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Chairman s statement

Group

In the 26 weeks to 31 July 2004 profit before tax at constant exchange rates rose by 27.1%*. A weakening of some 14% in the US dollar compared to the same period last year impacted on reported results. Notwithstanding this, profit before tax as reported at actual exchange rates increased by 13.7% to £53.9 million (H1 2003/04: £47.4 million restated; see prior year adjustment for details of new accounting policy). The results also reflect a non-recurring restructuring charge of £1.7 million in the UK.

Like for like sales increased by 7.4%. Total sales at constant exchange rates were up by 10.2%; at actual exchange rates the increase was 0.8% to £671.7 million (H1 2003/04: £666.2 million restated).

Operating profit at constant exchange rates rose by 22.9%. On a reported basis the increase was 9.5% at £58.6 million (H1 2003/04: £53.5 million restated). Operating margin improved to 8.7% (H1 2003/04: 8.0% restated). Earnings per share were up by 11.1% to 2.0p (H1 2003/04: 1.8p restated), the tax rate being reduced to 34.5% (H1 2003/04: 35.7% restated). The Board has declared an interim dividend of 0.375p per ordinary share (H1 2003/04: 0.341p), an increase of 10.0%.

Operating review

US (circa 70% of Group sales)

Operating profit increased by 28.1% at constant exchange rates. The division again outperformed its main competition and gained further market share. On a reported basis operating profit rose by 12.8% to £54.7 million (H1 2003/04: £48.5 million restated). This reflected strong like for like sales growth of 8.2%, resulting in further leverage of the cost base. Sales rose by 13.1% at constant exchange rates but were down 0.5% on a reported basis at £471.4 million (H1 2003/04: £473.7 million restated). The period was marked by an exceptionally good Valentine s Day performance. Subsequent trading in the period was strong, reflecting consistent execution of the division s growth strategy as well as benefit from soft sales comparatives in the first half of last year. The mall stores achieved a solid like for like sales increase and Jared, the off-mall destination superstore, performed particularly well. The average unit selling price rose by 9.9% reflecting price increases, further growth of Jared, and changes in product mix.

Gross margin was broadly maintained at a level comparable to the same period last year; a range of management initiatives, including price increases, offset the higher cost of gold and planned mix changes. Operating margin increased to 11.6%

(H1 2003/04: 10.2% restated). Bad debt charges were 2.5% of total sales (H1 2003/04: 2.6%), this being a further improvement on the average of the previous five years.

The bridal and diamond categories continued to perform well and the gold category benefited from programmes conducted in collaboration with the World Gold Council. The development of the luxury watch category in Jared again made excellent progress. The period also benefited from increased marketing activity, particularly over Valentine s Day, with more television advertising supporting Kay and Jared. A further shift to television advertising for both divisions is planned for the Christmas period although it is expected that the overall annual advertising cost to sales ratio will be broadly maintained at last year s level. Staff recruitment and training remains a priority, and other customer service initiatives include improved special order and repair procedures.

During the period there were 24 mall store openings and four closures. It is expected that 21 mall stores will be opened in the second half and, in line with the normal seasonal pattern, 16 closed. 34 mall stores were refurbished or relocated in the first half, with a further 51 scheduled for the second half. The development of Kay stores in off-mall centres, which started last year, continues with a further 10 sites being opened this year and additional locations planned for 2005. Three Jared stores opened in the period, with a further 12 scheduled for the second half. It is expected that approximately 8% will have been added to total US selling space by the end of the current year, at the top end of the strategic space growth target. The store complement will then consist of 1,039 mall stores, 20 off-mall Kay stores and 94 Jared stores.

UK (circa 30% of Group sales)

Like for like sales increased by 5.5% and total sales by 4.1% to £200.3 million (H1 2003/04: £192.5 million). UK operating profit rose by 11.5% prior to a non-recurring restructuring charge of £1.7 million. After accounting for the restructuring charge operating profit was £7.0 million (H1 2003/04: £7.8 million). The restructuring charge reflects the relocation and consolidation of central administration functions to enhance efficiency and should result in future cost savings of about £0.6 million per annum. The division again outperformed the general retail sector. H.Samuel (18% of Group sales) and Ernest Jones (12% of Group sales) achieved like for like sales increases of 3.6% and 7.9% respectively; the performance over Valentine s Day was particularly strong. Gross margin was above last year s level and the operating margin, excluding the non-recurring charge, increased to 4.3% (H1 2003/04: 4.1%), reflecting improved store productivity.

* See note 10 for a reconciliation between published GAAP results and figures quoted at constant exchange rates.

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Diamond participation in the sales mix again showed a further encouraging increase of about 1.65 percentage points in both H.Samuel and Ernest Jones. Compared to the same period last year the average unit selling price increased by 4.7% in H.Samuel and by 2.0% in Ernest Jones. Improvements took place in the diamond range, in-store merchandising presentation, staff training, marketing and store design.

The more open store design intended to enable greater interaction between the sales person and the customer, which has been developed and tested over the last three years, was rolled out to 53 stores in the first half (including one new store opening), bringing the total up to 105 (2 August 2003: 20 stores). By Christmas 147 stores, predominantly H.Samuel, are expected to be trading in the revised format, accounting for about 30% of the division s sales. A further two H.Samuel stores and seven Ernest Jones stores are planned to be opened by the end of the year, and it is anticipated that, net of six store closures, there will then be 399 H.Samuel and 203 Ernest Jones stores.

Group costs, net interest and taxation

Group central costs were £3.1 million (H1 2003/04: £2.8 million). Net interest payable fell to £4.7 million (H1 2003/04: £6.1 million), primarily as a result of the lower level of net debt. The tax charge was £18.6 million (H1 2003/04: £16.9 million restated).

Net debt

Net debt at 31 July 2004 was £131.1 million (2 August 2003: £164.7 million). Group gearing (that is the ratio of net debt to shareholders funds) at 31 July 2004 was 18.3% (2 August 2003: 23.9% restated). Since the beginning of this financial year net debt has increased by £51.2 million before translation differences (H1 2003/04: up £25.0 million), reflecting seasonal factors, higher levels of capital expenditure and dividend payments together with the market purchase of shares to satisfy the exercise of share options. Fixed capital investment in the current year is expected to be about £80 million (2003/04: £50.9 million), reflecting additional space growth in the US and the increased store investment programme in the UK.

Prior year adjustment

Following an amendment to FRS 5 Reporting The Substance Of Transactions in the form of Application Note G - Revenue Recognition , the Group, for financial year 2004/05, has changed its accounting policy in respect of extended service agreements in the US. The Group now spreads the revenue arising from the sale of such agreements over the anticipated period of claims.

Previously the Group recognised the revenue from such plans at the date of sale with provision being made for the estimated cost of future claims arising.

As a result of the change the Group has restated prior years. Therefore the previously reported full year 2003/04 results now reflect a decrease in sales of £7.4 million and a non-cash reduction in profit before tax of £7.2 million. Consequently, restated profit before tax for the 52 weeks ended 31 January 2004 is £204.7 million. It is anticipated that the impact on results for the 52 weeks ending 29 January 2005 will be a decrease in sales of circa £6.5 million and in profit before tax of circa £5.8 million. The effect on reserves brought forward at 31 January 2004 is a reduction of £35.1 million net of deferred tax, with shareholders funds at 31 January 2004 therefore restated to £692.5 million. There is no impact on the like for like sales figures. The restatement of 26 weeks to 2 August 2003 resulted in a reduction of £0.4 million in profit before tax.

Prospects

While there has been some softening of the trading environment in August on both sides of the Atlantic, this is not necessarily indicative of trading prospects for the balance of the year. Our businesses continue to implement a range of initiatives and are well positioned to compete during the important Christmas season.

James McAdam
Chairman
1 September 2004

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Unaudited interim consolidated profit and loss account

for the periods ended 31 July 2004

			13 weeks ended 31 July 2004	13 weeks ended 2 August 2003 as restated(1)	**26 weeks ended 31 July 2004**	26 weeks ended 2 August 2003 as restated(1)	52 weeks ended 31 January 2004 as restated(1)
		Notes	**£m**	£m	**£m**	£m	£m
Sales		2,9	**328.6**	324.9	**671.7**	666.2	1,609.8
Operating profit		2	**29.3**	27.2	**58.6**	53.5	215.1
Net interest payable and similar charges		3	**(2.6)**	(3.0)	**(4.7)**	(6.1)	(10.4)
Profit on ordinary activities before taxation		9	**26.7**	24.2	**53.9**	47.4	204.7
Tax on profit on ordinary activities		4	**(9.2)**	(8.6)	**(18.6)**	(16.9)	(72.1)
Profit for the financial period			**17.5**	15.6	**35.3**	30.5	132.6
Dividends		6	**(6.5)**	(5.8)	**(6.5)**	(5.8)	(43.2)
Retained profit attributable to shareholders			**11.0**	9.8	**28.8**	24.7	89.4
Earnings per share	**basic**	7	**1.0p**	0.9p	**2.0p**	1.8p	7.7p
	diluted		**1.0p**	0.9p	**2.0p**	1.8p	7.7p

All of the above relates to continuing activities.

(1) Restated for the implementation in 2004/05 of the amendment to FRS 5, Application Note G Revenue Recognition (see note 9).

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Unaudited consolidated balance sheet

at 31 July 2004

	Notes	**31 July 2004** £m	2 August 2003 as restated(1) £m	31 January 2004 as restated(1) £m
Fixed assets				
Intangible assets		**16.3**	19.7	16.8
Tangible assets		**220.3**	214.8	202.8
		236.6	234.5	219.6
Current assets				
Stocks		**562.4**	562.4	541.5
Debtors(2)		**316.0**	337.8	355.6
Cash at bank and in hand		**28.4**	31.1	128.0
		906.8	931.3	1,025.1
Creditors: amounts falling due within one year		**(244.0)**	(258.2)	(361.8)
Bank loans and overdrafts		**(20.8)**	(25.2)	(59.3)
Other		**(223.2)**	(233.0)	(302.5)
Net current assets(2)		**662.8**	673.1	663.3
Total assets less current liabilities		**899.4**	907.6	882.9
Creditors: amounts falling due after more than one year		**(176.7)**	(211.1)	(184.0)
Bank loans		**(137.9)**	(166.3)	(146.2)
Other		**(38.8)**	(44.8)	(37.8)
Provisions for liabilities and charges		**(6.2)**	(7.2)	(6.4)
Total net assets		**716.5**	689.3	692.5
Capital and reserves equity				
Called up share capital		**8.7**	8.6	8.6
Reserves		**707.8**	680.7	683.9
Shareholders funds	8	**716.5**	689.3	692.5

Unaudited consolidated statement of total recognised gains and losses

for the periods ended 31 July 2004

	13 weeks ended 31 July 2004	13 weeks ended 2 August 2003 as restated(1)	**26 weeks ended 31 July 2004**	26 weeks ended 2 August 2003 as restated(1)	52 weeks ended 31 January 2004 as restated(1)

	£m	£m	£m	£m	£m
Profit for the financial period	**17.5**	15.6	**35.3**	30.5	132.6
Translation differences	**(17.0)**	0.9		18.0	(96.7)
Actuarial gain arising on pension asset					6.4
Total recognised gains and losses relating to the period	**0.5**	16.5	**35.3**	48.5	42.3
Prior year adjustments arising on adoption of:					
FRS 5, Application Note G Revenue Recognition (note 9)	**(35.1)**		**(35.1)**		
FRS 17 Retirement Benefits				(18.1)	(18.1)
Total recognised gains and losses	**(34.6)**	16.5	**0.2**	30.4	24.2

(1) Restated for the implementation in 2004/05 of the amendment to FRS 5, Application Note G Revenue Recognition (see note 9).
(2) Debtors and net current assets include amounts recoverable after more than one year of £18.5 million (2 August 2003: £27.2 million; 31 January 2004: £16.1 million).

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Unaudited consolidated cash flow statement

for the periods ended 31 July 2004

	13 weeks ended 31 July 2004	13 weeks ended 2 August 2003	**26 weeks ended 31 July 2004**	26 weeks ended 2 August 2003	52 weeks ended 31 January 2004
	£m	£m	**£m**	£m	£m
Net cash inflow from operating activities	**20.4**	35.4	**69.9**	72.4	203.8
Net cash outflow from returns on investments and servicing of finance	**(2.9)**	(3.2)	**(5.3)**	(6.5)	(11.0)
Taxation paid	**(21.3)**	(17.9)	**(38.0)**	(38.8)	(69.0)
Net cash outflow for capital expenditure and financial investment	**(22.7)**	(14.5)	**(35.7)**	(23.9)	(50.7)
Equity dividends paid	**(37.3)**	(30.8)	**(37.3)**	(30.8)	(36.7)
Cash (outflow)/inflow before use of liquid resources and financing	**(63.8)**	(31.0)	**(46.4)**	(27.6)	36.4
Management of liquid resources decrease/(increase) in bank deposits	**83.9**	40.2	**99.5**	59.1	(42.4)
Financing proceeds from issue of shares	**2.9**	2.5	**4.7**	2.6	6.3
purchase of own shares	**(4.7)**		**(9.5)**		
repayment of bank loans	**(9.0)**	(10.3)	**(9.8)**	(10.4)	(12.1)
Increase/(decrease) in cash in the period	**9.3**	1.4	**38.5**	23.7	(11.8)

Reconciliation of net cash flow to movement in net debt

Increase/(decrease) in cash in the period	**9.3**	1.4	**38.5**	23.7	(11.8)
Cash inflow from increase in debt	**9.0**	10.3	**9.8**	10.4	12.1
Cash (inflow)/outflow from (decrease)/increase in liquid resources	**(83.9)**	(40.2)	**(99.5)**	(59.1)	42.4
Change in net debt resulting from cash flows	**(65.6)**	(28.5)	**(51.2)**	(25.0)	42.7
Translation difference	**2.7**	1.5		0.4	17.5
Movement in net debt in the period	**(62.9)**	(27.0)	**(51.2)**	(24.6)	60.2
Opening net debt	**(68.2)**	(137.7)	**(79.9)**	(140.1)	(140.1)
Closing net debt	**(131.1)**	(164.7)	**(131.1)**	(164.7)	(79.9)

Reconciliation of operating profit to operating cash flow(1)

Operating profit	**29.3**	27.2	**58.6**	53.5	215.1
Depreciation and amortisation charges	**9.6**	9.4	**18.8**	18.7	40.4
Decrease/(increase) in stocks		16.7	**(20.9)**	(12.6)	(44.9)
Decrease/(increase) in debtors	**11.0**	14.7	**39.6**	37.8	(31.1)

(Decrease)/increase in creditors	**(29.3)**	(32.4)	**(25.9)**	(24.7)	25.4
Decrease in other provisions	**(0.2)**	(0.2)	**(0.3)**	(0.3)	(1.1)
Net cash inflow from operating activities	**20.4**	35.4	**69.9**	72.4	203.8

(1) Restated for the implementation in 2004/05 of the amendment to FRS 5, Application Note G Revenue Recognition (see note 9).

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Notes to the unaudited interim financial statements

for the periods ended 31 July 2004

1. Basis of preparation

These interim financial statements are unaudited and do not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. They have been prepared on a basis which is consistent with the financial statements for the 52 weeks ended 31 January 2004. The comparative figures for the 52 weeks ended 31 January 2004 are not the Company s statutory accounts for that period. Those accounts have been reported on by the Company s auditors under Section 235 of the Companies Act 1985 and have been delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain a statement under Section 237(2) or Section 237(3) of the Companies Act 1985.

2. Segment information

	13 weeks ended 31 July 2004	13 weeks ended 2 August 2003 as restated(1)	**26 weeks ended 31 July 2004**	26 weeks ended 2 August 2003 as restated(1)	52 weeks ended 31 January 2004 as restated(1)
	£m				