

# Report of the directors

## Principal activities

The principal activity of the Group is the retailing of jewellery, watches and associated services with branches throughout the UK and the US. The subsidiaries principally affecting the profit or net assets of the Group are listed in note 28 on page 115.

## Business review

The Board has prepared the reviews and descriptions in this document for the purpose of assisting shareholders to assess the position and strategies of the Group and the potential for those strategies to succeed. Section 234ZZB of the Companies Act 1985 requires that the Group produces a business review. The information that has been prepared to fulfil the requirements of that business review can be found in the Group Chief Executive's review, the US and UK operating reviews, the Key performance indicators, the Group financial review, the Social, ethical & environmental matters and the Risk and other factors ("the Reviews") on pages 3 to 50 of this document, those pages being incorporated by reference into this Report of the directors. The Reviews report on the Group's development and performance during the past year together with its strategy and prospects with particular reference to stated key performance indicators (KPIs) (pages 31 to 34).

A review of the Group's performance during the year, with comments on the financial results, details of the KPIs that management use, the principal risks and uncertainties facing the Group and likely future developments, are set out on pages 31 to 50 and form part of this Report. The directors, in preparing this review, took into account the guidance set out in the Accounting Standards Board's Reporting Statement: Operating and Financial Review.

The Group collects performance indicator data for many management purposes, including environmental, employment and social factors for review by the Board. Due to the nature of the business, this information is not considered to be necessary for an understanding of the development, performance or position of the business of the Group, and is therefore not made publicly available. Further information on environmental, employment and social factors is set out in the Social, ethical & environmental matters on pages 61 to 66.

## Cautionary statement

The Reviews incorporated by reference in this Report of the directors contain forward-looking statements which are subject to risk factors associated with, among other things, the economic and business circumstances occurring from time to time in the countries and markets in which the Group operates. It is believed that expectations reflected in these statements are reasonable but they may be affected by a wide range of factors which could cause actual results to differ materially from those currently anticipated.

## Going concern

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

## Results and dividends

The results of the Group for the year appear on page 82. The directors recommend the payment of a final dividend of 6.317 cents per share, to be paid on 3 July 2008 to shareholders on the register of members at close of business on 23 May 2008. Those persons with a UK address or who so elect, will receive their dividends in pounds sterling. Those shareholders with a US address or another address outside the UK will receive their dividends in US dollars. The equivalent pounds sterling rate will be calculated by reference to the mid-point exchange rate for pounds sterling with US dollars in London as derived from Reuters at 4.00 p.m. on 23 May 2008. An interim dividend of 0.96 cents per share was paid in November 2007. See note 10 on page 96 for waiver of dividends.

## Directors

The directors who served during the period were, Robert Anderson, Robert Blanchard, Walker Boyd, Terry Burman, Dale Hilpert, Lesley Knox, Brook Land, Mark Light, Robert Walker, Russell Walls and Sir Malcolm Williamson (Chairman). Details of the current directors are shown on page 51.

The shareholder information section on pages 129 to 143 contains further information on the appointment and powers of the directors.

## Independence of non-executive directors

The Board has considered the independence of all of the non-executive directors in relation to the UK Combined Code and has concluded that each is independent, including Mr. Land, notwithstanding that he has served on the Board for longer than nine years. The non-executive directors and the Board as a whole have considered Mr. Land's position and have concluded that he performs effectively and has demonstrated his objectivity and his commitment. The Board continues to value Mr. Land's contribution. However Mr. Land has indicated his intention to retire from the Board at the conclusion of the annual general meeting to be held in 2008 and will therefore not be offering himself for re-election.

## Directors' remuneration, service contracts and share interests

Details of directors' remuneration, indemnities, service contracts (including compensation for loss of office) and the interests in the share capital of the Company of the directors and their immediate families at 2 February 2008 are given in the Directors' remuneration report on pages 67 to 79.

## Share capital

Details of the structure of the Company's share capital are in note 22 to the financial statements on page 108. The shareholder information section on pages 129 to 143 contains further information on voting and other rights in respect of the Company's shares.

## Substantial shareholdings and control of the Company

Details of substantial shareholdings and control of the Company are as set out on pages 131 and 132

## Allotment of equity securities

Other than in relation to the redenomination of the share capital effective from 5 February 2007 (see note 22 for details) and the exercise of options as set out in note 27 on page 114, there were no equity securities allotted during the year.

## Report of the directors (continued)

### Social, ethical and environmental matters

Matters relating to these issues, including employees, payment of creditors and charitable and political donations, are set out on pages 61 to 66.

### Payment policy

In respect of supplier payment, Group policy is that the operating businesses are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted, rather than following any particular code or standard on payment practice (see Company Information on page 126 regarding the number of days purchases outstanding). Accordingly suppliers are aware of the terms of payment and it is Group policy to ensure that payments to suppliers are made in accordance with these agreed terms.

### Significant agreements – change of control

The Companies Act 2006 requires the Group to disclose the following significant agreements that take effect, alter or terminate on a change of control of the Company:

#### Facilities Agreement

On 28 September 2004, the Company and certain of its subsidiaries (as guarantors) entered into a revolving facilities agreement (the "Facility Agreement") with Barclays Capital, HSBC Bank plc, The Royal Bank of Scotland plc and Wachovia Bank N.A. (as mandated lead arrangers) and certain other financial institutions as lenders (the "Lenders"), pursuant to which the Lenders agreed to make available to the Company \$390 million to refinance certain of its existing financial indebtedness and for its general corporate and working capital purposes (the "RCF"). Under the terms of the Facility Agreement, the Lenders can require all amounts outstanding under the RCF to be repaid if there is a change of control of the Company.

#### Note Purchase Agreement

On 30 March 2006, the Company entered into a note purchase agreement (the "NPA") with the purchasers defined therein (the "Purchasers"), pursuant to which the Company issued and sold an aggregate amount of US\$380 million senior notes to the Purchasers (the "Notes"). Pursuant to the NPA, the Company is obliged to offer to prepay the Notes if there is a change of control of the Company and, on the date of that change of control, the Company does not have an investment grade rating itself, and does not have securities with an initial maturity of five years or more, which are rated by an internationally recognised credit rating agency.

#### Purchase of own shares

At the annual general meeting of the Company held on 8 June 2007, the shareholders gave the Company authority to purchase, in the market, up to 170,345,896 shares of 0.9 cents of a US dollar each in the Company at a minimum price of 0.5 pence per share and a maximum price of 105% of the average of the market values derived from the London Stock Exchange Daily Official List for the preceding five business days.

During the financial year the Company purchased 12.2 million shares at a weighted average price of 121.2 pence. The authority expires at the forthcoming annual general meeting and a resolution to renew it will be proposed at that meeting.

### Pension funds

Information about the Group's pension schemes is set out in the Financial review section on page 39, the Risk and other factors section on page 49 and in note 21 on page 104. Information about pension arrangements for executive directors is set out in the Directors' remuneration report on pages 67 to 79.

### Indemnities

Certain US subsidiaries of the Company had constitutions and by-laws that provided indemnities to directors which although conforming to local laws and practice, in some respects exceeded what would be permitted under English law if they were UK companies. To ensure compliance with the UK Listing Rules the Company, following discussion with the UKLA, amended the existing constitutions and by-laws of all relevant US subsidiaries to cap any such indemnity (to the extent that it exceeds what is permitted under English law) at the lower of (a) 4.99% of the market capitalisation of the Company; and (b) 24.99% of the average profits of the Company for the last three years, each as calculated in accordance with the UK Listing Rules.

The Company has entered into contractual arrangements with each of its directors to provide indemnities to the extent permitted under English law.

### Auditor

The auditor, KPMG Audit Plc, is willing to continue in office and a resolution for its re-appointment as auditor of the Company will be submitted to the annual general meeting.

### Disclosure of information to the auditor

Each of the directors at the date hereof confirms that:

- (a) so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- (b) they have taken all the steps that he or she ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### New York Stock Exchange ("NYSE")

The Company's shares are listed on the NYSE in the form of an American Depositary Share ("ADS"). Each ADS represents ten ordinary shares.

### Annual general meeting

The annual general meeting is to be held at 11.00 a.m. on 6 June 2008 at The Café Royal, 68 Regent Street, London W1B 5EL.

A description of the business to be transacted at the annual general meeting is included with the notice of the meeting.

By order of the Board

**Mark Jenkins**

Group Company Secretary

9 April 2008