

BURBERRY

BURBERRY 2002/03 FINANCIAL HIGHLIGHTS

Total revenues increased by 19% (12% underlying*)
 ∴ Retail sales up 46% (25% underlying*)
 ∴ Wholesale sales increased 6%
 ∴ Licensing revenue up 9%

Gross profit margin increased from 50.3% to 56.0%

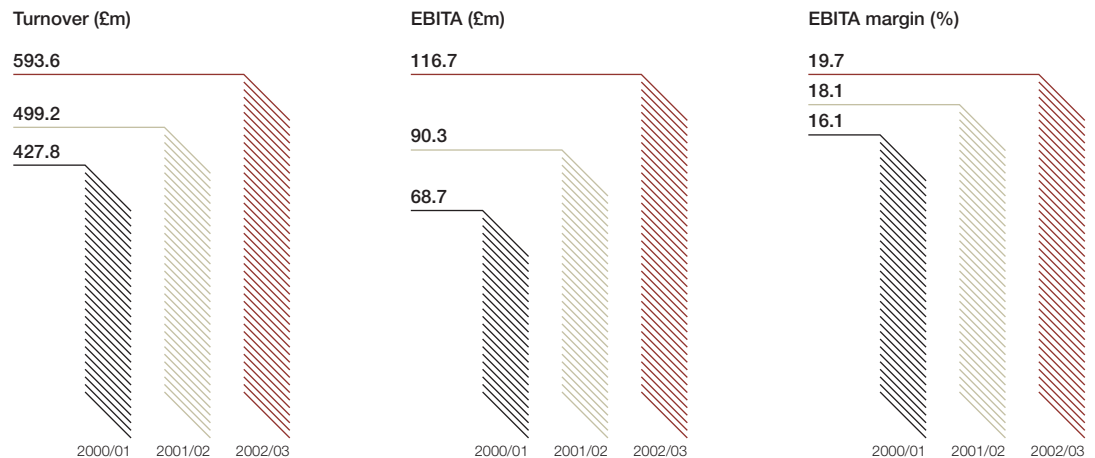
EBITA** increased by 29% to £116.7m

EBITA margin expanded from 18.1% to 19.7%

Diluted EPS before goodwill and IPO related items of 14.9p

Strong cash generation reflects profitability and working capital improvements

Total 2002/03 dividend of 3.0p per Ordinary Share



* Underlying figures are calculated at constant exchange rates and exclude the incremental impact in the current year of the Asia acquisitions. Burberry acquired the operations of its primary distributors in Asia outside of Japan in December 2001 and July 2002 (the "Asia acquisitions").

** EBITA represents operating profit before interest, taxation, exceptional items and goodwill amortisation.

Certain statements made in this annual report are forward looking statements. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual results to differ materially from any expected future results in forward looking statements.

This report does not constitute an invitation to underwrite, subscribe for or otherwise acquire or dispose of any Burberry Group plc shares. Past performance is not a guide to future performance and persons needing advice should consult an independent financial adviser.

BURBERRY 2002/03 A REMARKABLE YEAR

THESE ACHIEVEMENTS
REFLECT THE STRENGTH
OF THE BURBERRY
BRAND, WHICH HAS BEEN
CAREFULLY RESHAPED
OVER THE LAST FIVE YEARS
INTO AN INTERNATIONAL
LUXURY BRAND WITH ITS
OWN UNIQUE POSITIONING

JOHN PEACE
CHAIRMAN

This has been a remarkable year for Burberry. We began with the successful IPO in July 2002 despite some of the most difficult stock market conditions in more than a decade. We have ended the year with an excellent set of financial results, well ahead of market expectations at the time of the IPO.

Revenues for the year increased by 19%, while operating profit before goodwill amortisation and exceptional items rose by 29% as the result of strong margin expansion.

Strategically, Burberry made significant progress during the year. We acquired our distributor in Korea and so completed the programme of taking direct control of key markets outside Japan. We continued to reposition the brand in Spain with the opening of our important Barcelona store and we opened our largest store in New York City.

These and other achievements reflect the strength of the Burberry brand, which has been carefully reshaped over the last five years into an international luxury brand with its own unique positioning. Behind this are a strong management team, a clear strategy and many further opportunities for growth.

Burberry's flotation in July saw the creation of a new Board, with an excellent blend of experience and skills.

Every successful brand is dependent on upon the enthusiasm and talent of people throughout the organisation. I would like to congratulate everyone at Burberry for an excellent performance in our first year as a public company.

The global trading environment remains challenging, but we look forward to the future with confidence as we build long term value for our shareholders.



John Peace
Chairman

- ✓ Successful IPO
- ✓ Excellent financial results
- ✓ Significant strategic progress



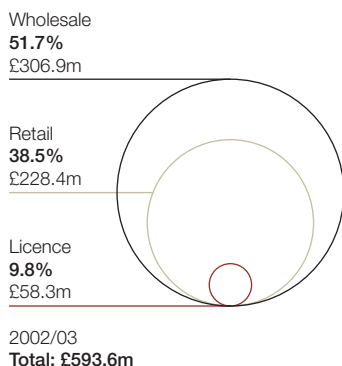
BURBERRY

A BUSINESS BUILT BY TEAMWORK

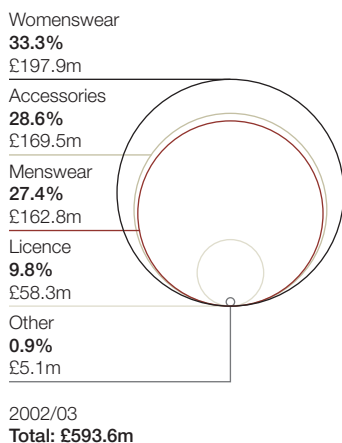
BURBERRY IS POISED
FOR GROWTH AS
WE CONTINUE TO
CAPITALISE ON THE
COMPANY'S STRONG
FOUNDATION AND
UNIQUE POSITIONING
AS AN INTERNATIONAL
LUXURY BRAND WITH
A DISTINCTLY BRITISH
SENSIBILITY
ROSE MARIE BRAVO
CHIEF EXECUTIVE

OUR TALENTED AND DEDICATED MANAGEMENT TEAM HAS DRIVEN BURBERRY'S STRONG PERFORMANCE

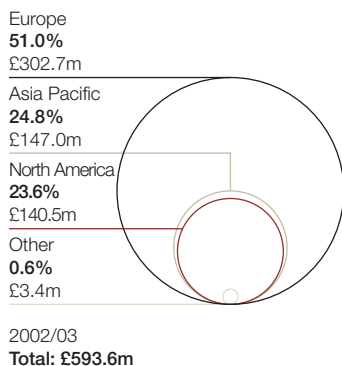
Turnover by channel of distribution



Turnover by product category



Turnover by geographic destination



2002/03 was a year marked by significant milestones for Burberry. In the course of these 12 months, we have maintained our financial momentum, advanced our strategic agenda, completed an initial public offering on the London Stock Exchange and delivered on the commitments we made at the time of the IPO.

Revenues grew by 19% to £593.6m, with operating profit before goodwill amortisation and IPO related items rising 29% from £90.3m to £116.7m. Operating margin expanded from 18.1% to 19.7%.

We implemented strategic initiatives across product categories, channels of distribution and geographic regions. The results of these initiatives are demonstrated by the strong performance in both accessories and apparel, by the success of our new stores and by our enhanced control throughout all our markets.

The team and the mission Fuelling Burberry's success has been the dedication, passion and hard work of an international management team. A work ethic based on teamwork permeates the entire organisation and defines the culture of Burberry.

The team's primary mission over the last five years has been to reshape Burberry's core brand attributes, making them relevant to today. We continue to leverage Burberry's rich heritage of exploration and adventure while reinforcing the brand's reputation for enduring quality and style. Building on this foundation, we initiated an integrated programme of design, merchandising and marketing initiatives that have generated broad, multigenerational appeal and attracted a new cadre of customers.

Products With the appointment of a new Creative Director in May 2001, our collections have evolved with a singular vision that is distinctly modern yet informed by Burberry's British heritage and history of design innovation. In addition to strong consumer response, the collections have garnered significant media recognition.

Building the accessory business has been a primary objective. This financial year saw the accessories share of the Group's revenue mix expand to 29%. This was

accomplished through emphasis on product development in categories where the brand is underrepresented as well as enhancing the design quotient of strong existing classifications. Further development in accessories, continues to offer an important growth opportunity.

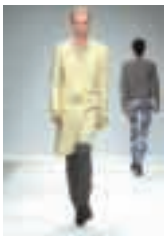
Showcased in presentations during London Fashion Week and catwalk shows during Milan Fashion Week, the apparel collections have been key to the modernisation and have provided an added dimension to the Burberry brand. Womenswear maintained its momentum, led by growth in new sportswear and outerwear designs as well as reinterpretations of Burberry icons such as the trench coat and emerging core classics including quilted jackets and kilt-inspired skirts. Achieving solid growth, menswear results were driven by strengthening essential categories including shirts and sweaters and increased emphasis on tailored clothing and related products.

We work closely with our product licensing partners to capitalise on opportunities outside the Group's in-house expertise. Burberry's integrated design, merchandising and marketing strategy is reflected in the coherence of the image and products of our licensed collections: childrenswear, eyewear, fragrances and recently launched watches.

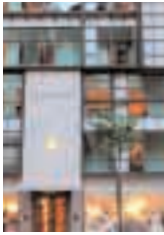
Channels Our initiatives focus on expansion of our network of directly operated stores while enhancing our presence within key wholesale accounts.

As a percentage of total revenue, retail sales increased from 31% in 2001/02 to 38% in 2002/03.

Our store portfolio continues to grow both in terms of design and number with the opening in 2002/03 of 12 new or refurbished locations. A milestone in our retail growth strategy was the opening in November 2002 of our 24,000 square foot New York City flagship. Located on East 57th Street between Madison and Fifth Avenues, one of the world's pre-eminent luxury crossroads, this store is the most complete expression of the Burberry brand to date and serves as the headquarters of our US expansion programme. Burberry has opened or refurbished four additional stores in the USA, six in Europe, and one in Asia.



01



02



03



04



05

Burberry also added 46 in-store concessions following the acquisition of our Korean distributor. In total we increased retail space by approximately 37% in 2002/03, or 18% excluding the Korean acquisition.

Our wholesale business continued its solid progress as we intensified our efforts with, and increased sales to, existing customers. Highlights included the additional points of distribution established by our customers in China, a new co-staffing arrangement with the leading department store group in Spain and the expansion of our shop-in-shop concept with an emphasis on the US market.

Regions With an ongoing focus on a consistent brand image and enhanced product coherence, Burberry achieved good strategic and financial progress across our targeted geographic regions.

In Japan, the most important luxury market in the world, Burberry enjoys an estimated £1bn of sales at retail value per annum. The brand achieved approximately 10% volume growth in 2002/03 driven by gains across a broad spectrum of new and traditional product categories. Through activities such as the ongoing formation of our own executive presence in Japan during 2002/03, Burberry continues to enhance coordination and to orchestrate joint activities with our licensee partners to capitalise on the opportunities in this dynamic market.

Following the acquisition of Burberry's Korean distributor in July 2002, we gained direct control of our primary markets outside Japan. During the year, we augmented the management teams in the region while continuing to achieve solid growth.

Our repositioning in Spain was led by the opening of the 12,000 square foot Barcelona store – the first Burberry store in the important Spanish market. The store has positively accelerated our strategic progress in evolving and elevating the brand in keeping with Burberry's international luxury positioning.

Initiatives in the UK and continental Europe included the opening of our third London location in Knightsbridge; the renovation of our Rue de Rennes, Paris store; and the consolidation of our wholesale showrooms in Europe into four strategically located sites in the Haymarket, London; Paris, France; Milan, Italy and Düsseldorf, Germany.

In the USA we continued to reap the benefits of expanding our presence. Experiencing a 27% increase in revenue, performance in the USA reflects increased sales across both new and existing directly operated retail stores as well as through wholesale channels. This region represents an important growth market for Burberry.

A preview of 2003/04 The year ahead will see the continuation of our growth strategies across products, channels and regions. Highlights of which include:

- ✂ the opening of an 8,000 square foot Milan store, our first in Italy
- ✂ additional retail expansion with a minimum of eight new stores together with a number of concessions and refurbished stores representing an approximate 10% increase in net selling square footage
- ✂ the launch of an iconic new fragrance for women
- ✂ a further extension of our wholesale shop-in-shop concept worldwide
- ✂ ongoing strategic evolution in Japan and Asia
- ✂ developing the brand in emerging markets

Moving forward with confidence In both strategic and financial terms, we will continue to leverage our core assets to foster Burberry's further development and growth. The dedication of our management and employees, the efforts of our licensees and the support of our wholesale customers underscore these achievements.

As we begin the new financial year, we remain confident in our strategies while approaching the uncertain trading environment with appropriate caution. Over the long term, we look forward with our shareholders to the continued growth and development of Burberry.

Rose Marie Bravo
Chief Executive

01 Burberry Prorsum autumn/winter 2003 catwalk presentation.
 02 New York flagship opened November 2002.
 03 Marrakesh handbag from the spring/summer 2003 collection.
 04 Barcelona flagship opened August 2002.
 05 Made-to-measure suit from the autumn/winter 2003 Burberry London collection.



OUR MARKETING STRATEGY COMMUNICATES THE BRAND'S UNIQUE MIX OF MODERN DESIGN AND BRITISH HERITAGE



01



02



03

Heritage Thomas Burberry founded the business in 1856 with the opening of a store in Basingstoke, England. With Burberry's invention of gabardine, the first waterproof and breathable fabric, the Company established itself as an innovative outfitter against inclement conditions. Early explorers and adventurers, including Shackleton and Perry, came to rely on Burberry's creations. In the early 20th Century, a coat which Burberry had designed for military officers was adapted to include functional epaulettes, straps and D-rings, and the trench coat was born. The introduction of the trademark Burberry check as a lining to the trench in the early 1920s created another icon. Through the decades, these icons developed their status as symbols of enduring quality and style, representing a valuable legacy with which to revitalise the brand.

Repositioning Toward this end, a new management team was formed in 1997 and undertook a series of initiatives to reposition Burberry as an international luxury brand. From a business overly dependent on a small base of historical products, the team developed, updated and expanded collections of women's, men's and accessory product ranges. A marketing strategy was established to communicate the brand's new and unique mix of modern design and British heritage. The store portfolio was re-engineered by the closing of non-strategic locations, as well as comprehensive redesign and targeted openings in key luxury destinations. Wholesale distribution was redirected toward brand-appropriate accounts.

In our licensing operations, we eliminated non-enhancing licences and restructured others. To ensure greater coherence and control, Burberry acquired direct operating control in key geographic markets in Spain and Asia.

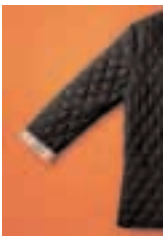
Today Burberry designs, sources, manufactures and distributes quality apparel and accessories through wholesale, retail and licensing channels worldwide. Our products include apparel for women, men and children together with accessories such as handbags, scarves, small leather goods and silks. We sell our products globally through our own retail stores and via our wholesale customers, which include many of the world's leading prestige retailers. In selected product categories and geographic markets, we combine our expertise with that of licensing partners by granting licences for the design, manufacture and distribution of products under the Burberry brand which complement our own offerings. We estimate that the total global retail value of products sold under the Burberry name was in excess of £2bn in 2002/03.

Looking ahead Our strategy has established a unique position for Burberry in the market place as a luxury brand with international recognition, broad appeal and a distinct British sensibility. At the same time, these initiatives have produced excellent financial results and provided a strong base from which to pursue our disciplined approach to long term growth and development.

We estimate that the total global retail value of products sold under the Burberry name was in excess of £2 billion in 2002/03

(opposite) Burberry Prorsum collection (autumn/winter 2003 advertising campaign).
01 The first Burberry store in Basingstoke, Hampshire, England.
02 The Burberry trench coat is synonymous with enduring quality and style.
03 The trademark Burberry check enjoys global recognition.

WE CONTINUE TO IMPLEMENT STRATEGIC GROWTH INITIATIVES ACROSS PRODUCTS, CHANNELS AND REGIONS



01



02



03



04



05

A compelling product portfolio Burberry's founding principle was premised on creating products defined by function rather than a narrow class of consumer. The brand's appeal to a broad customer base continues today. This is reflected in our products. We create products for women, men and children: the cashmere scarf for example, is appropriate to all three groups across the age spectrum. Our price positioning incorporates more accessible points relative to many other luxury brands.

Core classics For decades, Burberry has been synonymous with its iconic trench coat and trademark check cashmere scarf. These products have served as a cornerstone of our merchandising and provided a meaningful portion of our sales. Over the past five years, by capitalising on the key themes and imagery associated with the Burberry brand, our design and merchandising teams have developed additional products, while updating and evolving the originals. These products, along with the trench and scarf, are our core classics. They include quilted coats, duffle coats, rubber-backed raincoats, kilt skirts and modern variations on the classic cashmere scarf. Burberry is a clear authority with respect to these products in the minds of consumers. Core classics are key elements of our identity and the source of an important revenue stream.

Core competencies Our core outerwear collections are produced primarily in our own facilities, which ensures strict adherence to our uncompromising quality standards. This in-house production capability also allows us to constantly refine these products. The balance of our

collections are primarily sourced in Europe, taking advantage of the highest quality materials and best-of-class production facilities worldwide. We are actively involved in the manufacturing and sourcing of all products and continually look to reduce costs while maintaining the highest standard of quality.

Brand expressions We take a targeted approach to the design philosophy of each of our brand labels. This segmentation enhances our reach to a cross-generational audience whose style preferences span the range from classic to fashion forward.

Burberry Prorsum is our runway collection shown to the international fashion community in Milan four times a year. Prorsum, an integral part of Burberry's luxury positioning, serves as a platform for the brand's most advanced design statements and provides inspiration for our other collections. The Prorsum collection provides a focal point of editorial coverage for the Burberry brand.

Burberry London is our core international collection and reflects our lifestyle positioning and multi-generational appeal in contemporary classic products. Localised collections exist in Spain and Japan.

Thomas Burberry, a more casual line targeted at younger customers, is distributed only in Spain and Portugal. Autumn 2003 will see a limited extension of distribution of the line through wholesale channels in the UK. Similarly, in Japan, Burberry Blue and Black Labels are collections designed to address a younger audience.

- 01 The quilted jacket has become a Burberry core classic.
- 02 Burberry Prorsum is showcased during Milan Fashion Week.
- 03 The Burberry London collection is our core international collection.
- 04 The Thomas Burberry range is targeted at a younger audience.
- 05 Accessories are an important driver of sales and margin.

Womenswear Our initiatives in womenswear have been an important vehicle for repositioning the brand, broadening its appeal to a younger and more fashion-conscious market. Accounting for 33% of revenue in 2002/03, the Burberry womenswear collections include both casual and tailored sportswear and outerwear. Womenswear sales increased by 20% in 2002/03, driven by gains across all product categories. Going forward, we will continue to evolve our classics and enhance the design content of the core collection while recognising the specific needs of our diverse geographic markets.

Menswear Accounting for 27% of revenue in 2002/03, our menswear collections include a full range of casual apparel and outerwear as well as more formal components such as tailored clothing and furnishings. Menswear sales increased by 9% in 2002/03. Growth was driven by product development efforts with respect to important classifications, including sweaters and woven shirts. New designs and marketing initiatives in our tailored clothing collections have enabled Burberry to take advantage of the market trend toward more formal dressing. Burberry plans to continue to capitalise on the brand heritage of functionality, craftsmanship and design innovation by broadening and intensifying its menswear product ranges.

Accessories Through new products, silhouettes, colours and materials, the accessories collections reflect a modern fashion dimension, while maintaining a link with the brand's classic heritage and sense of enduring style. With their attractive financial characteristics, accessories continue to be an important driver of sales and margin growth. Accessories' share of total revenue grew to 29% in 2002/03 from 25% in the previous financial year. Products include handbags, scarves, small leather goods and silks. Accessory sales increased by 35% in 2002/03. During the year, we introduced enhanced collections of iconic and newly developed handbags and leather goods to complement our classic product range. Strong consumer response to an enlarged range of cashmere and textile-based products also contributed to the increase. Burberry continues to see important opportunities in many accessory categories. At the same time, we continue to develop our sourcing and logistics infrastructure to support future growth.

Childrenswear In conjunction with our licensing partner, Burberry offers apparel collections for girls and boys. Still at an early stage of development, childrenswear distribution expanded in 2002/03 from Europe to the US market on a limited basis. During 2003/04, Burberry will selectively broaden distribution in these markets and expand sales into certain markets in Asia.

Home Autumn 2002 saw the introduction in our Barcelona, New York and London flagship stores of Burberry House, a capsule collection of gifts and items for the home. The collection which includes vases, crystal, silver picture frames, leather desk accessories, pillows and throws draws its design inspiration from the Burberry ready-to-wear and accessories collections.

Product licences Products under licence continued to add important dimensions to the business this year. The eyewear collection continued to evolve with strong influences from the seasonal colour palettes and collections. Burberry Tender Touch, an extension of Burberry's Touch fragrance line, was launched in the US in March 2003. We are looking forward to the Autumn 2003 global launch of our new women's fragrance, Burberry Brit, which has already enjoyed enthusiastic response from the trade. 2002/03 also saw the introduction of a new timepiece collection. Initially sold exclusively in our own stores last autumn, the timepiece collection is currently being extended to markets throughout the world.



06



07



08



09



10

06 Burberry Timepieces introduced in 2002/03.

07 Burberry Touch fragrances for men and women.

08 Childrenswear takes inspiration from the seasonal collections.

09 Burberry House is a capsule gift collection of home items.

10 Eyewear continues to evolve with influences from our catwalk collections.





01



02



03



04



05

A multi-channel distribution strategy Burberry's global distribution is comprised of retail, wholesale and licensing channels. At 31 March 2003, the retail channel consisted of 47 directly operated Burberry stores, 62 concessions and 23 outlet stores. Our wholesale channel includes leading department and specialty stores, duty-free retailers and, in selected markets, Burberry stores operated by third parties. Burberry licensing relates in large part to operations in Japan.

Retail Expansion of our network of directly operated stores and concessions is a key component of our ongoing strategy. Retail sales increased by 46% (25% underlying) in 2002/03. As a percentage of total revenue, this increased from 31% in 2001/02 to 38% in 2002/03.

This was a year of important store openings in key markets, led by our New York City store. At 24,000 square feet this store is the most complete expression of the Burberry brand to date. We opened three additional Burberry stores in the USA, including our first stores in Florida. Retail highlights in Europe included store openings in Barcelona and Knightsbridge in London. In Asia, we acquired control of our distribution in Korea, adding 46 concessions, and opened a new Burberry store in Pacific Place, Hong Kong.

2003/04 will be led by the opening of our Milan store, Burberry's first in Italy. In total, we plan to open a minimum of eight stores and a small number of concessions in the year, increasing retail selling space by approximately 10%.

Wholesale Burberry's wholesale business grew by 6% (5% underlying) during the year. Double-digit growth for spring/summer 2003 offset a flat autumn/winter 2002 season. We continue to refine our distribution by restricting distribution to brand-appropriate accounts and targeting growth with these customers, rather than broadening distribution. We work with these accounts to enhance in-store positioning, add product categories and improve presentation. Growth was driven primarily by volume increases with the majority of our largest customers.

Licensing In selected geographic markets and product categories, we combine our expertise with that of licensing partners for the design, manufacture and distribution of products under the Burberry name. Licensing allows us to capitalise on opportunities outside of the Group's in-house capabilities.

The large majority of licensing revenues is derived from licencees in Japan. At retail value, sales of Burberry products exceeded an estimated £1bn in the Japanese market in 2002/03. We see a substantial opportunity to continue to develop the Burberry brand in Japan and are working increasingly closely with our licensing partners to capitalise on this potential. Our design and merchandising teams have substantially increased co-ordination with their counterparts in Japan. We will establish more of a local management presence to assist with distribution-related issues. Going forward, we are formulating in conjunction with our partners, plans to capture a larger share of the under-penetrated accessory market for Burberry.

Burberry's worldwide recognition and unique positioning in the international market place provide us with a strong platform for growth across various geographic regions.

United States Accounting for 24% of revenues, the US market experienced the fastest underlying growth of any of our regions in 2002/03. Growth was driven by strong revenue gains in both our retail and wholesale businesses. Going forward, this market represents a substantial opportunity.

Europe Progress achieved toward Burberry's repositioning in the important Spanish market highlighted the European regions' developments in the year. In addition to the opening of our first store in Spain, we implemented key design, marketing, merchandising and distribution initiatives. These efforts are complemented by joint endeavours with our primary wholesale customer to enhance Burberry's presentation within its stores.

Asia In July 2002 we acquired our distributor in Korea. Combined with the December 2001 acquisitions in Hong Kong, Singapore and Australia, Burberry concluded the consolidation of direct operating control in its primary Asian markets outside of Japan. Accounting for approximately 16% of revenue for the year, these markets present substantial opportunity for the future. We began to address that potential during the year by opening a new store in Hong Kong and working with wholesale partners to open additional points of distribution in China, bringing the total in that market to 22 at year end. At the same time, we established a local management structure and team and improved necessary infrastructure.

(opposite) Advertising image for the launch of Burberry Brit fragrance (autumn/winter 2003).

01 Burberry shop-in-shop in Hong Kong.

02 The "Art of the Trench" made to order trench coat service in our New York flagship.

03 In Japan at retail value, sales of Burberry product exceeded an estimated £1bn in 2002/03.

04 The Knightsbridge store in London opened in autumn 2002.

05 Barcelona, our first store in Spain, opened in August 2002.



BURBERRY 2002/03 FINANCIAL REVIEW

STRONG PROFIT
AND CASH FLOW
PERFORMANCE
DEMONSTRATE THE
RESILIENCE AND
POTENTIAL OF THE
BURBERRY BRAND
MICHAEL METCALF
CHIEF OPERATING
AND FINANCIAL
OFFICER

Group results

	Year ended 31 March 2003				Year ended 31 March 2002 £m	Percent of turnover
	Results before IPO related items £m	Percent of turnover	IPO related items £m	Total £m		
Turnover						
Wholesale	306.9	51.7%	–	306.9	288.8	57.9%
Retail	228.4	38.5%	–	228.4	156.9	31.4%
Licence	58.3	9.8%	–	58.3	53.5	10.7%
Total turnover	593.6	100.0%	–	593.6	499.2	100.0%
Cost of sales	(261.3)	(44.0%)	–	(261.3)	(248.1)	(49.7%)
Gross profit	332.3	56.0%	–	332.3	251.1	50.3%
Net operating expenses	(215.6)	(36.3%)	–	(215.6)	(160.8)	(32.2%)
EBITA	116.7	19.7%	–	116.7	90.3	18.1%
Goodwill amortisation	(6.4)	(1.1%)	–	(6.4)	(4.9)	(1.0%)
Employee share ownership plans	–	–	(22.0)	(22.0)	–	–
Profit before interest and tax	110.3	18.6%	(22.0)	88.3	85.4	17.1%
Net interest and similar expense	(0.9)	(0.2%)	–	(0.9)	(0.5)	(0.1%)
Currency loss on GUS loans (pre-flotation)	–	–	(2.3)	(2.3)	(0.1)	–
Profit on ordinary activities before taxation	109.4	18.4%	(24.3)	85.1	84.8	17.0%
Tax on profit on ordinary activities	(39.9)	–	7.0	(32.9)	(28.3)	–
Profit on ordinary activities after taxation	69.5	11.7%	(17.3)	52.2	56.5	11.3%
Diluted EPS before goodwill amortisation	14.9	–	(3.4)	11.5	12.1	–
Diluted EPS	13.7	–	(3.4)	10.3	11.1	–

Reconciliation to statutory results

	Year ended 31 March 2003 £m	Year ended 31 March 2002 £m
Turnover	593.6	499.2
As reported		
Operating profit	88.3	85.4
Profit before tax	85.1	84.8
Basic earnings per share (p)	10.5p	11.3p
Diluted earnings per share (p)	10.3p	11.1p
Before IPO related items		
EBITA	116.7	90.3
Profit before interest and tax	110.3	85.4
Profit before tax	109.4	84.8
Diluted earnings per share (p)	13.7p	11.1p
Diluted earnings per share before goodwill amortisation (p)	14.9p	12.1p

IPO related items include a £22.0m exceptional charge related to employee share ownership plans and a £2.3m pre-IPO foreign exchange loss before attributable tax relief of £7.0m.

Certain statements made in this annual report are forward looking statements. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual results to differ materially from any expected future results in forward looking statements.

This report does not constitute an invitation to underwrite, subscribe for or otherwise acquire or dispose of any Burberry Group plc shares. Past performance is not a guide to future performance and persons needing advice should consult an independent financial adviser.

Burberry Group turnover is composed of revenue from three channels of distribution: wholesale, retail and licensing operations. Wholesale revenue arises from the sale of men's and women's apparel and accessories to wholesale customers worldwide, principally leading and prestige department stores and speciality retailers. Retail revenue is derived from sales through the Group's directly operated store network. At 31 March 2003, the Group operated 132 retail locations consisting of 47 Burberry stores, 62 concessions (including the 46 concessions added in July 2002 as part of the acquisition of the operations of Burberry's Korean distributor) and 23 outlet stores. Licence revenue consists of royalties receivable from Japanese and product licensing partners.

Comparison of the year ended 31 March 2003 to the year ended 31 March 2002

The Group recently completed three significant transactions which affect the comparability of results for the year ended 31 March 2003 relative to the year ended 31 March 2002. On 17 July 2002, the Group completed a reorganisation in connection with its initial public offering and admission to the London Stock Exchange (the "IPO"). On 31 December 2001, the Group purchased the operations and certain assets of its distributors in Asia, which largely operated as wholesale businesses. On 1 July 2002, the Group purchased the operations and certain net assets of its distributor in Korea, which largely operated as a retail business consisting of 46 concessions and an outlet store as at the acquisition date. These acquisitions are together referred to as the "Asia acquisitions". In determining "underlying" performance, current year financial results are adjusted to reflect the business configuration of the previous year (i.e. excluding the incremental impact in the current year of the Asia acquisitions), and applicable exchange rates across the business are adjusted to reflect prior financial year rates.

Turnover

Total turnover advanced to £593.6m from £499.2m in the comparative period, representing an increase of 19% (21% at constant exchange rates), or 12% on an underlying basis (i.e. excluding a £11.4m reduction attributable to exchange rate and other factors and excluding the £43.4m incremental contribution from the Asia acquisitions).

Total retail sales increased by 46% in the year to £228.4m, boosted by the contribution from four Burberry stores, 49 concessions and one outlet added as part of the Asia acquisitions. On an underlying basis, retail sales increased by 25%, driven by sales from newly opened stores and by gains at existing stores. During the year, the Group opened 12 new and refurbished stores, including Burberry stores in the USA (four), Europe (three) and Asia (one), as well as four outlet stores. Total retail selling space expanded approximately 37% (including the 19% attributable to the Korea acquisition) to approximately 360,000 square feet at year end.

Total wholesale sales advanced 6% (5% underlying) to £306.9m during the year. On an underlying basis, autumn/winter wholesale sales, which are predominantly shipped in the first half of the financial year, were largely

unchanged from the prior year. The Group achieved high single digit volume growth for spring/summer merchandise, for which shipments are concentrated in the second half of the year.

Licensing revenues in the year increased by 9% (14% at constant exchange rates), primarily driven by strong growth in Japanese royalties reflecting volume gains of approximately 10% and increases in certain royalty rates. In this market, volume gains moderated in the second half of the year reflecting both the strong performance in the comparable period of the prior year and a generally softer economic environment. Licensing revenue during the year also benefited from strong sales gains by global product licencees.

On a regional basis, the Group experienced strong revenue growth in the USA, driven by both wholesale and retail operations, accompanied by more moderate underlying gains in Europe. Reported growth in Asia was dominated by the impact of the Asia acquisitions.

Operating profit

Gross profit as a percentage of turnover expanded to 56.0% in the year from 50.3% in the comparative period. This increase was driven by two primary factors: the impact of the Asia acquisitions and an overall improvement in gross margin driven by the increased proportion of accessories in the product mix, the strong growth of retail operations and other factors.

Operating expenses as a percentage of turnover rose to 36.3% from 32.2% in the comparative period, reflecting expansion and investment across the business. The Asia acquisitions were the primary factor contributing to the increase in the expense ratio. The underlying growth of retail operations, including pre-trading costs associated with store development, also contributed to the increase. A number of additional factors, including a £2.1m impairment charge arising with respect to specific retail assets and the Group's continued investment in infrastructure, are also reflected in the increase.

Overall EBITA increased by 29% to £116.7m, or 19.7% of turnover relative to 18.1% in the earlier period. On an underlying basis, EBITA increased by £15.2m; the Asia acquisitions contributed an incremental £15.6m in the year, while exchange rate movements reduced reported results by £4.4m. Profit before interest and tax and IPO related items and after goodwill amortisation increased 29% to £110.3m, or 18.6% of turnover.

Goodwill amortisation increased to £6.4m from £4.9m in the comparative period primarily as a result of additional goodwill arising from the Asia acquisitions.

Net interest expense

Net interest and similar expense (excluding IPO related charges) was £0.9m in the year to 31 March 2003. Although the Group has maintained net cash deposits in the period since the IPO, net interest expense was incurred as a result of differential interest rates on borrowings and cash balances. These borrowings were repaid during the second half of the year such that modest net interest income was generated towards the year end.

IPO related items

In connection with the IPO, the Group incurred a £22.0m exceptional charge in the first half of the year largely related to its employee share ownership plans. This included £18.5m arising in respect of the Senior Executive Restricted Share Plan (the "RSP"). This charge does not represent a cash outflow to Burberry Group since the RSP will be satisfied through the issue of new shares; it does not give rise to a reduction in net assets as there is a compensating increase in the capital reserve account within Shareholders' Funds. As no further awards will be made under the RSP, the consolidated profit and loss account will not be affected in future periods (except in respect of reserve movements and the number of shares in issue for the purpose of calculating earnings per share).

During the first half of the year, the Group also incurred a £2.3m foreign exchange loss on borrowings held on behalf of the GUS group. These borrowings were eliminated as part of the reorganisation prior to the IPO.

Profit before taxation

The Group reported profit before taxation (after IPO related charges) of £85.1m for the year ended 31 March 2003 (2002: £84.8m).

Profit after taxation

The Group incurred a 34.7% tax rate on profit before goodwill amortisation and exceptional items for the full financial year. The rate is greater than that indicated at the interim announcement due to the higher than anticipated value of items not deductible for tax purposes and, less significantly, an adverse prior year adjustment.

The Group continues to anticipate an effective tax rate on the order of 33% in future periods. The tax charge of £32.9m is net of £7.0m of tax relief attributable to IPO related items.

Excluding IPO related items, profit after taxation would have been £69.5m during the period.

Diluted earnings per Ordinary Share excluding goodwill amortisation and IPO related items were 14.9p for the year (2002: 12.1p). The Company had 498.1m and 506.2m Ordinary Shares in issue on average for the purposes of calculating basic and diluted earnings per share respectively. An average of 1.9m Ordinary Shares held by the Company's Employee Share Ownership Trusts are excluded for the purposes of the earnings per share calculations.

Liquidity and capital resources

Historically, the Company's principal uses of funds have been to support acquisitions, capital expenditures and working capital growth in connection with the expansion of its business. Principal sources of funds have been cash flow from operations and financing from the GUS group, the former 100% shareholder. In the future, the Group expects to finance operations and capital expenditure with cash generated from operating activities and, as necessary, the use of its credit facility.

The table below sets out the principal components of cash flow for the financial years ended 31 March 2003 and 31 March 2002 and net funds at year end:

Cash flow and net funds

	Year ended 31 March 2003 £m	Year ended 31 March 2002 £m
Operating profit before interest, taxation, goodwill amortisation and IPO related items	116.7	90.3
Depreciation and related charges	19.0	14.0
Loss on disposal of fixed assets and similar items	1.5	0.2
Decrease/(increase) in stocks	5.2	(7.0)
Increase in debtors	(2.4)	(5.2)
Increase/(decrease) in creditors	25.0	(2.2)
Net cash inflow from operating activities	165.0	90.1
Returns on investments and servicing of finance	(0.5)	(0.4)
Taxation paid	(30.6)	(17.6)
Net purchases of fixed assets	(55.5)	(38.9)
Acquisition related payments	(26.8)	(4.5)
Purchase of own shares	(4.5)	–
Net cash inflow before dividends, IPO related and financing activities	47.1	28.7
Net funds at year end	79.6	n/a

Net cash inflow from operating activities increased to £165.0m in the year ended 31 March 2003 from £90.1m in the comparative period. The increase in depreciation charges reflects the larger fixed asset base associated with expansion of the business and the £2.1m non-cash impairment charge related to certain retail assets. The 29% increase in operating profit before interest, taxation, goodwill amortisation and IPO related items was augmented by greater working capital efficiency. Underlying stock levels declined moderately despite the turnover gain in 2002/03. This improvement was a result of strong trading performance, improved stock management, as well as the reduction of certain stockholdings acquired prior to the financial year in order to secure costing objectives. The relatively small increase in trade debtors partially reflects earlier shipments to wholesale customers within the final quarter relative to the previous year. The increase in creditors in 2002/03 reflects most importantly the growth in revenues; in addition, certain trading accruals have accumulated where payment will occur in 2003/04.

Net cash outflow from purchases of fixed assets included £55.5m cash spent on fixed assets, primarily related to investment in the Group's retail operations. The increase over 2001/02 largely reflected increased levels of investment in the store portfolio relative to the earlier period.

Net cash outflow for acquisition purposes was £26.8m in 2002/03, of which £24.3m was attributable to the initial purchase cost of the operations and certain assets of the Group's distributor in Korea. The balance relates to deferred payments with respect to previous transactions.

During 2002/03 the Company invested £4.5m in its own shares as a contribution to funding the Group's employee share ownership trusts.

IPO related activities prior to the flotation also affected the Group's net cash flow for the year to 31 March 2003. Their net effect was to leave the Group with net funds of approximately £10m immediately following the flotation. At 31 March 2003 the Group had net funds of £79.6m.

The Company paid an interim dividend of 1.0p per share on 5 February 2003. A final dividend of 2.0p per share (£10.0m in total) is proposed and would be payable in August 2003. The total dividend for 2002/03 would be 3.0p per share.

In line with its risk management policy, Burberry has continued to hedge its principal foreign currency transaction exposures, arising in respect of Yen denominated royalty income and Euro denominated product purchases and sales. On the basis of forward foreign exchange contract rates secured with respect to the year to 31 March 2004, Burberry expects that the average Yen/Sterling exchange rate applicable to its licence revenue for that financial year will be approximately 5% below that of 2002/03.

In May 2003, the Company amended the terms of its credit facility provided by GUS plc. Under the amended agreement, the amount available under the facility has been reduced to £75m and the maturity has been extended to July 2006. Certain other terms have also been amended, all of which the Company believes to be consistent with standard commercial arrangements.



BURBERRY ACCOUNTS

2002/03

Contents

22	The Board of Directors
23	Directors' report
26	Corporate governance
30	Report on directors' remuneration and related matters
41	Corporate social responsibility
44	Statement of directors' responsibilities
45	Report of the auditors
46	Group profit and loss account
47	Statement of total recognised gains and losses
47	Note of historical cost profits and losses
47	Reconciliation of movement in Shareholders' Funds/GUS investment in Burberry Group
48	Balance sheets
49	Group cash flow statement
50	Notes to the financial statements
86	Four year summary
88	Principal subsidiaries
ibc	Shareholder information

The Board of Directors

Chairman

John Peace

John Peace was appointed non-executive Chairman of Burberry on 21 June 2002. Mr Peace was appointed to the board of GUS plc in 1997 and became Group Chief Executive in January 2000. He served as Chief Executive of Experian from 1996 to 2000 and currently serves as Chairman of the Board of Governors of Nottingham Trent University.

Executive Directors

Rose Marie Bravo, Chief Executive

Rose Marie Bravo was appointed Chief Executive of Burberry in 1997. Prior to her appointment at Burberry, Ms Bravo served as President of Saks Fifth Avenue from 1992 to 1997, with responsibility for merchandising, marketing and product development. She also served as a member of the board of Saks Holding Inc. From 1974 to 1992, Ms Bravo held positions of increasing responsibility at RH Macy & Co, culminating with her 1987 to 1992 tenure as Chairman and Chief Executive Officer of the I Magnin Specialty Division. Ms Bravo serves on the boards of both Tiffany & Co and Estée Lauder as a non-executive director.

Michael Metcalf, Chief Operating and Financial Officer

Michael Metcalf was appointed Chief Operating and Financial Officer of Burberry in 1998. Prior to this appointment, he held the position of Chief Executive Officer of Thorn plc from 1996 to 1998. He previously served as Finance Director of Thorn EMI Home Electronics Division, Deputy Finance Director and Group Finance Director of Thorn EMI plc and Chief Executive Officer of Thorn EMI Rentals Division, between 1985 and 1996.

Thomas O'Neill, President Worldwide

Thomas O'Neill was appointed President Worldwide of Burberry in November 2001. Prior to this, he had served as President and Chief Executive Officer of LVMH's Jewellery Division, based in Paris, since August 2000. He served as President and Chief Executive Officer of LVMH Fashion Group, Americas, from June 1997 to August 2000 and as Chief Executive Officer of Marc Jacobs International from June 1997 to February 2001. From 1984 to 1997, he held various positions at Tiffany & Co, ultimately serving as Executive Vice President, International Division. Mr O'Neill serves on the board of Aber Diamond Corporation as a non-executive director.

Non-Executive Directors

Philip Bowman

Philip Bowman was appointed on 21 June 2002. Mr Bowman was appointed Chief Executive of Allied Domecq in 1999 and between 1998 and 2000 he served as Chairman of Liberty plc. He also serves as a non-executive director of British Sky Broadcasting Group plc.

Caroline Marland

Caroline Marland was appointed on 21 January 2003. She is a former Managing Director of Guardian Newspapers (1994–2000). She currently holds non-executive directorships at Bank of Ireland and its UK subsidiary, Bristol & West plc.

Guy Peyrelongue

Guy Peyrelongue was appointed on 21 June 2002. Between 1987 and 2001 he served as President and Chief Executive Officer at L'Oreal United States. From 1973 to 1987 he held various positions at L'Oreal including President, Latin America.

David Tyler

David Tyler was appointed on 7 June 2002, having been a director since 1997. He is currently Group Finance Director of GUS plc, a position he has held since 1997. He served as Group Finance Director of Christie's International plc from 1989 to 1996.

Directors' report

The directors present their annual report together with the audited financial statements for the year ended 31 March 2003.

Principal activities and business review

The Company designs, sources, manufactures and distributes high-quality apparel and accessories through its own retail stores and via its wholesale customers. The Company also licenses third parties to manufacture and distribute products using the "Burberry" brand. The Chairman's Statement on page 3, the Chief Executive's Review on pages 6 and 7 and the Operating and Financial Reviews on pages 9 to 19 report on the results for the year and give an indication of the Company's future developments.

Results and dividends

The profit after taxation for the year amounted to £52.2m (2002: £56.5m).

An interim dividend of 1.0p per Ordinary Share was paid to the ordinary shareholders of the Company on 5 February 2003. The directors recommend that a final dividend of 2.0p per Ordinary Share in respect of the year ended 31 March 2003 be paid to those persons on the Register of Members at the close of business on 25 July 2003. This will make a total dividend of 3.0p per Ordinary Share. The dividends paid and proposed in respect of the year ended 31 March 2003 including a pre-IPO dividend were £234.0m.

On 31 March 2003, the Company paid a total dividend of £18,454 to GUS Holdings Limited as the holder of the Company's Redeemable Participating Preference Shares of 0.05p each.

The retained loss for the year ended 31 March 2003 of £181.8m (2002: profit £56.5m) has been transferred to reserves.

Abacus Corporate Trustee Limited, as trustee of the Burberry Group plc ESOP Trust ("the Trust"), has waived all dividends payable by the Company in respect of the Ordinary Shares from time to time held by it as trustee of the Trust. The dividends waived were in aggregate £16,741.

Directors

At the beginning of the year under review, David Tyler, David Morris and Paul Atkinson were directors of the Company, which at that time was a wholly owned subsidiary of the GUS group. In preparation for the Company's IPO in July 2002, David Morris and Paul Atkinson resigned as directors on 7 June 2002 and David Tyler became a non-executive director with effect from the same date. The names and biographical details of the directors holding office at the date of this report are shown on page 22.

Rose Marie Bravo, Michael Metcalf and Thomas O'Neill were appointed as directors of the Company on 7 June 2002. John Peace was appointed as Chairman and Philip Bowman and Guy Peyrelongue were appointed as non-executive directors on 21 June 2002. Caroline Marland was appointed as a non-executive director on 21 January 2003.

As Caroline Marland was appointed after the Company's previous Annual General Meeting, she will retire in accordance with the Company's Articles of Association and a resolution proposing her election will be proposed at the forthcoming Annual General Meeting.

The directors retiring by rotation at this year's Annual General Meeting are Michael Metcalf and David Tyler who, being eligible, offer themselves for re-election.

Details of the directors' service agreements are given in the Report on directors' remuneration and related matters on pages 32 and 33.

Directors' interests

Interests of the directors holding office at 31 March 2003, in the shares of the Company, its subsidiaries and its ultimate parent company, GUS plc, are shown within the Report on directors' remuneration and related matters on pages 38 and 39. There were no changes to these interests between the period 31 March and 12 May 2003. No director had a material interest in any contract other than a service agreement with a member of the Group at any time in the year.

Corporate governance

The Company's statement on corporate governance is set out on pages 26 to 29.

Major corporate activity

On 12 July 2002, the Company's Ordinary Shares of 0.05p each were admitted to the Official List of the UK Listing Authority and to trading by the London Stock Exchange. Immediately prior to admission, a reorganisation of the Group took place resulting in the Company owning, directly or indirectly, all Burberry Group companies.

Substantial shareholdings

As at 21 May 2003, the Company had been notified of the following interests in the Company's Ordinary Shares in accordance with sections 198 to 208 of the Companies Act 1985:

	% of issued share capital	Number of Ordinary Shares
GUS Holdings Limited	77.53	387,640,400
Wellington Management Company, LLP	4.54	22,690,315
FMR Corporation, Fidelity International Limited and their subsidiary companies	4.15	20,751,408

Interests in own shares

Details of the Company's interests in its own shares are set out on page 67 of this Annual Report.

Charitable and political donations

During the year ended 31 March 2003, the Group donated a total of £166,000 (2002: £101,000) to charitable causes. Such donations were made through a variety of means including the involvement of individual employees and through organised events.

The Company made no political donations during the year, in line with its policy.

To comply with recent changes in the law and in keeping with the approach taken by a number of companies, shareholder approval is being sought at the forthcoming Annual General Meeting to permit the Company and its wholly owned subsidiary, Burberry Limited, to make donations and/or incur expenditure which may be construed as political. Further details on these resolutions can be found in a separate circular to shareholders.

Employment policies

The Company is committed to ensuring the consistent profitable growth of its business and a policy of equal opportunity in employment is integral to this commitment. Further details on the Group's Equal Opportunities Policy are set out on page 41 – Corporate social responsibility.

Health and safety

The Company is developing a comprehensive Health and Safety Policy detailing the responsibility of managers at all levels in the Group to ensure the health and safety of employees, contractors and customers. Health and safety support in the UK is provided by the Health and Safety Officer and retained external safety consultants. Risk assessments are performed as required, supported by measurement systems for accident and near miss recording.

In the year to 31 March 2003, there were 10 accidents in the United Kingdom reportable under the UK RIDDOR legislation (the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995). Broadly, this covers those accidents resulting in more than three days absence from work: the RIDDOR accident rate for our UK business was 0.33 per 100,000 hours worked, the principal cause of these being trips and falls. During the year the Group also recorded four accidents to customers at our UK retail premises.

Employee involvement

Employee communication

Burberry believes that employee communication is important in building a strong relationship with and in motivating employees. Burberry makes use of various methods – face to face briefings, direct mail, email, intranet, etc – to ensure that matters of interest and importance are conveyed quickly and effectively.

Employee share ownership

As part of the IPO in July 2002, it was decided to extend employees' interest and participation in the Group's overall performance. This was achieved following the IPO by the allocation of free shares in the Company to approximately 3,300 employees worldwide.

Employees also participate in the GUS SAYE share option schemes in Spain, France, the USA, Germany and the UK.

Creditor payment

For all trade creditors, it is Group policy to:

- ✓ Agree and confirm the terms of payment at the commencement of business with that supplier;
- ✓ Pay in accordance with contractual and other legal obligations; and
- ✓ Continually review the payment procedures and liaise with suppliers as a means of eliminating difficulties and maintaining a good working relationship.

Trade creditor days of the Group at 31 March 2003 were 38 days (2002: 40 days) based on the ratio of Group trade creditors at the end of the year to the amounts recorded as expense during the year attributable to trade creditors. The Company has no trade creditors.

Annual General Meeting

The Annual General Meeting of the Company will be held at The Lincoln Centre, 18 Lincoln's Inn Fields, London, WC2A 3ED at 11.00 am on Tuesday 15 July 2003. The Notice of Meeting is included in a separate circular to shareholders which accompanies this Annual Report. It is also available on the Company's website (www.burberry.com).

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 13 May 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

By order of the Board



Michael Mahony
General Counsel and Secretary
21 May 2003

Registered Office:
18-22 Haymarket
London SW1Y 4DQ

Corporate governance

The Board supports the principles of corporate governance advocated by the Combined Code (“the Code”) and details are given below on the Company’s approach to the application of the principles set out in Section 1 of the Code for the year under review.

Directors

The Board is responsible to shareholders for the management of the Group and has adopted a committee structure which enables it to concentrate its efforts on strategy, management performance, governance and internal control. The Board consists of a Chairman, a Chief Executive plus two other executive directors and four non-executive directors. John Peace was appointed as Chairman and David Tyler as a non-executive director by GUS plc under the Relationship Agreement between the Company and GUS which was entered into at the time of the IPO.

The roles of the Chairman and Chief Executive are clearly defined. The Chairman leads the Board in determining the Group’s strategy and monitoring high level progress. The Chairman does not have any involvement at an operational level. The day-to-day business of the Group is the responsibility of the Chief Executive, Rose Marie Bravo, who is supported by the two executive directors, Michael Metcalf and Thomas O’Neill.

During the year under review the Board held four scheduled meetings. Three further meetings were held in preparation for the IPO.

The Board has a formal schedule of matters reserved to it for decision.

The Board is supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. In addition to the papers for each Board meeting, directors are also supplied with an extensive monthly report, which details progress of the Group’s activities. There is also a procedure whereby directors, in the furtherance of their duties, are able to take independent advice, if necessary, at the Company’s expense. In addition, all directors have direct access to the advice and services of the company secretary.

Philip Bowman, Guy Peyrelongue and Caroline Marland are for all purposes, in the opinion of the Board, independent of management and free from any business relationship which could materially interfere with the exercise of their independent judgement.

The non-executive directors are appointed for specified terms.

Philip Bowman was appointed as the senior independent non-executive director on 19 March 2003.

On appointment, directors are furnished with relevant information to discharge their duties effectively. The Company has introduced a structured induction process whereby a director will meet key members of the management team following his/her appointment. As an ongoing process, directors are briefed and provided with information concerning major developments affecting their roles and responsibilities.

All directors are subject to election by shareholders at the first opportunity after their appointment and thereafter in accordance with Article 82 of the Company’s Articles of Association. This ensures compliance with the Code by providing that all directors are required to submit themselves for re-election at least once every three years.

Committees

The Board is supported by the Audit, Remuneration and Nomination Committees. GUS is entitled to appoint one member of each of these committees under the Relationship Agreement.

Audit Committee

The Audit Committee consists of three non-executive directors: Philip Bowman (Chairman), Caroline Marland and David Tyler. Guy Peyrelongue served as a member until, and Caroline Marland was appointed as a member on, 13 May 2003. The committee normally meets at least twice a year, with both the external auditors and the group internal auditor present.

The Board acknowledges that the independence of auditors is a subject that has become increasingly prominent. It is the role of the Audit Committee to ensure that the auditors’ objectivity and independence are maintained. It has adopted a policy in this respect and monitors the level of fees for non-audit services.

- ∕ Audit related services – The external auditors are preferred providers of audit related services given their understanding of the Group and the synergistic relationship between such work and the aims of the annual audit. Such work extends to, but is not restricted to, shareholder and other circulars and regulatory and other compliance reports.
- ∕ Taxation services – Generally, if the external auditors’ knowledge of the Group’s tax affairs provides significant advantage which another third party would not have, they will be retained for both tax planning and compliance matters.
- ∕ General services – Other proposed assignments are put out to competitive tender and decisions to award work are taken on the basis of demonstrable competence and cost effectiveness.

Remuneration Committee

Details of the Remuneration Committee and its application of corporate governance principles in relation to directors' remuneration is described in the Report on directors' remuneration and related matters on pages 30 to 40.

Nomination Committee

The members of the Nomination Committee are John Peace (Chairman), Rose Marie Bravo, Philip Bowman, Caroline Marland and Guy Peyrelongue. Rose Marie Bravo and Caroline Marland were appointed as members on 13 May 2003. It is intended that the Committee will meet at least twice a year but it did not meet between the IPO and 31 March 2003.

Relations with shareholders

The Company recognises the importance of communicating with its shareholders and does this through its Annual and Interim Reports, quarterly trading updates and at the Annual General Meeting. Although it does not have a fixed procedure covering meetings with its institutional shareholders, it is always ready to enter into a dialogue with investors, and in practice meetings take place frequently.

It is the intention that all directors will attend the Annual General Meeting and will be available to answer shareholders' questions. Voting at the Annual General Meeting is by way of a show of hands by members present at the meeting, unless a poll is validly called. Following each vote on a show of hands, the level of proxies lodged on each resolution and the number of proxy votes for and against the resolution will be announced.

Corporate social responsibility ("CSR")

Details on the Company's approach to CSR are given on pages 41 to 43.

Accountability and audit

It is a requirement of the Code that the Board should present a balanced and understandable assessment of the Company's position and prospects. In this context, reference should be made to the Statement of directors' responsibilities on page 44, which includes a statement in compliance with the Code regarding the Group's status as a going concern, and to the Report of the auditors on page 45, which includes a statement by the auditors about their reporting responsibilities.

The Board recognises that its responsibility to present a balanced and understandable assessment extends to interim and other price sensitive public reports and reports to regulators as well as information required to be presented by law.

Internal control

The Board acknowledges that it is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide reasonable, but not absolute, assurance against material misstatement or loss. The Audit Committee has reviewed the effectiveness of the key procedures which have been established to provide internal control and has used external consultants to assist in this review. It believes that adequate risk management procedures are in place within the Group and will be implementing a number of improvements to strengthen these procedures.

Following publication of guidance for directors on internal control ("The Turnbull Guidance"), the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. These include those relating to social, environmental and ethical matters. This process was in place in respect of the Burberry business throughout the year under review and up to the date of approval of the Annual Report and Accounts. The process will be regularly reviewed by the Audit Committee which reports its findings for consideration by the Board, and is in accordance with The Turnbull Guidance.

The key procedures operating within the Group are as follows:

Risk assessment

The Group's business objectives are incorporated into the annual budgeting and planning cycle. Progress towards the achievement of such objectives is monitored by a variety of financial measures and non-financial performance indicators.

The Audit Committee has delegated responsibility for considering operational, financial, compliance and other risks.

Specific consideration is given to the identification of risk factors, and the appropriate control measures for such factors, as part of the Group's annual budgeting cycle. The executive directors formally meet on a quarterly basis to re-evaluate these risk factors in the context of the then current environment and business activity. A risk register is updated as necessary and at least twice every year.

Control environment and control activities

The Group consists of a number of trading units, each with its own management and control structure. These units report to the executive directors.

The Group has established procedures for the delegation of authorities that are significant, either because of their value or the impact on other parts of the Group, to ensure that approval is considered at an appropriate level.

The Group's trading units operate within a framework of policies and procedures which are either already laid down or are currently being established in organisation or authority manuals. Policies and procedures cover key issues such as authorisation levels, segregation of duties, compliance with legislation and physical and data security.

The Group has implemented various strategies to deal with the risk factors that have been identified. Such strategies include internal control and the use of third party services to assist in monitoring specific issues. In addition, other approaches are used, such as the use of insurance, and treasury instruments to hedge specific foreign currency exposures.

Information and communication

The Group has a comprehensive system of budgetary control, focused on monthly performance reporting which is at an appropriately detailed level.

A summary of results supported by commentary and performance measures is provided to the Board each month. The performance measures are subject to review to ensure that they provide relevant and reliable indications of business performance.

A summary of risk factors and relevant control measures (identified as part of the budgeting cycle) is submitted by the executive directors to the Audit Committee at the beginning of each year. This report is updated at the half-year, and re-submitted to the Audit Committee.

The Audit Committee meets with both external and internal auditors, and can do so without the presence of executive directors, if it so chooses.

Monitoring

A range of procedures is used to monitor the effective application of internal control within the Group. These include management review, management confirmations of compliance with standards and procedures as well as internal audit and other specialist reviews.

The Internal Audit department is responsible for reporting to the Audit Committee on the effectiveness of internal control systems, particularly those relating to the areas of greater financial risk or opportunity.

Compliance with the Combined Code

The Company has complied with the Combined Code throughout the accounting period under review with the following exceptions:

- ✂ The Company had not appointed a senior independent non-executive director until 19 March 2003 when Philip Bowman was appointed to that role.
- ✂ At the time of the IPO the Board comprised four non-executive directors including John Peace, the Chairman. John Peace and David Tyler were appointed by GUS in accordance with the Relationship Agreement and they were not regarded for all purposes as being independent of management and free from any business or other relationship which could materially interfere with their independent judgement. As a result, a majority of the non-executive directors was not independent for all purposes. Therefore at the time of the IPO the Company indicated that it would appoint a further non-executive director and on 21 January 2003 Caroline Marland was appointed as a non-executive director.
- ✂ The Combined Code states that there is a strong case for setting directors' notice or contract termination periods at, or reducing them to, one year or less. The service agreement of Rose Marie Bravo dated 28 May 2002 has an initial fixed period until 30 June 2005. She may terminate the agreement on six months' notice to expire on or after 30 June 2005. Burberry Limited (US) can terminate the agreement in certain circumstances as described on page 32.
- ✂ Burberry adopted at the time of the IPO various share incentive schemes, which are not compliant with the Combined Code in certain respects. In particular there are no performance conditions attached to these schemes.

Higgs and Smith Reports

Following the publication of the report "Review of the role and effectiveness of non-executive directors", prepared by Derek Higgs and "Audit committees: combined code guidance", prepared by Sir Robert Smith, the Board has been actively considering their respective recommendations. As these recommendations have yet to be adopted by the relevant regulatory authorities, the Board has decided to await the final outcome in respect of these recommendations before making any final decisions on these matters.

Report on directors' remuneration and related matters

The Board presents its Report on directors' remuneration and related matters, including pay and benefits, which provides details of the Remuneration Committee, Total Shareholder Return, Remuneration Policy and Directors' Remuneration.

Remuneration Committee

The Remuneration Committee is a Board committee consisting of non-executive directors, John Peace and Philip Bowman, under the chairmanship of Guy Peyrelongue. Caroline Marland was appointed as a member of the committee on 13 May 2003.

The Remuneration Committee decides both the level and structure of executive directors' pay. The remuneration of the Chairman and non-executive directors is a matter reserved for the Board as a whole.

The committee meets at least twice a year and holds additional meetings where necessary. During the year under review and following the IPO, the committee met twice. Pay decisions are made on the basis of advice or proposals prepared by the Chairman, the Chief Executive and the Director of Human Resources as appropriate.

In making its decisions, the Remuneration Committee has direct access to any relevant external adviser appointed on behalf of the Company. For the year ended 31 March 2003, the Company's principal remuneration advisers were Kepler Associates and Towers Perrin. Towers Perrin provided advice on remuneration prior to the IPO. Kepler Associates were appointed by the committee following the IPO. Towers Perrin provide administration services to GUS in respect of GUS share schemes. No other services were provided to the Company by these organisations.

Where necessary or appropriate, the Remuneration Committee will instigate consultation with major institutional shareholders on remuneration matters.

The constitution and operation of the Remuneration Committee are in compliance with the principles of good governance and Code of Best Practice set out in the Listing Rules of the Financial Services Authority.

Total Shareholder Return

For the year under review the total shareholder return is measured from the date of the IPO, 12 July 2002, and is shown on the graph below.

The graph shows the total shareholder return for Burberry Group plc compared to the companies in the FTSE 100 Index assuming £100 was invested on the date of the IPO. The FTSE 100 Index was selected because Burberry's market capitalisation is close to that of companies at the lower end of the FTSE 100 Index.

Value of £100 invested on Burberry flotation date



Remuneration Policy

The current structure of executive remuneration was determined in preparation for the IPO and details of the remuneration were disclosed in the Listing Particulars.

As is evidenced by the current management team, the market for executive talent is a global one, particularly in the luxury goods business, and this is reflected in pay levels. In particular, the USA leads the global pay market and provides higher pay for executive directors than the UK. In the long term interests of its shareholders, Burberry must continue to compete effectively in this global market. Therefore Burberry will provide remuneration which is required to attract, incentivise and retain high calibre executives.

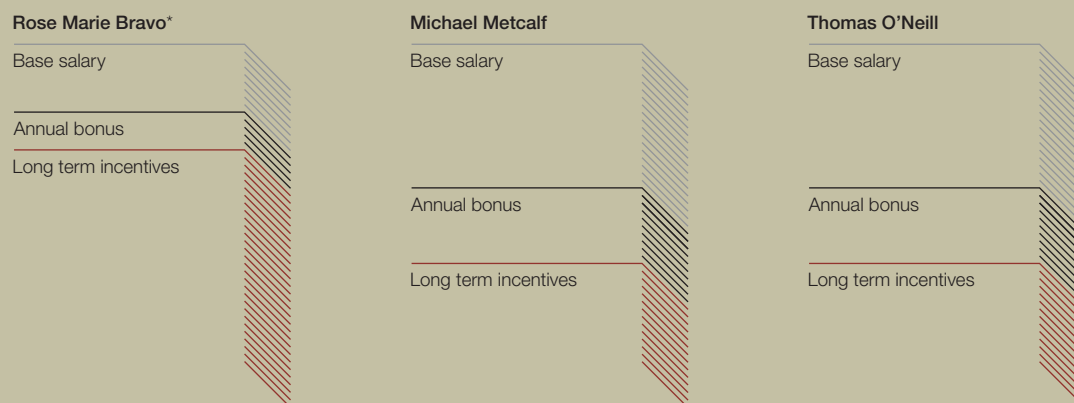
The four tenets on which Burberry's remuneration structure is founded are as follows:

- 1 Base pay levels are established on a market competitive basis.
- 2 Benefits (for example, pensions and cars) are provided on a basis that is appropriate to the director given the international nature of the executive team.
- 3 Performance-related incentives provide the opportunity to deliver substantial rewards for high performance.
- 4 Pay is closely aligned to shareholders' interests and a substantial proportion of remuneration is delivered in Burberry Group plc shares.

Relative importance of elements of remuneration

The relative importance of the elements of each of the executive directors' remuneration is shown below based on base salaries, on target annual bonuses and present fair values of long term incentives for the year ended 31 March 2003.

Proportion of total compensation



*Note: Long term incentives illustrated for Rose Marie Bravo do not reflect the notional restricted stock right which she may receive in lieu of her share awards and options. This is described in further detail on page 32.

Implementation of policy

Burberry implements its remuneration policy as follows:

(a) Base salary

To ascertain the job's market value, external remuneration consultants will annually review and provide data about market salary levels, and advise the Remuneration Committee accordingly. These market rates are based on peer group data. Before making a final decision on individual salary awards, the Remuneration Committee assesses each director's contribution to the business, and takes this into account.

(b) Annual bonus

To reward current performance, executive directors are eligible for an annual incentive of 50% of base salary for achieving targets and a maximum of 100% of base salary for substantially exceeding targets. The Remuneration Committee sets bonus targets by reference to agreed budgets and external expectations for delivery of operational results.

Bonuses are currently based on growth in operating profit before goodwill amortisation and exceptional items but adjusted to include a notional charge for capital employed.

(c) Share options

The current option awards to the executive directors were determined prior to the IPO and reflected the requirements with regard to the incentivisation and retention of the executive team in the context of the IPO. These awards are set for the period up to and including the year ending 31 March 2005. The Remuneration Committee will be determining the policy for the granting of options for subsequent years.

(d) Proposed co-investment scheme

Burberry proposes to introduce a co-investment scheme which will further align the executive directors' remuneration with shareholder interests and strengthen the retention effect within the current remuneration packages. Under this scheme directors will be given the opportunity to defer receipt of their bonus and have it invested in Burberry shares. The number of shares acquired on behalf of the director will be matched on a sliding scale depending on achievement against the performance targets for the relevant financial year. The number of matching shares will vary from zero to one (0:1), to a maximum of one to one (1:1) where targets are substantially exceeded. The release of these shares and the invested shares is deferred for three years. Thus the ultimate value to directors will depend on share price performance over that period. If a director resigns during the three-year period he/she will forfeit his/her rights in respect of the matching shares.

(e) Service agreements

The duration of service agreements and notice periods and associated termination payments are consistent with Burberry's policy on executive remuneration. To retain and attract executive talent in the international market in which Burberry competes may require fixed term contracts and notice periods in excess of one year. Burberry will only grant notice periods of more than one year where it is necessary to retain and attract executive talent and on the basis of advice provided by external advisers. Burberry decides on the level of termination payments based upon the circumstances of termination. Where a director is dismissed without cause the director will be fully protected against the financial consequences of such dismissal. Where the director voluntarily resigns the director will be entitled to his/her base salary and bonus to the extent earned but incentive awards which have not vested relating to the period after the termination date will lapse. In circumstances where the Company dismisses the director for cause no further payments will be made whether of salary or otherwise.

Save as described below, there are no service contracts with any of the directors with a notice or contract period of one year or more with provisions for pre-determining compensation on termination of any amount which equals or exceeds one year's salary and benefits in kind.

The main terms on which each of the directors is employed by a member of the Group are set out below.

Rose Marie Bravo

Rose Marie Bravo is employed by Burberry Limited (US) as Chief Executive under a service agreement dated 28 May 2002 for an initial fixed period until 30 June 2005. She may terminate the service agreement on six months' notice to expire on or after 30 June 2005. Burberry Limited (US) may terminate the service agreement with or without cause on notice during or after the fixed period.

If the service agreement is terminated by Burberry Limited (US) without cause (an example of cause is gross misconduct) then it will continue to pay to Ms Bravo her base salary for the balance of the fixed period (or one year if longer); in lieu of an annual bonus, it will pay 50 percent of base salary for each full year and a pro rata portion thereof for each part year payable when such bonus would otherwise be paid. If Ms Bravo terminates the service agreement with good reason the termination is deemed to be termination by Burberry Limited (US) without cause. On termination of Ms Bravo's employment she will be reimbursed for her reasonable relocation costs to the USA.

If any party acquires directly or indirectly 25 percent or more of the voting rights in Burberry Group plc or the right to appoint or remove the majority of the directors of Burberry Group plc, or any member of the Group transfers to another owner (other than another member of the Group) business or assets constituting 25 percent or more of the total business or assets of the Group ("Change in Control"), Ms Bravo can within 60 days terminate her employment by 30 days' notice in writing. Such termination is deemed to be by Burberry Limited (US) without cause and the payments for such termination must be made within 70 days of the Change in Control.

If payments due to Ms Bravo are deemed to constitute parachute payments as defined in Section 280 G(b)(2) of the US Internal Revenue Code 1986, Burberry Limited (US) shall pay Ms Bravo an additional amount equivalent to the tax on these payments.

Pursuant to the service agreement, Ms Bravo has been granted an award and an option over Ordinary Shares in the Company as set out on pages 35 and 36. Ms Bravo is also entitled to be granted three options, each over 833,333 Ordinary Shares, under the Burberry Non-Approved Executive Share Option Scheme 2002, in 2003, 2004 and 2005. The exercise price of each option will be the market value of an Ordinary Share at the time of grant. If the service agreement is terminated, Ms Bravo's rights in respect of her award and options will be determined by the rules of the relevant share scheme except that her award and options will vest or become exercisable if the service agreement is terminated on or after 30 June 2005 in any circumstances, unless for cause.

Under the service agreement, and as described in the Listing Particulars, Ms Bravo has been granted a Notional Restricted Stock Right. Broadly, the effect of this is that, in lieu of her above award and options, Ms Bravo can receive a cash payment of US\$15m (less any value already received in respect of such award or options). Ms Bravo can exercise the Right on or after 30 June 2005. In addition, she can exercise the Right before 30 June 2005 if either her employment is terminated by Burberry Limited (US) without cause or by Ms Bravo for "good reason" or there is a Change in Control and she elects to terminate her employment. If there is a Change in Control and Ms Bravo does not elect to terminate her employment, the Right will not be affected by the Change in Control and will continue.

Michael Metcalf

Michael Metcalf is employed by Burberry Limited (UK) as Chief Operating and Financial Officer under a service agreement dated 14 August 1998. His term of appointment commenced on 1 September 1998.

Mr Metcalf has been granted an award over Ordinary Shares in the Company and options over Ordinary Shares as set out on pages 35 and 36. Mr Metcalf is entitled to membership of any long term incentive plan or share option scheme to the same extent as executives of equivalent seniority and status to Mr Metcalf. If his service contract is terminated, Mr Metcalf's rights in respect of his share awards and options will be determined by the rules of the relevant share scheme.

Burberry Limited (UK) may terminate Mr Metcalf's employment by giving not less than 12 months' written notice. Mr Metcalf may terminate his employment by giving not less than six months' written notice.

Thomas O'Neill

Thomas O'Neill is employed as President Worldwide under dual contracts. He is employed by Burberry Limited (UK) and by Burberry Limited (US) under service agreements dated 20 June 2002. Burberry may terminate the agreements with or without cause on notice.

If the service agreements are terminated by Burberry Limited (UK or US as appropriate) without cause, Mr O'Neill is entitled to all accrued but unpaid base salaries to the date of termination of the employment, unpaid bonuses and certain pre-termination obligations, which have accrued; base salaries for 12 months after the date of termination; annual bonuses for the year in which the termination occurs and pro rata bonuses for 12 months after termination provided performance targets are achieved; continuation of benefits and reasonable repatriation costs. If Mr O'Neill terminates the service agreements with good reason, the termination is deemed to be termination by Burberry Limited (UK or US as appropriate) without cause. Good reason includes an LVMH Change in Control (see below).

If a person acquires directly or indirectly 25 percent or more of the voting rights in Burberry Group plc or the right to appoint or remove the majority of the directors of Burberry Group plc, or any member of the Group transfers to another owner (other than another member of the Group) business or assets constituting 25 percent or more of the total business or assets of the Group ("Change in Control"). Under his US service agreement Mr O'Neill is entitled to a retention bonus of six times his base salary and two times his maximum annual bonus for the year in which the Change in Control occurs, which represents three times his overall annual base salary and one times his overall annual bonus. Half of the bonus is payable on the date of the Change in Control, and the second half is payable on the first anniversary of that date. If LVMH or any associated company of LVMH is the person responsible for a Change in Control and within 394 days of the Change in Control there is a termination without cause by the Company or by the executive for good reason, Mr O'Neill is entitled to base salaries and other benefits for a 24 month period at the highest salaries in effect prior to the Change in Control and in determining bonuses all performance targets will be deemed to have been attained.

If payments due to Mr O'Neill are deemed to constitute parachute payments as defined in Section 280 G(b)(2) of the US Internal Revenue Code 1986, Burberry Limited (US) will pay Mr O'Neill an additional amount equivalent to the tax on these payments.

Pursuant to his service agreements, Mr O'Neill has been granted an award and an option over Ordinary Shares in the Company as set out on pages 35 and 36. Mr O'Neill is also entitled to be granted three options under the Burberry Non-Approved Executive Share Option Scheme 2002, in 2003, 2004 and 2005. The exercise price of each option will be the market value of an Ordinary Share at the time of the grant. Each option will be over such number of Ordinary Shares as is, at the prevailing market value, equivalent to two-thirds of Mr O'Neill's base salary at the time of grant. If his service agreements are terminated, Mr O'Neill's rights in respect of his award and options will be determined by the rules of the relevant share scheme.

Non-executive directors

Guy Peyrelongue and Philip Bowman were each appointed as non-executive directors of the Company on 21 June 2002. Caroline Marland was appointed as a non-executive director of the Company on 21 January 2003. Each is paid a basic fee of £40,000 per annum. An additional fee of £7,500 per annum is paid to the chairman of the remuneration and audit committees.

John Peace, Group Chief Executive of GUS, was appointed to the Board of the Company on 7 June 2002. He is the non-executive Chairman of the Company. David Tyler, Group Finance Director of GUS, was formally appointed as a non-executive director of the Company on 7 June 2002 having been a director since late 1997. Messrs Peace and Tyler have been appointed for an initial three year term subject to six months' notice by either party. Neither John Peace nor David Tyler receives fees in respect of their appointments. Instead, in accordance with the Relationship Agreement, the Remuneration Committee has agreed that the Company will pay annual fees of £100,000 in the case of John Peace, and £40,000 in the case of David Tyler, to GUS.

As part of the shareholding policy of the Company, non-executive directors are expected to acquire £6,000 in Ordinary Shares in the Company for each year of their appointment. The Ordinary Shares must be held for three years from purchase, or, if longer, for the duration of a director's time on the Board. Messrs Peyrelongue and Bowman and Ms Marland have been appointed for an initial three-year term subject to six months' notice by either party.

Directors' Remuneration

Prior to the IPO, Burberry Group plc (formerly Burberry Group Limited) was an intermediate holding company of the GUS group and held a number of investments in GUS and Burberry Group companies. None of the previous directors of Burberry Group Limited have become executive directors of Burberry Group plc and no directors' fees were charged to the Company during the period prior to the IPO, as the amount of time spent on Burberry Group Limited matters by the appointed individuals was not significant.

The remuneration of the directors of Burberry Group plc in the period 1 April 2002 to 31 March 2003 is described below:

(a) Total remuneration

The table below summarises the total remuneration of the directors of Burberry Group plc in the period 1 April 2002 to 31 March 2003:

	Total aggregate emoluments £'000	Total contribution to defined contribution pension schemes £'000	Total amounts received under long term incentive plans £'000	Total £'000
Executive remuneration	4,150	53*	4,110	8,313
Non-executive remuneration/fees	197	–	–	197
Year ended 31 March 2003	4,347	53*	4,110	8,510
Year ended 31 March 2002	3,173	43*	3,006	6,222

*These figures do not include deemed contributions under UURBS – see page 40.

The total amount received under long term incentive plans relates to the termination of plans that were in operation for Rose Marie Bravo and Michael Metcalf as described in note (e) below.

(b) Aggregate emoluments by director

Executive directors

	Salary	Allowances paid in cash	Total allowances and salary	Bonus	Deferred bonus	Benefits	Aggregate emoluments	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	£'000
Rose Marie Bravo								
31 March 2003	1,500	–	1,500	1,294	–	446	3,240	2,095
31 March 2002	1,500	–	1,500	1,000	–	339	2,839	1,985
Michael Metcalf	£'000	£'000	£'000	£'000	£'000	£'000		
31 March 2003	330	10	340	453	168	1		962
31 March 2002	315	4	319	225	–	16		560
Thomas O'Neill	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		
31 March 2003	550	166	716	649	275	49	1,689	1,093
31 March 2002	229	63	292	338	180	87	897	628
Total	£'000	£'000	£'000	£'000	£'000	£'000		
31 March 2003	1,656	118	1,774	1,710	345	321		4,150
31 March 2002	1,524	48	1,572	1,161	126	314		3,173

Non-executive directors

	Fees 2003 £'000	Fees 2002 £'000
John Peace*	82	–
Philip Bowman	37	–
Guy Peyrelongue	37	–
Caroline Marland	8	–
David Tyler*	33	–
Total	197	–

*The fees for John Peace (Chairman) and David Tyler are paid to GUS plc.

i) Salaries, allowances and fees

Salaries include base salary.

In addition, Thomas O'Neill is paid an overseas allowance and Michael Metcalf receives the cash equivalent of a company car.

ii) Bonuses and deferred bonuses

Thomas O'Neill was provided compensation in relation to bonus schemes in existence with his previous employers totalling \$380,000 (£265,700). On 1 November 2001 \$200,000 (£139,800) of this compensation was paid. A further payment was made on 1 November 2002 totalling \$100,000 (£64,675). A final payment of \$80,000 (£51,740) is due on 1 November 2003, subject to Thomas O'Neill remaining employed by the Group.

On completion of the IPO, Michael Metcalf and Thomas O'Neill became entitled to receive an IPO retention bonus of 100 percent of their gross base salary. Half of the bonus was paid during the year ended 31 March 2003 to Michael Metcalf (£167,500) and Thomas O'Neill (\$275,000) (£177,900) and has been disclosed as part of bonus payments. The remaining amount is payable on the first anniversary of the IPO and has been disclosed within deferred bonuses.

iii) Benefits

Benefits for executive directors include a company car, fuel allowance and private medical insurance.

Rose Marie Bravo has also been provided with an expatriate package commensurate with her position as Chief Executive. This includes accommodation whilst in London and appropriate travel costs. In addition, legal expenses in relation to service agreement negotiations are paid for and certain other benefits are also provided.

Thomas O'Neill is also reimbursed for legal expenses incurred in relation to service agreement negotiations and certain other benefits are also provided.

(c) Share schemes

During the year ended 31 March 2003 the executive directors of Burberry Group plc were granted awards and options under two schemes in respect of Ordinary Shares of 0.05p each of Burberry Group plc, as follows:

The Burberry Senior Executive Restricted Share Plan ("the RSP")

On 11 July 2002 awards were made to executive directors under the RSP in respect of services provided prior to the IPO. No previous awards have been made and no further awards will be made. As the awards were made in respect of services provided prior to the IPO, no performance criteria have been attached to the awards.

Details of the market price of the Company's Ordinary Shares from the date of the IPO to 31 March 2003 are shown in the table below:

At the year end	236p
Highest price during the period	256p
Lowest price during the period	150p
Offer price at IPO	230p

The interests of the executive directors of Burberry Group plc in shares held under the RSP are as follows:

	Number of shares awarded		Exercise price	Vesting date	Expiry date
	At 31 March 2002	Granted during the year and at 31 March 2003			
Rose Marie Bravo	–	2,500,000	nil	11/07/2005	11/07/2012
	–	1,250,000	nil	11/07/2006	11/07/2012
	–	1,250,000	nil	11/07/2007	11/07/2012
Michael Metcalf	–	145,652	nil	11/07/2005	11/07/2012
	–	72,826	nil	11/07/2006	11/07/2012
	–	72,826	nil	11/07/2007	11/07/2012
Thomas O'Neill	–	154,447	nil	11/07/2005	11/07/2012
	–	77,224	nil	11/07/2006	11/07/2012
	–	77,224	nil	11/07/2007	11/07/2012

The Burberry Senior Executive IPO Share Option Scheme ("the IPO Option Scheme")

On 11 July 2002 options were granted to executive directors under the IPO Option Scheme in respect of services provided prior to the IPO. No previous grants have been made and no further grants will be made. As the grants were made in respect of services provided prior to the IPO, no performance criteria have been attached to the grants.

These options were granted with an exercise price equal to the IPO price, 230p per share.

	Number of shares under option		Exercise price	Vesting date	Expiry date
	At 31 March 2002	Granted during the year and at 31 March 2003			
Rose Marie Bravo	–	833,333	230p	11/07/2003	11/07/2012
	–	833,333	230p	11/07/2004	11/07/2012
	–	833,333	230p	11/07/2005	11/07/2012
Michael Metcalf	–	97,101	230p	11/07/2003	11/07/2012
	–	97,101	230p	11/07/2004	11/07/2012
	–	97,101	230p	11/07/2005	11/07/2012
Thomas O'Neill	–	102,965	230p	11/07/2003	11/07/2012
	–	102,965	230p	11/07/2004	11/07/2012
	–	102,965	230p	11/07/2005	11/07/2012

GUS share option schemes

During the year ended 31 March 2002 for all the executive directors of Burberry Group plc, and during the year ended 31 March 2001 for Michael Metcalf, the opportunity was given to participate in the GUS plc Approved and Non-Approved Executive Share Option schemes under which options in respect of GUS plc ordinary shares of 25p each were granted.

The options were granted in accordance with the scheme rule that annual option grants to any individual should not be in respect of shares with a value in excess of basic annual salary, or twice basic annual salary in exceptional circumstances.

The options may not be exercised unless, during a period of three consecutive financial years, GUS plc's adjusted earnings per share have increased by an average of at least 4 per cent per annum more than the growth in the Retail Prices Index.

The exercise price represents the average of the middle market quotations of a GUS plc share as derived from the Daily Official List of The London Stock Exchange for the three immediately preceding dealing days to the date on which options were granted.

The market price of GUS plc ordinary shares during the period is shown in the table below:

Year ended 31 March	2003	2002
At the year end	487p	700p
Highest price during the year	700p	704p
Lowest price during the year	440p	442p

The interests of the executive directors of Burberry Group plc in GUS plc ordinary share options held under the GUS plc 1998 Approved and Non-Approved Executive Share Option schemes were as follows:

	Number of shares under option			Exercise price	Date from which exercisable	Expiry date
	At 31 March 2002	Granted during the year ended 31 March 2003	At 31 March 2003			
Rose Marie Bravo	356,747	–	356,747	612.7p	11/06/2004	11/06/2011
Michael Metcalf	73,197	–	73,197	375.7p	07/04/2003	07/04/2010
Michael Metcalf	51,411	–	51,411	612.7p	11/06/2004	11/06/2011
Thomas O'Neill	119,624	–	119,624	635.0p	17/12/2004	17/12/2011

In addition, an option was granted to a director of Burberry Group plc on 9 February 2001 under a Save As You Earn share option scheme introduced for employees in the UK by GUS plc, as shown in the table below:

	Number of shares under option			Exercise price	Date from which exercisable	Expiry date
	At 31 March 2002	Granted during the year ended 31 March 2003	At 31 March 2003			
Michael Metcalf	2,522	–	2,522	384.0p	01/05/2004	31/10/2004

The Company's Register of Directors' Interests contains full details of directors' shareholdings and options.

(d) Notional restricted stock right

On 28 May 2002 Rose Marie Bravo was granted a right that in lieu of her awards and options including those under the RSP and IPO Option Schemes described above, she can receive a cash payment of US\$15m (less any value already received in respect of such awards or options). Further details of this right are set out on page 32.

(e) Long term incentive plans

Prior to the IPO and as part of her employment package, Rose Marie Bravo was provided with an incentive plan designed first to incentivise her to revitalise the Burberry brand and to improve the profitability of the Group over a period of time, and second to replace incentive plans available to her in her previous employment. The plan commenced on 1 April 1998 and was due to end on 31 March 2003. The amount receivable was dependent on the performance of the Group against pre-set profit targets over the performance period with a minimum amount of \$4,000,000 payable, increasing pro rata depending on the Group's profit performance up to a maximum of \$10,000,000, subject to Rose Marie Bravo remaining employed by the Group.

This plan terminated in May 2002 when a new contract was signed. A total payment of \$10,000,000 has been made to Rose Marie Bravo with \$4,000,000 (£2,830,000) paid and recognised as remuneration in the year ended 31 March 2002, as a result of the expected achievement of the profit targets. The remaining \$6,000,000 (£4,110,000) was charged to the profit and loss account in the year ended 31 March 2002 and is considered paid and recognised as remuneration in the year ended 31 March 2003.

Michael Metcalf has participated in senior management incentive schemes. Separate schemes commenced on 1 April 1999 and 2000 in respect of the three years ended 31 March 2002 and 2003 respectively. These schemes allowed an individual to earn up to 50 percent of their annual salary as at the beginning of each scheme, with amounts receivable as a mixture of cash and GUS plc ordinary shares.

In preparation for the proposed IPO of the Company on the London Stock Exchange, both senior management incentive schemes were terminated in September 2001 and Michael Metcalf received a payment of £91,700 for the scheme commencing on 1 April 1999 and, on the basis of an election taken by Michael Metcalf at the start of the scheme, 12,860 ordinary shares in GUS plc (valued at £83,800, based on the share price at the date of termination) for the scheme commencing on 1 April 2000. These are included in Michael Metcalf's remuneration for the year ended 31 March 2002.

(f) Directors' interests

The beneficial interests of the directors in the Ordinary Shares of the Company are shown below:

Beneficial holdings	On IPO or date of appointment if later	Number of shares awarded under RSP as at 31 March 2003	Number of shares under option as at 31 March 2003	Holdings of Ordinary Shares as at 31 March 2003
Philip Bowman	–	–	–	10,870
Rose Marie Bravo	–	5,000,000	2,500,000	–
Caroline Marland	–	–	–	8,000
Michael Metcalf	–	291,304	291,304	20,000
Thomas O'Neill	–	308,895	308,895	–
John Peace	–	–	–	16,000
Guy Peyrelongue	–	–	–	6,522
David Tyler	–	–	–	16,000

There are no non-beneficial interests.

As potential beneficiaries under the Burberry Group plc ESOP Trust ("the Trust"), John Peace, Rose Marie Bravo, Michael Metcalf, Thomas O'Neill and David Tyler are deemed to be interested in the Ordinary Shares of 0.05p each in Burberry Group plc held by the Trust. The Trust held 2,334,783 such shares as at 31 March 2003.

In addition, as at 31 March 2003 Rose Marie Bravo and Michael Metcalf were each interested in one share of €15 in Burberry France SA and Michael Metcalf had an interest in one share of Swiss Fr 1,000 in Burberry (Suisse) SA, all of which were held throughout the year in order to comply with the provisions of the Articles of Association of those companies. The issued share capital of Burberry France S.A. consists of 208,560 shares and the issued share capital of Burberry (Suisse) SA consists of 500 shares.

There has been no change in the above interests prior to 12 May 2003.

The beneficial interests of the directors in the shares of GUS plc are shown below:

	Ordinary shares in GUS		Options to acquire ordinary shares in GUS under the GUS Share Option Scheme			Options to acquire ordinary shares in GUS under the GUS SAYE Share Option Scheme		
	As at 31 March 2002	As at 31 March 2003	As at 31 March 2002	Options granted during the year	As at 31 March 2003	As at 31 March 2002	Options granted during the year	As at 31 March 2003
Rose Marie Bravo	10,000	10,000	356,747	–	356,747	–	–	–
Michael Metcalf	10,245	10,245	124,608	–	124,608	2,522	–	2,522
Thomas O'Neill	–	–	119,624	–	119,624	–	–	–
John Peace	30,000	96,370	342,247	99,540	441,787	4,394	–	4,394
Philip Bowman	4,000	4,000	–	–	–	–	–	–
Guy Peyrelongue	–	–	–	–	–	–	–	–
David Tyler	20,000	52,882	281,149	58,192	339,341	4,394	–	4,394
Caroline Marland	–	–	–	–	–	–	–	–

There are no non-beneficial interests.

	Ordinary shares in GUS under the GUS Performance Share Plan		Ordinary shares in GUS under the GUS Co-Investment Plan		
	As at 31 March 2002	Shares awarded during the year	As at 31 March 2003	As at 31 March 2002	As at 31 March 2003
Rose Marie Bravo	-	-	-	-	-
Michael Metcalf	-	-	-	-	-
Thomas O'Neill	-	-	-	-	-
John Peace	195,356	99,540	294,896	-	187,900*
Philip Bowman	-	-	-	-	-
Guy Peyrelongue	-	-	-	-	-
David Tyler	97,766	58,192	155,958	-	109,608*
Caroline Marland	-	-	-	-	-

*GUS plc directors, including John Peace and David Tyler, are given the opportunity to defer receipt of their annual bonus and have it invested in GUS shares. Shares so purchased on behalf of these directors, applying the bonus reported in last year's GUS Annual Report, are included in these figures. Matching shares under these arrangements are not released until the expiry of a three-year period and the right to these shares is forfeited if a director resigns from GUS before then.

John Peace, Rose Marie Bravo, Michael Metcalf, Thomas O'Neill and David Tyler are, together with other employees of the GUS group, discretionary beneficiaries under the GUS plc ESOP Trust and the GUS plc ESOP Trust (No. 3) and, as such, each director is deemed to be interested in the 2,116,442 and 2,713,826 ordinary shares in GUS held by the trustee of each trust, respectively. In addition, Rose Marie Bravo, Michael Metcalf and Thomas O'Neill are, together with other employees of the GUS group, discretionary beneficiaries under the GUS plc ESOP Trust (No. 2) and, as such, each of them is deemed to be interested in the 7,367,635 shares held by the trustee of that trust.

With the exception that the holding of the GUS plc ESOP Trust (No. 2) in GUS shares reduced to 7,364,541 on 12 May 2003, there has been no change to the above interests prior to that date.

(g) Directors' pension entitlements

US pension schemes

Pension contributions are made to a Section 401(k) scheme operated by the Group in the United States for Rose Marie Bravo. The cost of providing this was \$12,500 (£8,000) in the year ended 31 March 2003 (2002: \$11,000 (£8,000)).

During the year ended 31 March 2003 Thomas O'Neill became eligible to join the Section 401(k) scheme operated by the Group in the United States. The cost of providing this scheme was \$12,500 (£8,000) in the year ended 31 March 2003 (2002: nil).

GUS group pension schemes

Michael Metcalf is a "Class F" member of the GUS Pension Scheme, a defined benefit scheme which entitles him to up to two-thirds of his final salary, on retirement at age 65, subject to Inland Revenue limits. Members are entitled to convert part of their pension into a lump sum cash payment, receive life assurance cover of four times salary during employment and receive pensions payable in the event of illness and pensions payable to dependants upon death. Bonuses are not pensionable.

Set out below are details of the pension benefits earned by Michael Metcalf under the GUS Pension Scheme during the period 1 April 2002 to 31 March 2003:

	Gross increase in accrued pension £'000	Increase in accrued pension net of inflation £'000	Total accrued pension at 31 March 2003 £'000	Transfer value of increase in accrued pension over period £'000	Transfer value of accrued pension at 31 March 2002 £'000	Total change in transfer value during the period £'000	Transfer value of accrued pension at 31 March 2003 £'000
Michael Metcalf	3	3	15	19	91	(3)	88

These figures exclude any contribution paid to the FURBS or benefits due from the FURBS in lieu of pension benefits on pay in excess of the earnings cap. Voluntary contributions paid by the director and resulting benefits are not shown.

Funded and Unfunded Unapproved Retirement Benefits Schemes

The executive directors of Burberry Group plc are affected by pensions caps imposed by the Inland Revenue (for Michael Metcalf) and by the Internal Revenue Service (for Rose Marie Bravo and Thomas O'Neill). Arrangements have therefore been made to provide pension benefits in excess of these caps, as set out below.

Funded Unapproved Retirement Benefits Scheme ("FURBS")

A FURBS was set up during the year ended 31 March 2000 for Michael Metcalf. The cost of providing this additional pension arrangement is set out below:

	Year ended 31 March 2003 £'000	Year ended 31 March 2002 £'000
Michael Metcalf	37	35

Unfunded Unapproved Retirement Benefit Schemes ("UURBS")

In the year ended 31 March 2002 it was agreed to set up UURBS for Rose Marie Bravo and Thomas O'Neill. The additional amount reserved by the Group is based on 30 percent and 20 percent of their respective base salaries together with the growth rate of the fund selected by the individuals.

Set out below are details of the pension benefits earned by Rose Marie Bravo and Thomas O'Neill during the period 1 April 2002 to 31 March 2003.

	Accrued benefit				Transfer value of increase in accrued benefit \$'000	Transfer value of accrued benefit		
	At 31 March 2002 \$'000	Gross increase \$'000	Increase net of inflation \$'000	At 31 March 2003 \$'000		At 31 March 2002 \$'000	Change during the period \$'000	At 31 March 2003 \$'000
Rose Marie Bravo	225	480	459	705	474	225	480	705
Thomas O'Neill	47	115	110	162	115	47	115	162
Total	272	595	569	867	589	272	595	867
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Total	176	385	368	561	381	176	385	561

Audit Statement

In their audit opinion on page 45 PricewaterhouseCoopers LLP refer to their audit of the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985. These comprise the following disclosures in this remuneration report:

- ✓ The disclosures under the headings "Total remuneration" and "Aggregate emoluments by director" on pages 34 and 35;
- ✓ The disclosures under the heading "Bonuses and deferred bonuses" on page 35;
- ✓ The disclosures under the headings "Share schemes"; "Notional restricted stock right" and "Long term incentive plans" on pages 35 to 37;
- ✓ The disclosures under the heading "Directors' pension entitlements" on pages 39 and 40.

Approved by the Board and signed on its behalf by:



Michael Mahony
General Counsel and Secretary

21 May 2003

Corporate social responsibility

The increasing importance of corporate social responsibility (“CSR”) signals a change in the attitude that a company is responsible only to its shareholders. Burberry recognises that shareholders fund the business and that long term profitability depends on looking after the Group’s assets and name.

However, Burberry fully endorses the view that companies should act as good “corporate citizens” and that it is in the shareholders’ interests to do so. The Group is committed to being a good corporate citizen wherever it trades as a desirable objective in its own right but also to protect and enhance its business interests and reputation.

Burberry has a formal CSR policy so that its stakeholders – shareholders, customers, employees, trading partners and other interested parties – know the way in which Burberry’s business is to be undertaken. The policy addresses its different stakeholders whilst recognising that the interests of all stakeholders are fundamentally dependent on Burberry’s success and profitability. The CSR policy was approved by the Board in September 2002 at its first scheduled meeting after the IPO. Extracts from the CSR policy are reproduced in the relevant sections below.

In addition to its shareholders, Burberry has identified the following as key stakeholders: employees, customers, business partners and suppliers, the community and the impact of the business’s activity on the environment.

1 Employees

Policy statement: “We do not discriminate on grounds of race, religion, age or gender. We reward and develop according to performance and skills within the context of business needs.”

We are committed to developing practices and procedures that ensure our standards of care to customers, employees and suppliers, and the systems we operate are of the highest quality.

We believe that the workplace should be safe and civilised; we will not tolerate sexual or racial harassment or offensive behaviour of any kind.

Equal opportunities

The aim of the Group’s Equal Opportunities Policy is to ensure that the most capable job applicants are recruited and the most competent employees in the Group progress. All decisions about individuals’ employment are based solely on an objective assessment of their suitability for the job. All employees will receive fair and equal treatment irrespective of sex, race, ethnic origin, nationality, marital status, age, religion, disability or sexual orientation. In the situation where an employee becomes disabled, the Group will endeavour to assist the employee by adapting the job or by offering a transfer to another position if appropriate.

Code of Business Principles

The Group has a Code of Business Principles. This Code covers such matters as confidentiality, conflict of interest, relationships with business partners and political donations. All employees are expected to comply with this Code and senior employees may be required to sign an annual certificate of compliance.

2 Customers

Policy statement: “We aim to win and keep customers through the quality of our product and service. We do not bribe to obtain or keep business. We only pay bona fide commission. We respect our customers’ requirements and keep their secrets.”

We serve both retail customers (consumers) and wholesale customers, and we see the meeting of their needs as a key part of our corporate responsibility. We are committed to high standards in products and service commensurate with the status of Burberry as an international luxury goods business.

Levels of customer support are monitored and reviewed in a number of ways including the use of “mystery shoppers” in certain retail premises and periodic surveys among wholesale customers. The most recent wholesale customer survey was conducted in November 2002, with 85 of our key international wholesale customers rating our service performance on quality, communication and delivery.

We operate a customer service team in the UK and the USA to handle queries from customers in receipt of any Burberry product, whether purchased directly from the Group or not. This team continually monitors customers’ views on our performance.

3 Business partners and suppliers

Policy statement: "We treat our business partners according to our contractual agreements and pay when due. We do not accept any gift or entertainment, which might – or might be seen to – put us under any obligation to the giver."

We have many important relationships with business partners including licensees and suppliers. We expect and demand high standards from all these business partners. We expect all of our business partners to sign up to our principles and standards of conduct, and a significant amount of work has been undertaken during the year with the support of external consultants on developing assurance processes.

We have placed a particular focus upon our supply chain. We currently have:

- ∕ approximately 350 suppliers for our international product range and Burberry Spain has approximately 300 suppliers for its range;
- ∕ 33 licensees employing several hundred sub-contractors.

A Burberry Supplier Code of Conduct has been developed and distributed to all suppliers of finished goods for our international product range, with all being required to comply. All licensees are generally obliged to act in accordance with good environmental and ethical standards.

The finished goods supply base and licensee network has been evaluated in the year to 31 March 2003 in conjunction with third party consultants, with the aim of identifying those products and countries posing the greatest environmental and social concerns.

The licensee network has a wider global spread and extensive use of sub-contractors. Where our licensees represent other brand owners, we are co-operating where possible with those brand owners to share information on standards in these licensees.

During the year, a pilot audit was carried out at 24 manufacturing sites of suppliers, major licensees and their sub-contractors with the aim of identifying and subsequently managing issues around social, ethical and environmental standards. The purpose of this exercise was to assess these manufacturers against our code of conduct. The factories chosen to participate in the pilot audits were audited by reference to the Burberry Supplier Code of Conduct. Any issues of non-compliance have been raised with the relevant supplier or licensee and a plan is now being put in place for a detailed response and suggested action plan for Burberry approval. The audit programme is continuing in the year ending 31 March 2004.

4 Community

Policy statement: "We act in a manner consistent with our objective of being a good corporate citizen".

Burberry aims to be a good corporate citizen by supporting the community at large, through the direct donation of funds for charitable causes and involvement with educational establishments connected with the Company's activities.

Our programme of activity is diverse. During the past year, Burberry has facilitated charitable giving through a variety of activities, both in the UK and overseas. For example, monetary donations were given to many charities supporting a wide range of initiatives in the UK, including breast cancer research and children's welfare. In the USA, gifts for charitable auctions and promotional activities were donated to several organisations, including Lighthouse International, a charity which supports the visually impaired, and the Wildlife Conservation Society.

Donations have also provided support to educational establishments with direct involvement in fashion related studies, including The Fashion Institute of Design and Merchandising in Los Angeles and The Royal College of Art in London.

The principal objective for this area in the next twelve months is to continue to maintain a high level of charitable support, whilst further developing our policy in line with our core business values and strengths.

5 Environment

Policy statement: "We respect the environment and the local communities within which we do business."

Burberry's environmental performance is maintained by a committee of individuals with responsibility for operations, maintenance, energy and similar issues in the UK. The committee, with the support of external advisers, meets several times a year to review performance, and agree and implement improvement actions. The committee is extending its activity to include all overseas operations during 2003/04.

Burberry has set targets for reductions in energy consumption per pound of turnover. These are pursued through energy efficiency activities at current sites and planning briefs for new building to include, wherever possible, cost effective ways of improving energy usage. The table below demonstrates that UK electricity consumption fell last year in absolute terms by 1% and UK gas and oil use by 12%. When expressed as an energy efficiency (per £1,000 of turnover) energy use has fallen by 22%, largely a feature of the strong growth in our retail business which is much less energy-intensive. In the coming year we plan to commence the process of consolidating our supplies of electricity.

We have also set targets to reduce the use of non-essential (transit) packaging in the UK. The table below demonstrates that transit packaging increased during the year just ahead of our sales growth and we missed our saving target. We are continually looking at ways to improve the usage of packaging in our warehouses by structural changes to the way we process work through the business and we will take specific actions next year to improve efficiency.

In the past 12 months we have simplified and consolidated our arrangements for waste management, moving to a single contractor for all major sites in the UK. Another key objective for next year is to substantially improve awareness throughout the business on environmental issues.

	2002/03 performance*	2001/02 performance*
Energy		
Electricity	13.5 MkWh = 22.7 kWh/£1,000	13.6 MkWh = 27.3 kWh/£1,000
Gas and oil	16.7 MkWh = 28.1 kWh/£1,000	18.9 MkWh = 37.8 kWh/£1,000
Water use	22,100 m ³ = 0.04 m ³ /£1,000	20,200 m ³ = 0.04 m ³ /£1,000
Total packaging	718 tonnes = 1.21 kg/£1,000	635 tonnes = 1.27 kg/£1,000
Transit packaging	538 tonnes = 0.91 kg/£1,000	438 tonnes = 0.88 kg/£1,000

*All UK operations.

Management arrangements

Michael Mahony, as company secretary, has overall responsibility for CSR matters. This illustrates both the increasing importance placed on the subject by shareholders, and the increasing perception that it is linked to sound corporate governance.

He is responsible for ensuring that the Board is aware of the relevant CSR issues facing the Group and, together with the support of a CSR Committee, ensures that systems are in place to identify and manage risks within this arena.

Burberry is currently implementing processes to extend its policy in accordance with the ABI's disclosure guidelines on social responsibility, to the extent relevant to the Group's business.

Risks and opportunities

Burberry seeks to derive business benefits from its programme in CSR, whilst at the same time meeting CSR objectives. In many cases these work hand in hand, for example:

- ∕ savings in energy efficiency have realised financial benefits whilst reducing our emissions of greenhouse gases;
- ∕ involving employees closely in the Group through share ownership and consultation provides benefits to the individual whilst strengthening the individual's commitment to Burberry;
- ∕ detailed work within the supply chain improves the quality of our relationships with suppliers which can make a significant difference to their employees whilst supporting our reputation as a responsible company.

Statement of directors' responsibilities

The following statement, which should be read in conjunction with the Report of the auditors set out on page 45, is made with a view to explaining to shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Company and the Group for the financial year.

The directors consider that in preparing the financial statements, appropriate accounting policies have been consistently applied, supported by prudent judgements and estimates, and that all applicable accounting standards have been followed.

The directors are satisfied that the Group has adequate resources to meet its operational needs for the foreseeable future and, accordingly, they continue to adopt the going concern basis in preparing the financial statements.

The directors are responsible for ensuring that accounting records are kept which disclose, with reasonable accuracy, the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Company has a website (www.burberry.com) which contains information on the Group's activities and published financial results. The work carried out by the auditors does not involve consideration of the maintenance and integrity of the website and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented in the website. The maintenance and integrity of this website is the responsibility of the directors. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Report of the auditors

Independent auditors' report to the members of Burberry Group plc

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses, the note of historical cost profits and losses, the reconciliation of movement in Shareholders' Funds/GUS investment in Burberry Group and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Report on directors' remuneration and related matters ("the auditable part").

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the Report on directors' remuneration and related matters.

Our responsibility is to audit the financial statements and the auditable part of the Report on directors' remuneration and related matters in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the Report on directors' remuneration and related matters have been 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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report, the unaudited part of the Report on directors' remuneration and related matters, the Chairman's Statement, the Chief Executive's Review, the Operating and Financial Reviews, the corporate governance statement and the corporate social responsibility statement.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

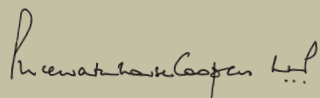
We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the Report on directors' remuneration and related matters. 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 and the auditable part of the Report on directors' remuneration and related matters 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 affairs of the Company and the Group at 31 March 2003 and of the result and cash flows of the Group for the year then ended;
- ✓ the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- ✓ those parts of the Report on directors' remuneration and related matters required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

21 May 2003

Group profit and loss account

Year ended 31 March 2003

	Note	Before goodwill amortisation, exceptional items and pre-flotation dividend £m	Goodwill amortisation, exceptional items and pre-flotation dividend £m	Total £m	Year ended 31 March 2002 Total £m
Turnover					
Continuing operations		575.4	–	575.4	499.2
Acquisition during the year	28	18.2	–	18.2	–
Total turnover from continuing operations	3	593.6	–	593.6	499.2
Cost of sales		(261.3)	–	(261.3)	(248.1)
Gross profit		332.3	–	332.3	251.1
Net operating expenses:	4, 6				
– distribution, administration and other income		(215.6)	(22.0)	(237.6)	(160.8)
– goodwill amortisation	5	–	(6.4)	(6.4)	(4.9)
Net operating expenses		(215.6)	(28.4)	(244.0)	(165.7)
Continuing operations		113.1	(27.3)	85.8	85.4
Acquisition during the year	28	3.6	(1.1)	2.5	–
Total operating profit		116.7	(28.4)	88.3	85.4
Interest and similar income	8	1.8	–	1.8	5.0
Interest expense	9	(2.7)	–	(2.7)	(5.5)
Foreign currency loss on loans with GUS group (pre-flotation)	9	(2.3)	–	(2.3)	(0.1)
Interest expense and similar charges		(5.0)	–	(5.0)	(5.6)
Profit on ordinary activities before taxation	3, 5	113.5	(28.4)	85.1	84.8
Tax on profit on ordinary activities	10	(39.4)	6.5	(32.9)	(28.3)
Profit on ordinary activities after taxation		74.1	(21.9)	52.2	56.5
Equity dividend – to GUS group (pre-flotation)	12	–	(219.0)	(219.0)	–
Equity dividend – interim paid	12	(5.0)	–	(5.0)	–
Equity dividend – final proposed	12	(10.0)	–	(10.0)	–
Retained profit/(loss) for the year	24	59.1	(240.9)	(181.8)	56.5
Pence per share					
Earnings					
– basic	13	14.9p	(4.4p)	10.5p	11.3p
– diluted	13	14.6p	(4.3p)	10.3p	11.1p
Earnings before goodwill amortisation and exceptional items					
– basic	13	14.9p	–	–	12.3p
– diluted	13	14.6p	–	–	12.1p

Statement of total recognised gains and losses

	Note	Year ended 31 March	
		2003 £m	2002 £m
Retained (loss)/profit for the year	24	(181.8)	56.5
Currency translation differences		1.1	(1.3)
Tax impact of currency translation differences		(0.4)	–
Net impact of currency translation differences	24	0.7	(1.3)
Total recognised gains and losses for the year		(181.1)	55.2

Note of historical cost profits and losses

	Year ended 31 March	
	2003 £m	2002 £m
Reported profit on ordinary activities before taxation	85.1	84.8
Realisation of property revaluation gain of previous years	–	0.2
Difference between actual and historical cost depreciation charge	0.2	0.5
Historical cost profit on ordinary activities before taxation	85.3	85.5
Tax on profit on ordinary activities	(32.9)	(28.3)
Dividend – to GUS group (pre-flotation)	(219.0)	–
Dividend – interim paid	(5.0)	–
Dividend – final proposed	(10.0)	–
Historical cost retained (loss)/profit for the year after taxation and dividends	(181.6)	57.2

Reconciliation of movement in Shareholders' Funds/ GUS investment in Burberry Group

	Year ended 31 March			
	2003 £m	2003 (pro forma)* £m	2002 £m	2002 (pro forma)* £m
Profit on ordinary activities after taxation	52.2	52.2	56.5	56.5
Dividend – to GUS group (pre-flotation)	(219.0)	(219.0)	–	–
Dividend – interim paid	(5.0)	(5.0)	–	–
Dividend – final proposed	(10.0)	(10.0)	–	–
Retained (loss)/profit for the year	(181.8)	(181.8)	56.5	56.5
Currency translation differences	0.7	10.0	(1.3)	(1.3)
Pre-flotation				
Issue of preference share capital	0.8	0.8	–	–
Issue of ordinary share capital	486.7	486.7	–	–
Deemed Distribution arising on reorganisation	(704.1)	(704.1)	–	–
Capital reserve arising on reorganisation	6.6	6.6	–	–
Movement of GUS group balances	–	433.3	–	(12.5)
On and post-flotation				
Issue of ordinary share capital	250.5	250.5	–	–
Repayment of GUS group balances	–	(250.5)	–	–
Waiver of GUS group balances	37.6	37.6	–	–
Capital reserve arising on Restricted Share Plan	18.5	18.5	–	–
Net addition to Shareholders' Funds/GUS investment in Burberry Group	(84.5)	107.6	55.2	42.7
Opening Shareholders' Funds/GUS investment in Burberry Group	474.5	282.4	419.3	239.7
Closing Shareholders' Funds/GUS investment in Burberry Group	390.0	390.0	474.5	282.4

*See note 1 – Basis of preparation.

Balance sheets

	Note	Group			Company	
		At 31 March			At 31 March	
		2003 £m	2002 £m	2002 (pro forma)* £m	2003 £m	2002 £m
Fixed assets						
Intangible assets	14	123.7	95.8	95.8	–	–
Tangible fixed assets	15	161.4	124.4	124.4	–	–
Investments	16	3.4	0.1	0.1	971.3	169.5
		288.5	220.3	220.3	971.3	169.5
Current assets						
Stock	17	83.8	82.3	82.3	–	–
Debtors	18	122.0	406.5	99.4	169.2	243.3
Cash and short term deposits	19	86.6	30.2	30.2	–	–
		292.4	519.0	211.9	169.2	243.3
Creditors – amounts falling due within one year	20	(151.1)	(240.9)	(125.9)	(62.8)	(3.8)
Net current assets		141.3	278.1	86.0	106.4	239.5
Total assets less current liabilities		429.8	498.4	306.3	1,077.7	409.0
Creditors – amounts falling due after more than one year	21	(35.2)	(23.1)	(23.1)	(98.6)	–
Provisions for liabilities and charges	22	(4.6)	(0.8)	(0.8)	–	–
Net assets		390.0	474.5	282.4	979.1	409.0
Capital and reserves						
Called up share capital	23	1.1	–	–	1.1	–
Share premium account	24	122.2	89.4	–	122.2	89.4
Revaluation reserve	24	25.2	25.5	–	–	–
Capital reserve	24	47.1	23.3	–	–	–
Other reserve	24	704.1	–	–	704.1	–
Profit and loss account	24	(509.7)	336.3	–	151.7	319.6
Equity Shareholders' Funds		389.2	474.5	–	978.3	409.0
Non-Equity Shareholders' Funds	23	0.8	–	–	0.8	–
Total Shareholders' Funds		390.0	474.5	–	979.1	409.0
GUS investment in Burberry Group		–	–	282.4	–	–

*See note 1 – Basis of preparation.

Approved by the Board on 21 May 2003 and signed on its behalf by:



John Peace
Chairman



Michael Metcalf
Chief Operating and Financial Officer

Group cash flow statement

	Note	Year ended 31 March	
		2003 £m	2002 £m
Operating activities			
Operating profit after goodwill amortisation and exceptional items		88.3	85.4
Exceptional items		22.0	–
Goodwill amortisation		6.4	4.9
Operating profit before goodwill amortisation and exceptional items		116.7	90.3
Depreciation, impairment and trademark amortisation charges		19.0	14.0
Loss on disposal of fixed assets and similar non-cash charges		1.5	0.2
Decrease/(increase) in stocks		5.2	(7.0)
Increase in debtors		(2.4)	(5.2)
Increase/(decrease) in creditors		25.0	(2.2)
Net cash inflow from operating activities		165.0	90.1
Returns on investments and servicing of finance			
Interest received		0.8	0.5
Interest paid		(1.4)	(0.9)
Dividend received from investment		0.1	–
Net cash outflow from returns on investments and servicing of finance		(0.5)	(0.4)
Taxation paid			
		(30.6)	(17.6)
Capital expenditure and financial investment			
Purchase of tangible and intangible fixed assets		(55.7)	(39.4)
Sale of tangible fixed assets		0.2	0.5
Purchase of own shares (excluding shares issued to ESOT)		(4.5)	–
Net cash outflow from capital expenditure and financial investment		(60.0)	(38.9)
Acquisitions			
Deferred consideration for purchase of businesses		(2.5)	–
Purchase of businesses in year	28	(24.3)	(4.5)
Net cash outflow from acquisitions		(26.8)	(4.5)
Net cash inflow before dividends, IPO related and financing activities			
		47.1	28.7
Dividends			
Equity dividends paid (including £219m to GUS group pre-flotation)		(224.0)	–
Deemed Distribution arising on reorganisation (net of capital reserve)		(697.5)	–
Net cash (outflow)/inflow before management of liquid resources and financing			
		(874.4)	28.7
Management of liquid resources			
Increase in short term deposits with banks	25	(47.3)	(2.4)
Financing			
Issue of ordinary share capital on flotation (net of shares issued to ESOT)		249.5	–
Issue of Ordinary Shares to GUS group (pre-flotation)		486.7	–
Issue of preference shares to GUS group (pre-flotation)	23	0.8	–
Decrease in external borrowings	25	(7.9)	(2.6)
Funds received/(paid) on GUS group balances (pre-flotation)		446.1	(12.7)
Settlement of GUS group balances (on flotation)		(250.5)	–
Decrease/(increase) in net balances due from GUS group	25	195.6	(12.7)
Net cash inflow/(outflow) from financing		924.7	(15.3)
Increase in cash during the year	25	3.0	11.0

Notes to the financial statements

1 Basis of preparation

Burberry Group is a luxury goods manufacturer, wholesaler and retailer in Europe, North America and Asia Pacific; licensing activity is also carried out, principally in Japan. All of the companies which comprise the Burberry Group are owned by Burberry Group plc (“the Company”) directly or indirectly. Prior to the completion of the initial public offering in July 2002, ownership of these companies was transferred to Burberry Group plc (formerly Burberry Group Limited), which was incorporated on 30 October 1997 in England and Wales.

This annual report comprises the audited results for the 12 months ended 31 March 2003 and 2002. The pro forma financial information for the 12 months ended 31 March 2002 has been extracted from the Listing Particulars of the Company, dated 12 July 2002, and has only been presented where it differs from statutory financial information. The principal reason for the difference arising is due to the reclassification of certain balances for statutory reporting purposes which were previously reported as part of the GUS investment in Burberry Group in the Listing Particulars. The pro forma reconciliation of movement in Shareholders’ Funds for the year ended 31 March 2003 has been presented to reconcile the GUS investment in Burberry Group as at 31 March 2002 (as presented in the Listing Particulars of the Company) to the Shareholders’ Funds as at 31 March 2003.

The financial information has been prepared by consolidating (or combining – *pro forma information only*) the historical financial information for each of the companies that comprise Burberry Group from applicable individual financial returns of these companies for the years ended 31 March 2003 and 2002. As at 31 March 2002, the individual financial returns were prepared for GUS group consolidation purposes and have been adjusted for relevant items previously recorded only at a GUS plc level. Prior to flotation Burberry Group was reorganised, as described below, and a legal statutory group was formed. As a consequence a statutory consolidation has been prepared for the 12 months ended 31 March 2003 with comparative information presented for the year to 31 March 2002.

Up until flotation Burberry Group was a member of the GUS group, and relied on other GUS group companies to provide administration, management and other services including, but not limited to, rental of premises, management information systems, accounting and financial reporting, treasury, taxation, cash management, insurance and insurance management, human resources, employee benefit administration, payroll, professional, logistics and distribution services. Burberry Group has been charged costs, recorded in the profit and loss account, by other GUS group companies for some of these services. Although these charges are intended broadly to reflect the costs that would apply on an arm’s length basis, it is possible that the terms of the relevant transactions would have been different if the transacting partners had not been connected with Burberry Group. On flotation these arrangements were formalised; the cost impact on Burberry Group of these formalised arrangements is not material.

The tax charge for the year ended 31 March 2002 was determined based on the tax charges recorded by Burberry Group companies in their local statutory accounts as well as certain adjustments made for GUS group consolidation purposes. The tax charges recorded in the profit and loss account up to 31 March 2002 have been affected by the taxation arrangements within the GUS group, and are not necessarily representative of the tax charges that would have been reported had Burberry Group been an independent group. The tax charges recorded in the year ended 31 March 2003 reflect the impact of the reorganisation, which occurred prior to flotation, as described below.

Interest income and expense, as well as the foreign currency loss on loans with GUS (prior to flotation) recorded in the profit and loss account for both periods, have been affected by the financing arrangements within GUS group prior to flotation, and are not necessarily representative of the amounts that would have been reported had Burberry Group been independent. The rate of interest applying to funding accounts within GUS group prior to flotation was determined by GUS plc. Since flotation, funding arrangements and interest rate risk have been managed by Burberry Group.

Prior to flotation, as shown in the pro forma information, the net assets of Burberry Group are represented by the cumulative investment of GUS group in Burberry Group (shown as “GUS investment in Burberry Group”). All non-trading transactions between Burberry Group and GUS group have been reflected as movements in “GUS investment in Burberry Group”.

Prior to flotation the GUS investment in Burberry Group comprised:

- (a) assets and liabilities not forming part of Burberry Group after flotation. These assets and liabilities have been transferred on or before flotation to GUS group companies in part settlement of the loans outstanding between GUS group and Burberry Group;
- (b) loans due to and from GUS group companies. These amounts were settled fully either as part of the Burberry Group reorganisation with shares issued to GUS group and loan repayments, or by the waiver of such loans by GUS group; and
- (c) share capital and reserves of Burberry Group companies.

In the cash flow statements up to 31 March 2002, the movements in those balances in (a) and (b) above represent the cash transactions undertaken by other GUS group companies on behalf of Burberry Group. The balances in (a) and (b) above are referred to as “GUS group balances” in the “Reconciliation of movement in Shareholders’ Funds/GUS investment in Burberry Group”, the “Group cash flow statement”, the “Reconciliation of net cash flow to movement in net funds”, the “Analysis of net funds” and in the “Analysis of movement in net funds”.

1 Basis of preparation continued

Burberry Group reorganisation

Immediately prior to the flotation on the London Stock Exchange, a reorganisation of Burberry Group took place resulting in the Company owning, directly or indirectly, all Burberry Group companies. Prior to this, a number of Burberry Group entities and certain Burberry-related assets and liabilities (together “the Net Assets”) were held underneath GUS group companies although Burberry Group indirectly controlled them and had the economic rights to, and was exposed to the risks in, the Net Assets. The Net Assets were accounted for as quasi-subsidiaries in accordance with Financial Reporting Standard 5, “Reporting the substance of transactions”, and were thus consolidated as if their legal ownership rested with Burberry Group.

The reorganisation involved the acquisition by Burberry Group of the legal ownership of the Net Assets and the disposal to GUS group of those assets and liabilities which did not form part of the Burberry Group post-flotation. Burberry Group financed this reorganisation using loans from GUS group; such loans were repaid by a rights issue of ordinary share capital to GUS group (£486.7m), by loan repayment out of the proceeds of the Company’s flotation on the London Stock Exchange (£250.5m) and by the waiver of the remaining debt (£37.6m) by GUS group.

These transactions created a premium on the legal acquisition of the Net Assets of £704.1m (“the Premium”). The accounting treatment required by Schedule 4A to the Companies Act 1985 would recognise the Premium as goodwill. However, the directors consider that, in substance, the Premium represents the value that has been transferred outside of Burberry Group as a result of these transactions. In effect, Burberry Group made a payment to GUS group for assets that it already controlled prior to the reorganisation. Consequently, in order to meet the overriding requirement of the Companies Act 1985 to show a true and fair view, the Premium has been treated as a distribution to GUS group out of the consolidated reserves of Burberry Group (“the Deemed Distribution”). The directors consider that it is not meaningful to quantify the effects of this departure from the requirements of the Companies Act 1985.

As a result of the Deemed Distribution, a net deficit arises on the accumulated profit and loss account in the Burberry Group consolidated balance sheet. In order to eliminate this deficit on consolidation an other reserve of £704.1m was created in the Company’s own balance sheet by the transfer of this sum from the share premium account, following High Court approval of the capital reduction, shortly before the admission of the Company’s Ordinary Shares to trading by the London Stock Exchange.

This other reserve will be classified as distributable once all the Company’s creditors in existence on 17 July 2002 (the date of approval of the capital reduction) have been settled in full. A capital reserve of £6.6m was also created as part of the reorganisation.

Acquisitions

The results of undertakings acquired are included in the financial information from the effective date of acquisition. On the acquisition of a company or business, all of its assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities and the resulting gains and losses after the date of acquisition are dealt with in the profit and loss account.

2 Accounting policies

The consolidated financial information has been prepared under the historical cost convention, modified by the revaluation of certain fixed assets, and in accordance with applicable accounting standards in the UK.

The principal accounting policies are:

(a) Turnover

Turnover, which is stated excluding VAT and other sales taxes, is the amount receivable for goods supplied (less returns, trade discounts and allowances) and royalties receivable.

Wholesale sales are recognised when goods are despatched to trade customers, with provisions made for expected returns and allowances as necessary. Retail sales, returns and allowances are reflected at the dates of transactions with consumers. Royalty receivable from licensees is accrued as earned on the basis of the terms of the relevant royalty agreement which, in the case of Japanese licences, is on the basis of production volumes.

2 Accounting policies continued

(b) Intangible fixed assets

Goodwill

For acquisitions of companies or businesses made on or after 1 April 1998, goodwill (being the excess of purchase consideration over the fair value of net assets acquired) is capitalised as an intangible fixed asset. Fair values are attributed to the identifiable assets and liabilities that existed at the date of acquisition, reflecting their condition at that date. Adjustments are also made to bring the accounting policies of acquired businesses into alignment with those of Burberry Group.

Goodwill on acquisitions prior to 1 April 1998 was written off to reserves in the year of acquisition. On the disposal of a business, any goodwill previously written off against reserves in Burberry Group is included in the profit or loss on disposal.

Goodwill on acquisitions after 1 April 1998 is capitalised and amortised by equal annual instalments over its estimated useful economic life, not exceeding 20 years, taking into account the nature of the business acquired and other competitive considerations. The useful economic life of goodwill arising is determined on a case by case basis.

Impairment reviews are performed if events or changes in circumstances indicate that the carrying value may not be recoverable.

Trademarks and other intellectual property

The cost of securing and renewing trademarks and other intellectual property is capitalised as an intangible fixed asset and amortised by equal annual instalments over its useful economic life, typically 10 years. The useful economic life of trademarks and other intellectual property is determined on a case by case basis, typically in accordance with the terms of the underlying agreement.

Impairment reviews are performed if events or changes in circumstances indicate that the carrying value may not be recoverable.

(c) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost or revalued amount where relevant, less depreciation.

Depreciation

Depreciation of tangible fixed assets is calculated to write off the cost or revalued amount, less residual value, of the assets in equal annual instalments over their estimated useful lives at the following rates:

Land	Not depreciated
Freehold buildings	Up to 50 years
Leaseholds – less than 50 years expired	Over the unexpired term of the lease
Plant, machinery, fixtures and fittings	3 – 8 years
Retail fixtures and fittings	2 – 5 years
Office equipment	5 years
Computer software and equipment	3 – 5 years

Lease premiums

Amounts paid to acquire the rights to a lease (“Lease Premiums”) are written off in equal annual instalments over the life of the lease or to the next rental review.

Valuations

Burberry Group has adopted a policy of not revaluing properties as permitted under Financial Reporting Standard 15 “Tangible Fixed Assets”. Previously revalued properties are included at their valuation at 31 March 1996 less depreciation.

Some of Burberry Group’s properties were professionally valued at 31 March 1996 on the basis of their open market value for existing use by Colliers Conrad Ritblat Erdman Limited, Chartered Surveyors. Freehold properties are included at this 1996 valuation or cost. Leasehold properties are carried at original cost and are amortised over the remainder of the lease term on a straight line basis.

Impairment

Impairment reviews are undertaken when performance trends or changes in circumstances suggest that the net book value of a fixed asset is not fully recoverable.

Profit/loss on disposal of fixed assets

Profits and losses on disposal of tangible fixed assets represent the difference between the net proceeds and net book value at the date of sale. Disposals are accounted for when the relevant transaction becomes unconditional.

2 Accounting policies continued

(d) Investments in group companies

Investments held by the Company are carried at cost less amounts written off in respect of impairment. When investments are fully or partially hedged by means of foreign currency borrowings, the hedged proportion of those investments is retranslated at the relevant exchange rate and the resulting exchange difference taken to reserves along with the matching exchange difference on the foreign currency borrowings.

(e) Stock

Stock and work in progress are valued on a first-in-first-out basis at the lower of cost (including an appropriate proportion of production overhead) and net realisable value. Provision is made to reduce cost to no more than net realisable value having regard to the age and condition of stock, as well as its anticipated saleability.

(f) Deferred tax

Deferred taxation is recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. An asset is not recognised to the extent that the realisation of economic benefits in the future is uncertain. Deferred tax assets and liabilities are not discounted.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries. Deferred tax would be provided where remittance is anticipated and is expected to result in a charge to taxation.

(g) Pension costs

The pension costs in the consolidated financial statements are determined in accordance with Statement of Standard Accounting Practice 24 ("SSAP 24") which is to be replaced by a new Standard, Financial Reporting Standard 17 ("FRS 17"). The transitional disclosure requirements required by FRS 17 are set out in note 33.

GUS defined benefit scheme

Eligible employees of Burberry Group participate in a number of GUS defined benefit schemes throughout the world; the most important defined benefit schemes are in the UK. The assets covering these arrangements are held in independently administered funds.

The cost of providing defined pension benefits to participating Burberry employees is charged to the profit and loss account of Burberry Group over the anticipated period of employment, in accordance with recommendations made by independent qualified actuaries.

Defined contribution scheme

Burberry Group eligible employees also participate in GUS group defined contribution pension schemes, the principal one being in the UK with its assets held in an independently administered fund. The cost of providing these benefits to participating Burberry employees is recognised in the profit and loss account of Burberry Group and comprises the amount of contributions payable to the schemes in respect of the year.

(h) Share schemes

Incentive plans

The cost of shares acquired by the Burberry Group Employee Share Ownership Trusts ("ESOTs") or the fair market value of the shares at the date of the grant, less any consideration receivable from the participating Burberry employee, is charged to the profit and loss account. Where awards are contingent upon future events (other than continued employment), an assessment of the likelihood of these conditions being achieved will be made at the end of each reporting period and an appropriate accrual made over the period to which the participating Burberry employee's performance relates. Where awards are not contingent upon future events a full accrual is made immediately in the profit and loss account.

Save As You Earn scheme

GUS plc operates a Save As You Earn scheme (in which certain UK employees of Burberry Group participate) that allows for the grant of GUS plc ordinary shares at a discount to the market price at the date of the grant. Burberry Group has made use of the exemption under UITF Abstract 17 not to recognise any compensation charge in respect of this scheme.

2 Accounting policies continued

(i) Foreign currency translation

Translation of the results of overseas businesses

The results of overseas subsidiaries are translated at the average exchange rate for the year. The assets and liabilities of such undertakings are translated at year end exchange rates. Differences arising on the retranslation of the opening net investment in subsidiary companies, and on the translation of their results, are taken to reserves and are reported in the statement of total recognised gains and losses.

Transactions in foreign currencies

Transactions denominated in foreign currencies are translated into Sterling at the exchange rate ruling at the date of the transaction or at the forward contract rate where hedged. Monetary assets and liabilities denominated in foreign currencies which are held at year end are translated into Sterling at the exchange rate ruling at the balance sheet date or at the forward contract rate where specifically hedged. Exchange differences on monetary items are taken to the profit and loss account except where they relate to loans hedging investments in overseas subsidiaries of Burberry Group, in which case such differences (including attributable taxation) are taken directly to reserves and limited to the foreign currency movement on the underlying investment.

(j) Financial instruments

Burberry Group uses derivative financial instruments to hedge its exposure to fluctuations in foreign exchange rates arising on certain trading transactions. The principal derivative instruments used are forward currency contracts taken out to hedge certain future royalty receivables and product purchases. Gains and losses on such forward currency contracts are recognised in the profit and loss account at the same date as the underlying transaction.

Prior to flotation the financial instruments used by Burberry Group were managed by GUS group, with the principal instruments being forward currency contracts and loans to or from GUS group companies. The rate at which intercompany interest was payable or receivable (if any) on these balances was determined by GUS plc.

Since flotation the financial instruments used and managed by Burberry Group consist primarily of cash and forward currency contracts used to hedge currency exposures on trading transactions.

Burberry Group has taken advantage of the exemption available under Financial Reporting Standard 13 "Derivatives and Financial Instruments", in respect of short term debtors and creditors, and details in respect of these balances are excluded from the required disclosures, other than within the currency risk disclosure.

(k) Operating leases

Gross rental income and expenditure in respect of operating leases are recognised on a straight line basis over the period of the leases. Certain rental expense is determined on the basis of turnover achieved in specific retail locations and is accrued for on that basis.

(l) Related party transactions

Financial Reporting Standard 8, "Related Party Disclosures" ("FRS 8"), requires the disclosure of the details of material transactions between the reporting entity and related parties. Burberry Group has taken advantage of an exemption under FRS 8 not to disclose transactions between Burberry Group companies which eliminate on consolidation.

3 Segmental analysis

(i) Geographical analysis – analysis by origin

(a) Turnover – analysis by origin

	Year ended 31 March	
	2003 £m	2002 £m
Europe	429.9	396.3
Less: European inter-segment turnover to other regions	(57.5)	(20.8)
	372.4	375.5
North America	133.8	104.0
Asia Pacific	88.1	19.9
Less: Asia Pacific inter-segment turnover to Europe	(0.7)	(0.2)
	87.4	19.7
Total turnover	593.6	499.2

The acquisition of the business in Korea on 1 July 2002 increased turnover in the Asia Pacific region by £28.3m (after excluding £9.6m for turnover arising within Asia Pacific) in the year ended 31 March 2003 and reduced net European turnover by £10.1m.

(b) Profit before taxation – analysis by origin

	Year ended 31 March	
	2003 £m	2002 £m
Europe	92.6	81.6
North America	8.4	5.1
Asia Pacific	15.7	3.6
	116.7	90.3
Net interest expense	(0.9)	(0.5)
Foreign currency loss on loans with GUS group (pre-flotation)	(2.3)	(0.1)
Profit before goodwill amortisation, exceptional items and taxation	113.5	89.7
Goodwill amortisation – Europe	(5.1)	(4.8)
– Asia Pacific	(1.3)	(0.1)
Exceptional items – Europe	(20.3)	–
– North America	(1.6)	–
– Asia Pacific	(0.1)	–
Profit before taxation	85.1	84.8

The results above are stated after the reallocation of certain costs.

The acquisition of the business in Korea on 1 July 2002 increased profit before interest, goodwill amortisation, exceptional items and taxation in the Asia Pacific region (and in the Wholesale and Retail business) by £3.6m in the year ended 31 March 2003, before the reallocation of certain costs.

3 Segmental analysis continued**(i) Geographical analysis – analysis by origin** continued**(c) Net assets – analysis by origin**

	At 31 March		
	2003	2002	2002
	£m	£m	(pro forma) £m
Europe	129.1	115.2	115.2
North America	93.4	91.1	91.1
Asia Pacific	3.1	2.9	2.9
Net operating assets	225.6	209.2	209.2
Goodwill – Europe	94.2	88.1	88.1
– Asia Pacific	28.6	6.8	6.8
Deferred consideration for acquisitions – Europe	(19.2)	(17.5)	(17.5)
– Asia Pacific	(12.5)	(5.0)	(5.0)
Cash at bank, short term deposits, less bank overdrafts and borrowings	79.6	21.3	21.3
Investment in own shares	3.3	–	–
Net funding balances with GUS group companies	–	192.1	–
Taxation (including deferred taxation)	0.4	(20.5)	(20.5)
Dividends payable – GUS group companies	(7.8)	–	–
Dividends payable – other shareholders	(2.2)	–	–
Net assets	390.0	474.5	282.4

The acquisition of the business in Korea on 1 July 2002 increased net operating assets in the Asia Pacific region (and in the Wholesale and Retail business) by £5.9m as at 31 March 2003.

(ii) Geographical analysis – turnover by destination

	Year ended 31 March	
	2003 £m	2002 £m
Europe	302.7	286.7
North America	140.5	110.5
Asia Pacific	147.0	100.1
Other	3.4	1.9
Total turnover	593.6	499.2

(iii) Analysis by class of business**(a) Turnover – analysis by class of business**

	Year ended 31 March	
	2003 £m	2002 £m
Wholesale	306.9	288.8
Retail	228.4	156.9
Wholesale and Retail	535.3	445.7
Licence	58.3	53.5
Total turnover	593.6	499.2

The acquisition of the business in Korea on 1 July 2002 increased turnover in Wholesale and Retail by £18.2m in the year ended 31 March 2003.

3 Segmental analysis continued**(iii) Analysis by class of business** continued**(a) Turnover – analysis by class of business** continued

An analysis of turnover by product category is shown below:

	Year ended 31 March	
	2003 £m	2002 £m
Womenswear	197.9	165.2
Menswear	162.8	149.4
Accessories	169.5	125.8
Other	5.1	5.3
Wholesale and Retail	535.3	445.7
Licence	58.3	53.5
Total turnover	593.6	499.2
Number of directly operated stores, concessions and outlets open at 31 March	132	69

The acquisition of the business in Korea on 1 July 2002 increased the number of directly operated concessions by 46 and outlets by 1 as at the date of acquisition.

(b) Profit before taxation – analysis by class of business

	Year ended 31 March	
	2003 £m	2002 £m
Wholesale and Retail	64.3	42.7
Licence	52.4	47.6
	116.7	90.3
Net interest expense	(0.9)	(0.5)
Foreign currency loss on loans with GUS group (pre-flotation)	(2.3)	(0.1)
Profit before goodwill amortisation, exceptional items and taxation	113.5	89.7
Goodwill amortisation – Wholesale and Retail	(6.4)	(4.9)
Exceptional items – Wholesale and Retail	(18.3)	–
– Licence	(3.7)	–
Profit before taxation	85.1	84.8

The results above are stated after the reallocation of certain costs.

The Wholesale and Retail business is managed in an integrated manner and therefore internal trading between these operations is not on a third-party basis in certain respects. The directors do not consider that an analysis of the profit and loss account within the Wholesale and Retail business would be meaningful.

3 Segmental analysis continued**(iii) Analysis by class of business** continued**(c) Net assets – analysis by class of business**

	At 31 March		
	2003 £m	2002 £m	2002 (pro forma) £m
Wholesale and Retail	222.1	205.6	205.6
Licence	3.5	3.6	3.6
Net operating assets	225.6	209.2	209.2
Goodwill – Wholesale and Retail	122.8	94.9	94.9
Deferred consideration for acquisitions – Wholesale and Retail	(31.7)	(22.5)	(22.5)
Cash at bank, short term deposits, less bank overdrafts and borrowings	79.6	21.3	21.3
Investment in own shares	3.3	–	–
Net funding balances with GUS group companies	–	192.1	–
Taxation (including deferred taxation)	0.4	(20.5)	(20.5)
Dividends payable – GUS group companies	(7.8)	–	–
Dividends payable – other shareholders	(2.2)	–	–
Net assets	390.0	474.5	282.4

4 Turnover and operating profit

	Year ended 31 March 2003			Year ended 31 March 2002 £m
	Before goodwill amortisation and exceptional items £m	Goodwill amortisation and exceptional items £m	Total £m	
Turnover	593.6	–	593.6	499.2
Cost of sales	(261.3)	–	(261.3)	(248.1)
Gross profit	332.3	–	332.3	251.1
Distribution costs	(94.3)	(3.7)	(98.0)	(71.0)
Administrative – expenses	(122.5)	(18.3)	(140.8)	(91.8)
– goodwill amortisation	–	(6.4)	(6.4)	(4.9)
Other operating income	1.2	–	1.2	2.0
Operating profit	116.7	(28.4)	88.3	85.4

The incremental impact of the acquisition of the business in Korea on 1 July 2002 is shown in note 28.

Other operating income arises from sub-letting certain surplus leasehold properties. Burberry Group's ability to sub-let these properties has expired or will expire at various dates up to 2 January 2005, mainly due to the reversion of headlease interests.

5 Profit on ordinary activities before taxation

	Year ended 31 March	
	2003 £m	2002 £m
Profit before taxation is stated after charging/(crediting):		
Depreciation of tangible fixed assets	16.8	13.3
Fixed asset impairment charge relating to certain retail assets	2.1	0.6
Amortisation of goodwill	6.4	4.9
Amortisation of trademarks and other intellectual property	0.1	0.1
Employee costs (see note 7)	94.5	81.6
Loss on disposal of fixed assets	0.3	0.2
Property rental income under operating leases (see note 4)	(1.2)	(2.0)
Operating lease rentals – land and buildings	31.7	19.3
Auditors' remuneration		
– audit services (including £3,000 for the Company (2002: £100))	0.8	0.5
– non-audit services	0.8	0.6
Net exchange gain on trading items	(1.3)	–
Exchange loss on loans with GUS group (pre-flotation) (see note 9)	2.3	0.1

Auditors' remuneration for non-audit services in 2003 included £0.6m for tax related services and £0.2m for other matters. In addition, an amount of £0.1m was capitalised in 2003 (2002: £0.5m) in relation to acquisitions.

6 Exceptional items

The exceptional charge arising in the year ended 31 March 2003 consists of the following amounts:

	Year ended 31 March	
	2003 £m	2002 £m
Granting of awards under the Senior Executive Restricted Share Plan (the "RSP")	18.5	–
Employers' National Insurance liability arising on the RSP awards	2.1	–
Shares gifted to employees under the All Employee Share Plan	1.0	–
Other costs relating to the Initial Public Offer	0.4	–
Total	22.0	–

The associated tax credit relating to these exceptional items is £6.3m and the cash outflow during the year in relation to these items was £0.3m.

Awards were made under the RSP to the executive directors and other senior management of Burberry Group in respect of services provided prior to flotation. No previous awards had been made, and no further awards will be made, under the RSP. The cost of granting options under the RSP is equal to the amount by which the fair value of Ordinary Shares exceeds the exercise price at the date of grant of options. As the exercise price of these options is nil, the cost of granting options under the RSP equals the fair value of Ordinary Shares at the date the options were granted (£2.30 per Ordinary Share). This cost has been recognised in the profit and loss account as no performance criteria (other than continued employment with Burberry Group) are attached to these options. The total cost of the RSP (£18.5m) does not give rise to a reduction in net assets as there is a compensating entry on consolidation to the capital reserve reflecting the anticipated issue of new Ordinary Shares. As no further awards will be made under the RSP, the consolidated profit and loss account of Burberry Group in future years will not be affected by the RSP (except in respect of reserve movements and the number of shares in issue for the purpose of calculating earnings per share).

The Employers' National Insurance liability (or overseas equivalent) arising in respect of the RSP will become payable when the options are exercised by the individual employee. The basis of the exceptional charge recorded in the profit and loss account (£2.1m) is the employers' National Insurance (or overseas equivalent) arising on the fair value of the Ordinary Shares at the date the options were granted (£2.30 per Ordinary Share).

In addition, shares with a value totalling £1.0m were gifted to Burberry Group employees under an All Employee Share Plan on flotation. The cost of this gift has been recognised immediately as no performance criteria are attached.

All shares held in respect of the All Employee Share Plan and National Insurance liabilities (or overseas equivalent) are held in the Burberry Group ESOTs.

7 Employee costs

Staff costs, including directors' emoluments, during the year were as follows:

	Year ended 31 March	
	2003 £m	2002 £m
Wages and salaries	82.8	72.3
Social security costs	8.9	7.7
Other pension costs (see note 33)	2.8	1.6
Total	94.5	81.6

The average number of full time equivalent employees (including directors) during the year was as follows:

	Year ended 31 March	
	2003 Number of employees	2002 Number of employees*
Europe	2,594	2,531
North America	658	553
Asia Pacific	394	141
Total	3,646	3,225

*Number has been restated to include 151 additional employees.

SAYE Share Option Scheme

A Save As You Earn (SAYE) Share Option Scheme offering GUS plc ordinary shares was introduced for employees in the UK by GUS plc in the year ended 31 March 2001, with a further option scheme offered to all UK employees of GUS plc in the year ended 31 March 2003. The number of GUS plc ordinary shares subject to option held by Burberry Group employees (including a director of the Company) as at 31 March 2003 were as follows:

Period of exercise	Exercise price	Number of shares under option	
		At 31 March 2003	At 31 March 2002
From 01.05.2004 to 31.10.2004	384.0p	210,549	251,005
From 01.05.2006 to 31.10.2006	384.0p	151,833	175,641
From 01.09.2005 to 28.02.2006	523.0p	51,127	–
From 01.09.2007 to 29.02.2008	523.0p	34,485	–
Total		447,994	426,646

The administrative costs of this scheme have not been borne by Burberry Group and are not considered to be material.

Share options and awards

i) GUS schemes

Share options have been granted to Burberry employees under the GUS 1998 Approved and Non-Approved Executive Share Option Schemes during the years ended 31 March 2001 and 2002 in respect of the ordinary shares of GUS plc. The unexercised options granted to Burberry employees (including those granted to directors of the Company) under these schemes are as follows:

Period of exercise	Exercise price	Number of share options at 31 March 2003	Number of share options at 31 March 2002
From 07.04.2003 to 07.04.2010	375.7p	172,612	172,612
From 11.06.2004 to 11.06.2011	612.7p	1,175,381	1,270,069
From 17.12.2004 to 17.12.2011	635.0p	180,526	180,526
Total		1,528,519	1,623,207

7 Employee costs continued**ii) The Burberry Senior Executive Restricted Share Plan (the "RSP")**

On 11 July 2002 awards in respect of a total of 8,100,198 Ordinary Shares were made to directors and senior management under the RSP.

At 31 March 2003 awards in respect of a total of 8,055,198 Ordinary Shares remained outstanding and 923,236 Ordinary Shares (with a cost of £2.1m) have been purchased by the Burberry Group ESOTs to cover the Employer's National Insurance liability (or overseas equivalent) arising on this plan. The cost of the RSP shares (including the Ordinary Shares acquired to cover Employer's National Insurance liability thereon) has been provided for as an exceptional item in the year to 31 March 2003. No shares were issued during the year in respect of the RSP.

Participant's awards were made in the form of options with an exercise price of nil. The unexercised awards granted under this scheme (including those granted to directors of the Company) in respect of Ordinary Shares of the Company are as follows:

Period of exercise	Exercise price	Number of Ordinary Shares
From 11.07.2005 to 11.07.2012	nil	4,027,600
From 11.07.2006 to 11.07.2012	nil	2,013,799
From 11.07.2007 to 11.07.2012	nil	2,013,799
Total		8,055,198

iii) The Burberry Senior Executive IPO Share Option Scheme ("the IPO Option Scheme")

On 11 July 2002 awards in respect of a total of 5,955,198 Ordinary Shares were made to directors and senior management under the IPO Option Scheme.

At 31 March 2003 awards in respect of a total of 5,830,198 Ordinary Shares remained outstanding and 490,097 Ordinary Shares (with a cost of £1.1m) have been purchased by the Burberry Group ESOTs to hedge the Employer's National Insurance liability (or overseas equivalent) that may arise in respect of this scheme. No Ordinary Shares were issued during the year in respect of the share options granted.

Participant's awards were made in the form of options with an exercise price equal to the price on flotation, £2.30 per Ordinary Share. The unexercised awards granted under this scheme (including those granted to directors of the Company) in respect of Ordinary Shares of the Company are as follows:

Period of exercise	Exercise price	Number of Ordinary Shares
From 11.07.2003 to 11.07.2012	230.0p	1,943,399
From 11.07.2004 to 11.07.2012	230.0p	1,943,399
From 11.07.2005 to 11.07.2012	230.0p	1,943,400
Total		5,830,198

iv) All Employee Share Plan

On flotation all employees were offered shares in the Company under an All Employee Share Plan. A total of 413,700 Ordinary Shares with a value of £1.0m were awarded to employees, and the options over the awards have an exercise price of nil.

On flotation the Company purchased 421,450 Ordinary Shares at an aggregate cost of £969,335 in respect of these awards and the Employer's National Insurance liability (or overseas equivalent) arising thereon. These Ordinary Shares are held in two trusts, being the Burberry Group Share Incentive Plan and the Burberry Group plc ESOP Trust. The Ordinary Shares must be held in trust between three and five years. The cost of these Ordinary Shares has been written off as an exceptional item in the year to 31 March 2003.

The awards granted and remaining outstanding under this scheme as at 31 March 2003 (nil in respect of the directors of the Company) in respect of Ordinary Shares in the Company are as follows:

Period of exercise	Exercise price	Number of Ordinary Shares
From 19.07.2005 to 19.10.2005	nil	241,700
From 25.10.2005 to 18.07.2082*	nil	158,600
Total		400,300

*No date has been specified when awards lapse. The cessation date of the trust in which these awards are held is 18 July 2082.

8 Interest and similar income

	Year ended 31 March	
	2003 £m	2002 £m
Dividend income from trade investment	0.1	–
Bank interest income	0.8	0.5
Interest income receivable from GUS group companies	0.9	4.5
Interest receivable and similar income	1.7	5.0
Total	1.8	5.0

Interest income up to the date of flotation in July 2002 was affected by the financing arrangements within the GUS group, and is not necessarily representative of the interest income that would have been reported had Burberry Group been independent.

9 Interest expense and similar charges

	Year ended 31 March	
	2003 £m	2002 £m
On bank loans and overdrafts	1.2	0.9
Interest expense payable to GUS group companies	1.5	4.6
	2.7	5.5
Foreign exchange loss on loans to GUS group companies	2.3	0.1
Total	5.0	5.6

Interest expense up to the date of flotation in July 2002 was affected by the financing arrangements within the GUS group, and is not necessarily representative of the interest that would have been reported had Burberry Group been independent.

The foreign exchange losses on loans to GUS group companies have been recorded in the profit and loss account of Burberry Group as loans were made by Burberry Group companies to hedge the net assets of other GUS group companies. These losses relate to loans that existed prior to flotation and which were settled before or on flotation.

10 Taxation**Analysis of charge for the year**

	Year ended 31 March	
	2003 £m	2002 £m
Current tax		
UK corporation tax		
Current tax on income for the year ended 31 March 2003 at 30% (2002: 30%)	23.3	21.1
Double taxation relief	(6.5)	(6.0)
Adjustment in respect of prior years	3.0	–
	19.8	15.1
Foreign tax		
Current tax on income for the year	22.4	12.8
Adjustments in respect of prior years	–	0.3
Total current tax	42.2	28.2
Deferred tax		
UK deferred tax		
Origination and reversal of timing differences	(4.1)	(0.3)
Adjustments in respect of prior years	(3.0)	(0.6)
	(7.1)	(0.9)
Foreign deferred tax		
Origination and reversal of timing differences	(3.0)	0.5
Adjustments in respect of prior years	0.8	0.5
Total deferred tax	(9.3)	0.1
Tax on profit on ordinary activities	32.9	28.3

The tax rate applicable on profit on ordinary activities varied from the standard rate of corporation tax in the UK due to the following factors:

	Year ended 31 March	
	2003 £m	2002 £m
Tax at 30% on profit before taxation	25.5	25.4
Rate adjustments relating to overseas profits	(0.9)	0.8
Permanent disallowables	1.3	–
Tax losses utilised	(0.2)	(1.7)
Tax losses not utilised	2.8	1.7
Goodwill amortisation not deductible	2.0	1.6
Tax arising on exceptional items	0.2	–
Adjustments in respect of prior years	3.0	0.3
Timing differences	7.1	0.1
Other	1.4	–
Total current tax	42.2	28.2

Burberry has commenced proceedings with the Competent Authorities with regard to resolving transfer pricing of internal sales between the UK and the USA. As part of the agreements with GUS, certain tax liabilities which arise and relate to matters prior to 31 March 2002 will be met by GUS. From 1 April 2002 any liability will be due by the Burberry Group. No provision has been made for additional taxation arising from these proceedings as none is anticipated overall.

11 Profit on ordinary activities after taxation

Profit on ordinary activities after taxation but before dividends payable includes £28.5m (2002: £171.0m) which is dealt with in the financial statements of the Company. As permitted by section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account.

12 Dividends**Ordinary dividends (Equity)**

	Year ended 31 March	
	2003 £m	2002 £m
Dividend paid to GUS group (pre-flotation)	219.0	–
Interim dividend paid (1.0p per share) – GUS group	3.9	–
– other shareholders	1.1	–
Final dividend proposed (2.0p per share) – GUS group	7.8	–
– other shareholders	2.2	–
Total	234.0	–

On 14 June 2002, prior to flotation, Burberry Group paid a dividend of £219.0m to GUS group as part of the Burberry Group reorganisation.

Preference dividends (Non-Equity)

On 31 March 2003 Burberry Group paid a total preference dividend of £18,454 (0.001p per preference share) to GUS group on the redeemable preference shares issued prior to flotation (see note 23 for further details).

13 Earnings per share

The calculation of basic earnings per share is based on profit after taxation divided by the weighted average number of Ordinary Shares in issue during the period since flotation.

Basic earnings per share before amortisation of goodwill and exceptional items is disclosed to indicate the underlying profitability of the Group. The calculation of diluted earnings per share reflects the dilutive effect of the Restricted Share Plan ("RSP").

	Year ended 31 March	
	2003 £m	2002 £m
Profit on ordinary activities after taxation, but before goodwill amortisation and exceptional items	74.1	61.4
Effect of goodwill amortisation (net of attributable taxation)	(6.2)	(4.9)
Effect of exceptional items (net of attributable taxation)	(15.7)	–
Profit on ordinary activities after taxation	52.2	56.5

The weighted average number of Ordinary Shares for 2002/03 represents the number of Burberry Group plc Ordinary Shares in issue at flotation through to 31 March 2003 (2002: number of Burberry Group plc shares in issue at flotation) excluding Ordinary Shares held in the Burberry Group's ESOTs.

13 Earnings per share continued

Diluted earnings per share for the relevant financial period is based on the weighted average number of Ordinary Shares in issue at flotation through to 31 March 2003 (excluding any Ordinary Shares held in the Burberry Group's ESOTs), together with the awards made under the RSP (which will have a dilutive effect when exercised) and assuming the full vesting of all outstanding awards.

	Year ended 31 March	
	2003 Million	2002 Million
Weighted average number of Ordinary Shares in issue during the year	498.1	498.2
Dilutive effect of the RSP	8.1	8.1
Diluted weighted average number of Ordinary Shares in issue during the year	506.2	506.3

Basic earnings per share

	Year ended 31 March	
	2003 Pence	2002 Pence
Basic earnings per share before goodwill amortisation and exceptional items	14.9	12.3
Effect of goodwill amortisation	(1.2)	(1.0)
Effect of exceptional items	(3.2)	–
Basic earnings per share	10.5	11.3

Diluted earnings per share

	Year ended 31 March	
	2003 Pence	2002 Pence
Diluted earnings per share before goodwill amortisation and exceptional items	14.6	12.1
Effect of goodwill amortisation	(1.2)	(1.0)
Effect of exceptional items	(3.1)	–
Diluted earnings per share	10.3	11.1

14 Intangible assets

	Goodwill £m	Trademarks and other intellectual property £m	Total £m
Cost			
At 1 April 2002	103.3	1.1	104.4
Effect of foreign exchange rate changes	10.1	–	10.1
Additions	25.5	0.1	25.6
At 31 March 2003	138.9	1.2	140.1
Amortisation	£m	£m	£m
At 1 April 2002	8.4	0.2	8.6
Effect of foreign exchange rate changes	1.3	–	1.3
Charge for the year	6.4	0.1	6.5
At 31 March 2003	16.1	0.3	16.4
Net book value	£m	£m	£m
At 31 March 2003	122.8	0.9	123.7
At 31 March 2002	94.9	0.9	95.8

15 Tangible fixed assets

	Freehold land and buildings £m	Leasehold land and buildings less than 50 years £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
Cost or valuation					
At 1 April 2002	95.9	27.8	57.5	1.4	182.6
Effect of foreign exchange rate changes	(0.6)	(1.6)	1.4	0.1	(0.7)
Acquisition of subsidiaries	–	–	0.5	–	0.5
Additions	0.7	34.7	21.0	0.9	57.3
Reclassifications	(4.8)	–	6.2	(1.4)	–
Disposals	–	(0.7)	(1.2)	–	(1.9)
At 31 March 2003	91.2	60.2	85.4	1.0	237.8
Depreciation	£m	£m	£m	£m	£m
At 1 April 2002	12.7	11.2	34.3	–	58.2
Effect of foreign exchange rate changes	0.5	(0.8)	1.0	–	0.7
Provided in year	2.8	3.5	10.5	–	16.8
Impairment charge on certain retail assets	–	0.2	1.9	–	2.1
Reclassifications	(2.3)	–	2.3	–	–
Disposals	–	(0.3)	(1.1)	–	(1.4)
At 31 March 2003	13.7	13.8	48.9	–	76.4
Net book value	£m	£m	£m	£m	£m
At 31 March 2003	77.5	46.4	36.5	1.0	161.4
At 31 March 2002	83.2	16.6	23.2	1.4	124.4

During the year ended 31 March 2003 certain retail assets became impaired and the cost of these assets was written down. The impairment charge was based on a review of the value of the assets in use and was determined in accordance with Financial Reporting Standard 11. The discount rate used in these calculations was 15% and applied to the pre-tax cash flows attributable to these assets.

Certain properties were revalued at 31 March 1996 and are included at their valuation at this date less depreciation. Other properties are included at cost. The revaluations performed at 31 March 1996 were carried out by external valuers, Colliers Conrad Ritblat Erdman Limited, Chartered Surveyors, on an open market basis for existing use. This valuation was carried out in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual.

	At 31 March	
	2003 £m	2002 £m
Freehold and leasehold land and buildings held at revalued amount		
Revalued amount	29.4	30.3
Aggregate depreciation	(5.3)	(5.1)
Net book value	24.1	25.2

If the revalued assets were stated on the historical cost basis, the amounts would be:

	At 31 March	
	2003 £m	2002 £m
Freehold and leasehold land and buildings at historical cost		
Historical cost	8.6	9.4
Aggregate depreciation	(5.1)	(5.6)
Net book value based on historical cost	3.5	3.8

16 Investments**Group**

	Interest in own shares		Trade investment cost and net book value £m	Total £m
	Number of Ordinary Shares Million	Net book value £m		
At 1 April 2002	–	–	0.1	0.1
Additions – on flotation	1.8	4.3	–	4.3
Additions – post-flotation	0.5	1.2	–	1.2
Shares written off (All Employee Share Plan)	–	(2.2)	–	(2.2)
At 31 March 2003	2.3	3.3	0.1	3.4

Company

	Interest in own shares		Group undertakings cost and net book value £m	Total £m
	Number of Ordinary Shares Million	Net book value £m		
At 1 April 2002	–	–	169.5	169.5
Effect of foreign exchange rate changes	–	–	(0.1)	(0.1)
Provision against investments	–	–	(1.7)	(1.7)
Additions – on flotation	1.8	4.3	955.8	960.1
Additions – post-flotation	0.5	1.2	–	1.2
Shares written off (All Employee Share Plan)	–	(2.2)	–	(2.2)
Disposals	–	–	(155.5)	(155.5)
At 31 March 2003	2.3	3.3	968.0	971.3

Burberry Group plc's principal subsidiary undertakings are listed on page 88.

Investment in own shares represents the cost of 1,413,333 of the Company's Ordinary Shares (nominal value of £707) purchased in July 2002, for a cost of £3.3m, which amounts to 0.3% of the called up share capital. These shares have been acquired by the Burberry Group ESOTs in the open market using funds provided by Burberry Group companies to meet Employer's National Insurance obligations (or overseas equivalent) arising on the RSP and IPO share option awards. One of the Burberry Group ESOTs has waived its entitlement to dividends of £16,741.

In addition, the Company purchased 421,450 shares in July 2002 and 500,000 shares in March 2003, for a total cost of £2,193,885, to meet the Company's obligations in respect of awards made (or proposed as at 31 March 2003) to employees under an All Employee Share Plan. These shares were acquired by the Burberry Group plc ESOP Trust and The Burberry Group Share Incentive Plan in the open market using funds provided by Burberry Group companies. The cost of these shares has been written off, as they have been or will be gifted unconditionally to employees.

The costs of funding and administering the trusts are charged to the profit and loss account of Burberry Group in the period to which they relate. The market value of all own shares held at 31 March 2003 was £5.5m.

The trade investment represents an investment in Suit Spain S.L, a clothing manufacturing company incorporated in Spain in which the Burberry Group holds a 21.5% share of its ordinary share capital. The Burberry Group does not exercise any significant influence on the financial and operating decisions of the company.

17 Stock

	At 31 March	
	2003 £m	2002 £m
Raw materials	13.6	15.2
Work in progress	7.2	6.2
Finished goods	63.0	60.9
Total	83.8	82.3

There is no significant difference between the replacement cost of stock and the amounts shown above, on the basis that stock subject to provisioning would not be replaced, and is therefore excluded from this calculation.

18 Debtors

	Group			Company	
	At 31 March			At 31 March	
	2003 £m	2002 £m	2002 (pro forma) £m	2003 £m	2002 £m
Amounts falling due within one year:					
Trade debtors	86.1	77.7	77.7	–	–
Other debtors	1.1	0.9	0.9	–	–
Prepayments and accrued income	11.3	12.1	12.1	–	–
Corporation tax	3.4	0.6	0.6	2.1	–
Trading balances owed by GUS group companies	0.2	0.3	0.3	–	–
Funding balances owed by GUS group companies (pre-flotation)	–	298.8	–	–	187.4
Companies/assets to be disposed (on flotation)	–	8.3	–	–	–
Amounts receivable from subsidiary companies	–	–	–	18.1	–
	102.1	398.7	91.6	20.2	187.4
Amounts falling due after one year:					
Deferred tax assets	18.3	7.8	7.8	–	–
Corporation tax	0.8	–	–	–	–
Other debtors	0.8	–	–	–	–
Amounts receivable from subsidiary companies	–	–	–	149.0	55.9
Total	122.0	406.5	99.4	169.2	243.3

Deferred tax assets

	£m
Balance at 1 April 2002	7.8
Effect of foreign exchange rate changes	(0.2)
Credited to the profit and loss account	9.3
Acquisition of subsidiaries	2.4
Other movements	(1.0)
Balance at 31 March 2003	18.3

18 Debtors continued

The analysis of the deferred tax assets is shown below:

	At 31 March	
	2003 £m	2002 £m
Accelerated capital allowances	0.4	0.5
Unrealised stock profit and other stock provisions	8.2	2.3
Share schemes	6.3	–
Net operating losses	0.3	0.1
Other short term timing differences	3.1	4.9
Undiscounted deferred tax assets	18.3	7.8

The deferred tax assets recorded in each year arises from timing differences which are expected to reverse in the foreseeable future.

19 Cash and short term deposits

	At 31 March	
	2003 £m	2002 £m
Cash	37.2	27.8
Short term deposits (see note 32)	49.4	2.4
Total	86.6	30.2

20 Creditors – amounts falling due within one year

	Group			Company	
	At 31 March			At 31 March	
	2003 £m	2002 £m	2002 (pro forma) £m	2003 £m	2002 £m
Secured:					
Bank loans (see note 32)	–	8.2	8.2	–	–
Unsecured:					
Bank loans and overdrafts (see note 32)	7.0	0.7	0.7	–	–
Trade creditors	26.9	27.0	27.0	–	–
Dividends payable – GUS group	7.8	–	–	7.8	–
Dividends payable – other shareholders	2.2	–	–	2.2	–
Trading balances owed to GUS group companies	5.1	0.3	0.3	–	–
Funding balances owed to GUS group companies (pre-flotation)	–	115.0	–	–	–
Amounts due to subsidiary companies	–	–	–	52.4	–
Corporation tax (UK and overseas)	22.1	28.9	28.9	–	3.8
Other taxes and social security costs	4.6	4.0	4.0	–	–
Other creditors	18.4	17.0	17.0	–	–
Accruals and deferred income	54.5	37.3	37.3	0.4	–
Deferred consideration for acquisitions	2.5	2.5	2.5	–	–
Total	151.1	240.9	125.9	62.8	3.8

Bank loans and overdrafts at 31 March 2003 represent unrepresented cheques. The secured borrowings as at 31 March 2002 related to a specific freehold property and specific trade debtors.

21 Creditors – amounts falling due after more than one year

	Group		Company	
	At 31 March		At 31 March	
	2003 £m	2002 £m	2003 £m	2002 £m
Unsecured:				
Other creditors, accruals and deferred income	6.0	3.1	–	–
Deferred consideration for acquisitions	29.2	20.0	–	–
Amounts due to subsidiary companies	–	–	98.6	–
Total	35.2	23.1	98.6	–

Deferred consideration due after more than one year arises from the acquisitions of two businesses, Burberry (Spain) S.A. and Mercader y Casadevall S.A., and the trade and certain assets of the Burberry business in Korea. The amounts due in relation to the acquisition of Burberry (Spain) S.A. as at 31 March 2003 of £19.2m (2002: £17.5m) relate to an earn out agreement and are payable in cash, *inter alia*, dependent upon the achievement of trading results in aggregate for the five years ending 31 March 2005. The consideration payable may vary from nil to a maximum of €41.1m (£28.3m). Any incremental amounts arising since 31 March 2002 have been charged to the profit and loss account.

22 Provisions for liabilities and charges

	Pension obligations £m	Other £m	Total £m
At 1 April 2002	0.3	0.5	0.8
Utilised	–	(0.3)	(0.3)
Charged to profit and loss account	0.1	4.0	4.1
At 31 March 2003	0.4	4.2	4.6

Information on pension obligations is set out in note 33 and relates to the retirement indemnities in France. Other amounts mainly relate to property obligations which are expected to be utilised over a three year period.

23 Called up share capital**Group and Company**

	2003 £m	2002 £m
Authorised share capital		
1,999,999,998,000 (2002: 1,000,000,000) Ordinary Shares of 0.05p (2002: £1) each	1,000.0	1,000.0
1,600,000,000 redeemable preference shares of 0.05p each	0.8	–
Total	1,000.8	1,000.0

Allotted, called up and fully paid share capital

	Number	£m
Ordinary Shares of 0.05p each (2002: £1 each)		
At 1 April 2002	500	–
Allotted to GUS group companies (pre-flotation)	49,501	–
Allotted to GUS group companies on share split (pre-flotation)	99,951,999	–
Allotted to GUS group companies on rights issue (pre-flotation)	287,638,400	0.2
Allotted on flotation	112,359,600	0.1
At 31 March 2003	500,000,000	0.3
Redeemable preference shares of 0.05p each		
At 1 April 2002	–	–
Allotted to GUS group companies (pre-flotation)	1,600,000,000	0.8
At 31 March 2003	1,600,000,000	0.8
Total called up ordinary and preference share capital		1.1

Prior to re-registering from Burberry Group Limited to Burberry Group plc the Company had a share split and the nominal value of shares in issue was reduced from 100p per share to 0.05p per share.

Redeemable preference share capital

Called up redeemable preference shares, which carry limited voting rights, were issued prior to flotation and are held by GUS group.

The redeemable preference shares have the right to a non-cumulative dividend at the rate per annum of six-month LIBOR minus one percent and to a further dividend equal to the dividend per share paid on the Company's Ordinary Shares once the total dividend on those Ordinary Shares that has been paid in any financial year reaches £100,000 per Ordinary Share.

The Company has the right to redeem the preference shares at any time until 14 June 2007. On this date any preference shares outstanding will be redeemed in full for their face value together with any dividends accruing up to 14 June 2007.

On a return of capital on winding-up or otherwise (other than on redemption or purchase of shares), the holders of the preference shares shall be entitled to a sum equal to the nominal capital paid up or credited as paid up on the preference shares held by them respectively. This payment will rank in priority to any payment to the holders of any other class of shares.

24 Reserves**Group**

	Share premium account £m	Revaluation reserve £m	Capital reserve £m	Other reserve £m	Profit and loss account £m
At 1 April 2002	89.4	25.5	23.3	–	336.3
Translation differences	–	(0.3)	(1.3)	–	2.3
Share premium arising in the year	736.9	–	–	–	–
Capital reduction	(704.1)	–	–	704.1	–
Capital reserve arising on RSP	–	–	18.5	–	–
Loss for the year	–	–	–	–	(181.8)
Other movements relating to flotation	–	–	6.6	–	(666.5)
At 31 March 2003	122.2	25.2	47.1	704.1	(509.7)

Company

	Share premium account £m	Other reserve £m	Profit and loss account £m
At 1 April 2002	89.4	–	319.6
Loss for the year	–	–	(205.5)
Share premium arising in the year	736.9	–	–
Capital reduction	(704.1)	704.1	–
Waiver of GUS group balances	–	–	37.6
At 31 March 2003	122.2	704.1	151.7

Issue costs of £7.9m have been offset against the share premium arising in the year.

The other reserve represents the amounts transferred from the share premium account within Burberry Group plc as a result of the capital reduction carried out immediately prior to flotation. This reserve will be classified as distributable when the creditors of Burberry Group plc as at the date of the capital reduction have been settled in full. The negative profit and loss account balance arising on consolidation resulted from the reorganisation of Burberry Group immediately prior to flotation (see note 1 “Burberry Group reorganisation”). This negative balance will be eliminated when the other reserve of £704.1m is classified as distributable.

Dividend distributions are dependent on the Company's accumulated profit and loss account. As at 31 March 2003 the profit and loss account of Burberry Group plc was £151.7m (2002: £319.6m).

Based upon the market price for the Company's shares at the year end, the expected impact on Burberry Group's consolidated profit and loss account of the RSP and IPO Option Scheme is a charge of £0.8m which would be taken direct to reserves. However, as this will be offset by an increase in share capital and share premium, there will be no net impact on Burberry Group's consolidated Shareholders' Funds.

25 Analysis of movement in net funds

	At 1 April 2002 £m	Cash flow £m	Other non-cash movements – interest and taxation £m	Other non-cash movements – waiver of GUS group balances £m	Exchange movements £m	At 31 March 2003 £m
Cash balances	27.8	9.3	–	–	0.1	37.2
Overdrafts*	(0.7)	(6.3)	–	–	–	(7.0)
	27.1	3.0	–	–	0.1	30.2
Bank loans due within one year	(8.2)	7.9	–	–	0.3	–
GUS group balances	192.3	(195.6)	(24.8)	37.6	(9.5)	–
Liquid resources:						
Short term deposits	2.4	47.3	–	–	(0.3)	49.4
Total	213.6	(137.4)	(24.8)	37.6	(9.4)	79.6

*Overdrafts at 31 March 2003 represent unrepresented cheques.

Liquid resources as at 31 March 2003 comprise short term deposits and cash balances (principally denominated in Sterling, US and Hong Kong dollars) placed with banks and liquidity funds.

26 Reconciliation of net cash flow to movement in net funds

	Year to 31 March 2003 £m	Year to 31 March 2002 £m
Increase in cash (see note 25)	3.0	11.0
Cash outflow from movement in external borrowings	7.9	2.6
Cash outflow from movement in liquid resources	47.3	2.4
Cash (inflow)/outflow arising from GUS group balances	(195.6)	12.7
Movement in net funds resulting from cash flows	(137.4)	28.7
Non-cash movements on GUS group balances		
– tax and interest	(24.8)	(0.2)
– waiver of balances by GUS group	37.6	–
Exchange movements	(9.4)	0.1
Movement in net funds	(134.0)	28.6
Net funds at beginning of period	213.6	185.0
Net funds at end of period (see note 25)	79.6	213.6

27 Analysis of net funds

	At 31 March 2003 £m	At 31 March 2002 £m
Cash and short term deposits	86.6	30.2
Overdrafts*	(7.0)	(0.7)
Secured bank loans due within one year	–	(8.2)
GUS group balances	–	192.3
Net funds at end of period (see note 25)	79.6	213.6

*Overdrafts at 31 March 2003 represent unrepresented cheques.

28 Acquisition

Acquisition of the assets and business based in Korea ("the Korean acquisition")

On 1 July 2002 Burberry Group purchased the Burberry trade and certain assets and liabilities ("Burberry Korea") from Euro Trading Limited, a Korean business which retailed Burberry merchandise in Korea and provided certain other distribution and selling services. The business and certain assets and liabilities were acquired by Burberry Korea Limited for a total consideration of £34.3m, including deferred consideration of £10.0m payable in June 2007.

The total adjustments required to the book values of the assets and liabilities acquired in order to present those amounts purchased at fair values are set out in this note, together with the resultant amounts of goodwill arising. These purchases have been accounted for as acquisitions.

The following financial information sets out the results of the Korean business in the period from the date of acquisition to 31 March 2003, as well as the incremental impact on Burberry Group as a result of the acquisition:

	1 July 2002 to 31 March 2003 £m	Burberry Group transactions eliminated £m	Incremental impact of acquisition £m
Turnover	37.9	(19.7)	18.2
Cost of sales	(22.0)	19.7	(2.3)
Gross profit	15.9	–	15.9
Net operating expenses	(12.3)	–	(12.3)
Operating profit before interest, goodwill amortisation, exceptional items and taxation	3.6	–	3.6
Goodwill amortisation	(1.0)	–	(1.0)
Interest	(0.8)	0.2	(0.6)
Exceptional items	(0.1)	–	(0.1)
Profit before taxation	1.7	0.2	1.9
Taxation	(0.8)	–	(0.8)
Profit after taxation and retained profit for the period	0.9	0.2	1.1

The turnover and profit after taxation in the year ended 30 June 2002 of Burberry Korea relating to the assets and liabilities purchased were £38.6m and £5.3m respectively. These figures have been prepared in relation to the assets acquired rather than the entire asset base of the relevant company. The post-acquisition cost structure of the business is different from that which existed prior to 1 July 2002. Accordingly, these results are not necessarily representative of those that may arise in future periods. Included in the amounts for the year ended 30 June 2002 are purchases of £14.5m, commission income of £3.5m and advertising and promotion subsidies of £1.3m from businesses which are part of Burberry Group.

The business had no recognised gains and losses other than those included in the profit and loss account and therefore no separate statement of total recognised gains and losses has been presented.

	Book value £m	Fair value adjustments £m	Fair value £m
Burberry Korea			
Tangible fixed assets	0.5	–	0.5
Stock	14.1	(8.4)	5.7
Debtors	0.1	2.4	2.5
Creditors	(0.7)	–	(0.7)
Assets acquired			8.0
Goodwill			26.3
Consideration			34.3
Satisfied by:			
Cash			24.3
Deferred consideration			10.0
Total			34.3

28 Acquisition continued

The value of the tangible fixed assets, stock, debtors and creditors at 1 July 2002 is taken from the accounts of the acquired business at that date, at exchange rates ruling on that date. The fair value adjustments recorded in respect of stock mainly relate to unrealised profit in stock at the date of acquisition and less importantly to provision for aged and obsolescent stock in accordance with Burberry Group accounting policies. The related deferred tax asset is reflected within debtors. These fair value adjustments are provisional, as they may be affected by the sale of the relevant stock acquired and will be finalised at 31 March 2004.

The directors of the Company consider that the estimated useful economic life of the acquired goodwill arising on the assets purchased is not less than 20 years as a result of the established nature of the Burberry brand in this market.

Pre-acquisition related party transactions

Prior to the acquisition, the business in Korea made product purchases from, and received commission payments and contributions for advertising costs from, other Burberry Group companies.

The amount due to the business in Korea for contributions for advertising costs and commissions was £0.5m in the quarter ended 30 June 2002. Product purchases from Burberry Group amounting to £3.9m were made by the business in Korea in the quarter ended 30 June 2002.

Impact of the acquisition on cashflow

The subsequent impact on Burberry Group's cashflow statement as a result of the acquisition of the assets and liabilities of the Korean business in the year is shown below:

	Period ended 31 March 2003 £m
Net cash inflow from operating activities	2.3
Interest paid	(0.6)
Purchase of tangible fixed assets	(0.4)
Cash inflow before use of liquid resources and financing	1.3

29 Financial commitments

Burberry Group had annual commitments under non-cancellable operating leases as follows:

	As at 31 March	
	2003 £m	2002 £m
Land and buildings		
Expiry date:		
In one year	1.9	2.1
Between two and five years	6.3	4.8
After five years	9.4	8.7
Total	17.6	15.6

The financial commitments for operating lease amounts calculated as a percentage of turnover ("turnover leases"), have been based on the minimum payment that is required under the terms of the relevant lease. Under certain turnover leases, there are no minimum payments and therefore no financial commitment is included in the table above. As a result, the amounts charged to the profit and loss account may be materially higher than the financial commitment at the prior year end.

30 Capital commitments

Capital commitments contracted but not provided for by Burberry Group as at 31 March 2003 amounted to £6.9m (2002: £35.3m). Contracted capital commitments represent contracts entered into by the year end and major capital expenditure projects where activity has commenced by the year end.

At 31 March 2002 capital commitments included an amount of £8.2m relating to a conditional contract to purchase a retail property lease. This purchase was completed in the year ended 31 March 2003.

31 Contingent liabilities

Under the GUS group UK tax payment arrangements, Burberry Group is and will remain jointly and severally liable for any GUS liability attributable to the period of Burberry Group's membership of this payment scheme. Burberry Group's membership of this scheme was terminated with effect from 31 March 2002.

Burberry (Spain) S.A. is liable for certain salary and social security contributions left unpaid by its sole contractors where the amounts are attributable to the period in which sub-contracting activity is undertaken on behalf of Burberry (Spain) S.A. It is not feasible to estimate the amount of contingent liability, but such expense has been minimal in prior years.

A claim for £2.4m has been received from a number of the vendors of the Asian distribution businesses acquired on 31 December 2001. As reported in the Listing Particulars of the Company, Burberry Group intends to defend its position and has made appropriate provision for the outcome of this dispute.

In the year ended 31 March 2002, Burberry Group received an invoice in respect of construction works at the Bond Street site from its former lessor totalling £0.5m. The Burberry Group has notified the other party that it is seeking recovery of certain costs incurred because of the late delivery of the store structure. The Burberry Group intends to defend its position.

32 Financial instruments

Prior to Burberry Group's flotation in July 2002, the financial risk management of Burberry Group was controlled by GUS plc and co-ordinated with the overall risk management of GUS group. Up to flotation, Burberry Group's financial instruments consisted primarily of cash, borrowings and amounts loaned to and borrowed from other GUS group companies, with the interest rates set by GUS plc.

The proceeds received by Burberry Group plc on flotation on the London Stock Exchange were used to repay, in cash, the funding balances held between GUS group companies and Burberry Group. After flotation, Burberry Group's financial instruments consisted primarily of cash, short term deposits, borrowings and foreign exchange contracts used to manage currency exposures.

Financial risk management

The policies that have been adopted since flotation in July 2002 are as follows:

Liquidity and treasury management

Burberry Group's management seeks to reduce financial risk and to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Burberry Group's treasury function does not operate as a profit centre and transacts only in relation to the underlying business requirements. Prior to flotation these risks were monitored by GUS group's treasury function.

Currency risk management

Burberry Group's management has monitored the desirability of hedging the profits and net assets of overseas subsidiaries when translated into Sterling for reporting purposes. It has not entered into any specific transactions for this purpose since flotation.

Burberry Group's profit and loss account is affected by transactions denominated in foreign currency. To reduce exposure to currency fluctuations, Burberry Group has a policy of hedging foreign currency denominated transactions by entering into forward exchange contracts.

Burberry Group's principal foreign currency denominated transactions arise from royalty income and the sale and purchase of overseas sourced products. In the UK, Burberry Group manages these exposures, by the use of Yen and Euro forward exchange contracts for a period of 12 months and up to 24 months respectively in advance. In addition, Burberry Group's overseas subsidiaries hedge the foreign currency element of their product purchases on a seasonal basis. The hedging activity involves the use of spot and forward currency instruments.

32 Financial instruments continued**Financial risk management** continued**(a) Fair values of financial assets and financial liabilities**

Set out below is a comparison by category of book values and fair values of Burberry Group's financial assets and financial liabilities:

Primary financial instruments held or issued to finance the Group's operations:

	As at 31 March	
	2003 Book and fair value £m	2002 Book and fair value £m
Investments	0.1	0.1
Cash at bank and in hand	37.2	27.8
Short term deposits	49.4	2.4
Loans to GUS group companies	–	298.8
Total financial assets	86.7	329.1
Bank loans and overdrafts	(7.0)	(8.9)
Short term loans from GUS group companies	–	(20.6)
Long term loans from GUS group companies	–	(94.4)
Other financial liabilities	(40.2)	(23.9)
Total financial liabilities	(47.2)	(147.8)
Total net financial investments	39.5	181.3
Derivative financial instruments held to manage the currency profile:	2003 £m	2002 £m
Forward foreign currency contracts		
– Book value	–	–
– Fair value	5.5	1.9

Fair value methods and assumptions

Fair value is the amount at which a financial instrument could be exchanged at an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. The principal assumptions are:

- i) The fair value of short term deposits, loans and overdrafts approximates to the carrying amount because of the short maturity of these instruments.
- ii) The fair value of foreign currency contracts is based on a comparison of the contractual and year end spot exchange rates.
- iii) Prior to flotation, short and long term loans to and from GUS group companies were a mixture of interest bearing and non-interest bearing balances, with interest payable and receivable on a proportion of the amounts payable or receivable. These amounts were used to fund the Burberry Group. On flotation these balances were settled in cash. The fair value of these balances did not materially vary from the book value as the non-floating rate balances were primarily repayable on demand.

32 Financial instruments continued**Financial risk management** continued**(b) Interest rate risk profile****Financial assets**

The interest rate risk profile of Burberry Group's financial assets (excluding investments) by currency is as follows:

	Cash at bank and in hand £m	Short term deposits £m	Loans to GUS group companies £m	Total £m
At 31 March 2003				
Sterling	5.7	21.8	–	27.5
US dollars	3.7	7.9	–	11.6
Euros	20.2	14.3	–	34.5
Other currencies	7.6	5.4	–	13.0
Total	37.2	49.4	–	86.6
Floating rate assets	36.3	49.4	–	85.7
Balances for which no interest is paid	0.9	–	–	0.9
At 31 March 2002				
Sterling	1.7	–	155.7	157.4
US dollars	12.2	1.6	121.0	134.8
Euros	9.9	–	9.5	19.4
Other currencies	4.0	0.8	12.6	17.4
Total	27.8	2.4	298.8	329.0
Floating rate assets	27.3	2.4	297.8	327.5
Fixed rate assets	0.5	–	–	0.5
Balances for which no interest is paid	–	–	1.0	1.0

Floating rate assets earn interest based on the relevant national LIBID equivalents.

Balances for which no interest is paid is made up of Sterling £0.7m (2002: £1.0m) and Euros £0.2m (2002: £nil).

In addition to the above, the trade investment of £0.1m at 31 March 2003 (2002: £0.1m) meets the definition of a financial asset. No interest is receivable on this Euro denominated financial asset.

32 Financial instruments continued**Financial risk management** continued**(b) Interest rate risk profile** continued**Financial liabilities**

The interest rate risk profile of Burberry Group's financial liabilities by currency at 31 March is as follows:

	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Financial liabilities on which no interest is payable £m	Total £m
At 31 March 2003				
Sterling	3.1	–	7.2	10.3
US dollars	0.3	–	2.4	2.7
Euro	4.4	–	29.6	34.0
Other currencies	–	–	0.2	0.2
Total	7.8	–	39.4	47.2
At 31 March 2002				
Sterling	0.7	–	6.1	6.8
US dollars	12.0	6.2	1.2	19.4
Euros	96.6	–	17.8	114.4
Other currencies	2.2	–	5.0	7.2
Total	111.5	6.2	30.1	147.8

The floating rate financial liabilities at 31 March 2003 and 2002 incurred interest based on relevant national LIBOR equivalents.

The floating rate financial liabilities at 31 March 2003 include preference shares of a total value of £0.8m and overdraft balances of £7.0m. See note 23 for further details regarding the preference shares.

32 Financial instruments continued**Financial risk management** continued**(c) Currency exposures**

The tables below show the extent to which Burberry Group has monetary assets and liabilities at the year end in currencies other than the local currency of operation, after accounting for the effect of any specific forward contracts used to manage currency exposure. Monetary assets and liabilities refer to cash, deposits, borrowings and amounts to be received or paid in cash. Foreign exchange differences on retranslation of these assets and liabilities are taken to the profit and loss account, except where they hedge an investment in an overseas subsidiary of Burberry Group.

Functional currency of operation:	Net foreign currency monetary assets/(liabilities)				
	Sterling £m	US dollar £m	Euro £m	Other currencies £m	Total £m
At 31 March 2003					
Sterling	–	(2.2)	29.0	4.7	31.5
US dollar	(0.7)	–	(0.7)	–	(1.4)
Euro	(2.9)	0.1	–	(0.1)	(2.9)
Other currencies	8.0	3.9	(0.1)	–	11.8
Total	4.4	1.8	28.2	4.6	39.0
At 31 March 2002					
Sterling	–	0.2	11.4	0.7	12.3
US dollar	(8.9)	–	(1.3)	–	(10.2)
Euro	–	(0.3)	–	0.5	0.2
Other currencies	(0.5)	(0.7)	–	(0.1)	(1.3)
Total	(9.4)	(0.8)	10.1	1.1	1.0

(d) Maturity of financial liabilities

The maturity profile of the carrying amount of Burberry Group's financial liabilities, other than short term trade creditors and accruals at 31 March, was as follows:

	Debt* £m	Non-equity shares £m	Deferred consideration £m	Other financial liabilities £m	Total £m
At 31 March 2003					
In one year or less, or on demand	7.0	–	2.5	1.3	10.8
In more than one year but not more than two years	–	–	–	1.7	1.7
In more than two years but not more than five years	–	0.8	29.2	3.3	33.3
In more than five years	–	–	–	1.4	1.4
Total	7.0	0.8	31.7	7.7	47.2

32 Financial instruments continued**Financial risk management** continued**(d) Maturity of financial liabilities** continued

At 31 March 2002	Debt £m	Deferred consideration £m	Other financial liabilities £m	Total £m
In one year or less, or on demand	29.5	2.5	–	32.0
In more than one year but not more than two years	–	2.5	–	2.5
In more than two years but not more than five years	94.4	17.5	0.4	112.3
In more than five years	–	–	1.0	1.0
Total	123.9	22.5	1.4	147.8

*Debt balances as at 31 March 2003 relate to unrepresented cheques.

Non-equity shares relate to redeemable preference shares, on which a non-cumulative dividend is paid (see note 23 for further details). All deferred consideration is payable in cash.

Other financial liabilities principally relate to accrued lease liabilities (£2.4m), amounts payable in respect of the acquisition of Burberry (Spain) S.A. (£1.0m), which are both included in other creditors falling due after one year, and provisions for certain property obligations (£4.0m), which are included in provisions.

(e) Borrowing facilities

Prior to flotation, the facilities available to Burberry Group were controlled by GUS plc. These facilities enabled Burberry Group to finance its working capital requirements and for major capital projects.

A committed unsecured facility of £150m was agreed with GUS plc commencing on 11 July 2002. Subsequent to the year end, this facility has been revised, with its amount reduced to £75m, and its committed term extended to July 2006.

(f) Hedging

Under Burberry Group's accounting policy (see note 2), the gains and losses on forward foreign currency contracts are deferred and accounted for when the underlying transaction is recognised. Certain gains and losses on such forward foreign currency contracts will be unrecognised in the financial statements and an analysis of these is shown below:

	Unrecognised gains £m	Unrecognised losses £m	Total net unrecognised gains/(losses) £m
Gains and losses on hedges at 1 April 2002	3.1	(1.2)	1.9
Arising before 1 April 2002 included in current year income	(3.1)	1.1	(2.0)
Arising before 1 April 2002 and not included in current year income	0.3	0.1	0.4
Arising during the year and not included in current year income	5.1	(0.2)	4.9
Gains and losses on hedges at 31 March 2003	5.4	(0.2)	5.2
To be recognised in 2003/04	5.2	(0.2)	5.0
To be recognised thereafter	0.2	–	0.2

There are no material deferred gains or losses.

33 Post-retirement benefits

(a) Accounting for pension costs

Burberry Group, through membership of GUS group pension schemes, provides post-retirement arrangements for its employees in the UK and its overseas operations which are both defined benefit and defined contribution in nature. Where arrangements are funded, assets are held in independently administered trusts.

The pension costs charged to the profit and loss account in respect of the main plans were:

	Year ended 31 March	
	2003 £m	2002 £m
Defined benefit schemes		
GUS Pension Scheme UK (including special contribution of £0.5m)	1.4	0.6
Post-retirement medical UK	–	0.1
Unfunded retirement benefit plans USA*	0.4	–
Defined contribution schemes		
GUS money purchase plan UK	0.5	0.5
Burberry money purchase plan USA	0.5	0.4
Total pension costs	2.8	1.6

*The unfunded retirement benefit plans in the USA are classified as defined benefit schemes under FRS 17 because their exact cost cannot be quantified as the funds are subject to notional indexation according to specified investment return indices.

Defined benefit schemes

GUS defined benefit scheme

Burberry Group companies participate in the GUS defined benefit scheme which offers benefits based on service and salary at retirement. Currently, Burberry Group is not permitting new entrants to the GUS defined benefit scheme.

The GUS scheme has rules which specify the benefits to be paid and is financed accordingly, with assets being held in independently administered funds. A full actuarial valuation of the GUS scheme is carried out every three years with interim reviews in the intervening years.

A full actuarial valuation of the GUS defined benefit scheme was carried out at 31 March 2001 by independent, qualified actuaries, Mercer Human Resource Consulting Limited, using the projected unit method. The principal actuarial assumptions used in that valuation for SSAP 24 purposes were as follows:

	Valuation at 31 March 2001
Valuation rate of interest	
– Pre-retirement	6.0% per annum
– Post-retirement	6.0% per annum
Rate of future earnings growth	4.3% per annum
Pension and inflation increases	2.5% per annum

At 31 March 2001 the market value of the GUS scheme's assets was £327m. On the above assumptions, this represented 100% of the value of benefits that had accrued to members. For the year ended 31 March 2002, GUS group allocated to Burberry Group a share of the SSAP 24 charge calculated for GUS group as a whole. This allocated charge differed from the contributions Burberry Group made to the scheme. The difference was due to different assumptions and the treatment of surpluses and/or deficits. Any excess of the accumulated pension costs over the payment of contributions to the pension fund was recognised as a provision in the balance sheet. The pension provision held on the Burberry Group balance sheet was transferred to GUS plc prior to 31 March 2002.

33 Post-retirement benefits continued

From 1 April 2002, Burberry Group's pension cost represents contributions payable to GUS defined benefit scheme. With effect from 1 April 2002, Burberry has been contributing 17.9% (2002: 13.8%) in respect of members in the main benefit section and 30.5% (2002: 27.9%) of pensionable salaries in respect of a director of Burberry Group plc. As at 31 March 2003 there were 90 (2002: 97) Burberry Group employees in the scheme (including a director of the Company) and Burberry Group contributions represented approximately 5.6% (2002: 5.1%) of total employer contributions to the scheme.

During the year ended 31 March 2003 GUS made a special contribution to the scheme of £10.0m (2002: £8.0m) in order to fund shortfalls disclosed by the valuation on the ongoing actuarial assumptions used for funding purposes. Burberry Group's share of this contribution is estimated at £0.5m (2002: £0.7m) and this amount has been charged in the profit and loss account.

Unfunded retirement benefit plans USA

Rose Marie Bravo and Thomas O'Neill are entitled to unfunded retirement benefit plans as explained in the Report on directors' remuneration and related matters. FRS 17 does not have a material impact on the reported obligation.

Retirement indemnities (France)

Burberry France S.A. offers lump sum benefits at retirement to all employees that are employed by the company based on the length of service and salary. The balance sheet provision at 31 March 2003 was £0.4m (2002: £0.3m). FRS 17 does not have a material impact on the reported obligation. There are no assets held by Burberry Group companies in relation to this commitment.

Defined contribution schemes**The GUS Money Purchase Pension Plan**

This scheme was introduced during the year ended 31 March 1999 with the aim of providing pension benefits for those GUS group employees in the UK who, hitherto, had been ineligible for GUS defined benefit pension scheme membership. The assets of the GUS scheme are held separately from those of GUS plc in an independently administered fund. At 31 March 2003, there were no prepayments or arrears in Burberry Group contributions (2002: nil).

The Burberry Money Purchase Plan USA

Burberry Group administers a Money Purchase Plan in the USA (a 401(k) scheme) which covers all eligible full-time employees who have reached the age of 21 and have completed one full year of service. The assets of the scheme are held separately from those of Burberry Group in an independently administered fund. At 31 March 2003 there were no Burberry Group contributions in arrears (2002: £0.1m in arrears).

(b) FRS 17 – Retirement benefits**GUS defined benefit scheme**

Burberry Group participates in the GUS defined benefit scheme along with other GUS group companies. It is not possible to identify Burberry Group's share of the underlying assets and liabilities in the GUS defined benefit scheme on a consistent and reasonable basis. In accordance with FRS 17 the scheme is accounted for as a multi-employer scheme and from 1 April 2002 the defined benefit costs in respect of the GUS defined benefit pension scheme reflect the cash contribution that Burberry Group pays to the scheme.

The principal actuarial assumptions used in the valuation for FRS 17 purposes of the GUS group defined benefit scheme were:

	At 31 March 2003
Rate of inflation	2.5%
Rate of salary increases	4.3%
Rate of increase for pensions in payment and deferred pensions	2.5%
Discount rate	5.5%

The deficit for the GUS group defined benefit scheme as a whole, on the above basis, was approximately £97.0m at 31 March 2003 (2002: £16.5m), after allowing for the £10.0m special contribution paid in March 2003 and before allowing for deferred tax.

34 Related party transactions

GUS plc and other GUS group companies are related parties of Burberry Group as GUS plc owns the majority shareholding in Burberry Group plc.

(a) Trading transactions and balances arising in the normal course of business

The following sales/purchases and balances have arisen from transactions between Burberry Group and other GUS group companies including: the sale of merchandise and fabrics to GUS Home Shopping Limited, recharges made and the purchase of services from other GUS group companies, all of which are wholly owned subsidiaries of GUS plc.

In addition, a freehold industrial site in the UK was purchased from a GUS group company for £0.7m during the year.

The services purchased by Burberry Group include treasury and tax management, cash management, insurance and insurance management, travel, pension, human resources, employee benefit administration, telephone network costs, vehicle hire, marketing services, credit references, distribution and warehouse facilities, and certain internal audit support.

Related party	Related party's relationship to GUS plc	Sales to/(purchases from) GUS group companies for the year ended 31 March	
		2003 £m	2002 £m
Sales to related parties			
GUS plc and other GUS group companies	Ultimate parent company or 100% subsidiary	0.3	2.3
Purchases from related parties			
GUS plc and other GUS group companies	Ultimate parent company or 100% subsidiary	(4.1)	(6.6)
		Amounts due from/(to) GUS group companies as at 31 March	
Related party	Related party's relationship to GUS plc	2003 £m	2002 £m
Related party debtors			
GUS plc and other GUS group companies	Ultimate parent company or 100% subsidiary	0.2	0.3
Related party creditors			
GUS plc and other GUS group companies	Ultimate parent company or 100% subsidiary	(5.1)	(0.3)
Total		(4.9)	–

(b) Funding transactions and balances arising in the normal course of business

Prior to flotation the funding balances were a mixture of interest bearing and non-interest bearing balances, with interest payable and receivable on a proportion of the amounts payable or receivable. These amounts were used to fund Burberry Group. As part of the flotation these balances were settled in cash or waived.

Since flotation amounts have been deposited with GUS group companies in accordance with Burberry's counterparty risk policy. No amounts were outstanding at 31 March 2003. In addition, forward currency contracts have been undertaken with GUS group companies, which since flotation have been subject to Burberry's counterparty risk policy. The fair value at 31 March 2003 of such hedges amounted to £4.3m.

34 Related party transactions continued

(c) Senior management

On 31 December 2001 the Burberry trade and certain related assets of businesses in Hong Kong, Singapore and Australia were acquired. The vendors were companies owned by Dr Tay and Mr Ng, who are employed by Burberry Group. Commission payable to these and related companies in respect of the period prior to acquisition, 31 December 2001, is in dispute as described in note 31.

These individuals and Dr Chan, who has been employed by Burberry Group, have interests in properties which are leased to Burberry Group. The total amounts payable in relation to the provision of warehousing and office accommodation in the year ended 31 March 2003 was £0.6m (2002: £0.1m). At 31 March 2003 no amounts were owing by Burberry Group for such services (2002: £nil).

One of the vendors has interests in companies which purchase goods from Burberry Group companies and receive commission payments for the sale of Burberry goods in certain territories. Product sales to the companies owned by these individuals totalling £7.1m were recorded in the year ended 31 March 2003 (2002: £1.9m), and a balance owed by Burberry Group to these companies of £0.2m was outstanding at 31 March 2003 (2002: £0.5m). Commission of £0.6m was payable in respect of the year ended 31 March 2003 (2002: £0.4m) to these companies with no amounts outstanding by Burberry Group at 31 March 2003 (2002: £0.1m).

On 1 July 2002 the Burberry trade and certain related assets of the business in Korea were acquired from Mr Shin, who is now employed by Burberry Group. Mr Shin has an interest in the Burberry Group companies through the provision of office space and IT services. The total amounts paid to the companies connected to Mr Shin in respect of lease rental and IT services were £0.3m and £0.1m respectively, with £nil outstanding at 31 March 2003.

Four year summary

	2000 (pro forma) £m	2001 (pro forma) £m	2002 (pro forma) £m	2003 £m
Turnover by product category				
Womenswear	63.4	134.7	165.2	197.9
Menswear	73.8	142.4	149.4	162.8
Accessories	50.2	98.0	125.8	169.5
Other	7.5	6.9	5.3	5.1
Licence	30.8	45.8	53.5	58.3
Total	225.7	427.8	499.2	593.6
Turnover by destination	£m	£m	£m	£m
Europe	115.5	259.0	286.7	302.7
North America	62.3	90.9	110.5	140.5
Asia Pacific	40.8	74.6	100.1	147.0
Other	7.1	3.3	1.9	3.4
Total	225.7	427.8	499.2	593.6
Turnover by operation	£m	£m	£m	£m
Wholesale	95.8	238.8	288.8	306.9
Retail	99.1	143.2	156.9	228.4
Licence	30.8	45.8	53.5	58.3
Total	225.7	427.8	499.2	593.6
Profit by operation	£m	£m	£m	£m
Wholesale and Retail	(6.6)	29.2	42.7	64.3
Licence	25.1	39.5	47.6	52.4
EBITA*	18.5	68.7	90.3	116.7
Net interest income/(expense)	2.9	5.7	(0.5)	(0.9)
Foreign currency gain/(loss) on loans with GUS group (pre-flotation)	0.6	6.8	(0.1)	(2.3)
Goodwill amortisation	–	(3.6)	(4.9)	(6.4)
Exceptional items	–	2.9	–	(22.0)
Profit on ordinary activities before taxation	22.0	80.5	84.8	85.1
Tax on profit on ordinary activities	(6.6)	(26.1)	(28.3)	(32.9)
Profit on ordinary activities after taxation	15.4	54.4	56.5	52.2
Margin analysis	%	%	%	%
Gross margin as % of turnover	46.8	47.8	50.3	56.0
EBITA* as % of turnover	8.2	16.1	18.1	19.7

*Earnings before interest, taxation, goodwill amortisation and exceptional items.

	2000 (pro forma) Pence per share	2001 (pro forma) Pence per share	2002 (pro forma) Pence per share	2003 Pence per share
Earnings and dividends				
Basic earnings per share	3.1	10.9	11.3	10.5
Basic earnings per share before goodwill amortisation and exceptional items	3.1	11.2	12.3	14.9
Diluted earnings per share	3.0	10.8	11.1	10.3
Diluted earnings per share before goodwill amortisation and exceptional items	3.0	11.1	12.1	14.6
Dividend per share (post-flotation only)	n/a	n/a	n/a	3.0
Dividend cover*	n/a	n/a	n/a	5.0

*Based on profit after taxation before goodwill amortisation and exceptional items.

	2000 (pro forma) £m	2001 (pro forma) £m	2002 (pro forma) £m	2003 £m
Balance sheet				
Working capital (excluding cash and borrowings)	42.7	76.1	87.7	73.8
Fixed assets, investment and other intangible assets	57.5	101.0	125.4	162.4
Other long term liabilities	(14.2)	(9.1)	(3.9)	(10.6)
Net operating assets	86.0	168.0	209.2	225.6
Cash at bank, net of overdraft and borrowings	12.3	5.4	21.3	79.6
Taxation (including deferred taxation)	0.1	(10.0)	(20.5)	0.4
Deferred consideration for acquisitions	–	(12.9)	(22.5)	(31.7)
Goodwill	–	89.2	94.9	122.8
Investment in own shares	–	–	–	3.3
Dividends payable	–	–	–	(10.0)
Net assets	98.4	239.7	282.4	390.0

	2000 (pro forma) £m	2001 (pro forma) £m	2002 (pro forma) £m	2003 £m
Cash flow				
Operating profit before goodwill amortisation and exceptional items	18.5	68.7	90.3	116.7
Depreciation, impairment and trademark amortisation charges	5.6	11.1	14.0	19.0
Loss on disposal of fixed assets and similar non-cash charges	0.2	–	0.2	1.5
(Increase)/decrease in stocks	(0.4)	(11.9)	(7.0)	5.2
Increase in debtors	(0.5)	(1.0)	(5.2)	(2.4)
Increase/(decrease) in creditors	4.3	22.2	(2.2)	25.0
Net cash inflow from operating activities before capital expenditure and financial investment	27.7	89.1	90.1	165.0
Purchase of tangible and intangible fixed assets	(6.8)	(39.3)	(39.4)	(55.7)
Sale of tangible fixed assets	0.2	19.1	0.5	0.2
Purchase of own shares (excluding shares issued to ESOTs)	–	–	–	(4.5)
Net cash inflow from operating activities	21.1	68.9	51.2	105.0

Principal subsidiaries

Company	Country of incorporation	Nature of business
Europe		
Burberry Limited	UK	Luxury goods retailer, wholesale, manufacturer and licensor
Burberry Italy Retail Limited	UK	Luxury goods retailer
The Scotch House Limited*	UK	Luxury goods brand and licensor
Woodrow-Universal Limited*	UK	Textile manufacturer
Burberry France S.A.	France	Luxury goods retailer and wholesaler
Burberry (Suisse) S.A.*	Switzerland	Luxury goods retailer
Burberry Italy SRL*	Italy	Luxury goods wholesaler
Burberry (Deutschland) GmbH	Germany	Luxury goods retailer and wholesaler
Burberry (Spain) S.A.	Spain	Luxury goods wholesaler
Mercader y Casadevall S.A.	Spain	Luxury goods retailer
Burberry (Spain) Retail S.L.	Spain	Luxury goods retailer
North America		
Burberry Limited	USA	Luxury goods retailer
Burberry (Wholesale) Limited	USA	Luxury goods wholesaler
Hampstead Properties Inc.	USA	Property company
Burberry Realty, Inc.	USA	Property company
Asia Pacific		
Burberry Asia Ltd ⁽²⁾	Hong Kong	Luxury goods retailer and wholesaler
Burberry (Singapore) Distribution Company Pte Ltd ⁽²⁾	Singapore	Luxury goods retailer and wholesaler
Burberry Pacific Pty Ltd ⁽²⁾	Australia	Luxury goods wholesaler
Burberry Korea Ltd ⁽¹⁾	Korea	Luxury goods retailer and wholesaler

*Held directly by Burberry Group plc

Notes

(1) Assets and liabilities acquired 1 July 2002.

(2) Assets acquired 31 December 2001.

All principal subsidiary undertakings are wholly owned as at 31 March 2003 and operate principally in the country in which they are incorporated with the exception of Burberry Italy Retail Limited, which operates principally in Italy. Non-operating intermediate holding and financing companies are excluded from the above.

Burberry Group plc is 77.53% owned by GUS Holdings Limited, a subsidiary of GUS plc, which is registered in England and Wales. The ultimate parent undertaking and controlling party is GUS plc. Copies of GUS plc consolidated financial statements can be obtained from the Company Secretary at GUS plc, Universal House, Devonshire Street, Manchester, M60 1XA, UK.

Shareholder information

Registrar

Enquiries concerning holdings of the Company's shares and notification of the holder's change of address should be referred to Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6DA, telephone: 0870 600 3987. In addition, Lloyds TSB Registrars offer a range of shareholder information online at www.shareview.co.uk. A text phone facility for those with hearing difficulties is available by contacting telephone: 0870 600 3950.

Share price information

The latest Burberry Group plc share price is available on Ceefax and also on the Financial Times Cityline Service, telephone: 0906 843 2727 (calls charged at 60p per minute).

Internet

A full range of investor relations information on Burberry Group plc, including latest share price and dividend history is available at www.burberry.com

Financial calendar

First quarter trading update and Annual General Meeting	15 July 2003
Final dividend record date	25 July 2003
Final dividend to be paid	6 August 2003
First half trading update	October 2003
Preliminary announcement of interim results	18 November 2003
Third quarter trading update	January 2004
Second half trading update	April 2004
Preliminary announcement of annual results	May 2004

Registered office

Burberry Group plc
18-22 Haymarket
London
SW1Y 4DQ

Telephone: 020 7968 0000