

Company Registration No. 753013 (England and Wales)

MOUSSAIEFF JEWELLERS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005



MOUSSAIEFF JEWELLERS LIMITED

COMPANY INFORMATION

Directors	A Moussaieff S Moussaieff
Secretary	R Gupta
Company number	753013
Registered office	2nd Floor 32 Wigmore Street London W1U 2RP
Auditors	Harold Everett Wreford 32 Wigmore Street London, W1U 2RP
Bankers	Barclays Bank Plc

MOUSSAIEFF JEWELLERS LIMITED

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MOUSSAIEFF JEWELLERS LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2005**

The directors present their report and financial statements for the year ended 31 March 2005.

Principal activities and review of the business

The principal activity of the company during the year continued to be the retail and wholesale of jewellery and there were no plans for any significant changes.

The results for the year and the financial position at the year end were considered satisfactory by the directors who expect continued growth in the foreseeable future.

Results and dividends

The results for the year are set out on page 4.

Interim ordinary dividends were paid amounting to £770,000. The directors do not recommend payment of a final dividend.

Directors

The following directors have held office since 1 April 2004:

A Moussaieff
S Moussaieff

Directors' interests

The directors' interests in the shares of the company were as stated below:

	Ordinary shares of £ 1 each	
	31 March 2005	1 April 2004
A Moussaieff	10,000	5,000
S Moussaieff	-	5,000

Charitable contributions

During the year the company made charitable donations of £1,000 (2004: £1,500).

Taxation status

The company was a close company within the provisions of the Income and Corporation Taxes Act 1988 and this position has not changed since the end of the financial year.

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Harold Everett Wreford be reappointed as auditors of the company will be put to the Annual General Meeting.

MOUSSAIEFF JEWELLERS LIMITED

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2005

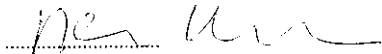
Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board



A Moussaieff

Director

2 February 2006

MOUSSAIEFF JEWELLERS LIMITED

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF MOUSSAIEFF JEWELLERS LIMITED

We have audited the financial statements of Moussaieff Jewellers Limited on pages 4 to 16 for the year ended 31 March 2005. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and auditors

As described in the statement of directors' responsibilities on page 2 the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Harold Everett Wreford

Harold Everett Wreford

Chartered Accountants
Registered Auditor

6 February 2006

32 Wigmore Street
London, W1U 2RP

MOUSSAIEFF JEWELLERS LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2005

	Notes	2005 £	2004 £
Turnover	2	35,141,585	32,388,754
Cost of sales		(24,142,899)	(20,780,357)
Gross profit		10,998,686	11,608,397
Distribution costs		(605,145)	(687,140)
Administrative expenses		(4,053,344)	(3,968,599)
Other operating income		124,966	87,273
Operating profit	3	6,465,163	7,039,931
Investment income	4	374,994	-
Other interest receivable and similar income		1,130,513	1,103,667
Interest payable and similar charges	5	(919,848)	(836,368)
Profit on ordinary activities before taxation		7,050,822	7,307,230
Tax on profit on ordinary activities	6	(2,132,513)	(2,200,487)
Profit on ordinary activities after taxation		4,918,309	5,106,743
Dividends	7	(770,000)	(450,000)
Retained profit for the year	16	4,148,309	4,656,743

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account.

MOUSSAIEFF JEWELLERS LIMITED

BALANCE SHEET
AS AT 31 MARCH 2005

	Notes	2005		2004	
		£	£	£	£
Fixed assets					
Tangible assets	8		224,748		114,116
Investments	9		-		6
			<u>224,748</u>		<u>114,122</u>
Current assets					
Stocks	10	69,365,983		56,477,759	
Debtors	11	4,356,731		21,753,046	
Cash at bank and in hand		272,849		208,055	
			<u>73,995,563</u>		<u>78,438,860</u>
Creditors: amounts falling due within one year	12	(14,463,930)		(14,244,910)	
Net current assets			<u>59,531,633</u>		<u>64,193,950</u>
Total assets less current liabilities			<u>59,756,381</u>		<u>64,308,072</u>
Creditors: amounts falling due after more than one year	13		-		(8,700,000)
			<u>59,756,381</u>		<u>55,608,072</u>
Capital and reserves					
Called up share capital	15		10,000		10,000
Profit and loss account	16		59,746,381		55,598,072
Shareholders' funds - equity interests	17		<u>59,756,381</u>		<u>55,608,072</u>

The financial statements were approved by the Board on 2 February 2006

A Moussaieff
A Moussaieff
Director

MOUSSAIEFF JEWELLERS LIMITED

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2005

	2005	2004
£	£	£
Net cash inflow from operating activities	13,568,610	1,148,735
Returns on investments and servicing of finance		
Interest received	1,130,513	1,103,667
Interest paid	(919,848)	(836,368)
Net cash inflow for returns on investments and servicing of finance	210,665	267,299
Taxation	(2,380,487)	(584,932)
Capital expenditure and financial investment		
Payments to acquire tangible assets	(153,147)	(10,807)
Receipts from sales of tangible assets	1,850	-
Receipts from sales of investments	375,000	-
Net cash inflow/(outflow) for capital expenditure	223,703	(10,807)
Equity dividends paid	(770,000)	(450,000)
Net cash inflow before management of liquid resources and financing	10,852,491	370,295
Financing		
Repayment of long term bank loan	(8,700,000)	-
Repayment of short term bank loan	(600,000)	(600,000)
Net cash outflow from financing	(9,300,000)	(600,000)
Increase/(decrease) in cash in the year	1,552,491	(229,705)

MOUSSAIEFF JEWELLERS LIMITED

NOTES TO THE CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2005

1	Reconciliation of operating profit to net cash inflow from operating activities	2005	2004
		£	£
	Operating profit	6,465,163	7,039,931
	Depreciation of tangible assets	37,378	24,311
	Loss on disposal of tangible assets	3,287	683
	(Increase)/decrease in stocks	(12,888,224)	3,758,882
	Decrease/(increase) in debtors	17,396,315	(4,476,461)
	Increase/(decrease) in creditors within one year	2,554,691	(5,198,611)
	Net cash inflow from operating activities	<u>13,568,610</u>	<u>1,148,735</u>

2	Analysis of net debt	1 April 2004	Cash flow	Other non-cash changes	31 March 2005
		£	£	£	£
	Net cash:				
	Cash at bank and in hand	208,055	64,794	-	272,849
	Bank overdrafts	(8,730,702)	1,487,697	-	(7,243,005)
		<u>(8,522,647)</u>	<u>1,552,491</u>	<u>-</u>	<u>(6,970,156)</u>
	Debt:				
	Debts falling due within one year	(600,000)	600,000	-	-
	Debts falling due after one year	(8,700,000)	8,700,000	-	-
	Net debt	<u>(17,822,647)</u>	<u>10,852,491</u>	<u>-</u>	<u>(6,970,156)</u>

3	Reconciliation of net cash flow to movement in net debt	2005	2004
		£	£
	Increase/(decrease) in cash in the year	1,552,491	(229,705)
	Cash outflow from decrease in debt	9,300,000	600,000
	Movement in net debt in the year	<u>10,852,491</u>	<u>370,295</u>
	Opening net debt	(17,822,647)	(18,192,942)
	Closing net debt	<u>(6,970,156)</u>	<u>(17,822,647)</u>

MOUSSAIEFF JEWELLERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2005

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

1.2 Compliance with accounting standards

The financial statements are prepared in accordance with applicable accounting standards.

1.3 Turnover

Turnover represents amounts receivable for goods and services net of VAT and trade discounts.

1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Improvements to premises	10% Reducing balance.
Fixtures, fittings & equipment	20% Reducing balance.
Motor vehicles	20% Reducing balance.

1.5 Leasing

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

1.6 Investments

Fixed asset investments are stated at cost less provision for diminution in value.

1.7 Stock

Stock is valued at the lower of cost and net realisable value.

1.8 Pensions

The costs of providing pension benefits are charged to the profit and loss account as they are incurred.

1.9 Deferred taxation

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

1.10 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

1.11 Debtors

Known bad debts are written off and provision is made for any considered to be doubtful.

2 Turnover

	2005	2004
	£	£
Geographical market		
United Kingdom	2,069,116	2,502,899
Rest of the World	33,072,469	29,885,855
	<u>35,141,585</u>	<u>32,388,754</u>

Turnover is the total amount, excluding value added tax, receivable by the company in the ordinary course of business for goods supplied and services provided as a principal. An analysis of turnover by geographical market is provided above.

MOUSSAIEFF JEWELLERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2005

3	Operating profit	2005	2004
		£	£
	Operating profit is stated after charging:		
	Depreciation of tangible assets	37,378	24,311
	Loss on disposal of tangible assets	3,287	683
	Loss on foreign exchange transactions	638,813	-
	Operating lease rentals	823,304	806,248
	Auditors' remuneration	33,500	33,500
	and after crediting:		
	Profit on foreign exchange transactions	-	(1,750,825)
		<u> </u>	<u> </u>
4	Investment income	2005	2004
		£	£
	Income from fixed asset investments	374,994	-
		<u> </u>	<u> </u>
5	Interest payable	2005	2004
		£	£
	On bank loans and overdrafts	320,926	231,651
	On loans repayable after 5 years	489,947	585,023
	On overdue tax	108,975	19,694
		<u> </u>	<u> </u>
		919,848	836,368
		<u> </u>	<u> </u>

MOUSSAIEFF JEWELLERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2005

6	Taxation	2005	2004
		£	£
	Domestic current year tax		
	U.K. corporation tax	2,132,513	2,200,487
	Current tax charge	<u>2,132,513</u>	<u>2,200,487</u>
	Factors affecting the tax charge for the year		
	Profit on ordinary activities before taxation	<u>7,050,822</u>	<u>7,307,230</u>
	Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2004: 30.00%)	<u>2,115,247</u>	<u>2,192,169</u>
	Effects of:		
	Non deductible expenses	11,783	7,425
	Depreciation add back	11,213	7,293
	Capital allowances	(5,730)	(6,400)
		<u>17,266</u>	<u>8,318</u>
	Current tax charge	<u>2,132,513</u>	<u>2,200,487</u>
7	Dividends	2005	2004
		£	£
	Ordinary interim paid 4 October 2004	50,000	300,000
	Ordinary interim paid 3 November 2004	120,000	150,000
	Ordinary interim paid 1 December 2004	100,000	-
	Ordinary interim paid 12 January 2005	280,000	-
	Ordinary interim paid 28 February 2005	100,000	-
	Ordinary interim paid 5 April 2005	120,000	-
		<u>770,000</u>	<u>450,000</u>

MOUSSAIEFF JEWELLERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2005

8 Tangible fixed assets	Improvements to premises	Fixtures, fittings & equipment	Motor vehicles	Total
	£	£	£	£
Cost				
At 1 April 2004	186,305	353,583	88,298	628,186
Additions	120,108	3,756	29,283	153,147
Disposals	-	-	(16,584)	(16,584)
	<u>306,413</u>	<u>357,339</u>	<u>100,997</u>	<u>764,749</u>
Depreciation				
At 1 April 2004	155,944	292,187	65,939	514,070
On disposals	-	-	(11,447)	(11,447)
Charge for the year	15,047	13,030	9,301	37,378
	<u>170,991</u>	<u>305,217</u>	<u>63,793</u>	<u>540,001</u>
Net book value				
At 31 March 2005	<u>135,422</u>	<u>52,122</u>	<u>37,204</u>	<u>224,748</u>
At 31 March 2004	<u>30,361</u>	<u>61,396</u>	<u>22,359</u>	<u>114,116</u>

9 Fixed asset investments

	Unlisted investments
	£
Cost	
At 1 April 2004	6
Disposals	(6)
	<u>-</u>
At 31 March 2005	<u>-</u>

The above investment relates to 10% of the S1 ordinary shares of Lasca Finance Limited, a company incorporated in the British Virgin Islands.

10 Stocks	2005	2004
	£	£
Finished goods and goods for resale	<u>69,365,983</u>	<u>56,477,759</u>

MOUSSAIEFF JEWELLERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2005

11 Debtors	2005	2004
	£	£
Trade debtors	1,514,039	5,872,354
Other debtors	1,563,799	263,914
Amounts owed by Lasca Finance Limited	-	14,792,518
Amounts owed by Keves S. A.	752,874	596,111
Prepayments and accrued income	526,019	228,149
	<u>4,356,731</u>	<u>21,753,046</u>

The company has the following commercial loans with its related parties.

	2005	2004
	£	£
Lasca Finance Limited (3 3/4% above LIBOR repayable on demand)	-	13,500,000
	<u>-</u>	<u>13,500,000</u>

12 Creditors: amounts falling due within one year	2005	2004
	£	£
Bank loans and overdrafts	7,243,005	9,330,702
Trade creditors	4,607,044	2,403,578
Corporation tax	1,952,513	2,200,487
Other taxes and social security costs	84,942	65,551
Directors' current accounts	-	13,176
Accruals and deferred income	576,426	231,416
	<u>14,463,930</u>	<u>14,244,910</u>

The bank loans, overdrafts and other loans are secured by fixed and floating debentures on the assets of the company.

MOUSSAIEFF JEWELLERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2005

13 Creditors: amounts falling due after more than one year	2005	2004
	£	£
Bank loans	-	8,700,000
Analysis of loans		
Not wholly repayable within five years by instalments:		
Medium term bank loan	-	9,300,000
	-	9,300,000
Included in current liabilities	-	(600,000)
	-	8,700,000
Instalments not due within five years	-	6,300,000
Loan maturity analysis		
In more than one year but not more than two years	-	600,000
In more than two years but not more than five years	-	2,400,000
In more than five years	-	6,300,000

The bank loan was secured by fixed and floating debentures on the assets of the company. Interest on the bank loan was charged at LIBOR + 1% and the loan was repayable in instalments over a period of ten years.

14 Pension costs

The company has a pension scheme, The L.H.J Pension Scheme, a self-administered pension scheme for the benefit of the directors of the company. The scheme is administered on a "money-purchase" basis and contributions are determined by qualified actuaries on the basis of triennial valuations using the Aggregate Method.

The most recent valuation was at 31st March 2003. It was assumed that the investment returns would be 8.5% per annum, that the salary increases would be 5.3% per annum and that pension increases would be 5.3% per annum.

The valuation showed scheme assets of £3,711,300.

The pension charge for the year was £Nil (2004 - £Nil).

15 Share capital	2005	2004
	£	£
Authorised		
10,000 Ordinary shares of £1 each	10,000	10,000
Allotted, called up and fully paid		
10,000 Ordinary shares of £1 each	10,000	10,000

MOUSSAIEFF JEWELLERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2005

16 Statement of movements on profit and loss account

Profit and loss
account

£

Balance at 1 April 2004	55,598,072
Retained profit for the year	4,148,309
Balance at 31 March 2005	<u>59,746,381</u>

17 Reconciliation of movements in shareholders' funds

2005

2004

£

£

Profit for the financial year	4,918,309	5,106,743
Dividends	(770,000)	(450,000)
Net addition to shareholders' funds	<u>4,148,309</u>	<u>4,656,743</u>
Opening shareholders' funds	55,608,072	50,951,329
Closing shareholders' funds	<u>59,756,381</u>	<u>55,608,072</u>

18 Contingent liabilities

The company has contingent liabilities in respect of guarantees of £600,000 (2004: £600,000) given to H.M. Customs and Excise.

19 Financial commitments

At 31 March 2005 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	2005	2004
	£	£
Expiry date:		
Between two and five years	360,605	350,000
In over five years	1,025,000	450,000
	<u>1,385,605</u>	<u>800,000</u>

MOUSSAIEFF JEWELLERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2005

20	Directors' emoluments	2005	2004
		£	£
	Emoluments for qualifying services	507,388	502,847
		<u>507,388</u>	<u>502,847</u>

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 2 (2004- 2).

Emoluments disclosed above include the following amounts paid to the highest paid director:

Emoluments for qualifying services	267,338	262,797
	<u>267,338</u>	<u>262,797</u>

21 **Transactions with directors**

The following directors had interest free loans during the year. The movement on these loans are as follows:

	Amount outstanding		Maximum in year
	2005	2004	
	£	£	£
A Moussaieff	1,057,829	-	1,057,829
S Moussaieff	116,363	-	116,363
	<u>1,174,192</u>	<u>0</u>	<u>1,174,192</u>

The loans have been settled since the year end.

22 **Employees**

Number of employees

The average monthly number of employees (including directors) during the year was:

	2005	2004
	Number	Number
Administration	13	12
Selling	11	11
	<u>24</u>	<u>23</u>

Employment costs

	£	£
Wages and salaries	1,750,270	1,673,840
Social security costs	209,814	201,020
Other pension costs	14,335	10,168
	<u>1,974,419</u>	<u>1,885,028</u>

MOUSSAIEFF JEWELLERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2005

23 Control

The ultimate controlling party is Mrs A Moussaieff who wholly owns the ordinary share capital of the company.

24 Related party transactions

During the year the company entered into the following material transactions with related parties.

	2005	2004
Keveess S.A.		
	£	£
Sales	1,909,195	3,291,819
Purchases	3,826,781	1,533,090
	<u> </u>	<u> </u>
Lasca Finance Limited		
	£	£
Interest receivable	1,122,448	1,103,666
	<u> </u>	<u> </u>

Keveess S.A. is a company registered in Switzerland of which Mr. S. Moussaieff and Mrs A. Moussaieff are directors and shareholders.

Lasca Finance Limited is a company registered in the British Virgin Islands of which Mr. S. Moussaieff and Mrs A Moussaieff are shareholders. During the year, Moussaieff Jewellers Limited sold its 10% holding of \$1 ordinary shares of Lasca Finance Limited to Mr. S. Moussaieff and Mrs Moussaieff for £375,000.

The L.H.J Pension Scheme is the company pension fund of which the directors are members.

Any balances outstanding with the above related parties at 31 March 2005 are shown in relevant notes.

The directors have provided the company with an unlimited personal guarantee in respect of amounts due to Barclays Bank PLC.