999 and 29 January 2000.

This Annual Report contains translations of certain pound sterling amounts into US dollars at a rate of \$1.62 = £1.00.

The noon buying rate in New York City for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate") on 28 January 2000 was \$1.62 = £1.00. These translations should not be construed as representations that the pound sterling amounts actually represent such US dollar amounts or could be converted into US dollars at the rate indicated. On 28 March 2000 the Noon Buying Rate was \$1.59 = £1.00.

#### *Cautionary statement regarding forward looking statements*

The Company desires to take advantage of the "safe harbor" provisions of the United States Securities Litigation Reform Act of 1995 with respect to the forward looking statements about its financial performance and objectives in this Annual Report and Accounts. Readers are referred to "Other factors" in the Financial Review on page 26 to 29.

## Executive Chairman's statement

### Results

The Group had a very successful year and I am delighted to report record sales and profits. In the 52 weeks to 29 January 2000 profit before tax rose by 43.2% to £127.7 million (1998/99: £89.2 million) with earnings per share of 5.3p (1998/99: 3.9p). Sales advanced by 14.7% to £1,136.5 million (1998/99: £991.2 million), the like for like increase being 9.1%.

Group operating profit rose by 36.0% to £139.1 million (1998/99: £102.3 million), reflecting an operating margin of 12.2% (1998/99: 10.3%). The return on capital employed was 24.1% (1998/99: 19.5%).

Net debt at 29 January 2000 was £91.6 million, a reduction of £19.9 million in the year (30 January 1999: £111.5 million). Group gearing (that is the ratio of net debt to shareholders' funds) at the year end was 20% (30 January 1999: 29%).

The US business, which accounts for over two thirds of Group sales, continued to demonstrate its underlying strengths with a further industry leading performance, building on its consistent record of growth in recent years. The expansion programme continues; 10% was added to selling space during the year comprising 41 new mall stores (offset by 15 store closures) and 13 Jared off-mall superstores.

The UK jewellery division also produced a significant increase in results in what was a very challenging year for the retail sector in general. Following a difficult first quarter, business gradually picked up during the year as the trading environment improved and a series of operational initiatives began to bear fruit. Sales over the important Christmas period were particularly strong, helped by a marked resurgence of consumer confidence in the jewellery sector and by the Millennium factor.

### Dividends

Against the background of a good year the Board is pleased to recommend a final dividend of 1.2p per share (1998/99: 1.0p) to be paid on 3 July 2000 to shareholders on the register of members at close of business on 5 June 2000. This will be in addition to the interim dividend of 0.25p per share paid in November, making a total dividend for the year of 1.45p per share (1998/99: 1.0p).

### US (67% of sales)

The US business maintained its strong performance and again outperformed its main quoted competitors on a range of key operating measures including like for like sales growth. Sales per store increased to an average of over \$1.5 million (1998/99: \$1.3 million). Details of the performance are set out below:

	1999/00	1998/99	Change	Like for like change
	£m	£m	%	%
Sales	<b>759.8</b>	637.2	+19.2 <sup>(1)</sup>	+11.3
Operating profit	<b>103.1</b>	77.5	+33.0	
Operating margin %	<b>13.6</b>	12.2		
ROCE %	<b>24.9</b>	20.4		

<sup>(1)</sup> At constant exchange rates US total sales increased by 16.4%.

Total space was some 10% greater with 827 stores in total at 29 January 2000, comprising 545 Kay stores, 254 regional stores and 28 Jared stores (30 January 1999: 788 stores comprising 524 Kay stores, 249 regional stores and 15 Jared stores). The Jared concept continues to perform ahead of expectations and 13 new stores were added during the year. In the year 29 Kay stores and 12 regional stores were opened with 57 mall stores refurbished or relocated and 15 mall stores closed in the normal course of business.

The careful testing of new products, the development of product ranges, and the aggressive roll out of proven winners was again very successful. This helped the division achieve a lower inventory to sales ratio than any of its quoted competitors. The diamond range was further improved with bridal and large solitaire rings, solitaire earrings, bezel set earrings and pendants, as well as bracelets, being particularly successful. Gross margins were maintained at last year's level.

Spending on advertising and marketing increased by 15%. There was a further switch to television and radio advertising and away from catalogues, with television impressions increasing by 50% and radio impressions by 20%. Retargeting of advertising to peak selling periods again worked well and helped drive the fourth quarter like for like sales increase of 12.7%.

## Executive Chairman's statement

Kay's web site continues to be developed with additional product information, downloadable promotions and a credit application facility, being new features which are essential to the development of a site for future e-commerce transactions. The strength of the Kay brand name and its national store coverage would provide the division with a competitive advantage in any future e-commerce capability.

In the US the strategy is to enhance the existing business by building on its competitive advantages in merchandising, marketing and store operations, to take advantage of relocation and refurbishment opportunities and to increase the store portfolio by opening further mall stores and rolling out the successful Jared off-mall destination superstore concept. A further increase of about 10% in selling space is planned for 2000/01, comprising an additional 40 new mall stores (offset by 15 store closures) and up to an additional 15 Jared stores. Target markets have been identified which Signet believes would bring the potential for the Jared concept to over 200 stores, with total sales of over \$1 billion.

### UK (33% of sales)

The UK jewellery division achieved excellent results helped by the surge in consumer confidence in the fourth quarter and by operating efficiencies implemented in the year. Gross margins were above last year's level. Details of the performance are set out below:

	1999/00	1998/99	Change	Like for like change
	£m	£m	%	%
Sales				
H. Samuel	<b>245.4</b>	237.9	+3.2	+2.1
Ernest Jones	<b>125.7</b>	109.4	+14.9	+11.0
Other	<b>5.6</b>	6.7		
Total	<b>376.7</b>	354.0	+6.4	+4.9
Operating profit	<b>39.3</b>	32.4	+21.3	
Operating margin %	<b>10.4</b>	9.1		
ROCE %	<b>25.9</b>	21.6		

The division performed particularly well in the fourth quarter with a like for like sales increase of 11.7% (H. Samuel +7.2% and Ernest Jones +21.6%).

During the year greater focus was placed on the core diamond product category and this was reflected in significant sales increases in both H. Samuel and Ernest Jones. Improvements in the product range and updated window displays also contributed to the better performance in this product area. Watch sales were buoyant, particularly the new fashion watch brands and the higher value items in the Ernest Jones range. Greater emphasis was given in both chains to improving product displays and in-store presentation standards. These operational improvements were backed by a strengthening of the supply chain logistics as well as an improved marketing and promotional programme that benefited from the increased interaction with the US business.

Customer service standards were further improved and continue to be a priority. Clear objectives have been set and revised training programmes are in place with the aim of further improving product knowledge, service and selling skills. In H. Samuel regional, area and training structures have been strengthened to provide greater depth of field support. The success of the drive to simplify field operating procedures within stores is resulting in more time now being spent by store staff attending to customers rather than on administrative tasks. A better focused incentive programme has also been introduced.

The year saw further investment in the store portfolio, particularly in Ernest Jones where 40 store refurbishments were carried out. Seven H. Samuel and four Ernest Jones new store openings took place during the year. At 29 January 2000 there were 606 stores in total (427 H. Samuel stores and 179 Ernest Jones stores).

The web sites for both H. Samuel and Ernest Jones were further improved and expanded. The division is actively assessing current developments in e-commerce and digital television marketing.

H. Samuel is a high volume business with a relatively low transaction value. It is positioned in the heart of the mass market and is already well represented nationwide. The strategy is therefore to leverage the strong market position of the business by making existing space work harder. This will be done by intensifying the present drive to improve customer service and by continuing to increase the participation of products such as diamonds, gemstones and fashion watches in the range.

## Executive Chairman's statement

For Ernest Jones there are greater opportunities to expand space and to develop further the Leslie Davis name. Both Ernest Jones and Leslie Davis are well positioned to capitalise on the trend towards more aspirational products, particularly in the diamond and watch categories.

The UK division has significantly increased its presence in the insurance loss replacement business, serving a growing list of leading insurance companies and their clients. This business is a key strategic opportunity, particularly for Ernest Jones. A strengthening of management and systems support is underway to further facilitate the growth of this business.

### People

I am pleased to report that the Board announced on 28 March 2000 the appointment of Terry Burman as Chief Executive of Signet Group plc with immediate effect. Terry Burman has been Chief Executive of the Group's US business since 1995 and will retain this role in addition to his new appointment.

In order to ensure a smooth transition to Terry Burman of executive responsibility, the Board has asked me to remain as Executive Chairman until 31 March 2001 and to continue thereafter for a period as non-executive Chairman.

On 1 October 1999 Ian Dahl joined the Group as Chief Executive of the UK jewellery division and was appointed a director of Signet Group plc. He replaced Laurence Cooklin, who resigned from the Board with effect from 15 April 1999.

I would like to express my thanks to all management and staff for their efforts and contribution to the success of the Group during the past year.

### Corporate governance

The statement, as required by the Combined Code of the London Stock Exchange, is given on pages 34 to 36.

### The community

As I have previously indicated, the Group believes it is best to give support to a limited number of charities rather than

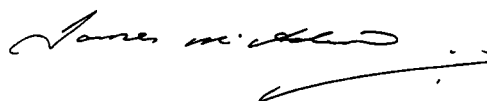
fragment the overall funds made available for this purpose. Therefore in the US support is primarily given to The United Way, St. Jude Children's Research Hospital and The Jeweler's Charity Fund. With the return to the dividend list in 1999 the Board has decided it is appropriate to resume making charitable donations in the UK and the Group will continue to build on its relationship with the Princess Royal Trust for Carers. In addition the Group has undertaken cause-related marketing initiatives on both sides of the Atlantic and supports staff in local community initiatives.

### Prospects

The Group has now achieved five years of consistent and significant profits growth. The improvement in trading performance has transformed the financial standing of the Group and generated the resources necessary to finance the present strategy. In the last two years alone £139.5 million has been invested in the fixed and working capital needs of the business. At the same time the Group has funded £20.9 million of dividends and reduced net debt by £66.3 million. By 29 January 2000 gearing had fallen to 20%. The present strength of the balance sheet should not only enable the Group to fund existing investment plans but also allow it to consider any opportunities that might arise from further consolidation of the jewellery industry. The Board is confident that the progress made in recent years, together with the strategies in place on both sides of the Atlantic, provides a sound basis for further growth.

### Current trading

The Group has experienced a favourable start to the year, helped by strong sales over the Valentine Day period in both the US and the UK. Sales performance for the first quarter of the year will be announced in the first week of May.



**James McAdam**

Executive Chairman  
28 March 2000

## Five year financial summary

	1999/00	1999/00	1998/99	1997/98	1996/97	1995/96
	£m	\$m	£m	£m	£m	£m
Net sales	<b>1,136.5</b>	<b>1,841.1</b>	991.2	927.9	901.9	894.7
Operating profit	<b>139.1</b>	<b>225.3</b>	102.3	90.8	76.5	63.9
Net interest payable	<b>(11.4)</b>	<b>(18.4)</b>	(13.1)	(22.1)	(31.4)	(38.9)
Profit before tax	<b>127.7</b>	<b>206.9</b>	89.2	68.7	45.1	25.0
Taxation	<b>(38.3)</b>	<b>(62.1)</b>	(24.0)	(17.8)	(11.2)	(7.5)
Profit for the period	<b>89.4</b>	<b>144.8</b>	65.2	50.9	33.9	17.5
Dividends	<b>(24.4)</b>	<b>(39.5)</b>	(16.7)	–	–	–
Earnings per share <sup>(1)</sup>	<b>5.3p</b>	<b>\$0.09</b>	3.9p	3.0p <sup>(1)</sup>	2.0p <sup>(1)</sup>	1.0p <sup>(1)</sup>
Capital expenditure	<b>39.3</b>	<b>63.7</b>	30.9	28.6	15.2	16.9
Depreciation	<b>27.8</b>	<b>45.0</b>	27.6	26.9	24.6	26.8
Net assets	<b>454.5</b>	<b>736.3</b>	385.8	336.7	296.2	266.8
Net debt	<b>91.6</b>	<b>148.4</b>	111.5	157.9	240.2	308.2
Store numbers (at end of period):						
UK—H. Samuel	<b>427</b>		426	426	428	433
—Ernest Jones	<b>179</b>		180	172	166	167
—Total	<b>606</b>		606	598	594	600
US—Kay	<b>545</b>		524	499	440	373
—Jared	<b>28</b>		15	7	4	3
—Regional	<b>254</b>		249	262	334	463
—Total	<b>827</b>		788	768	778	839
Number of employees (full-time equivalents)	<b>11,450</b>		10,919	10,940	11,218	11,995

<sup>(1)</sup> Earnings per share is defined in the Definitions section on page 97.

The financial data included in the five year financial summary above has been derived, in part, from the audited consolidated Accounts for such periods included elsewhere in this Annual Report. The financial data should be read in conjunction with the Accounts including the notes thereto, and the Financial Review included on pages 22 to 29 of this Annual Report. Further selected financial data is shown

on pages 94 to 95 of this Annual Report. The Accounts of the Group have been prepared in accordance with UK GAAP which differ in certain respects from US GAAP. See pages 79 to 86 for information on the material differences between UK GAAP and US GAAP that affect the Group's profit and shareholders' funds.

## US Operating review

### Overview and competitive advantages

Signet is the second largest specialist retailer of fine jewellery in the US, operating 827 stores in 44 states at 29 January 2000. Signet operates both mall jewellery stores and destination superstores in major off-mall shopping centres. Its mall stores operate nationally under the name “Kay Jewelers” (“Kay”) and regionally under a variety of recognised trade names. Signet’s off-mall destination superstores trade as “Jared — The Galleria of Jewelry” (“Jared”). Jared is the largest and fastest growing destination specialist jewellery store chain in the US. At this time Signet sees possibilities for approximately 10% space growth per annum in locations across the US, a significant part of which comes from its Jared stores. In the US the Group’s business is managed and operated as a stand-alone entity.

The number of specialist jewellery stores has decreased from approximately 27,100 in January 1999 to 26,700 in January 2000 (Jewelers Board of Trade). Total US jewellery sales are estimated to have been \$48 billion in 1999, with the specialist market in which Signet competes being \$24 billion (US Department of Commerce). According to the same source, sales in jewellery stores have grown at a compound annual growth rate of 5.5% from 1993 to 1999. Supporting the outlook for jewellery sales in general, the US market enjoys a favourable demographic trend. Baby boomers will make the 45-64 year old segments of the population the fastest growing age group over the next ten years. According to government sources, per capita expenditure on jewellery in this age group is higher than in any other age group.

Signet’s success in competing in the US specialist jewellery retail market is attributable to a number of factors. These factors are summarised below and are explained in greater detail on pages 7 to 13.

Signet’s geographic spread, the diversity in its mall and off-mall store operating formats, its stable, industry-experienced management team, together with its well trained, well incentivised sales personnel and its superior information systems contribute to Signet’s leading position in the industry. In addition, Signet believes that the economies of scale derived from its size and the high sales productivity and profitability of its stores give it a competitive advantage in advertising, merchandising, purchasing, real estate and operating infrastructure.

Signet believes that brand name recognition by consumers is a critical factor in jewellery retailing, as products are

typically unbranded. Signet is one of just two specialist jewellery retailers that have nationwide presence, which enables them to advertise cost effectively on national network television. Signet has established and continues to enhance the name recognition of its national chain, Kay, using this medium.

Speedy replenishment of goods sold is ensured by sophisticated merchandising systems, which track and respond to consumer preferences. Management calculates that its cost of inventory to sales ratio is more efficient than that of its main quoted competitors. Approximately 55% of diamond merchandise is contract manufactured which allows Signet to provide better value in its merchandise assortment. In addition, Signet is able to use its detailed understanding of the costs involved in manufacturing to negotiate better terms with suppliers of finished product.

The key features during 1999/00 were increased investment in stores, more advertising, highly motivated staff and buoyant consumer confidence. In 1999/00 41 new mall stores were opened (1998/99: 23), 35 mall stores were refurbished (1998/99: 19), 22 mall stores were relocated to superior locations within a mall (1998/99: 17) and 13 Jared stores were opened (1998/99: 8). The spending on advertising and marketing increased by 15% to \$68.7 million (1998/99: \$59.7 million). Sales benefited not only from the increased level of spending but also from greater efficiency in the placing of advertisements which resulted in more advertisements being seen by potential customers. Kay’s web site was further developed and consideration is being given to introducing an e-commerce capability. Investment in staff training and staff motivation remain important priorities for management and approximately 25% of store personnel remuneration was incentive based.

### Competition

The US retail jewellery industry is highly competitive and fragmented, with a large number of independent specialist jewellery retailers.

Signet believes that its share of the \$24 billion US specialist jewellery retail market is approximately 5%. That gives Signet the number two position in the specialist market which has seen the leading operators gain market share in the past five years. The Group’s largest and only national competitor in the US is Zale Corporation, the largest US

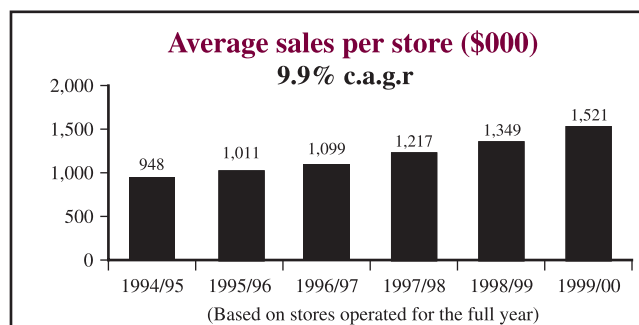
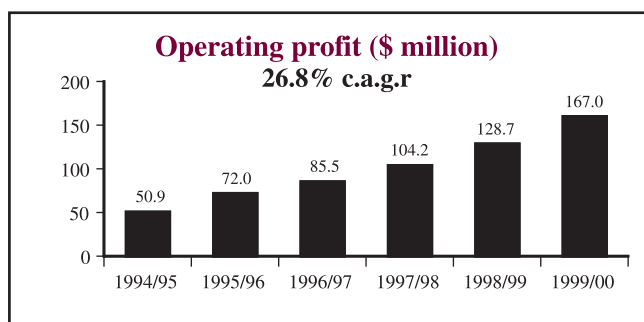
## US Operating review

specialist jewellery retailer with over 1,100 US stores and a market share in excess of 6% of the specialist jewellery retail market. Signet also encounters competition from a limited number of large regional retail jewellery chains, smaller regional chains and independent retail jewellery stores. Signet estimates that the five largest specialist jewellery retailers account for approximately 15% of the specialist jewellery sales and approximately 9% of the specialist jewellery outlets. Signet believes it is the leading quoted specialist retail jeweller in the US in terms of average sales per store. It further believes that it outperforms other quoted mass-market specialist jewellery retailers operating stores of a similar size on a number of important operating measures.

In the \$48 billion total jewellery market Signet competes against department stores, catalogue showrooms, discount outlets, television home shopping and Internet shopping. The Group also believes that it competes for consumers' discretionary spending dollars with retailers who offer merchandise other than jewellery. Management believes that consumers make their buying decisions between alternative retailers on the basis of price, the quality and value of the retailer's merchandise, the breadth of selection, credit programmes, store locations, store branding, advertising, the expertise of a store's sales personnel and its reputation for reliability and service.

Signet stores offer jewellery in a wide variety of styles and price points, with emphasis on fine diamond, gemstone and gold products. Approximately 70% of the Group's US sales are of diamond and gemstone merchandise. In 1999/00 the average price of diamond merchandise sold by Signet in the US was \$425 (£262) and the average retail price of all merchandise sold was approximately \$237 (£146).

Signet's strong performance in the US over the past six years is illustrated in the following charts:



### Store operations

Signet conducts its retail operations through three marketing divisions: Kay, several regional chains operating under a variety of established regional names and Jared. Its mall stores are primarily located in regional and super-regional enclosed malls. The average mall store contains approximately 1,100 square feet of selling space. The Group standardises the design and appearance of its stores within each chain, while at the same time adapting each store's design to its size and location.

In 1999/00 Signet opened 13 Jared stores and 41 mall stores. Taking into account the closure of 15 mall stores, the net result was an increase of approximately 10% in store space (1998/99: approximately 7%). In 1999/00 Signet remodelled 35 mall stores and relocated a further 22 stores within malls in which it already operated. Signet plans to remodel 79 mall stores and relocate 30 mall stores during 2000/01.

Signet has very strict real estate criteria when considering investment in stores. For mall sites, Signet targets corner locations with high footfall. For Jared, Signet targets free standing sites near the front of "power strip" shopping centres or malls that have high visibility and high traffic flows. In addition, the retail centres in which Jared stores operate typically contain strong retail co-tenancy, including other destination stores such as Borders Books, Circuit City, Bed, Bath & Beyond, Home Depot, and Toys R Us. In 2000/01 Signet plans to open up to 15 Jared stores and 40 mall stores, the majority of which will trade under the Kay name. Signet plans to close approximately 15 mall stores. The net result of planned openings and closures will be an estimated 10% additional retail space by the end of 2000/01.

### Kay

Kay, with 545 mall stores in 44 states at 29 January 2000, is Signet's national chain and is targeted at the middle income consumer. The average retail price of merchandise sold in the

## US Operating review

Kay division during 1999/00 was \$224 (£138) compared to \$214 (£132) in 1998/99. The development and expansion of Kay as Signet's national chain is an important element of its growth strategy; approximately 68% of Signet's mall stores operate under the Kay name compared to 44% some four years ago. During 1999/00 Signet opened 29 new Kay stores and closed eight, resulting in an increase of 21 Kay stores. In the longer term Signet believes it could open approximately 300 additional Kay stores that would meet its investment criteria.

### *Regional chains*

Signet also operates mall stores under a variety of established regional trade names including JB Robinson Jewelers, Belden Jewelers, Friedlander's Jewelers, Goodman Jewelers, LeRoy Jewelers, Osterman Jewelers, Roger's Jewelers, Shaw's Jewelers and Weisfield Jewelers. At 29 January 2000 Signet had 254 stores in the regional chains. In 1999/00 Signet opened 12 new stores operating under a regional trade name and closed seven. New stores with regional trade names will be considered when real estate that satisfies Signet's investment criteria becomes available within an area covered by the marketing support for a regional name.

The average retail price of merchandise sold in the regional chains during 1999/00 was \$255 (£157) compared to \$243 (£150) in 1998/99.

### *Jared*

The Jared stores are destination stores whose superior selection, customer service and value appeal to a more mature, better educated, higher income consumer than Signet's mall stores. The Jared customers also differ because they are more likely to close a sale, having chosen to visit a stand-alone jewellery store rather than a mall jewellery store, which competes with other jewellery stores and other types of retail outlets in a mall. Signet's access to capital, its industry expertise and its management resources and systems, give the Group a significant advantage in developing the Jared concept. As Jared is aimed at an under-served part of the jewellery market, management believes that Jared presents an additional opportunity to maximise sales and increase market share.

The typical Jared store is about 5,800 square feet with approximately five times more merchandise selection than a mall store. In addition to carrying an extended range of jewellery and watches, the size of the Jared stores enables them to offer enhanced customer services such as in-store

repair and custom design facilities. Customers have also responded favourably to private viewing rooms for the purchase of large diamonds, children's play areas and the ability to offer refreshments. Signet operated 28 Jared stores at 29 January 2000 (30 January 1999: 15 stores).

Signet considers that its Jared concept has great potential for growth and has identified over 100 potential markets for future expansion, with many of these markets able to support multiple Jared locations. In the longer term Signet believes that the sales from Jared could increase to over \$1 billion. The Group plans to open up to 15 additional Jared stores during 2000, accounting for approximately 75% of total space growth. Operating margins in a Jared store are expected, after four years' trading, to be similar to margins in Signet's mature base of mall stores. However, prior to maturity Jared stores have a lower operating margin.

The average retail price of merchandise sold in Jared stores during 1999/00 was approximately \$452 (£279) compared to \$400 (£247) in 1998/99.

### *Store management, personnel, training and incentives*

Signet considers its store personnel to be one of the most important elements of its operations, and therefore provides training and a career path for its employees. Its policy is to promote regional vice-presidents from district managers and district managers primarily from among its store managers, thereby helping to assure continuity and familiarity with individual store operations. Signet has a number of sales personnel who are ready to advance to store manager level, thus assuring the availability of newly trained managers when management opportunities occur.

Store personnel must complete their basic training within 90 days of joining. Signet conducts in-house sales training seminars both at the local store level and at regularly scheduled classes facilitated by the district manager. Supplementing those seminars, computer-based training and testing programmes that use the store's personal computer are designed to strengthen and reinforce selling skills. In addition, all US retail sales personnel are encouraged to graduate from a comprehensive diamond correspondence course provided by the Diamond Council of America in order to achieve Certified Diamontologist status. The Group believes that it has more certified diamontologists than any other retail jeweller in the US. Upon completion of the diamond course, employees often continue their professional development through completion of a correspondence course on gemstones. Signet also devotes

## US Operating review

The following map shows the number and locations of Signet's US stores at 29 January 2000:



The following table sets out information concerning the stores operated by Signet during the periods indicated:

	1999/00	1998/99	1997/98
Number of stores:			
Total opened during year <sup>(1)</sup>			
Kay	<b>54</b>	31	22
Regional chains	<b>12</b>	5	1
Jared	<b>13</b>	8	3
Total closed or sold during year <sup>(1)</sup>	<b>(15)</b>	(11)	(32)
Kay	<b>(8)</b>	(5)	(12)
Regional chains	<b>(7)</b>	(6)	(20)
Jared	<b>nil</b>	nil	nil
Total open at end of year	<b>827</b>	788	768
Kay	<b>545</b>	524	499
Regional chains	<b>254</b>	249	262
Jared	<b>28</b>	15	7
Increase in space	<b>10%</b>	7%	1%
Percentage increase in like for like sales	<b>11%</b>	10%	9%
Average sales per store in thousands (total) <sup>(2)</sup>	<b>\$1,521</b>	\$1,349	\$1,217
Average sales per store in thousands (excluding Jared) <sup>(2)</sup>	<b>\$1,457</b>	\$1,320	\$1,200

(1) Figures for stores opened and closed during the year exclude transfer of sites between Kay and regional chains.

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

## US Operating review

considerable resources to training its managers and conducts, at its corporate headquarters, a number of in-house management and career development programmes that it considers to be comprehensive in scope. Signet has also tailored in-house training programmes to address specialised areas such as managing high volume stores and new Jared stores.

All store personnel have daily performance standards and are required to establish and commit to daily goals at the beginning of each day. Every day the store information system provides comparison of actual performance to the previous day's goals. In addition, Signet monitors performance against individual goals and factors this performance into promotion decisions.

Signet conducts monthly incentive programmes in which employees of a store receive a bonus based on their individual sales if the store as a whole achieves certain sales goals for the month. To qualify for the bonus the employees must have successfully completed their basic training. Signet believes that programmes based on overall as well as individual performance promote customer service and operating efficiency. Signet awards bonuses to store managers based on the profitability of their stores in addition to the sales-based bonuses. Bonuses paid to district managers are based on the achievement of certain objectives for the stores under their control, including sales and margin goals, operating cost control, training, attention to loss prevention matters and profitability. Signet also frequently runs contests and incentive programmes rewarding achievement of specific goals with travel or additional bonuses. Approximately 25% of store personnel remuneration has been incentive based. Signet's training and bonus programmes have played an important role in recruiting and retaining staff.

### Merchandising and purchasing

#### *Merchandising*

Over the past four years Signet has developed and implemented sophisticated inventory management systems, with particular emphasis given to merchandise assortment planning, allocation and replenishment. These systems have enabled the Group to improve inventory management, control better its investment in inventory and increase inventory productivity. Through the use of such systems, a model inventory plan is established and periodically revised for each store. Approximately 70% of the merchandise sold in an individual store is available for sale in all of Signet's US

stores, and the remainder is selected to reflect the demand for merchandise within a particular market. The inventory management team works closely with the marketing team to determine the merchandise quantities needed to support marketing initiatives and merchandise assortments using historical sales performance and forecasting models. This is intended to ensure that the most popular products are in stock and are replenished in a timely manner. Signet believes that its merchandising and inventory management systems have allowed it to achieve inventory turns that are superior to its quoted competitors. In 1999/00 the average cost of inventory as a percentage of annual sales was 31.6% (1998/99: 32.8%).

Other merchandising initiatives endeavour to create a competitive advantage through distinguishable merchandise selection. Signet is also establishing exclusive merchandise programmes in conjunction with certain vendors. Signet is planning future enhancements to its merchandising systems to provide "micro merchandising" capabilities which will enable it to target more narrowly its merchandise assortments specific to each retail location.

The table opposite sets out Signet's US merchandise sales mix as a percentage of net sales for 1997/98 to 1999/00.

#### *Purchasing*

Signet obtains approximately 55% of its US diamond merchandise through contract manufacturing. Its US buyers travel abroad to major world markets to purchase loose diamonds and other components of its jewellery thereby eliminating the costs associated with intermediaries. It then outsources the casting, assembly and finishing operations to manufacturers. Signet believes that this approach to purchasing provides it with a competitive cost and quality advantage. The Group obtains its other merchandise as finished products from manufacturers, wholesalers and consignors in the US and abroad. The detailed understanding of the costs involved in production that results from Signet engaging in contract manufacturing also allows it to negotiate better terms with suppliers of finished product. Merchandise held on consignment is used to enhance Signet's other merchandise selection and to test new products. This minimises Signet's exposure to changes in fashion trends and obsolescence and gives it the flexibility of returning or exchanging non-performing product. At 29 January 2000 Signet held approximately \$81 million (1998/99: \$81 million) of merchandise on consignment.

## US Operating review

Merchandise mix	Percentage of net sales		
	1999/00	1998/99	1997/98
	%	%	%
Diamonds	<b>63</b>	61	61
Gold jewellery	<b>18</b>	19	19
Gemstones	<b>8</b>	9	9
Watches	<b>7</b>	7	7
Repairs	<b>4</b>	4	4
	<b>100</b>	100	100

In 1999/00 Signet's five largest suppliers collectively accounted for approximately 26% (1998/99: 22%) of its total purchases, with the largest supplier accounting for approximately 8% (1998/99: 5%).

### Marketing and advertising

Signet believes that brand name recognition by consumers is a critical factor in jewellery retailing, as products are typically unbranded. Therefore Signet has established a strategic programme, providing the framework for the execution and delivery of marketing and advertising activities. The programme's primary goal is to continue to develop and maintain a strong understanding of the jewellery consumer and of purchase frequency over time through in-depth market and demographic research. This knowledge is used in planning and executing marketing and advertising initiatives designed to increase purchases by new customers and to increase the repurchase frequency of current and former customers.

As Kay is a national chain, Signet is able to use national network television for cost-effective promotion. The increasing number of Kay stores enables Signet to leverage the cost of network television advertising. Signet concentrates its media advertising activities at those times during the year when customers are expected to be most receptive to the advertising message. Apart from its role in building brand name recognition, advertising is used to promote merchandise offers at Christmas, Valentine's Day, Mother's Day and other events during the year. The increased use of radio and television advertising has been an important element of Signet's advertising strategy. National TV advertising is supplemented by regional TV, regional radio and direct mail. Advertising campaigns for Jared and regional chains use regional radio stations supplemented by

direct mail as a cost effective medium to support and enhance name recognition.

In addition, all of the Group's US stores use advertising circulars that display a wide selection of merchandise. Signet produces eleven circulars each year, which are prominently displayed in the stores. Many of these circulars are also mailed direct to targeted customers. Signet uses statistics and technology-based systems to perform database and direct marketing activities to strengthen Signet's relationship with existing customers by targeting current customers with special savings and merchandise offers during the key promotional periods and to invite customers to store special events. Through such activities Signet is able to prospect its proprietary database which has in excess of 12 million names and runs over 6,000 individual store special events throughout the year.

Point of sale signage and window displays typically feature value priced or seasonal merchandise offers and are used to deliver a series of advertising messages to customers already in the mall. Display systems are also configured to encourage sales of larger, higher price point product by grouping similar items of various sizes and quality in the same display component.

Signet personnel, working together with an outside advertising agency, develop all advertising in the US. In 1999/00 the Group spent \$68.7 million in the US (5.6% of the Group's US net sales) on advertising and promotions compared to \$59.7 million (5.6% of the Group's US net sales) in 1998/99 and \$53.5 million (5.6% of the Group's US net sales) in 1997/98.

### Internet marketing

Signet continued to update and develop its Internet marketing site for Kay. In 1999/00 additional product information was

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presented on the site and a facility for submitting a credit application over the Internet was implemented. In 2000/01 Signet intends to develop further the Kay web site by increasing the number of features displayed on the site, by improving the browsing and search capabilities and by developing new marketing features.

The total market for the purchase of jewellery over the Internet was estimated by Signet's US operations to be under 1% of the fine jewellery market in both 1999 and 2000. Jewellery's high value to low weight ratio makes it attractive to e-commerce. However its limited standardisation, low consumer understanding of the product, potential high return rate by consumers and the emotional, high sense of occasion on purchase make it less appropriate for e-commerce. Kay's strong brand name and national store coverage would provide the division with an advantage in any future e-commerce capability. Signet regularly examines the fulfilment and other support functions necessary to operate an e-commerce site and carries out market research to assist in understanding consumer attitudes to e-commerce in the jewellery sector.

### Credit operations

Signet offers a variety of in-house credit programmes for customers who wish to finance their purchases and who meet Signet's credit standards. In-house credit sales represented approximately 49% of total US net sales in 1999/00 (approximately 50% in 1998/99 and approximately 60% in 1992/93). Certain programmes offer interest-free financing. To reduce credit risk, down payments are generally required and averaged 14% of the purchase price in 1999/00. In addition, in most states Signet offers optional credit insurance to its customers which provides coverage for in-house credit purchases in the event of burglary, death, disabling injury or unemployment.

The Group believes that its various credit programmes, its granting of a credit line and its promotional efforts together with its guarantee and service plans, establish long-term relationships with customers and complement its overall marketing strategy by encouraging both additional purchases and higher unit sales. The table below presents data concerning Signet's in-house credit business for the past three financial years.

Signet operates centralised credit authorisation and collection processes at its headquarters in Akron, Ohio. Sophisticated information, communication and decision-support systems form the basis for these processes. Signet evaluates credit application data together with credit data obtained through on-line access to third party credit bureaux in a computer programme that can predict how likely it is that credit applicants will default on their account. This system is capable of processing and approving a credit application, with the majority of credit approvals completed in less than two minutes after data input. The system establishes a maximum credit line for each approved customer and periodically updates the credit line. Using statistical methods, Signet has developed scoring models that support its collection systems and strategies.

"Automated predictive dialers" make it possible to maximise contact between Signet's collectors and customers who have fallen behind in their payments. These automated predictive dialers call telephone numbers from Signet's customer database and forward answered calls to available staff. As a result Signet's collection staff do not have to wait while contact is established.

In addition to offering in-house credit cards, Signet accepts major credit cards. Sales made with major credit cards are treated as cash sales and accounted for approximately 32% of total US net sales during 1999/00 (1998/99: 29%).

### In-house credit operations

	1999/00	1998/99	1997/98
Net credit sales (\$m)	<b>598.8</b>	531.5	483.6
Credit sales as % of total net sales	<b>48.6%</b>	50.3%	50.9%
Number of active credit accounts at year end	<b>646,507</b>	603,807	568,360
Average outstanding account balance (\$)	<b>616</b>	604	595
Average monthly collection rate	<b>14.0%</b>	13.9%	13.7%
Bad debt as % of total net sales	<b>2.9%</b>	3.2%	3.2%
Bad debt as % of net credit sales	<b>6.0%</b>	6.3%	6.3%

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### Management tools and communications

Signet's management information systems provide detailed, timely information to monitor and evaluate virtually every aspect of the business. All of Signet's stores are supported by its internally developed Store Information System ("SIS"). SIS includes electronic point of sale ("EPOS") processing, in-house credit authorisation and support, a district manager financial information system and a satellite-based communications system which supports data transmissions and company-wide electronic mail in real time. At the end of each day, data captured by the EPOS system is automatically transmitted to Signet's US headquarters. Signet uses this data to update sales, in-house credit and perpetual inventory systems. The EPOS system also makes it possible to determine inventory replenishment for its stores.

The information systems are highly integrated and comprehensive, providing daily, weekly and monthly operating and statistical reports. These systems give the Group's management timely information with respect to inventories, sales, gross profit margins, payroll, receivables and operating costs. The systems allow Group management to compare actual, budgeted and prior year performance for every individual store. Furthermore, they make it possible to follow and analyse product and regional sales trends. Signet has implemented data warehouse and other end-user systems permitting more in-depth analysis of specific aspects of the

business and supporting the identification and development of sales or other operating strategies. The data warehouse system organises and stores the data needed for informational and analytical processing over a long period of time. These systems provide a solid basis for decision making at the store and Group level.

Signet's merchandise processing system encompasses inventory planning and control, purchase order management, receiving, ticketing, distribution, picking, shipping and replenishment. This system enables Signet to automatically track each individual item of merchandise from receipt to ultimate sale. The system also monitors sales, gross margins and inventory levels for individual stores, merchandise categories and individual merchandise items. In addition, to increase its operating efficiency, Signet has developed an automated, paperless merchandise picking system, which is capable of replenishing up to approximately 140,000 pieces of merchandise in all stores in a single day.

### Regulation

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

## UK Operating review

### Overview and competitive advantages

In the UK Signet is the largest specialist retailer of fine jewellery, with a market share of approximately 17%. It operates primarily through H. Samuel (22% of Group sales), which is targeted at the heart of the mass market, and Ernest Jones (11% of Group sales), which is directed at the upper end of the mass market and also trades under the name Leslie Davis. Signet's stores are predominantly situated in prime "High Street" (main shopping streets with high pedestrian traffic) or mall locations. Signet operated 427 H. Samuel stores and 179 Ernest Jones stores (including 27 Leslie Davis stores) at 29 January 2000. H. Samuel stores are present in virtually every medium and large retail centre in the UK. H. Samuel is one of the best recognised retail brand names in the UK and is the largest chain of specialist retail jewellers with over twice the number of stores as the next largest specialist chain which is Ernest Jones. Ernest Jones is represented in most large retail centres.

Signet believes that its UK operations have a clear competitive advantage due to the long established and strong brand names; national coverage of H. Samuel and Ernest Jones; economies of scale in buying, merchandising, property, logistics, marketing and information systems; operating infrastructure and its access to the experience of the Group's US operations. It has highly productive and profitable stores in prime locations following the extensive rationalisation of its store portfolio in the early 1990s. Signet's leading market share enables it to work closely with suppliers in identifying and taking advantage of market opportunities and trends.

During the year under review, Signet increased resources to improve store operations and customer service, enhanced its product ranges, made a number of supply chain improvements and continued to invest in store modernisation and information systems. There was also an increase in interaction between Signet's US and UK management in areas such as merchandising, marketing and store operations.

Ian Dahl joined Signet's UK division as Chief Executive in October 1999. He has extensive experience of retailing in the UK and abroad, with particular emphasis on store operations. He is responsible for developing and executing Signet's business strategy in the UK. The strategy for H. Samuel is to leverage its strong market position by

making existing space work harder. This will be done by intensifying the present drive to improve customer service and by continuing to increase the participation of products such as diamonds, gemstones and fashion watches in the range. For Ernest Jones there are greater opportunities to expand space and to develop further the Leslie Davis name. Both Ernest Jones and Leslie Davis are well positioned to capitalise on the trend towards more aspirational products, particularly in the diamond and watch categories. The further development of the insurance loss replacement business is also a strategic opportunity, particularly for Ernest Jones.

### Competition

As is the case in the US, jewellery in the UK is sold through various channels of distribution, including specialist jewellery retail stores such as those operated by Signet. Jewellery retailers include catalogue showrooms, jewellery departments in department stores and mail order catalogues, as well as specialist jewellery stores. Following changes to the categories of trade in statistics published by the UK government during 1996, the specialist retail jewellery market (consisting of fine gold and costume jewellery watches, clocks and silverware) is no longer separately identifiable from other specialised non-food stores. Consequently reliable figures on the size of the UK jewellery market are not easy to obtain. Signet believes that in calendar 1998 the size of the UK mass market for fine jewellery, costume jewellery and watches was approximately £2.7 billion (\$4.4 billion) (including VAT of 17.5%).

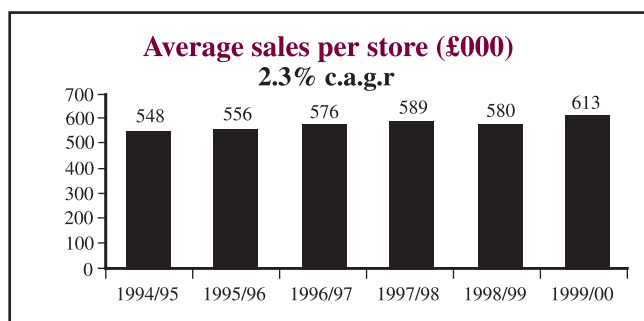
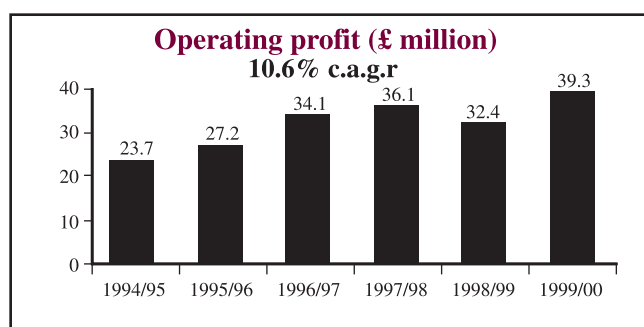
The UK retail jewellery industry is very fragmented and competitive, with a substantial number of independent specialist jewellery retailers. Signet believes there are in total approximately 6,900 specialist jewellery stores in the UK. Only two other specialist retailers of jewellery have more than 50 outlets. H. Samuel's principal competition at the lower end of its product range comes from catalogue showroom outlets such as Argos (with approximately 450 outlets) and Index, and discount jewellery retailers. Across its product range H. Samuel competes with F Hinds (a specialist retail jeweller with approximately 100 outlets) and a large number of independent specialist jewellery retailers. Ernest Jones faces competition from upper mass market, specialist jewellery retailers, including independent retailers and other upper mass market chains such as

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Goldsmiths Group (with approximately 155 branches), Beaverbrooks (with approximately 35 branches) and Mappin & Webb / Watches of Switzerland (with approximately 25 branches).

H. Samuel competes primarily on the basis of the broad selection and value for money of its merchandise, its focus as a specialist retailer, the convenience and accessibility of its prime locations and customer service. Ernest Jones competes primarily on the basis of the superior value, range and quality of its merchandise, its prime locations, its presentational standards and customer service levels. Both H. Samuel and Ernest Jones appeal to consumers because they are perceived to be friendly, unintimidating and relaxed in a product category where purchases are relatively infrequent.

The strong performance in the UK over the past six years is illustrated in the following charts:



### Store operations

H. Samuel and Ernest Jones stores are predominantly situated in highly visible High Street or mall locations. The chains employ extensive window displays that are divided into separate sections so that each product category can be easily recognised and selections can be made. This reflects the preference of many UK consumers but it is in contrast to the US where many jewellery stores have display cabinets on the frontage with the mall. The average retail price of items sold in Signet's UK jewellery stores was £36 (\$58) in 1999/00 (1998/99: £34 (\$57)) and in contrast to Signet's US operations, diamonds accounted for only 20.2% of sales in 1999/00 (18.6% in 1998/99).

There is a dedicated store operations management team for both H. Samuel and Ernest Jones to support and control the development of each division. Each division also has a dedicated marketing team and a buying and merchandising team. Other management and support functions are shared to improve operating efficiency.

### H. Samuel

H. Samuel offers a wide range of jewellery, watches and gifts and is targeted at the heart of the UK mass market. In 1999/00 diamond jewellery accounted for approximately 15% of H. Samuel's net sales, with gold and silver jewellery, watches, gifts and repairs (including accessories) accounting for approximately 34%, 25%, 16% and 10% of net sales respectively. The average retail price of items sold during 1999/00 (excluding accessories, repairs and warranties) was £26 (\$42) (1998/99: £25 (\$41)). At 29 January 2000 the chain consisted of 427 stores with an average of 1,150 square feet of selling space. The average sales per store excluding VAT were £576,000 (\$933,000) (1998/99: £562,000 (\$910,000)). H. Samuel in comparison to Ernest Jones is a high volume business with a relatively low transaction value.

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### H. Samuel store data

	1999/00	1998/99	1997/98
Number of stores:			
Opened during year	<b>7</b>	6	2
Closed during year	<b>(6)</b>	(6)	(4)
Open at end of year	<b>427</b>	426	426
Percentage increase/(decrease) in like for like sales	<b>2.1%</b>	(2.0)%	1.8%
Average sales per store in thousands (exc. VAT) <sup>(1)</sup>	<b>£576</b>	£562	£566

<sup>(1)</sup> Includes only stores operated for the full financial year.

Since 1996 H. Samuel has been carrying out an extensive store modernisation programme, the objectives of which are to enhance the flexibility and customer appeal of its window based product displays and to modernise the interior of the stores. Signet has improved the store environment to help attract customers willing to purchase at a higher average transaction value. 75% of H. Samuel's turnover came from modernised stores by the end of 1999/00 (70% by the end of 1998/99). Given H. Samuel's nationwide coverage, Signet does not plan significant increases in the number of H. Samuel stores. The property portfolio is actively managed and new formats are currently being tested in smaller retail centres.

#### *Ernest Jones (including Leslie Davis)*

The principal product categories of Ernest Jones are diamond and gold jewellery together with branded watches, which are merchandised and marketed to appeal to the more affluent customer. Ernest Jones sells a wide range of watches such as Rotary, Citizen and Tissot as well as prestige watches such as Rolex, Cartier, Gucci, Tag Heuer and Breitling, together with contemporary fashion watches such as Emporio Armani, Hugo Boss and Calvin Klein. In 1999/00 watches accounted for approximately 31% of Ernest Jones' net sales. Diamond jewellery, gold and silver jewellery, gifts and repairs (including accessories) accounted for 29%, 28%, 5% and 7% of net sales respectively. The average retail price of items sold during 1999/00 (excluding accessories, repairs and warranties) was £109 (\$177) (1998/99: £109 (\$177)). At 29 January 2000 the chain consisted of 179 stores with an average of 850 square feet

of selling space. The average sales per store excluding VAT were £702,000 (\$1,137,000) (1998/99: £626,000 (\$1,014,000)).

In 1995 Signet commenced a major modernisation programme for its Ernest Jones stores. The new store format was designed to give the chain a more up to date appeal, with more emphasis on specialist branded watches and diamond jewellery. Modernised stores contributed 65% of turnover by the end of 1999/00 (51% by the end of 1998/99). Signet plans to modernise many of the remaining Ernest Jones stores (approximately 40) during 2000/01. Signet is currently testing a new window display for Ernest Jones as part of the normal refurbishment cycle. The new display is intended to be clearer, simpler and more dynamic making the stores easier for the customer to shop.

Longer term there is scope to increase the number of Ernest Jones stores to a total of about 220, from the 179 currently in operation. Signet believes the upper end of the mass market shows the greatest potential for growth in the UK, hence opportunities for changing selected H. Samuel stores to the Ernest Jones format are considered. In addition, in the larger metropolitan markets, the Ernest Jones division is pursuing a two-site strategy using the trade names Ernest Jones and Leslie Davis. The Leslie Davis stores, which have a more contemporary image and appeal to a slightly more affluent customer than Ernest Jones, provide a higher degree of exclusivity and styling in gold jewellery, high quality diamond merchandise and more aspirational luxury and fashion watch brands.

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### Ernest Jones store data

	1999/00	1998/99	1997/98
Number of stores:			
Opened during year	<b>4</b>	8	7
Closed during year	<b>(5)</b>	—	(1)
Open at end of year	<b>179</b>	180	172
Percentage increase in like for like sales	<b>11.0%</b>	0.9%	7.8%
Average sales per store in thousands (exc. VAT) <sup>(1)</sup>	<b>£702</b>	£626	£622

<sup>(1)</sup> Includes only stores operated for the full financial year (including Leslie Davis stores).

#### *Store operations management and personnel*

Signet considers customer service to be one of the essential elements in the success of its UK business, and therefore the quality and training of its store personnel is of great importance. In particular Signet realises that customer service will be an important element in achieving its objective of lifting the average transaction value in H. Samuel by increasing the level of sales of diamonds and fashion watches. Therefore, during 1999/00, Signet increased the emphasis on staff training, store standards and customer service, particularly in the H. Samuel division.

One example of this improved focus was the reorganisation of H. Samuel's field structure, which began during 1999/00. The purpose of this reorganisation was to increase the support to the stores so as to improve standards, staff training and customer service. Each store manager reports to an area manager, who now has responsibility for about 16 stores. The area managers report to one of three regional managers, while the smaller Ernest Jones chain has one regional manager. A senior training manager has also been appointed in H. Samuel, at a management level similar to the regional managers, to support the drive to improve store standards and customer service.

Signet has also carried out a review of activities and procedures in the H. Samuel stores to identify opportunities to improve customer service and to reduce the level of administrative and other functions the store staff have to undertake. The recommendations of this review are now being progressively implemented. All new store personnel have to complete a "selling skills" learning programme during their probationary period. Throughout the year sales associates undertake further training in selling, product knowledge and customer care. Store managers and their deputies also undergo sales and store management training.

In addition personnel are encouraged to pursue further education through courses such as the National Association of Goldsmiths' "Jewellers Training Programme", which is a two year course leading to certification by examination.

Each chain has a number of sales personnel who are able to advance to the store manager level, thus assuring the availability of a number of newly trained managers familiar with Signet's operating standards and procedures.

Signet operates various incentive schemes to motivate and reward performance in the stores. The bonus systems have been enhanced during 1999/00 drawing on the experience of Signet's US operations. The objective is to communicate the targets more clearly to staff and to develop a bonus scheme using key performance indicators for store managers and area managers.

#### **Merchandising and purchasing**

Signet's UK jewellery chains carry an extensive range of merchandise including gold rings, earrings, chains and bracelets, diamond and gem set jewellery, watches, silver jewellery, silverplate, crystal and other giftware. Consistent with other UK specialist retail jewellers, most of the gold jewellery carried by Signet's UK chains is nine-carat although sales of 18 carat gold jewellery have been increasing. Sales of white gold, silver and platinum jewellery continue to grow.

In the UK market there is increased demand by consumers for aspirational products such as diamond jewellery, luxury and fashion watches. Ernest Jones is ideally positioned at the upper end of the mass market to benefit from this trend which is also being experienced by H. Samuel, but to a lesser extent. Signet expects this trend will continue over the next few years. Therefore both H. Samuel and Ernest Jones are increasing their focus on diamonds and fashion watches.

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In particular during 1999/00 there has been an improved level of co-operation between Signet's US and UK operations in transferring techniques and procedures used in developing product ranges in the diamond category. Further progress in this area is expected in 2000/01.

Both H. Samuel and Ernest Jones maintain buying departments in which experienced buyers concentrate on product development, sourcing and supplier management. Merchandising teams working alongside the buyers focus on assortment planning, branch grading, repeat orders, inventory levels and margin management. Signet focuses closely on adjusting inventory levels and future buying commitments to changes in product sales forecasts.

Signet purchases the majority of its UK merchandise from manufacturers and importers in the UK. It has a large number of suppliers and, in 1999/00, the four largest (all watch suppliers) accounted for approximately 14% of the total purchases of Signet's UK jewellery chains, with the largest supplier accounting for approximately 4%. Only a small proportion of merchandise is purchased on consignment.

There are economies of scale in combining the volume of purchases for H. Samuel and Ernest Jones. For example a significant amount of its gold jewellery is manufactured on a contract basis in Italy through a Signet operated buying office in Vicenza, thus eliminating the costs associated with intermediaries. Also Signet purchases diamonds for Ernest Jones and H. Samuel stores on the world markets, which are then set into castings by manufacturers in the UK, thereby providing cost savings.

Signet has an integrated merchandise planning and distribution system. The system monitors rates of sale,

inventory levels and margins at store and item levels and with flexible window displays enables branches to receive and display a range of merchandise reflecting local buying patterns.

The investment in merchandising and inventory systems has allowed Signet to move to a UK merchandising strategy based on the measurement of the rate of sale of product lines at store level and in total. Signet has strict test marketing procedures to trial products and only extends the distribution of tested lines against known rates of sale. These measures are the key drivers used to determine line selection, reordering and the quantities to be purchased. As well as helping to support sales, these systems have significantly improved the management of inventory, margins and replenishment of goods to stores. A programme to enable a greater degree of merchandising on a store by store basis and so improve performance was begun in 1999/00.

### Marketing and advertising

Expenditure on marketing and advertising amounted to 1.5% of sales in 1999/00 (1998/99: 1.5%). Print advertising, in particular catalogues, remains the principal advertising medium. Signet uses tailored marketing campaigns for its H. Samuel and Ernest Jones chains in order to develop the distinct brand identities of H. Samuel as a middle-market jewellery and gift chain and Ernest Jones as a more up-market diamond and prestige watch specialist.

Signet's marketing aims to support and enhance each chain's image, expand the overall customer base and improve customer loyalty. Signet has traditionally done little media advertising in the UK, but has instead relied on its prime

### Sales mix

	Percentage of net sales		
	1999/00	1998/99	1997/98
	%	%	%
Gold and silver jewellery	<b>32</b>	33	34
Watches	<b>27</b>	27	26
Diamond jewellery	<b>20</b>	18	16
Gifts	<b>13</b>	14	14
Repairs and accessories	<b>8</b>	8	10
	<b>100</b>	100	100

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store locations, the distribution of catalogues at Christmas and in-store promotions to attract customers. Drawing on the experience in catalogue design of Signet's US division, H. Samuel for the first time distributed a catalogue particularly focused on diamonds in 1999/00 and in 2000/01 introduced a Valentine's Day catalogue.

The marketing strategy for both H. Samuel and Ernest Jones is to focus increasing amounts of advertising and promotional spending at the key gift giving times of Valentine's Day, Mothering Sunday and Christmas, and tactical promotional programmes at other times of the year. The store-based programmes in windows and point of sale activities are targeted on key value line promotions in H. Samuel and merchandise themes or brands in both Ernest Jones and H. Samuel. In 1999/00 the product displays in Ernest Jones were revised with particular success.

1998/99 saw the start of the development of customer databases and direct mail trials. The trialing and testing of the database continued in 1999/00. The use of database marketing is at an early stage in the UK and Signet's US operation is contributing to the development of the appropriate techniques.

Signet believes that by offering a full range of after sales services and products, it can better differentiate itself from its competitors at the lower end of the market. The products offered include replacement batteries and watch straps as well as watch and jewellery repairs. In conjunction with a third party insurer, Signet has also developed a separately priced insurance product that covers damage to or theft of the product purchased.

### *Insurance loss replacement business*

As well as developing retail products Signet has been expanding its services targeted at corporate customers. In particular it has been growing its insurance loss replacement business by strengthening links with key insurance companies and loss adjusters. During 1999/00 Royal & Sun Alliance, one of the UK's biggest insurance companies, named Signet as the preferred jewellery supplier for the settlement of claims by replacement products. Signet believes that its national coverage, the breadth of its product range and its ability to invest in systems means it has a competitive advantage to benefit from the trend by insurance companies to replace products rather than making cash payments to settle claims. Investment in head office systems and a field sales force are supporting this initiative.

### *Internet marketing*

In January 1999 H. Samuel and Ernest Jones launched marketing, promotional and informational web sites on the Internet in support of the stores. The sites are now well established and have been actively developed to enhance their capabilities by increasing the amount of product information, by providing a customer comment facility, and by using the sites for recruitment. The sites enable management to improve its understanding of how customers use the Internet and assist in assessing the opportunities for e-commerce and how to take advantage of Signet's strong brand names and national network of stores. In addition, management continues to examine opportunities to form partnerships to take advantage of Internet opportunities.

### **Credit operations**

In the UK Signet does not have an in-house credit operation. In addition to accepting major credit cards, which are treated as cash transactions and accounted for approximately 35% of net sales during 1999/00, Signet offers certain third party credit programmes. During 1999/00 approximately 2% of net sales in the UK were made pursuant to six, nine or twelve month interest-free programmes available for purchases over a particular price. The receivables for the interest-free programmes are sold at a discount on a limited recourse basis and administered by an unaffiliated company. The primary aim of Signet's interest-free programmes is to generate additional business.

### **Management tools and communications**

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

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

## UK Operating review

depending on sales performance. Inventory replenishment is based on daily EPOS driven sales and inventory data to optimise product placement and inventory turn.

During 1998/99 and 1999/00 the phased introduction of a computer stock tracking system enabled warehouse management to track inventory by means of bar coding from receipt into the warehouse to despatch to the stores. The benefit of this new system is its contribution to cost savings in the supply chain by improving the movement and control of goods through the warehouse and distribution system. Also in 1999/00 the procedures and logistics for replenishing the stores in the crucial period immediately before Christmas were changed to improve the frequency and timing of deliveries to stores, to increase stock availability and to reduce store administration. Further improvements are planned for 2000/01.

During 1998/99 and 1999/00 Signet upgraded its EPOS system and introduced a common system across all its stores. The upgraded EPOS system is a personal computer based store system that allows additional functionality to be developed in such areas as store e-mail, access to and updating of store operations and display manuals, the automation and simplification of back office functions and improved labour scheduling in key branches. The goal of these initiatives, which will be implemented during 2000/01 and 2001/02, is to increase the amount of time that store staff spend on selling and customer service and reduce time spent on non-selling administrative functions. In addition the upgraded EPOS system provides the store manager with better information to use in managing the store. In 2000/01 it is planned to improve the telecommunication links between

stores and the central management systems within Signet's UK operations which will further enhance the EPOS system.

As part of the Year 2000 compliance programme Signet invested in upgrading its core hardware systems and head office personal computers, which has improved the functionality of these systems.

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

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

### Regulation

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

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

## Group employees

In 1999/00 Signet had 4,361 full-time equivalent employees in the UK and 7,017 full-time equivalent employees in the US. Additional personnel are employed during Signet's peak Christmas selling season. The significant majority of Signet's employees are employed in its stores.

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

## Description of property

Signet attributes great importance to the location and appearance of its stores. Accordingly, in both Signet's US and UK operations, investment decisions on selecting sites and refurbishing stores are made centrally and strict real estate criteria are applied.

### US

Substantially all of Signet's US stores are leased. Annual payments range from 0% to 8% of sales (typically defined in the leases as total receipts, net of returns, exchanges and sales taxes) subject to a minimum annual rental, which as of 29 January 2000 averaged approximately \$54 per square foot. Under the terms of the typical lease, Signet is required to conform and maintain its usage to agreed standards, including meeting required advertising expenditures as a percentage of sales, and is responsible for its proportionate share of expenses associated with common area maintenance, utilities and taxes of the mall. The initial term of a mall store lease is generally ten years. At 29 January 2000 the average unexpired lease term of Signet's leased premises in the US was 5.8 years and some 54% of US store leases had terms expiring within five years. The Jared stores are normally on 20 year leases and are not turnover related.

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

Signet leases a 337,000 square foot headquarters facility in Akron, Ohio.

### UK

At 29 January 2000 Signet held 12 freehold premises, eight long leasehold premises (premises where the lease had an original term in excess of 25 years) and 631 other leasehold premises. As is typically the case in retailing in the UK, Signet's stores are leased for terms of up to 25 years, generally under full repairing and insuring leases (equivalent to triple net leases in the US). Rents are usually subject to upward review every five years if market conditions warrant. At the end of the lease period, subject to certain limited exceptions, leaseholders have statutory rights to enter into a new lease of the premises generally on negotiated terms. At 29 January 2000 the average unexpired lease term of Signet's leased premises in the UK was 14 years. As current leases expire, Signet believes that it will be able either to obtain renewal leases, if desired, for present store locations or to obtain leases in equivalent or improved locations in the same general areas. Signet has not experienced difficulty in securing leases for suitable locations for its UK stores. Wherever possible Signet is shortening the length of new leases that it enters into in order to improve the flexibility of its lease commitments.

Signet owns a 255,000 square foot warehouse and distribution centre in Birmingham and a 120,000 square foot administration centre at Colindale in North London. During 1999/00 Signet paid a premium to exit from the lease on its former office in central London.

## Financial review

### 52 weeks ended 29 January 2000

	1999/00		1998/99		1997/98	
	£m	%	£m	%	£m	%
Net sales:						
US	<b>759.8</b>	<b>66.9</b>	637.2	64.3	575.5	62.0
UK	<b>376.7</b>	<b>33.1</b>	354.0	35.7	352.4	38.0
Total	<b>1,136.5</b>	<b>100.0</b>	991.2	100.0	927.9	100.0
Operating profit:						
US	<b>103.1</b>	<b>74.1</b>	77.5	75.8	63.1	69.5
UK	<b>39.3</b>	<b>28.3</b>	32.4	31.7	36.1	39.8
Group central costs	<b>(3.3)</b>	<b>(2.4)</b>	(7.6)	(7.5)	(8.4)	(9.3)
Total	<b>139.1</b>	<b>100.0</b>	102.3	100.0	90.8	100.0

#### Sales

##### US

Sales growth in the US was driven by increased advertising, improved merchandising, higher inventory, highly motivated staff, an increased number of stores and a high level of consumer confidence. Sales totalled £759.8 million, an increase of 19.2% from £637.2 million in 1998/99. At constant exchange rates US total sales increased by 16.4%. The like for like increase was 11.3%. In the important fourth quarter the like for like increase was 12.7%. Sales per store increased to an average of over \$1.5 million (1998/99: \$1.3 million). The business outperformed its main publicly quoted competitors for the year as a whole.

##### UK

The UK division benefited from a range of operational improvements and a general strengthening of demand in the jewellery sector. Following a difficult first quarter, business gradually picked up during the year with sales over the Christmas period being particularly strong, helped by a marked resurgence in consumer confidence in the jewellery sector and by the Millennium factor. Fourth quarter like for like sales increased by 11.7%, with H. Samuel up 7.2% and Ernest Jones up 21.6%. Against this background UK jewellery sales totalled £376.7 million compared to £354.0 million in 1998/99, an increase of 6.4%. On a like for like basis the increase was 4.9%.

Sales in H. Samuel were £245.4 million (1998/99: £237.9 million). The like for like increase was 2.1%. Sales in Ernest Jones were £125.7 million (1998/99: £109.4 million). The

like for like increase was 11.0% with a particularly strong performance over the Christmas period.

#### Operating profit

##### US

The Group's US business again performed very strongly in an intensely competitive market place. Operating profit rose by 33.0% to £103.1 million (1998/99: £77.5 million). Operating profit as a percentage of sales increased to 13.6% (1998/99: 12.2%) with the leverage of strong like for like sales growth on fixed costs more than offsetting the impact of lower operating margins from immature Jared stores. The ratio of bad debts to total net sales improved to 2.9% (1998/99: 3.2%).

##### UK

In the UK gross margins increased as a result of a lower level of discounts and an improved product mix which combined with sales growth meant that the UK division operating profit grew significantly to £39.3 million (1998/99: £32.4 million), an increase of 21.3%. Operating profit as a percentage of sales was 10.4% (1998/99: 9.1%).

#### EBITDA

The US achieved an EBITDA of £118.7 million (1998/99: £92.7 million) and the UK £51.3 million (1998/99: £45.0 million) before charging Group central costs of £3.3 million (1998/99: £7.6 million). EBITDA to sales ratios increased to 15.6% in the US (1998/99: 14.6%) and to 13.6% in the UK (1998/99: 12.7%).

#### Return on capital employed

The Group's ROCE increased to 24.1% (1998/99: 19.5%)—US 24.9% (1998/99: 20.4%); UK 25.9% (1998/99: 21.6%).

## Financial review

US capital employed includes the in-house credit card debtors amounting to £220.1 million at 29 January 2000 (30 January 1999: £194.0 million).

### Depreciation and capital expenditure

Depreciation charges were £27.8 million (1998/99: £27.6 million) — £15.6 million in the US (1998/99: £14.9 million) and £12.2 million in the UK (1998/99: £12.7 million). Capital expenditure in the US was £27.4 million (1998/99: £16.5 million) and in the UK was £11.9 million (1998/99: £14.4 million).

### Group costs

Group central costs were £3.3 million (1998/99: £7.6 million). In 1999/00 the figure is net of a gain on the disposal of properties of £2.1 million. The figure for 1998/99 included a charge of £2.1 million as a result of an increase in property provisions, largely offset by a gain on disposal of properties of £1.9 million.

### Net interest payable and similar charges

Net interest payable and similar charges amounted to £11.4 million (1998/99: £13.1 million), a reduction of 13.0%. This reflected the lower level of net debt carried by the Group.

### Taxation

The tax charge of £38.3 million (1998/99: £24.0 million) reflects the benefit of US tax losses brought forward and used against US taxable profits. The tax losses were fully utilised during 1999/00 and this was a major factor in the increase in the effective tax rate to 30.0% from 26.9%.

### Dividends

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

Following the 1997 capital reduction, the holding company Signet 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 29 January 2000 the holding company had a distributable reserves balance of £23.5 million (1999: £8.4 million).

In order to make further distributions in excess of this figure, the holding company would first need to receive dividends from its subsidiaries or accumulate distributable

reserves through trading. In addition to restrictions imposed at the time of the capital reduction on the distribution of dividends received from subsidiaries, the payments of dividends from other tax jurisdictions, such as the US, may not be tax efficient. Furthermore, there may be other reasons why dividends may not be paid by subsidiaries to the holding company.

If declared by the Board (and, in the case of a final dividend, if approved by shareholders in general meeting) dividends are paid to holders of ordinary shares as of record dates that are decided by the Board. In September 1999 an interim dividend of 0.25p per share was declared (1998/99: nil). The Board has recommended to shareholders a final dividend of 1.2p per ordinary share for 1999/00, to be paid on 3 July 2000 to shareholders on the register of members at close of business on 5 June 2000. Future dividends will depend upon the capital needs of the businesses, the level of gearing and the amount of profits available for distribution.

### Liquidity and capital resources

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

Net debt at 29 January 2000 was £91.6 million, a reduction of £19.9 million in the year (30 January 1999: £111.5 million). Group gearing (that is the ratio of net debt to shareholders' funds) at the year end was 20% (30 January 1999: 29%). Excluding the US securitisation facility of £118.2 million (30 January 1999: £116.8 million), the Group had net cash of £26.6 million at 29 January 2000 (30 January 1999: £5.3 million).

Operating activities generated £121.5 million (1998/99: £102.6 million) reflecting an increase in EBITDA offset by investment in working capital primarily due to the increase in the number of stores. Cash flow before investing activities was £78.2 million (1998/99: £71.4 million).

The Group spent £39.3 million and £30.9 million on construction and refurbishment of stores, systems improvements and other capital expenditure during 1999/00 and 1998/99 respectively. Disposal proceeds were £3.0 million (1998/99: £5.3 million).

## Financial review

Equity dividend payments amounted to £20.9 million (1998/99: £nil).

During 1999/00 the Group sold certain US fixed assets to an independent third party and leased back those assets over a period of five years. This agreement has been treated as a finance lease in accordance with SSAP 21. The transaction realised \$24.3 million cash, repayable over five years, at an effective fixed interest rate of 8.44%. Largely as a result of this, financing activities generated £13.9 million of cash. During 1998/99 the Group expended net cash on financing activities of £28.6 million, principally in reducing its total borrowing obligations.

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

Under UK Financial Reporting Standard No. 5 bank loans and overdrafts at 29 January 2000 include £118.2 million in respect of securitised US customer receivables at the exchange rate then applicable (30 January 1999: £116.8 million).

In July 1998 the Group and certain of its subsidiaries entered into a \$250 million unsecured multi-currency five year revolving credit facility agreement ("Facility Agreement") under which a syndicate of banks made available to the Group facilities in the form of multi-currency cash advances, sterling acceptance credits and letters of credit on, inter alia, the following terms:

- the Facility Agreement bears a maximum margin of 0.75% above LIBOR, though the margin may reduce dependent upon the performance of the Group and

since December 1999 the margin has been 0.60% above LIBOR; and

- the Facility Agreement is guaranteed by the Group's principal holding and operating subsidiaries.

The continued availability of the Facility Agreement is conditional upon the Group achieving certain financial performance criteria in respect of gearing, consolidated net worth and interest cover. At 28 March 2000 the amount outstanding under the Facility Agreement was nil.

In July 1998 the Group also entered into a \$60 million unsecured seven year senior note issue ("Loan Note"), bearing a 7.25% fixed coupon and also guaranteed by the Group's principal holding and operating subsidiaries. The continued availability of the Loan Note is conditional upon the same criteria as those pertaining to the Facility Agreement. At 28 March 2000 the amount outstanding under the Loan Note was \$60 million.

It is the policy of the Group to enter into interest rate protection agreements in respect of at least 75% of its forecast floating rate US dollar borrowings. During 1999/00 the effect of interest rate agreements put in place by the Group reduced the Group's floating rate US dollar borrowing costs by 0.09% to 6.17%. At 29 January 2000 the interest rate (before margin) on 75% of forecast floating rate US dollar borrowings for 2000/01 is capped at 5.25%. Full details of the interest rate protection agreements are given in note 27 to the accompanying Accounts.

### Year 2000

The Group incurred no material disruption due to Year 2000 issues. The Group undertook a full review of all its systems to ensure that they were able to operate efficiently after 31 December 1999. Group expenditure in the period on information technology projects relating to Year 2000 which were charged to revenue amounted to £0.5 million (1998/99: £1.2 million; 1997/98: £nil).

### Contingent property liabilities

Management believes that through store portfolio management approximately 179 UK property leases had been assigned by the Group up to the end of January 2000 (and remained unexpired and occupied by assignees at that date) and approximately 44 additional stores were sublet at that date. Should the assignees or sub-tenants fail to fulfil

## Financial review

any obligations in respect of those leases or any other leases which have at any other time been assigned or sublet, the Group or one of its UK subsidiaries may be liable for those defaults. The number of such claims arising to date has been small, and the liability, which is charged to the profit and loss account as it arises, has not been material.

### 52 weeks ended 30 January 1999

Group profit before tax for the year was £89.2 million (1997/98: £68.7 million). After a tax charge of 26.9% (1997/98: 26.0%) earnings per share were 3.9p (1997/98: 3.0p, based on profit after tax and the number of shares in issue following the capital restructuring), an increase of 30%.

Operating profit increased by 12.7% to £102.3 million (1997/98: £90.8 million). EBITDA increased to £128.4 million (1997/98: £118.2 million). The US achieved £92.7 million (1997/98: £79.0 million) and the UK £45.0 million (1997/98: £47.9 million) before charging Group central costs of £7.6 million (1997/98: £8.4 million). EBITDA to sales ratios increased to 14.6% in the US (1997/98: 13.7%) and declined to 12.7% in the UK (1997/98: 13.6%).

#### Sales

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

Sales growth in the US was driven by a robust economy and the increased number of stores. Sales totalled £637.2 million, an increase of 10.7% from £575.5 million in 1997/98. The like for like increase was 10.2%. In the important “holiday period”—2 November 1998 to 24 December 1998—the like for like increase was 10.6%. The business outperformed its main competitors both during that period and for the year as a whole.

In the UK the general retailing environment deteriorated markedly from the second quarter. Against this background UK jewellery sales totalled £354.0 million compared to £352.4 million in 1997/98. On a like for like basis the decrease was 1.1%.

Sales in H. Samuel were £237.9 million (1997/98: £241.1 million). The like for like decrease was 2.0% against a background of a generally weaker trend in consumer

spending and heavy discounting in a number of other retail sectors. Sales in Ernest Jones were £109.4 million (1997/98: £104.5 million). The like for like increase was 0.9% and Ernest Jones performed well over the Christmas period compared to its competitors.

#### Operating profit

The Group’s US business performed very strongly in an intensely competitive market place. Operating profit for 1998/99 rose by 22.8% to £77.5 million (1997/98: £63.1 million); operating profit as a percentage of sales increased to 12.2% (1997/98: 11.0%).

Gross margins were maintained at close to the prior year’s level. Sales per store increased to an average of over \$1.3 million (1997/98: \$1.2 million). The ratio of bad debts to sales remained unchanged at 3.2%.

Tight control of discounting, gross margins and costs meant that the Group’s UK operations performed creditably with operating profit as a percentage of sales of 9.1% (1997/98: 10.2%). The UK division operating profit was £32.4 million (1997/98: £36.1 million) after charging costs of approximately £1.6 million associated with the H. Samuel modernisation programme (1997/98: £3.4 million) and £1.2 million related to Year 2000 information technology compliance (1997/98: £nil).

#### Return on capital employed

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

#### Depreciation and capital expenditure

Depreciation charges were £27.6 million (1997/98: £26.9 million) — £14.9 million in the US (1997/98: £15.1 million) and £12.7 million in the UK (1997/98: £11.8 million). Capital expenditure in the US was £16.5 million (1997/98: £14.5 million) and in the UK was £14.4 million (1997/98: £14.1 million).

#### Group costs

Group central costs of £7.6 million (1997/98: £8.4 million) were charged against UK operating profit. After the charge UK operating profit was £24.8 million (1997/98: £27.7 million).

## Financial review

The figure for 1998/99 includes a charge of £2.1 million as a result of an increase in property provisions. This was largely offset by a gain on disposal of properties of £1.9 million.

### *Net interest payable and similar charges*

Net interest payable and similar charges amounted to £13.1 million (1997/98: £22.1 million), a reduction of 40.5%. This reflected the lower level of net debt carried by the Group and a reduced level of banking fees.

### *Taxation*

The tax charge of £24.0 million (1997/98: £17.8 million) reflects the benefit of US tax losses brought forward and used against US taxable profits. The 1997 capital reorganisation resulted in the utilisation of these losses being restricted.

## Other factors

### *The Euro*

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

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

The Group set up an EMU Committee to oversee the preparations for EMU. The Group's stores in the Republic of Ireland implemented the procedures necessary to accept Euros by the end of the first half of 1999/00. This gives the Group the opportunity to assess the potential impact of EMU on its UK stores.

Preparations for the introduction of the Euro in the Republic of Ireland did not result in significant revenue costs. The effect of EMU on interest and foreign exchange rates also affects the Group's operations but the impact is not material.

### *Impact of general economic conditions*

Jewellery purchases are discretionary and may be particularly affected by adverse trends in the general economy and changes in taste by consumers. The success of

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

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

### *Seasonality and Millennium impact*

The Group's business is highly seasonal, with a very significant portion of its sales and most of its operating profit generated during its fourth quarter, which includes the Christmas season. The Group expects to continue to experience a seasonal fluctuation in its sales and profit. Because a very significant percentage of the Group's total sales and earnings for a financial year results from operations in the fourth quarter, the Group has limited ability to compensate for shortfalls in fourth quarter sales or earnings by changes in its operations or strategies in other quarters.

## Financial review

A significant shortfall in results for the fourth quarter of any financial year can thus be expected to have a material adverse effect on the Group's annual results of operations. In 1999/00 the Millennium increased demand for jewellery in the fourth quarter, especially in the UK. It is uncertain whether this impact will continue during 2000/01 and in particular whether it will be repeated in the fourth quarter of that year.

### *Competition*

Competitive factors, including the Internet, are discussed in the US and UK operating reviews. If the Group falls behind competitors with respect to one or more of these factors, the Group's results of operations or financial condition could be adversely affected. In particular the growth of retailing over the Internet is increasing and its impact on jewellery retailing is uncertain.

### *Merchandise supply and inventory*

During 1999/00 no single supplier accounted for more than 5% of the Group's merchandise. Although the Group believes that alternative sources of supply are available, the abrupt loss of any significant supplier during the three month period leading up to the Christmas season could result in a material adverse effect on the Group's business. The jewellery industry generally is affected by fluctuations in the prices of gold and diamonds and, to a lesser extent, other precious and semi-precious stones. The Group does not hedge against fluctuations in the cost of diamonds but does hedge against fluctuations in the cost of gold. A significant increase in prices or decrease in the availability of gold or diamonds could have a material adverse effect on the Group's business. The supply and price of diamonds in the principal world markets are significantly influenced by a

single entity, the Central Selling Organisation ("CSO"). The CSO has traditionally controlled the marketing of a substantial majority of the world's supply of diamonds and sells rough diamonds to worldwide diamond cutters from its London office in quantities and at prices determined at its sole discretion. The availability of diamonds to the CSO and the Group's suppliers is to some extent dependent on the political situation in diamond producing countries, and on the continuation of the prevailing supply and marketing arrangements for diamonds. Until alternative sources could be developed, any sustained interruption in the supply of diamonds from the significant producing countries could adversely affect the Group and the retail jewellery industry as a whole.

### *Effect of currency fluctuations*

The Group publishes its consolidated Accounts in pounds sterling. The Group held approximately 71% of its total assets in US dollars at 29 January 2000 and generated approximately 67% of its net sales and 74% of its operating income in US dollars for the financial year then ended. Thus, even though the Group's US operations make substantially all of their net sales and incur substantially all of their expenses in US dollars, in translating the results of its US operations the Group is subject to fluctuations in the exchange rates between the pound sterling and the US dollar. Accordingly, depreciation in the weighted average value of the US dollar against the pound sterling could decrease reported revenues and operating profit (as was the case in 1995/96, 1996/97, 1997/98 and 1998/99), and appreciation in the weighted average value of the US dollar against the pound sterling could increase reported revenues and operating profit (as was the case in 1999/00).

### Exchange rates between £ sterling and the US dollar

Calendar year	Average <sup>(1)</sup>	High	Low	At period end
1995	1.58	1.64	1.53	1.55
1996	1.57	1.71	1.49	1.71
1997	1.64	1.69	1.58	1.64
1998	1.66	1.72	1.61	1.67
1999	1.62	1.68	1.55	1.62
2000 (up to 28 March)	1.59	1.65	1.57	1.59

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

## Financial review

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

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

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

### Market risk

The Group's policy is to manage financial risk resulting from exposure to currency and interest rate fluctuations. Translation exposure relating to non-sterling denominated assets in the US is partially hedged by borrowing in US dollars. Interest rate exposure is managed through the use of fixed rate swaps, caps and floors. The Group undertakes limited hedging of commodity requirements, such as gold, through the use of options, forward contracts and outright commodity purchasing.

A Committee of the Board is responsible for the implementation of treasury policies and guidelines which are considered to be appropriate by the Board for the management of financial risk. The Group's funding, liquidity and exposure to interest rate and exchange rate risks are managed by the Group's treasury department. The Group uses derivative instruments for risk management purposes only, and these are transacted by specialist treasury personnel.

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

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

The estimated changes in the fair values of borrowings and associated derivative financial instruments at 29 January 2000 are set out below. The fair values of borrowings and derivative financial instruments are estimated by discounting the future cash flows to net present values using appropriate market rates prevailing at the period end.

	Estimated fair value at 29 January 2000	Fair value changes arising from:		Estimated fair value at 30 January 1999
		1% decrease in interest rates (unfavourable)	10% weakening in £ against \$ favourable/ (unfavourable)	
	£m	£m	£m	£m
Borrowings	(182.9)	(9.5)	(19.3)	(176.7)
Interest rate cap	0.3	(0.3)	–	–
Interest rate floor	–	–	–	0.3
Foreign currency receivables	220.1	–	25.2	194.0

## Financial review

The estimated changes in fair values for interest rate movements are based on an instantaneous decrease of 1% (100 basis points) in the specific rate of interest applicable to each class of financial instruments from the levels effective at 29 January 2000 with all other variables remaining constant. The estimated changes in the fair value for foreign exchange rates are based on an instantaneous 10% weakening of the pound sterling against the US dollar from the levels applicable at 29 January 2000 with all other variables remaining constant.

### *Forward looking statements*

All statements other than statements of historical fact included in this document, are or may be deemed to be, forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. Important factors that could cause actual results to differ materially from those discussed in such forward-

looking statements include adverse trends in the general economy which may impact negatively on discretionary consumer spending, including unemployment levels, wages and salaries, business conditions, interest rates, consumer debt levels and availability of credit and levels of taxation; the seasonality of the Group's business; fluctuations in the price and availability of gold, diamonds and other precious and semi-precious stones; fluctuations in exchange rates between the pound sterling and the US dollar which may affect reported revenues, costs and the amount of the Group's consolidated borrowings and the cost of such borrowings; the extent and results of the Group's store expansion and modernisation strategy; the development of new distribution channels in competition with the Group; the availability of inventory during the three months leading up to the Christmas season; the success of the Group's marketing and promotional programmes; and any changes in general consumer preferences for jewellery.

## Directors, officers and advisers

### Directors

**James McAdam** CBE, 69, Executive Chairman, appointed in 1992. He was also Group Chief Executive from 1992 until March 2000. From March 2001 he will become non-executive Chairman. He was formerly Deputy Chairman and Chief Operating Officer of Coats Viyella plc.

**Lee Abraham\***, 72, appointed in 1994. He has wide experience of US retailing over many years and is a director of Salomon Smith Barney Investment Funds and eNote.com.

**Walker Boyd**, 47, appointed Group Finance Director in 1995. He is a member of the Institute of Chartered Accountants of Scotland. From 1992 he was Finance Director of the Group's UK division.

**Terry Burman**, 54, was appointed Group Chief Executive in March 2000. He is also Chief Executive Officer of the Group's US division. Mr Burman was appointed to the Board in November 1996. Prior to joining the Group in 1995 he was Chief Executive Officer of Barry's Jewelers, Inc.

**Ian Dahl**, 55, Chief Executive of the Group's UK division, appointed in October 1999. He was formerly Chairman and Chief Executive Officer of the Asprey Group which he had joined as Chief Executive in 1995.

**Brook Land\***, 51, appointed in 1995. Until April 1996 he was a senior partner of, and is now a consultant to, solicitors Nabarro Nathanson. He is also non-executive Chairman of RPS Group plc.

**David Supino\***, 66, appointed in 1997. Following the worldwide reorganisation of the related Lazard entities in early 2000, he is a member of Lazard LLC, the ultimate holding partnership for Lazard's worldwide operations. He is also a non-executive director of Mack Trucks Inc. in the US.

**David Wellings\***, 59, appointed in 1992. He was Group Chief Executive of Cadbury Schweppes PLC until his retirement in 1996. He was nominated as the senior independent director of Signet in November 1998.

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

### Alternate director

**Richard Miller**, 55, Executive Vice President and Chief Financial Officer of the Group's US division. He was appointed in 1994 and served as an alternate director to Terry Burman during the period under review.

### Committees

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

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

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

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

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

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

Messrs. Abraham, Burman, Dahl, McAdam and Supino retire from the Board at the annual general meeting.

## Directors, officers and advisers

Following consideration by the Board of the recommendations of the Nomination Committee, they offer themselves for re-election.

### Officers

**Stephen Card**, 40, Group Treasurer, appointed in 1999. Previously he was Treasury Manager of Nycomed Amersham plc, and prior to that Group Treasurer of Scapa plc.

**Timothy Jackson**, 41, Company Secretary and Investor Relations Director, appointed in 1998. Previously he was Company Secretary and Director of Investor Relations of Cordiant Communications Group plc and prior to that Director of Investor Relations of Cordiant plc.

There is no family relationship between any director or officer and any other director or officer.

### Advisers

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

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

**Stockbrokers** Deutsche Bank AG, Great Winchester House, 1 Great Winchester Street, London, EC2N 2EQ.

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

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

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

**Principal bankers** Barclays Bank PLC, 54 Lombard Street, London EC3P 3AH.

HSBC Bank plc, 27-32 Poultry, London EC2P 2BX.

Royal Bank of Scotland plc, Waterhouse Square, 138-142 Holborn, London EC1N 2TH.

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

## Report of the directors

For the 52 weeks ended 29 January 2000

### Business review

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

Review of the Group's performance during the year, with comments on the financial results and likely future developments, is contained in the Executive Chairman's Statement, US Operating Review, UK Operating Review and Financial Review on pages 2 to 29 which are adopted as part of this Report.

### Results and dividends

The results of the Group for the year appear on page 44. The directors recommend the payment of a final dividend of 1.2p per ordinary share, to be paid on 3 July 2000 to shareholders on the register of members at close of business on 5 June 2000. An interim dividend of 0.25p per ordinary share was paid on 12 November 1999 making a total of 1.45p for the year (1998/99: 1.0p).

### Supplier payment policy

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

The number of days Company purchases outstanding at 29 January 2000 is shown in note 31(f) to the Accounts.

### Properties

In the opinion of the directors, the market value at 29 January 2000 of the Group's freehold and long leasehold properties was not materially different from their book value following an interim revaluation at that date (see note 10 to the Accounts).

### Directors

The directors who served during the period were James McAdam (Chairman), Lee Abraham, Walker Boyd, Terry Burman, Laurence Cooklin, Ian Dahl, Brook Land, David Supino and David Wellings. Details of the current directors

are shown on page 30. Laurence Cooklin resigned with effect from 15 April 1999. On 1 October 1999 Ian Dahl was appointed to the Board.

### Alternate director

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

### Directors' service contracts

Details of directors' service contracts are given in the Board Report on Remuneration on page 38.

### Directors' interests

The interests in the share capital of the Company of the directors and their immediate families at 29 January 2000 are shown in section 3 on page 40 of the Board Report on Remuneration.

### Going concern

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

### Employment policies

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

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

## Report of the directors

who becomes disabled are retained and appropriate training is arranged for them wherever possible.

### Purchase of own shares

At 29 January 2000 there was outstanding an authority, granted by the shareholders at the annual general meeting in 1999, to purchase, in the market, up to 167,606,856 ordinary shares of 0.5p each in the Company at a minimum price of 0.5p per share and a maximum price of 105% of the average of the market values derived from the London Stock Exchange Daily Official List for the preceding five business days. During the financial year no purchases were made or proposed to be made and no purchases or options or contracts to make purchases have been made or entered into since the end of the financial year. The authority expires at the forthcoming annual general meeting and a resolution to renew it will be proposed at the meeting.

### Pension funds

The Group operates a defined benefit pension scheme in the UK, the Signet Group Pension Scheme. The assets of the scheme are held in a separate trustee administered fund which is independently managed. The trustees of the scheme during the year were Walker Boyd, John Gillum, John Hartwright and the Law Debenture Trust Corporation plc (independent trustee).

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

Information about pension arrangements for executive directors is set out in the Board Report on Remuneration on page 38.

### Charitable and political contributions

During the period the Group's UK companies made provision for contributions for charitable purposes of £85,000 (1998/99: £nil). Since 1993/94 the Group has supported the Princess Royal Trust for Carers using Charities Aid funds set aside in previous years. No political donations were made in the period (1998/99: £nil).

### Social, ethical and environmental issues

The Group is committed to achieving a high standard of environmental awareness at all levels and to promoting environmentally responsible practices both within the workplace and beyond.

The Group believes it complies with employment, health and safety, environmental and other legislation in the UK and the US. The Group is currently undertaking various reviews of its policies relating to these matters.

### Significant shareholdings

Details of significant shareholdings are set out on page 89 and constitute part of this Report.

### AGM

The annual general meeting is to be held at 12.00 noon on 8 June 2000 at the New Connaught Rooms, Great Queen Street, London WC2B 5DA. A description of the business to be transacted at the annual general meeting is included with the notice of the meeting.

By order of the Board

T J Jackson

Secretary

28 March 2000

## Corporate governance statement

### THE BOARD

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

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

### APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES

#### The Board

The Board consists currently of four executive directors, including the Chairman, and four independent non-executive directors, one of whom is nominated as the lead independent director. Incumbents are identified on page 30. The Board met nine times in 1999/00.

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

The structure of the Group comprises two separate operating divisions, one for the US and one for the UK, each with its own chief executive. Until 28 March 2000 both Divisional Chief Executives and the Group Finance Director reported to the Executive Chairman and all were members of the Board.

From 28 March 2000 the role of Chairman and Chief Executive has been split. The Chief Executive of the US division has been appointed Group Chief Executive and he

will also retain his previous divisional responsibilities. The Group Finance Director and the Chief Executive of the UK division will report directly to the Group Chief Executive. In order to ensure an orderly hand over of executive responsibilities to the newly appointed Group Chief Executive, the role of Executive Chairman will be retained until 31 March 2001 from which date the role of Chairman will become non-executive.

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

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

#### Board committees

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

**The Audit Committee**, which consists of all the non-executive directors only. It meets at least five times a year. It has clear written terms of reference and an established channel of direct communication with the external auditors who attend all meetings except in relation to their own appointment, assessment of their independence and determination of their fees. Its responsibilities include the review of the appropriateness and effectiveness of the Group's accounting policies and financial procedures. It reviews and approves for submission to the Board all audited accounts, trading statements and other internal financial reports. It also reviews reports submitted to the Board by the Group's external auditors. The appointment of the external auditors, the determination of their fees and an assessment of their independence are matters for this committee. The committee also reviews the scope and the results of the audit.

## Corporate governance statement

The **Nomination Committee**, which was formed in September 1998. It consists of all the non-executive directors and the Chairman of the Board. It is chaired by the lead independent director and meets as required. It makes recommendations to the Board on all new Board appointments and nominations for re-election as directors. The procedure for the election of directors is laid out on page 30. The committee also reviews a number of other senior appointments within the Group.

When the role of the Group Chairman or any matter relating to succession to that role is discussed, he is consulted, but the responsibility for making any recommendation to the Board rests solely with the non-executive directors.

The **Remuneration Committee**, which consists of all the non-executive directors only and is also chaired by the lead independent director. It meets at least twice a year. It makes recommendations to the Board on the Group's framework of executive remuneration and its cost, and sets salaries, benefits, and incentives for executive directors and certain other senior executives on behalf of the Board. No director is involved in deciding his own remuneration.

The Remuneration Committee determines the remuneration of the Chairman of the Board and the Group Chief Executive and in consultation with them determines the remuneration of the other executive directors. The principles applied in deciding the level and make-up of remuneration of directors are set out in the Board report on remuneration on pages 37 to 41 together with the details of the remuneration of each director. For non-executive directors, the Board determines their remuneration following a recommendation by the Chairman of the Board that is based on consideration of external comparisons and consultations with the Group Chief Executive and other executive directors.

The chairmen and members of these committees are set out on page 30.

### Relations with shareholders

The Board communicates with shareholders about the Group's position, performance and prospects through documents sent to shareholders, stock exchange

announcements and general meetings of shareholders. In addition it carries out a programme of meetings with institutional investors and other major shareholders.

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

### COMPLIANCE STATEMENT

In June 1998 the London Stock Exchange published the Principles of Good Corporate Governance and the Code of Best Practice ("the Combined Code") which embraces the work of the Cadbury, Greenbury and Hampel Committees.

The Board of Directors considers that it has complied throughout the year with the Combined Code apart from those provisions set out below where the Board believes that the individual circumstances of the Group justify a departure from the Combined Code. These are:

- the notice period for an executive director (discussed on page 38); and
- the appointment of non-executive directors for a fixed term (discussed on page 34).

### Internal control

The Board is ultimately responsible for the Group's system of internal controls and for monitoring its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material mis-statement or loss.

### Corporate governance statement

The Combined Code introduced a new requirement, that the directors review the effectiveness of the Group's system of internal controls. This extends the previous corporate governance recommendation, which referred only to internal financial controls, to cover all controls including:

- financial
- compliance
- operational
- risk management

## Corporate governance statement

Guidance for directors *Internal Control: Guidance for Directors on the Combined Code* (“the Turnbull guidance”) was published in September 1999. However, the directors have taken advantage of the London Stock Exchange’s transitional rules and have continued to review and report upon internal financial controls in accordance with the Institute of Chartered Accountants in England and Wales’ 1994 guidance *Internal Control and Financial Reporting*.

Nevertheless, the Board confirm that they have established procedures necessary to implement the Turnbull guidance such that they will fully comply with it for the financial year ending 3 February 2001.

In line with the 1994 guidance the Board commissioned and reviewed a report summarising the results of the self-certification process carried out by the two operating divisions and the reviews and verification work carried out by the Group’s central accounting function.

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

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

- Control environment — control is exercised through an organisation structure with clearly defined levels of responsibility and authority and appropriate reporting procedures, particularly with respect to capital expenditure, investment, granting of guarantees and the use of treasury products.
- Financial reporting and information systems — the Group has a comprehensive budgeting and five year strategic planning system with an annual budget approved by the Board. Monthly trading results and balance sheets are reported against the corresponding figures for the budget and the previous year with any significant variances examined by operating

management and action taken as appropriate. A forecast of the full year’s results is updated regularly based on performance to date and any changes in outlook.

Through these mechanisms, Group performance is continually monitored, risks identified in a timely manner, their financial implications assessed, control procedures re-evaluated and corrective actions agreed and implemented.

- Risk management — the identification of major business risks is carried out in conjunction with operating management and appropriate steps are taken to monitor and mitigate risks.
- Control procedures — each operating company maintains documented financial controls and procedures appropriate to its own business environment and conforming to published guidelines. Each of the operating divisions has an internal audit function which primarily reviews the processes in the store operations, but also reviews central service functions. The work of the internal audit functions are monitored by senior divisional and Group management.
- Monitoring system — operating companies and corporate functions prepare written self-certification statements which confirm the extent of their compliance with all material internal financial controls. These statements are prepared by the chief financial officer on behalf of each operating division and are reviewed by executive management. The control system is monitored by operating and executive management, who review the systems and procedures in all major operating companies with work focused on areas considered to be of greatest risk to the Group. In prior years the management has reported annually to the Audit Committee on these matters together with follow-up reports on matters arising. In 1999/00, as part of the procedures to comply with the new guidelines, the Board carried out the review referred to above.

## Board report on remuneration

### 1 Policy on remuneration of executive directors and senior executives

#### (i) Total level of remuneration

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

#### (ii) The main components of remuneration

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

The main components are:

#### (a) Basic salary

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

#### (b) Annual incentive plan

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

#### (c) Share options

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

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

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

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

#### (d) Long term incentive plan

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

The LTIP established for Terry Burman has a maximum annual payment of 70% of base salary. The plan provides for annual awards based on specified performance criteria measured over a three year cycle. These criteria are based on return on capital employed and growth in operating profit. The general criteria were detailed in the 1997/98 Annual Report and the full terms of Mr Burman’s LTIP are available for inspection with his service contract, as mentioned in the notes to the notice of the annual general meeting, at the registered office of the Company during normal business hours on any weekday (except Saturdays and public holidays) from the date of the notice of the annual general meeting until the date of the meeting and also at the place of the meeting for 15 minutes prior to and during the meeting.

At the end of the period Terry Burman therefore had an interest in three awards. The payment under the award in respect of the three year cycle ended 29 January 2000 is detailed on page 39.

Subject to shareholder approval, it is proposed to introduce a revised LTIP for 2000/01 for all executive directors apart

## Board report on remuneration

from the Executive Chairman, as well as for a limited number of senior executives. It is intended that Terry Burman will participate in this LTIP in place of his current arrangements. Further details are set out in the separate circular containing the notice of extraordinary general meeting to be called to consider the proposed LTIP.

### *(iii) Companies used for comparison*

In assessing all aspects of pay and benefits, the Group takes account of the packages offered by similar companies. These companies are chosen having regard to the size of the company, its turnover, profits, number of people employed and the nature of its business including its product line, diversity, complexity and geographic spread.

### *(iv) Service contracts*

Terry Burman has a service contract with a US subsidiary which requires three years' notice in writing of termination by either party. The Remuneration Committee believes that the terms of this contract are appropriate given the competitive environment in the US.

The Executive Chairman has a service contract with the Company which is terminable on one year's notice in writing by the Company and on six months' notice in writing by him. As a result of the management changes explained in the Executive Chairman's Statement, 12 months' notice was given by the Company effective from 30 March 2000. He will become non-executive Chairman with effect from 31 March 2001. Walker Boyd and Ian Dahl have service contracts with the Company which can be terminated on one year's notice in writing by either side.

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

### *(v) Early termination*

The Remuneration Committee has considered providing explicitly in contracts for compensation for early termination and, where it believes it to be appropriate, such provisions are included. As a principle however, the Committee believes that all the circumstances of early

termination are different. It would expect a departing director or senior manager to mitigate his or her loss within the framework of those individual circumstances.

On termination in certain circumstances, Terry Burman is entitled to continuing payment of salary for a period of three years, subject to a duty to mitigate his loss by seeking reasonable alternative employment.

### *(vi) Executive directors — outside appointments*

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

### *(vi) Company pension policy for executive directors*

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

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

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

Supplementary life assurance for the UK based executive directors is provided under the FURBS.

## Board report on remuneration

### 2 Directors' emoluments

	Basic salary and fees		Benefits <sup>(1)</sup>		Performance bonuses		Total emoluments	
	2000	1999	2000	1999	2000	1999	2000	1999
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Executive</b>								
James McAdam	399	385	16	14	246	154	661	553
Walker Boyd	236	223	15	13	144	90	395	326
Terry Burman	502	457	24	23	815 <sup>(2)</sup>	747 <sup>(2)</sup>	1,341	1,227
Laurence Cooklin <sup>(3)</sup>	56	268	3	16	-	-	59	284
Ian Dahl <sup>(4)</sup>	80	-	5	-	48	-	133	-
<b>Non-executive</b>								
Lee Abraham	23	23	-	-	-	-	23	23
Brook Land	23	23	-	-	-	-	23	23
David Supino	23	23	-	-	-	-	23	23
David Wellings	23	23	-	-	-	-	23	23
<b>Total</b>	<b>1,365</b>	1,425	<b>63</b>	66	<b>1,253</b>	991	<b>2,681</b>	2,482

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

(2) Performance bonus for Terry Burman in 1999/00 included £356,000 (1998/99: £327,000) in respect of the LTIP and in each case was the maximum payable as the performance exceeded the target criteria laid down.

(3) Until his resignation on 15 April 1999.

(4) From his appointment on 1 October 1999.

The total remuneration for directors and officers of the Group for services in all capacities was £3,318,000 (1998/99: £3,084,000).

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

The Signet Group Pension Scheme is a defined benefits pension scheme. Pension benefits are accruing to Walker Boyd and Ian Dahl who are members of the Group Scheme. The increase in accrued pension during the year, excluding any increase for inflation, for Walker Boyd was £3,470 and for Ian Dahl was £755. The transfer value of the increase, calculated on the basis of actuarial advice in accordance with the Actuarial Guidance Note GN 11, for Walker Boyd was £41,530 and for Ian Dahl was £11,935. The accumulated total accrued pension entitlement at 29 January 2000, which would be paid annually on retirement based on service to the end of the year and excluding any increase for inflation, was £23,559 for Walker Boyd and £755 for Ian Dahl. No Additional Voluntary Contributions were made. In addition, a supplement of £29,000 (1998/99: £33,000) was paid by the Company to the FURBS in respect of Walker Boyd, and £10,000 in respect of Ian Dahl since the date of his appointment, to take account of the Inland Revenue

earnings cap. Life assurance contributions for Walker Boyd totalled £1,000 (1998/99: £1,000).

James McAdam is not in the Signet Group Pension Scheme and therefore his pension provision is made outside the Group Scheme. The amount paid in respect of James McAdam for both pension provision and life assurance in the period was £102,000 (1998/99: £95,000).

Laurence Cooklin was not in the Signet Group Pension Scheme and £11,000 (1998/99: £49,000) was paid in respect of pension provision and life assurance.

Terry Burman is a member of the Sterling Jewelers Inc. 401(k) Retirement Savings Plan and the Deferred Compensation Plan. Contributions made by Signet's US division in respect of Terry Burman during the period total £1,000 (1998/99: £1,000) and £63,000 (1998/99: £43,000) respectively.

## Board report on remuneration

### 3 Directors' interests

At 29 January 2000 and 28 March 2000, according to the register kept by the Company under section 325 of the Companies Act 1985, the following directors had a beneficial interest in the ordinary shares of the Company:

Director	Beneficial interest	
	At 28 March 2000	At 29 January 2000
James McAdam	131,500	131,500
Walker Boyd	60,000	60,000
Terry Burman	nil	nil
Ian Dahl	nil	nil
Lee Abraham	45,000	45,000
Brook Land	25,000	25,000
David Supino	nil	nil
David Wellings	32,500	32,500

Directors' holdings of options over ordinary shares at 29 January 2000 (which in each case were held for their own benefit) and their grant dates and exercise prices were as follows:

Date granted	J McAdam	W Boyd	I Dahl	T Burman	Exercise price
September 1993	1,475,000	200,000	–	–	32.50p
November 1994	–	127,907	–	–	21.50p
October 1997	2,905,556	1,637,037	–	–	33.75p
October 1997	–	–	–	3,256,880	\$ 0.55
April 1998	1,075,145	745,665	–	–	43.25p
April 1998	–	–	–	1,968,122	\$ 0.72
October 1998 (SAYE)	–	–	–	25,020	\$ 0.38
November 1998 (SAYE)	45,588	45,588	–	–	21.25p
At beginning of year	5,501,289	2,756,197	–	5,250,022	–
April 1999	869,347	429,648	–	–	49.75p
April 1999	–	–	–	1,094,239	\$ 0.80
At end of year	6,370,636	3,185,845	–	6,344,261	–
Weighted price of options held <sup>(1)</sup>	37.16p	37.38p	–	\$0.65	–

<sup>(1)</sup> These are weighted averages of the subscription prices per share for the shares under option at 29 January 2000. The options above were all granted under the 1983 Scheme and the 1993 Scheme except those marked SAYE which were granted under the terms of the Sharesave Scheme or, in the case of Terry Burman, the Employee Stock Savings Plan.

On 8 April 1999 Laurence Cooklin exercised 970,000 options over ordinary shares at 32.5p per share and 255,814 options over ordinary shares at 21.5p per share. The middle market share price on the London Stock Exchange on that day was 48.75p. His remaining options over 2,604,661 ordinary shares lapsed on 15 April 1999. In addition, Walker Boyd and James McAdam were, as at 29 January 2000 and 28 March 2000, in common with all other UK employees of the Group with more than six months' service, deemed to have an interest in the 3,850,614 ordinary shares acquired by the trustee of the QUEST as mentioned on page 63, although neither of them has been granted any specific interest in such shares beyond their interests as holders of options under the Sharesave Scheme as set out above.

## Board report on remuneration

### 4 Executive share option schemes

Options granted in September 1993 and November 1994 were subject to performance related conditions which were met in April 1998.

The conditions set by the Remuneration Committee for exercise of options granted in October 1997, April 1998 and April 1999 are based upon growth in earnings per share and exercise is only permissible where real growth in earnings per share exceeds 10% over any consecutive three year period.

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

#### *Employee share schemes*

The options under the Sharesave Scheme and the Irish Sharesave Scheme, are normally exercisable between 36 and 42 months from the date of the relevant savings contract. The options under these schemes were granted at a price approximately 20% below the middle market price of the shares on the London Stock Exchange on the dealing day prior to the date that employees were invited to participate in the Sharesave Scheme and the Irish Sharesave Scheme.

The options under the Employee Stock Savings Plan, which is for employees in the US, are normally exercisable between 24 and 27 months from the date of grant, such date being the first business day of any period during which savings may be accumulated under a savings contract. The options

under this plan were granted at a price approximately 15% below the middle market price of the shares on the London Stock Exchange.

Except as mentioned above, no director nor any member of any director's immediate family had an interest in, or was granted or exercised any right to subscribe for, shares or debentures of the Company or any subsidiary nor did any such right to subscribe lapse during the financial year nor was there any change between the end of the financial year and 28 March 2000 in the interests of any director of the Company disclosed to the Company under the provisions of section 324 (duty of directors to disclose shareholdings in own company) as extended by section 328 (extension of section 324 to spouses and children) of the Companies Act 1985 nor in any right to subscribe for shares in, or debentures of, the Company.

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

#### *Share price*

The middle market price of Signet ordinary shares on the London Stock Exchange was 58p on 29 January 2000 and was 39p on 30 January 1999. During the 52 weeks ended 29 January 2000, the middle market prices of such shares on the London Stock Exchange ranged between a low of 38.75p and a high of 70.25p. On 28 March 2000 the middle market price was 57.5p.

## Statement of directors' responsibilities

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

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

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

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

## Auditors' report to the members of Signet Group plc

We have audited the Accounts on pages 44 to 86.

### Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 42, this includes responsibility for preparing the Accounts in accordance with applicable United Kingdom law and accounting standards; the directors have also presented additional information under United States requirements. Our responsibilities, as independent auditors, are established by statute in the United Kingdom, the auditing standards generally accepted in the United Kingdom and in the United States, the Listing Rules of the London Stock Exchange, the United States Securities and Exchange Commission and by our profession's ethical guidance.

We report to you our opinion as to whether the Accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the Accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information supplied by law or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on page 35 reflects the Group's compliance with the seven provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and internal control procedures.

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

### Basis of audit opinion

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

the United States. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Accounts, and whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

### United Kingdom opinion

In our opinion the Accounts give a true and fair view of the state of affairs of the Company and the Group as at 29 January 2000 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

### United States opinion

In our opinion the consolidated Accounts present fairly, in all material respects, the financial position of the Group at 29 January 2000 and 30 January 1999 and the results of its operations and its cash flows for the 52 week periods ended 29 January 2000, 30 January 1999 and 31 January 1998 in conformity with generally accepted accounting principles in the United Kingdom.

Generally accepted accounting principles in the United Kingdom vary in certain respects from generally accepted principles in the United States. Application of generally accepted accounting principles in the United States would have affected the profits for the 52 week periods ended 29 January 2000, 30 January 1999 and 31 January 1998 and the consolidated shareholders' funds at 29 January 2000 and 30 January 1999 to the extent summarised on pages 79 to 86.

### KPMG Audit Plc

Chartered Accountants, Registered Auditor  
London  
28 March 2000

## Consolidated profit and loss account

for the 52 weeks ended 29 January 2000

	52 weeks ended 29 January 2000	52 weeks ended 30 January 1999	52 weeks ended 31 January 1998	Notes
	£m	£m	£m	
Sales	<b>1,136.5</b>	991.2	927.9	2
Cost of sales	<b>(952.3)</b>	(843.5)	(794.7)	
Gross profit	<b>184.2</b>	147.7	133.2	
Administrative expenses	<b>(45.1)</b>	(45.4)	(42.4)	
<b>Operating profit</b>	<b>139.1</b>	102.3	90.8	2
Net interest payable and similar charges	<b>(11.4)</b>	(13.1)	(22.1)	2,3
<b>Profit on ordinary activities before taxation</b>	<b>127.7</b>	89.2	68.7	4
Tax on profit on ordinary activities	<b>(38.3)</b>	(24.0)	(17.8)	7
<b>Profit for the financial period</b>	<b>89.4</b>	65.2	50.9	
Appropriation from preference shareholders	–	–	154.5	22
Dividends	<b>(24.4)</b>	(16.7)	–	8
Retained profit attributable to equity shareholders	<b>65.0</b>	48.5	205.4	
Earnings per 0.5p ordinary share—basic and diluted	<b>5.3p</b>	3.9p	19.9p	9
—adjusted basic	<b>5.3p</b>	3.9p	3.0p	9

All of the above relates to continuing activities.

Movements in reserves appear in note 21.

## Consolidated balance sheet

at 29 January 2000

	29 January 2000	30 January 1999	Notes
	£m	£m	
<b>Fixed assets</b>			
Tangible assets	<b>137.5</b>	126.1	10
<b>Current assets</b>			
Stocks	<b>368.3</b>	330.3	11
Debtors (see note below)	<b>270.0</b>	244.5	12
Short term investments	<b>-</b>	0.6	13
Cash at bank and in hand	<b>91.3</b>	65.2	14
	<b>729.6</b>	640.6	
<b>Creditors: amounts falling due within one year</b>	<b>(253.3)</b>	(209.6)	15
<b>Net current assets (see note below)</b>	<b>476.3</b>	431.0	
<b>Total assets less current liabilities</b>	<b>613.8</b>	557.1	
<b>Creditors: amounts falling due after more than one year</b>	<b>(147.7)</b>	(156.1)	16
<b>Provisions for liabilities and charges</b>			
Deferred taxation	<b>(3.1)</b>	-	17
Other provisions	<b>(8.5)</b>	(15.2)	19
<b>Total net assets</b>	<b>454.5</b>	385.8	
<b>Capital and reserves—Equity</b>			
Called up share capital	<b>8.5</b>	8.5	20
Share premium account	<b>36.3</b>	34.0	21
Revaluation reserve	<b>0.9</b>	0.9	21
Special reserves	<b>96.6</b>	90.7	21
Profit and loss account	<b>312.2</b>	251.7	21
<b>Shareholders' funds</b>	<b>454.5</b>	385.8	

Note: Debtors and net current assets include amounts recoverable after more than one year of £19.1 million (1999: £23.3 million)(see note 12).

These Accounts were approved by the Board of Directors on 28 March 2000, and were signed on its behalf by:

**James McAdam** Director

**Walker Boyd** Director

## Company balance sheet

at 29 January 2000

	29 January 2000	30 January 1999	Notes
	£m	£m	
<b>Fixed assets</b>			
Intangible assets	-	60.3	31(l)
Tangible assets	<b>40.8</b>	41.2	31(b)
Investments	<b>693.0</b>	611.5	31(l)
	<b>733.8</b>	713.0	
<b>Current assets</b>			
Stocks	-	43.2	31(c)
Debtors (see note below)	<b>75.2</b>	59.8	31(d)
Cash at bank and in hand	<b>68.1</b>	47.1	31(e)
	<b>143.3</b>	150.1	
<b>Creditors: amounts falling due within one year</b>	<b>(207.1)</b>	(207.8)	31(f)
<b>Net current liabilities (see note below)</b>	<b>(63.8)</b>	(57.7)	
<b>Total assets less current liabilities</b>	<b>670.0</b>	655.3	
<b>Creditors: amounts falling due after more than one year</b>	<b>(36.6)</b>	(36.6)	31(g)
Provisions for liabilities and charges	-	(13.7)	31(h)
<b>Total net assets</b>	<b>633.4</b>	605.0	
<b>Capital and reserves – Equity</b>			
Called up share capital	<b>8.5</b>	8.5	20
Share premium account	<b>36.3</b>	34.0	31(i)
Special reserves	<b>565.1</b>	554.1	31(i)
Profit and loss account	<b>23.5</b>	8.4	31(i)
<b>Shareholders' funds</b>	<b>633.4</b>	605.0	

Note: Debtors and net current liabilities include amounts recoverable after more than one year of £1.4 million (1999: £2.3 million)(see note 31(d)).

These Accounts were approved by the Board of Directors on 28 March 2000, and were signed on its behalf by:

**James McAdam** Director

**Walker Boyd** Director

## Consolidated cash flow statement

for the 52 weeks ended 29 January 2000

	52 weeks ended 29 January 2000	52 weeks ended 30 January 1999	52 weeks ended 31 January 1998	Notes
	£m	£m	£m	
Net cash inflow from operating activities	<b>121.5</b>	102.6	143.4	26(a)
Returns on investments and servicing of finance:				
Interest received	<b>3.1</b>	1.5	2.4	
Interest paid	<b>(14.6)</b>	(14.9)	(24.8)	
Net cash outflow from returns on investments and servicing of finance	<b>(11.5)</b>	(13.4)	(22.4)	
Taxation	<b>(31.8)</b>	(17.8)	(11.4)	
Capital expenditure and financial investment:				
Purchase of tangible fixed assets	<b>(39.3)</b>	(30.9)	(28.6)	
Proceeds from sale of tangible fixed assets	<b>3.0</b>	5.3	1.0	
Net cash outflow for capital expenditure and financial investment	<b>(36.3)</b>	(25.6)	(27.6)	
Equity dividends paid	<b>(20.9)</b>	-	-	
Cash inflow before use of liquid resources and financing	<b>21.0</b>	45.8	82.0	
Management of liquid resources:				
(Increase)/decrease in bank deposits	<b>(46.5)</b>	(39.7)	122.1	
Financing:				
Costs of share capital reorganisation	-	-	(7.0)	
Proceeds from issue of shares	<b>0.4</b>	-	-	
Issue/(repayment) of loan notes	-	36.6	(41.1)	
Increase in/(repayment of) bank and other loans	<b>13.5</b>	(65.2)	(139.4)	
Cash inflow/(outflow) from financing	<b>13.9</b>	(28.6)	(187.5)	
(Decrease)/increase in cash in the period	<b>(11.6)</b>	(22.5)	16.6	

## Reconciliation of net cash flow to movement in net debt

(Decrease)/increase in cash in the period	<b>(11.6)</b>	(22.5)	16.6	
Cash (inflow)/outflow from (increase)/decrease in debt	<b>(13.5)</b>	28.6	180.5	
Cash outflow/(inflow) from increase/(decrease) in liquid resources	<b>46.5</b>	39.7	(122.1)	
Change in net debt resulting from cashflows	<b>21.4</b>	45.8	75.0	
Translation difference	<b>(1.5)</b>	0.6	7.3	
Movement in net debt in the period	<b>19.9</b>	46.4	82.3	
Opening net debt	<b>(111.5)</b>	(157.9)	(240.2)	26(b)
Closing net debt	<b>(91.6)</b>	(111.5)	(157.9)	26(b)

## Consolidated statement of total recognised gains and losses

	52 weeks ended 29 January 2000	52 weeks ended 30 January 1999	52 weeks ended 31 January 1998
	£m	£m	£m
Profit for the financial period	<b>89.4</b>	65.2	50.9
Translation differences	<b>8.4</b>	0.6	(13.7)
Total recognised gains and losses relating to the period	<b>97.8</b>	65.8	37.2

## Note of consolidated historical cost profits and losses

	52 weeks ended 29 January 2000	52 weeks ended 30 January 1999	52 weeks ended 31 January 1998
	£m	£m	£m
Profit on ordinary activities before taxation	<b>127.7</b>	89.2	68.7
Realisation of property revaluation surplus	-	0.8	-
Historical cost profit on ordinary activities before taxation	<b>127.7</b>	90.0	68.7
Historical cost retained profit attributable to ordinary shareholders	<b>65.0</b>	49.3	205.4

## Consolidated shareholders' funds

	Ordinary share capital	Preference share capital	Deferred share capital	Share premium account	Revaluation reserve	Special reserves	Profit and loss account	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 February 1997 as restated <sup>(1)</sup>	29.3	37.0	–	175.1	1.8	80.4	(27.4)	296.2
Retained profit attributable to equity shareholders	–	–	–	–	–	–	205.4	205.4
Reversal of appropriation of preference share dividends	–	–	–	–	–	–	(161.5)	(161.5)
Bonus issue to preference shareholders	6.9	(37.0)	37.0	(6.9)	–	–	–	–
Conversion of ordinary shares	(27.8)	–	27.8	–	–	–	–	–
Capital reduction	–	–	(64.7)	(134.2)	–	–	198.9	–
Transfer on property disposals	–	–	–	–	(0.1)	–	0.1	–
Translation differences	–	–	–	–	–	10.3	(13.7)	(3.4)
Balance at 31 January 1998 as restated <sup>(1)</sup>	8.4	–	0.1	34.0	1.7	90.7	201.8	336.7
Retained profit attributable to equity shareholders	–	–	–	–	–	–	48.5	48.5
Transfer on property disposals	–	–	–	–	(0.8)	–	0.8	–
Translation differences	–	–	–	–	–	–	0.6	0.6
Balance at 30 January 1999	8.4	–	0.1	34.0	0.9	90.7	251.7	385.8
Retained profit attributable to equity shareholders	–	–	–	–	–	–	65.0	65.0
Exercise of share options	–	–	–	0.4	–	–	–	0.4
Shares issued to QUEST (see note 20)	–	–	–	1.9	–	–	(1.9)	–
Transfer on property disposals	–	–	–	–	–	–	–	–
Transfer <sup>(2)</sup>	–	–	–	–	–	11.0	(11.0)	–
Translation differences	–	–	–	–	–	(5.1)	8.4	3.3
<b>Balance at 29 January 2000</b>	<b>8.4</b>	<b>–</b>	<b>0.1</b>	<b>36.3</b>	<b>0.9</b>	<b>96.6</b>	<b>312.2</b>	<b>454.5</b>

<sup>(1)</sup> The effect of the restatement is to reduce the profit and loss account balance and the total consolidated shareholders' funds by £4.6 million (see note 18).

<sup>(2)</sup> The transfer between profit and loss account and special reserves represents dividends paid to the holding company by subsidiaries out of profits earned prior to the 1997 capital reduction.

Shareholders' funds at 29 January 2000 include cumulative losses of £18.9 million (1999: £22.2 million; 1998: £22.8 million) in respect of translation differences.

## 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) 15 — Tangible Fixed Assets and FRS 16 — Current Tax.

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 was 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 sold and selling costs. Advertising costs are expensed as incurred.

## Notes to the accounts

### (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. Other exchange differences arising from foreign currency transactions are included in profit before taxation.

### (g) Depreciation and amortisation

Following the adoption of FRS 15, depreciation is provided on freehold and long leasehold retail premises over an estimated useful life not exceeding 50 years. Freehold land is not depreciated.

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%, 33⅓%
Shopfronts, fixtures and fittings	rates up to 33⅓%

### (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) QUEST

During the year the Group established a Qualifying Employee Share Trust (“QUEST”) – see note 20. The investment in the shares subscribed for is recorded at nil cost.

### (k) Leases

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

### (l) 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.

### (m) Pension schemes

The Group operates a defined benefit pension scheme in the UK, covering two 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 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 to pension plans are treated as assets or liabilities. Deferred tax is accounted for on those assets and liabilities.

## Notes to the accounts

### **(n) 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.

### **(o) 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

	2000	1999	1998
	£m	£m	£m
Sales by origin and destination:			
UK	<b>376.7</b>	354.0	352.4
US	<b>759.8</b>	637.2	575.5
	<b>1,136.5</b>	991.2	927.9
Operating profit (see note (a) below):			
UK – Trading	<b>39.3</b>	32.4	36.1
– Group central costs	<b>(3.3)</b>	(7.6)	(8.4)
	<b>36.0</b>	24.8	27.7
US	<b>103.1</b>	77.5	63.1
	<b>139.1</b>	102.3	90.8
Depreciation and amortisation:			
UK	<b>12.2</b>	12.7	11.8
US	<b>15.6</b>	14.9	15.1
	<b>27.8</b>	27.6	26.9
Net interest payable/(receivable) and similar charges:			
UK	<b>(0.5)</b>	(2.0)	0.5
US	<b>11.9</b>	15.1	21.6
	<b>11.4</b>	13.1	22.1
Additions to tangible fixed assets:			
UK	<b>11.9</b>	14.4	14.1
US	<b>27.4</b>	16.5	14.5
	<b>39.3</b>	30.9	28.6
Tangible fixed assets:			
UK	<b>59.1</b>	60.1	61.8
US	<b>78.4</b>	66.0	64.7
	<b>137.5</b>	126.1	126.5
Total assets (see note (b) below):			
UK	<b>247.5</b>	239.4	261.3
US	<b>619.6</b>	527.3	422.7
	<b>867.1</b>	766.7	684.0
Net assets (see note (c) below):			
UK (1998 figure restated, see note 18)	<b>95.6</b>	97.0	116.0
US	<b>450.5</b>	400.3	378.6
Net debt	<b>(91.6)</b>	(111.5)	(157.9)
	<b>454.5</b>	385.8	336.7

## Notes

- (a) Group central costs for 2000 are partially offset by profits of £2.1 million from property disposals (1999: £0.2 million loss; 1998: £ nil). The figure for 1999 included a charge of £2.1 million as a result of an increase in property provisions, largely offset by a gain on disposal of properties of £1.9 million.
- (b) Total assets includes fixed and current assets but excludes current liabilities or debt.
- (c) The net assets of the two geographical segments are stated after the elimination of attributable goodwill acquired before the adoption of FRS 10. Net debt has been excluded from both segments.

## Notes to the accounts

The Group's results derive from one activity — the retailing of jewellery, watches and gifts. The group is managed as two operating segments, being the US and UK divisions. 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 predominately 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 66.9% and 33.1% respectively of Group sales from continuing operations for 1999/00.

The business is managed by the divisional executive committees in the UK and the US which report through the Group Chief Executive to the Group Board. Each divisional executive committee is responsible for operating decisions within guidelines set by the Group Board.

### 3. Net interest payable and similar charges

	2000	1999	1998
	£m	£m	£m
Bank loans and overdrafts	<b>1.6</b>	2.3	10.0
Interest expense of US receivables programme	<b>8.6</b>	8.4	8.4
Loan notes	<b>2.6</b>	1.4	0.4
Subordinated notes issued by subsidiary undertakings	–	–	0.3
Imputed interest, facilities fees and related costs	<b>1.8</b>	2.5	5.4
	<b>14.6</b>	14.6	24.5
Interest receivable	<b>(3.2)</b>	(1.5)	(2.4)
	<b>11.4</b>	13.1	22.1

### 4. Profit on ordinary activities before taxation

	2000	1999	1998
	£m	£m	£m
Profit on ordinary activities before taxation is stated after charging:			
Depreciation and amortisation – owned assets	<b>26.9</b>	27.6	26.9
– assets held under finance leases	<b>0.9</b>	–	–
Auditors' remuneration	<b>0.4</b>	0.4	0.4
Non-audit fees payable to KPMG Audit Plc and their associates	<b>0.7</b>	0.1	0.4
Advertising	<b>43.0</b>	37.7	33.9
Operating lease rentals – plant, machinery and vehicles	<b>2.9</b>	2.6	2.3
– property	<b>102.3</b>	91.9	87.9

Non-audit fees for the year ended 29 January 2000 are primarily for tax advice.

An additional amount of £0.5 million 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.

## Notes to the accounts

## 5. Foreign currency translation

	2000	1999	1998
The exchange rates used for translation of US dollar transactions and balances in these Accounts are as follows:			
Profit and loss account (average rate)	<b>1.62</b>	1.66	1.65
Balance sheet (year-end rate)	<b>1.62</b>	1.64	1.64

The effect of translation on foreign currency borrowings less deposits in the period was to increase the Group's net borrowings by £1.5 million (1999: £0.6 million decrease; 1998: £7.3 million 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 £3.3 million (1999: £0.6 million gain; 1998: £3.4 million loss). This amount has been taken to reserves in accordance with SSAP 20.

## 6. Directors and employees

	2000	1999	1998
	£m	£m	£m
Directors' emoluments	<b>2.7</b>	2.5	2.3
Contributions to pension schemes	<b>0.2</b>	0.2	0.2

The aggregate emoluments of the highest paid director, Terry Burman, as Chief Executive of the US division, were £1,341,000 (1999: £1,227,000; 1998: £833,000) and pension contributions of £64,000 (1999: £44,000; 1998: £28,000) were made to a money purchase scheme on his behalf.

	2000	1999	1998
	Number of persons	Number of persons	Number of persons
Retirement benefits are accruing to the following numbers of directors under:			
Money purchase schemes	<b>2</b>	3	3
Defined benefit schemes	<b>2</b>	1	1
The average number of full-time equivalent persons employed by the Group (including directors) during the period, analysed by category, was:			
Management	<b>386</b>	396	34
Administration	<b>1,160</b>	1,101	1,069
Distribution and sales staff	<b>9,904</b>	9,422	9,525
	<b>11,450</b>	10,919	10,940

	2000	1999	1998
	£m	£m	£m
The aggregate payroll costs of those persons were as follows:			
Wages and salaries	<b>200.7</b>	175.4	162.2
Social security costs	<b>16.0</b>	14.4	13.2
Pension costs	<b>1.3</b>	1.1	0.9
	<b>218.0</b>	190.9	176.3

## Notes to the accounts

### 7. Taxation

	2000	1999	1998
	£m	£m	£m
Profit before taxation:			
UK	<b>36.5</b>	26.8	27.2
US	<b>91.2</b>	62.4	41.5
	<b>127.7</b>	89.2	68.7
	2000	1999	1998
	£m	£m	£m
Taxes on profit:			
UK corporation tax payable	<b>7.3</b>	10.5	9.4
US taxes	<b>23.6</b>	17.2	9.0
Deferred taxation:			
UK	<b>(0.2)</b>	(0.7)	0.3
US	<b>7.6</b>	(3.0)	(0.9)
	<b>38.3</b>	24.0	17.8
	2000	1999	1998
	£m	£m	£m
Sources of deferred taxation are as follows:			
Depreciation	<b>(0.2)</b>	(0.4)	(0.1)
Other timing differences	<b>7.6</b>	(3.3)	(0.4)
	<b>7.4</b>	(3.7)	(0.5)
	2000	1999	1998
	%	%	%
Statutory tax rate	<b>30.2</b>	31.0	31.3
Expenditure permanently disallowable for tax purposes, net of permanent undercharges	<b>(0.9)</b>	1.7	1.9
Utilisation of US brought forward tax losses	<b>(2.6)</b>	(9.1)	(7.9)
Differences between US and UK standard tax rates	<b>2.9</b>	1.6	1.2
Other	<b>0.4</b>	1.7	(0.5)
Effective tax rates in Accounts	<b>30.0</b>	26.9	26.0

## Notes to the accounts

## 8. Dividends

Ordinary	2000	1999	1998
	£m	£m	£m
Interim dividend paid of 0.25p per ordinary share (1999: nil; 1998: nil)	<b>4.2</b>	–	–
Final dividend proposed of 1.2p per ordinary share (1999: 1.0p; 1998: nil)	<b>20.2</b>	16.7	–
	<b>24.4</b>	16.7	–

The interim dividend was paid on 12 November 1999. Subject to shareholder approval, the proposed final dividend is to be paid on 3 July 2000 to shareholders on the register of members at close of business on 5 June 2000.

**Preference** On 21 July 1997 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

	2000	1999	1998
	£m	£m	£m
Profit on ordinary activities after taxation	<b>89.4</b>	65.2	50.9
Appropriation from preference shareholders (see below)	–	–	154.5
Retained profit attributable to ordinary shareholders	<b>89.4</b>	65.2	205.4

	2000	1999	1998
Basic weighted average number of ordinary shares in issue (million)	<b>1,675.8</b>	1,674.8	1,030.4
Dilutive effect of share options (million)	<b>17.5</b>	7.2	0.5
Diluted weighted average number of ordinary shares (million)	<b>1,693.3</b>	1,682.0	1,030.9
Earnings per 0.5p ordinary share – basic	<b>5.3p</b>	3.9p	19.9p
– diluted	<b>5.3p</b>	3.9p	19.9p
– adjusted	<b>5.3p</b>	3.9p	3.0p

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 reserved 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 £161.5 million 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 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 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 1999/00 and 1998/99 basic earnings per share and adjusted basic earnings per share are calculated in the normal manner.

## Notes to the accounts

### 10. Tangible fixed assets

	Land and buildings		Short leasehold	Plant, machinery and vehicles	Shopfronts, fixtures and fittings	Total
	Freehold	Long leasehold				
	£m	£m	£m	£m	£m	£m
Cost or valuation:						
At 30 January 1999	17.4	3.7	98.2	50.6	225.6	395.5
Additions	–	–	9.5	9.2	20.6	39.3
Disposals	–	–	(11.4)	(3.9)	(38.9)	(54.2)
Translation differences	–	–	(16.4)	0.3	(11.9)	(28.0)
<b>At 29 January 2000</b>	<b>17.4</b>	<b>3.7</b>	<b>79.9</b>	<b>56.2</b>	<b>195.4</b>	<b>352.6</b>
Depreciation and amortisation:						
At 30 January 1999	1.6	–	68.5	41.8	157.5	269.4
Charged in period	0.2	0.1	6.1	4.6	16.8	27.8
Disposals	–	–	(10.8)	(5.2)	(37.3)	(53.3)
Translation differences	–	–	(16.8)	0.3	(12.3)	(28.8)
<b>At 29 January 2000</b>	<b>1.8</b>	<b>0.1</b>	<b>47.0</b>	<b>41.5</b>	<b>124.7</b>	<b>215.1</b>
Net book value:						
<b>At 29 January 2000</b>	<b>15.6</b>	<b>3.6</b>	<b>32.9</b>	<b>14.7</b>	<b>70.7</b>	<b>137.5</b>
At 30 January 1999	15.8	3.7	29.7	8.8	68.1	126.1

**Cost or valuation.** All fixed assets are stated at cost, other than substantially all freehold and long leasehold properties which are stated on the basis of their latest professional open market valuation or depreciated replacement cost (which the directors consider to be a reasonable approximation to existing use value). Properties with a net book value of £17.1 million were subject to an internal interim valuation by a professionally qualified Surveyor, at 29 January 2000. The valuation was in accordance with the RICS Appraisal and Valuation Manual. Of these properties, a total of 18 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. The last full valuation was carried out by J. Trevor & Webster, Chartered Surveyors at 1 February 1997 in accordance with the RICS Appraisal and Valuation Manual.

Freehold properties in the consolidated balance sheet include £8.0 million of depreciable assets (1999: £8.0 million).

The net book value of assets held under finance leases is £15.4 million (1999: £ nil).

	2000	1999
	£m	£m
Freehold and long leasehold land and buildings are stated at:		
Cost	<b>4.3</b>	4.3
Valuation	<b>16.8</b>	16.8
	<b>21.1</b>	21.1
The net book value of freehold and long leasehold and and buildings on an historical cost basis would be:		
Cost	<b>28.7</b>	28.7
Depreciation	<b>(6.6)</b>	(6.5)
	<b>22.1</b>	22.2

## Notes to the accounts

### 11. Stocks

Stocks constitute goods held for resale.

Subsidiary undertakings held £51.5 million of consignment stocks at 29 January 2000 (30 January 1999: £55.2 million) 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
	£m	£m	£m	£m
31 January 1998	11.0	8.0	(7.7)	11.3
30 January 1999	11.3	8.5	(7.2)	12.6
29 January 2000	12.6	9.4	(10.1)	11.9

### 12. Debtors

	2000	1999
	£m	£m
Trade debtors (net of allowances):		
– US receivables programme	<b>220.1</b>	194.0
– Other	<b>6.4</b>	4.9
	<b>226.5</b>	198.9
Other debtors	<b>13.5</b>	11.4
Corporation tax recoverable	<b>0.6</b>	0.6
Prepayments and accrued income	<b>10.3</b>	10.3
Debtors recoverable within one year	<b>250.9</b>	221.2
Pension fund prepayment	<b>19.1</b>	19.1
Deferred taxation (see note 17)	<b>–</b>	4.2
Debtors recoverable after more than one year	<b>19.1</b>	23.3
Total debtors	<b>270.0</b>	244.5

#### Allowances for doubtful debts

52 weeks ended	Balance at beginning of period	Charged to profit	Write-offs	Balance at end of period
	£m	£m	£m	£m
31 January 1998	15.0	25.1	(26.2)	13.9
30 January 1999	13.9	26.3	(25.1)	15.1
29 January 2000	15.1	28.4	(27.1)	16.4

## Notes to the accounts

### 13. Short term investments

	2000	1999
	£m	£m
Property developments (at estimated market value)	-	0.6

### 14. Cash at bank and in hand

	2000	1999
	£m	£m
Bank deposits	89.5	43.0
Other cash	1.8	22.2
	<b>91.3</b>	65.2

### 15. Creditors: amounts falling due within one year

	2000	1999
	£m	£m
Bank overdrafts (see note 16)	13.5	23.3
Bank loans	23.3	-
Obligations under finance leases	2.6	-
Trade creditors	50.5	45.1
Corporation tax	36.7	37.4
Social security and PAYE	3.6	2.9
Other taxes	19.3	15.6
Other creditors	5.0	3.1
Accruals and deferred income	78.6	65.5
Proposed dividend	20.2	16.7
	<b>253.3</b>	209.6

The weighted average interest rate on short term borrowings at 29 January 2000 was 7.25%.

### 16. Creditors: amounts falling due after more than one year

	2000	1999
	£m	£m
Bank loans falling due between one and two years	94.9	116.8
Loan notes – falling due between two and five years	9.1	18.3
Loan notes – falling due after five years	27.4	18.3
Obligations under finance leases – falling due between one and two years	2.8	-
Obligations under finance leases – falling due between two and five years	9.3	-
Other creditors	4.2	2.7
	<b>147.7</b>	156.1

In July 1998 the Group entered into an unsecured \$250 million multi-currency revolving credit facility with a syndicate of banks for a period of five years at a variable interest rate at a maximum margin of 0.75% above LIBOR. With effect from

## Notes to the accounts

10 December 1999 the applicable margin has been 0.60% above LIBOR. In July 1998 the Group also entered into a \$60 million seven year senior unsecured note issue with a fixed interest rate of 7.25%.

Commitment fees are paid on the undrawn portion of the credit facility. With effect from 10 December 1999 the fee payable has been at an annual rate of 0.30% compared with its maximum 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 29 January 2000 the interest payable on 75% of forecast floating rate US dollar borrowings was fixed or effectively fixed by interest rate caps (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 at 29 January 2000 (£118.2 million) and \$191.5 million at 30 January 1999 (£116.8 million). The certificates have a weighted average interest rate of 7.26% and interest is paid monthly in arrears from the finance charges collections generated by the 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 with the final payment on the outstanding investor certificates falling due in September 2001.

In October 1999 the Group completed a sale and leaseback agreement in the US. This agreement has been treated as a finance lease in accordance with SSAP 21. The nominal interest rate is 8.44% per annum.

### 17. Deferred taxation

	29 January 2000			30 January 1999		
	Assets	(Liabilities)	Total	Assets	(Liabilities)	Total
	£m	£m	£m	£m	£m	£m
Accelerated capital allowances	1.4	-	1.4	1.2	-	1.2
Other timing differences	8.2	(12.7)	(4.5)	11.9	(8.9)	3.0
	9.6	(12.7)	(3.1)	13.1	(8.9)	4.2
UK			(3.1)			(3.3)
US			-			7.5
			(3.1)			4.2
Movement in deferred tax (liability)/asset:						Total
						£m
At 30 January 1999						4.2
Charge for the period in the profit and loss account						(7.4)
Difference on translation						0.1
At 29 January 2000						(3.1)

## Notes to the accounts

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

	29 January 2000			30 January 1999		
	Assets	(Liabilities)	Total	Assets	(Liabilities)	Total
	£m	£m	£m	£m	£m	£m
Accelerated capital allowances	1.4	-	1.4	1.2	-	1.2
UK property related	1.8	-	1.8	2.0	-	2.0
Other timing differences	8.2	(12.7)	(4.5)	14.4	(8.9)	5.5
Value of US operating losses carried forward	-	-	-	7.0	-	7.0
Capital gains held over on property disposals	-	(1.8)	(1.8)	-	(2.5)	(2.5)
Value of UK capital losses carried forward	18.6	-	18.6	20.2	-	20.2
Total potential deferred tax asset/(liability)	30.0	(14.5)	15.5	44.8	(11.4)	33.4
Valuation allowance	(20.4)	1.8	(18.6)	(31.7)	2.5	(29.2)
Deferred tax asset/(liability)	9.6	(12.7)	(3.1)	13.1	(8.9)	4.2

The difference on translation in respect of deferred tax posted directly to reserves in the 52 weeks ended 29 January 2000 was a gain of £0.1 million (1999: £nil).

### 18. Prior year adjustment

Prior to 1998/99 it was 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 adopted last 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 led to the reclassification to provisions of amounts previously included within creditors and also a prior year adjustment of £4.6 million charged directly to shareholders' funds. There was 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

	Total
	£m
At 30 January 1999	15.2
Charges for the period in the profit and loss account	0.3
Utilisations	(7.0)
At 29 January 2000	<b>8.5</b>

The above provision is for onerous leases and includes the discounted cash flows of future net 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

	2000	1999
	£m	£m
<b>Authorised:</b>		
5,929,874,019 ordinary shares of 0.5p each (1999: 5,929,874,019)	<b>29.6</b>	29.6
5,568,226,621 Class A Sterling deferred shares of 0.5p each (1999: 5,568,226,621)	<b>27.9</b>	27.9
34,548,183 Class B Sterling deferred shares of 20p each (1999: 34,548,183)	<b>6.9</b>	6.9
3,000,000 Class C Sterling deferred shares of £10 each (1999: 3,000,000)	<b>30.0</b>	30.0
12,320,739 Class A Dollar deferred shares of \$0.01 each (1999: 12,320,739)	<b>0.1</b>	0.1
2,500 Class B Dollar deferred shares of \$1 each (1999: 2,500)	<b>-</b>	-
	<b>94.5</b>	94.5
	Number	£m
<b>Allotted, called up and fully paid:</b>		
Ordinary shares of 0.5p each		
At 30 January 1999	1,674,842,749	8.4
Shares issued to QUEST	3,850,614	-
Share options exercised	1,230,637	-
At 29 January 2000	<b>1,679,924,000</b>	8.4
Class A Dollar deferred shares of \$0.01 each	<b>12,320,739</b>	0.1
Class B Dollar deferred shares of \$1 each	<b>2,500</b>	-
<b>At 29 January 2000 total allotted, called up and fully paid (1999: £8.5 million)</b>		<b>8.5</b>

The consideration received for options exercised during the year was £0.4 million (1999: 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.

In October 1999 the Group established a QUEST which subscribed for 3,850,614 ordinary shares of 0.5p each in the Company at 50.75p per share. The aggregate market value of these shares at 29 January 2000 was £2.2 million. The investment in these shares is recorded at nil cost.

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

## 21. Reserves

	Share premium account	Revaluation reserve	Special reserves	Profit and loss account
	£m	£m	£m	£m
At 30 January 1999	34.0	0.9	90.7	251.7
Retained profit attributable to equity shareholders	-	-	-	65.0
Exercise of share options	0.4	-	-	-
Shares issued to QUEST (see note 20)	1.9	-	-	(1.9)
Transfer	-	-	11.0	(11.0)
Translation differences	-	-	(5.1)	8.4
<b>At 29 January 2000</b>	<b>36.3</b>	<b>0.9</b>	<b>96.6</b>	<b>312.2</b>

## Notes to the accounts

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

Exchange losses of £0.5 million (1999: £0.2 million) on foreign currency loans have been offset in reserves against exchange movements on the net investment in overseas subsidiary undertakings.

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. The undertakings given to the High Court at the time of the capital reduction included the requirement that the Company transfer to a new special reserve any dividend paid by a subsidiary from profits earned prior to that date. That new special reserve is, for as long as the Company is a public company, treated as a non-distributable reserve for the purposes of section 264 of the Companies Act 1985.

In accordance with undertakings given by the Company to the High Court in connection with previous reductions of share premium account, an earlier 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).

At 29 January 2000, after taking into account the subsequent declaration of the final dividend of 1.2p per ordinary share, the holding company had distributable reserves of £23.5 million (30 January 1999: £8.4 million).

**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 in underlying foreign currency amounts included in the special reserve amount to £615.4 million (1999: £610.3 million).

The Group's total recognised gains and losses differ from the net profit for the year (as set out in the consolidated profit and loss account) in respect of foreign currency translation adjustments amounting to an aggregate gain of £3.3 million for the year ended 29 January 2000 (1999: gain of £0.6 million; 1998: loss of £3.4 million). The foreign currency translation adjustments are set out in the consolidated statement of total recognised gains and losses.

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

	2000	1999	1998
	£m	£m	£m
Balance at end of previous year	(22.2)	(22.8)	(19.4)
Movement in year	3.3	0.6	(3.4)
<b>Balance at end of year</b>	<b>(18.9)</b>	(22.2)	(22.8)

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

The cumulative adjustments to property valuations are £4.8 million at 29 January 2000, 30 January 1999 and 31 January 1998. The tax effect of the cumulative adjustments to property valuations is £nil.

## Notes to the accounts

### 22. Cancellation of dividend accruals and arrears

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 at 1 February 1997 amounted to £161.5 million. 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 as 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 to the profit and loss account as follows:

	2000	1999	1998
	£m	£m	£m
Appropriation to preference shareholders in the period	-	-	(3.8)
Appropriation from preference shareholders arising from cancellation of dividend arrears and accruals	-	-	165.3
	-	-	161.5
Costs of share capital reorganisation	-	-	(7.0)
	-	-	154.5

The appropriation to preference shareholders in 1998 is stated net of a £6.6 million exchange gain.

### 23. Pension schemes

The Group operates one defined benefit pension scheme in the UK for all eligible employees who meet minimum age and service requirements. 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. The Group has established an unfunded nonqualified deferred compensation plan which permits certain management employees to elect annually 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 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 at 5 April 1997 and its results form the basis of SSAP24 accounting in 1999/00. 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

## Notes to the accounts

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 SSAP 24, 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 29 January 2000 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 UK 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 29 January 2000.

	2000	1999	1998
	£m	£m	£m
The Group pension cost for the period comprises:			
Normal UK cost under SSAP 24	<b>(1.4)</b>	(1.4)	(1.4)
Spreading of additional UK surplus	<b>(0.3)</b>	(0.3)	(0.3)
Interest on UK surpluses	<b>1.7</b>	1.7	1.7
US retirement savings plan	<b>(1.3)</b>	(1.1)	(0.9)
	<b>(1.3)</b>	(1.1)	(0.9)

## 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.

## Notes to the accounts

The minimum payments in respect of operating leases for the 53 weeks to 3 February 2001 to which the Group was committed at 29 January 2000 were as follows:

	Plant, machinery & vehicles	Leasehold premises	Total
	£m	£m	£m
Operating leases which expire:			
Within one year	0.7	6.2	6.9
In the second to fifth years	1.8	21.7	23.5
Over five years	–	63.6	63.6
<b>At 29 January 2000</b>	<b>2.5</b>	<b>91.5</b>	<b>94.0</b>
At 30 January 1999	2.6	85.4	88.0

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

	£m
Year ending on or about 29 January:	
2001	94.0
2002	85.4
2003	78.9
2004	73.7
2005	69.4
Thereafter	455.1
	<b>856.5</b>

Capital commitments at 29 January 2000, for which no provision has been made in these Accounts, were as follows:

	2000	1999
	£m	£m
Contracted	<b>7.0</b>	10.2

### 25. Contingent liabilities

The Group is not party to any legal proceedings considered to be material to its profit, financial position or cash flow including any bankruptcy, receivership or similar proceedings involving the Group or any of its significant subsidiaries. No director, officer or affiliate of the Group or any associate of any such director, officer or affiliate of the Group has been a party adverse to the Group or any of its subsidiaries or has a material interest adverse to the Group or any of its subsidiaries.

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.

## Notes to the accounts

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

	2000	1999	1998
	£m	£m	£m
Operating profit	<b>139.1</b>	102.3	90.8
Depreciation charges	<b>27.8</b>	27.6	26.9
Write down of short term investments	-	0.3	-
(Profit)/loss on sale of fixed assets	<b>(2.1)</b>	(1.6)	0.6
(Increase)/decrease in stocks	<b>(31.7)</b>	(24.7)	12.7
Increase in debtors	<b>(27.2)</b>	(19.0)	(5.3)
Decrease in short term investments	<b>0.6</b>	-	-
Increase in creditors	<b>21.7</b>	11.6	18.8
(Decrease)/increase in other provisions	<b>(6.7)</b>	6.1	(1.1)
Net cash inflow from operating activities	<b>121.5</b>	102.6	143.4

#### b Analysis of net debt

	30 January 1999	Cash flow	Exchange movement	Other movement	29 January 2000
	£m	£m	£m	£m	£m
Cash in hand and at bank	22.2	(20.6)	0.2	-	<b>1.8</b>
Bank overdrafts	(22.3)	9.0	(0.2)	-	<b>(13.5)</b>
	(0.1)	(11.6)	-	-	<b>(11.7)</b>
Debt due after more than one year	(153.3)	(12.1)	(1.4)	23.3	<b>(143.5)</b>
Debt due within one year	(1.1)	(1.4)	(0.1)	(23.3)	<b>(25.9)</b>
Bank deposits	43.0	46.5	-	-	<b>89.5</b>
	(111.4)	33.0	(1.5)	-	<b>(79.9)</b>
Total	(111.5)	21.4	(1.5)	-	<b>(91.6)</b>

### 27. Financial instruments

The Group has entered into various interest rate protection agreements, particularly interest rate caps and floors, 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 forecast 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

## Notes to the accounts

financial instruments. Concentrations of credit risk exist due to the Group operating customer receivables programmes in the US 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 fair value of the interest rate cap was approximately £0.3 million at 29 January 2000. The fair value of the interest rate floor at 29 January 2000 was £nil (30 January 1999: £0.3 million).

### 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 29 January 2000 since the rates associated with the debt at that time are consistent with the facilities agreement entered into in July 1998. The rates in the facilities agreement are deemed to be current market rates.

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, the floor paid a minimum of 7%):

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

At 29 January 2000 the Group was party to the following interest rate protection agreements:

Aggregate nominal amounts	Type of interest rate protection	Interest rate obtained	Term
\$32m	Cap	5.25%	Jun 2000 to Jul 2000
\$26m	Cap	5.25%	Jul 2000 to Aug 2000
\$21m	Cap	5.25%	Aug 2000 to Sep 2000
\$68m	Cap	5.25%	Sep 2000 to Oct 2000
\$87m	Cap	5.25%	Oct 2000 to Nov 2000
\$121m	Cap	5.25%	Nov 2000 to Dec 2000
\$27m	Cap	5.25%	Dec 2000 to Jan 2001
£20m	Floor	5.50%	Dec 1999 to Mar 2000

## Notes to the accounts

### 28. Share options

At 29 January 2000 options in respect of 56,503,763 ordinary shares were outstanding (including 18,236,671 for directors and officers of the Group) under the Company's share option schemes as follows:

Date granted	Number of shares	Exercise price per share
October 1991	235,000	\$1.46
November 1991	112,000	83.00p
September 1993	1,675,000	32.50p
November 1994	255,814	21.50p
November 1994	758,931	\$0.35
October 1997	7,201,850	33.75p
October 1997	10,905,500	\$0.55
April 1998	4,439,961	43.25p
April 1998	7,752,593	\$0.72
October 1998	1,609,620	\$0.38
November 1998	7,409,959	21.25p
November 1998	80,192	21.25p
April 1999	4,132,943	49.75p
April 1999	6,832,509	\$0.80
October 1999	690,000	\$0.71
December 1999	2,403,157	40.00p
December 1999	8,734	40.00p
	<u>56,503,763</u>	

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 the 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. Additional conditions were attached to the options granted in and since 1993. 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.

## Notes to the accounts

The following table summarises the status of the Company's share option schemes at 31 January 1998, 30 January 1999 and 29 January 2000, and changes during the years ended on those dates:

	Number of shares		
	2000	1999	1998
	million	million	million
Outstanding at beginning of period (at prices from 21.25p to 243.6p)	48.7	27.5	6.9
Granted at 49.75p, 40p, \$0.80 and \$0.71 (1999: 21.25p, 43.25p, \$0.38 and \$0.72)	14.3	23.8	21.4
Exercised	(1.2)	(0.2)	–
Cancelled/lapsed	(5.3)	(2.4)	(0.8)
	56.5	48.7	27.5

### Share scheme limits

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

- 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;
- 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; and
- 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:

- 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; and
- 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 29 January 2000 is set out 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	1,787,000	32.50p–83.00p	35.67p	11/2001 – 9/2003
US Plan	235,000	\$1.46	\$1.46	10/2001
1993 Scheme	42,280,101	21.5p–49.75p \$0.35–\$0.80	40.30p	11/2004 – 4/2009 11/2004 – 4/2009
Sharesave Scheme	9,813,116	21.25p–40.00p	25.84p	7/2002 – 7/2003
Employee Stock Savings Plan	2,299,620	\$0.38–\$0.71	\$0.48	1/2001 – 1/2002
Irish Sharesave Scheme	88,926	21.25p–40.00p	23.09p	7/2002 – 7/2003

## Notes to the accounts

### Fixed share option schemes

The company has five fixed share 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 options as at 29 January 2000, 30 January 1999 and 31 January 1998 and changes during the years ended on those dates is presented below:

	29 January 2000		30 January 1999		31 January 1998	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
	million	pence	million	pence	million	pence
Outstanding at beginning of year	<b>11.4</b>	<b>34</b>	1.6	198	2.4	212
Granted	<b>3.2</b>	<b>40</b>	10.5	22	–	–
Lapsed	<b>(0.6)</b>	<b>233</b>	(0.6)	235	(0.7)	238
Forfeited	<b>(1.5)</b>	<b>22</b>	(0.1)	163	(0.1)	225
Outstanding at end of year	<b>12.5</b>	<b>28</b>	11.4	34	1.6	198
Options exercisable at end of year	<b>0.3</b>	<b>88</b>	0.9	176	1.6	198

The following table summarises the information about fixed share options outstanding at 29 January 2000:

Range of exercise prices	Number of shares	Weighted average remaining contractual life	Weighted average exercise price
	million	years	pence
1p to 50p	12.2	2.4	27
51p to 100p	0.3	1.8	88
1p to 100p	12.5	2.4	28

## Notes to the accounts

### 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 at 29 January 2000, 30 January 1999 and 31 January 1998 and changes during the years ended on those dates is presented below:

	29 January 2000		30 January 1999		31 January 1998	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
	million	pence	million	pence	million	pence
Outstanding at beginning of period	37.3	37	25.8	35	4.5	43
Granted	11.1	49	13.3	44	21.3	34
Exercised	(1.2)	30	(0.2)	22	–	–
Lapsed	–	–	(0.4)	193	–	–
Forfeited	(3.3)	37	(1.2)	36	–	–
Outstanding at end of period	43.9	40	37.3	37	25.8	35
Options exercisable at end of period	1.9	31	3.2	31	–	–

The following table summarises the information about performance-based share options outstanding at 29 January 2000:

Range of exercise prices	Number of shares	Weighted average remaining contractual life	Weighted average exercise price
	million	years	pence
1p to 25p	1.0	4.8	21
26p to 50p	42.9	8.0	41
1p to 50p	43.9	7.9	40

### 29. Principal subsidiary undertakings

	Share capital issued and fully paid
<b>Retail jewellers</b>	
Ernest Jones Limited	£70,798,832
H. Samuel Limited	£23,343,000
Leslie Davis Limited	£14,463,595
Sterling Inc (USA)	–
Sterling Jewelers Inc (USA)	–
Sterling Jewelers LLC (USA)	–
<b>Property holding company</b>	
Checkbury Limited <sup>(1)</sup>	£16,400,000

(1) Holds only UK freehold and long leasehold retail and warehouse premises.

All these companies are wholly owned by subsidiary undertakings and are 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.

## Notes to the accounts

### 30. Related party transactions

There are no related party transactions which require disclosure in these 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 £50.5 million (1999: £29.8 million; 1998: £7.3 million loss). The profit is stated after foreign exchange gains of £0.4 million (1999: £nil; 1998: £nil) attributable to intra-group dollar balances (see note 5).

#### (b) Tangible fixed assets

	Land and buildings		Plant, machinery and vehicles	Shopfronts, fixtures and fittings	Total
	Freehold	Short leasehold			
	£m	£m	£m	£m	£m
Cost or valuation:					
At 30 January 1999	0.1	7.3	25.9	116.6	149.9
Additions	–	0.1	5.2	6.3	11.6
Disposals	–	(1.9)	(3.7)	(26.9)	(32.5)
<b>At 29 January 2000</b>	<b>0.1</b>	<b>5.5</b>	<b>27.4</b>	<b>96.0</b>	<b>129.0</b>
Depreciation and amortisation:					
At 30 January 1999	0.1	3.6	23.0	82.0	108.7
Charged in period	–	0.3	2.2	9.0	11.5
Disposals	–	(1.3)	(5.0)	(25.7)	(32.0)
<b>At 29 January 2000</b>	<b>0.1</b>	<b>2.6</b>	<b>20.2</b>	<b>65.3</b>	<b>88.2</b>
Net book value:					
<b>At 29 January 2000</b>	<b>–</b>	<b>2.9</b>	<b>7.2</b>	<b>30.7</b>	<b>40.8</b>
At 30 January 1999	–	3.7	2.9	34.6	41.2

Freehold properties in the Company balance sheet include £0.1 million of depreciable assets (1999: £0.1 million).

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

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

	2000	1999
	£m	£m
Cost	<b>3.8</b>	3.8
Depreciation	<b>(3.4)</b>	(3.4)
	<b>0.4</b>	0.4

## Notes to the accounts

### (c) Stocks

At 29 January 2000 the Company did not hold any consignment stocks. At 30 January 1999 the Company held £2.3 million of consignment stocks which was not recorded on the balance sheet. The principal terms of the consignment agreements, which could generally be terminated by either side, were such that the Company could return any or all of the stocks to the relevant suppliers without financial or commercial penalties and the supplier could vary the stock prices.

### (d) Debtors

	2000	1999
	£m	£m
Trade debtors (net of allowances)	-	1.5
Amounts owed to subsidiary undertakings	<b>73.8</b>	50.3
Other debtors	-	3.0
Prepayments and accrued income	-	2.7
Debtors recoverable within one year	<b>73.8</b>	57.5
Pension fund prepayment	-	0.4
Deferred taxation	<b>1.4</b>	1.9
Debtors recoverable after more than one year	<b>1.4</b>	2.3
Total debtors	<b>75.2</b>	59.8

### (e) Cash at bank and in hand

	2000	1999
	£m	£m
Bank deposits	<b>67.0</b>	43.0
Other cash	<b>1.1</b>	4.1
	<b>68.1</b>	47.1

### (f) Creditors: amounts falling due within one year

	2000	1999
	£m	£m
Trade creditors	-	1.0
Amounts owed to subsidiary undertakings	<b>186.2</b>	166.0
Corporation tax	<b>0.4</b>	9.9
Other taxes	-	4.0
Other creditors	-	0.9
Accruals and deferred income	<b>0.3</b>	9.3
Proposed dividend	<b>20.2</b>	16.7
	<b>207.1</b>	207.8

The number of days purchases outstanding at 29 January 2000 was nil.

## Notes to the accounts

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

	2000	1999
	£m	£m
Loan notes falling due between two and five years	<b>22.9</b>	18.3
Loan notes falling due after five years	<b>13.7</b>	18.3
	<b>36.6</b>	36.6

Details of loan notes are shown in note 16.

### (h) Provisions for liabilities and charges

	Total
	£m
At 30 January 1999	13.7
Transfers	(13.7)
<b>At 29 January 2000</b>	<b>-</b>

The above provision is for onerous leases at 30 January 1999 and 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 current rent.

### (i) Reserves

	Share premium account	Special reserves	Profit and loss account
	£m	£m	£m
At 30 January 1999	34.0	554.1	8.4
Retained profit attributable to equity shareholders	-	-	25.7
Share options exercised	0.4	-	-
Shares issued to QUEST (see note 20)	1.9	-	-
Transfer	-	11.0	(11.0)
Translation differences	-	-	0.4
<b>At 29 January 2000</b>	<b>36.3</b>	<b>565.1</b>	<b>23.5</b>

## Notes to the accounts

### (i) 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 53 weeks to 3 February 2001 to which the Company was committed at 29 January 2000 were as follows:

	Plant, machinery & vehicles	Leasehold premises	Total
	£m	£m	£m
At 29 January 2000	-	-	-
At 30 January 1999	0.5	14.8	15.3

Capital commitments at 29 January 2000 for which no provision has been made in these Accounts were as follows:

	2000	1999
	£m	£m
Contracted	1.4	2.2

### (k) Contingent liabilities

The Company is not party to any legal proceedings considered to be material to its profit, financial position or cash flow, including any bankruptcy, receivership or similar proceedings involving the Company or any of its significant subsidiaries. No director, officer or affiliate of the Company, or any associate of any such director, officer or affiliate of the Company, has been a party adverse to the Company or any of its subsidiaries or has a material interest adverse to the Company or any of its subsidiaries.

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.

## Notes to the accounts

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

	Shares in subsidiary undertakings	Goodwill
	£m	£m
Cost at 30 January 1999:	611.5	75.4
Additions	818.5	-
Disposals	(737.0)	(75.4)
<b>Cost at 29 January 2000</b>	<b>693.0</b>	<b>-</b>
Amortisation and amounts written off:		
At 30 January 1999	-	15.1
Disposals	-	(15.1)
<b>At 29 January 2000</b>	<b>-</b>	<b>-</b>
Net book value:		
<b>At 29 January 2000</b>	<b>693.0</b>	<b>-</b>
At 30 January 1999	611.5	60.3

See note 29 for details of principal subsidiary undertakings.

With effect from 1 February 1999 the Group completed an internal reorganisation of its corporate structure. The key elements of the reorganisation were as follows:

- Ernest Jones ceased to be a division of the holding company and its business was transferred to a new trading company;
- new intermediate holding companies were set up to carry the investments in the US and UK operating companies; and
- a new stand-alone services company was established to centralise the administrative, finance and treasury services provided to Group companies.

As part of this reorganisation the holding company disposed of the majority of its subsidiaries to the new intermediate holding companies in return for shares.

**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 had been 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 considered 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 at 30 January 1999 of this departure was to recognise goodwill of £60.3 million, net of amortisation of £15.1 million. The consolidated Accounts are not affected by this transfer. As a result of the reorganisation referred to above the true and fair override no longer applies.

## 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 31 January 1998 were £209.6 million, for the 52 weeks ended 30 January 1999 were £225.9 million and for the 52 weeks ended 29 January 2000 were £260.6 million.

### Goodwill

The Group has implemented FRS 10 in respect of acquisitions since 1 February 1998, making treatments for US and UK GAAP consistent. Pre FRS 10, in the Group's consolidated Accounts prepared under UK GAAP, goodwill arising on the acquisition of a subsidiary was written off against reserves in the consolidated balance sheet in the year in which the acquisition was 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 in respect of 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 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 £7.1 million (1999: £5.9 million; 1998: £8.2 million) 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 for 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 shares upon issuance of \$11.125.

### 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 financial 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

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.

## Summary of differences between UK and US generally accepted accounting principles

### Pensions

Under UK GAAP a prepayment representing the surplus of pension fund assets over projected accrued benefit obligations has 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 29 January 2000 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

Following the adoption of FRS 15, under UK GAAP depreciation is charged on freehold buildings and long leasehold properties based on the revalued amounts. Under US GAAP depreciation is calculated based on the historic cost of the assets.

### 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 was 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 FRS 12, 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.

### Securitised customer receivables

Under UK GAAP securitised US customer receivables of £118.2 million (1999: £116.8 million; 1998: £116.8 million) 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 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.

## Summary of differences between UK and US generally accepted accounting principles

### Cash flows

Under UK GAAP the Group complies with “Financial Reporting Standard 1 (Revised 1996) 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. 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 29 January 2000 excludes a total of 347,000 shares (1999: 22,076,034; 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 appropriate 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 consolidated profit for the financial period of differences between UK and US GAAP

	52 weeks ended 29 January 2000	52 weeks ended 30 January 1999	52 weeks ended 31 January 1998
	£m	£m	£m
Profit for the financial period in accordance with UK GAAP	<b>89.4</b>	65.2	50.9
US GAAP adjustments:			
Goodwill amortisation and write offs	<b>(12.2)</b>	(12.0)	(12.0)
Sale and leaseback transactions	<b>0.8</b>	(1.0)	2.1
Revaluation of properties	<b>–</b>	0.8	0.1
Extended service plan revenues	<b>(0.2)</b>	(2.2)	0.9
Pensions	<b>2.5</b>	1.6	3.3
Depreciation of properties	<b>0.1</b>	(0.1)	(0.1)
Lease cost adjustment	<b>–</b>	3.2	1.4
Stock compensation	<b>(5.4)</b>	(0.6)	(0.2)
Costs of capital reorganisation	<b>–</b>	–	(7.0)
US GAAP adjustments before taxation	<b>(14.4)</b>	(10.3)	(11.5)
Taxation	<b>(3.6)</b>	0.6	(2.5)
Goodwill adjustment	<b>(7.1)</b>	(5.9)	(8.2)
US GAAP adjustments after taxation	<b>(25.1)</b>	(15.6)	(22.2)
Net income in accordance with US GAAP	<b>64.3</b>	49.6	28.7
Additional finance costs of non-equity shares not classified within shareholders' equity under US GAAP	<b>–</b>	–	(2.6)
Additional finance costs of other non-equity shares classified within shareholders' equity under US GAAP	<b>–</b>	–	(1.3)
Retained profit attributable to ordinary shareholders in accordance with US GAAP	<b>64.3</b>	49.6	24.8
Earnings per ADS in accordance with US GAAP—basic	<b>115.0p</b>	88.9p	72.2p
—diluted	<b>113.8p</b>	88.7p	72.2p
Weighted average number of ADSs outstanding (millions)—basic	<b>55.9</b>	55.8	34.3
—diluted	<b>56.4</b>	56.0	34.4

## Summary of differences between UK and US generally accepted accounting principles

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

	29 January 2000	30 January 1999	31 January 1998
	£m	£m	£m
Shareholders' funds in accordance with UK GAAP	<b>454.5</b>	385.8	336.7
US GAAP adjustments:			
Goodwill in respect of acquisitions (gross)	<b>535.2</b>	530.2	530.2
Consideration adjustment to goodwill	<b>(44.9)</b>	(44.4)	(44.4)
Accumulated goodwill amortisation	<b>(139.6)</b>	(126.3)	(114.2)
Goodwill adjustment	<b>(21.5)</b>	(14.2)	(8.2)
Sale and leaseback transactions	<b>(11.9)</b>	(12.7)	(11.7)
Extended service plan revenues	<b>(7.0)</b>	(6.7)	(4.5)
Pensions	<b>5.4</b>	2.9	1.3
Depreciation of properties	<b>(3.0)</b>	(3.1)	(3.0)
Revaluation of properties	<b>(0.9)</b>	(0.9)	(1.7)
Lease cost adjustment	<b>-</b>	-	(3.3)
Dividends	<b>20.2</b>	16.7	-
US GAAP adjustments before taxation	<b>332.0</b>	341.5	340.5
Taxation	<b>4.7</b>	8.3	7.7
US GAAP adjustments after taxation	<b>336.7</b>	349.8	348.2
Shareholders' funds in accordance with US GAAP	<b>791.2</b>	735.6	684.9
Shareholders' funds in accordance with US GAAP at beginning of period	<b>735.6</b>	684.9	572.5
Net income in accordance with US GAAP	<b>64.3</b>	49.6	28.7
Issue of shares	<b>0.4</b>	-	-
Increase in additional paid in capital	<b>5.4</b>	0.7	0.2
Dividends paid	<b>(20.9)</b>	-	-
Translation differences	<b>6.4</b>	0.4	(10.8)
Conversions of shares not classified as equity under US GAAP	<b>-</b>	-	94.3
Shareholders' funds in accordance with US GAAP at end of period	<b>791.2</b>	735.6	684.9

## 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 29 January 2000, 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 29 January 2000 and 30 January 1999:

	2000	1999	1998
	£m	£m	£m
Net income in accordance with US GAAP:			
As reported	<b>64.3</b>	49.6	24.8
Pro forma	<b>67.8</b>	49.1	24.9

	2000	1999	1998
	pence	pence	pence
Earnings per ADS in accordance with US GAAP:			
As reported	<b>115.0</b>	88.9	72.2
Pro forma	<b>121.3</b>	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 29 January 2000, 30 January 1999 and 31 January 1998:

	2000	1999	1998
Weighted average price of options whose exercise price equals the market price on the grant date	<b>49.75p</b>	43.25p	33.75p
Weighted average assumptions:			
Risk free interest rate	<b>6.0%</b>	5.5%	7.25%
Expected life of options	<b>4 years</b>	4 years	4 years
Expected volatility	<b>30%</b>	31%	31%
Dividend yield	<b>2.5%</b>	2.1%	3.0%
Weighted average grant date fair value of option over one share	<b>13p</b>	12p	12p

	2000	1999	1998
Weighted average price of options whose exercise price is less than the market price on the grant date	<b>41p</b>	22p	–
Weighted average assumptions:			
Risk free interest rate	<b>6.0%</b>	5.5%	–
Expected life of options	<b>3 years</b>	3 years	–
Expected volatility	<b>30%</b>	31%	–
Dividend yield	<b>2.5%</b>	2.1%	–
Weighted average grant date fair value of option over one share	<b>15p</b>	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:

	2000	1999
	£m	£m
At 30 January 1999	74.8	64.2
Service cost	1.7	1.7
Interest cost	4.4	5.0
Members' contributions	0.3	0.3
Actuarial gain	–	7.5
Benefits paid	(4.0)	(3.9)
<b>At 29 January 2000</b>	<b>77.2</b>	74.8

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:

	2000	1999
	£m	£m
At 30 January 1999	112.9	104.6
Actual return on assets	13.7	11.9
Employer contributions	–	–
Members' contributions	0.3	0.3
Benefits paid	(4.0)	(3.9)
<b>At 29 January 2000</b>	<b>122.9</b>	112.9

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 29 January 2000	52 weeks ended 30 January 1999	52 weeks ended 31 January 1998
	£m	£m	£m
Service cost	<b>1.7</b>	1.7	1.4
Interest cost	<b>4.4</b>	5.0	4.7
Expected return on plan assets	<b>(6.7)</b>	(6.1)	(7.6)
Amortisation of transition asset	<b>(1.8)</b>	(1.8)	(1.8)
Amortisation of prior service cost	<b>0.6</b>	0.6	0.6
Recognised actuarial gain	<b>(0.7)</b>	(1.0)	(0.6)
<b>Net periodic pension cost</b>	<b>(2.5)</b>	(1.6)	(3.3)

## 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:

	2000	1999
	£m	£m
Accumulated benefit obligation, comprising vested benefits	<b>70.8</b>	68.8
Projected benefit obligation	<b>77.2</b>	74.8
Plan assets at fair value, primarily UK equities	<b>122.9</b>	112.9
Plan assets in excess of projected benefit obligation	<b>45.7</b>	38.1
Unrecognised net gain	<b>(27.0)</b>	(20.7)
Unrecognised prior service gain	<b>8.9</b>	9.5
Unrecognised net assets	<b>(3.5)</b>	(5.3)
Prepaid pension cost	<b>24.1</b>	21.6

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% (1999: 6%) and 4.5% (1999: 4.5%) respectively. The expected long term rate of return on plan assets was 6% (1999: 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

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 became 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 adoption of SOP 98-1 does not have a material impact on these 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 adoption of SOP 98-5 does not have a material impact on these Accounts.

### New US accounting standards not yet adopted

In June 1999, the Financial Accounting Standards Board issued SFAS No. 137, 'Accounting for Derivative Instruments and Hedging Activities — Deferral of the Effective Date of FASB Statement No. 133.' This statement defers the effective date of SFAS No. 133, 'Accounting for Derivative Instruments and Hedging Activities,' to financial years beginning after 15 June 2000, although early adoption is encouraged. SFAS No. 133 establishes accounting and reporting standards for derivative instruments. It requires a company to recognise all derivatives as either assets or liabilities in the statement of financial position and to measure those instruments at fair value. Additionally, the fair value adjustments will affect either shareholders' equity or net income depending on whether the derivative instrument qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity. The Group will adopt this standard from 4 February 2001. Management does not expect the adoption to have a material effect on the Group's results of operations; however, the effect on the Group's financial position depends on the fair values of the Group's derivatives and related financial instruments at the date of adoption.

## Shareholder information

### History

Signet Group plc, an English public limited company, and its subsidiaries constitute the world's largest 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's registered number is 477692. The Company's registered office is Zenith House, The Hyde, London NW9 6EW.

On 28 January 1995 the Company's issued share capital was £66,219,053.40 and \$125,707.39 comprising 293,058,638 ordinary shares of 10p, 34,565,948 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 1 September 1995 3,735 ordinary shares of 10p each were issued on conversion of 11,205 6.875p convertible preference shares 2008;
- (b) on 17 July 1996 2,186 ordinary shares of 10p each were issued on conversion of 6,560 6.875p convertible preference shares 2008;
- (c) 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;

- (d) on 12 May 1998 201,163 ordinary shares of 0.5p each were issued on the exercise of options at 21.5p each;
- (e) on 8 April 1999 970,000 ordinary shares of 0.5p each were issued on the exercise of options at 32.5p each. On the same day 255,814 ordinary shares of 0.5p each were issued on the exercise of options at 21.5p each;
- (f) on 1 May 1999 2,941 ordinary shares of 0.5p each were issued on the exercise of options at 21.25p each;
- (g) on 11 October 1999 1,882 ordinary shares of 0.5p each were issued on the exercise of options at 21.25p each;
- (h) on 22 October 1999 3,850,614 ordinary shares of 0.5p each were issued at a price of 50.75p each to the Signet Qualifying Employee Share Trust (QUEST); and
- (i) on 3 February 2000 44,444 ordinary shares of 0.5p each were issued on the exercise of options at 33.75p 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.

## Shareholder information

The following table sets out 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.

	London Stock Exchange pence per ordinary share		Nasdaq US dollars per ADS	
	High	Low	High	Low
<b>1997/98</b>				
First quarter	36½	28½	18½	12½
Second quarter	37	29	17½	13¾
Third quarter	34¼	29¾	16½	13¾
Fourth quarter	34	28	16½	13¾
<b>1998/99</b>				
First quarter	44½	34	22 <sup>5</sup> / <sub>16</sub>	16¾
Second quarter	51¼	40¼	24 <sup>7</sup> / <sub>8</sub>	19¾
Third quarter	45¼	24¼	19½	12¾
Fourth quarter	39¼	24½	19¼	14¾
<b>1999/00</b>				
First quarter	60½	38¾	34½	18 <sup>5</sup> / <sub>8</sub>
Second quarter	60¾	51	29½	24¼
Third quarter	58	47¼	27¾	22¾
Fourth quarter	70¼	52¼	34½	25
<b>2000/01</b>				
First quarter (up to 28 March 2000)	59½	43	29 <sup>7</sup> / <sub>16</sub>	21

At 28 March 2000 101,161 ordinary shares and 3,210,012 ADSs (representing 96,300,360 ordinary shares) were held of record in the US. These ordinary shares and ADSs were held by 19 record holders and 128 record holders, respectively, and collectively represented approximately

5.7% of the total number 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 ordinary shares	Percentage of issued ordinary shares
Deutsche Bank AG	198,061,993	11.79
Standard Life Investments	69,121,846	4.12
The Capital Group Companies, Inc. <sup>(1)</sup>	67,874,169	4.04

<sup>(1)</sup> Includes interest of Capital International Limited in 52,480,569 of such shares, notified on their behalf by The Capital Group Companies, Inc.

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.

At 28 March 2000 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, if any, represented by the American Depositary Shares ('ADSs')).

At 28 March 2000 the total amount of the Company's voting securities owned by directors 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, 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 not resident in the UK. The application of the restrictions referred to above depends, in the case of Iraq, upon residence or being the Government. The Council of the European Union has adopted a regulation which provides that funds and other financial resources owned or controlled directly or indirectly by the Taliban (Afghanistan) are to be

frozen. As at 28 March 2000, however, no such funds or other financial resources had been designated by the relevant bodies for freezing.

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.

## 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 by residents of the US and is not intended to be a complete analysis or listing of all 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

## Shareholder information

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 who 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 or financial services entities, life insurance companies, or persons who alone, or together with one or more associated persons, control or controlled (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 2000 was not available at the date on which this Annual Report was finalised for Board approval. Such Finance Bill, if enacted, may 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

Under the provision 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) is 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 the dividend minus a withholding tax of 15% of the sum of the cash dividend plus the tax credit (limited to the tax credit). On the basis of an £80 dividend (which amount has been selected for illustrative purposes only), the tax credit related to the

dividend would be equal to £8.89 (10% of the sum of the £80 dividend and the £8.89 tax credit). A US holder who is an individual or corporate portfolio holder would be entitled to receive a Tax Treaty Payment, calculated by reducing the £8.89 tax credit by withholding tax of 15% of the sum of the £80 dividend and the £8.89 tax credit. Accordingly, such US 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.

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 sterling 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 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

## Shareholder information

to the method of claiming such foreign tax credit or deduction and compliance with special tax return disclosure requirements that apply to US holders who claim the benefit of the foreign tax credit on such US holders' US federal income tax returns.

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 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 US Treasury regulations, dividends paid on ordinary shares or ADSs may be subject to 31% US backup withholding tax in certain circumstances. In addition, under US Treasury regulations, 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

Generally 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. However, a US holder who has been resident in the UK for at least four years and held ordinary shares or ADSs at that time may, in certain circumstances, become liable to UK capital gains tax on his return to the UK following a disposal of such ordinary shares or ADSs. Any US holders whose circumstances are such that they may fall within such provisions are advised to consult their tax adviser.

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. There are exceptions 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

## Shareholder information

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.

However, the terms of the US/UK estate and gift tax convention are currently being reviewed and possibly renegotiated. Further advice should be sought by any holder who is likely to need to rely upon the provisions of the convention.

### **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, fixed stamp duty of £5 will be payable.

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 accountable date for stamp duty reserve tax. 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.

## Shareholder information

### 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  
ADR Department-22W Floor, 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:

<b>UK:</b>	<b>US:</b>
IRG plc	The Bank of New York
Bourne House	ADR Department-22W Floor
34 Beckenham Road	101 Barclay Street
Beckenham	New York, NY 10286
Kent BR3 4TU	Telephone toll free:
Telephone: 020 8639 2000	1 888 269 2377
e-mail: <a href="mailto:ssd@irg.plc.uk">ssd@irg.plc.uk</a>	

### Registered office

Zenith House  
The Hyde  
London NW9 6EW  
Telephone: 0870 909 0301  
e-mail: [investorrelations@signet.co.uk](mailto:investorrelations@signet.co.uk)

An Annual Review of the year is produced as a separate document. The Annual Review is issued to shareholders with registered addresses in the UK unless they elected to receive the full Annual Report & Accounts. This includes a summarised Chairman’s Statement, an Operating and Financial Review, a Description of Business, a Summary Directors’ Report, the names of directors, Summary Accounts and summary Remuneration Report.

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](http://www.hemscott.com)

## Selected financial data

	1999/00	1999/00 <sup>(7)</sup>	1998/99	1997/98	1996/97	1995/96
	£m	\$m	£m	£m	£m	£m
<b>Amounts under UK GAAP:</b>						
<b>Profit and loss account</b>						
Net sales	<b>1,136.5</b>	<b>1,841.1</b>	991.2	927.9	901.9	894.7
Cost of sales <sup>(1)</sup>	<b>(952.3)</b>	<b>(1,542.7)</b>	(843.5)	(794.7)	(781.1)	(784.4)
Gross profit	<b>184.2</b>	<b>298.4</b>	147.7	133.2	120.8	110.3
Administrative expenses	<b>(45.1)</b>	<b>(73.1)</b>	(45.4)	(42.4)	(44.3)	(46.4)
Operating profit	<b>139.1</b>	<b>225.3</b>	102.3	90.8	76.5	63.9
Net interest payable	<b>(11.4)</b>	<b>(18.4)</b>	(13.1)	(22.1)	(31.4)	(38.9)
Profit before tax	<b>127.7</b>	<b>206.9</b>	89.2	68.7	45.1	25.0
Taxation	<b>(38.3)</b>	<b>(62.1)</b>	(24.0)	(17.8)	(11.2)	(7.5)
Profit for the period	<b>89.4</b>	<b>144.8</b>	65.2	50.9	33.9	17.5
Earnings per share <sup>(2)</sup>	<b>5.3p</b>	<b>\$0.09</b>	3.9p	3.0p <sup>(2)</sup>	2.0p <sup>(2)</sup>	1.0p <sup>(2)</sup>
Earnings per ADS	<b>159.0p</b>	<b>\$2.58</b>	117.0p	90.0p	60.0p	30.0p
<b>Balance sheet data (at period end)</b>						
Working capital <sup>(3)</sup>	<b>457.2</b>	<b>740.7</b>	407.7	385.6	283.5	522.0
Total assets	<b>869.1</b>	<b>1,407.9</b>	766.7	684.0	840.6	874.4
Total debt	<b>182.9</b>	<b>296.3</b>	176.7	183.8	403.3	461.1
Long-term debt	<b>143.5</b>	<b>232.5</b>	153.3	183.8	123.7	394.8
Cash at bank and in hand	<b>91.3</b>	<b>147.9</b>	65.2	25.9	163.0	152.8
Shareholders' funds (as restated) <sup>(4)</sup>	<b>454.5</b>	<b>736.3</b>	385.8	336.7	296.2	266.8
<b>Store data:</b>						
Number of stores open at end of period:						
US	<b>827</b>		788	768	778	839
UK	<b>606</b>		606	598	594	600
Percentage increase/(decrease) in like for like sales						
US	<b>11%</b>		10%	9%	8%	3%
UK	<b>5%</b>		(1)%	4%	4%	(1)%
Average sales per store: <sup>(5)</sup>						
US	<b>939</b>	<b>1,521</b>	823	745	691	661
UK	<b>613</b>	<b>995</b>	580	589	576	556
<b>Amounts under US GAAP:</b>						
<b>Profit and loss account</b>						
Operating income	<b>123.8</b>	<b>200.6</b>	93.1	77.1	71.3	52.7
Net income	<b>64.3</b>	<b>104.2</b>	49.6	28.7	26.1	7.9
Income/(loss) per share – basic and diluted	<b>3.8p</b>	<b>\$0.06</b>	3.0p	2.4p	(0.1)p	(11.7)p
Income/(loss) per ADS – basic	<b>115.0p</b>	<b>\$1.86</b>	88.9p	72.2p	(3.1)p	(351.0)p
– diluted	<b>113.8p</b>	<b>\$1.84</b>	88.7p	72.2p	–	–
<b>Balance sheet (at period end)</b>						
Total assets	<b>1,084.4</b>	<b>1,756.7</b>	1,007.1	938.9	1,119.0	1,168.6
Total debt	<b>64.7</b>	<b>104.8</b>	59.9	67.1	283.6	335.9
Long-term debt	<b>48.6</b>	<b>78.7</b>	36.6	67.1	152.8	269.7
Cash at bank and in hand	<b>91.3</b>	<b>147.9</b>	65.2	25.9	163.0	152.8
Preference shares under UK GAAP classified outside shareholders' funds under US GAAP <sup>(6)</sup>	<b>–</b>	<b>–</b>	–	–	94.3	88.8
Shareholders' funds	<b>791.2</b>	<b>1,281.7</b>	735.6	684.9	572.5	567.3

## Selected financial data

The selected consolidated financial data set out opposite for 1995/96, 1996/97, 1997/98, 1998/99 and 1999/00 has been derived, in part, from the audited consolidated Accounts for such periods included elsewhere in this Annual Report. The selected consolidated financial data should be read in conjunction with the Accounts including the notes thereto, and the Financial Review included on pages 22 to 29 of this Annual Report. The Accounts of the Group have been prepared in accordance with UK GAAP which differ in certain respects from US GAAP. See pages 79 to 86 for information on the material differences between UK GAAP and US GAAP that affect the Group's profit and shareholders' funds.

### Results of operations

The following table sets out certain consolidated financial data as a percentage of reported net sales:

	Percentage of net sales		
	1999/00	1998/99	1997/98
Net sales	<b>100.0</b>	100.0	100.0
Cost of sales <sup>(1)</sup>	<b>(83.8)</b>	(85.1)	(85.6)
Gross profit	<b>16.2</b>	14.9	14.4
Administrative expenses	<b>(4.0)</b>	(4.6)	(4.6)
Operating profit	<b>12.2</b>	10.3	9.8
Net interest expense	<b>(1.0)</b>	(1.3)	(2.4)
Profit before taxation	<b>11.2</b>	9.0	7.4
Taxation	<b>(3.3)</b>	(2.4)	(1.9)
Net profit	<b>7.9</b>	6.6	5.5

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

<sup>(2)</sup> In 1995/96, 1996/97 and 1997/98 earnings per share data derive from profit for the period divided by the number of ordinary shares in issue on 21 July 1997 following the capital restructuring.

<sup>(3)</sup> Working capital represents current assets (excluding amounts recoverable after more than one year) less current liabilities.

<sup>(4)</sup> During 1998/99 the Group adopted UK Financial Reporting Standard 12—Provisions, Contingent Liabilities and Contingent Assets. The adoption of the standard has resulted in prior year adjustments affecting UK GAAP shareholders' funds for 1995/96, 1996/97 and 1997/98.

<sup>(5)</sup> Includes only stores operated for the full financial year.

<sup>(6)</sup> The Group's Convertible Preference Shares 2008 and Redeemable Preference Shares 1997 had mandatory redemption provisions and therefore were classified outside shareholders' funds under US GAAP.

<sup>(7)</sup> Amounts in pounds sterling are translated into US dollars solely for the convenience of the reader, at a rate £1.00 to \$1.62, the Noon Buying Rate on 28 January 2000.

## Quarterly results

For the 52 week period ended 29 January 2000

	13 weeks ended 1 May 1999	13 weeks ended 31 July 1999	13 weeks ended 30 October 1999	13 weeks ended 29 January 2000	52 weeks ended 29 January 2000
	£m	£m	£m	£m	£m
Sales	223.7	223.3	202.4	487.1	<b>1,136.5</b>
Operating profit	12.2	16.4	8.5	102.0	<b>139.1</b>
Net interest payable and similar charges	(2.7)	(3.0)	(2.9)	(2.8)	<b>(11.4)</b>
Profit on ordinary activities before taxation	9.5	13.4	5.6	99.2	<b>127.7</b>
Tax on profit on ordinary activities	(2.8)	(3.8)	(1.7)	(30.0)	<b>(38.3)</b>
Profit for the financial period	6.7	9.6	3.9	69.2	<b>89.4</b>

For the 52 week period ended 30 January 1999

	13 weeks ended 2 May 1998	13 weeks ended 1 August 1998	13 weeks ended 31 October 1998	13 weeks ended 30 January 1999	52 weeks ended 30 January 1999
	£m	£m	£m	£m	£m
Sales	197.8	200.7	180.8	411.9	<b>991.2</b>
Operating profit	6.4	12.8	5.0	78.1	<b>102.3</b>
Net interest payable and similar charges	(3.6)	(3.5)	(3.1)	(2.9)	<b>(13.1)</b>
Profit on ordinary activities before taxation	2.8	9.3	1.9	75.2	<b>89.2</b>
Tax on profit on ordinary activities	(0.7)	(2.4)	(0.6)	(20.3)	<b>(24.0)</b>
Profit for the financial period	2.1	6.9	1.3	54.9	<b>65.2</b>

## Definitions

In this document the following words and expressions shall, unless the context otherwise requires, have the following meanings:-

ADR	American Depositary Receipt evidencing title to an ADS
ADS	American Depositary Share representing 30 Signet Group plc ordinary shares
c.a.g.r.	Compound Annual Growth Rate
Company	Signet Group plc
Depository	The Bank of New York, depository under the amended and restated deposit agreement for the issue of ADRs
Directors	The directors of the Company
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EPOS	Electronic Point of Sale
Earnings per share (EPS)	Profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue. For 1997/98 and prior years the calculation uses the number of ordinary shares in issue on 21 July 1997 following a capital reconstruction undertaken by the Group.
FRS	Financial Reporting Standard (UK)
FURBS	Signet Group Funded Unapproved Retirement Benefit Scheme
GAAP (UK or US)	Generally Accepted Accounting Principles
Group	Signet Group plc and its subsidiary undertakings
LIBOR	London Inter-Bank Offered Rate
LTIP	Long Term Incentive Plan
NYSE	New York Stock Exchange
Nasdaq	National Association of Securities Dealers Automated Quotations
Ordinary shares	Ordinary shares of 0.5 pence each in Signet Group plc
Pounds, £, pound sterling, pence or p	Units of UK Currency
QUEST	Qualifying Employee Share Trust
Return on capital employed (ROCE)	Operating profit divided by average capital employed during the year
Signet	Signet Group plc and its subsidiary undertakings
SFAS	Statement of Financial Accounting Standards (US)
SOP	Statement of Position (US)
SSAP	Statement of Standard Accounting Practice (UK)
UK or United Kingdom	United Kingdom, Channel Islands and the Republic of Ireland
US or United States	United States of America
US dollar, \$ or cents	Units of US Currency

## Glossary of terms

### Terms used in Annual Report & Accounts

Accounts

Allotted

Called-up share capital

Capital allowances

Cash at bank

Creditors

Debtors

Finance lease

Freehold

Interest receivable

Interest payable

Like for like sales

Loans

Net asset value

Profit

Profit and loss account

Profit and loss account reserve

Profit attributable to shareholders

Share capital

Share option

Shareholders' funds

Share premium account

Shares in issue

Stocks

Tangible fixed assets

Value Added Tax (VAT)

### US equivalent or brief description

Financial statements

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

Same store sales

Long-term debt

Book value

Income

Income statements

Retained earnings

Net income

Capital stock or common stock

Stock option

Stockholders' equity

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

Shares outstanding

Inventories

Property and equipment

UK sales tax

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