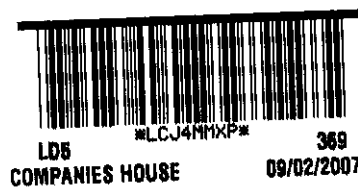


Company Registration No. 753013 (England and Wales)

**MOUSSAIEFF JEWELLERS LIMITED**  
**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2006**



# MOUSSAIEFF JEWELLERS LIMITED

## COMPANY INFORMATION

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

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# MOUSSAIEFF JEWELLERS LIMITED

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# MOUSSAIEFF JEWELLERS LIMITED

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2006

The directors present their report and financial statements for the year ended 31 March 2006.

### 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.

The results for the year were considered satisfactory by the directors.

Key performance indicators:

	<u>2006</u>	<u>2005</u>
Gross profit margin percentage	33%	31%
Operating profit margin percentage	19%	20%
Profit after tax	£7,296,134	£4,918,309

The financial position at the year end was considered satisfactory by the directors.

### Principal risks and uncertainties

The company's principal financial instruments comprise bank balances, bank overdrafts, trade creditors, trade debtors and loans to the company. Due to the nature of the financial instruments there is no exposure to price risk. In respect of bank balances the liquidity risk is managed by maintaining a balance between the continuity of funding and flexibility through the use of overdrafts at affordable rates of interest. Trade debtors are managed in respect of credit and cash flow risk by policies concerning the credit offered to customers and the regular monitoring of amounts outstanding for both time and credit limits. Trade creditors liquidity risk is managed by ensuring sufficient funds are available to meet amounts due. The company manages its currency risk exposure via its foreign currency bank accounts by only dealing in stable currencies.

### Results and dividends

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

Interim ordinary dividends were paid amounting to £900,000. The directors do not recommend payment of a final dividend.

### Future developments

There were no plans for any significant changes in the activity of the company.

### Directors

The following directors have held office since 1 April 2005:

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 2006	1 April 2005
A Moussaieff	10,000	10,000
S Moussaieff	-	-

# MOUSSAIEFF JEWELLERS LIMITED

## DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2006

Charitable donations	2006	2005
	£	£
During the year the company made the following payments:		
Charitable donations	20,597	1,000

### 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.

### Directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

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 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.

### Statement of disclosure to auditor

So far as the directors are aware:

- (a) there is no relevant audit information of which the company's auditors are unaware, and
- (b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board

.....   
A Moussaieff  
Director  
..... 1 February 2007

# MOUSSAIEFF JEWELLERS LIMITED

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MOUSSAIEFF JEWELLERS LIMITED

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We have audited the financial statements of Moussaieff Jewellers Limited for the year ended 31 March 2006 set out on pages 4 to 15. These financial statements have been prepared under 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 auditors' 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 (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 or 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 other transactions 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 International Standards on Auditing (UK and Ireland) 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 in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2006 and of its profit for the year then ended;
- the information given in the directors' report is consistent with the financial statements; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

Harold Everett Wreford

Harold Everett Wreford

Chartered Accountants

Registered Auditor

2 February 2007

32 Wigmore Street  
London, W1U 2RP

# MOUSSAIEFF JEWELLERS LIMITED

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2006

	Notes	2006 £	2005 £
Turnover	2	54,440,717	35,141,585
Cost of sales		(36,349,417)	(24,142,899)
<b>Gross profit</b>		<b>18,091,300</b>	<b>10,998,686</b>
Distribution costs		(1,431,685)	(605,145)
Administrative expenses		(5,931,504)	(4,053,344)
Other operating income		141,181	124,966
<b>Operating profit</b>	3	<b>10,869,292</b>	<b>6,465,163</b>
Investment income	4	-	374,994
Other interest receivable and similar income	4	-	1,130,513
Interest payable and similar charges	5	(520,658)	(919,848)
<b>Profit on ordinary activities before taxation</b>		<b>10,348,634</b>	<b>7,050,822</b>
Tax on profit on ordinary activities	6	(3,052,500)	(2,132,513)
<b>Profit for the year</b>	14	<b>7,296,134</b>	<b>4,918,309</b>

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.

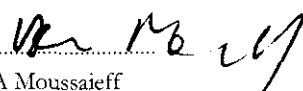
# MOUSSAIEFF JEWELLERS LIMITED

## BALANCE SHEET AS AT 31 MARCH 2006

	Notes	2006		2005	
		£	£	£	£
<b>Fixed assets</b>					
Tangible assets	8		2,199,761		224,748
<b>Current assets</b>					
Stocks	9	87,051,360		69,365,983	
Debtors	10	5,664,487		4,356,731	
Cash at bank and in hand		22,911		272,849	
			92,738,758		73,995,563
<b>Creditors: amounts falling due within one year</b>	11	(28,786,004)		(14,463,930)	
<b>Net current assets</b>			63,952,754		59,531,633
<b>Total assets less current liabilities</b>			66,152,515		59,756,381
<b>Capital and reserves</b>					
Called up share capital	13		10,000		10,000
Profit and loss account	14		66,142,515		59,746,381
<b>Shareholders' funds</b>	15		66,152,515		59,756,381

Approved by the Board and authorised for issue on .....

1 February 2007

  
A Moussaieff  
Director



# MOUSSAIEFF JEWELLERS LIMITED

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2006

	£	2006 £	£	2005 £
<b>Net cash (outflow)/inflow from operating activities</b>		(1,449,773)		13,568,610
<b>Returns on investments and servicing of finance</b>				
Interest received	-		1,130,513	
Interest paid	(520,658)		(919,848)	
<b>Net cash (outflow)/inflow for returns on investments and servicing of finance</b>		(520,658)		210,665
<b>Taxation</b>		(380,000)		(2,380,487)
<b>Capital expenditure and financial investment</b>				
Payments to acquire tangible assets	(2,031,132)		(153,147)	
Receipts from sales of tangible assets	15,301		1,850	
Receipts from sales of investments	-		375,000	
<b>Net cash (outflow)/inflow for capital expenditure</b>		(2,015,831)		223,703
<b>Equity dividends paid</b>		(900,000)		(770,000)
<b>Net cash (outflow)/inflow before management of liquid resources and financing</b>		(5,266,262)		10,852,491
<b>Financing</b>				
Repayment of long term bank loan	-		(8,700,000)	
Repayment of other short term loans	-		(600,000)	
<b>Net cash outflow from financing</b>		-		(9,300,000)
<b>(Decrease)/increase in cash in the year</b>		<u>(5,266,262)</u>		<u>1,552,491</u>

# MOUSSAIEFF JEWELLERS LIMITED

## NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2006

1	Reconciliation of operating profit to net cash (outflow)/inflow from operating activities	2006	2005
		£	£
	Operating profit	10,869,292	6,465,163
	Depreciation of tangible assets	33,728	37,378
	Loss on disposal of tangible assets	7,090	3,287
	Increase in stocks	(17,685,377)	(12,888,224)
	(Increase)/decrease in debtors	(1,307,756)	17,396,315
	Increase in creditors within one year	6,633,250	2,554,691
	<b>Net cash (outflow)/inflow from operating activities</b>	<b>(1,449,773)</b>	<b>13,568,610</b>

2	Analysis of net debt	1 April 2005	Cash flow	Other non-cash changes	31 March 2006
		£	£	£	£
	Net cash:				
	Cash at bank and in hand	272,849	(249,938)	-	22,911
	Bank overdrafts	(7,243,005)	(5,016,324)	-	(12,259,329)
		(6,970,156)	(3,266,262)	-	(12,236,418)
	Bank deposits	-	-	-	-
	<b>Net debt</b>	<b>(6,970,156)</b>	<b>(5,266,262)</b>	<b>-</b>	<b>(12,236,418)</b>

3	Reconciliation of net cash flow to movement in net debt	2006	2005
		£	£
	(Decrease)/increase in cash in the year	(5,266,262)	1,552,491
	Cash (inflow)/outflow from (increase)/decrease in debt	-	9,300,000
	<b>Movement in net debt in the year</b>	<b>(5,266,262)</b>	<b>10,852,491</b>
	Opening net debt	(6,970,156)	(17,822,647)
	<b>Closing net debt</b>	<b>(12,236,418)</b>	<b>(6,970,156)</b>

# MOUSSAIEFF JEWELLERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

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### 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 United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), which have been applied consistently (except as otherwise stated).

#### 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 Stock

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

#### 1.7 Pensions

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

#### 1.8 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.

#### 1.9 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.

#### 1.10 Debtors

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

# MOUSSAIEFF JEWELLERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2006

### 2 Turnover

	2006	2005
	£	£
<b>Geographical market</b>		
United Kingdom	2,442,269	2,069,116
Rest of the World	51,998,448	33,072,469
	<u>54,440,717</u>	<u>35,141,585</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.

### 3 Operating profit

	2006	2005
	£	£
Operating profit is stated after charging:		
Depreciation of tangible assets	33,728	37,378
Loss on disposal of tangible assets	7,090	3,287
Loss on foreign exchange transactions	1,153,592	638,813
Operating lease rentals	1,400,273	823,304
Auditors' remuneration	33,500	33,500
Remuneration of auditors for non-audit work	10,000	-
	<u>1,948,183</u>	<u>1,574,182</u>

### 4 Investment income

	2006	2005
	£	£
Income from fixed asset investments	-	374,994
Bank interest	-	8,065
Other interest	-	1,122,448
	<u>-</u>	<u>1,505,507</u>

### 5 Interest payable

	2006	2005
	£	£
On bank loans and overdrafts	406,006	320,926
On loans repayable after five years	-	489,947
On overdue tax	114,652	108,975
	<u>520,658</u>	<u>919,848</u>

# MOUSSAIEFF JEWELLERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2006

6	Taxation	2006	2005
		£	£
	<b>Domestic current year tax</b>		
	U.K. corporation tax	3,039,000	2,132,513
	Adjustment for prior years	13,500	-
		<u>3,052,500</u>	<u>2,132,513</u>
	<b>Current tax charge</b>		
	<b>Factors affecting the tax charge for the year</b>		
	Profit on ordinary activities before taxation	10,348,634	7,050,822
		<u>10,348,634</u>	<u>7,050,822</u>
	Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2005 - 30.00%)	3,104,590	2,115,247
		<u>3,104,590</u>	<u>2,115,247</u>
	Effects of:		
	Non deductible expenses	27,292	11,783
	Depreciation add back	10,118	11,213
	Capital allowances	(103,000)	(5,730)
	Adjustments to previous periods	13,500	-
		<u>(52,090)</u>	<u>17,266</u>
	<b>Current tax charge</b>	<u>3,052,500</u>	<u>2,132,513</u>
7	Dividends	2006	2005
		£	£
	Ordinary interim paid 19 August 2005	100,000	50,000
	Ordinary interim paid 25 October 2005	50,000	120,000
	Ordinary interim paid 24 November 2005	400,000	100,000
	Ordinary interim paid 29 November 2005	100,000	280,000
	Ordinary interim paid 7 February 2006	250,000	100,000
	Ordinary interim paid	-	120,000
		<u>900,000</u>	<u>770,000</u>

# MOUSSAIEFF JEWELLERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2006

### 8 Tangible fixed assets

	Improvements to premises	Fixtures, fittings & equipment	Motor vehicles	Total
	£	£	£	£
<b>Cost</b>				
At 1 April 2005	306,413	357,339	100,997	764,749
Additions	1,503,479	494,143	33,510	2,031,132
Disposals	-	-	(28,258)	(28,258)
At 31 March 2006	1,809,892	851,482	106,249	2,767,623
<b>Depreciation</b>				
At 1 April 2005	170,991	305,217	63,793	540,001
On disposals	-	-	(5,867)	(5,867)
Charge for the year	13,542	10,521	9,665	33,728
At 31 March 2006	184,533	315,738	67,591	567,862
<b>Net book value</b>				
At 31 March 2006	1,625,359	535,744	38,658	2,199,761
At 31 March 2005	135,422	52,122	37,204	224,748

### 9 Stocks

	2006	2005
	£	£
Finished goods and goods for resale	87,051,360	69,365,983

### 10 Debtors

	2006	2005
	£	£
Trade debtors	4,355,738	1,514,039
Other debtors	840,142	2,316,673
Prepayments and accrued income	468,607	526,019
	5,664,487	4,356,731

# MOUSSAIEFF JEWELLERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2006

11 Creditors: amounts falling due within one year	2006	2005
	£	£
Bank loans and overdrafts	12,259,329	7,243,005
Trade creditors	7,879,948	4,607,044
Corporation tax	4,625,013	1,952,513
Other taxes and social security costs	131,619	84,942
Directors' current accounts	58,971	-
Amounts owed to Keveess S.A.	3,320,847	-
Accruals and deferred income	510,277	576,426
	<u>28,786,004</u>	<u>14,463,930</u>

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

## 12 Pension costs

### Defined contribution

	2006	2005
	£	£
Contributions payable by the company for the year	<u>42,322</u>	<u>14,335</u>

## 13 Share capital

	2006	2005
	£	£
<b>Authorised</b>		
10,000 Ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>
<b>Allotted, called up and fully paid</b>		
10,000 Ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>

# MOUSSAIEFF JEWELLERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2006

### 14 Statement of movements on profit and loss account

	Profit and loss account
	£
Balance at 1 April 2005	59,746,381
Profit for the year	7,296,134
Dividends paid	(900,000)
Balance at 31 March 2006	<u>66,142,515</u>

### 15 Reconciliation of movements in shareholders' funds

	2006	2005
	£	£
Profit for the financial year	7,296,134	4,918,309
Dividends	(900,000)	(770,000)
Net addition to shareholders' funds	6,396,134	4,148,309
Opening shareholders' funds	59,756,381	55,608,072
Closing shareholders' funds	<u>66,152,515</u>	<u>59,756,381</u>

### 16 Contingent liabilities

The company has contingent liabilities in respect of guarantees of £600,000 (2005:£600,000) given to H.M. Customs and Excise.

### 17 Financial commitments

At 31 March 2006 the company was committed to making the following payments under non-cancellable operating leases in the year to 31 March 2007:

	Land and buildings	
	2006	2005
	£	£
Operating leases which expire:		
Between two and five years	360,605	360,605
In over five years	1,025,000	1,025,000
	<u>1,385,605</u>	<u>1,385,605</u>



# MOUSSAIEFF JEWELLERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2006

<b>18 Directors' emoluments</b>	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
Emoluments for qualifying services	<u>520,841</u>	<u>507,388</u>

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 2 (2005 - 2).

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

Emoluments for qualifying services	<u>280,841</u>	<u>267,338</u>
------------------------------------	----------------	----------------

### 19 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
	2006	2005	
	£	£	£
A Moussaieff	-	1,057,829	1,057,829
S Moussaieff	-	116,363	116,363
	<u>          </u>	<u>          </u>	<u>          </u>

### 20 Employees

#### Number of employees

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

	2006	2005
	Number	Number
Administration	14	13
Selling	11	11
	<u>          </u>	<u>          </u>
	25	24
	<u>          </u>	<u>          </u>

#### Employment costs

	2006	2005
	£	£
Wages and salaries	2,603,010	1,750,270
Social security costs	317,246	209,814
Other pension costs	42,322	14,335
	<u>          </u>	<u>          </u>
	2,962,578	1,974,419
	<u>          </u>	<u>          </u>

# MOUSSAIEFF JEWELLERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2006

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### 21 Control

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

### 22 Related party transactions

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

	2006	2005
<b>Ke vess S.A.</b>		
	£	£
Sales	4,220,514	1,909,195
Purchases	3,792,978	3,826,781
	<u>                    </u>	<u>                    </u>
<b>Lasca Finance Limited</b>		
	£	£
Interest receivable	-	1,122,448
	<u>                    </u>	<u>                    </u>

Ke vess 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 prior year, Moussaieff Jewellers Limited sold its 10% holding of S1 ordinary shares of Lasca Finance Limited to Mr. S. Moussaieff and Mrs Moussaieff for £375,000.

The LHJ Pension Scheme is the company pension fund of which the directors are members.

Any balances outstanding with the above related parties at the year end 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.