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THE BURTON GROUP PLC

REPORT AND ACCOUNTS 1996

Reviews

DIVISION REPORTS

Debenhams Burton Menswear

Dorothy Perkins Evans

Principles Top Shop/Top Man

Home Shopping

GROUP STRATEGIES

Outlets, brand building
and supply chain

FINANCIAL STATEMENTS

Increases in sales and profits

SHAREHOLDER INFORMATION

Key dates and contacts



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COMPANIES HOUSE 25/01/97

Review96

The Burton Group is one of the largest fashion retailers in the UK, with nearly 1,500 outlets in high streets and shopping centres throughout the country. The Group reaches its customers through six high street trading divisions: Debenhams, the UK's leading chain of family department stores; and five fashion chains, Burton Menswear, Dorothy Perkins, Evans, Top Shop/Top Man, and Principles. The Group has recently created a Home Shopping division following the acquisitions of Innovations in August 1996 and Racing Green in October 1996.

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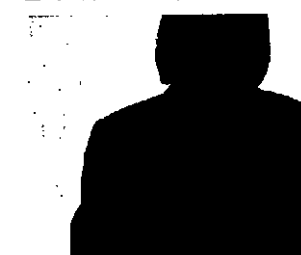
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FRONT COVER OATMEAL CARDIGAN FROM DOROTHY PERKINS.
LEFT GRANDAD SHIRT FROM CASUAL CLUB.
BACK COVER BACKPACK FROM JUNIOR HOMESTORE.

Financial summary

	1996	1995	1994
TURNOVER	£2,006.9m	£1,878.8m	£1,909.6m
RETAIL PROFIT	£161.6m	£102.1m	£51.2m
PROFIT BEFORE TAXATION	£151.6m	£98.6m	£41.1m
GEARING	11.7%	2.0%	9.7%
EARNINGS PER SHARE			
Ordinary	7.8p	5.2p	2.1p
Before exceptional items	7.8p	5.0p	2.1p
DIVIDENDS			
Interim paid	1.15p	1.0p	1.0p
Final proposed	1.65p	1.2p	1.0p
Total dividend	2.80p	2.2p	2.0p

SALES £m

2,006.9



RETAIL PROFIT £m

161.6



Chairman's statement



The UK retail market continued its hesitant recovery during the year with the pace of improvement better in the second half. Against this background, all our divisions made solid progress. Group sales from ongoing businesses were up 7.1 per cent to £2,006.9 million for the year, and Group profit before tax increased by 53.8 per cent to £151.6 million from £98.6 million.

Your board is therefore proposing an increased final dividend of 1.65p per share, giving a total dividend for the year of 2.8p compared with 2.2p in 1995.

Our performance continues to improve, and the long term strategy to rebuild brand credibility is working. This year every trading division made a profit.

A significant development for the Group was the acquisition of Innovations in August 1996, for £46.9 million, and Racing Green in October 1996 for £19 million. Richard Maney, formerly Managing Director of Principles, joined the main board of the Burton Group in July and has assumed overall responsibility for home shopping, information systems and branded storecard marketing.

During the year, we also created an International division, and announced our first franchise agreement for Debenhams in the Middle East.

Rewarding performance

Your board believes that the performance-related bonus scheme has been an important factor in the Group's recovery. This scheme will be modified next year to make a charge for any increases in the amount of capital employed when calculating bonus awards.

This places our Group executives more in line with the shareholders, in that it rewards not earnings increases *per se*, but earnings increases after an appropriate charge for the additional capital employed. We believe our managers throughout the Group will become more conscious of the effects of their decisions on capital investments. In addition, by deferring part of the bonus and keeping it at risk depending on future performance, the new scheme encourages long term thinking which is in the best interest of shareholders.

Further details are explained in the Chief Executive's review which follows, and in the Remuneration Committee report on page 44.

Your board also believes that employee share ownership is important for the development of the business and, following the Profit Sharing Scheme award in December 1996, some 24,000 out of our 43,000 staff will be shareholders.

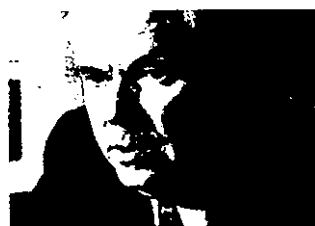
People commitment

The Group's recovery continues to benefit greatly from the commitment of all the people in the business. I would like to recognise and thank our staff for their energy and achievements this year.

A handwritten signature in dark ink, appearing to read 'John Hoskyns', with a horizontal line underneath.

Sir John Hoskyns Chairman

Chief Executive's review



EVERY TRADING DIVISION MADE A PROFIT, AND THE GROUP HAS STARTED TO BUILD ON THE FOUNDATIONS WE HAVE ESTABLISHED FOR LONG TERM PROSPERITY

This year we achieved increases in both sales and profits across the Group. The work of the last two years has enabled us to move away from extensive discounting, which had a negative effect on turnover, to selling at regular prices. Sales and profits are now both moving ahead.

Group profits for the year rose to £151.6 million from £98.6 million last year, an increase of 53.8 per cent. Ongoing sales for the Group were up 7.1 per cent, and gross margins up 2.3 percentage points for the year.

Our results demonstrate the increasing strength of the brands we are building. Much of the base work has been accomplished, and we can now concentrate on the potential for growth.

Divisional performance

Debenhams continued to develop as the best chain of family department stores in the country, and again recorded a double digit increase in retail profits to £102.8 million compared with £82.0 million last year, an increase of 25.4 per cent. Multiples showed significant improvement, led by strong performances from Top Shop/Top Man, Evans and Dorothy Perkins, and with Burton Menswear and Principles both returning to profit. Total retail profits for the Multiples rose to £58.8 million from £20.1 million, up £38.7 million.

The Group continues to implement the strategy of trading at regular prices, building the credibility and integrity of its retail brands. We maintained our regular pricing stance over the year, with all divisions yet again trading more prime than last year. The progress we have achieved is now being reflected by increases in both sales and gross margins in every division.

Sales rose by 6.1 per cent at Debenhams, and by 8.1 per cent for the Multiples.

We have to offer compelling ranges at competitive prices, to defined target markets, supplying the right goods at the right time through an effective supply chain. Our store outlets must have the correct space

and ambience, and provide the right level of in-store customer service.

Across all the trading divisions in the Group, we apply the same retailing philosophy and the same operating disciplines. All our efforts are aimed at profitably connecting our customers with the product they want.

We have been working consistently for four years on the same three themes across all of our divisions, and the results are now coming through. Our integrated strategy revolves around:

- the outlets
- the supply chain
- the brands.

The outlet strategy

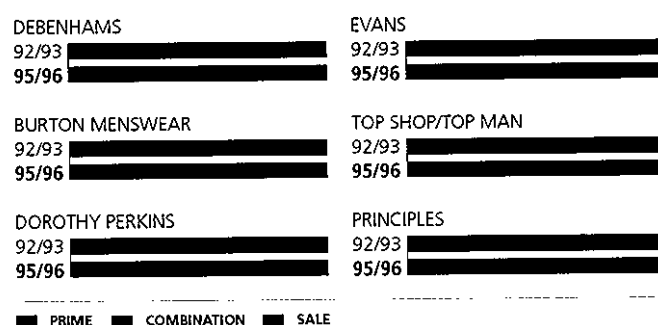
Our outlet and modernisation strategy has changed the face of the Burton Group on the high street.

Throughout the country, we are now trading out of much better quality space than in past years, and actively managing both the quantity and quality of our space to maximise the potential of each local market.

The Multiples are now seeing real benefits from the restructuring of the property portfolio driven by the 'Townprint' programme which was started four years ago. With this programme, our retail operations teams planned and reconfigured our estate, managing the quantity, improving the quality and getting the right stores in the right locations. Over four years ago the Group operated over 1,600 locations, today that number is just under 1,500. In addition, at the year end, our modernisation programme for the Multiples was completed as planned.

Debenhams is continuing to acquire new stores which are larger, better laid out and better located. Contracts have been signed for a further nine stores, bringing the total agreed and in negotiation to 15. Nine of these are replacements or closures of older, smaller stores, and will add significantly to our retail space. Two new

PROPORTION OF REGULAR PRICE TRADING BY DIVISION



stores opened in November, in Dublin and Lincoln.

The effective management of our outlets is not a one-off exercise, but a continuing commitment to change the portfolio of stores to suit where our customers shop, and the way they shop.

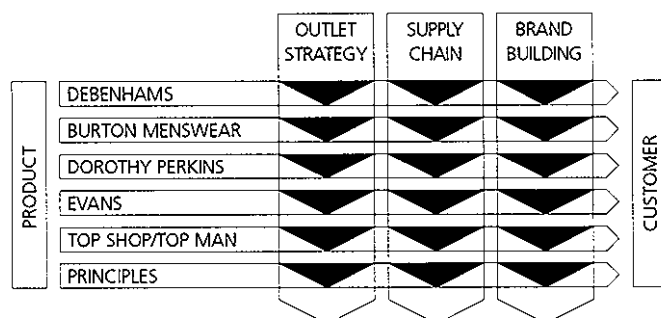
The supply chain strategy

Our supply chain strategy, implementing our 'Fastflow' initiatives, is enabling us to bring our buying decisions closer to the customers' purchase decisions. We are supplying and resupplying better product and more fashion to our customers, at less risk to the Group. As a result we are achieving higher sales with the same level of stock whilst selling less at 'sale prices'.

Progress on supply chain improvements under the 'Fastflow' programme has started to feed through into the results. The Group continues to focus on improving relationships with key suppliers across all divisions and to build product quality, supply flexibility, stock availability and accuracy into the entire supply process.

We have been upgrading our information and communication systems, and overhauling our distribution and handling systems. The drive is to build a powerful supply chain that is fast and flexible from end to end - from the conception of the product to its arrival in the store.

Faster product flow has reduced the need for warehouse space, and so we have been able to integrate



the Dorothy Perkins warehouse, formerly in Bracknell, into our Leeds operations, producing both greater efficiency and cost savings.

We also formed a Group Information Systems division during the year. Developing and implementing common systems, where practical and economic to do so, will help us to achieve further efficiencies. This is another aspect of bringing together the back office processes, whilst maintaining brand differentiation at the 'front of house' in the eyes of our customers.

The brand building strategy

Building a brand is about creating and then meeting expectations – even exceeding expectations – in the mind of the customer. We are making long term investments in the quality of our brands, which are all achieving measurable gains in their efforts to build customer confidence – the most important factor for improving the profits.

Each division focuses on a clearly defined and different target market. We build our brands by listening to our customers and delivering what they want, by offering distinctive and desirable products in the right store environment.

The Group established a Home Shopping division during the year, following the acquisition of Innovations in August. We believe home shopping is an exciting area of the retail market. Innovations brings considerable skills and expertise in database management, systems, and marketing in specialist mail order, and a database

of approximately five million names to add to the Burton Group's expanding list of store card customers, which already exceeds five million.

We intend to introduce home shopping of the Burton Group brands to UK customers over the next two years as well as continuing the development of Innovations catalogues. The skills of Innovations, combined with the financial and brand strength of the Burton Group, offer considerable marketing potential to generate additional sales, both within the new Home Shopping division and at the Group's traditional stores. Catalogues give the customer the choice of either shopping from home or visiting our stores. They can help to make small stores larger, with order fulfilment either to the store or delivered direct to the home.

The Racing Green brand was added to this division in October 1996. Racing Green brings a premium casualwear brand which has already started to prove itself in this field.

Rewarding performance

Rewarding performance is important in our Group culture and we have a bonus scheme which operates throughout the Group which provides extra earnings for those who produce results.

The Group is introducing two changes to our performance-related bonus scheme next year, which we believe will more closely align performance rewards at the Burton Group with shareholder interest.

In past years, the Group's performance bonuses have been linked to profit before tax targets set at the beginning of each year. Improvement in profit before tax resulted in bonus payments which were based on the amount of improvement.

Working in conjunction with Stern-Stewart & Co of New York, the Group has developed a scheme (adapted for UK accounting considerations) based on Stern-Stewart's Economic Value Added, or EVA, which has proven effective in many companies.

The two major elements are:

1. Before a performance-related bonus can be earned based upon improvement in profit before tax, a charge is made for any additional capital employed. This is particularly important given the high levels of reinvestment back in the business.
2. Part of the bonus each year is held back in a pool that can be reduced or lost as well as enhanced, depending on performance in the following year. The balance of the pool is then placed at risk for the next year. This encourages sustained performance.

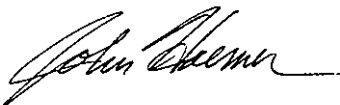
A full explanation of these changes appears in the Remuneration Committee report on page 44.

We believe that these changes will result in better Group performance and reward by paying bonus based upon both profits and factoring in the use of capital.

Share ownership culture

The number of staff who are shareholders has increased as more emphasis on employee share participation has been introduced. The Long Term Share Plan, which was introduced last year as a replacement for the share option scheme that applied at senior executive level, and the Management Share Option Scheme reward performance in shares and promote participation and commitment to the Group's growth through share ownership.

There are 24,000 participants in the share-based Profit Sharing Scheme and 5,000 staff subscribe to the Sharesave Scheme. Nearly 40 per cent of senior executives chose to take all or part of their annual bonus in the form of Burton Group shares – a further endorsement of the common interest of staff and shareholders.



John Hoerner Chief Executive

The Group today

DEBENHAMS

BURTON
MENSWEAR

dorothy perkins

evans

TOPSHOP
TOPMAN

principles

Home Shopping

PRODUCT RANGE	PRIMARY TARGET MARKET	SOLUS OUTLETS	SHOPS IN DEBENHAMS	OTHER SHOP IN SHOPS
Womenswear, Menswear Childrenswear, Sportswear Products for the home	A B C1 C2 0-65yrs	90 stores 6 shops	n/a	24
Menswear	C1 C2 25-49yrs	347	19	5
Womenswear	C1 C2 20-45yrs	441	54	36
Womenswear Size 16+	C1 C2 D 20-55yrs	258	40	15
Young Womenswear Young Menswear	Top Shop: all Top Man: C1 C2 15-29yrs	Top Shop: 160 (27 Solus, 133 Joint) Top Man: 160 (27 Solus, 133 Joint)	Top Shop: 57 Top Man: 34	Top Shop: 22 Top Man: 14
Womenswear Menswear Childrenswear	For Women: A B C1 For Men: A B C1 25-45yrs	Womens: 123 (50 Solus, 73 Joint) Mens: 85 (12 Solus, 73 Joint)	Womens: 78 Mens: 55	Womens: 14 Mens: 4
Home shopping catalogues: Casual mens and womenswear, outdoor clothing, problem solving products, home and garden, museums and charities	All 0-65 years	Innovations: 1 Hawkshead: 4 Racing Green: 5	n/a	n/a

SALES £m	PROFIT £m	BRANDS	CHIEF EXECUTIVE/ MANAGING DIRECTORS
94 ██████████ 910 95 ██████████ 932 96 ██████████ 988	██████████ 71.5 ██████████ 82.0 ██████████ 102.8	'J' Collection, Maine, Debenham & Freebody, Trader, Casual Club, J. Taylor, Casual Living, Anne Brooks Petites, I.Q., Champion Sport, Junior Homestore, Le Vrai Gourmet, Nuage, Presence, Bright Futures, ID:X, Debut	Terry Green/ Peter Kaurstrand
94 ██████████ 263 95 ██████████ 222 96 ██████████ 227	-12.4 ██████████ -4.2 ██████████ ██████████ 3.3	Burton Menswear, Atlantic, Nico, Outdoor Frontiers, Monument	Stuart Rose/ Andy King
94 ██████████ 252 95 ██████████ 248 96 ██████████ 271	██████████ 11.4 ██████████ 4.1 ██████████ 15.5	Dorothy Perkins, Maternity, Secrets, Girls Unlimited, Lonestar, Vivre	Stuart Rose/ Stephen Sunnucks
94 ██████████ 138 95 ██████████ 147 96 ██████████ 160	██████████ 12.5 ██████████ 13.7 ██████████ 16.3	Essence, East Coast, Profiles, Images	Stuart Rose/ Hilary Riva
94 ██████████ 217 95 ██████████ 220 96 ██████████ 243	-7.2 ██████████ ██████████ 8.5 ██████████ 19.9	TopShop, Moto, TopMan, Woods & Gray, Moto Jeanswear	Terry Green/ Steve Longdon
94 ██████████ 106 95 ██████████ 106 96 ██████████ 117	-19.4 ██████████ -2.0 ██████████ ██████████ 3.8	Principles for Women, Principles for Men, Principles for Kids, Principles Petite, PFK Sport	Stuart Rose/ Michael Sharp
		Innovations, McCord, Hawkshead, Stockingfills, Home Free, The Gift Box, Racing Green	Richard Maney/ Robin Klein Clive Beharrell

Organising the outlets



BY POSITIONING THE RIGHT STORES IN THE RIGHT LOCATIONS, WE AIM TO MAXIMISE THE POTENTIAL OF EACH LOCAL MARKET

Over the last four years, we have taken a fresh look at every Burton Group store. Working together, our property team and retail operations teams have

completely rearranged our mix of stores in over 500 towns, to get the right stores, of the right size, in the right locations.

Rearranging the Multiples

In 1992 we embarked on the major Townprint programme, to upgrade the quality of our retail space. The Multiples had 1,527 sites, which we have reduced to 1,332 today. But it has not simply been a matter of reducing space. It has been a matter of using the space we had to the greatest effect.

We acquired 98 new sites, disposed of 293 which were not right for us, and in 340 cases we exchanged stores between different parts of the Group to produce better results.

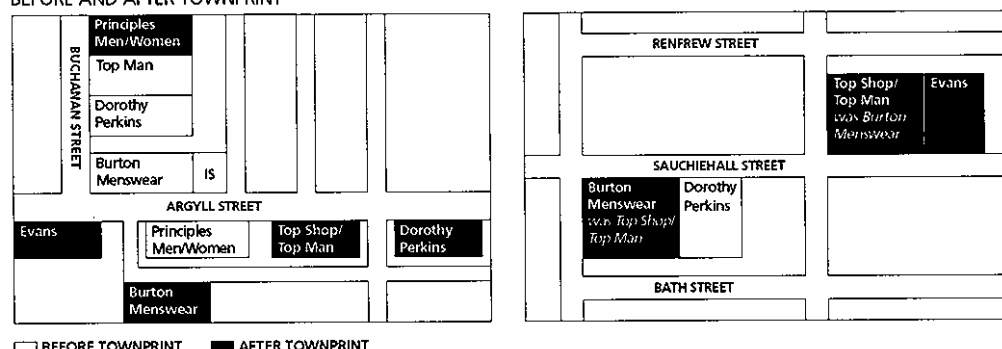
The aim is to be profit driven, rather than sales driven.

Making best use of the space brings significant benefits. The results we have achieved in Glasgow, for example, speak for themselves. Over two years we have cut our total sales space, reducing sales turnover by around 60 per cent, but turning losses into profit by a factor of 112 per cent. We are making money, not simply making sales.

Townprint is not a one-off exercise. It is a continuing commitment to adjust our portfolio of stores to suit the needs of our customers. It also involves commitment from the staff who are affected locally, and who in many cases have readily switched between divisions as stores have closed or traded places.

We apply the same principles when acquiring new stores, with three quarters of recent acquisitions in non-traditional

BEFORE AND AFTER TOWNPRINT



MULTIPLES TOWNPRINT PROGRAMME (EXCLUDING STORES FOR DISPOSAL)

Shops in 1992	1,527
Disposed	-293
Exchanged	-340
	+340
Acquired	+98
Shops in 1996	1,332



LEFT THE NEW DEBENHAMS STORE IN LINCOLN.
BELOW 'MAINE' NEW ENGLAND DEPARTMENT
AT DEBENHAMS IN DUBLIN.



retail sites such as factory outlet malls, airports, regional shopping centres, and retail parks.

International

In July we announced a partnership franchise agreement for Burton Group brands in the Middle East with M H Alshaya, based in Kuwait. We will open our first Debenhams store in Bahrain in March 1997, offering an extensive range of Debenhams own brand products in menswear, womenswear, childrenswear and accessories.

This is an important step in our longer term strategy to exploit the Burton Group brands in international markets. In the Middle East, our partner will acquire and equip the store, and buy the merchandise from the Group. The key aim is to control the brand and minimise the risk in new markets which offer good growth potential.

We are also exploring the franchise potential of our brands to other new markets and customers.

Modernisation

Providing the customer with an attractive shopping experience is essential to building brand image and brand loyalty. We introduced new design formats throughout the Group, and our store modernisation programme for the Multiples



ABOVE NEW DISPLAYS FOR OUR DOROTHY PERKINS STORES, PART OF THE EXTENSIVE MODERNISATION PROGRAMME.

is now complete. This major project has been carried out on time and on budget.

The new look Debenhams

Debenhams is currently negotiating for a large number of sites in addition to the eight new sites already announced, and has become the store of first choice by many developers. The new stores are bigger. So the 8 per cent increase in store numbers will in turn bring a 20 per cent increase in trading space.

The new stores are also on fewer floors, making them more attractive to shoppers. They average less than three floors per store, compared with an average of over four in the rest of the chain. The average space per floor is up 50 per cent.

The Burton Group on the Internet

The Group has recently developed one of the largest Internet retail sites in the world, which contains over 1,100 pages of exciting and informative displays from each of the Group's divisions. The pages combine full colour pictures, text and graphics with sound and moving images to create an interactive magazine style format for each of the stores and the products. The pages will be regularly updated.

The Burton Group's divisions

can be viewed on the pages listed below. At the Innovations site customers can browse and order from the catalogue.

BURTON GROUP WEB SITES

<http://www.debenhams.co.uk>
<http://www.burtonmenswear.co.uk>
<http://www.dorothyperkins.co.uk>
<http://www.evans.ltd.uk>
<http://www.principles.co.uk>
<http://www.tops.co.uk>
<http://www.innovations.co.uk>

The supply chain strategy



LEFT CROSS-GROUP MEETINGS ENABLE ALL THE DIVISIONS TO EXCHANGE IDEAS ON A WHOLE RANGE OF PRODUCT-RELATED ISSUES.

BY INVESTING IN PEOPLE, TECHNOLOGY AND SYSTEMS, WE IMPROVE THE ACCURACY AND AVAILABILITY OF STOCK AND INCREASE PROFITABILITY

Providing more fashion at less risk, our Group-wide programme to reconfigure the supply chain, named 'Fastflow', is also impacting on sales and margins. The main purpose of Fastflow is to bring our buying decision closer to the customer's decision to purchase.

The Fastflow project was begun in June 1994, to maximise sales by making sure that the right products are available to our customers at the time they want to buy them. New ways of working have been developed and are now being put into practice through the Group Logistics division, formed during the year.

Responding faster

Working more closely with our suppliers is giving us faster response times, greater reliability, and more flexibility. We share the risks and design responsibility, with better quality assurance. All this brings lower prices for our customers, without sacrificing style or value.

In return, our suppliers get better information flow, more senior management attention, and faster stock turn. They also get long term commitment, faster payment, and more of our business.

Accuracy

Improving the accuracy of the stock files has been a special project and a success across the Group. By knowing exactly what stock has been sold and so what needs to be replaced, we can increase the range and the sales. Every improvement in accuracy flows straight to the bottom line.

In addition, we have been speeding up the rate at which products flow through our chains. This means we reduce the amount of stock held in our distribution centres, and also need less warehouse space. The Logistics division now operates three distribution centres for Debenhams, and two for the Multiples.

Technology

The systems are being brought up to date through the Group Information Systems division. 'Put To Light' state-of-the-art batch picking technology was introduced in the Debenhams distribution centres, bringing improvements in accuracy. We have also installed a tracking system which uses radio frequencies to monitor product. This significant investment gives greater security and stock-file accuracy, and product availability.

BELOW OUR COMMITMENT TO FASTER RESPONSE TIMES AND MORE ACCURATE STOCK FILES ENABLED TOP SHOP TO RESPOND TO DEMAND FOR 'HIPSTERS' QUICKLY BETWEEN NOVEMBER 1995 (WHEN WE WERE SELLING 200 PAIRS) AND FEBRUARY 1996 (WHEN WE WERE SELLING OVER 30,000 PAIRS).





LEFT A FLEET REPLACEMENT PROGRAMME WAS PART OF OUR INVESTMENT IN THE SUPPLY CHAIN
FAR LEFT OUR HANGING GARMENT CENTRE ENSURES THAT OUR PRODUCTS REACH OUR STORES IN GOOD CONDITION.

Partnerships with suppliers

We did not set out to reduce our number of suppliers, but we have concentrated and continue to concentrate our purchases with those progressive suppliers who are prepared to move forwards with us.

In the last four years, the number of suppliers for the Multiples has come down almost by half to just under 700. At Debenhams, there has been a reduction of more than 20 per cent, from over 1,150 to some 900. In the Multiples, our top 20 suppliers handle 75 per cent of our goods, and in Debenhams the top 20 have 64 per cent. They are growing with us in long term stable relationships.

A standard Group Supplier Handbook, in both print and CD-ROM format, has replaced around 15 former handbooks and adopted best practice in all respects. This is our first programme to actively manage suppliers, to suit the needs of the business.

The aim is to develop longer term, strategic relationships and partnership sourcing opportunities. The result is greater consistency and process control.



Sourcing policy

While the Group seeks to supply outstanding fashion and value to our customers, we take the working conditions and practices of our suppliers very seriously indeed. Appropriate steps are taken to ensure that acceptable conditions and practices are met, wherever the supplier is located. Our suppliers have all agreed to be bound by the Group's Supplier Handbook which sets out the working conditions, practices and standards which our suppliers must follow

ABOVE 'PUT TO LIGHT TECHNOLOGY': A SOPHISTICATED LIGHTING SYSTEM TELLS THE STAFF EXACTLY WHAT TO 'PUT' IN THE BOXES BEING SENT TO EACH STORE.

if they wish to supply goods to the Burton Group.

The Group would deal firmly with any supplier who breached any of our conditions.

Members of our buying teams and senior management made hundreds of visits during the year to our suppliers.

A copy of our sourcing policy is freely available.

Building the brands

BY BUILDING QUALITY BRANDS, WE BUILD A LOYAL BASE OF CUSTOMERS WHO CHOOSE TO SHOP WITH US ON A REGULAR BASIS, AT REGULAR PRICES



ABOVE BRANDS SUCH AS EVANS ARE LEADING THE WAY IN DISPLAY AND MERCHANDISING

Building a brand

Building a brand means creating, meeting, and even exceeding expectations in the mind of the customer.

The impact of brand building is harder to measure than the impact of speeding up the supply chain or improving the outlets. But although it is a more subjective concept, it is probably the most important factor in building Group profitability in the long term.

Strengthening customer relationships

In order to sell at regular prices, we have to have regular customers. By investing in our brands, we are getting closer and closer to our goal of regular trading at regular prices with regular customers.

Our six main brands are increasingly earning the confidence of the consumer, and we are reinforcing that confidence through strong sub-brands and themed categories within departments.

A brand building strategy requires a much longer term approach than just today's trading. Just as we have changed the relationship with our suppliers from a transactional one to a long term relationship, so we are doing the same with our customers.

Strong brands such as Evans are leading the way. A recent customer survey showed that Evans rates significantly higher

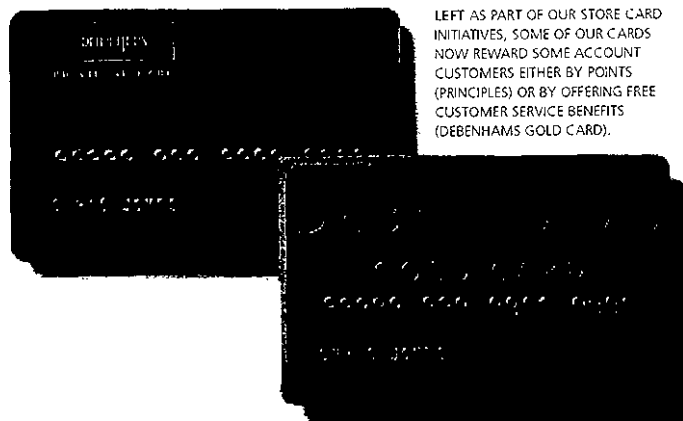
than all its competitors in all areas of customer service. It also showed that nearly 70 per cent of Evans customers buy more than half their wardrobe from us. We intend to keep it that way.

Store cards

The results of brand building can be seen in the growing number of regular customers who carry and use one of our own brand store cards. We now have over five million active accounts, and are introducing added-value loyalty benefits through initiatives such as the Debenhams Gold Card. Sales on our own store cards are up 25 per cent, and now represent almost a third of our business.

Steady development

Building brands requires an evolutionary approach and takes time. It starts with the product, having the right quality, price,



LEFT AS PART OF OUR STORE CARD INITIATIVES, SOME OF OUR CARDS NOW REWARD SOME ACCOUNT CUSTOMERS EITHER BY POINTS (PRINCIPLES) OR BY OFFERING FREE CUSTOMER SERVICE BENEFITS (DEBENHAMS GOLD CARD).



design and performance. But that product has to be presented in the right environment, with the level of service the customer expects – and it has to be available on a sustained basis.

By getting all these factors correct, and constantly improving on each, we build customer trust, confidence, and pride in the brand.

Input and suggestions from the branch retail teams form another essential dimension of brand development. 168 children of Burton Group staff are also taking part in a six-month trial for Bright Futures toys, to help us assess the real customer's needs, and which has already generated many interesting ideas which should



ABOVE LEFT WOODS & GRAY BRAND PROVIDES FORMAL WEAR FOR MEN. TOP NICO, A STRONG JEANS BRAND DEVELOPED AT BURTON MENSWEAR. LEFT MOTO MENSWEAR BRAND INTRODUCED THIS YEAR.

help make the 1997 range outstanding for design, quality and price.

Brands within brands

World of Bright Futures is an example of how Debenhams has taken a set of previously unconnected categories and relaunched them as a branded area within the stores. The proof that it works can be seen in the better margins which these stores are now earning. World of Bright Futures includes Kidsworld (all children's clothing), Mediaworld (PCs and computer games), Toy Territory, Sportsworld (Champion Sport)

one of the biggest selling denim brands in the country.

Our pricing structure is designed so that within every major division there are sub-brands based on 'good, better and best', giving the customer a choice at which price and quality level they wish to purchase. With brands at each level, we can offer the best possible quality within that price bracket.

Advertising

Advertising is an important part of creating expectations, letting the customers know what they can expect. This is then reinforced through strong window and in-store displays. We use different media to position the different brands, according to the most appropriate fit.

The Maternity brand at Dorothy Perkins produced a superb response through a supplement in *She* magazine.

Research shows how the Helena Christensen campaign at Dorothy Perkins has inspired customers to feel good about the brand, and improved customer opinions.

Burton Menswear ran two television advertising campaigns during the year which helped to communicate the changes we have been making, generating an improvement over the last six months in the image of Burton Menswear.

and ID:X clothing for 8-14 year olds.

Examples of sub-brands in the Multiples include Maternity at Dorothy Perkins. This was created to attract existing and new customers by helping them look and feel good at this particular time in their life. It also helps the customer to develop a longer term relationship with the Dorothy Perkins brand by providing a service during pregnancy and beyond.

Principles for Kids has been successfully rolled-out to 73 Principles stores. It not only adds more sales, but gives our customers more reason to shop with Principles.

At Top Man, our Woods & Gray and Moto brands have been so popular that they are set to take over the majority of the business. Our Trader jeans brand at Debenhams is now



LEFT BEIGE OCCASION HAT - SATIN TRIMMED FROM
HAT BOX.

Debenhams

Debenhams, with a greater share of the clothing market than any other department store group, is a story of ongoing success. Retail profits were up again by more than the previous year, improving 25.4% to £102.8m, compared with £82.0m last year. Sales for the year were up by 6.1%.

The improvement in sales and profits is flowing from the sustained development of our own brands which offer value and style and supply chain initiatives. Implementing our various 'Fastflow' initiatives continued to give margin benefits.

With menswear, womenswear, childrenswear, products for the home, cosmetics and fragrances all under one roof, even more of our sales this year were of own-brand merchandise. It now accounts for over 70% of all sales.

New brands

Debenhams continued the drive to establish own-brand exclusive merchandise, targeted at specific customer groups, and launched four new brands during the year.

'Maine' was introduced as a new brand name in men's casualwear. Debenham & Freebody offers classic and traditional clothing for men and women. ID:X is a new brand for boys and girls between 8-14 years old.

We brought in the concept of exclusive relationships with leading designers last year with Philip Treacy, Lulu Guinness, Ben de Lisi, Sam de Teran and Bill Amberg, and this has now continued with a range of Jasper Conran women's fashion exclusively for Debenhams under the 'J' brand name in 13 stores.

All these new brands are performing and will be expanded into more stores during the coming year. Our J. Taylor range has also been extended to include lingerie.

The theming of areas of the store into 'merchandise worlds' has been expanded by creating a 'Casual Living' theme for products for the home. This embraces the existing departments of casual dining, casual living and cookshop.

All stores continued to introduce more better-end product with great success, and we further developed the profiling of our stores to suit the local market.

Regular price versus sale

The improvement in trading at regular prices rather than sale prices continued in line with our long term strategy. The level of markdowns is now the lowest for six years. A focused 'Sale' event, however, is still an important ongoing part of the excitement of a department store.

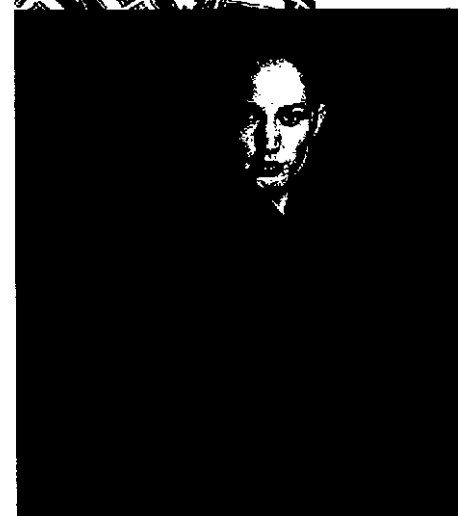
Store development

The ongoing modernisation programme continued, and the majority of the chain will have been refurbished by the year 2000. The store modernisations completed during the year were at Eastbourne, Cardiff, Middlesbrough and Lakeside (Thurrock). Programmes were begun at Exeter, Swindon, Salisbury, Hastings and Plymouth, for completion during the coming year.

Two new stores have recently been opened, in Dublin and Lincoln. The Dublin store is the first of a new generation. Our new store programme will add 20% to our selling space by the millennium.

The leading place to
shop for all the
family, Debenhams
had another record
year, with even more
exclusive brands

RIGHT FROM TOP BLACK AND WHITE BLOUSE FROM I.Q.
'J' COLLECTION BY JASPER CONRAN. 'COTSWOLD' CROCKERY
IN BEIGE FROM CASUAL DINING. HEAVY CANVAS HARRINGTON
JACKET AND EXPLODED CHECK SHIRT, NEEDLEOUT T-SHIRT
AND DARK BLUE OVERDYE JEANS FROM TRADER.
MAIN PICTURE CHECK SHIRT, CHINO SHORTS AND MATCHING
CAP FROM ID:XX.



Spring 1997 will see the opening of new Debenhams stores in the White Rose Centre in Leeds and Barrow. Thereafter new stores will be opening in Brighton (Spring 1998); Trafford Park, Manchester, in Autumn 1998; Banbury in Spring 1999; and the Metro Centre, Gateshead which is planned to open at the turn of the century.

The introduction of minilogues, a series of in-store catalogues, enables stores to offer ranges which they do not have space to carry. A customer completes an order form in consultation with a sales adviser, and the order is logged into the computer system and can be delivered to any store or in some cases to the customer's home.

Gold Card

This major marketing initiative was rolled out during the year to recognise and reward our most important account customers. The Gold Card gives them added value benefits such as a Gold Card lounge in selected stores, free clothing alteration and delivery service, free telephone ordering service, free gift wrap, and other local benefits offered by the store.

Bridal Registry

We have now extended to 63 stores the new Bridal Registry service for wedding lists. Guests can access a computer-based system, which has been developed exclusively for Debenhams and which uses a unique touch screen system.

Couples can make their choices from any Debenhams store and to date we have over 4,700 couples using the Bridal Registry. As selections are made by guests, lists are updated overnight.

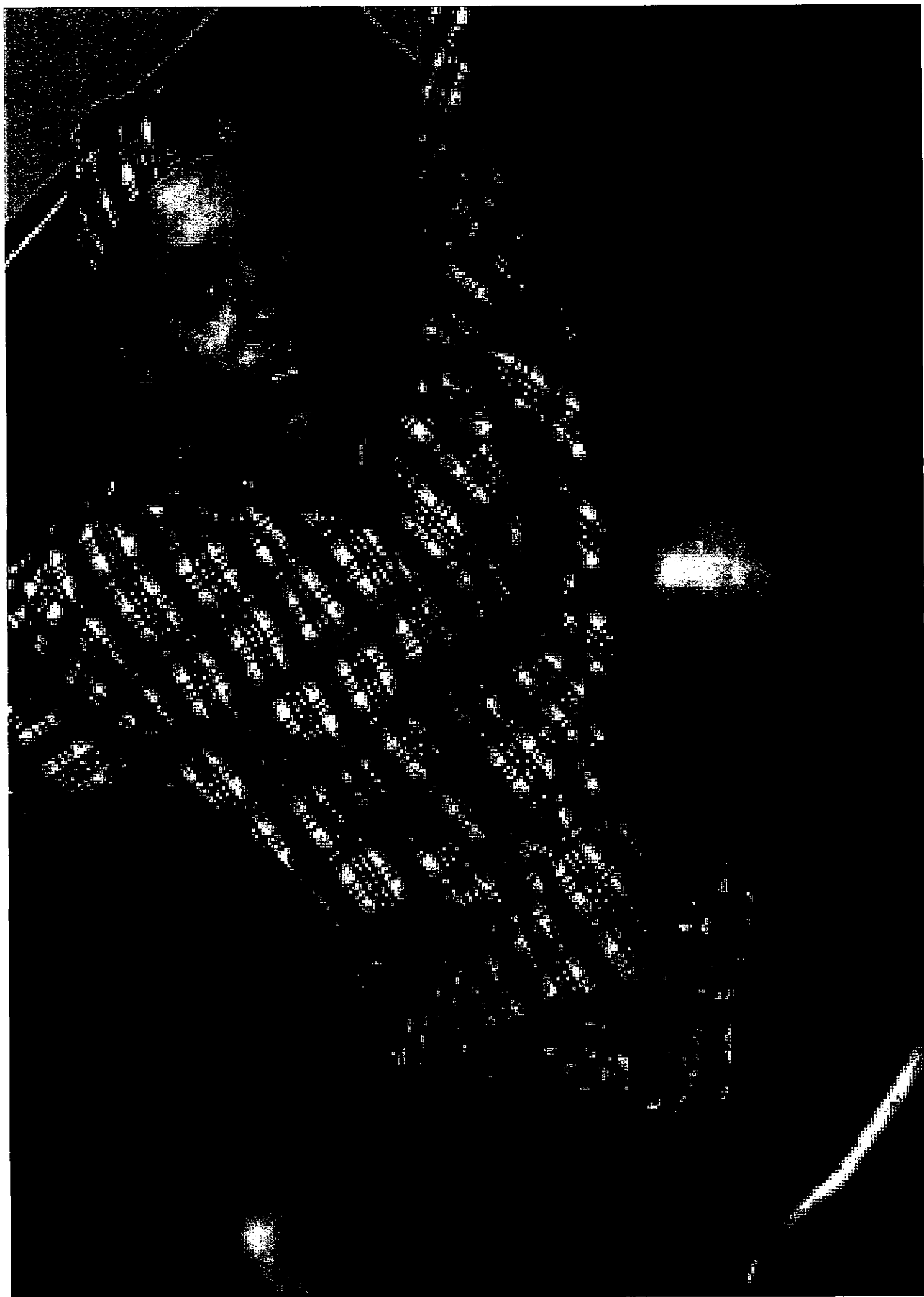
This service is performing ahead of target and offering a real service for new customers.



Peter Kaurisland
Managing Director



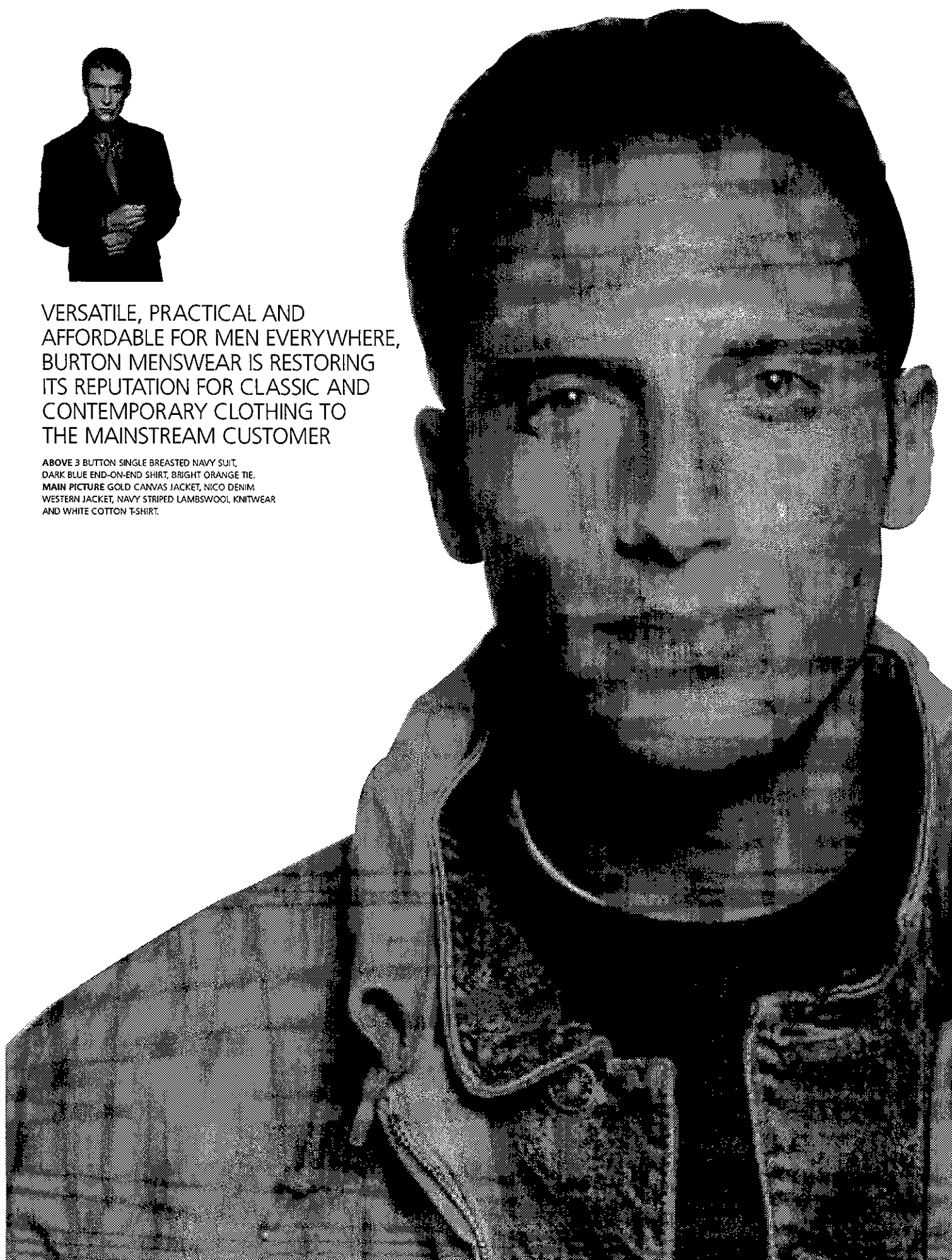
Terry Green
Chief Executive





VERSATILE, PRACTICAL AND
AFFORDABLE FOR MEN EVERYWHERE,
BURTON MENSWEAR IS RESTORING
ITS REPUTATION FOR CLASSIC AND
CONTEMPORARY CLOTHING TO
THE MAINSTREAM CUSTOMER

ABOVE 3 BUTTON SINGLE BREASTED NAVY SUIT,
DARK BLUE END-ON-END SHIRT, BRIGHT ORANGE TIE.
MAIN PICTURE GOLD CANVAS JACKET, NICO DENIM
WESTERN JACKET, NAVY STRIPED LAMBSWOOL KNITWEAR
AND WHITE COTTON T-SHIRT.



Burton Menswear

Burton Menswear made steady progress during the year and returned to profit for the first time in three years. Sales increased by 2.3% to £227.2m, with 15 fewer stores. The division turned the losses of the last two years into a profit of £3.3m this year – overall a £7.5m turnaround in performance on the year.

By repositioning our stores and improving product ranges and quality, we are now targeting our core customer base more effectively.

We have made progress in all areas and now offer a better breadth of choice in our core ranges, offering a range of good value clothes to match all life-styles of our customers: formal, semi-formal, casual and roughwear.

We are also beginning to see some success in getting our contemporary styling right for the more fashion orientated customer.

Modernising the stores

We modernised a further 39 shops this year. The programme is now complete.

Exceeding Expectations

Exceeding Expectations is our company-wide drive to put the customer first. Our overall satisfaction rating from our customers has improved and our Mystery Shopper research shows that our strong emphasis on in-store service is producing the right results.

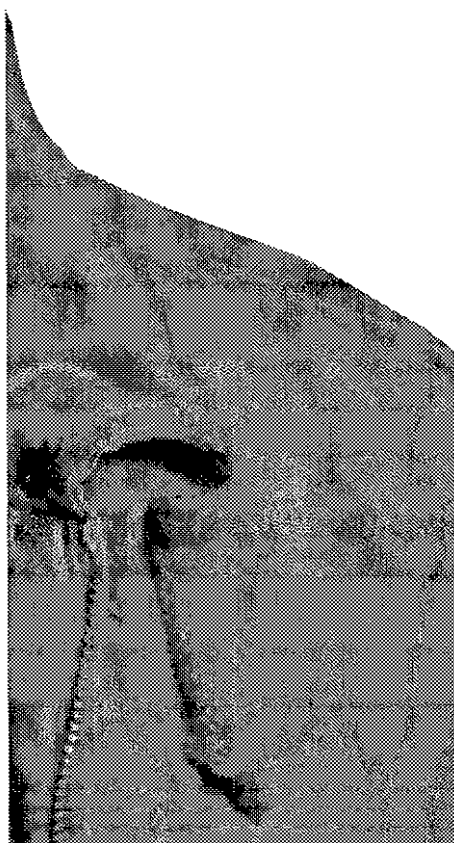
Brand marketing

Our national television advertising in the autumn and spring was aimed at changing external perceptions of the brand. The campaign also helped to strengthen the sense of pride for people inside the business. This campaign will be followed-up this year through poster advertising.

The latest research shows that consumers are much more positive about our stores, comparing us to more up-market competitors, and noting our attractive prices. Our regular customers are starting to respond well to our investment in the brand. As the second largest menswear retailer in the country, we have strong foundations on which to keep building.

Our well-established Nico jeans brand, for example, sells around a million pairs a year. In addition to range enhancements in formalwear with the introduction of new brands, we also continued to develop our own brands, this year in roughwear under the Outdoor Frontiers label and in contemporary casualwear under the Atlantic label.

Employees can feel proud to be working for a brand that is now profitable. The year ahead will be all about projecting the brand and driving more sales out of the available space.



Andy King (above)
Managing Director

Stuart Rose
Chief Executive

RIGHT FROM TOP CASUAL CHECKED WOVEN SHIRT AND ORANGE LONESTAR DENIM JEANS. MATERNITY SHIFT DRESS AND JACKET.
MAIN PICTURE RED SOFT CRÉPE SHORT-SLEEVED DRESS.

Dorothy Perkins

Over the last three years we have positioned Dorothy Perkins as a contemporary fashion retailer, offering our customers a complete wardrobe from formal wear to lingerie. The results now show, with a significant improvement in both sales and profits. Sales were up by 9.4%, to £271.0m and profits increased by £11.4m to £15.5m.

We are achieving these results because we are more closely meeting our customers needs, aligning each branch more closely to the needs of the local market. As a result, our smaller and medium branches are now performing in line with the rest of the chain.

We have focused on improving both fashionability and quality, whilst maintaining our value-for-money edge over our competitors. We are giving our customers more choice, providing it quickly, and in a very wearable way. Research shows that our customers like what we are doing and want more. Our 531 outlets make us very accessible, as the largest specialist fashion retailer in the country.

Store development

Following our successful store refurbishment programme of 1994/95 we have been experimenting with a further 'refreshment' programme aimed at providing greater clarity and ease of shopping.

Dorothy Perkins continues to improve its portfolio. In November 1996, we opened our first two solus shops in Dublin.

Brand development

The strong growth of our core Dorothy Perkins brand has been supported by the successful Helena Christensen campaign, which has been extended to outdoor media. This is helping to bring customers into the stores. We continue to develop the Maternity, Secrets lingerie, and our Girls Unlimited range for 8-13 year olds.

Supply chain

With fewer but more focused suppliers, we are working much closer to the fashion season, reducing stock levels, and replacing stock more frequently to keep it fresh. In January, we

announced the relocation of the Dorothy Perkins warehouse from Bracknell to the Leeds distribution centre. This is bringing improved productivity and cost savings.

Customer service

Customer service is always important. We introduced Clothes Line, a customer ordering facility. This is designed to win more sales by finding the right sizes for customers. If the warehouse has the item, we send it to that store and phone to let the customer know we will hold it for two weeks.

Our Achieving Excellence programme focused on improving staff product knowledge and speed of service both at the fitting room and the till point. We achieved improved ratings on our Mystery Shopper research, and were better than all our external competitors.



Stephen Sunnucks (above)
Managing Director

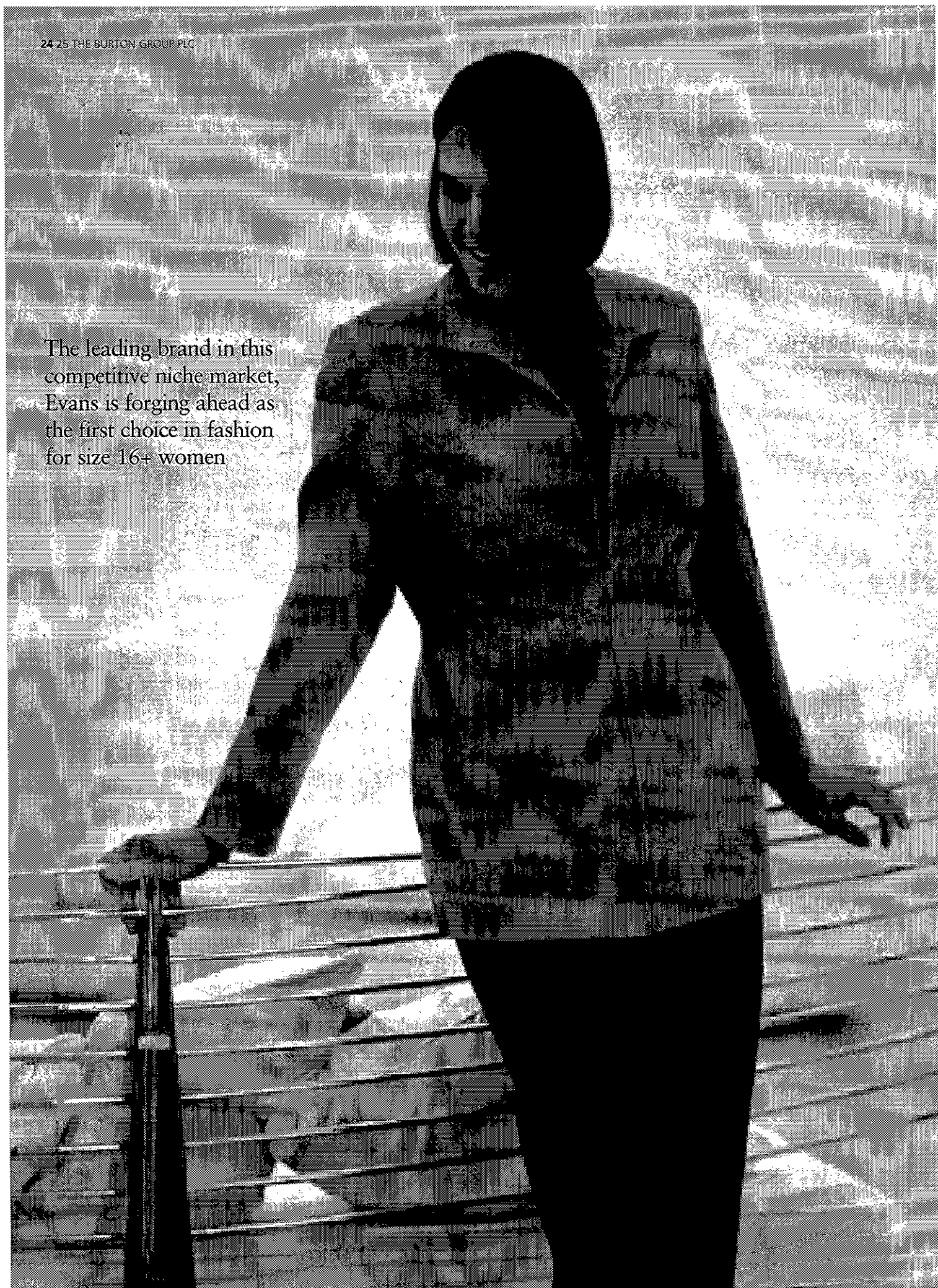
Stuart Rose
Chief Executive





Dorothy Perkins has continued to offer its customers a complete wardrobe of contemporary, stylish and affordable fashion

The leading brand in this competitive niche market, Evans is forging ahead as the first choice in fashion for size 16+ women



LEFT FROM TOP BLACK JACKET, MATCHING TROUSERS, LILAC SATIN SHIRT. RED CRÉPE JACKET, CREAM SHORT-SLEEVE TOP, RED/CREAM CHECKED WRAP SKIRT. BURN'T ORANGE RIBBED TOP.
MAIN PICTURE ORANGE ZIP JACKET, COCOA KNIT TOP, COCOA TROUSERS.

Evans

Evans had another successful year, maintaining its track-record for growth in both sales and profits. Sales were up by 9.3% to £160.4m, and profits grew by 19% to £16.3m.

This solid niche business continued to increase its market share, in spite of the growing competition. We achieved this in part because of the improved fashionability and quality of the Evans ranges, and through developing new product opportunities such as accessories.

The growing competition in the market is good for Evans, because it enables our customers to see how Evans has a better offer, and to make a conscious choice to shop at Evans.

Sustaining brand leadership

Evans is first and foremost a fashion business which caters for size 16+ women – it is not an 'outsized' business that has added some fashion. Evans has been instrumental in helping to change attitudes towards larger women, which shows through time and time again in customer research. We also won the Prima magazine 1996 High Street Fashion Award for Specialist Sizing.

Our customers expect clothes which are fashionable, comfortable and affordable. Evans allows them to achieve this, and so generates great customer loyalty. Almost 70% of our customers buy more than half their clothes from Evans.

Our customer service initiatives have proved a winner too. Our fitting rooms and fitting room staff are focused on service and have won much praise.

Brand development

The Evans business is about emotions not transactions, and we build on the personal nature of the Evans service. Our aim is to create a lasting bond with our customers. We want them to feel they have been helped to buy what they want, rather than sold something we want to sell.

We are developing and supporting the brand through advertising, and also by

appearing in magazines alongside fashion leaders such as Principles and its competitors.

We will maintain our very clear focus and not dilute the Evans brand by offering ranges to fit other segments of the market which are already well served.

The Mind Your Own Business programme is a way of getting staff to directly contribute to the running of the stores. The programme is developing in-store teams, and each brand is tailoring its offer to maximise the local opportunity.

Outlets

Our store modernisation programme is now complete. We will continue the rolling programme of incremental improvements, and over the next two years will also see some expansion, with new branches filling in gaps in our coverage.

Supply chain

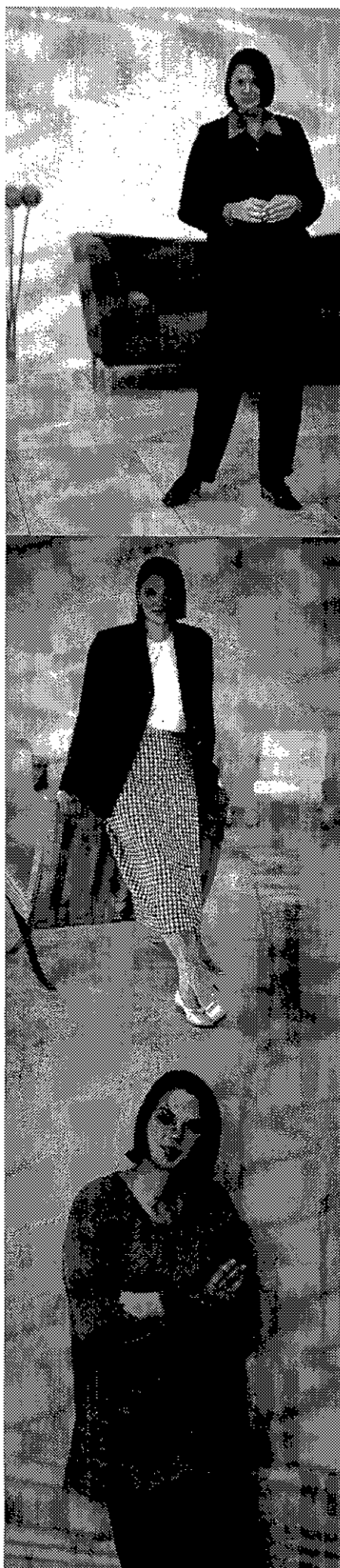
We have been developing relationships with fewer key suppliers to deliver better quality and value for customers, and taking out cost that does not add value.

Even though Evans targets a different part of the clothing market, the aim is still for short lead times and greater flexibility, in line with the rest of the fashion industry. Our integrated supply chain takes advantage of low-cost sources, but combines this with higher-cost but more flexible sources to get the right products at the best possible value.



Hilary Riva (above)
 Managing Director

Stuart Rose
 Chief Executive





WITH DISTINCTIVE STYLING AND UNCOMPROMISING QUALITY,
PRINCIPLES OFFERS CONTEMPORARY CLOTHING THAT REALLY WORKS

LEFT FROM TOP NEUTRAL MILITARY JACKET AND NEUTRAL TROUSERS. BLUE POLAR FLEECE TOP AND RED JOGGERS. NAVY CORD PINAFORE DRESS, WHITE RIBBED ROLL NECK TOP, RED COTTON CARDIGAN. BLACK BEDFORD CORD JACKET, BLACK BEDFORD CORD TROUSERS, RED COTTON OXFORD SHIRT, RED SILK TIE. MAIN PICTURE RED LONGLINE JACKET AND RED SHIFT DRESS. OLIVE MICROSOFT JACKET, OLIVE MICROSOFT TROUSERS, BLUE COTTON SHIRT, STRIPE SILK TIE.

Principles

We made progress throughout the year in both womenswear and menswear, and introduced childrenswear. Our sales were up by 11.2% to £117.3m, and we made profits for the first time in over four years, turning losses of almost £20m two years ago into profits of £3.8m.

This is a success story we believe we can sustain going forward. We are now trading virtually full-time at prime rather than sale prices.

In addition to the sharp focus on our market positioning, we maintained our emphasis on quality. We build our success by using innovative fabrics, making the most of our ability to present co-ordinated ranges with fashionable use of colour. Our core is contemporary classics – high on quality, low on fuss – that can be worn from season to season.

Our buying teams travel the world to seek out the best fabrics, dealing with the top mills, and constantly trialling and testing new mixes. Through our rapidly improving supply chain management, we are turning these fabrics into the right merchandise at the right price to satisfy our customers, who keep on coming back for more.

Remodelling for growth

We have now remodelled virtually all our stores on the latest format. We have also completed the repositioning of the brand, and are combining good fashion with good price points, appropriate for our market. The results demonstrate that we are getting it right.

Our customers see us as the smart, formal store, and during the year we won the Prima magazine 1996 High Street Fashion Award for Smart Fashion Trends. In addition, casualwear offers a huge opportunity for us to offer more to our loyal customers as well as attract new customers.

Growing ranges

Following the success of the pilot, Principles for Kids has now been rolled out to 73 stores. These new ranges of clothing for girls and boys aged 0-8 have performed better than expectations, and we will continue to expand the choice. Childrenswear is adding warmth

and vitality to the stores, and attracting more women in to browse. We also introduced accessories for women which has exceeded expectations, and we intend to grow these ranges further.

Creating confidence

We have developed a sound management and retail team of around 2,300 professionals, cutting labour turnover at head office by two-thirds in two years, and amongst retail staff by half. This says a great deal about motivation and satisfaction and the degree of confidence about a bright future in Principles.

Our market position means that Principles customers expect very high levels of service. The results of our Mystery Shopper research show that we are providing excellent service. Our new 'Customer Care Challenge', with an emphasis on measurement and self-assessment, will ensure that we keep on getting even better.

The Customer Care Challenge forms part of our drive to help all our people to think and act for themselves, as an ongoing way of achieving continuous improvements. We are also enabling all staff to participate in brand development and supply chain initiatives.

The level of Principles store card sales, which is far higher than the industry average, is a good indicator of customer loyalty and confidence. We believe our customers feel proud of their card and proud to wear Principles.



Michael Sharp (above)
Managing Director

Stuart Rose
Chief Executive



RIGHT FROM TOP SOME CATALOGUES CURRENTLY AVAILABLE. STAFF AT SWINDON TAKE AND DELIVER CUSTOMER ORDERS. McCORD: PRODUCTS FOR THE HOME AND GARDEN. MAIN PICTURE HOME SHOPPING WILL ENABLE US TO BUILD OUR BRANDS FURTHER BY OFFERING ALL CUSTOMERS MORE CHOICE AND REACHING NEW CUSTOMERS IN NEW WAYS. (A PAGE FROM THE HAWKSHEAD CATALOGUE).

Home Shopping

The Group intends to develop a home shopping capability built around the skills of Innovations, which was acquired in August 1996, and Racing Green acquired in October 1996. Innovations has brought considerable expertise in database management, systems, and marketing in specialist mail-order. It has also added a database of approximately five million names to the Burton Group's existing five million store card customers. This offers huge potential for development.

We intend to introduce home shopping of all the Burton Group brands over the next two years, designed to generate additional sales.

We will also continue to develop the Innovations brands. The Innovations team have demonstrated their expertise in creating catalogues which meet customer expectations. They already manage a range of well-targeted catalogues, each aimed at a distinct market segment and offering a focused range of merchandise to meet the needs of those customers.

Racing Green

Racing Green brings a strong premium casual-wear brand to the division. Products are available through its mail order catalogue and five stores.

Innovations: The Report

The flagship Innovations catalogue provides a large collection of unusual or 'problem-solving' products for the household.

Museums and Charities

The Museums and Charities division currently has six titles under licence from the Victoria & Albert Museum, the Natural History Museum, the Science Museum, the British Heart Foundation, Cancer Research and MENCAP. Each catalogue has its own personality to reflect the values of the museum or charity, and the profile of the customer database varies accordingly.

Hawkshead

Hawkshead is a well-known brand of outdoor and casual leisure clothing, which the business sells by mail order and also through four stores in the Lake District.

McCord

McCord is a recently launched catalogue, designed to fill a gap in the market for a wide range of stylish, practical and affordable products for the home and garden.

Stockingfillas

Stockingfillas offers a large collection of low-priced Christmas gifts for children aged 3 to 15, and is aimed at parents wishing to save time and trouble with their shopping.

Home Free

Home Free is a general consumer goods catalogue, inserted in national publications, in which advertisers purchase space to promote a wide range of products.

Customer Service

The mail-order Customer Service Centre, based in Swindon, is committed to delivering the best service at the lowest cost. Excellent customer service is essential to home shopping, and we will sustain the drive to make the buying process as easy and enjoyable as possible.

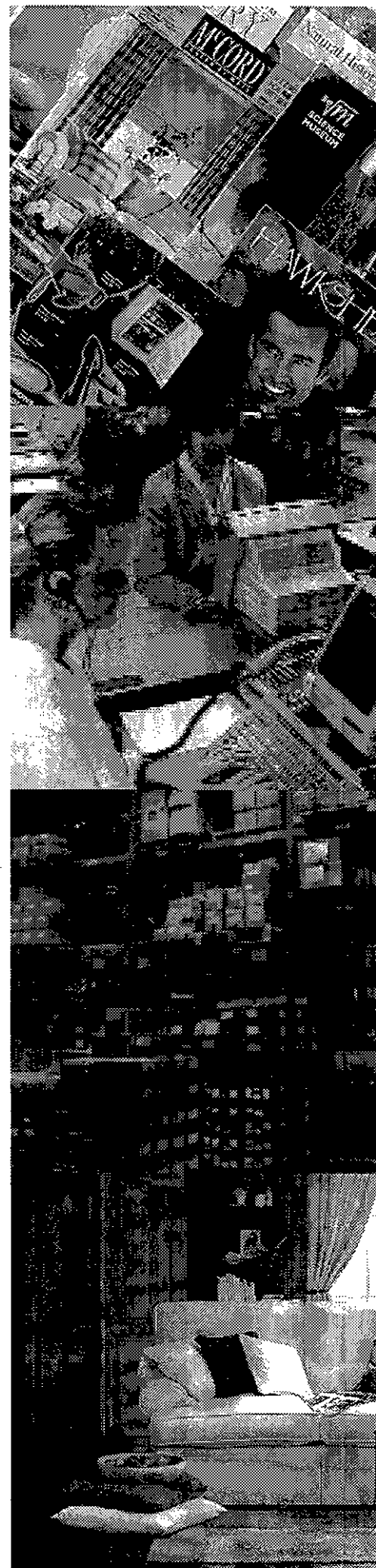


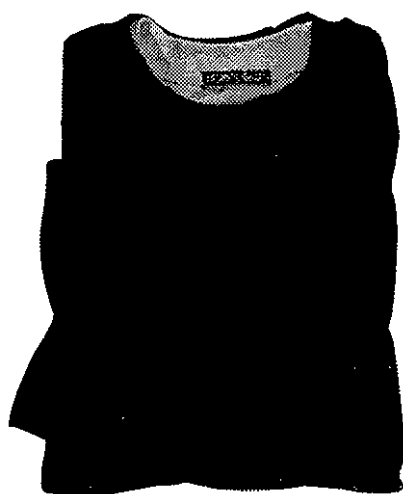
Robin Klein
Managing Director
Home Shopping
Services and
Development



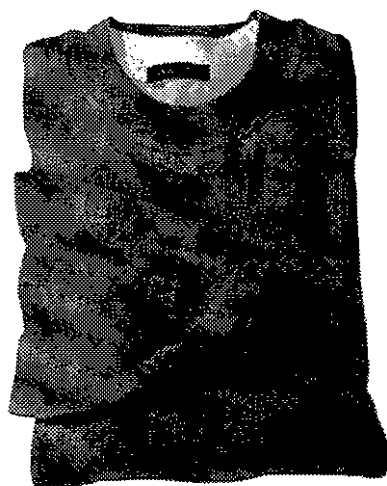
Clive Beharrell
Managing Director
Home Shopping
Brands

Richard Maney
Executive Director
Home Shopping,
Information Systems,
Card Marketing

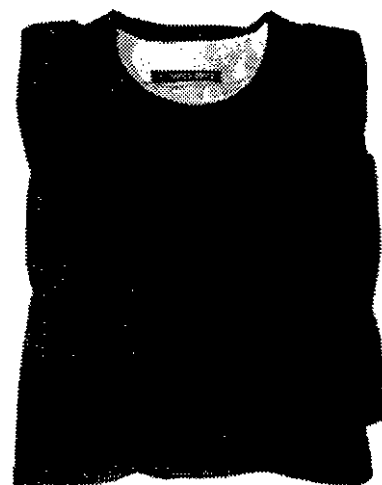




Black



Ginger



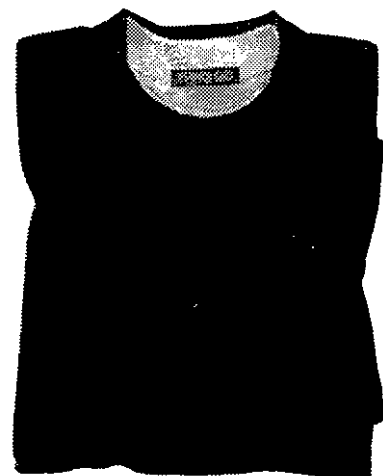
French Navy



French Navy



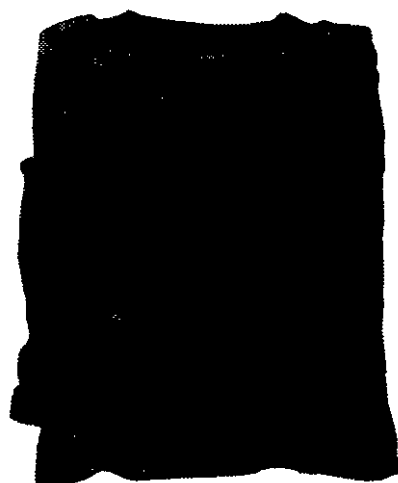
Grey Marl



Bottle



Hunter



Poppy



Grey Marl

High quality cotton sweatshirts and jog pants

TELEPHONE ORDERS 01539 434000 WEEKDAYS 8am-8pm WEEKEND 10am-4pm

Financial review



ONGOING SALES WERE UP 7.1% AND EXCEEDED £2 BILLION FOR THE FIRST TIME IN THE GROUP'S HISTORY

Trading overview

All our divisions increased sales. In the first half, sales from ongoing businesses were 5.7% up on the corresponding period. This performance was bettered in the second half with an increase in ongoing sales of 8.8%. A strong first half performance from the Multiples, up 8.1%, was maintained in the second half. A good first half performance by Debenhams, up 3.5%, was exceeded in the second half with growth of 9.6%.

The improvement in Group sales was supported by an increase in gross margin, 2.3 percentage points above last year. This increase was derived both from reduced markdowns, arising from our continued shift to prime trading, and better buying resulting from supply chain initiatives.

Costs were up 6% compared with last year. This increase reflects the investments made in our supply chain and additional staff required to satisfy our increased sales levels.

All our divisions improved profits over the previous year with four more than doubling them. Debenhams made a profit of over £100 million for the first time.

The Group has entered the home shopping market with the acquisition of Innovations for £46.9 million in August 1996 and Racing Green in October 1996 for £19.0 million.

Our eventual objective is to offer customers another way of accessing the Group's six high street brands through home shopping.

Interest

Our interest charge has risen in the year, mirroring the increase in our average net debt position due to investments in properties on Oxford Street (the Debenhams store and the building at 214 Oxford Street containing Top Shop/Top Man) made in the first half of the year. The interest charge of £10.0 million compares with £9.0 million last year.

Taxation

The tax charge for the year was £40.9 million and represents an effective rate of 27%. The underlying rate of 33% has been reduced by tax relief brought forward from losses incurred in prior years. We anticipate that this effective rate will increase gradually over the next few years towards the underlying rate of 33%.

Cash flow

We continue to generate good cash flow, emphasising the importance of cash management throughout the business. Cash inflow from our ongoing trading operations was £263.8 million. After net payments for capital expenditure (including the property purchases) of £276.8 million and after taxation, interest, dividends and other payments, our ongoing businesses applied net cash of £83.7 million.

Net debt

This operating cash outflow of £83.7 million, together with £6.1 million incurred this year in respect of exceptional items charged to prior year's profit

and loss account and a £6.7 million cash balance from the purchase of Innovations, led to a cash outflow before financing of £83.1 million. After taking account of cash from new shares issued of £5.3 million, provision for deferred interest of £11.1 million and the assumed Innovations finance lease liabilities of £0.7 million, net debt has increased by £89.6 million to £106.7 million.

Financial structure

Gearing remains low at 11.7% compared with 2.0% last year reflecting the purchase of additional properties. We have unused facilities and surplus cash of £175 million. Our peak borrowings are normally some £100 million above year-end borrowings and occur immediately before our Christmas trading period. The strengthening performance of our businesses and our comfortable gearing levels mean that our continuing investment needs can be satisfied out of our own cashflow.

Additions to fixed assets of £294.3 million compares with £119.6 million last year. Capital expenditure increased significantly in the year as a result of the purchase of properties and expenditure incurred on new Debenhams stores, including our new stores in Dublin and Lincoln, alongside our continued commitment to store refurbishment. We have purchased the freehold of the Debenhams Oxford Street store in London for £42.5 million and the 125 year head lease at

214 Oxford Street containing Top Shop/Top Man for £94.5 million. These purchases secure two major retail sites of outstanding value to the Group. Whilst spending on shops is forecast to decrease next year now that our modernisation programme is complete, increased spending on new Debenhams stores, reconfiguration of 214 Oxford Street, EPOS systems and supply chain initiatives is expected to result in capital expenditure of approximately £200 million.

Shareholders' funds

Profit for the year attributable to shareholders increased to £110.7 million from £74.0 million. Earnings per share (EPS) were up 50% to 7.8p compared to 5.2p last year. The board has proposed a final dividend of 1.65p per share, which together with the interim dividend of 1.15p will make a total dividend for the year of 2.8p, an increase of 27% over last year. The dividend is covered 2.7 times compared to 2.4 times last year.

After the cost of the dividend, £70.1 million has been transferred to shareholders' funds. Issues of new shares under the Group's share option schemes have generated £5.3 million, and shares to the value of £23.8 million were issued after the year end on the acquisition of Innovations. The acquisition created goodwill of £42.8 million which has been written off directly to reserves in this financial year. The net effect

of these is that shareholders' funds show a net increase of £56.4 million.

Treasury

The board has an established overall treasury policy and has approved procedures and authority levels within which the treasury department must operate. The Group does not enter into speculative arrangements in that all transactions in financial products are matched to an underlying business requirement such as planned purchases or forecast debt.

The board has appointed a treasury committee which meets every two months to monitor and control treasury activities. This committee is chaired by the Group Finance Director and comprises one other Executive Director, the Company Secretary, the Group Treasurer and a Managing Director, Buying Director, Retail Operations Director and Finance Director from one of our divisions. The board receives regular reports which cover treasury activities and the treasury department is subject to annual internal audit.

Further information on how treasury objectives and policies have been implemented is set out in note 17 to the accounts.

Accounting policies

The accounts have been prepared using the same accounting policies adopted for the 1995 accounts. Although not yet mandatory, we have adopted the revised standard on cashflow reporting and have included

increased disclosures on financial instruments following the issue of a discussion paper on the subject by the Accounting Standards Board.

Conclusion

The Group's financial position continues to strengthen. Profit before taxation has increased by 53.8% with continued strengthening of gross margins. Gearing has increased from 2.0% to 11.7%, reflecting the funding of significant strategic investments in properties whilst maintaining a comfortable level.

We see considerable scope for continued improvement in the Group's business and are investing accordingly. Further, we have now laid the foundations for our entry into home shopping through the acquisitions of Innovations and Racing Green.

Andrew Higginson

Andrew Higginson
Finance Director

SALES FROM ONGOING BUSINESSES (52 week basis) £m

94	1,856.0
95	1,874.0
96	2,006.9

INCREASE IN GROSS MARGIN %

94	-0.8
95	3.7
96	2.3

RETAIL PROFIT FROM ONGOING BUSINESSES £m

94	56.4
95	102.1
96	161.6

ONGOING CASH FLOW BEFORE CAPITAL EXPENDITURE £m

94	112.1
95	177.5
96	209.2

EARNINGS PER ORDINARY SHARE pence

94	2.1
95	5.2
96	7.8

GEARING %

94	9.7
95	2.0
96	11.7

DIVIDEND PER SHARE pence

94	2.0
95	2.2
96	2.8

Financial highlights

TURNOVER AND PROFIT	Turnover			Profit		
	1996 £m	1995 £m	Change %	1996 £m	1995 £m	Change £m
MULTIPLES	1,018.6	942.5	8.1	58.8	20.1	38.7
DEBENHAMS	988.3	931.5	6.1	102.8	82.0	20.8
TOTAL ONGOING	2,006.9	1,874.0	7.1	161.6	102.1	59.5
OTHER BUSINESS	–	4.8	–	–	–	–
TOTAL TURNOVER AND RETAIL PROFIT	2,006.9	1,878.8	6.8	161.6	102.1	59.5

INTEREST AND SIMILAR CHARGES	(10.0)	(9.0)
PROFIT BEFORE EXCEPTIONAL ITEMS	151.6	93.1
EXCEPTIONAL ITEMS	–	5.5
PROFIT BEFORE TAXATION	151.6	98.6

SALES FROM ONGOING BUSINESSES £m

94		1,856.0*
95		1,874.0
96		2,006.9

*Restated on a 52 week basis

PROFIT BEFORE TAXATION £m

94		41.1
95		98.6
96		151.6

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Board of directors



John Hoerner

Chief Executive, age 57
Graduate of the University of Nebraska. Joined the Group in 1987 as Chairman and Chief Executive of Debenhams from the May Department Stores Company in the United States where he had been Chairman and Chief Executive of their L. S. Ayres department store division. He became a member of the Group's executive management board in 1989 and joined the board in 1991. He was appointed Group Chief Executive in February 1992. He is a Trustee of Industry in Education Limited and of the Crimestoppers Trust.

Keith Cameron

Personnel Director, age 49
Graduate of Bath University. He held personnel management positions with major companies including personnel directorships at Levi Strauss, Currys and Storehouse before joining the Group as Personnel Director of Debenhams in 1988.

He was promoted to his present role in February 1992 and was appointed to the board in September 1994. He is also a member of the CBI Employment Policy Committee, on the Executive Board of Industry in Education Limited, and a visiting professor of the School of Management at Cranfield University.



Terry Green

Chief Executive of Debenhams and Top Shop/Top Man, age 45
Graduate of Liverpool University. Joined the Group in 1978, from C&A. After holding various posts in Dorothy Perkins and Top Shop he became Buying and Merchandising Director of Top Shop, a position he held for four years. He then became Buying and Merchandising Director of Dorothy Perkins before joining Debenhams in 1989 as Buying and Merchandising Director of Womenswear. He was appointed Chief Executive of Debenhams in February 1992, joined the board in May 1992, and was given additional responsibilities as Chief Executive for Top Shop/Top Man in February 1994.

Andrew Higginson

Finance Director, age 39
Appointed to the board in July 1994. He began his career on the graduate management development scheme at Unilever and had a two-year secondment with Lever Bros China based in Hong Kong. In 1986 he joined Guinness as Controller of Guinness Brewing International and was subsequently promoted to Finance Director. In 1990 he became Group Finance Director of Laura Ashley Holdings plc, a position he held until joining the Group in July 1994. He is a non-executive director of FirstBus plc and chairman of the Economic Affairs Committee of the British Retail Consortium. He is a FCMA and a member of The Hundred Group of Finance Directors.



Richard Maney

Executive Director for Home Shopping, Information Systems and Card Marketing, age 49
He is a graduate of Washington Jefferson University and has a Masters Degree from the University of Pittsburgh. After holding a series of retail management positions in the United States, culminating in a post as senior vice president of Lord and Taylor department stores, he joined the Burton Group in 1988 as Managing Director of Harvey Nichols. He left Harvey Nichols in 1992, shortly after it had been sold by the Group, to set up his own retail consultancy business. He rejoined the Group in March 1994 as Managing Director of Principles and was promoted to his present role in July 1996.

Stuart Rose

Chief Executive of Burton Menswear, Dorothy Perkins, Evans and Principles, age 47
Member of the board since February 1994. Prior to joining the Group in 1989 as Buying and Merchandising Director of Debenhams Home Store, he spent 17 years at Marks & Spencer, holding various senior positions in buying and merchandising and stores. He became Managing Director of Evans in 1991 and was appointed Managing Director of Dorothy Perkins in April 1993 before taking up his current duties in February 1994. He is a director of the British Fashion Council and a non-executive director of Morland & Company plc.





Sir John Hoskyns

Chairman, age 69

Joined the Group in 1990 as a non-executive director and was appointed Chairman in November that year. He has chaired the remuneration and nomination committee since January 1992. He is also a non-executive director of Clerical Medical & General Life Assurance Society and Chairman of EMAP plc. He was formerly Director General of the Institute of Directors and was head of the Prime Minister's Policy Unit from 1979-1982. He was Chairman and Managing Director of Hoskyns Group Limited from 1964 to 1975.

John Brown

Non-Executive Director, age 66

Joined the board in March 1991. A Chartered Surveyor, he was Managing Director of Peachey Property Corporation plc from 1977 to 1988 and Managing Director of Artagen Properties Limited from 1966 to 1976. He was a founder member of the British Property Federation and President during 1986-87 and also President of the British Chapter of the International Real Estate Federation in 1975-76. He was Chairman of Burton Property Trust from September 1991 to February 1995 and has chaired the audit committee since March 1995.

Peter Jarvis C.B.E.

Non-Executive Director, age 55

A member of the board since June 1992. He is Group Chief Executive of Whitbread plc. He joined Whitbread from Unilever in 1976 and, following appointment to the board of Whitbread in 1979, became Group Managing Director in 1985 and Group Chief Executive in 1990. He is also a non-executive director of Barclays Bank plc and The Rank Group plc.

Caroline Marland

Non-Executive Director, age 50

Appointed to the board in June 1992. She is a director of the Guardian Media Group plc and Managing Director of Guardian Newspapers Limited, which comprises both *The Guardian* and *The Observer* newspapers. She joined *The Guardian* in 1976 as Advertising Manager having previously worked for the *Yorkshire Post* and *The Times*.

Christopher Pearce

Non-Executive Director, age 55

Joined the board in September 1994. He has been Finance Director of Rentokil Initial plc since 1987, having previously been a director of County NatWest Limited from 1984 to 1987 and of J. Henry Schroder Wagg & Co. Limited from 1981 to 1984. He is Deputy Chairman of The Hundred Group of Finance Directors and was a member of the Working Group on internal control reporting under the Cadbury Committee's Code of Best Practice.

Directors and advisors

Board of directors

Sir John Hoskyns*
Chairman

John Hoerner
Chief Executive

John Brown*

Keith Cameron

Terry Green

Andrew Higginson

Peter Jarvis*

Richard Maney

Caroline Marland*

Christopher Pearce*

Stuart Rose

*Non-Executive Director

Secretary

Ian Jackman

Audit committee

John Brown
Chairman

Sir John Hoskyns

Peter Jarvis

Christopher Pearce

Remuneration and nomination committee

Sir John Hoskyns
Chairman

John Brown

Peter Jarvis

Caroline Marland

Christopher Pearce

Management board

John Hoerner
Chief Executive

Clive Beharrell
Managing Director Home
Shopping Brands

Keith Cameron
Personnel Director

Peter Davies
Managing Director International
Division

Mike Goring
Operations Director

Terry Green
Chief Executive Debenhams and
Top Shop/Top Man

Nigel Hall
Information Systems Director

Andrew Higginson
Finance Director

Ian Jackman
Company Secretary

Peter Kaurisland
Managing Director Debenhams

Andy King
Managing Director Burton
Menswear

Robin Klein
Managing Director Home Shopping
Services and Development

Steve Longdon
Managing Director
Top Shop/Top Man

Richard Maney
Executive Director Home
Shopping, Information Systems
and Card Marketing

Stuart McIvor
Managing Director Far East Sourcing

Hilary Riva
Managing Director Evans

June Robson
Retail Design and Development
Director

Stuart Rose
Chief Executive Burton Menswear,
Dorothy Perkins, Evans and
Principles

David Shaw
Property Director

Stephen Sunnucks
Managing Director Dorothy Perkins

Auditors

Price Waterhouse
Chartered Accountants
and Registered Auditors

Principal bankers

Lloyds Bank plc

Midland Bank plc

National Westminster Bank plc

Solicitors

Clifford Chance

Stockbrokers

Cazenove & Co
de Zoete & Bevan Ltd

Loan stock trustees

The Law Debenture Trust
Corporation plc

Registrars

The Royal Bank of Scotland plc
Securities Services – Registrars
PO Box 82
Caxton House
Redcliffe Way
Bristol BS99 7NH
Telephone 0117 930 6666

Registered office/number

214 Oxford Street
London W1N 9DF
Telephone 0171 636 8040

Registered in England
No. 237511

Corporate governance

The Group has complied throughout the year with all of the provisions of the Cadbury Committee's Code of Best Practice published in December 1992.

Directors' responsibilities

As required by company law, the directors have prepared financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group at the end of the financial year and of the profit or loss for the financial year then ended.

In preparing these statements, which have been produced on a going concern basis, the directors have adopted suitable accounting policies and applied them consistently, made judgments and estimates that are reasonable and prudent, and have complied with all applicable accounting standards.

The directors are responsible for maintaining adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. In addition, they are responsible for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Internal financial control

The board of directors has overall responsibility for the Group's system of internal financial control. Responsibility for operating the system is delegated to the executive directors. The audit committee reviews the effectiveness of the Group's internal financial control environment, the scope of work undertaken by the internal audit department and its findings, the Group's financial statements and the scope of work undertaken by the external auditors. Reviews are undertaken regularly and cover each accounting year and the period up to the date of approval of the financial statements.

Although no system of internal financial control can provide absolute assurance against material misstatement or loss, the Group's system is designed to provide reasonable assurance that problems are identified on a timely basis and dealt with appropriately. The principal features of the Group's internal financial control structures can be summarised as follows:

Matters reserved for the board

The board holds regular meetings and has a number of matters reserved for its approval, including major capital expenditure, treasury and dividend policy. The board is responsible for overall Group strategy and for approving all Group budgets and plans. Certain key areas are subject to regular reporting to the board or board committee, including treasury operations, capital expenditure, corporate taxation and legal matters. The audit committee assists the board in its duties regarding the Group's financial statements and meets with the external auditors.

Organisational structure

There is a clearly defined organisational structure with lines of responsibility and delegation of authority to divisional executive management. Divisional responsibility is supplemented by Group manuals which dictate policies and practices applicable across the Group and include accounting, purchasing, capital expenditure and codes of business conduct. Divisional chief executives are required to complete a formal review of the status of their control environment every year. These are reviewed by the internal audit department and are reported to the audit committee. This process forms part of their review of effectiveness.

Financial control and reporting

There is a comprehensive Group-wide system of planning and budgeting with frequent reporting of results to each level of management as appropriate, including monthly reporting to the board. Quarterly budgetary reviews involving executive directors and divisional executives include the identification and assessment of business and financial risks inherent in each division.

Internal audit

The internal audit department monitors and reports on the system of internal financial control. It reports to the audit committee and works to a programme agreed with it annually.

Going concern

After reviewing current performance and detailed forecasts, taking into account available bank facilities and making further enquiries as considered appropriate, the directors are satisfied that the Group and the Company have reasonable resources to enable them to continue in business for the foreseeable future. For this reason the directors believe it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

Auditors' reports

Reports by the auditors to the members of The Burton Group plc.

Audit report

We have audited the financial statements on pages 51 to 67 (including the additional disclosures on pages 48 to 50 relating to the remuneration of the directors specified for our review by the London Stock Exchange) which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out on page 55.

Respective responsibilities of directors and auditors

As described on page 39, the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st August 1996, and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Report on corporate governance matters

In addition to our audit of the financial statements we have reviewed the directors' statement on page 39 concerning the Group's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and the adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v), if not otherwise disclosed.

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or corporate governance procedures nor on the ability of the Group to continue in operational existence.

Opinion

In our opinion, the directors' statements on internal financial control and on going concern on page 39 have provided the disclosures required by the Listing Rules referred to above and are consistent with the information which came to our attention as a result of our audit work on the financial statements.

In our opinion, based on enquiry of certain directors and officers of the Company and examination of relevant documents, the directors' statement on page 39 appropriately reflects the Group's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

Price Waterhouse

Chartered Accountants and
Registered Auditors

Southwark Towers
32 London Bridge Street
London SE1 9SY

6th November 1996

Directors' report

The directors have pleasure in submitting their annual report together with the financial statements of the Company and the Group for the fifty-two weeks ended 31st August 1996.

Directors

The current directors of the Company are shown on page 38. All of these directors were in office throughout the whole of the year under review, except for Mr Richard Maney who was appointed a director on 19th July 1996. In accordance with the Company's articles of association Mr Maney will retire at the annual general meeting but will be standing for reappointment.

The directors retiring by rotation at the annual general meeting, in accordance with the articles of association, will be Mr John Brown, Mr John Hoerner and Mr Christopher Pearce, all of whom will be seeking reappointment.

Mr Hoerner and Mr Maney are executive directors and have contracts of service which may be terminated by the Company on the giving of two years' prior notice. Mr Brown and Mr Pearce are non-executive directors and do not have contracts of service.

Directors' interests

The interests of the directors in the share and loan capital of the Company and its subsidiary undertakings, according to the register maintained under section 325 of the Companies Act 1985, are shown in the Remuneration Committee report on pages 44 to 50.

Principal activities

The principal activities of the Group during the financial year were the retailing of menswear, womenswear, childrenswear and products for the home. An analysis of turnover and profit is set out on page 56. Comments on the results and on the development of the business during the financial year and on subsequent and likely future developments are given in the Chairman's statement, the Chief Executive's review and the Financial review.

Results for the financial year

The profit for the financial year attributable to shareholders was £110.7 million. Dividends amounting to £40.6 million have been paid or are proposed.

Dividends

The directors recommend the payment of a final dividend of 1.65p per share which, together with the interim dividend of 1.15p per share already paid, makes a total of 2.8p per share for the financial year. This compares with a dividend of 2.2p per share paid in respect of the financial year ended 2nd September 1995. If approved at the annual general meeting, the final dividend will be paid on 21st February 1997 to shareholders on the register on 4th February 1997.

Acquisitions

On 19th July 1996, the Group announced a recommended offer to acquire the whole of the issued share capital of Innovations Group plc. This offer was declared unconditional on 19th August 1996 and, following exercise of its right under section 429 of the Companies Act 1985 to buy out minority shareholders, the Group has now acquired all of Innovations' issued shares. The total cost of the acquisition was £46.9 million, of which approximately £23.8 million was satisfied by the issue of 16,288,383 new Burton Group shares.

Since the year end, the Group has acquired all of the issued shares of Hemingway Limited, which trades as Racing Green, for a consideration of £19 million. Of this amount, approximately £4 million was satisfied by the issue of 2,698,108 new Burton Group shares. Additional consideration of up to £1 million may be payable subject to certain performance targets being met.

Share capital

Details of all shares issued by the Company during the financial year are set out in note 19 to the accounts. A further 2,961,084 shares have been issued between the end of the financial year and the date of this report.

Authority to allot shares

Section 80 of the Companies Act 1985 states that directors may not exercise a company's power to allot its unissued shares unless they are given authority to do so by resolution of the shareholders in general meeting. Section 89 of the Act requires that any shares allotted wholly for cash must be offered to existing shareholders in proportion to their holdings, but this requirement may be modified by the authority of a special resolution of shareholders in general meeting. It has become customary for the directors to seek both types of authority at each annual general meeting and authorities were duly obtained in January 1996. These remain valid until the conclusion of the forthcoming meeting.

Directors' report (continued)

The section 80 authority has been used to a limited extent for the purposes of the Group's acquisitions of Innovations Group plc and Hemingway Limited mentioned above, and although the directors have no present intention of making any further use of the authorities, they consider it prudent to seek their renewal for a further period. Accordingly, a resolution (number 8 in the accompanying notice of meeting) will be put to the annual general meeting to authorise the directors to allot shares having an aggregate nominal value of up to £14.5 million and a special resolution (number 9 in the accompanying notice of meeting) will be proposed to renew the directors' authority to allot shares for cash, other than to existing shareholders in proportion to their holdings, up to an aggregate nominal value of £7.2 million. These authorities will expire at the conclusion of the annual general meeting in 1998 or 15 months after the date of the passing of the resolutions, whichever is the earlier.

Authority to purchase own shares

Subject to the authority of shareholders in general meeting, the Company is empowered by its articles of association to purchase its own shares. Although no purchases have been made so far, it has become customary for shareholder authority to be sought at each annual general meeting and such an authority was duly obtained in January 1996 in respect of 140 million shares. This authority remains valid until the conclusion of the forthcoming meeting. The directors consider it prudent to seek renewal of the authority for a further period.

Accordingly, a special resolution (number 10 in the accompanying notice of meeting) will be put to the annual general meeting to authorise the Company to make market purchases of up to 140 million of its issued shares. The price at which shares may be purchased will be not less than 10p per share and not more than 5 per cent above the average of the middle market quotations for Burton Group shares, in the London Stock Exchange Daily Official List, for the five business days immediately preceding the date of purchase. The authority will expire at the conclusion of the annual general meeting in 1998 or 18 months after the date of the passing of the resolution, whichever is the earlier.

The board has no immediate intention of exercising this authority but will keep the matter under review, taking into account other investment opportunities. The authority will only be exercised if the directors believe that to do so would result in an increase in earnings per share and would be in the best interests of shareholders generally.

Supplier payment policy

The Group's policy concerning the payment of suppliers is either to agree terms of payment at the start of business with each supplier or to ensure that the supplier is made aware of the Group's standard payment terms, and in either case to pay in accordance with its contractual or other legal obligations.

Employment policies

The Group is committed to the principle of equal opportunity in employment. It seeks to ensure that no applicant or employee receives less favourable treatment on the grounds of gender, marital status, race, colour, nationality, ethnic or national origin, religion, disability or sexuality or is disadvantaged by conditions or requirements, including age limits, which cannot be objectively justified. It applies employment policies which are fair and equitable and which ensure that entry into, and progression within, the Group are determined solely by the application of job criteria and by personal aptitude and competence.

It is the Group's policy to comply with best practice on the employment of disabled people. Full and fair consideration is given to every application for employment from disabled persons whose aptitude and skills can be utilised within the business and to their training and career development. Wherever possible, this includes the retraining and retention of staff who become disabled during their employment.

All staff are informed about matters concerning their interests as employees and the financial and economic factors affecting the Group. Established management communication channels are supplemented by the distribution to all staff of 'In View', the Group's quarterly staff magazine, and the Group's annual report and accounts. Proper consideration is given to the interests of employees when management decisions are made. To encourage the two-way flow of information, particularly on operational issues, employee suggestion schemes operate throughout the Group.

The directors recognise that continued improvement in the Group's results depends upon its ability to attract, motivate and retain employees of the highest calibre. Accordingly, the Group promotes the involvement of employees in its performance through their participation in the share schemes described below and in various performance-related bonus schemes. Wherever practicable, part-time employees are eligible to participate in these schemes on the same basis as full-time staff.

The directors also recognise the importance of a well educated and highly trained workforce. The Group therefore encourages its employees to undertake continuous personal development and invests heavily in training programmes aimed at achieving the highest standards of personal performance and customer service.

Directors' report (continued)

Employee share schemes

In the continued belief that employee share ownership encourages staff participation in the business and is beneficial to performance, the directors have made the following awards under the Group's employee share schemes during the year under review.

1 Profit Sharing Scheme

The sum of £3.4 million has been allocated from profit for the financial year to enable the trustee of the Profit Sharing Scheme to award 100 shares each to approximately 24,000 eligible employees in December 1996.

2 Sharesave Scheme

In December 1995, following their acceptance of invitations to participate in the Sharesave Scheme, 3,651 eligible employees were granted options to subscribe for a total of 8,535,289 shares at 91p per share. In accordance with the rules of the scheme, this price represented a discount of 20 per cent to the market price at the time of the grant.

3 Management Share Option Scheme

In May 1996, options over existing shares were granted to 772 senior managers under the Management Share Option Scheme. No directors or senior executives participated. These options relate to a total of 4,958,200 shares and are exercisable at 154p per share. They were granted at market price and their exercise is subject to the satisfaction of a condition requiring earnings per share growth in excess of inflation (as measured by the Retail Prices Index) over three consecutive financial years.

4 Executive Share Option Scheme

Options to subscribe for new shares were granted under the 1987 Executive Share Option Scheme to 66 senior executives, including two executive directors, in December 1995. These options relate to a total of 1,664,453 shares and are exercisable at 111p per share. They were granted at market price and their exercise is subject to the satisfaction of performance conditions which are described on page 46. No further options have been or will be granted under this scheme following adoption of the long term share plan (described below) in January 1996.

5 Long Term Share Plan

Following adoption of The Burton Group Senior Executive Long Term Share Plan at the annual general meeting in January 1996, provisional allocations were made in March 1996 to 251 senior executives, including five executive directors, over a total of 2,197,380 shares. The rules of the plan contain performance conditions which are summarised on page 45.

Charitable and political donations

Donations for charitable purposes amounting to £233,854 were made during the year. There were no donations for political purposes.

Income and Corporation Taxes Act 1988

The close company provisions of this Act do not apply to the Company.

Substantial shareholdings

As at 26th November 1996, the latest practicable date before printing, the Company had been informed of the following notifiable interests in its shares:

	Number of shares	% of issue
Mercury Asset Management	300,552,237*	20.72
Clerical Medical and General Life Assurance Society	44,465,248	3.07
Standard Life Assurance Company	48,431,618	3.34

* The Company understands that this is not a 'material interest' within the meaning of Section 199 of the Companies Act 1985 (as amended).

Auditors

Price Waterhouse are willing to continue in office and a resolution for their reappointment as auditors, at a remuneration to be fixed by the directors, will be proposed at the annual general meeting.

By order of the board

Ian Jackman

Company Secretary

6th November 1996



Remuneration Committee report

This report by the remuneration and nomination committee, on behalf of the board, contains the information required by the Listing Rules of the London Stock Exchange as a result of the recommendations made by the Greenbury Committee on Directors' Remuneration in July 1995.

Throughout the year under review the Company has complied with Section A of the best practice provisions annexed to the Listing Rules. Furthermore, in framing its remuneration policy the remuneration committee has given full consideration to the matters set out in Section B of those provisions.

Remuneration of the executive directors is determined by the remuneration committee, all of whose members are non-executive directors of the Company having no personal financial interest (other than as shareholders) in the matters to be decided, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in running the business. Their names are listed on page 38. Remuneration of the non-executive directors is determined by the board as a whole.

Details of each individual director's remuneration are set out on page 48. Information on directors' options over Burton Group shares and on their aggregate interests in such shares follows on pages 49 and 50.

Remuneration policy for executive directors and senior executives

The Group aims to attract, motivate and retain high calibre executives by rewarding them with competitive salary and benefit packages which are linked to both individual and business performance. These packages are reviewed each year to ensure they remain consistent with the Group's business objectives and the creation of shareholder value. The main components of current packages are as follows.

Salary

Salary ranges are established by reference to those prevailing in the employment market generally for executives of comparable status, responsibility and skills. Particular regard is paid to salary levels within other leading companies in the retail sector. These comparisons are made with the assistance of independent remuneration surveys, sometimes especially commissioned by the Group.

Individual salaries are then determined by personal factors. These include the individual's performance as measured by a formal appraisal process, the achievement of recognised job qualifications where relevant, and any other matters likely to affect a particular executive's value in the employment market.

The Group operates an Inland Revenue approved Profit Related Pay scheme under which a proportion of salary is linked to the profitability of the Group. The scheme is open to employees at all levels and 99 per cent of eligible staff, including all executive directors, currently participate.

Performance-related bonuses

Executive directors and senior executives, in common with many other categories of staff, participate in a bonus scheme which is linked to the achievement of annual performance targets.

Each executive's normal bonus potential is expressed as a percentage of salary, ranging from 30 per cent of salary for senior executives of the lower grades to 70 per cent of salary for executive directors and senior executives of the higher grades. For executive directors and senior executives who head retail divisions, bonus awards are based partly on the performance of the Group as a whole and partly on that of their respective divisions. Bonuses of the remaining executive directors are based solely on Group performance. Senior executives employed within service functions also receive bonuses based solely on Group performance, while those employed within trading divisions receive bonuses calculated on divisional achievement.

For the year under review and prior periods, the performance targets were based on profit before tax and exceptional items. There were three levels of profit target. The lowest target related to profit for the previous financial year: the middle target related to planned profit for the year in question: and the highest target required a substantial enhancement on planned profit. These profit targets were set by the remuneration committee at the start of each year and were demanding.

No bonus was paid unless the lowest profit target was exceeded. One-third of the normal bonus potential was paid for achievement of the middle target, while the full normal potential was paid for achievement of the highest target. Proportional bonuses were paid for profit achievement between the targets or in excess of the highest target, subject to the limitation that a bonus payment could not exceed 100 per cent of salary.

In accordance with the Group's policy of encouraging employee share ownership, executive directors and senior executives were given the opportunity to receive all or part of their bonus for the year under review in the form of Burton Group shares. As an incentive to the retention of these shares, senior executives who retain all of them for a period of at least 12 months will receive an additional award of 15 per cent of the number of shares originally received. However, executive directors will not qualify for the additional award regardless of the period for which they retain any shares received as part of their bonus entitlement.

Changes for next year

For the year commencing 1st September 1996 the remuneration committee has adopted two changes in the bonus scheme which it believes will place the Group's executives in a position which more closely mirrors that of shareholders. Moreover, as the committee considers that the changed scheme can beneficially affect the performance of staff at many levels, it has supported the executive directors' decision to extend the scheme progressively to categories of staff, including store managers, below the senior executive grades.

Remuneration Committee report (continued)

Change no. 1: Charging for capital before bonus can be earned

The first change relates to the method of setting bonus targets and is designed to ensure that bonuses take full account of the cost of capital employed in the business.

In the past, targets were based solely on improvements in profit before tax and bonus was earned as the targets were achieved. Under the changed scheme, before any bonus is earned a charge (initially 12 per cent after tax) will be made for the cost of the additional capital employed in generating profit.

This procedure will encourage executives to be confident that capital investments will earn adequate returns before recommending them for approval. In view of the many demands for capital intensive projects within the Group, the remuneration committee believes that such a focus on the cost of all capital and the need to use it wisely will be highly beneficial to the Group's performance.

Under the changed scheme, targets will continue to be set by the remuneration committee at the start of each financial year. There will be two targets. The lower target will normally be based on the Group's actual performance for the previous year and the higher target will require a demanding improvement on that performance. No bonus will be earned unless the lower target is exceeded, while achievement of the higher target will generate each executive's full bonus potential. Bonus will accrue on a straight-line basis for performance between the targets or in excess of the higher target.

Change no. 2: Deferring part of the bonus to the future and placing it at risk

The remuneration committee wishes to encourage management thinking that extends beyond one financial year, as performance-related bonuses based on a single year's results could encourage short term decisions that benefit management but disadvantage the Group and its shareholders over time. For this reason, the second change to the bonus scheme applying to all senior executives both rewards sustained performance improvements and penalises short term improvements at the expense of shareholder value in the longer term.

This second change operates through a personal 'bonus fund' for each executive. Any bonus earned for a financial year is credited to the executive's bonus fund and only a proportion of the fund is paid to the executive at the end of the year. The balance of the fund is placed 'at risk' depending on future performance. If performance in a future year deteriorates then a 'negative bonus' is earned for the year and the bonus fund is debited with that amount. This procedure will be phased in over a period of four years. The proportion of the bonus fund paid to each executive at the end of the first year will be 80 per cent. It will reduce in stages to 50 per cent at the end of the fourth year and will then remain fixed at that level.

There has been no change to each executive's normal bonus potential, which will continue to range from 30 per cent of salary for senior executives of the lower grades to 70 per cent of salary for executive directors and senior executives of the higher grades. However, the changed scheme will permit an executive to earn a bonus in excess of 100 per cent of salary for exceptional business performance in a given year, but whilst the whole of the bonus earned will be credited to the executive's bonus fund, the amount paid from the fund at the end of each financial year will continue to be restricted to 100 per cent of salary. The balance will be retained in the fund and therefore placed at risk dependent on future performance.

Executives whose employment is terminated for cause or who leave the Group voluntarily will forfeit any amount held in their bonus funds. This means that the changed scheme has further advantages for the Group in terms of executive behaviour and loyalty.

Long Term Share Plan

All executive directors and senior executives are eligible to participate in The Burton Group Senior Executive Long Term Share Plan which was approved by shareholders at the annual general meeting in January 1996. The plan superseded the executive share option scheme described below and following the plan's adoption no further grants have been or will be made under the executive share option scheme. The plan seeks to foster a greater community of interest between shareholders and management by linking executive reward even more closely with long term corporate performance.

Under this plan, each participating executive receives a provisional allocation of a specified number of Burton Group shares at the start of each plan year but the number of shares, if any, actually transferred to the executive depends upon the Group's total shareholder return (TSR) relative to that of other companies in the FT-SE 100 index over a three year performance period. A further condition of the plan stipulates that no shares may be transferred to executives unless growth in the Group's earnings per share exceeds the percentage increase in the Retail Prices Index over the same three year period.

The number of shares provisionally allocated to participants each plan year is derived from an amount equating to a specified percentage of salary, which currently ranges from 9 per cent of salary for senior executives of the lower grades to 33 per cent of salary for executive directors. This amount is converted into a number of shares according to the market share price at the start of the plan year. The proportion of these shares transferred to the executive at the end of the three year performance period is on a scale ranging from 60 per cent if the Group's TSR ranks at the 50th position in the league table of FT-SE 100 companies over that period, up to twice the provisional allocation if the TSR ranks at or above the 15th position in the table. For performance at or below the 51st position, no shares are transferred.

Remuneration Committee report (continued)

Executive share option scheme

As stated above, the Group's executive share option scheme has been superseded by the long term share plan and no further grants have been or will be made under the option scheme since the plan was adopted in January 1996. However, options granted under the scheme prior to adoption of the long term share plan are unaffected. The scheme is Inland Revenue approved and complies with current institutional guidelines.

Under the scheme executive directors and senior executives were granted options over Burton Group shares at prevailing market prices at the time of grant. The maximum number of shares under option for any executive was calculated according to a formula whereby the aggregate option exercise prices represented a specified multiple of salary. These multiples ranged from 0.75 times salary for senior executives of the lower grades to 3.5 times salary for executive directors.

The Group was one of the first major companies in the United Kingdom to require that performance conditions be satisfied before executive share options could be exercised. These conditions require:

- earnings per share growth in excess of inflation (as measured by the Retail Prices Index) for the financial year in which the option is granted and each of the following two financial years: one third of the option lapses for each of the three years in which this condition is not fulfilled; and
- earnings per share growth averaging at least 6 per cent p.a. in excess of inflation (as measured by the Retail Prices Index) for the financial year in which the option is granted and the following four years or, if fewer, for the number of financial years preceding exercise of the option: no part of the option is exercisable unless the required growth has been achieved.

For these purposes earnings per share is calculated on the 'average shares in issue – fully taxed' basis and is determined by the Company's auditors on a basis consistent with that used in the Company's accounts for the financial year preceding introduction of the scheme.

In normal circumstances, options granted under this scheme are exercisable not earlier than three years and not later than ten years after the date of grant and only while the executive remains in the Group's employment.

Pension

All executive directors and senior executives are eligible for membership of The Burton Group Senior Executives Pension Scheme, which is Inland Revenue approved. Since 1st March 1996 the scheme has been non-contributory for all members. It provides members with a pension of up to two-thirds of pensionable salary on retirement at age 60, subject to their having completed at least 20 years' service with the Group. Pensionable salary covers basic pay alone and no other items of remuneration are taken into account. The scheme also provides a lump sum death in service benefit and pensions for dependants of members on their death in service or following retirement.

Members who joined the scheme after May 1989 are subject to the salary cap (currently £82,200 p.a.) on Inland Revenue approved pension schemes. Accordingly it is the Group's policy to provide these members with appropriate pension benefits outside the scheme in relation to that part of their salary which exceeds the cap.

The scheme is governed by an independent trust. Its trustees are chaired by one of the Company's non-executive directors and include an actuary and a solicitor, both of whom are independent from the Group and expert in pension matters. Responsibility for investment of the scheme's funds has been delegated by the trustees to professional investment managers. In accordance with best practice for company pension schemes, the investment managers are not permitted to invest scheme funds in the Group's own assets or shares.

At the time of preparing this report, no decision had been taken by the London Stock Exchange on the method of implementing the recommendation in the Greenbury Report that disclosure should be made of the value of pension entitlements earned by directors during the year. Accordingly, the pension figures contained in the directors' remuneration table on page 48 relate to notional pension contributions calculated on a basis which is believed to be appropriate as set out in note 3 to the table.

Notice periods

Each of the executive directors has a contract of service which is terminable by the Group on giving not less than two years' notice. The remuneration committee considers that notice periods of two years are reasonable and proper in the interests of both the Company and its executive directors having regard to prevailing market conditions and current practice among large public companies.

Under current policy senior executives have notice periods which range from three months to one year, depending on grade. A few senior executives of the higher grades who joined the Group prior to introduction of the current policy retain notice periods of up to three years.

Taxable benefits

Executive directors are eligible for a range of taxable benefits which include the provision of a company car and payment of its operating expenses including fuel; membership of private medical and dental expenses insurance schemes; and reimbursement, up to specified limits, of the cost of personal financial advice, of the annual subscription to an appropriate professional body and of home telephone charges. Senior executives, depending on grade, are eligible for certain of these benefits.

Remuneration Committee report (continued)

For the past four years the Group has operated a Flexible Reward arrangement for all of its employees at middle management level and above. This arrangement allows participating employees to exchange certain benefits for their cash equivalent paid as a salary supplement, or vice versa, and to select the level at which certain benefits are provided. While being cost neutral to the Group, this arrangement allows employees to select the benefit packages which are most appropriate to their personal circumstances.

Capital Incentive/Capital Appreciation Scheme

The Capital Incentive Scheme was introduced in 1992 as a means of retaining key senior executives in the Group's employment. Executive directors are not eligible for admission to the scheme. Under this scheme each participating executive is conditionally awarded a specified capital sum which accrues over a period of three years together with interest at prevailing market rates. The resulting amount is paid at the end of the three year period provided the executive remains in the Group's employment at that time. The scheme subsequently became known as the Capital Appreciation Scheme but its terms were unchanged, save that one-half of the capital sum is used to purchase Burton Group shares which are held in trust until the executive satisfies the service condition at the end of the three year period.

Sharesave Scheme

An Inland Revenue approved SAYE Sharesave Scheme is open to UK based employees who have completed not less than one year's service and are contracted to work at least eight hours per week. Under this scheme options are granted over Burton Group shares, at a discount of 20 per cent to the prevailing market price at the time of grant, to eligible employees who agree to save up to £250 per month over a period of three or five years.

Profit Sharing Scheme

All employees who satisfy the relevant eligibility criteria, which are similar to those for the Sharesave Scheme mentioned above, are able to participate in any allocation made by the Group under its Inland Revenue approved Profit Sharing Scheme. This scheme permits a portion of the Company's annual profit to be used for the acquisition of Burton Group shares which are held in trust and apportioned equitably among participating employees.

Staff discount

The Group provides all levels of staff with a discount on merchandise sold by its retail divisions but does not provide discount on merchandise sold by concessions operating within its stores.

Remuneration policy for non-executive directors

The sole remuneration for non-executive directors consists of fees for their services in connection with board and board committee meetings and, where relevant, for additional services such as chairing the board or a board committee or devoting additional time and expertise for the benefit of the Group. They do not have contracts of service, are not eligible for pension scheme membership, and do not participate in any of the Group's bonus, share option or other incentive schemes. The only benefit to which they are entitled is staff discount on merchandise sold by the Group's retail divisions.

Sir John Hoskyns

Chairman of the Remuneration and Nomination Committee

Remuneration Committee report (continued)

Directors' remuneration	Current annual salary/fee £000	Salaries/fees £000			Taxable benefits £000			Performance related bonuses £000		
		1996	1995	1994	1996	1995	1994	1996	1995	1994
Executive directors										
J Hoerner	450	432	411	394	33	26	28	450	387	60
K Cameron (1)	200	191	157	—	19	18	—	200	145	—
T Green	280	271	261	230	19	17	15	280	263	85
A Higginson (1)	225	218	200	72	21	17	7	225	187	—
R Maney (1)	240	28	—	—	—	—	—	23	—	—
S Rose (1)	280	248	236	114	19	15	9	247	116	19
Former Directors	—	—	—	484	—	—	31	—	—	263
Non-executive directors										
Sir John Hoskyns	225	218	205	200	—	—	—	—	—	—
J Brown	44	43	76	110	—	—	—	—	—	—
P Jarvis	33	32	30	28	—	—	—	—	—	—
C Marland	33	32	30	28	—	—	—	—	—	—
C Pearce (1)	33	32	29	—	—	—	—	—	—	—
Former Director	—	—	—	3	—	—	—	—	—	—
Total board		1,745	1,635	1,663	111	93	90	1,425	1,098	427
	Other (2) £000			Total £000			Pension contributions (3) £000			
	1996	1995	1994	1996	1995	1994	1996	1995	1994	
Executive directors										
J Hoerner	—	—	—	915	824	482	203	177	157	
K Cameron (1)	—	46	—	410	366	—	86	70	—	
T Green	—	—	—	570	541	330	73	70	62	
A Higginson (1)	—	—	—	464	404	79	58	52	4	
R Maney (1)	—	—	—	51	—	—	13	—	—	
S Rose (1)	—	46	—	514	413	142	112	106	51	
Former Directors	—	—	—	—	—	778	—	—	101	
Non-executive directors										
Sir John Hoskyns	—	—	—	218	205	200	—	—	—	
J Brown	—	—	—	43	76	110	—	—	—	
P Jarvis	—	—	—	32	30	28	—	—	—	
C Marland	—	—	—	32	30	28	—	—	—	
C Pearce (1)	—	—	—	32	29	—	—	—	—	
Former Director	—	—	—	—	—	3	—	—	—	
Total board	—	92	—	3,281	2,918	2,180	545	475	375	

Notes

1 The figures set out above relate only to the period of each director's membership of the board. Directors were members of the board throughout the whole three year period except that (i) Mr Rose was appointed on 24th February 1994; (ii) Mr Higginson was appointed on 22nd July 1994; (iii) Mr Cameron and Mr Pearce were appointed on 13th September 1994; and (iv) Mr Maney was appointed on 19th July 1996.

2 These payments were made under the Capital Incentive Scheme described on page 47. Executive directors are not eligible for admission to this scheme but Mr Cameron and Mr Rose were members in 1992 before being appointed to the board and qualified for these payments in September 1995. They are no longer members of the scheme.

3 All executive directors are members of The Burton Group Senior Executives Pension Scheme described on page 46. Mr Cameron, Mr Green and Mr Rose are members of the Pension Scheme in relation to their entire basic salaries. Mr Hoerner, Mr Higginson and Mr Maney are subject to the Inland Revenue salary cap. In relation to their basic salaries above the cap Mr Hoerner, Mr Higginson and Mr Maney are also members of individual retirement benefit schemes funded by the Group.

At the time of printing, no decision had been taken by the London Stock Exchange on the method of implementing the proposal in the Greenbury Report that disclosure should be made of the value of pension entitlements earned by each director during the year. The figures in this column represent actuarial assessments of the contributions which, in the absence of the Company contributions holiday described in note 24 to the accounts, would have been necessary on the basis of prudent actuarial assumptions to fund the expected Pension Scheme benefits assuming such contributions were assessed individually for each director and spread over the director's total service with the Group. The actual contributions paid to the retirement benefit schemes for Mr Hoerner, Mr Higginson and Mr Maney are also included.

Remuneration Committee report (continued)

Directors' interests – share options

	3rd September 1995	Granted during the year	31st August 1996	Exercise price (p)	Earliest date for exercise	Latest date for exercise
J Hoerner	2,272,099	–	2,272,099	36.2	24.12.1994	23.12.2001
	1,067,537	–	1,067,537	45.9	26.06.1995	25.06.2002
	122,921	–	122,921	54.1	04.12.1995	03.12.2002
	32,547†	–	32,547†	53.0	01.03.1999	31.08.1999
	101,449	–	101,449	69.0	14.12.1997	13.12.2004
K Cameron	497,237	–	497,237	36.2	24.12.1994	23.12.2001
	234,203	–	234,203	45.9	26.06.1995	25.06.2002
	46,210	–	46,210	54.1	04.12.1995	03.12.2002
	28,883†	–	28,883†	50.2	01.04.1998	30.09.1998
	333,333	–	333,333	69.0	14.12.1997	13.12.2004
	–	78,829	78,829	111.0	04.12.1998	03.12.2002
T Green	552,485	–	552,485	36.2	24.12.1994	23.12.2001
	60,678†	–	60,678†	30.9	01.04.1997	30.09.1997
	898,692	–	898,692	45.9	26.06.1995	25.06.2002
	226,432	–	226,432	54.1	04.12.1995	03.12.2002
	250,001	–	250,001	56.0	23.06.1997	22.06.2004
	63,405	–	63,405	69.0	14.12.1997	13.12.2004
A Higginson	1,250,000	–	1,250,000	56.0	01.07.1997	30.06.2004
	–	31,531	31,531	111.0	04.12.1998	03.12.2002
	–	18,956†	18,956†	91.0	01.03.2001	31.08.2001
R Maney	892,857*	–	892,857	56.0	23.06.1997	22.06.2004
	36,232*	–	36,232	69.0	14.12.1997	13.12.2004
S Rose	897,789	–	897,789	36.2	24.12.1994	23.12.2001
	36,104†	–	36,104†	50.2	01.04.1998	30.09.1998
	46,210	–	46,210	54.1	04.12.1995	03.12.2002
	59,525	–	59,525	63.0	15.12.1996	14.12.2003
	714,285	–	714,285	56.0	23.06.1997	22.06.2004
	60,869	–	60,869	69.0	14.12.1997	13.12.2004

*options held at date of appointment †options under the Sharesave Scheme

Notes

1 All options (excluding those under the Sharesave Scheme) were granted under the Executive Share Option Scheme described on page 46 and their exercise is subject to the satisfaction of performance conditions described on that page. To date, all such conditions have been satisfied for options whose earliest exercise date is on or before 15th December 1996.

2 No options lapsed unexercised or were exercised by directors during the year or up to 2nd December 1996.

3 The market price of the Company's shares at the year end was 152.5p. During the year the market price ranged between 98p and 160p.

4 Following the approval of the Long Term Share Plan at the annual general meeting in January 1996, no further options have been or will be granted under the Executive Share Option Scheme.

Remuneration Committee report (continued)

Directors' interests – aggregate

The interests, all of which are beneficial, of the directors (and their immediate families) in the share and loan capital of the Company, at the beginning and end of the financial year, are set out below:

	31st August 1996			3rd September 1995		
	Shares owned	Shares provisionally allocated (1)	Shares under option (2)	Shares owned	Shares provisionally allocated	Shares under option (2)
Executive directors						
J Hoerner	378,100	131,365	3,596,553	378,000	–	3,596,553
K Cameron	18,321	57,115	1,218,695	1,000	–	1,139,866
T Green	10,422	83,452	2,051,693	1,322	–	2,051,693
A Higginson	20,681	66,635	1,300,487	9,044	–	1,250,000
R Maney	100*	50,481*	929,089*	–	–	929,089
S Rose	35,100	75,202	1,814,782	5,000	–	1,814,782
Non-executive directors						
Sir John Hoskyns	122,500	–	–	112,500	–	–
J Brown	85,000	–	–	75,000	–	–
P Jarvis	36,250	–	–	26,250	–	–
C Marland	13,313	–	–	13,313	–	–
C Pearce	31,618	–	–	20,288	–	–

*also at date of appointment

Notes

1 These provisional allocations were made on 15th March 1996 under the Long Term Share Plan described on page 45.

As stated on that page, the number of shares ultimately transferred to each director depends upon the Group's total shareholder return over a three year period and will range from nil to twice the number provisionally allocated. The earliest date for the directors to acquire shares pursuant to these provisional allocations is 15th March 1999.

2 These options were granted under the Executive Share Option Scheme described on page 46 and are the same as those set out in the table on page 49 but are presented here in summary form.

3 The executive directors of the Company, together with all other employees of the Group, are potential beneficiaries of various employee share scheme trusts and, as such, are deemed by the Companies Act 1985 to be interested in any shares held by the trustees. At 31st August 1996 these shareholdings totalled 4,766,133 ordinary shares (3rd September 1995 1,218,778).

4 Since 31st August 1996 and up to 2nd December 1996, directors have acquired additional interests in the Company as follows:

Shares purchased:

14th November 1996:

Sir John Hoskyns 10,000 shares

22nd November 1996:

J Hoerner 22,000 shares

K Cameron 5,000 shares

T Green 5,000 shares

A Higginson 8,000 shares

R Maney 10,338 shares

S Rose 18,000 shares

Long Term Share Plan – the following provisional allocations under the plan were made on 2nd December 1996. The earliest date for directors to acquire shares pursuant to these provisional allocations is 2nd December 1999. The number of shares ultimately transferred to each director will be determined by the factors described in Note 1 above.

J Hoerner 97,058 shares

K Cameron 43,137 shares

T Green 60,392 shares

A Higginson 48,529 shares

R Maney 51,764 shares

S Rose 60,392 shares

5 None of the directors has, or had during the year under review, a material interest in any contract of significance to which the Company or any of its subsidiary undertakings is a party.

Consolidated profit and loss account

FOR THE FINANCIAL YEAR ENDED 31ST AUGUST 1996	NOTE	1996 £m	1995 £m
Turnover	2	2,006.9	1,878.8
Cost of sales		(1,727.8)	(1,678.5)
Gross profit		279.1	200.3
Distribution costs		(45.2)	(36.6)
Administrative expenses		(72.3)	(61.6)
Trading profit	2, 3	161.6	102.1
Release of surplus property development provisions		–	5.5
Interest and similar charges	4	(10.0)	(9.0)
Profit before taxation		151.6	98.6
Taxation	6	(40.9)	(24.6)
Profit for the financial year		110.7	74.0
Dividends	8	(40.6)	(31.3)
Transfer to retained earnings	20	70.1	42.7
Earnings per share			
– Ordinary	9	7.8p	5.2p
– Before exceptional items	9	7.8p	5.0p
Statement of total recognised gains and losses			
The total recognised gains and losses for the year of £110.7 million (1995 – £45.9 million) comprise the profit for the financial year (1995 – profit for the financial year of £74.0 million less the revaluation deficit of £28.1 million recognised during the year).			
Historical cost profit			
Reported profit before taxation		151.6	98.6
Revaluation surplus realised on disposals		0.4	–
Historical cost profit before taxation		152.0	98.6
Historical cost transfer to retained earnings		70.5	42.7

Consolidated balance sheet

AT 31ST AUGUST 1996	NOTE	1996 £m	1995 £m
Fixed assets			
Tangible assets	10	1,138.5	930.5
Investments – own shares	11	14.5	4.9
		1,153.0	935.4
Current assets			
Stocks		263.6	262.2
Debtors	12	99.8	96.4
Cash at bank and in hand	13	199.7	249.1
		563.1	607.7
Creditors (due within one year)			
Funding debt	14	141.9	21.1
Other creditors	18	484.5	416.5
		626.4	437.6
Net current (liabilities)/assets		(63.3)	170.1
Total assets less current liabilities		1,089.7	1,105.5
Creditors (due after one year)			
Funding debt (including convertible debt)	14	164.5	245.1
Provisions for liabilities and charges			
Deferred tax	6	11.1	2.7
Net assets		914.1	857.7
Capital and reserves			
Called up share capital	19	144.7	141.8
Share premium account	20	281.5	255.3
Capital redemption reserve	20	223.4	223.4
Revaluation reserve	20	50.5	50.9
Retained earnings	20	214.0	186.3
Shareholders' funds	20	914.1	857.7
Gearing		11.7%	2.0%

Approved by the board on 6th November 1996

John Hoerner

Andrew Higginson




Cash flow statement

FOR THE FINANCIAL YEAR ENDED 31ST AUGUST 1996	NOTE	1996 £m	1996 £m	1995 £m	1995 £m
Cash flows from operating activities	25				
Inflow from ongoing activities		263.8		212.8	
(Outflow)/inflow from property development and exceptional items		(6.1)		10.2	
			257.7		223.0
Returns on investments and servicing of finance					
Interest received		17.8		12.7	
Interest paid		(12.9)		(6.9)	
Rentals paid under property lease obligations		(4.1)		(3.9)	
			0.8		1.9
Taxation paid			(21.9)		(8.9)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(282.1)		(118.3)	
Sale of tangible fixed assets		5.3		—	
Options exercised over ESOP shares		1.5		0.9	
Purchase of shares by ESOP		(17.6)		—	
			(292.9)		(117.4)
Acquisition					
Cash balance acquired with Innovations Group	26		6.7		—
Dividends paid			(33.5)		(28.3)
Cash (outflow)/inflow before use of liquid resources and financing			(83.1)		70.3
Management of liquid resources					
Movement in short term deposits with banks			85.1		(58.8)
Financing					
Issue of ordinary shares		5.3		4.7	
Redemption of loan stocks		(2.6)		(1.1)	
Repayment of bank and term loans		(121.0)		(61.5)	
New bank and term loans		121.4		31.4	
Capital element of finance lease rental payments		(0.4)		(0.5)	
			2.7		(27.0)
Increase/(decrease) in cash			4.7		(15.5)
Reconciliation of net debt:					
At 3rd September 1995			(17.1)		(81.6)
Increase/(decrease) in cash			4.7		(15.5)
Decrease in debt			2.6		31.7
Movement in short term deposits with banks			(85.1)		58.8
Finance leases of Innovations Group			(0.7)		—
Non-cash movements in net debt:					
Provision for interest on Zero Coupon Secured Bonds			(8.7)		(7.9)
Provision for additional funding costs on property lease obligations			(2.4)		(2.6)
At 31st August 1996	25		(106.7)		(17.1)

1995 comparatives have been restated to reflect the requirements of FRS1 (revised).

Company balance sheet

AT 31ST AUGUST 1996	NOTE	1996 £m	1995 £m
Fixed assets			
Tangible assets	10	37.3	25.8
Investments	11	976.5	785.3
		1,013.8	811.1
Current assets			
Stocks		1.2	0.8
Debtors	12	50.8	51.2
Cash at bank and in hand		16.1	124.6
		68.1	176.6
Creditors (due within one year)			
Funding debt	14	13.2	25.2
Other creditors	18	149.7	120.6
		162.9	145.8
Net current (liabilities)/assets		(94.8)	30.8
Total assets less current liabilities		919.0	841.9
Creditors (due after one year)			
Funding debt (including convertible debt)	14	94.0	75.4
Net assets		825.0	766.5
Capital and reserves			
Called up share capital	19	144.7	141.8
Share premium account	20	281.5	255.3
Capital redemption reserve	20	223.4	223.4
Retained earnings	20	175.4	146.0
Shareholders' funds	20	825.0	766.5

Approved by the board on 6th November 1996

John Hoerner

Andrew Higginson

The image shows two handwritten signatures. The signature on the right is 'John Hoerner' in a cursive script. The signature on the left is 'Andrew Higginson', also in a cursive script, and is partially obscured by a large, dark, scribbled-out mark.

Notes to the accounts

1 Accounting policies

a Accounting convention

The accounts are drawn up under the historical cost convention as modified by the revaluation of certain properties and in accordance with applicable accounting standards.

b Bases of consolidation

The accounts of all subsidiary undertakings are consolidated from the date of their acquisition to the date of their sale. On acquisition, any difference between the fair value of the net tangible assets acquired and the fair value of the consideration given is transferred to reserves.

All intra-group transactions and profits or losses are eliminated on consolidation.

c Turnover

Turnover comprises sales of own-bought merchandise to third parties and income from concessionaires, both excluding value added tax.

d Depreciation

Depreciation is calculated so as to allocate the cost of tangible fixed assets over their estimated useful economic lives. No depreciation is charged on non-industrial freehold and long leasehold properties, other than rack-rented properties, because the directors consider that the economic lives of these properties and their residual values, excluding inflation, are such that their depreciation is not significant. The residual values of the properties are regularly reviewed in order to identify any permanent diminution in value which would be charged to the profit and loss account. Rack-rented long leasehold properties are those held on leases providing for full market rent reviews every five years. Other tangible assets are depreciated at the following rates from the date on which they are brought into use:

Industrial freehold and long leasehold buildings **2%**

Rack-rented long leaseholds **2%**

Landlords' fixtures and fittings in rack-rented properties **4%**

Short leaseholds, including landlords' fixtures and fittings **Life of lease**

Retail fixtures and fittings **12½%–20%**

Office equipment **10%**

Computer equipment **16⅔%–33⅓%**

Motor vehicles **25%**

The above rates are applied on the straight line basis except in respect of motor vehicles which are depreciated on the reducing balance basis.

e Pension costs

The cost of providing pension benefits is charged to the profit and loss account as a constant percentage of pensionable earnings over the period benefiting from scheme employees' services. Actuarial surpluses are amortised over the expected remaining service lives of current scheme employees. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet. Deferred tax on these amounts is provided on the partial provision basis.

f Taxation

Provision is made for deferred taxation arising from the allocation of income and expenditure for tax purposes to periods different from those used for accounting purposes, unless there is a reasonable probability that such timing differences will not give rise to a taxation liability in the foreseeable future. Advance corporation tax arising on dividends charged in the accounts is written off unless it is recoverable with reasonable certainty against current and future mainstream corporation tax liabilities.

g Leased assets

Assets used by the Group which have been funded through finance leases are capitalised and the resulting lease obligations are included in creditors.

Rentals payable under operating leases are charged to the profit and loss account as incurred except where incentives to sign the leases have been received. Such incentives are spread on a straight line basis over the lease term, or if shorter, the period to the next open market rent review date.

h Stock valuation

Stocks are stated at the lower of cost and net realisable value and represent goods for resale.

i Foreign exchange

Assets and liabilities recorded in foreign currencies are translated either at the rates ruling at the balance sheet date or the rates fixed by forward contracts. Differences on exchange are dealt with in the profit and loss account. Gains and losses on forward foreign exchange contracts entered into as hedges of future purchases and sales denominated in foreign currency are carried forward and taken to profit and loss on maturity to match the underlying transactions.

Notes to the accounts (continued)

2 Divisional analysis of turnover and trading profit	Turnover		Trading profit	
	1996 £m	1995 £m	1996 £m	1995 £m
Burton Menswear	227.2	222.2	3.3	(4.2)
Dorothy Perkins	271.0	247.8	15.5	4.1
Evans	160.4	146.8	16.3	13.7
Top Shop/Top Man	242.7	220.2	19.9	8.5
Principles	117.3	105.5	3.8	(2.0)
Multiples	1,018.6	942.5	58.8	20.1
Debenhams	988.3	931.5	102.8	82.0
Ongoing	2,006.9	1,874.0	161.6	102.1
Other business	—	4.8	—	—
Turnover and trading profit	2,006.9	1,878.8	161.6	102.1

The Group's activities comprise one business segment, retailing. This segment has been analysed in the above table to show turnover and trading profit by retail chain. The other business, IS Retail, was closed in December 1994.

3 Trading profit	1996 £m	1995 £m
Trading profit is stated after charging:		
Employment costs (Note 5)	352.5	318.8
Depreciation	82.8	81.7
Property rentals (net)	176.5	163.7
Other operating lease rentals	9.4	12.1
Auditors' remuneration	0.4	0.4
Other fees paid to auditors	0.2	0.1

4 Interest and similar charges	1996 £m	1995 £m
Interest receivable	17.5	15.5
Payable on bank loans, overdrafts and term loans:		
— repayable within five years	(9.1)	(6.7)
Payable on debenture loans:		
— repayable within five years	(11.5)	(8.2)
— repayable after five years	(0.3)	(3.0)
Payable on finance lease obligations	(0.1)	(0.1)
Rentals payable on property lease obligations	(6.5)	(6.5)
	(10.0)	(9.0)

Notes to the accounts (continued)

5 Employees and directors	1996 £m	1995 £m
Employees		
Wages and salaries	326.0	296.8
Employee profit sharing and long term share plan	5.3	2.5
Social security costs	20.7	19.3
Other pension costs	0.5	0.2
Total employment costs	352.5	318.8

The average number of employees in the Group was 43,707 (1995 – 39,285) including 27,969 (1995 – 27,612) part-time employees.

Directors' remuneration	1996 £000	1995 £000
Fees	357	329
Salaries and taxable benefits	1,499	1,491
Performance-related bonuses	1,425	1,098
Pension contributions – actuarial assessments	545	475
The above emoluments include:		
Sir John Hoskyns (Chairman), fees	218	205
John Hoerner (Chief Executive):		
– Salary and taxable benefits	465	437
– Performance related bonus	450	387
– Pension contributions – actuarial assessment	203	177

Fees, salaries and taxable benefits and performance-related bonuses of the directors were in the following ranges:

	1996 Number	1995 Number		1996 Number	1995 Number
£25,001-30,000	–	3	£400,001-405,000	–	1
£30,001-35,000	3	–	£410,001-415,000	1	1
£40,001-45,000	1	–	£460,001-465,000	1	–
£50,001-55,000	1	–	£510,001-515,000	1	–
£75,001-80,000	–	1	£540,001-545,000	–	1
£200,001-205,000	–	1	£565,001-570,000	1	–
£215,001-220,000	1	–	£820,001-825,000	–	1
£365,001-370,000	–	1	£910,001-915,000	1	–

A detailed analysis of directors' remuneration, including salaries, performance-related bonuses and long-term incentives, is provided in the Remuneration Committee report on pages 44 to 50.

Notes to the accounts (continued)

6 Taxation	1996 £m	1995 £m
Based on the profit for the year		
UK corporation tax at 33%:		
Current year	(44.8)	(21.4)
Prior years	13.3	(0.2)
Overseas taxation	(1.0)	(0.3)
Deferred taxation		
Current year	(3.0)	(10.2)
Prior years	(5.4)	7.5
	(40.9)	(24.6)

The current year tax charge has been reduced by £1 million as a result of the receipt of non-taxable income, partly offset by the impact of expenditure not allowed for taxation purposes.

The potential liability at 33% for deferred taxation, all of which has been provided for in the accounts, is set out below:

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Capital allowances	15.8	4.0	1.8	0.6
Other timing differences	(4.7)	(1.3)	(4.2)	(2.5)
Total	11.1	2.7	(2.4)	(1.9)

The liability for deferred taxation is stated after anticipating 'rollover' relief in respect of capital gains which may arise in the event of the sale of properties at their revalued amounts.

7 The Burton Group plc profit and loss account

The Burton Group plc has not presented its own profit and loss account as permitted by Section 230(1) of the Companies Act 1985.

The amount of the consolidated result for the financial year dealt with in the accounts of the parent undertaking, and its total recognised gains relating to the year, is a profit of £70.0 million (1995 – profit of £68.8 million). There is no difference between the results disclosed in respect of the parent undertaking and its results on an unmodified historical cost basis.

8 Dividend	1996 £m	1995 £m
Interim paid – 1.15p per ordinary share (1995 – 1.0p)	16.6	14.1
Final proposed – 1.65p per ordinary share (1995 – 1.2p)	24.0	17.2
	40.6	31.3

Notes to the accounts (continued)

9 Earnings per share

The calculation of earnings per share is based on the profit for the financial year of £110.7 million (1995 – £74.0 million) using the average number of ordinary shares in issue of 1,425,673,411 (1995 – 1,410,978,771).

The calculation of earnings per share before exceptional items is based on the profit before exceptional items (net of taxation) of £110.7 million (1995 – £69.9 million) using the average number of ordinary shares in issue of 1,425,673,411 (1995 – 1,410,978,771). It is included as it provides a better understanding of the underlying performance of the Group. The profit before exceptional items (net of taxation) comprises:

	1996 £m	1996 £m	1995 £m	1995 £m
Profit for the financial year		110.7		74.0
Adjusted for: release of surplus property development provisions	–		(5.5)	
Less: attributable taxation	–		1.4	
		–		(4.1)
		110.7		69.9

10 Tangible fixed assets – Group

	Land and Buildings				Total £m
	Freehold £m	Long leasehold £m	Short leasehold and rack-rented £m	Fixtures and equipment £m	
Cost or valuation					
At 3rd September 1995	266.5	107.2	367.5	573.1	1,314.3
Additions	48.1	100.5	31.1	114.6	294.3
Disposals	(6.5)	(1.0)	(0.9)	(29.0)	(37.4)
Reclassification	28.2	(14.2)	(14.0)	–	–
Acquisition of Innovations	2.5	–	0.9	4.6	8.0
At 31st August 1996	338.8	192.5	384.6	663.3	1,579.2
Accumulated depreciation					
At 3rd September 1995	–	–	89.9	293.9	383.8
Provision for the year	0.1	–	16.3	66.4	82.8
Disposals	–	–	(0.9)	(28.5)	(29.4)
Reclassification	3.6	0.1	(3.7)	–	–
Acquisition of Innovations	0.2	–	0.9	2.4	3.5
At 31st August 1996	3.9	0.1	102.5	334.2	440.7
Net book amount at 31st August 1996	334.9	192.4	282.1	329.1	1,138.5
Net book amount at 2nd September 1995	266.5	107.2	277.6	279.2	930.5
Cost or valuation at 31st August 1996 is represented by:					
Valuation – 1995	271.6	92.0	–	–	363.6
Cost	67.2	100.5	384.6	663.3	1,215.6
	338.8	192.5	384.6	663.3	1,579.2

Notes to the accounts (continued)

10 Tangible fixed assets – Group continued

The net book value of fixtures and equipment includes an amount of £0.7 million (1995 – £0.6 million) in respect of assets held under finance leases. The depreciation charge for the year amounted to £0.3 million (1995 – £0.3 million). Freehold and long leasehold land and buildings other than rack-rented properties were revalued as at 2nd September 1995 on the basis of existing use value, open market value or depreciated replacement cost in accordance with the Royal Institution of Chartered Surveyors' guidance notes. These external valuations were made by Messrs. Hillier Parker, Chartered Surveyors, and Conrad Ritblat, Chartered Surveyors.

Tangible fixed assets – Company	Land and Buildings			Fixtures and equipment £m	Total £m
	Freehold £m	Long leasehold £m	Short leasehold and rack-rented £m		
Cost or valuation					
At 3rd September 1995	0.9	0.3	1.9	56.9	60.0
Additions	–	–	0.2	18.6	18.8
Disposals	–	–	–	(3.0)	(3.0)
Intra-Group transfers in	1.0	–	–	2.1	3.1
Intra-Group transfers out	–	–	(1.0)	(2.0)	(3.0)
At 31st August 1996	1.9	0.3	1.1	72.6	75.9
Accumulated depreciation					
At 3rd September 1995	–	–	0.5	33.7	34.2
Provision for the year	–	–	0.1	6.3	6.4
Disposals	–	–	–	(2.9)	(2.9)
Intra-Group transfers in	0.3	–	–	0.9	1.2
Intra-Group transfers out	–	–	(0.3)	–	(0.3)
At 31st August 1996	0.3	–	0.3	38.0	38.6
Net book amount at 31st August 1996	1.6	0.3	0.8	34.6	37.3
Net book amount at 2nd September 1995	0.9	0.3	1.4	23.2	25.8
Cost or valuation at 31st August 1996 is represented by:					
Valuation – 1995	0.9	0.3	–	–	1.2
Cost	1.0	–	1.1	72.6	74.7
	1.9	0.3	1.1	72.6	75.9

If land and buildings had not been revalued, tangible fixed assets would have been included at the following amounts:

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Cost	1,528.7	1,263.4	75.9	60.0
Aggregate depreciation based on cost	440.7	383.8	38.6	34.2
Net book amount	1,088.0	879.6	37.3	25.8
Future capital expenditure not provided in the accounts:				
Contracts placed	18.9	2.8	1.5	1.2
Authorised by the directors but for which contracts not placed	243.7	72.8	38.8	3.4

Notes to the accounts (continued)

11 Investments – own sharesGroup and Company
£m**Cost**

At 3rd September 1995	5.8
Additions	17.6
Issue of shares to trust beneficiaries	(3.5)

At 31st August 1996	19.9
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Provision

At 3rd September 1995	0.9
Provided during the year	5.3
Utilised during the year	(0.8)

At 31st August 1996	5.4
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Net book amount at 31st August 1996	14.5
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Net book amount at 2nd September 1995	4.9
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The Group has four Employee Share Ownership Plan ('ESOP') trusts. The purpose of these trusts is to hold shares in the Company for subsequent transfer to employees under various incentive schemes operated by the Group, including share option schemes, the long term share plan and the profit sharing scheme.

At 31st August 1996 the ESOPs held 15,930,000 shares in the Company (1995 – 7,218,000), all of which have been allocated to one of the share schemes (1995 – 6,707,000).

The market value of the shares at 31st August 1996 was £24.2 million (1995 – £7.5 million). No dividends have been waived by the ESOPs. Costs of administration are included in the profit and loss account as they accrue.

Investments – Company1996
£m1995
£m

Investment in subsidiary undertakings	962.0	780.4
Own shares (see above)	14.5	4.9
	976.5	785.3

Subsidiary Undertakings, cost less provisionsShares
£mLoans
£m

At 3rd September 1995	302.4	478.0
Additions	46.9	230.5
Disposals	–	(95.8)

At 31st August 1996	349.3	612.7
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Total Subsidiary Undertakings		962.0
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The cost of investments in subsidiary undertakings based on the earliest available records is:

Shares – £406.2 million. Loans – £793.0 million. Details of principal subsidiary undertakings, all of which are wholly owned, are set out below. With the exception of Debenhams plc and Innovations Group plc, all are indirect subsidiaries of The Burton Group plc.

Company	Country of operation	Country of incorporation or registration	Main activity
Burton Group Design & Development Ltd	UK	England	Design Services
Burton Group Investments Ltd	UK	England	Property Investment
Burton Group Properties Ltd	UK	England	Property Investment
Burton Retail Ltd	UK	England	Menswear Retailing
Debenhams plc	UK	England	Department Store Retailing
Dorothy Perkins Retail Ltd	UK	England	Womenswear Retailing
Evans Ltd	UK	England	Womenswear Retailing
Innovations Group plc	UK	England	Mail Order
Principles Retail Ltd	UK	England	Mens & Womenswear Retailing
Redcastle plc	UK	England	Property Investment
Top Shop/Top Man Ltd	UK	England	Mens & Womenswear Retailing

Notes to the accounts (continued)

12 Debtors	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Trade debtors	24.5	22.4	1.0	1.0
Amounts owed by subsidiary undertakings	—	—	8.7	15.5
Other debtors	32.1	38.2	24.8	7.9
Taxation	—	—	—	11.7
Prepayments	43.2	35.8	13.9	13.2
Deferred taxation	—	—	2.4	1.9
	99.8	96.4	50.8	51.2

Prepayments includes a pension prepayment of £12.4 million (1995 – £12.4 million) recoverable in over one year (see Note 24).

13 Cash at bank and in hand

Cash at bank and in hand includes short term cash deposits with banks. Of the Group's cash, these amounted to £138.4 million (1995 – £223.5 million). Of this, an amount of £100.0 million (1995 – £100.0 million) is to be applied for the future repayment of the Zero Coupon Secured Bonds 1997 (Note 15).

14 Funding debt	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Due within one year:				
Bank overdrafts	36.9	5.9	12.8	19.3
Debenture loans (Note 15)	94.5	2.4	0.4	—
Bank loans	10.1	12.4	—	5.9
Finance lease obligations (Note 16)	0.4	0.4	—	—
	141.9	21.1	13.2	25.2
Due after one year:				
Debenture loans (Note 15)	36.6	122.6	33.2	33.7
Bank loans repayable:				
– between one and two years	11.2	7.4	—	—
– between two and five years	16.1	17.2	—	—
Loans from subsidiary undertakings	—	—	60.8	41.7
Property lease obligations (Note 16)	100.0	97.6	—	—
Finance lease obligations (Note 16)	0.6	0.3	—	—
	164.5	245.1	94.0	75.4

Notes to the accounts (continued)

15 Debenture loans	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Convertible				
4¼% Convertible Unsecured Bonds 2001 (Note 19)	0.4	0.4	0.4	0.4
8% Convertible Unsecured Loan Stock 1996/2001	–	33.3	–	33.3
	0.4	33.7	0.4	33.7
Other				
8% Unsecured Loan Stock 2001	33.2	–	33.2	–
6¼% Second Debenture Stock 1990/95	–	2.4	–	–
7¼% Second Debenture Stock 1991/96	1.9	1.9	–	–
Zero Coupon Secured Bonds 1997	92.2	83.5	–	–
7¼% Unsecured Loan Stock 2002/07	2.5	2.6	–	–
7¼% Unsecured Loan Stock 2002/07	0.9	0.9	–	–
	130.7	91.3	33.2	–
	131.1	125.0	33.6	33.7
Debenture loans are repayable:				
Within one year	94.5	2.4	0.4	–
Between one and two years	–	85.8	–	0.4
Between two and five years	33.2	–	33.2	–
After five years	3.4	36.8	–	33.3
	131.1	125.0	33.6	33.7

The rights of conversion over the 8% Convertible Unsecured Loan Stock 1996/2001 expired during the year and the stock has been reclassified accordingly. The Company has the right to redeem this stock at par on giving 60 days notice up to 31st January 2001.

Holders of the 4¼% Convertible Unsecured Bonds 2001 have a right to redeem on 25th August 1997.

At 31st August 1996, the 7¼% Second Debenture Stocks were secured by a floating charge over the assets of Debenhams plc and Burton Group Properties Ltd.

In June 1992, a subsidiary undertaking issued £100 million Zero Coupon Secured Bonds 1997 at an issue price of 60.98 per cent. The bonds will be redeemed at the principal amount on 30th June 1997 unless previously purchased and cancelled. The Company may at any time purchase bonds on the open market or otherwise.

16 Lease obligations

In 1988, the Group sold properties at market value for £75.5 million to certain banks on 125 year leases at peppercorn rentals and entered into full tenant and repairing sub-leases for 125 years. The rentals payable are structured so as to give the lessors a financing return linked to LIBOR in the first 25 years and, in the following 10 years, a LIBOR linked return together with the repayment of capital. Thereafter, market rentals are payable subject to revision every five years. In the early years, the amounts payable are below LIBOR and in the later years are in excess of LIBOR. The financing costs are, however, allocated over the 25 year period so as to achieve an annual funding cost which is consistent with LIBOR. The Group has certain rights up to the 25th year of the leases to re-acquire the properties concerned at prices based on their original sales proceeds. The leases are reflected in the Group's fixed assets at their 1995 valuation. The related lease obligations, together with certain finance lease obligations relating to fixtures and fittings, are as follows:

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Property lease obligations falling due:				
After five years	100.0	97.6	–	–
Finance lease obligations falling due:				
Within one year	0.4	0.4	–	–
Between one and two years	0.2	0.3	–	–
Between two and five years	0.4	–	–	–
	1.0	0.7	–	–

Notes to the accounts (continued)

17 Financial instruments

A number of the Group's costs are exposed to movements in financial markets that are outside the Group's control. In particular interest rates can move, affecting the cost of borrowing, and foreign exchange rate movements can impact the cost of goods sourced from abroad. In order to reduce this exposure and to bring both stability and certainty to these costs, the Group's treasury department uses different financial instruments sourced from the Group's key banks, to cover its position going forward.

Currency risk

The impact of currency movements is managed by using a combination of forward contracts and currency options in a manner which substantially reduces the uncertainty of the price paid for imported goods.

Imports are paid for principally in US\$ and HK\$. Currency hedging is undertaken up to 12 months forward based on expected orders and is designed to place a ceiling over the cost of a significant proportion of purchases whilst allowing the Group to benefit from lower costs that might arise from a strengthening pound. At the year end the Group had forward contracts and options amounting to £143 million (1995 – £167 million) covering the next 12 months.

Interest risk

The Group's borrowing facilities and cash deposits are all denominated in sterling. The impact of movements in interest rates is managed by the use of interest rate swaps and forward rate agreements.

At the year end, the Group had used interest rate swaps to fix the interest on £87.4 million of cash deposits.

The maturity profile of these swaps and the Group's borrowings was as follows:

	Borrowings		Cash deposits	
	Fixed £m	Floating £m	Fixed £m	Floating £m
Due within one year	105.0	36.9	60.1	112.3
Due between one and two years	11.4	–	11.2	–
Due between two and five years	49.7	–	16.1	–
Due over five years	3.4	100.0	–	–
As at 31st August 1996	169.5	136.9	87.4	112.3
As at 2nd September 1995	156.9	109.3	56.2	192.9

The year end weighted average interest rate attributable to fixed borrowings was 8.96% and to fixed rate cash deposits was 7.59%. The Zero Coupon Secured Bond which was established in June 1992 accounts for £92 million of fixed rate borrowings and carries a rate of 9.95%. Excluding this, the weighted average rate of fixed borrowings is 7.75%. The Bond will be repaid in June 1997.

At the year end the Group had also entered into £50 million (1995 – £264 million) of forward rate agreements to reduce interest rate volatility on borrowings and cash during the Group's peak cash requirement period that runs from September to November.

18 Other creditors

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Due within one year:				
Trade creditors	122.4	110.7	4.3	8.4
Amounts owed to subsidiary undertakings	–	–	10.2	7.4
Other creditors	233.8	218.8	88.5	80.0
Taxation	36.4	22.9	11.5	–
Accruals	67.7	47.0	11.0	7.7
Proposed dividend	24.2	17.1	24.2	17.1
	484.5	416.5	149.7	120.6

Notes to the accounts (continued)

19 Share capital

	Authorised		Called up and fully paid	
	1996 £m	1995 £m	1996 £m	1995 £m
Ordinary shares of 10p each	160.0	160.0	144.7	141.8
Deferred shares of 40p each	320.0	320.0	–	–
	480.0	480.0	144.7	141.8
	Number	Nominal value £	Consideration £	
Ordinary shares issued during the year:				
On conversion of 8% Convertible Unsecured Loan Stock	52,763	5,276		123,497
On exercise of options	12,070,417	1,207,042		5,154,557
On acquisition of Innovations Group plc	16,288,383	1,628,838		23,772,949
	28,411,563	2,841,156		29,051,003

a The number given above for ordinary shares issued during the year includes 16,288,383 shares issuable at the year end in part consideration for the acquisition of Innovations Group plc. All of these shares have been issued since the year end.

b During the year, options were granted under the Sharesave scheme to subscribe for 8,535,289 ordinary shares at 91p per share. At 31st August 1996, the aggregate number of ordinary shares issuable pursuant to such options capable of being exercised was 31,285,425, the total consideration being £17,493,255. These options may be exercised on the maturity of the relevant savings contracts between 1996 and 2003.

c During the year, options were granted under the 1987 Executive Share Option Scheme to subscribe for 1,664,453 ordinary shares at 111p per share. At 31st August 1996, the aggregate number of ordinary shares issuable pursuant to executive share options capable of being exercised was 28,206,740, the total consideration being £15,996,043. These options may be exercised between 1996 and 2006.

d Holders of the 4% Convertible Bonds 2001 have the right at any time until 17th August 2001 to give notice of conversion into ordinary shares at a price of £2.29 per share. The market price of the ordinary shares when the Bonds were issued was £2.59 per share.

20 Shareholders' funds

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Retained earnings £m	1996 Total £m	1995 Total £m
Group							
At 3rd September 1995	141.8	255.3	223.4	50.9	186.3	857.7	838.4
Shares issued	1.2	4.1	–	–	–	5.3	4.7
Shares to be issued	1.7	22.1	–	–	–	23.8	–
Transfer to retained earnings	–	–	–	–	70.1	70.1	42.7
Revaluation surplus arising on disposals	–	–	–	(0.4)	0.4	–	–
Goodwill written off in the year	–	–	–	–	(42.8)	(42.8)	–
Revaluation	–	–	–	–	–	–	(28.1)
At 31st August 1996	144.7	281.5	223.4	50.5	214.0	914.1	857.7
Company							
At 3rd September 1995	141.8	255.3	223.4	–	146.0	766.5	724.3
Shares issued	1.2	4.1	–	–	–	5.3	4.7
Shares to be issued	1.7	22.1	–	–	–	23.8	–
Transfer (from)/to retained earnings	–	–	–	–	29.4	29.4	37.5
At 31st August 1996	144.7	281.5	223.4	–	175.4	825.0	766.5

The aggregate amount of goodwill written off on acquisition of subsidiary undertakings is £432.7 million.

Notes to the accounts (continued)

21 Contingent liabilities

The Company has guaranteed the unsecured loan stocks, overdrafts and certain performance bonds in respect of certain subsidiary undertakings which, at 31st August 1996, amounted to £3.4 million, £2.7 million and £0.1 million respectively and has guaranteed the rents payable of certain subsidiary undertakings which amounted to £105.0 million during the year.

22 Lease commitments

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Operating lease commitments in respect of land and buildings for the 1997 financial year, on leases expiring:				
Within one year	0.9	1.3	–	–
Between one and five years	15.5	13.1	0.2	–
Over five years	161.1	167.1	1.9	2.3
	177.5	181.5	2.1	2.3
Operating lease commitments in respect of other assets for the 1997 financial year, on leases expiring:				
Within one year	3.3	2.0	3.2	1.9
Between one and five years	13.0	6.9	10.0	3.9
Over five years	0.9	0.2	–	0.1
	17.2	9.1	13.2	5.9

23 Related party transactions

The Group recharges the Burton Group Pension Schemes with the costs of administration and independent advisors borne by the Group. The total amount recharged in the period to 31st August 1996 was £1.8 million (1995 – £1.5 million).

24 Pension commitments

The Group operates two funded defined benefit schemes in the UK, the assets of which are held in separate trustee administered funds. Actuarial valuations of the two schemes took place at 31st March 1995, using the projected unit method. The assumptions which have the most significant effect on the results of the valuations were those relating to the rate of return on investments and the rate of increases in salaries, pensions and dividend income of the funds. It was assumed for both valuations that over the long term the investment return would be 9% per annum, that salary increases would average 7% per annum, that present and future pensions would increase at 5% per annum and that the dividend income received by the funds would increase at 4.5% per annum. At the date of the valuations, the total market value of the assets of the schemes was £571.0 million, and the actuarial value of the assets was sufficient overall to cover approximately 148% of the benefits that had accrued to members at that date, after allowing for assumed future increases in earnings. In the light of the surpluses, the Group continued the suspension of its contributions to the schemes throughout 1995/96.

Statement of Standard Accounting Practice Number 24 'Accounting for Pension Costs' requires that the costs of providing pensions are recognised over the period benefiting from the employees' services, with any difference between the charge to the profit and loss account and the contributions paid to the schemes being shown as an asset or liability in the balance sheet. The pension cost has been assessed in accordance with the advice of qualified actuaries using the actuarial methods and assumptions set out above. Variations in cost have been spread over the estimated average remaining working lifetime of the members of each scheme. The total pension cost in respect of these schemes was £nil (1995 – £nil) and there is a pension prepayment due in over one year in the balance sheet of £12.4 million (1995 – £12.4 million).

Notes to the accounts (continued)

25 Cash flow	1996 £m	1995 £m		
a Reconciliation of operating profit to net cash flow from operating activities:				
Trading profit before exceptional items	161.6	102.1		
Depreciation charges	82.8	81.7		
Amortisation of own shares	5.3	0.8		
Decrease in stocks	0.7	24.3		
Decrease in debtors	3.0	6.8		
Increase/(decrease) in creditors	10.4	(2.9)		
Net cash inflow from ongoing activities	263.8	212.8		
Net cash (outflow)/inflow from property development and exceptional items	(6.1)	10.2		
Net cash inflow from operating activities	257.7	223.0		
	Cash at bank and in hand £m	Funding debt due within one year £m	Funding debt due after one year £m	Net debt £m
b Analysis of net debt				
At 3rd September 1995	249.1	(21.1)	(245.1)	(17.1)
Increase/(decrease) in cash	35.7	(31.0)	—	4.7
Decrease/(increase) in debt	—	12.5	(9.9)	2.6
Movement in short term cash deposits with banks	(85.1)	—	—	(85.1)
Finance leases of Innovations Group	—	(0.1)	(0.6)	(0.7)
Non cash movements in net debt	—	—	(11.1)	(11.1)
Change in maturity of prior year debt	—	(102.2)	102.2	—
At 31st August 1996	199.7	(141.9)	(164.5)	(106.7)

26 Acquisition of Innovations Group plc

On 19th August 1996 the Company acquired Innovations Group plc for a total cost of £46.9 million.

	Net book values £m	Fair value adjustments £m	Fair value to the Group £m
Tangible fixed assets	6.5	(2.0)	4.5
Current assets:			
Stock	3.5	(1.4)	2.1
Debtors	7.0	—	7.0
Cash at bank and in hand acquired	6.7	—	6.7
Liabilities:			
Creditors (including finance leases of £0.7 million)	(15.7)	(0.5)	(16.2)
Net assets acquired	8.0	(3.9)	4.1
Goodwill			42.8
Total cost			46.9
Satisfied by:			
Shares to be allotted		23.8	
Cash including acquisition expenses		23.1	
			46.9

Fair value adjustments reflect changes to the open market values of properties and the alignment of stock provisioning policies with the Group. The impact of the acquisition on the results and cashflow for the year was insignificant. All share allotments and cash payments were made after the year end.

Five year summary

	1996 £m	1995 £m	1994 £m	1993 £m	1992 £m
Turnover	2,006.9	1,878.8	1,909.6	1,893.1	1,764.6
Retail profit	161.6	102.1	51.2	60.9	35.3
Other income	–	–	7.4	6.4	1.4
Interest and similar charges	(10.0)	(9.0)	(17.7)	(31.4)	(30.6)
Profit before exceptional items	151.6	93.1	40.9	35.9	6.1
Exceptional items	–	5.5	0.2	(19.6)	(10.2)
Profit/(loss) before taxation	151.6	98.6	41.1	16.3	(4.1)
Taxation	(40.9)	(24.6)	(10.9)	(4.6)	10.2
Profits for the financial year	110.7	74.0	30.2	11.7	6.1
Dividends	(40.6)	(31.3)	(28.1)	(28.0)	(22.4)
Retained earnings/(deficit)	70.1	42.7	2.1	(16.3)	(16.3)
Tangible assets and investments	1,153.0	935.4	931.9	909.9	961.3
Current assets less liabilities and provisions	(238.9)	(77.7)	(93.5)	(74.6)	(275.8)
Total assets employed	914.1	857.7	838.4	835.3	685.5
Share capital	144.7	141.8	140.6	140.3	335.1
Reserves	769.4	715.9	697.8	695.0	350.4
Capital employed	914.1	857.7	838.4	835.3	685.5
Retail profit as a percentage of turnover	8.1%	5.4%	2.7%	3.2%	2.0%
Return on capital employed	16.6%	11.5%	4.9%	2.0%	(0.6)%
Earnings per share:					
– ordinary	7.8p	5.2p	2.1p	0.9p	0.5p
– before exceptional items	7.8p	5.0p	2.1p	2.1p	0.5p
Dividend per share	2.8p	2.2p	2.0p	2.0p	2.0p
Dividend cover (times):					
– after exceptional items	2.7	2.4	1.1	–	–
– before exceptional items	2.7	2.2	1.1	1.1	–

Note

Return on capital employed is the profit/(loss) before taxation as a percentage of capital employed.

Comparative figures have been restated in accordance with changes in accounting standards over the period and in respect of the 1991 and 1993 rights issues.

Shareholder information

Shareholder discount scheme

Shareholders are reminded that the Company operates a discount scheme which is available to all private shareholders having at least 5,000 shares registered in their own names. Shares registered in the names of third parties such as banks, nominees or trustees etc., do not entitle the beneficial owners to participate in the scheme.

The scheme operates through a store credit card and gives a discount of 12.5 per cent off the marked price of most goods sold in the Group's retail outlets. Arrangements will soon be made for the discount to be extended to goods featured in certain of the catalogues published by Innovations and Racing Green. This discount is allowed on the first £5,000 of eligible purchases made during the Group's financial year and is deducted automatically from the monthly account statement. From time to time the Group offers temporary promotional discounts linked to its regular store credit cards. These discounts are normally not available in combination with the shareholder discount.

Because a Consumer Credit Agreement must be entered into, shareholders wishing to apply for a discount card must be at least 18 years of age. Persons having the required number of shares registered in their own name who would like more details of the scheme should write to: Shareholder Discount Office, Cardholder Services, Trent House, Torre Road, Leeds LS99 2BD (telephone 0990 134600).

Shareholder enquiries/change of name or address

Enquiries relating to shareholdings in the Company and notifications of change of name or address should be sent to the Company's registrars: The Royal Bank of Scotland plc, Securities Services – Registrars, PO Box 82, Caxton House, Redcliffe Way, Bristol BS99 7NH (telephone 0117 930 6666).

Report and Accounts

Further copies of the Annual Report and Accounts, and copies of the Interim Report (when published), are available on request from the Company's registrars (telephone 0117 930 6610).

Payment of dividends to mandated accounts

Shareholders who do not currently have their dividends paid directly to a bank or building society account and who wish to do so should complete a mandate instruction form obtainable from the Company's registrars. Under this arrangement tax vouchers are sent to the shareholder's registered address unless the shareholder requests otherwise.

Amalgamation of shareholdings

Shareholders who have received more than one copy of this Annual Report and Accounts may have more than one account in their name on the Company's register of members. Any shareholder wishing to amalgamate their holdings should write to the Company's registrars, giving details of the accounts concerned and instructions on how they should be amalgamated.

Postal share dealing service

A postal share dealing service is available through Cazenove & Co for private investors who wish to buy or sell Burton Group shares in a simple, cost effective way. A pamphlet is enclosed and more details of the scheme are available from Cazenove & Co, 12 Tokenhouse Yard, London EC2R 7AN (telephone 0171 606 1768).

Dividends

A final dividend of 1.2p per share was paid on 23rd February 1996 in respect of the financial year ended 2nd September 1995. An interim dividend of 1.15p per share was paid on 26th July 1996 in respect of the financial year under review. Subject to approval at the annual general meeting on 23rd January 1997, a final dividend of 1.65p per share will be paid on 21st February 1997 to shareholders on the register on 4th February 1997.

Tax on dividends/interest payments

Non-taxpayers may be able to reclaim from the Inland Revenue some or all of the tax paid by the Company on their cash dividends/interest payments. Persons wishing to make a claim should obtain pamphlet IR112 from their local tax office. Tax vouchers should be kept in a safe place as they will be required by the Inland Revenue in support of a claim.

Unsolicited mail

The law obliges the Company to make its register of members available to other organisations and as a consequence some shareholders may have received unsolicited mail. Shareholders wishing to limit the amount of such mail should write to the Mailing Preference Service, FREEPOST 22, London W1E 7EZ.

