

PART VI
INFORMATION ON THE GROUP

1. Introduction

The Group is the world's largest speciality retail jeweller and operates leading operations in both the US and UK. The US market accounts for approximately 50 per cent of worldwide jewellery sales and the UK market for around 7 per cent.

The Group is the largest US speciality retail jeweller by sales having an approximate 4.2 per cent share of the \$65.5 billion total jewellery market from 1,399 stores in 50 states at 2 February 2008. The Group's mall stores trade nationwide as Kay Jewelers, and regionally under a number of well-established and recognised names. Destination superstores trade as Jared The Galleria Of Jewelry.

In the UK, the Group is the largest speciality retailer of fine jewellery with 563 stores at 2 February 2008 and an approximate 12 per cent share of the £4.5 billion total jewellery market. Primarily situated in shopping malls or prime "High Street" locations (main shopping thoroughfares with high pedestrian traffic), the stores trade as "H. Samuel", "Ernest Jones" and "Leslie Davis".

The Group aims to build long term value through focussing on the customer by providing a superior merchandise selection in high quality real estate locations. Effective advertising draws consumers into the stores, where they are provided with outstanding service. The operating philosophies that help the Group achieve these aims are:

- excellence in execution;
- test before we invest;
- continuous improvement; and
- disciplined investment.

The Group's strategy to deliver shareholder value is to:

- continue to achieve sector leading performance standards on both sides of the Atlantic;
- increase store productivity in the US and the UK;
- grow new store space in the US; and
- maintain a strong balance sheet.

2. History and Development

Signet was incorporated in England and Wales on 27 January 1950 under the name Ratners (Jewellers) Limited. The name 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. On 10 July 2008 Signet announced it would move the domicile of the Group to Bermuda. This will involve an acquisition, via a scheme of arrangement, of Signet by the Company, a new Bermuda based holding company. The Scheme is due to become effective (subject to certain conditions as set out in Section 4.2 of Part III) on 11 September 2008.

The Company is governed by the Bermuda Companies Act. The Bye-laws, which are to be adopted, with effect immediately following the Scheme becoming effective, are available on the Website. The Company's registered number is 42069. The Company's registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

Significant events that have occurred in the last five years are detailed below:

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|-------------------|--|
| 1 September 2003 | Dale Hilpert was appointed to the Signet Board as a non-executive director. |
| 8 January 2004 | Lee Abraham retired from the Signet Board as a non-executive director. |
| 28 September 2004 | The Group entered into a \$390 million unsecured multi-currency five year revolving credit facility agreement. This replaced the \$410 million facility that was due to expire in August 2006. The terms of this agreement were broadly similar to those of the facility being replaced. |
| 8 October 2004 | The Group announced a change in its American Depositary Share ratio from 30:1 to 10:1 to become effective from 18 October 2004. |

18 October 2004	The Group announced its intention to list the Signet ADSs on the NYSE from 16 November 2004, under the ticker symbol SIG. It was confirmed that the Signet ADS ratio change had become effective on 18 October and that Deutsche Bank Trust Company Americas had recently been appointed as the depository bank for the Signet ADSs.
1 November 2004	Robert Walker was appointed to the Signet Board as a non-executive director.
6 April 2005	James McAdam announced his intention to retire from the Signet Board no later than at the conclusion of the annual general meeting on 9 June 2006. Robert Anderson was appointed to the Signet Board.
7 September 2005	H. Samuel launched online shopping at its website www.hsamuel.co.uk .
28 November 2005	Sir Malcolm Williamson was appointed to the Signet Board as a non-executive director.
12 January 2006	Mark Light was appointed Chief Executive of the Group's US Division and to the Signet Board.
30 March 2006	Signet entered into a \$380 million US private placement note term series purchase agreement, funding date 23 May 2006, to refinance the maturing securitisation programme and for general corporate purposes.
5 April 2006	The Group announced the appointment of Sir Malcolm Williamson as Chairman of the Signet Board with effect from the annual general meeting on 9 June 2006 subject to his election as a director at that annual general meeting.
9 June 2006	James McAdam retired from the Signet Board and Sir Malcolm Williamson was appointed as Chairman of the Signet Board.
17 July 2006	The Group announced that it was commencing a buyback of up to £50 million of its ordinary shares. The shares would either be cancelled or held in treasury.
5 September 2006	Kay launched online shopping at its website www.kay.com .
14 September 2006	Ernest Jones launched online shopping at its website www.ernestjones.co.uk .
5 February 2007	The Group redenominated its share capital into US dollars. The nominal value of an ordinary share changed from 0.5 pence to 0.9 cents per share.
26 October 2007	The Group entered into a 364 day \$200 million asset backed variable funding note conduit securitisation facility for general corporate purposes.
9 January 2008	Lesley Knox was appointed to the Signet Board as a non-executive director.
25 June 2008	The Company was incorporated under the laws of Bermuda.
26 June 2008	The Group entered into a \$520 million unsecured multi-currency five year revolving credit facility agreement. This replaced the \$390 million facility entered into in September 2004.
1 July 2008	Terry Burman was appointed to the Board.
8 July 2008	Sir Malcolm Williamson was appointed to the Board as non-executive chairman, Walker Boyd and Mark Light were appointed to the Board and Robert Blanchard, Dale Hilpert and Russell Walls were appointed to the Board as non-executive directors.
10 July 2008	Announcement of a proposed scheme of arrangement to move the primary listing to the NYSE and move the domicile of the parent company of the Group to Bermuda.
19 August 2008	Court Meeting and General Meeting approved the scheme of arrangement.
11 September 2008	Expected effective date of the Scheme with the Company becoming the new parent company of the Group and the primary listing moving to the NYSE.

3. Business Overview

The Group is managed as two geographical operating segments, the US and the UK divisions, and in 2007/08 the geographic split of revenue and profit was approximately 75 per cent and 25 per cent respectively.

3.1 US Market Overview

3.1.1 Introduction

Total US jewellery sales, including watches and fashion jewellery, are estimated by the US Department of Commerce to have been \$65.5 billion in calendar year 2007. The US jewellery market, which has grown at a compound annual growth rate of 5.9 per cent over the last 25 years, accounts for just under 50 per cent of global jewellery consumption (source: Jewelry Industry Research Institute). The Directors believe that the jewellery category competes with other sectors, such as electronics, clothing and furniture, as well as travel and restaurants for consumers' discretionary spending.

A jewellery sale normally requires interaction between the customer and the sales associate, during which the items are removed from the display cases, with their respective qualities explained to the customer. Consumer surveys conducted by the Group indicate that a key factor in the purchase of jewellery is the customer's confidence in the sales associate. Other important competitive points of differentiation are merchandise selection and the reputation of the retail brand name. In the speciality sector, while price is important to the customer, the Directors believe these other three factors are of a higher priority.

3.1.2 Market structure

While the US retail jewellery industry is highly fragmented, the share taken by speciality jewellers has been steady at about 47.5 per cent of total jewellery sales. General retailers, such as department stores, discount outlets, television home shopping, general merchandisers, apparel retailers and accessory stores, had a 44.8 per cent market share in calendar year 2007. Internet jewellery sales, including both speciality and general retail websites accounted for 7.3 per cent in calendar year 2007. The largest jewellery retailer was Wal-Mart Stores, Inc. ("**Wal-Mart**"), whose merchandise mix is believed by the Directors to be markedly different to that of the Group's US division. In calendar year 2007 Wal-Mart had an estimated market share of 4.3 per cent (source: National Jeweler). The Group is the second largest jewellery retailer with a market share of 4.1 per cent in calendar year 2007. See table below for details.

	Calendar year 2007	Calendar year 2006	Calendar year 2002	Calendar year 1997
Total US jewellery sales ⁽¹⁾	\$ 65.5 bn	\$ 62.8 bn	\$ 51.2 bn	\$ 40.9 bn
Speciality share ⁽²⁾	47.9 per cent	47.6 per cent	48.4 per cent	48.3 per cent
General retailers share	44.8 per cent	46.0 per cent	48.2 per cent	49.4 per cent
Internet share ⁽³⁾	7.3 per cent	6.4 per cent	3.4 per cent	2.3 per cent
Group share	4.1 per cent	4.2 per cent	3.4 per cent	2.3 per cent

(1) Source: US Department of Commerce

(2) Source: US Census Bureau

(3) Source: National Jeweler

In calendar year 2007 the US jewellery market grew by 5.3 per cent, primarily reflecting the slower growth of discretionary disposable income and was below the 25 year average of 5.9 per cent. The first quarter was weak, reflecting poor weather that adversely affected the important Valentine's Day period. The second and third quarters, when the jewellery market is typically primarily driven by bridal related purchases, was a little more buoyant, but the key fourth quarter was disappointing. The slowdown in the fourth quarter reflected the general retail marketplace, with jewellery sales being particularly affected. The speciality jewellery sector grew by 2.6 per cent in calendar year 2007, below the 25 year average of 5.1 per cent. The middle market is believed to have been weaker than the total speciality market, reflecting the greater pressure on discretionary expenditure experienced by median income households than those with income in the top quartile.

3.1.3 Long term performance

Jewellery sales have, over the longer term, grown broadly in line with personal consumption expenditure. Jewellery sales are seasonal as the primary reasons to purchase jewellery and watches are for bridal related occasions and gift giving events such as Christmas, birthdays, Valentine's Day and

Mother's Day. Jewellery is also purchased for self reward and as a fashion accessory. The rate of growth accelerates and slows broadly in line with major non-food retail categories as the majority of jewellery sales are made in the middle mass market. Jewellery sales outperformed other comparable sectors in the more buoyant late 1990s, underperformed in 2001 and performed in line with selected other non-food retail categories during 2002 to 2007. Over the last ten years, the Group's total US dollar sales rose (including the acquisition of Marks & Morgan) at a compound annual growth rate of 11.1 per cent compared to 4.7 per cent for the jewellery sector as a whole.

The Directors believe that the long term outlook for jewellery sales is encouraging given the expected growth in disposable income and the increasing number of women in the work force. However, jewellery sales are subject to fluctuations in the general level of retail sales.

3.1.4 *Speciality jewellery sector*

The Group's US division had an 8.8 per cent market share of the speciality sector in 2007/08 (2006/07: 8.8 per cent). Its largest direct competitor had a speciality market share of 6.4 per cent (2006/07: 7.3 per cent). Kay and Jared were two of the top four brands in the speciality sector. Only these four brands had a level of sales that enabled the cost effective use of national television advertising, the most efficient form of marketing in the US. Of the two other brands, only one targeted the middle market segment, which is the primary customer of the Group's US division. In calendar year 2006 only three other speciality retail jewellers had sales of more than \$500 million (according to National Jeweler). Independent retail jewellery stores (including medium and smaller regional chains with sales of less than \$500 million) together accounted for over 70 per cent of the speciality market.

In calendar year 2007, the Jewelers Board of Trade estimated that there were some 23,449 speciality jewellery firms in the US, compared to 27,580 in 1997 and 25,043 in 2002, which is a compound annual decrease of 1.6 per cent since 1997. In calendar year 2007 the number of speciality firms declined by some 349, a fall of 1.5 per cent. Since 1997 the number of stores operated by the five largest speciality jewellery retailers increased by about 950, of which some 66 per cent is accounted for by the Group's growth. This reflects the continuing consolidation taking place in the sector, which provides a significant growth opportunity for those businesses with competitive advantages in the sector.

3.1.5 *Diamond jewellery sales*

Diamond jewellery accounts for some 55 per cent of total jewellery sales in the US market (source: Diamond Information Centre). About 50 per cent of worldwide diamond jewellery sales are made in the US (source: Jewelry Industry Research Institute). During the last ten years US diamond jewellery sales have risen by 6.1 per cent per annum compared to 4.7 per cent for the total jewellery market. Diamond jewellery accounted for 75 per cent of the US division's merchandise sales in 2007/08, compared to 63 per cent in 1997/98 and 72 per cent in 2002/03.

3.2 *US division overview*

3.2.1 *Brands—Kay Jewelers*

(A) Introduction

Kay operated 894 stores in 50 states at 2 February 2008 (3 February 2007: 832 stores) and the expansion of Kay as a nationwide chain is an important element of the US division's growth strategy. The Directors believe that there is a long term potential for over 1,400 Kay stores in the US. Since 2004/05 Kay has been the largest speciality retail jewellery brand in the US, based on sales, and has subsequently increased its leadership position. Kay targets households with an income of between \$35,000 and \$100,000; such households account for about 40 per cent of US jewellery expenditure.

In 2007/08 Kay sales were \$1,489.6 million (2006/07: \$1,486.7 million). The average retail price of merchandise sold in Kay in 2007/08 was \$327 (2006/07: \$317; 2005/06: \$305). During the year a further net 62 stores were opened, bringing the total to 894. The roll-out of Kay stores in open-air retail centres accelerated with 40 opened in 2007/08 (2006/07: 21 opened). The test of Kay stores in outlet centres entered its second year with five additional sites (2006/07: four additional sites) with encouraging initial results. In September 2006 an e-commerce facility was successfully launched on the Kay website and this was enhanced during 2007/08. E-commerce sales have increased significantly but remain small in the context of the division.

(B) Customer Service

Critical to Kay's success is well trained staff with the appropriate product knowledge and selling skills to communicate the competitive value of merchandise. During 2007/08 the roll-out of the US division's enhanced training programme and new store communications system was completed.

(C) Merchandising

Each store has a core inventory package that includes those items promoted by Kay's marketing. This core inventory is supplemented on a store by store basis by items selected by the division's central merchandising function based on the sales pattern of each individual store.

(D) Marketing

The romance-and-appreciation-based theme of Kay's television advertising programme continues to utilise the tag line "Every kiss begins with Kay", which has been used to improve name recognition of the chain since 2000. The Directors believe that use of national television advertising, which is considered to be the most efficient and cost-effective form of paid for marketing, enhances brand name recognition nationwide, provides increased marketing leverage and improves access to prime store real estate sites.

Television advertising is supplemented with national print advertising in USA Today and in 2007/08 by national network radio advertising. In 2007/08 the US division produced 11 Kay catalogues that featured a wide selection of merchandise and were prominently displayed in stores and mailed directly to targeted customers. Telephone marketing is also used. The Kay website is the third most visited speciality retail jewellery website (source: Hitwise).

(E) Real estate

Kay stores have historically been located in covered regional malls and it is believed that in the longer term there is potential for some 850 stores in this format. The average mall store contains approximately 1,270 square feet of selling space and 1,500 square feet of total space. The design and appearance of stores is standardised. The typical capital and working capital investment in the first year of trading is about \$1.1 million. To maximise customer footfall, these stores are normally only opened in centre court locations, corner locations by the main entrance to a mall or in corner locations by the food court; around 60 per cent of the stores have centre court sites. In 2007/08 a net 17 new mall stores were opened, bringing the total to 789. A further net 11 mall stores are planned to be opened in 2008/09.

Since 2002/03 new formats have been developed for locations not in traditional malls because the Directors believe these alternative locations present an opportunity to reach new customers who are aware of the brand but have no convenient access to a store, or for customers who prefer not to shop in a mall. Such stores further leverage the strong Kay brand, marketing support and the central overhead.

Off-mall locations: Kay stores in off-mall centres provide an expansion opportunity to take advantage of these fast growing retail venues. These include power strips and lifestyle centres. A 'power strip' centre is a suburban open air shopping complex but the retail mix is predominantly "category killer" superstores with some smaller speciality units. "Lifestyle" refers to suburban open air shopping centres where the retail mix is biased toward fashion stores and which are also likely to have a large number of restaurants and other leisure facilities such as a movie theatre.

Kay stores in off-mall locations were successfully tested for three years from 2003/04 with 31 stores having been opened. The roll-out of Kay stores in these open air centres began in 2006/07 and at 2 February 2008 there were 92 trading; it is planned to open 18 in 2008/09 and to close five. A long term potential for over 500 suitable locations has been identified in these centres, and will account for the majority of new Kay stores. Such stores are expected to have a lower capital expenditure, lower rents and lower sales per store at maturity than that of the Kay chain average, and are anticipated to satisfy the normal return on investment hurdle set by the Group.

Outlet locations: A test of Kay in outlet malls began in 2006/07 when four stores were opened. These stores provide penetration into the value conscious sector of the market and are located in two types of centres: "factory outlets", in which 50 per cent or more tenants are manufacturers' outlets; and "mixed use" centres, typically with one million square feet of manufacturers' outlet units, traditional mall stores and large space retailers. The core merchandise is the same as in all other Kay stores, as is the pricing structure, but the range of such outlet locations is supplemented by clearance merchandise

rather than fashion product. At 2 February 2008 there were ten (3 February 2007: five) Kay stores in outlet locations and a further eight are planned to be opened in 2008/09. The Directors believe there is a long term potential for over 100 Kay stores in outlet malls. The capital expenditure to open an outlet store is similar to that of a traditional mall store.

Metropolitan locations: Kay metropolitan stores allow penetration into high population downtown areas under-served by the division's typical mall and off-mall stores. These metropolitan markets have a high density of retail, business, entertainment and government establishments with good public transit services and high pedestrian footfall. While the performance of the three stores opened in 2005/06 has been satisfactory, no additional metropolitan stores have been opened due to a lack of real estate that satisfies both operational and financial investment criteria. The Directors believe that there is a long term potential for between five and ten metropolitan Kay stores.

These Kay stores have a higher capital expenditure, higher rents and higher sales per store at maturity than that of the Kay chain average. The development of these stores draws on the division's experience gained from both mall stores and Jared.

Recent openings, current composition, planned openings in 2008/09 and long term potential for each Kay format is shown below:

	Net openings					Stores at 2 Feb. 2008	Expected net openings 2008/09	Long term potential	
	2002/03	2003/04	2004/05	2005/06	2006/07				2007/08
Stores									
Mall	9	31	15	25	26	17	789	11 ⁽¹⁾	850+
Off-mall	–	10	10	11	21	40	92	18	500+
Outlet	–	–	–	–	4	5	10	8	100+
Metro	–	–	–	3	–	–	3	nil	5-10
Total	<u>9</u>	<u>41</u>	<u>25</u>	<u>39</u>	<u>51</u>	<u>62</u>	<u>894</u>	<u>37</u>	<u>1,460+</u>

(1) includes 11 stores rebadged as Kay that had previously been operated under a regional brand logo

3.2.2 *Jared The Galleria Of Jewelry*

(A) Introduction

Jared is the leading off-mall destination speciality retail jewellery chain in its sector of the market with 154 stores as at 2 February 2008 (3 February 2007: 135 stores), equivalent in space terms to over 600 mall stores. The Directors believe there is potential for over 300 Jared stores in the US. Since the first Jared store was opened in 1993, it has grown to be the fourth largest US speciality retail jewellery brand by sales. Each Jared is equivalent in size to about four of the division's mall stores. Its main competitors are independent operators, with the next largest chain operating some 23 stores.

Jared targets an under-served sector at the upper end of the middle market. This customer is more mature and has a higher income than that of the Group's US mall store customer. An important distinction of a destination store is that the potential customer visits the store with a greater intention of making a jewellery purchase, whereas in a mall there is a possibility that the potential shopper is undecided about the product category in which they will ultimately make a purchase.

The average retail price of merchandise sold in Jared stores during 2007/08 was \$747 (2006/07: \$719), which was more than double that of a Group US mall store. Jared targets households with an income of between \$50,000 and \$150,000; these households account for about 50 per cent of US jewellery expenditure.

During 2007/08 Jared sales were up by 13.8 per cent to \$756.4 million (2006/07: \$664.4 million); the portfolio of 154 stores increased by 19 during the year. In 2007/08 Jared entered the New York and Philadelphia markets and it is planned to expand further in both during 2008/09. For Christmas 2007 Jared utilised both national cable and network television advertising for the first time.

(B) Customer service

A key point of differentiation, compared to a typical mall store, is Jared's superior customer service as, due to its larger size, more specialist staff are available. For example there are dedicated personnel for the diamond, timepieces, and gold and other jewellery departments, as well as for the design and repair workshop. In addition every sales associate in the diamond department is required to be a certified

diamondologist. As a result, more in-depth selling methodologies may be used, such as the ‘white glove’ presentation of timepieces. Every Jared has an on-site design and repair centre where most repairs are completed within one hour. The centre also mounts loose diamonds in settings and provides a custom design service when required. Each store also has at least one diamond viewing room, a children's play area and complimentary refreshments.

(C) Investment model

In the first year of trading a typical Jared store requires an investment of about \$3.9 million, of which about 75 per cent is working capital. First year sales are projected to be some \$3.25 million and to make a contribution on a ‘four wall basis’. In the first five years of trading a Jared store is forecast to have a faster rate of like for like sales growth than that of a mall store over the same period. At the end of this period the planned sales level is \$5 million to \$6 million and the expected operating margin is comparable to that of a mall store at maturity, with a greater return on capital employed.

The chain is immature with only 44 per cent of stores having traded for five or more years. In their fifth year of trading the average sales of a Jared store was some \$5.6 million which is above the target level set at the time of the original investment. The average sales per store for those Jared locations that have been open for six years or more was \$6.4 million in 2007/08 (2006/07: \$6.8 million). The average sales per Jared store open for the whole of 2007/08 was \$5.3 million (2006/07: \$5.7 million) reflecting an increased rate of new store openings in recent years and the impact of the 53rd week in 2006/07.

Since the concept was first tested in 1993 it has been continually evaluated, developed and refined. The Directors believe that compared to its competitors, Jared benefits from leveraging the division’s established infrastructure, access to a pool of experienced store managers, and availability of capital required to develop and grow the brand.

(D) Merchandising

Jared’s merchandise range is about five times the value of one of the US division’s mall stores and includes larger and better quality diamonds, such as the “Leo Artisan”, the “Peerless Diamond” and the “Hearts Desire” ranges. The diamond selection also includes an extensive choice of loose stones in sizes from 1/5 carat to three carats. There is a wide selection of settings into which the chosen stone can be set on-site. In addition each Jared has a virtual diamond vault, linked exclusively to a vendor's inventory, allowing an item selected by the customer to be delivered to a Jared store, usually within 24 hours.

In 2007/08 watches accounted for about double the merchandise mix in Jared to that of the division as a whole. The range, which continues to be expanded, includes Baume & Mercier, Cartier, Montblanc, Movado, Omega, Rado, Raymond Weil, Rolex, Tag Heuer and Tissot. Each store also has a comprehensive range of gold and coloured stone jewellery.

(E) Marketing

Jared advertises on local radio for most of the year and complements this during key trading periods by advertising on television. The move by Jared to national rather than local television advertising, which began in 2006/07, gives the potential to improve advertising leverage in 2008/09 and beyond. Jared has a higher advertising to sales ratio than the division’s mall stores because it is a destination store and is still at an early stage of development. In 2008/09 national radio advertising will be used for the first time. The advertising is designed to build name recognition and visit intent through an emphasis on selection and service and utilises the tag line “He went to Jared”. A special catalogue featuring luxury watches was produced for Jared. There is also a marketing website for Jared which commenced e-commerce in August 2008.

(F) Real estate

The typical Jared store has about 4,900 square feet of selling space and 6,100 square feet of total space. Jared locations are typically free-standing sites in shopping developments with high visibility and traffic flow, and positioned close to major roads. The retail centres in which Jared stores operate normally contain strong retail co-tenants, including other category killer destination stores such as Borders Books, Best Buy, Home Depot and Bed, Bath & Beyond, as well as some smaller speciality units. It is planned to open 17 Jared stores in 2008/09 and this format continues to account for the majority of the division's space growth.

3.2.3 *Brands—regional brands*

(A) Introduction

The Group also operates mall stores under a variety of established regional trade names. The leading brands include JB Robinson Jewelers, Marks & Morgan and Belden Jewelers. Nearly all of these stores are located in malls where there is also a Kay store. The Directors believe there is long term potential for about 700 stores in malls trading under the regional brand names. These stores target a similar customer to those that shop at Kay.

At 2 February 2008, 351 regional brand stores operated in 37 states (3 February 2007: 341 stores in 33 states) and sales for 2007/08 were \$459.7 million (2006/07: \$501.0 million). The average retail price of merchandise sold in a regional store during 2007/08 was \$343 (2006/07: \$332).

(B) Real estate

The location of regional brand stores within a mall is similar to that of a Kay store. New regional chain stores are opened if real estate satisfying the division's investment criteria becomes available in their respective trading areas where marketing support can be cost effective. Consideration is given to changing the logo of a regional brand store to Kay where the overall return on capital employed, including any resulting impact on other stores operated by the division, may be increased. The Directors believe that it may be possible to develop a second mall-based brand of sufficient size to take advantage of national television advertising. This would require the acquisition of a number of small regional chains, or a large regional chain. Such acquisitions would have to meet the Group's strict operational and financial criteria before being considered and are not expected to occur imminently. It is planned to reduce the number of regional brand stores by about 40 in 2008/09.

(C) Customer service and merchandising

The same field operations, training and merchandising teams are responsible for the regional brands as manage the Kay stores.

(D) Marketing

The primary form of marketing for the regional brands has been radio. Direct mail and telephone marketing are also used to encourage repeat purchases by current customers. A similar number of catalogue editions were produced for each regional brand as for Kay. There are also marketing websites for some of the brands. A test of local television advertising began during Christmas 2005 and this has now ended as a satisfactory uplift in sales was not being achieved. The appropriate level of marketing support for the regional brands is determined by the incremental sales productivity of such activities compared to the marginal cost of the promotional expenditure. A lower level of expenditure is expected to be incurred in 2008/09 and radio advertising has been eliminated for the Christmas season.

3.2.4 *Functional overview*

(A) Operating structure

While the US division operates under twelve different brands, many functions are integrated to gain economies of scale and have commonality of systems where a fully integrated approach is inappropriate. For example in store operations there is a separate dedicated field management team for the mall brands, Jared and the in-store repair function, while there is a combined diamond sourcing function.

(B) Customer service and human resources

Introduction: Customer service and human resources are central to the division's success and are a key constraint on the rate of growth achieved. A major priority of the division is to continually improve the quality of customer experiences in its existing stores while providing sufficient staff that are well trained and with suitable experience to run the new stores being opened.

During 2007/08 the implementation of an enhanced training system for store staff, to develop customer service skills and product knowledge further, was completed. Training to implement a new store communications system was also carried out; the system has increased productivity by improving in-store execution, compliance monitoring, store feedback and has enhanced the ability to identify store and divisional level opportunities to improve execution further. Training and systems enhancements to improve the repair service, an important driver of footfall and customer trust, were also implemented.

Customer satisfaction: A customer satisfaction index covering 12 criteria was introduced to all stores during 2006/07. Based on customer feedback, each store is benchmarked against others in its district, region and across the division. The scores are reported on a monthly basis, highlighting areas of good performance and those for improvement, and are one of the key performance indicators used to manage each store.

Training: Providing knowledgeable and responsive customer service is a priority, and is regarded by management as a key point of differentiation. It is believed that highly trained sales associates, with the necessary product knowledge to communicate the quality, attributes and competitive value of merchandise, are critical to the success of the business. Store staff also receive training on supply chain issues such as conflict diamonds and the environmental impact of gold mining.

Retail sales personnel are encouraged to become certified diamondologists by graduating from a comprehensive correspondence course provided by the Diamond Council of America. Over 50 per cent of the division's full time sales staff who have completed their probationary period are certified diamondologists or are training to become certified. All store managers are required to be so qualified. The number of certified diamondologists employed by the US division increased by 16 per cent in 2007/08 to some 5,300. Employees often continue their professional development through completion of further courses on gemstones and timepieces.

The US division's substantial training and incentive programmes, for all levels of store staff, are designed to play an important role in recruiting, educating and retaining qualified store staff. The preferred practice is to promote managers at all levels from within the business in order to maintain continuity and familiarity with the division's procedures.

Goals and incentives: All store employees are set daily performance standards and commit to goals. Sales commission based on individual and store performance is paid. Sales contests and incentive programmes also reward the achievement of specific targets with travel or additional cash awards. Apart from sales-based incentives, bonuses are paid to store managers depending on store contribution and to district managers for the achievement of key performance objectives. In 2007/08 approximately 19 per cent (2006/07: 23 per cent) of store personnel remuneration was commission and incentive-based.

US head office bonuses are based on the performance of the division against predetermined annual profit targets. Promotion and salary decisions for principally non-management head office personnel are based on performance against service level and productivity goals; for managers they are based on annual objectives and performance against individual job requirements.

Store managers: Each store is led by a store manager who is responsible for various store level operations including overall sales and branch level variable costs; certain personnel matters such as recruitment and training; and customer service. Administrative matters, including purchasing, merchandising, payroll, preparation of training materials, credit operations and divisional operating procedures are consolidated at divisional level. This allows the store manager to focus on those tasks that can be best executed at a store level, while enabling the business to benefit from economies of scale in administration and to help ensure consistency of execution across all the stores.

Recruitment, retention and promotion: Although staff recruitment is primarily the responsibility of store and district managers, field recruiters are supplied by a central recruitment function. Methods such as internet recruitment are used to provide stores with a larger number of better-qualified candidates from which to select new staff.

The Directors believe that the recruitment and retention of highly-qualified and well-trained staff in the US head office is essential to supporting the stores. A comprehensive in-house curriculum, including leadership development, supplements specific job training and emphasises the importance of the working partnership between stores and the head office.

A key motivator for all staff, and in particular for store based employees, is the division's practice of internal promotion. It is a requirement that District Managers and Vice Presidents of Regional Operations have been a store manager within the division.

(C) Merchandising and purchasing

Introduction: It is believed that selection, availability, and value for money of merchandise are factors that are critical to success as a speciality retail jeweller. In the US business, the range of merchandise offered and the high level of stock availability are supported centrally by extensive and continuous research and testing. Best-selling products are identified and their rapid replenishment ensured through

analysis of sales by stock keeping unit. This approach enables the division to deliver a focused assortment of merchandise to maximise sales, minimise the need for discounting and accelerate inventory turn. The US division is better able to offer superior value and consistency of merchandise than its competitors, due to its supply chain advantages.

The US division does not hold any material patents, licences, franchises or concessions, but has a range of trading agreements with suppliers, the most important being in regards to the Leo Diamond and luxury watches. The established trademarks and trade names of the division are essential to maintaining its competitive position in the retail jewellery sector.

In 2007/08 the average unit selling prices in mall stores and Jared increased by 3.4 per cent and 3.8 per cent respectively. The division continued to develop the sales of exclusive merchandise such as the “Leo Diamond”, the “Peerless Diamond”, and the “Hearts Desire” range, as well as branded ranges such as Le Vian and Russell Simmons. In generic merchandise, the Journey range again performed well, as did white gold jewellery. Sourcing via the rough diamond initiative entered the early stages of roll-out in 2007/08, after a successful two year trial.

Inventory management: Sophisticated inventory management systems for merchandise testing, assortment planning, allocation and replenishment have been developed and implemented. The majority of merchandise is common to all US division mall stores, with the remainder allocated to reflect demand in individual stores. It is believed that the merchandising and inventory management systems, as well as improvements in the productivity of the centralised distribution centre, have allowed the division to achieve inventory turns at least comparable to those of competitors, even though it has a significantly less mature store base and undertakes more direct sourcing of merchandise.

Merchandise mix: In 2007/08, the bridal category accounted for about 45 per cent of merchandise sold and its participation in the sales mix has grown steadily over the past five years.

Programmes have been developed in conjunction with certain vendors for the provision of branded jewellery merchandise. For example, the Leo Diamond range is sold exclusively by the Group in the US and the UK; the Peerless Diamond, an Ideal Cut diamond with a superior, measured return of light, is only available in Jared; and Le Vian, a prestigious fashion jewellery brand with a 500 year history, is now sold in all mall and Jared stores. The US division is planning to increase the proportion of sales from exclusive merchandise and the Directors believe that the division’s merchandising process, market share and relationship with suppliers, position the business as an ideal partner to develop branded initiatives.

The table below sets out the Group’s US merchandise sales mix as a percentage of sales:

	Percentage of sales		
	2007/08 per cent	2006/07 per cent	2005/06 per cent
Diamonds and diamond jewellery	75	75	74
Gold jewellery	7	7	7
Other jewellery	11	11	12
Watches	7	7	7

Other sales: While the design and repair service is less than 10 per cent of sales, it accounts for approximately 30 per cent of transactions and has been identified as an important opportunity to build trust in the US division. All Jared stores have a highly visible jewellery workshop, which is open the same hours as the store. As well as meeting the repair requirements of the store in which they are located the workshops also carry out work for the division’s mall brand stores. As a result, nearly all customer repairs are carried out by the division’s own staff rather than through sub-contractors, unlike most chain jewellers. The design and repair service has its own field management and training structure.

For over ten years the division has sold a lifetime repair warranty for jewellery. The warranty covers services such as ring sizing, refinishing and polishing, rhodium plating white gold, earring repair, chain soldering and the resetting of diamonds and gemstones that arise due to the normal usage of the merchandise. This work is carried out by the division. Warranty sales account for less than 10 per cent of sales.

Direct sourcing of polished diamonds: It is believed that the US division has a competitive cost and quality advantage as about 45 per cent of diamond merchandise sold is sourced through contract manufacturing. The Group purchases loose polished diamonds on the world markets and outsources the

casting, assembly and finishing operations to third parties. By using this approach the cost of merchandise is reduced and the resulting advantage is partly used to provide superior value to the consumer which helps to increase market share. Contract manufacturing is generally utilised on basic items with proven non-volatile historical sales patterns that represent a lower risk of over or under-purchasing.

The contract manufacturing strategy also allows the buyers to gain a detailed understanding of the manufacturing cost structure and improves the prospects of negotiating better prices for the supply of finished products.

Rough diamond initiative: In 2005/06 a multi-year trial, involving the purchase and contract manufacture of rough diamonds, was commenced by the Group. It was successfully expanded in 2006/07. This initiative moved to the initial roll-out stage in late 2007/08. Once these rough stones have been cut and polished, they enter the US division's supply chain in a similar way to other polished loose diamonds. Stones not suited to the Group's merchandise selection are sold to third parties. The objectives of this supply chain initiative are to:

- secure additional reliable and consistent supplies of diamonds to support the growth of the Group's business;
- offer customers superior value and consistency of merchandise quality;
- improve understanding of the polished diamond market; and
- reduce costs.

In 2008/09 it is planned to increase substantially the volume of rough diamonds purchased. The proportion of diamonds sold by the division that are purchased uncut is currently relatively small and the division continues to develop and expand its relationships with its current suppliers of polished diamonds and diamond jewellery.

Sourcing of complete merchandise: Certain merchandise is purchased complete as a finished product where the complexity of the product is great or the merchandise is considered likely to have a less predictable sales pattern. This strategy provides the opportunity to reserve stock held by vendors and to make supplier returns or exchanges, thereby reducing the risk of over or under-purchasing.

Merchandise held on consignment: Merchandise held on consignment is used to enhance product selection and test new designs. This minimises exposure to changes in fashion trends and obsolescence and provides the flexibility to return non-performing merchandise. At 2 February 2008 the US division held approximately \$221 million (3 February 2007: \$205 million) of merchandise on consignment.

Suppliers: In 2007/08 the five largest suppliers collectively accounted for approximately 20 per cent (2006/07: 20 per cent) of the US division's total purchases, with the largest supplier accounting for approximately 7 per cent (2006/07: 9 per cent). The division's supply chain has become increasingly integrated on a worldwide basis, with diamond cutting and jewellery manufacturing being predominantly carried out in Asia, with little of the division's merchandise now manufactured in the US.

(D) Marketing and advertising

As the products sold by the division are predominantly unbranded, management believes that store brand name recognition by consumers is an important factor in jewellery retailing. The Group continues to strengthen and promote its US brands and build name recognition through integrated marketing campaigns. The marketing channels used include television, radio, print, catalogues, direct mail, telephone marketing, point of sale signage, in-store displays and the internet.

Advertising activities are concentrated during periods when customers are expected to be most receptive to the marketing message. The proportion of television advertising expenditure to sales continues to grow, and the cost of national television advertising is leveraged as the number of stores increases.

Statistical and technology-based systems are employed to support a direct marketing programme that uses a proprietary database of over 25 million names to strengthen the relationship with customers. The programme targets current customers with special savings and merchandise offers during key trading periods. In addition, invitations to special in-store promotional events are extended throughout the year.

In 2007/08 annual gross marketing spend amounted to 7.5 per cent of sales (2006/07: 7.0 per cent), which was higher than planned due to the disappointing sales performance in the fourth quarter. It is intended to realign spending as a percentage of sales to nearer historic levels in 2008/09. Dollar

marketing expenditure increased by 10.5 per cent to \$204.0 million over the 52 weeks to 2 February 2008 (53 weeks to 3 February 2007: \$184.5 million). This reflected the expected growth in total sales and the higher proportion of sales being generated by Jared. Over the last five years, advertising and marketing expenditure has increased by some 70 per cent.

(E) Real estate

The Directors believe that the US division's prime real estate portfolio is a competitive advantage that helps build store traffic. The quality of the portfolio is based on the consistent application over time of strict real estate criteria and demanding required projected investment returns for both new space and the renewal of leases. The division has a target for new space growth of 8 per cent to 10 per cent per annum, but growth may be outside this range depending on the availability of sites that satisfy the investment criteria and the general economic environment. In 2008/09 and 2009/10 it is anticipated that net new store space will increase by 3 to 5 per cent. When a new store is opened the majority of the investment is in working capital, that is inventory and receivables, as nearly all stores are leased. Stores are normally refurbished on a ten year cycle, which for mall brands coincides with the typical length of a lease. Increased like for like sales growth is normally achieved for a number of years following a refurbishment due to factors such as improved lighting and better presentation of merchandise. Opportunities to relocate stores to better locations within malls, such as a centre court corner site are continually sought. Nearly all of the Group's US stores are located in suburban areas, with about 58 per cent of space being in traditional covered malls (2002/03: about 79 per cent). In 2007/08 about 80 per cent of net space growth was in off-mall locations.

Both the operational and financial criteria for investment in real estate remain stringent and have been consistently applied for more than ten years, the financial criteria being a positive net present value over a five year period on a pre tax basis using a 20 per cent discount rate and assuming working capital is released after five years.

(F) Credit operations

In the US jewellery market it is necessary for speciality retailers to offer credit facilities to the consumer. The Directors regard the provision of an in-house credit programme, rather than one provided by a third party, as a competitive advantage for a number of reasons:

- the credit policies are decided by the division's management taking into account the overall impact on the business rather than by a third party whose priorities may conflict with those of the division;
- authorisation and collection models are based on the behaviour of the division's consumers;
- it allows management to establish and implement customer service standards appropriate for the business;
- it provides a database of regular customers and their spending patterns;
- investment in systems and management of credit offerings appropriate for the business can be facilitated; and
- superior cost effectiveness by utilising in-house capability.

Furthermore the various credit programmes help to establish long term relationships with customers and complement the marketing strategy by enabling additional purchases, higher units per transaction and greater value sales. In addition to interest bearing accounts, a number of programmes offer interest-free financing for one year or less, subject to certain conditions, and these account for a significant proportion of credit sales. In most US states customers are offered optional third party credit insurance. The average outstanding balance at the year end was \$997 (2006/07: \$957). Since credit authorisation and collection systems were centralised in 1994, the credit terms and performance have been relatively consistent over the economic cycle.

In-house credit sales represented 52.6 per cent of total US sales in 2007/08 (2006/07: 51.7 per cent) and the monthly collection rate was 13.9 per cent (2006/07: 14.6 per cent), a credit portfolio turn of approximately seven months. While the credit participation was little changed, the approval rate for credit applications was lower. The bad debt charge for the year, at 6.5 per cent (2006/07: 5.3 per cent) of credit sales was at the high end of the tight range of the last ten years reflecting the deterioration of the US economy. The increase in bad debts was largely offset by additional income on the portfolio as a result of the lower monthly collection rate. The 5.3 per cent net bad debt charge in 2006/07 was at the

low end of the range of the last ten years and reflected the impact of a revision in the US bankruptcy laws implemented in late 2005 which temporarily increased bankruptcy levels in late 2005/06 and reduced them in early 2006/07.

The division continued to apply its established credit standards in 2007/08, while monitoring the performance of the receivables very closely. During 2007/08, a number of metrics deteriorated a little reflecting the downturn in the wider economy, although performance has remained within the range of the last ten years. In response to the increased credit risk among US consumers, the staffing levels in relation to the outstanding balances within the credit collection function were increased. Consumers' financial position continues to deteriorate which may lead to a further increase in the bad debt charge, although this is expected to be somewhat offset by increased income from the credit portfolio. Consequently credit authorisation criteria continue to be reviewed and outstanding balances are very closely monitored with prompt action being taken in response to changes in performance. In addition, further investment in collection systems is taking place.

At 2 February 2008 the gross US receivables stood at \$900.6 million (2006/07: \$828.8 million). There was an impairment provision of \$60.4 million (2006/07: \$50.0 million). The average level of gross receivables during 2007/08 was \$795.4 million (2006/07: \$698.4 million).

The table below presents data related to the in-house credit business for the past three financial years:

<u>Credit Portfolio Statistics</u>	<u>2007/08</u>	<u>2006/07</u>	<u>2005/06</u>
Credit sales (\$m)	1,422.4	1,372.1	1,191.2
Credit sales as per cent of total sales	52.6 per cent	51.7 per cent	51.6 per cent
Number of active credit accounts at year end	940,069	896,289	883,873
Average outstanding account balance (\$)	997	957	841
Average monthly collection rates	13.9 per cent	14.6 per cent	14.5 per cent
Bad debt as per cent of total sales	3.4 per cent	2.8 per cent	3.0 per cent
Bad debt as per cent of credit sales	6.5 per cent	5.3 per cent	5.8 per cent

Authorisations and collections are solely performed centrally at the US head office, rather than by store staff. The majority of credit applications are processed and approved automatically after being initiated via in-store terminals, through a toll-free phone number or on-line through the division's websites. All applications are evaluated by the scoring of credit data and using data obtained through third party credit bureaux.

Investment in staff, training and systems to maintain or improve the quality of the credit portfolio continued in 2007/08. Collection strategies and efforts continued to include emphasis on risk-based calling and first call resolution.

In addition to in-house credit sales, the US stores accept major credit cards. Third party credit sales are treated as cash sales and accounted for approximately 39 per cent (2006/07: 39 per cent) of total US sales during the year.

(G) Management tools and communications

The US division's highly integrated and comprehensive information systems provide detailed, timely information to monitor and evaluate virtually every aspect of the business. They are designed to decrease the time sales staff spend on administrative tasks and increase time spent on sales activities. They also support merchandise testing, loss prevention and inventory control. All stores are supported by the internally developed Store Information System, which includes electronic point of sale ("EPOS") processing, in-house credit authorisation and support, a district manager information system and constant connectivity for all retail locations for data communications including e-mail. The EPOS system updates sales, in-house credit and perpetual inventory replenishment systems throughout the day for each store. The store communications system was upgraded to broadband during 2007/08. The implementation of broadband store communication will allow further improvements to the division's systems to be made.

(H) Regulation

The Group's US division is required to comply with numerous US federal and state laws and regulations covering areas such as consumer protection, consumer privacy, consumer credit, consumer credit insurance, truth in advertising and employment legislation. The Board endeavours to monitor changes in these laws to ensure that its practices comply with applicable requirements.

3.3 UK market overview

3.3.1 Introduction

In calendar year 2007 the size of the total UK market for fine jewellery, costume jewellery and watches was estimated by the Office for National Statistics (“ONS”) to have been £4.5 billion (\$9.0 billion) (including VAT of 17.5 per cent), (2006: £4.5 billion). The ONS figure for market size replaces previous figures for market size which were based on management estimates and market research carried out by Key Note. While the ONS figure has been adopted, its reliability is uncertain. The jewellery market grew at an estimated compound rate of 4.7 per cent per annum from 1997 to 2004. It declined by 4.0 per cent in 2005, when the retail sector as a whole experienced the sharpest deterioration in trading conditions since 1991, with the jewellery sector being particularly affected. In 2006 the UK jewellery market returned to growth while 2007 was unchanged. Per capita spend on jewellery in the UK remains at approximately half of the level of the US. The market includes speciality retail jewellers and non-speciality jewellery retailers, such as mail order catalogues, catalogue showrooms and jewellery departments in department stores.

The UK retail jewellery market is very fragmented and competitive, with a substantial number of independent speciality jewellery retailers. The Directors believe there are just over 7,000 speciality retail jewellery stores in the UK.

Based on surveys, the Directors believe that customers are attracted to H. Samuel because of its strong brand appeal as a speciality jeweller, that is differentiated by its customer service standards and staff knowledge. Ernest Jones attracts customers as a result of its diamond and watch expertise, exclusive and up to date merchandise and knowledgeable staff.

3.3.2 Market structure

In the middle market H. Samuel competes with a large number of independent jewellers, with the only speciality competitor of significant size being F Hinds (107 stores). Some competition at the lower end of the H. Samuel product range also comes from Argos, the catalogue showroom operator, and discount jewellery retailers such as Warren James (120 stores).

In the upper middle market Ernest Jones competes with independent speciality retailers and a limited number of other upper middle market jewellery brands, such as Goldsmiths (187 stores), Fraser Hart (62 stores) and Beaverbrooks (31 stores) respectively at 2 February 2008.

3.4 UK Division

3.4.1 H. Samuel

(A) Introduction

H. Samuel accounted for 14 per cent of Group sales in 2007/08 (2006/07: 14 per cent), and is the largest speciality retail jewellery brand in the UK with a 6.5 per cent share of the total UK jewellery market. It serves the core middle market and its customers typically have a household income of between £15,000 and £40,000. The brand has nearly 150 years of jewellery heritage. It sells a broad range of gold and silver jewellery, an increasing proportion of diamond merchandise and a wide selection of watches, including Accurist, Citizen, DKNY, Fossil, Rotary, Seiko and Sekonda. It also sells an increasingly focused range of gifts and collectables such as Nao and Swarovski.

H. Samuel had 359 stores at 2 February 2008 (3 February 2007: 375) and is represented in nearly all large and most medium sized shopping centres with the focus increasingly being on larger centres. An e-commerce capability was added to hsamuel.co.uk in September 2005 and it is the most visited UK speciality jewellery website (source: Hitwise).

In 2007/08 H. Samuel sales were £256.7 million (2006/07: £260.8 million). The average retail price of merchandise sold in H. Samuel during 2007/08 was £44 (2006/07: £42) and the average retail price of items sold has increased at a compound annual growth rate of 6.2 per cent over the last five years. The sales per store increased to £722,000 (2006/07: £695,000 on a 53 week basis) and have increased at a compound annual growth rate of 1.3 per cent over the last five years.

During 2007/08, television advertising, using the theme “H. Samuel helps you say it better”, was successfully developed. An H. Samuel store credit card was tested and launched. Staff training remained a priority and about 40 per cent of H. Samuel staff have an externally recognised jewellery industry qualification.

(B) Customer Service

Customer service is an increasingly key point of differentiation for H. Samuel. Historically the brand's customers self selected merchandise from window displays and primarily required a 'cash and wrap' service. Sales associates in H. Samuel now need an increased level of product knowledge and selling skills as a growing proportion of sales are of products, such as diamond jewellery, that require much higher levels of customer service. Therefore a priority in recent years has been to improve the training process within the UK division.

(C) Merchandising

In 2007/08 diamond jewellery accounted for 22 per cent of H. Samuel's merchandise mix, up from 16 per cent in 2002/03. This helped increase the average unit selling price to £44 from £33 over that period. Within the diamond category the average selling price increased to £201 (2002/03: £179). Since 2002/03, sales of gift and other items have declined to 12 per cent of the total from 19 per cent (see table below).

Merchandising initiatives to further increase the differentiation of H. Samuel stores and to reinforce the brand perception as a speciality jeweller continued, for example the launch of the Julien Macdonald range and the development of exclusive merchandise such as the Forever Diamond range. Key volume items were again used to drive footfall. These items take advantage of H. Samuel's buying scale and offer consumers an attractive price while achieving a satisfactory gross margin and are promoted in marketing and point of sales material. As in 2006/07 a more targeted approach to promotional activity was beneficial during 2007/08.

H. Samuel merchandising mix (excluding repairs, warranty and other miscellaneous sales)

	2007/08	2006/07	2002/03
Gold jewellery	31 per cent	31 per cent	32 per cent
Watches	25 per cent	24 per cent	24 per cent
Diamond jewellery	22 per cent	21 per cent	16 per cent
Other jewellery	10 per cent	10 per cent	9 per cent
Gifts and other	12 per cent	14 per cent	19 per cent
Average selling price	£ 44	£ 42	£ 33

(D) Marketing

Over Christmas 2007 H. Samuel used the "H. Samuel helps you say it better" television advertising supplemented by advertising in national newspapers and catalogue distributions. For the remainder of the year a series of themed catalogues displayed in stores, mailed directly to targeted customers and distributed in newspapers were the primary form of marketing. During 2007/08 co-ordination of the different forms of marketing and promotion was improved. The H. Samuel website has been transactional since 2005 and its performance has been encouraging, although its sales are relatively small in the context of the division as a whole.

(E) Store Design

The H. Samuel store portfolio is nearing the end of a radical refit that started seven years ago. Previous to that, stores were designed for a shopper who made a choice from a window display. The changed format is designed to facilitate the sale of merchandise with a higher average selling price, particularly diamonds, and therefore allows an increased focus on customer service and greater convenience in presenting merchandise to customers. The clear internal layout by department enhances the ability to provide appropriately trained specialist staff in each area.

The format uses low level displays, which act as service counters for jewellery, particularly diamond ranges; wall display cases are used predominantly for watches, gifts and lower value jewellery items. The refitted stores are also much more open and inviting. While the design was based on the Group's US experience, it was adapted to H. Samuel's merchandising and customer requirements.

Further evolutionary changes to the design have been made during the refit programme. These include improved presentation of jewellery, particularly in wall showcases; more clearly displayed branded merchandise such as watches; and more effective use of in-store signage.

(F) Real Estate

H. Samuel has a seven year store refurbishment cycle. In 2007/08 16 refits or resites were completed (2006/07: 28 including two in the traditional format). At 2 February 2008 234 stores, accounting for just over 70 per cent of sales, traded in the more customer oriented store design.

Some 17 refits and resites are planned in 2008/09. The conversion programme to a more customer oriented format for H. Samuel is anticipated to be completed in 2009/10. Thereafter, the cost of store refurbishment is expected to reduce significantly as structural work, such as the move away from window based displays, will be much lower.

H. Samuel is increasingly focused on bigger stores, in larger shopping destinations, where it is better able to offer more specialist customer service, a wider range of jewellery and benefit from the more customer oriented format. This reflects the changing shopping patterns of customers. The number of H. Samuel stores in smaller markets is therefore likely to decline as leases expire or suitable real estate transactions become available. Over the last five years there has been a reduction of 59 stores.

3.4.2 Ernest Jones (including Leslie Davis)

(A) Introduction

Ernest Jones accounted for 12 per cent of Group sales in 2007/08 (2006/07: 11 per cent), and is the second largest speciality retail jewellery brand in the UK with a market share of 5.6 per cent of the total jewellery market. It serves the upper middle market and its customers typically have a household income of between £30,000 and £50,000. It sells a broad range of diamond and gold jewellery as well as prestige watches such as Breitling, Cartier, Longines, Omega, Rado, Raymond Weil, Rolex and Tag Heuer. It also sells contemporary fashion watches such as Burberry, DKNY, Emporio Armani, Gucci, Hugo Boss and a range of traditional watches including Accurist, Rotary, Seiko and Tissot.

Ernest Jones had 204 stores at 2 February 2008 (3 February 2007: 206) and is represented in nearly all large shopping centres. An e-commerce capability was added to ernestjones.co.uk in September 2006 and it is the second most visited UK speciality jewellery website (source: Hitwise).

Where local market size and merchandise considerations allow, a two-site strategy is followed using the Leslie Davis trading name. While having a similar customer profile to Ernest Jones, Leslie Davis is differentiated by a greater emphasis on fashion brands and the store design. There were 16 Leslie Davis stores at 2 February 2008 (3 February 2007: 16).

In 2007/08 Ernest Jones sales were £219.4 million (2006/07: £217.6 million), with watches showing good growth but the diamond jewellery performance was disappointing. Sales per store improved in 2007/08 to £1,105,000 (2006/07: £1,079,000 on a 53 week basis) and have increased at a compound annual growth rate of 1.4 per cent over the last five years.

During 2007/08 an enhanced store design was successfully tested, a new marketing theme for the brand was developed and a store branded credit card was launched. The quality of staff training was further improved, with over 45 per cent of Ernest Jones staff having gained an externally recognised jewellery industry qualification. A specially designed diamond ring for Christmas was a notable success.

(B) Customer Service

As over two thirds of Ernest Jones' sales mix consists of diamonds and watches, store staff provide a high level of customer service and have detailed product knowledge. An increasing proportion of staff have undertaken training provided by the division in conjunction with the International Gemological Institute ("IGI") or the British Horological Institute ("BHI"). The enhanced store design that was tested in 2007/08 provided a more appropriate sales environment for diamond jewellery, in particular rings, and watches.

(C) Merchandising

In 2007/08 diamond jewellery accounted for 34 per cent of Ernest Jones' merchandise mix similar to the level in 2002/03. The average retail price of merchandise sold in Ernest Jones in 2007/08 was £180 (2006/07: £163) and has increased at a compound annual growth rate of 6.7 per cent over the last five years. In 2007/08 within the diamond category the average selling price increased to £440 (2006/07: £413). The Leo Diamond range, exclusive to Ernest Jones in the UK, was further developed in 2007/08. Watch participation in the merchandise mix increased to 33 per cent and Ernest Jones continues to develop its relationships with the leading watch distributors.

Ernest Jones merchandising mix (excluding repairs, warranty and other miscellaneous sales)	2007/08	2006/07	2002/03
Gold jewellery	25 per cent	25 per cent	25 per cent
Watches	33 per cent	31 per cent	33 per cent
Diamond jewellery	34 per cent	35 per cent	33 per cent
Other jewellery	6 per cent	6 per cent	5 per cent
Gifts and other	2 per cent	3 per cent	4 per cent
Average selling price	£ 180	£ 163	£ 130

(D) Marketing

During 2007/08 a new marketing proposition "Only at Ernest Jones" was developed and tested. This is intended to help differentiate the brand in the marketplace and emphasises the exclusive merchandise that is available, such as the Leo Diamond, the Christmas products and certain watch designs. It is intended to develop this positioning further in 2008/09.

For most of the year the primary marketing and advertising medium employed by Ernest Jones is a series of catalogues distributed by mail and as inserts in newspapers and magazines. They are also available in all stores. In 2007/08 the quality of catalogues continued to be improved and their distribution better targeted. Increasing use is also being made of customer relationship marketing and it is planned that this will be developed further in 2008/09. There is also an Ernest Jones website, which was made transactional in September 2006. Its performance is encouraging, but its sales remain relatively small within a divisional context.

In recent years Ernest Jones has tested the effectiveness of television advertising. During Christmas 2007 a new television commercial broadcast in areas covering about 60 per cent of the store base. The trial is not being continued in 2008/09.

(E) Store design

A more open, customer oriented store design has also been implemented for Ernest Jones. Ahead of a major refurbishment programme, an enhanced more contemporary design was developed and tested in late 2007/08. The design increased the differentiation of the brand by giving greater prominence to the Ernest Jones brand and the watch agencies, as well as providing an improved environment for selling diamond jewellery.

(F) Real estate

Ernest Jones' normal refurbishment cycle is ten years and the majority of its stores are due for refit in the period 2008/09 to 2011/12 in the enhanced design. During 2007/08, 11 refits and resites were completed, including three Leslie Davis stores. At 2 February 2008 48 stores, accounting for a little over 20 per cent of sales, traded in the more customer oriented format (3 February 2007: 38). 36 refits and resites are planned for 2008/09.

The number of Ernest Jones stores has been broadly stable over the last five years and additional sites will be added depending on the availability of suitable sites and prestige watch agencies.

3.4.3 *Functional overview*

(A) Customer service and human resources

Introduction: The Board regards customer service as an essential element in the success of the Group's business, and the division's scale enables it to invest in industry-leading training. The Signet Jewellery Academy, a multi-year programme and framework for training and developing standards of capability, is operated for all store staff. It utilises a training system developed by the Group's UK division called the "Amazing Customer Experience", also known as "ACE".

In 2007/08 the UK division further developed its ACE training programme and a complementary programme for the division's head office has been implemented. In addition, the training programme was more closely co-ordinated with merchandising initiatives and marketing events. An ACE Index customer feedback survey, which gives a more accurate reflection of customers' experiences, has been trialled and is being implemented.

Training: The ACE training programme was introduced in 2006/07 and was further developed during 2007/08. ACE is a flexible programme consisting of six elements that better enable store staff to meet the needs of customers. In addition to the normal training programme one day ACE workshops were introduced in 2007/08. This programme will be expanded in 2008/09. All store personnel have daily performance targets. They are given training and weekly feedback on their performance from store and field management to help them achieve these targets. Training in management skills is provided to all tiers of store operations management to support the store associate training programme and to build general management skills.

The division's continuing programme to improve the training of its staff is reflected in the number of staff that have now passed the Jewellery Education & Training ("JET") Level 1 qualification accredited by the National Association of Goldsmiths ("NAG"). In total 1,299 sales associates and 1,331 store managers and assistant store managers (representing 83 per cent of store management) have achieved this qualification and the pass rate in 2007/08 was 91 per cent. The Group now employs nearly half of all JET Level 1 qualified people that work in the UK retail jewellery industry. In addition the division has established award winning workshops run in partnership with the IGI to increase product knowledge in the diamond category.

In addition, during 2007/08 a partnership was developed with the BHI to deliver workshops that increase service levels in store and help drive the sales performance of the watch category. These courses form part of the training programme for staff hoping to achieve a JET Level 2 qualification from NAG. This qualification is particularly relevant for Ernest Jones staff.

Recruitment and retention: The division has achieved a further fall in staff turnover and at store management level it is at its lowest level for many years. This contributes to improved customer service, employee engagement and store performance levels. The Directors believe that improved recruitment procedures, better training programmes, the continuing development of the commission scheme, career prospects and its response to the annual staff opinion survey, have contributed to this.

Recruitment procedures, including online facilities, continue to improve the suitability of new store personnel, helping to ensure that they meet key basic requirements and are motivated to work within a jewellery store environment. Field and human resources management are responsible for the recruitment, review, training and development of sales staff, thereby ensuring consistency in operating standards and procedures throughout the business. All new store staff receive a structured induction programme that covers store operations, product knowledge and customer service. A financial reward is received upon completion.

A commission-based remuneration programme first implemented in 2005/06 was developed further during 2007/08. The level of commission paid is dependent on a combination of store and individual performance.

Promotion: The division's preferred policy is to promote store management from within the business and aim for 80 per cent of appointments to be internal applicants. Each chain always has a number of sales staff who are qualified to advance to store management level, thus assuring the availability of newly trained managers familiar with the division's operating standards and procedures.

Store support: In order to increase staff selling time and to improve efficiency, operating procedures are routinely reviewed to identify opportunities to enhance customer service and reduce in-store administrative tasks. The Group intranet, which was upgraded during the year, provides a computer-based platform for improved communication between stores and head office, with sales floor and back office administrative functions being simplified and standardised through this medium. A two year programme to replace and upgrade store EPOS equipment was begun during the year. Part of the upgrade included access to the internet to allow online credit authorisations for the new branded credit card.

Head office: The Directors believe that successful recruitment, training and retention of divisional head office staff is important. Accordingly, structured recruitment, training and performance management systems are in place. Internal career advancement is supported by succession planning. Teamwork and service to the stores are encouraged through a performance bonus plan for head office staff, which is based on the division's results. The implementation of a programme to drive continuous

improvement, cross functional alignment and customer-focused decision making was introduced in 2007/08 and will continue through 2008/09. The programme includes back-to-the-shop-floor exercises, development workshops and e-learning.

(B) Merchandising and purchasing

Introduction: The Directors believe that the division's leading position in the UK jewellery sector is an advantage when sourcing merchandise, enabling delivery of better value to the customer. An example of this is its capacity to contract with jewellery manufacturers to assemble products, utilising directly sourced gold and diamonds. In addition, the division has the scale to utilise sophisticated merchandising systems to test, track, forecast and respond to consumer preferences.

The division retails an extensive range of merchandise including gold and silver jewellery, watches, diamond and gemstone set jewellery and gifts. As with other UK speciality retail jewellers, most gold jewellery sold is 9 carat, although sales of 18 carat gold jewellery and platinum have been increasing.

In 2007/08 the UK division continued an initiative to increase the differentiation of H. Samuel and Ernest Jones in their respective marketplaces by increasing the range of exclusive merchandise stocked and by the greater use of collections. In addition the presentation of merchandise was improved by the development of new displays and the reduction in product densities through the rationalisation of merchandise ranges. In 2007/08 diamond jewellery accounted for 28 per cent of the total of the Group's UK division's merchandise mix versus 23 per cent in 2002/03.

Other sales: Repair services account for nearly all the other sales made by the UK division and account for less than 10 per cent of the division's sales. Third party warranties are also sold with only the commission earned being recognised in sales.

**UK division merchandising mix
(excluding repairs, warranty and other
miscellaneous sales)**

	2007/08	2006/07	2002/03
Gold jewellery	28 per cent	28 per cent	29 per cent
Watches	29 per cent	28 per cent	28 per cent
Diamond jewellery	28 per cent	28 per cent	23 per cent
Other jewellery	8 per cent	8 per cent	7 per cent
Gifts and other	7 per cent	8 per cent	13 per cent
Average selling price	£ 68	£ 63	£ 48

Suppliers: Merchandise is purchased from a range of suppliers and manufacturers and economies of scale and buying power continued to be achieved by combining the purchases of H. Samuel and Ernest Jones. In 2007/08 the five largest of these (four watch and one jewellery supplier) together accounted for approximately 26 per cent of total UK division purchases, with the largest accounting for approximately 7 per cent. Only a small percentage of merchandise is purchased on consignment.

Direct sourcing: The Group's UK division also employs contract manufacturers for approximately 27 per cent of the diamond merchandise sold, thereby achieving cost savings. Some 20 per cent of the UK business' gold jewellery is manufactured on a contract basis through a buying office in Vicenza, Italy.

Merchandising: Both H. Samuel and Ernest Jones employ experienced buyers who concentrate on product development, sourcing and supplier management appropriate to their particular needs. Merchandising teams work in conjunction with the buyers and focus on assortment planning, branch grading, repeat orders, inventory levels and margin management. Product category reviews are regularly carried out with a focus on increasing potential gross margin return on investment. Rigorous test marketing procedures are used to trial products, and their subsequent distribution is made strictly against rates of sale.

Each store is assigned a range of merchandise that reflects local buying patterns. Display equipment and layouts are constantly reviewed and updated, and new display formats and units that draw upon the US division's experience have been implemented.

(C) Marketing and advertising

The UK division has strong and well established brands and leverages them with advertising (television, print and online), catalogues and the development of customer relationship marketing techniques. Few of its competitors have sufficient scale to utilise all these marketing methods

successfully. Marketing campaigns are designed to reinforce and develop further the distinct brand identities. Both campaigns aim to expand the overall customer base and improve customer loyalty. In 2007/08 gross expenditure on marketing and advertising was £14.6 million (2006/07: £14.6 million) and amounted to 3.1 per cent of sales in 2007/08 (2006/07: 3.1 per cent).

(D) Real estate

Strict criteria are followed when evaluating real estate investment and the Directors believe that the quality of its store portfolio is superior to that of many of its competitors. Nearly all the division's stores are leased and the strength of the Group's balance sheet and the division's trading record makes it an attractive tenant.

The level of store capital expenditure was £9 million (2006/07: £8 million), the increase reflecting the phasing of the normal store refurbishment cycle and investment in information technology. The level of store refit is planned to be at a significantly higher level in 2008/09 due to the Ernest Jones store refurbishment cycle, and store capital expenditure is expected to increase to up to £21 million (2007/08: £9 million). The typical cost of a store refit for H. Samuel is between £200,000 and £250,000 and for Ernest Jones £250,000 to £350,000.

Details of recent investment in the store portfolio are set out below:

<u>Number of stores</u>	<u>2008/09 planned</u>	<u>2007/08</u>	<u>2006/07</u>
Store refurbishments and relocations	53	27	28
New H. Samuel stores	2	1	–
New Ernest Jones stores	3	–	1
Store fixed capital investment	£21 m	£9 m	£8 m

(E) Insurance loss replacement business

While nearly all the UK division's sales are made directly to the consumer, the Directors believe that the Group is the leading UK jewellery retailer in the insurance loss replacement business. This involves the settlement of insurance claims by product replacement through jewellery stores rather than by cash settlements from the insurance company. A lower gross margin is earned on these transactions than on sales to individual customers. However, the division benefits from the resulting higher level of sales, greater customer traffic in the stores and the opportunity to create and build relationships with new customers. Given its nationwide store portfolio, breadth of product range and ability to invest in systems to support the business, the division has benefited from insurance companies settling claims in this manner. In 2007/08 the proportion of sales generated from the insurance loss replacement business again increased.

(F) Credit operations

Following a successful test in early 2007/08, the division rolled out a third party own label credit card programme in time for the Christmas trading season. The roll out was supported by staff training. Drawing on the experience of the US division, the card offers customers a number of different credit options depending on transaction value and customer preference. The card is administered and funded by, and default risk resides with, a third party. The division pays a fee for this facility based on a percentage of the transaction value which varies dependent on which credit option is taken by the customer.

Before the launch of this initiative customers were offered an interest free credit programme for purchases above a particular price. This offer was administered and funded by the same third party on the same basis as the new own label card. In 2007/08 approximately 3 per cent of the division's sales value was through one or other of these credit programmes (2006/07: 2 per cent).

Bank credit card sales are treated as cash transactions and accounted for approximately 30 per cent of sales during 2007/08 (2006/07: 29 per cent).

(G) Management tools and communications

EPOS equipment, retail management systems, purchase order management systems and merchandise planning processes are in place to support financial management, inventory planning and control, purchasing, merchandising, replenishment and distribution and can ensure replacement within 24 hours of any merchandise sold. The fourth phase of an electronic "Business To Business" communications project, developed to improve the efficiency and effectiveness of dealing with suppliers, was implemented in 2007/08.

A perpetual inventory process allows store managers to check stock by product category. These systems are designed to assist control of shrinkage, fraud prevention, financial analysis of retail operations, merchandising and inventory control.

(H) Regulation

Various laws and regulations affect the Group's UK operations. These cover areas such as consumer protection, consumer credit, data protection, health and safety, waste disposal, employment legislation and planning and development standards. The Board monitors changes in these laws with a view to ensuring that the Group's practices comply with legal requirements.

4. Organisational Structure

At 2 February 2008, Signet had the following subsidiary undertakings carrying on businesses which principally affected the profits and assets of the Group. They have the same year end date as Signet and the Company.

	<u>Principal activity</u>	<u>Country of incorporation or registration</u>	<u>Percentage shareholdings</u>
Ernest Jones Limited	Retail jeweller	UK	100 per cent
H. Samuel Limited	Retail jeweller	UK	100 per cent
Leslie Davies Limited	Retail jeweller	UK	100 per cent
Signet Trading Limited	Service company	UK	100 per cent
Sterling Inc.	Retail jeweller	US	100 per cent
Sterling Jewelers Inc.	Retail jeweller	US	100 per cent
Sterling Jewelers LLC	Retail jeweller	US	100 per cent
Sterling of Ohio Inc.	Retail jeweller	US	100 per cent
Signet Holdings Limited	Holding company	UK	100 per cent
Signet US Holdings, Inc.	Holding company	US	100 per cent
Checkbury Limited	Property holding company	UK	100 per cent
Signet Sourcing Limited	Diamond sourcing	UK	100 per cent

A chart summarising the Group structure is provided at Section 3 (Organisational Structure) of Part XII of this document.

5. Properties

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

5.1 US properties

Substantially all of the Group's US stores are leased. In addition to a minimum annual rental, a significant number of stores also pay turnover related rent based on sales above a specified base level. Under the terms of a typical lease, the US business is required to conform and maintain its usage to agreed standards, including meeting required advertising expenditure 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 2 February 2008 the average unexpired lease term of US leased premises was six years and some 48 per cent of leases had terms expiring within five years. The Jared stores are normally on 20 year leases with options to extend the lease and their rents are not turnover related.

The US division leases 15 per cent of its store locations from Simon Property Group and 14 per cent from General Growth Management, Inc. The division has no other relationship with any lessor relating to 10 per cent or more of its store locations.

During the past five financial years the US business generally has been successful in renewing its store leases as they expire and has not experienced difficulty in securing suitable locations for its stores. No store lease is individually material to the Group's US operations.

A 340,000 square foot head office and distribution facility is leased in Akron, Ohio. On 2 February 2007 a new 25 year lease was entered into for this facility. On 1 January 2007 a 25 year lease was entered into for an 86,000 square foot office building next door to the head office. Over time this building will be used to accommodate the expected future growth of the head office facilities. Space surplus to the Group's requirements in this building is currently sublet. A 19,000 square foot repair centre was opened during 2005/06 and is owned by the Group.

5.2 *UK properties*

At 2 February 2008 the Group's UK division traded from seven freehold premises, five premises where the lease had a remaining term in excess of 25 years and 551 other leasehold premises. The division's stores are generally leased under full repairing and insuring leases (equivalent to triple net leases in the US). Wherever possible the Group is shortening the length of new leases that it enters into, or including break clauses in order to improve the flexibility of its lease commitments. At 2 February 2008 the average unexpired lease term of UK premises with lease terms of less than 25 years, was seven years and a majority of leases had either break clauses or terms expiring within five years. Rents are usually subject to upward review every five years if market conditions so warrant. An increasing proportion of rents are related to sales of the store, subject to a minimum annual value.

At the end of the lease period, subject to certain limited exceptions, UK leaseholders generally have statutory rights to enter into a new lease of the premises on negotiated terms. As current leases expire, the Group believes that it will be able to renew leases, if desired, for present store locations or to obtain leases in equivalent or improved locations in the same general area. The Group has not experienced difficulty in securing leases for suitable locations for its UK stores. It is not believed that any of the store leases are individually material to the Group's UK operations.

The Group owns a 255,000 square foot warehouse and distribution centre in Birmingham, where certain of the UK division's central administration functions are based. The remainder are situated in Borehamwood, Hertfordshire where the facility is held on a 15 year lease entered into in 2005 and consists of 36,200 square foot of office space. The holding company functions are located in a 7,200 square foot office in central London, on a ten year lease which was entered into in 2005.

5.3 *Distribution Capacity*

The US division has sufficient distribution capacity to meet its current requirements. It is planned to increase the capacity of the distribution centre in 2008/09. As a result, it is anticipated that there will be sufficient capacity to support medium term sales growth. The UK distribution centre has sufficient capacity for the anticipated future requirements of the businesses.

6. **Group Employees**

In 2007/08 the average number of full-time equivalent persons employed (including directors) was 17,243 (UK: 3,847; US: 13,396). The Company usually employs a limited number of temporary employees during each Christmas season.

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

The table below shows the average number of full time equivalent persons employed (including directors) over the last three financial years analysed by category and division:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Group			
Management	262	250	238
Administration	1,758	1,747	1,764
Distribution and sales staff	<u>15,223</u>	<u>14,839</u>	<u>13,650</u>
	<u>17,243</u>	<u>16,836</u>	<u>15,652</u>
UK			
Management	76	78	85
Administration	291	290	367
Distribution and sales staff	<u>3,480</u>	<u>3,796</u>	<u>3,834</u>
	<u>3,847</u>	<u>4,164</u>	<u>4,286</u>

	<u>2008</u>	<u>2007</u>	<u>2006</u>
US			
Management	186	172	153
Administration	1,467	1,457	1,354
Distribution and sales staff	<u>11,743</u>	<u>11,043</u>	<u>9,859</u>
	<u>13,396</u>	<u>12,672</u>	<u>11,366</u>

7. Intellectual Property

The Group is not dependent on any material patents or licences in either the US or the UK; however, it does have several well-established trademarks and trade names which are significant in maintaining its reputation and competitive position in the jewellery retailing industry. These registered trademarks and trade names include the following in the Group's US operations: Kay Jewelers; Jared The Galleria Of Jewelry; JB Robinson Jewelers; Marks & Morgan Jewelers; Belden Jewelers; Weisfield Jewelers; Osterman Jewelers; Shaw's Jewelers; Rogers Jewelers; LeRoy's Jewelers; Goodman Jewelers; Friedlander's Jewelers; Every kiss begins with Kay; Peerless Diamond, Hearts Desire; and Perfect Partner. Trademarks and trade names include the following in the Group's UK operations: H. Samuel; Ernest Jones; Leslie Davis; Forever Diamonds; and Perfect Partner.

The value of the Group's trademarks and trade names are material but are not reflected on the Group's balance sheet. Their value is maintained and increased by the Group's expenditure on staff training, marketing and store investment.

The Group has marketing websites for each of the Group's major brands. The H. Samuel, Ernest Jones and Kays websites also have e-commerce capability.

8. Information Technology

The Group has a number of information systems in place within each division.

8.1 US Division

The US division's highly integrated and comprehensive information systems provide detailed, timely information to monitor and evaluate virtually every aspect of the business. They are designed to decrease the time sales staff spend on administrative tasks and increase time spent on sales activities. They also support merchandising testing, loss prevention and inventory control.

All stores are supported by the internally developed "Store Information System", which includes EPOS processing, in-house credit authorisation and support, a district manager information system and constant connectivity for all retail locations for data communications including e-mail. The EPOS system updates sales, in-house credit and perpetual inventory replenishment systems throughout the day for each store. The store communications system was upgraded to broadband during 2007/08. The implementation of broadband store communication will allow further improvements to the division's systems to be made.

8.2 UK Division

EPOS equipment, retail management systems, purchase order management systems and merchandise planning processes are in place to support financial management, inventory planning and control, purchasing, merchandising, replenishment, and distribution and can ensure replacement within 24 hours of any merchandise sold. The fourth phase of an electronic "Business to Business" communications project, developed to improve the efficiency and effectiveness of dealing with suppliers, was implemented in 2007/08.

A perpetual inventory process allows store managers to check stock by product category. These systems are designed to assist control of shrinkage, fraud prevention, financial analysis of retail operations, merchandising and inventory control.