

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant or independent financial adviser who, if you are taking advice in the UK, is authorised under the Financial Services and Markets Act 2000.**

If you have sold or otherwise transferred all of your Burberry Shares, you should immediately forward this document (and the accompanying documents) to the purchaser or transferee or the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee. The distribution of such documents in certain jurisdictions may be restricted by law, and persons into whose possession such documents come should inform themselves about, and observe, any such restrictions. Any failure to comply with those restrictions may constitute a violation of the securities laws of any such jurisdiction.

Merrill Lynch International and Morgan Stanley & Co. International Limited are acting exclusively for Burberry and no one else in relation to the Demerger and will not be responsible to anyone other than Burberry for providing the protections afforded to their clients or for providing advice in relation to the Demerger or any other matter referred to in this document.

# BURBERRY GROUP PLC

*(registered in England and Wales under the Companies Act 1985 with registered number 03458224)*

**Recommended proposal to demerge Burberry Group plc  
from GUS plc and Notice of Extraordinary General Meeting**

You are recommended to read all of this document, but your attention is drawn in particular to the letter to Burberry Shareholders from the Senior Independent Non-Executive Director of Burberry (which is set out at the start of this document) which recommends you to vote in favour of the resolutions to be proposed at the Extraordinary General Meeting referred to below.

A summary of the action to be taken by Burberry Shareholders is set out on page 9 of this document.

Notice of an Extraordinary General Meeting of Burberry, to be held at the Millennium Hotel, Grosvenor Square, London W1K 2HP at 9.00am on 12 December 2005 is set out at the end of this document.

A Form of Proxy for use at the Extraordinary General Meeting is enclosed and, to be valid, should be completed and returned as soon as possible, but in any event so as to be received by Lloyds TSB Registrars no later than 9.00am on 10 December 2005. If you hold your shares in CREST, you may appoint a proxy by completing and transmitting a CREST proxy instruction to Lloyds TSB Registrars, so that it is received by no later than 9.00am on 10 December 2005. The return of a proxy will not prevent you from attending the Extraordinary General Meeting and voting in person if you wish to do so.

# TO VOTE IN FAVOUR OF THE DEMERGER

Whether or not you plan to attend the Burberry Extraordinary General Meeting, if you wish to vote in favour of the Demerger:

- place a cross in the first three boxes marked “FOR” on the enclosed Form of Proxy; and
- complete, sign, date and return the form, to be received by no later than 9.00am on 10 December 2005.

Alternatively, if you hold your shares in CREST, you may appoint a proxy by sending a CREST proxy instruction to Lloyds TSB Registrars, so that it is received by no later than 9.00am on 10 December 2005.

The return of a proxy will not prevent you from attending the Burberry Extraordinary General Meeting and voting in person if you wish to do so. GUS has undertaken that neither it nor any member of the GUS Group will vote on any of the Burberry Resolutions.

**IT IS IMPORTANT THAT AS MANY VOTES AS POSSIBLE ARE CAST SO THAT THE COMPANY MAY BE SATISFIED THAT THERE IS A FAIR AND REASONABLE REPRESENTATION OF BURBERRY SHAREHOLDER OPINION. YOU ARE THEREFORE STRONGLY URGED TO RETURN A PROXY AS SOON AS POSSIBLE.**

This page should be read in conjunction with the ACTION TO BE TAKEN section in the letter below and the rest of this document.

# CONTENTS

<b>Letter from the Senior Independent Non-Executive Director of Burberry</b>	<b>4</b>
<b>Part 1 - Key information</b>	<b>10</b>
<b>Part 2 - Additional information</b>	<b>14</b>
<b>Definitions</b>	<b>20</b>
<b>Notice of Extraordinary General Meeting</b>	<b>23</b>

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

2005

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Latest time and date for the receipt of Forms of Proxy for the Burberry Extraordinary General Meeting	9.00am on 10 December
Burberry Extraordinary General Meeting	9.00am on 12 December
GUS Extraordinary General Meeting	10.30am on 12 December
Completion of Demerger and, where applicable, expected date on which Burberry Shares will be credited to the CREST accounts of GUS Shareholders	8.00am on 13 December
Date by which, where applicable, definitive share certificates for Burberry Shares will be despatched to GUS Shareholders	23 December

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### Notes:

- (1) Each of the times and dates in the above timetable is based on current expectations and is subject to change.
- (2) All references in this document to times are to London times.

# LETTER FROM THE SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR OF BURBERRY

Burberry Group plc  
18-22 Haymarket  
London SW1Y 4DQ

## *Directors:*

John Peace (*Chairman*)  
Rose Marie Bravo (*Chief Executive*)  
Stacey Cartwright (*Chief Financial Officer*)  
Philip Bowman (*Senior Independent Non-Executive Director*)  
Guy Peyrelongue (*Non-Executive Director*)  
Caroline Marland (*Non-Executive Director*)  
David Tyler (*Non-Executive Director*)

18 November 2005

*To Burberry Shareholders*

Dear Shareholder

## PROPOSED DEMERGER OF BURBERRY FROM GUS

### 1. Introduction

Earlier this year, GUS announced that the demerger of its remaining stake in Burberry was expected to take place in December 2005.

Today, GUS and Burberry have confirmed the full details of the Demerger.

The decision to demerge was made by GUS as a result of its strategic review. GUS could demerge its Burberry holding to its shareholders without Burberry's involvement. However, Burberry has decided to put a series of resolutions to you, which the Independent Directors believe would (if passed) allow a demerger to be implemented in a more orderly way, to the benefit of Burberry and its shareholders.

Those resolutions will be put to Burberry Shareholders at an extraordinary general meeting to be held on 12 December 2005. Notice of the meeting is contained in this document and a Form of Proxy is enclosed.

GUS will be putting resolutions relating to the Demerger to its own shareholders at a separate Extraordinary General Meeting on the same day. If the Burberry Resolutions and the GUS Resolutions are passed at the respective Extraordinary General Meetings, it is expected that Completion of the Demerger will occur at 8.00am the following day, with GUS Shareholders at the Record Time receiving Burberry Shares pro rata to their existing holdings in GUS.

The purpose of this circular is to explain:

- the background to and reasons for the Demerger;
- how the Demerger will be implemented;
- how the Demerger will affect Burberry Employees' pension arrangements;
- what will be proposed at the Burberry Extraordinary General Meeting;
- what action you should take; and
- why your Board is recommending that you should vote in favour of the resolutions to be proposed at the Burberry Extraordinary General Meeting.

The Terms of the Demerger are set out in the Demerger Agreement. You are being asked to approve the Demerger Agreement, since it will constitute a related party transaction (for the purposes of the Listing Rules) for Burberry (because GUS is a related party of Burberry, by virtue of the GUS Group's holding of Burberry Shares).

As explained below, John Peace (your Chairman) and David Tyler (one of your Non-Executive Directors) are also directors of GUS (and are therefore not independent for the purposes of this circular). Accordingly, they have not taken part in your Board's consideration of the Demerger and that is why I am writing to you in place of your Chairman.

Completion of the Demerger is subject to the satisfaction of a number of conditions, including the approval of Burberry Shareholders and GUS Shareholders. Subject to the satisfaction of those conditions, it is expected that the Demerger will be completed on 13 December 2005.

## 2. Background

In May 2004, GUS announced that it would actively review all strategic options for building greater shareholder value for the GUS Group.

Earlier this year, and as a result of that review, GUS announced that it had decided to demerge GUS's interests in Burberry to GUS Shareholders in December 2005. The GUS Group currently holds approximately 65% of the Burberry Shares in issue.

GUS believes that:

- the Demerger enables GUS to release the value of its shareholding in Burberry directly to its shareholders;
- the Demerger simplifies the management of GUS by substantially eliminating the need to deal with Burberry matters, including financial reporting, pensions, taxation and human resources management. Similarly, Burberry management will no longer need to discuss these issues with GUS;
- the Burberry Group has now matured to the degree that it can be a fully autonomous and separate business and there are no longer material benefits for Burberry from being under the umbrella of GUS;
- the Demerger allows the management of GUS to focus on its other businesses, Argos Retail Group and Experian; and
- the Demerger allows GUS Shareholders who retain their demerger entitlement of Burberry Shares to participate directly in Burberry's future.

As explained above, GUS could demerge its Burberry holding to its shareholders without Burberry's involvement. However, Burberry is proposing to put to you a series of resolutions which the Independent Directors believe would (if passed) allow a demerger to be implemented in a manner more beneficial to Burberry and its shareholders. Those benefits include the following.

- The Demerger can be implemented in a more orderly way, with agreed arrangements established between Burberry and GUS for matters such as tax, insurance and transitional services to achieve the final separation of the two groups.
- The negotiation of appropriate transitional and exit terms from the GUS pension schemes.
- Burberry's entitlement to purchase its Preference Shares (currently held by the GUS Group) with an aggregate nominal value of £800,000 for £1, resulting in a net benefit to Burberry.
- The Demerger Agreement contains appropriate non-compete, non-solicitation and intellectual property protections from GUS.

In addition, this route of effecting the Demerger with Burberry's involvement involves no additional third party cost to Burberry as GUS has agreed to pay all of Burberry's third party costs in relation to the Demerger.

## 3. Implementation

### 3.1 Terms of the Demerger

The Demerger involves:

- a dividend to effect the Demerger (the *Special Dividend*), which includes a distribution of the Burberry Shares held by GUS, resulting in GUS Shareholders receiving Burberry Shares *pro rata* to their holdings in GUS;
- GUS consolidating its shares (with the aim of ensuring that, subject to normal market movements, the price of GUS Shares immediately after the Demerger should be approximately equal to their price immediately beforehand and allowing the comparability of historic and future financial statistics, such as earnings per share); and
- a Demerger Agreement between Burberry and GUS which deals with matters such as the implementation of the Demerger, separation issues and tax.

If the Demerger becomes effective, GUS Shareholders will receive 305 Burberry Shares for every 1,000 GUS Shares they own, as at the Record Time. Where fractional entitlements to Burberry Shares arise, those fractions will be aggregated, the Burberry Shares concerned will be sold, and each GUS Shareholder with a fractional entitlement will receive a cheque for the proceeds of sale of that entitlement (where the proceeds are £2 or more).

The Demerger is conditional on (among other things) the approval of the Burberry Resolutions at the Burberry Extraordinary General Meeting and the GUS Resolutions at the GUS Extraordinary General Meeting.

### 3.2 Demerger Agreement

In July 2002 and in anticipation of the Burberry IPO, Burberry and GUS entered into the Relationship Agreement. The Relationship Agreement was intended to ensure that Burberry was capable of carrying on its business independently of GUS and that all transactions between them were on an arm's length basis. If the Demerger goes ahead, the Relationship Agreement will cease to apply as the GUS Group will only hold a very small number of Burberry Shares (that number reflecting the balance of Burberry Shares held after applying the Special Dividend ratio).

Following the Burberry IPO, GUS has provided certain services to Burberry on an arm's length basis. If the Demerger goes ahead, the parties have agreed that (subject to certain transitional arrangements) it will no longer be appropriate for GUS to provide such services to Burberry.

Therefore, on 16 November 2005, Burberry and GUS entered into the Demerger Agreement, which sets out how the Demerger will be implemented and the terms on which transitional services will be provided and deals with other matters such as costs and responsibility for certain tax matters.

The material terms of the Demerger Agreement:

- are conditional upon approval from both Burberry Shareholders and GUS Shareholders, the Preference Share Repurchase Contract being entered into (explained in paragraph 3.3 below) and payment of the Special Dividend;
- provide for various existing agreements which manage the relationship between Burberry and GUS (which were put in place at the time of the Burberry IPO) to be terminated, since they will no longer be required;
- provide for the tax indemnity arrangements which were established at the time of the Burberry IPO to continue and for an orderly allocation of certain other potential tax liabilities between Burberry and GUS (and, in particular, certain potential tax liabilities which may arise as a result of or in connection with the Demerger);
- provide that certain tax, insurance and treasury services will be provided by GUS to Burberry on a transitional basis post-Completion; and
- set out the mechanics of the Demerger itself.

The Demerger Agreement aims to facilitate an orderly transition to a fully demerged business, in particular without uncertainty over tax matters or loss of important services. These arrangements between Burberry and GUS have been entered into on (and will be conducted at) arm's length and on normal commercial terms.

The Demerger Agreement will constitute a related party transaction (for the purposes of the Listing Rules) for Burberry because GUS is a related party of Burberry, by virtue of the GUS Group's holding of Burberry Shares. That is the reason why you are being asked to approve the Demerger Agreement.

Burberry and GUS have agreed that GUS will be responsible for all third party costs incurred by Burberry in connection with the Demerger. This responsibility is set out in the Demerger Agreement and is not conditional on the Demerger proceeding.

These costs include the professional and advisory fees which Burberry has incurred in relation to the Demerger, the costs associated with holding the Burberry Extraordinary General Meeting (e.g. the cost of hiring the venue) and the costs of printing and posting this document.

A detailed summary of the Demerger Agreement is set out in Part 1 of this document.

### 3.3 Preference Shares

In addition to its holding of Burberry Shares, the GUS Group also holds all of Burberry's Preference Shares.

Due to the *de minimis* value of that holding of Preference Shares on a per GUS Share basis (and the consequent impracticality and associated administrative costs of distributing those shares to the GUS Shareholders), the GUS Group's holding of Preference Shares will be distributed to a trustee, who will hold those shares on trust for GUS Shareholders. Burberry then intends to repurchase all of the Preference Shares from the Trustee at an aggregate price of £1 (and expects to do so within one month of Completion).

In order to facilitate that repurchase, it is necessary to change the terms of the Preference Shares (as explained in paragraph 2 of Part 1 of this document) which will require Burberry Shareholder approval and for Burberry to enter into a contract for the repurchase of the Preference Shares (the *Preference Share Repurchase Contract*). Entry into that contract will also require Burberry Shareholder approval.

No Preference Shares will remain following completion of the purchase under the Preference Share Repurchase Contract and subsequent cancellation of the Preference Shares acquired thereunder.

### 3.4 *GUS participation*

In order to avoid any conflict of interest and pursuant to the Listing Rules (since the Demerger Agreement will constitute a related party transaction):

- (A) GUS has undertaken that:
- (i) no member of the GUS Group will vote; and
  - (ii) it will take all reasonable steps to ensure that its associates will not vote, on any of the Burberry Resolutions to be put to Burberry Shareholders at the Burberry Extraordinary General Meeting;
- (B) John Peace (your Chairman) and David Tyler (one of your Non-Executive Directors) have not taken part in your Board's consideration of the Demerger since they are respectively Group Chief Executive and Group Finance Director of GUS (and they have agreed that they will not cast any votes in respect of their own holdings of Burberry Shares on any of the resolutions to be put to Burberry Shareholders at the Burberry Extraordinary General Meeting); and
- (C) the Demerger Agreement has been negotiated by the Independent Directors (rather than the Board as a whole) since it is with GUS.

Whether or not the Demerger proceeds, Burberry and GUS intend that John Peace and David Tyler will remain in their current roles on our Board and Board committees.

### 3.5 *Share repurchase programme*

As part of its on-going maintenance of an efficient capital structure, Burberry has sought and been granted authority by its shareholders to repurchase shares for cancellation. This repurchase programme is ongoing and Burberry still intends to return a total of £250m to shareholders through share repurchases by the end of March 2006. As at 16 November 2005, Burberry had returned a total of £142.1m to shareholders through share repurchases since the programme began in January 2005.

There is currently an agreement between Burberry and GUS (the *Repurchase Agreement*) whereby Burberry will repurchase Burberry Shares from the GUS Group in certain circumstances (with the aim of ensuring that the proportion of Burberry Shares held by the GUS Group is maintained at a constant level). This is the agreement which was approved at the Annual General Meeting earlier this year.

So that GUS may accurately calculate the entitlement of its shareholders to Burberry Shares in the Demerger, repurchases under the Repurchase Agreement from GUS were suspended on 11 November 2005. However, market repurchases from other Burberry Shareholders may continue throughout the Demerger process and thereafter.

In any event, repurchases from the GUS Group under the Repurchase Agreement will automatically end on Completion, since the GUS Group will only hold a very small number of Burberry Shares (that number reflecting the balance of Burberry Shares held after applying the Special Dividend ratio).

For further details regarding the repurchase arrangements, please see Part 2 of this document.

### 3.6 *UK taxation*

The Demerger should not have any UK taxation consequences for UK Burberry Shareholders in respect of their pre-Completion holdings of Burberry Shares.

If you also hold GUS Shares, and will therefore receive further Burberry Shares as a result of the Demerger, you will be sent a circular regarding this by GUS. Your attention is drawn to the parts of the GUS Circular which deal with taxation.

Burberry Shareholders who are in any doubt about their taxation position (or who may be subject to tax in any jurisdiction other than the UK) should consult their own professional advisers without delay.

#### 4. Pensions

Approximately 60 Burberry Employees are currently active members of the GUS defined benefit pension scheme. There are also former Burberry Employees who are either deferred members or pensioners of that scheme.

It has been agreed that those active members will remain in the GUS scheme on a transitional basis. Burberry and GUS will agree subsequent pension arrangements for those members in due course. The deferred members and pensioners will remain in the GUS scheme.

Approximately 550 Burberry Employees are currently active members of the GUS defined contribution pension plan. It has been agreed that such employees may continue in that plan until 31 March 2006. Thereafter, Burberry intends to offer its own defined contribution pension arrangements to those employees.

The arrangements relating to pensions (including the indemnity which GUS gives in respect of part of Burberry's liability on ceasing to participate in the GUS defined benefit pension scheme) are contained in the Demerger Agreement.

#### 5. Other matters

Following recent changes to company law concerning the indemnification of directors, your Board is proposing a resolution at the Burberry Extraordinary General Meeting to amend the Articles to reflect these changes. The amendments ensure that the Burberry Group has the power to indemnify its directors and officers to the greatest extent permitted by law. These amendments do not relate to the Demerger.

Your Board believes that the amendments will help Burberry to attract and retain the best available management by seeking to shield them, where appropriate and only to the extent permitted by law, from the consequences of legal actions. The resolution which proposes these amendments is not conditional on the Demerger resolutions being passed nor are they conditional on it.

#### 6. Burberry Extraordinary General Meeting

The notice convening the Burberry Extraordinary General Meeting for 9.00am on 12 December 2005 is set out at the end of this document.

At the Burberry Extraordinary General Meeting, four resolutions will be proposed:

1. An ordinary resolution that the Demerger Agreement (which will govern the implementation of the Demerger) should (subject to the conditions set out therein) come into full force and effect.
2. A special resolution authorising the making of changes to the Articles. These changes relate to:
  - (A) the intended repurchase of the Preference Shares (see further paragraph 2 of Part 1 of this document); and
  - (B) the removal of references to GUS and the Relationship Agreement from the Articles, since such references will not be required once the GUS Group no longer owns a material number of Burberry Shares.
3. A special resolution authorising Burberry to enter into a contract (the *Preference Share Repurchase Contract*) whereby it may repurchase all the Preference Shares for an aggregate price of £1, thereby facilitating the Demerger, since it would be impractical to distribute the small value of those shares among GUS Shareholders (see further paragraph 2 of Part 1 of this document).

Since none of the Demerger steps may reasonably be undertaken unless all such steps are authorised, none of the above resolutions will be effective unless each of them is passed (and the GUS Resolutions are passed by GUS Shareholders at the GUS Extraordinary General Meeting). GUS has undertaken that neither it nor any member of the GUS Group will vote on any of the above resolutions.

4. A special resolution authorising the making of further changes to the Articles, so as to ensure that the Burberry Group has the power to indemnify its directors and officers to the greatest extent permitted by law. Such changes are aimed at assisting the attraction and retention of high-calibre directors and officers.

The effectiveness of resolution 4 does not depend on the passing of resolutions 1 to 3 and vice versa. Resolution 4 is being proposed due to the recent changes to the law in this area. GUS (and any member of the GUS Group) may vote on resolution 4.



## **7. Action to be taken**

A Form of Proxy for use by Burberry Shareholders in connection with the Burberry Extraordinary General Meeting accompanies this document.

Whether or not you intend to be present at the Burberry Extraordinary General Meeting, you are requested to complete and sign the Form of Proxy and return it to Lloyds TSB Registrars as soon as possible and, in any event, so as to arrive no later than 9.00am on 10 December 2005.

If you hold shares in CREST, you may appoint a proxy by completing and transmitting a CREST proxy instruction to Lloyds TSB Registrars, so that it is received by no later than 9.00am on 10 December 2005.

Unless a valid proxy is received by the date and time specified above, it will be invalid. Return of a proxy will not affect your right to attend and vote in person at the Burberry Extraordinary General Meeting if you wish to do so.

Your attention is drawn to Parts 1 and 2 of this document, which provide further information on the matters discussed above.

## **8. Recommendation**

Your Board, which has been so advised by Merrill Lynch and Morgan Stanley, considers the terms of the Demerger Agreement to be fair and reasonable so far as the Burberry Shareholders as a whole are concerned. In giving its financial advice to the Board, each of Merrill Lynch and Morgan Stanley has taken into account the Board's commercial assessment of the Demerger Agreement.

The Board considers that the resolutions set out in the Notice of Extraordinary General Meeting are in the best interests of Burberry Shareholders taken as a whole and recommends you to vote in favour of those resolutions, as the Independent Directors intend to do in respect of their own beneficial holdings, amounting in aggregate to 94,522 Burberry Shares, which represent approximately 0.02% of Burberry's issued ordinary share capital.

As explained above, John Peace (your Chairman) and David Tyler (one of your Non-Executive Directors) are also directors of GUS. Accordingly, they have not taken part in your Board's consideration of the Demerger.

Yours sincerely

Philip Bowman  
Senior Independent Non-Executive Director

# PART 1

## KEY INFORMATION

### 1. Demerger Agreement

Burberry and GUS entered into the Demerger Agreement on 16 November 2005. The agreement's purpose is to facilitate an orderly separation of Burberry from GUS and to allocate costs incurred as a result of the Demerger between the parties.

#### (A) *Conditionality*

The Demerger Agreement is conditional upon:

- (i) approval of the Burberry Resolutions by Independent Shareholders;
- (ii) approval of the GUS Resolutions by GUS Shareholders;
- (iii) Burberry and the Trustee entering into the Preference Share Repurchase Contract; and
- (iv) payment by GUS of the Special Dividend.

#### (B) *Existing agreements*

In July 2002, as part of the Burberry IPO arrangements, GUS and Burberry entered into a number of agreements which are still in force. Since the time of the Burberry IPO, the Burberry Group has matured to a degree that it is capable of being autonomous and many of these arrangements are no longer required.

Consequently, the Demerger Agreement expressly terminates the Relationship Agreement, the Services Agreement, the Tax Sharing Agreement and the Repurchase Agreement (each summarised below in paragraph 3 of Part 2 of this document) with effect from Completion (many of which would automatically terminate as a consequence of the Demerger in any event).

#### (C) *Tax matters*

It is provided in the Demerger Agreement that the Tax Indemnity (which was entered into in connection with the Burberry IPO) will continue notwithstanding the Demerger.

The Tax Indemnity (which is summarised below in paragraph 3 of Part 2 of this document) contains indemnities from GUS in favour of Burberry in relation to the period or events before the Burberry IPO and in respect of certain tax liabilities that are properly liabilities of the GUS Group.

In addition to providing that the Tax Indemnity will continue, the Demerger Agreement provides for the allocation of certain further tax liabilities between GUS and Burberry as follows:

- (i) subject to certain exclusions, GUS covenants to pay to the Burberry Group an amount equal to certain de-grouping liabilities (if any) arising as a result of the Demerger;
- (ii) GUS also covenants to pay to the Burberry Group an amount equal to certain tax liabilities which are properly liabilities of the GUS Group being imposed on a member of the Burberry Group;
- (iii) Burberry covenants to pay to the GUS Group an amount equal to certain tax liabilities which are properly liabilities of the Burberry Group being imposed on a member of the GUS Group;
- (iv) GUS covenants to Burberry that it and the GUS Group will not make any "chargeable payment" within the meaning of section 214 of the Income and Corporation Taxes Act 1988; and
- (v) Burberry covenants to GUS that it and the Burberry Group will not make any chargeable payment (as defined in paragraph (iv) above).

The parties' potential liability under these provisions is subject to certain exclusions, financial limits and time limits.

(D) *Services*

Following the Demerger, although the existing Services Agreement will be terminated, GUS has agreed to provide certain tax, insurance and treasury services to Burberry for a transitional period.

Each of the services are to be provided for differing lengths of time, but all of the services will generally come to an end within two years of Completion. GUS has agreed that the services will be provided to a standard which is at least as good, in terms of quality, time and efficiency, as were provided to Burberry by GUS before the Demerger.

Whether or not the Demerger proceeds, Burberry and GUS intend that John Peace and David Tyler will remain in their current roles on our Board and Board committees.

The fees payable by Burberry to GUS for all of these services will be on arm's length terms but will in practice be *de minimis*.

(E) *Pensions*

Members of the Burberry Group will continue to participate in:

- (i) the GUS defined contribution pension plan until 31 March 2006 or such earlier date as HM Revenue & Customs may require or is agreed by Burberry and GUS; and
- (ii) the GUS defined benefit pension scheme until 31 December 2007 or such earlier date as HM Revenue & Customs or Burberry may require.

Such right of continued participation is only applicable to employees or former employees of members of the Burberry Group who are existing members of the scheme or plan, as applicable.

Burberry and GUS will agree subsequent pension arrangements for these members in due course.

During continued participation in the GUS defined benefit scheme, the Demerger Agreement contains provisions which seek to ensure minimal cross subsidy between the Burberry and GUS Groups by reason of benefit improvements and/or salary increases granted by either Burberry or GUS. The Demerger Agreement seeks to provide appropriate protections for both Burberry and GUS during the continued participation in the scheme.

The Demerger Agreement also provides that if the eventual withdrawal of members of the Burberry Group from the GUS defined benefit scheme takes place on or before 31 December 2007, Burberry must procure payment of the first part of any debt which arises under section 75 or 75A of the Pensions Act 1995. GUS indemnifies Burberry against the rest of such debt. The first part is the amount up to £1.25m, or if the debt is less than it otherwise might have been by reason of members transferring their benefits to a new arrangement of Burberry, this £1.25m figure shall be reduced *pro rata*.

While the Burberry Group participates in the GUS defined benefit scheme, it will remain liable for all of the deficit in the scheme if the other employers (GUS and other members of the GUS Group) were to become insolvent. The deficit in the scheme was, at the last valuation, approximately £80m on a wind-up basis.

(F) *Costs*

The Demerger Agreement provides that GUS will be responsible for all third party costs incurred by Burberry in connection with the Demerger. This responsibility is not conditional on the Demerger proceeding.

These costs include the professional and advisory fees which Burberry has incurred in relation to the Demerger, the costs associated with holding the Burberry Extraordinary General Meeting (e.g. the cost of hiring the venue) and the costs of printing and posting this document.

(G) *Miscellaneous provisions*

The Demerger Agreement provides that Burberry participants in the GUS Medical Plan will continue to be beneficiaries for the purposes of that plan until 31 March 2006 but will thereafter (except for a small group of retired employees) cease to participate.

Following the Demerger GUS shall reimburse Burberry for certain costs associated with separating the insurance arrangements of the Burberry and GUS Groups. The amount of these costs will be *de minimis*.

In addition, Burberry will use all reasonable endeavours (without being obliged to incur third party costs) to procure that GUS is released from its obligations as surety under a lease of a property let by Burberry in New Bond Street for a period of 30 years from 20 March 2000. Burberry has indemnified GUS in respect of its surety obligations under this lease.

The Demerger Agreement also contains a 12 month non-compete provision given by GUS to Burberry and a two year non-solicitation of employees provision (given by GUS to Burberry and vice-versa).

(H) *Demerger mechanics*

The Demerger Agreement also sets out the Demerger mechanics, as explained in this document.

(I) *Other provisions*

The Demerger Agreement also contains other provisions, customary for an agreement of this sort.

## 2. Preference Shares

It is necessary for the Preference Shares to be made irredeemable and for GUS to distribute the Preference Shares in order to ensure that the Demerger is treated as an exempt distribution for the purposes of section 213 of the Income and Corporation Taxes Act 1988.

Due to the *de minimis* value of the Preference Shares that would otherwise be received by each GUS Shareholder and the consequent impracticality and associated administrative costs of distributing such shares, Burberry and GUS have agreed that, subject to the approval of the Demerger Agreement (and related matters), the following steps should be taken in relation to the Preference Shares:

- (A) subject to the approval of Burberry Shareholders at the Burberry Extraordinary General Meeting and the receipt of Preference Shareholder Consent (consent being required because the following constitutes a variation of Preference Share class rights), the Articles will be amended so that:
  - (i) the Preference Shares are made irredeemable; and
  - (ii) Burberry is given a right to repurchase all the Preference Shares for a price of £1 in aggregate;
- (B) subject to the prior approval of Burberry Shareholders, the Preference Share Repurchase Contract is entered into between Burberry and the Trustee, whereby Burberry will be entitled to repurchase the Preference Shares from the Trustee for a price of £1 in aggregate;
- (C) the Preference Shares will be transferred from GUS Holdings Limited to GUS;
- (D) the Preference Shares will be distributed to the Trustee (who will hold them on trust for the GUS Shareholders on the terms of the Trust Deed); and
- (E) Burberry then intends to repurchase the Preference Shares from the Trustee for the price of £1 in aggregate and cancel them (and expects to do so within one month of Completion).

As at 16 November 2005 (the latest practicable date prior to the publication of this document), Burberry has:

- (i) no warrants outstanding over any of its equity shares;
- (ii) options outstanding to subscribe for 4,572,507 Burberry Shares (equal to 0.97% of the Burberry Shares which are in issue); and
- (iii) no options outstanding to subscribe for any other of its equity shares.

The percentage referred to in paragraph (ii) above will not change after the repurchase of the Preference Shares.

## 3. Overseas shareholders

### 3.1 US

Burberry Shares are only admitted to trading on the London Stock Exchange's market for listed securities and, immediately following the Demerger, will continue to be admitted to trading only on such market. In the US, Burberry is exempt from the reporting requirements under the US Exchange Act, by reason of Rule 12g3-2(b) promulgated thereunder and, immediately following the Demerger, will continue to rely on such exemption.

### 3.2 *Other jurisdictions*

Any person outside the UK, who is resident in, or who has a registered address in or is a citizen of, an overseas territory and who has received this document, should consult his professional advisers and satisfy himself as to the full observance of the laws of the relevant territory in connection therewith.

The implications of the Demerger for overseas shareholders may be affected by the laws of their jurisdiction. Such overseas shareholders should inform themselves about and observe all applicable legal requirements.

## PART 2 ADDITIONAL INFORMATION

### 1. Directors

The Directors and their roles are as follows:

John Peace*	Chairman
Rose Marie Bravo	Chief Executive
Stacey Cartwright	Chief Financial Officer
Philip Bowman	Senior Independent Non-Executive Director
Guy Peyrelongue	Non-Executive Director
Caroline Marland	Non-Executive Director
David Tyler*	Non-Executive Director

(\*Non-Independent Directors.)

The business address of all the Directors is 18-22 Haymarket, London SW1Y 4DQ.

### 2. Major interests in shares

In so far as it is known to the Company, the following persons are directly or indirectly interested in 3% or more of the Burberry Shares (excluding Burberry Shares held by the Company as treasury shares) as at the date of this document:

	Number of Burberry Shares	% of Burberry Shares
GUS Holdings Limited	306,696,704	65
Janus Capital Management LLC	21,169,557	4.49

As at the date of this document, GUS Holdings Limited holds all the Preference Shares which are in issue (being 1,600,000,000 such shares).

### 3. Material Contracts

The only contracts (other than contracts in the ordinary course of business) which have been entered into by the Burberry Group either:

- (1) within the two years immediately preceding the date of this document and which are, or may be, material to the Burberry Group; or
- (2) which contain provisions under which any member of the Burberry Group has an obligation or entitlement which is material to the Burberry Group as at the date of this document, are the following contracts:

(A) *Demerger Agreement*

The Demerger Agreement is summarised in paragraph 1 of Part 1 of this document.

(B) *Relationship Agreement*

On 11 July 2002, the Company entered into the Relationship Agreement with GUS. The Relationship Agreement was designed to ensure that the Company is capable of carrying on its business independently of GUS (and any associate of GUS) and that all transactions and relationships between Burberry and GUS are at arm's length and on a normal commercial basis even though the Company continued to be a subsidiary of GUS following Admission. The rights and obligations of GUS under the Relationship Agreement depend on the percentage of Burberry Shares held by the GUS Group.

The Relationship Agreement continues until the GUS Group ceases to hold at least 15% of Burberry Shares (a *Minimum Shareholding*).

If the GUS Group holds the Minimum Shareholding, then under the Relationship Agreement:

- GUS agreed to procure, so far as it reasonably could, that the Company's independence in accordance with the Listing Rules is maintained and that the majority of the non-executive directors on the Board are unconnected with and independent of both the GUS Group and the Company, except for their non-executive directorships of the Company;

- GUS agreed to procure, so far as it reasonably could, that two-thirds of the Company's executive directors must be independent of the GUS Group, except for their executive directorships with the Company;
- GUS is entitled to nominate one of the Directors;
- GUS agreed to procure, so far as it reasonably could, that all transactions and relationships between the Burberry Group and the GUS Group are conducted at arm's length and on a normal commercial basis; and
- the Directors shall not be entitled to vote at meetings of the Board on matters in which they have a conflict of interest as a result of being directors or officers of any members of the GUS Group (other than their directorships or officerships with the Company and any members of the Burberry Group).

In addition, the Company agreed to provide certain legal and regulatory information to GUS.

For so long as the GUS Group holds 30% or more of Burberry Shares (a *Controlling Shareholding*), in addition to the terms described above that apply where the GUS Group holds a Minimum Shareholding:

- GUS may appoint up to one-third of the Directors;
- the Company would provide GUS with information at specified times, including management accounts, board minutes and press releases; and
- GUS agreed to use its best endeavours to procure that neither it nor any member of the GUS Group takes any action (or omits to take any action) which could prejudice the Company's listing on the Official List.

For so long as the GUS Group holds 50% or more of Burberry Shares, in addition to the terms described above that apply where the GUS Group holds a Controlling Shareholding:

- GUS has the right to appoint the chairman of the Board; and
- the Company will provide GUS with its business plan within a certain amount of time after the approval of the plan by the Board.

Since the GUS Group will only hold a very small number of Burberry Shares after Completion (that number reflecting the balance of Burberry Shares held after applying the Special Dividend ratio), GUS will no longer have any rights or obligations under the Relationship Agreement (save for any accrued rights and obligations as at Completion).

Termination of the Relationship Agreement (with effect from Completion, and without prejudice to any accrued rights and obligations thereunder) will be formally confirmed by the Demerger Agreement.

### (C) *Services Agreement*

On 11 July 2002, the Company entered into the Services Agreement with GUS, under which GUS agreed to provide certain management and other services to the Burberry Group.

Those services were certain tax services, pension services, insurance services, certain administrative services (including share scheme services), health benefits, accounting and company secretarial services for an Italian company, property database services, office space and equipment for an Irish partnership, treasury services and cash management services.

GUS agreed that the services would be at least as good, in terms of quality, time and efficiency, as it provided to the Burberry Group immediately before the date of the agreement and would be substantially the same as any similar services provided to the GUS Group.

The services were to be provided for an initial period (expiring on 31 March 2003) and were then subject to annual review. Certain services continue to be provided. However, the scope of the services required has declined, such that the Services Agreement will be terminated with effect from Completion (without prejudice to any accrued rights and obligations thereunder) and the Burberry Group will only require the provision of a limited range of transitional services from GUS (the terms for the provision of which are documented in the Demerger Agreement - see further paragraph 1 of Part 1 of this document).

In return for the services provided by the GUS Group, the Company paid a fee in respect of each service including the following annual fees: £24,000 for taxation services, £25,000 for insurance services, £20,000 for human resources services and, in relation to treasury services, a range of fees depending on the function, including transaction fees of 0.025% on foreign exchange transactions and a contribution towards the use of GUS treasury systems. The fee for each of the services is reviewed on an annual basis.

(D) *Tax Indemnity*

On 11 July 2002, Burberry entered into the Tax Indemnity with GUS under which GUS agreed to indemnify Burberry against unprovided for tax liabilities and certain related costs and expenses incurred by Burberry or other members of the Burberry Group in respect of:

- (i) transactions effected, and profits earned, accrued or received on or before Admission;
- (ii) specified previous restructurings of the Burberry Group;
- (iii) degrouping charges arising in respect of the transfer of assets by a member of the GUS Group to a member of the Burberry Group before Admission should Burberry leave the GUS Group; and
- (iv) tax which is primarily a liability of the GUS Group but which it has failed to discharge.

The indemnities provided by the GUS Group are subject to a number of exclusions, financial limits and time limits. Among other exclusions, there are exclusions for sales and payroll taxes, since these have been the responsibility of the Burberry Group. There are also exclusions for certain tax liabilities which relate to facts or circumstances of which the Directors or managers are, or should reasonably have been, aware prior to Admission and of which GUS was unaware.

The indemnities, including in relation to the specified previous restructurings, do not cover taxation by reference to profits earned, accrued or received in respect of periods ending after Admission and are subject to exclusions for certain voluntary actions of Burberry after Admission and for taxation which arises in the ordinary course of normal trading activities. The Tax Indemnity also includes provisions dealing with claims, time limits, the conduct of the tax affairs for UK corporation tax-paying entities in the Burberry Group and recoveries from third parties.

Burberry agreed to indemnify GUS against tax payable by GUS or its subsidiaries which is primarily a liability of Burberry but which Burberry has failed to discharge, and certain related costs and expenses.

(E) *Tax Sharing Agreement*

On 11 July 2002, Burberry entered into the Tax Sharing Agreement with GUS. This enabled members of the GUS Group and members of the Burberry Group to surrender certain tax losses to members of the other group (if the relevant member of the other group agrees to the surrender) and in consideration for each such surrender, a payment would be made which would be not less than the corporation tax rate for that period multiplied by the amount of the loss multiplied by 95%.

Under the terms of the Demerger Agreement, the Tax Sharing Agreement will be terminated on Completion (without prejudice to any accrued rights and obligations thereunder).

(F) *Repurchase Agreement*

The Repurchase Agreement is summarised in paragraph 3.5 of the letter from the Senior Independent Non-Executive Director of Burberry. Further information regarding the Repurchase Agreement is as follows.

- (i) Following a review of its capital structure, Burberry announced in November 2004 that it would return excess capital to shareholders by implementing a share repurchase programme that would enable participation by Burberry Shareholders as well as maintaining the level of ownership in Burberry by the GUS Group.
- (ii) The repurchase programme comprises two elements:
  - (a) repurchases of Burberry Shares on the London Stock Exchange; and
  - (b) repurchases made off-market from the GUS Group under the Repurchase Agreement.

On-market repurchases by Burberry automatically trigger corresponding repurchases from the GUS Group so as to maintain the GUS Group's percentage ownership in Burberry at the same level as it held prior to such on-market repurchases. The price paid for the shares purchased from the GUS Group is the average price paid in the corresponding market purchase.

- (iii) Following the necessary Burberry Shareholder approvals, the predecessor agreement to the Repurchase Agreement was entered into and repurchases commenced in January 2005. Burberry repurchased and subsequently cancelled 14,715,588 Burberry Shares during the financial year to 31 March 2005 at an aggregate cost of £58.4m. As at 31 March 2005, a further 870,030 Burberry Shares had been repurchased at a total cost of £3.6m and which were cancelled after 31 March 2005.



- (iv) At the 2005 Annual General Meeting, Burberry Shareholders renewed the general authority for on-market purchases and approved a new agreement for off-market purchases from the GUS Group (the *Repurchase Agreement*).
- (v) As at 16 November 2005 (the latest practicable date prior to the publication of this document), Burberry had repurchased 20,027,612 Burberry Shares at an aggregate cost of £80.1m since 1 April 2005.
- (vi) Pursuant to the terms of the Repurchase Agreement, Burberry suspended off-market purchases from the GUS Group on 11 November 2005 (however, on-market repurchases may continue throughout the Demerger process and thereafter). If the Demerger proceeds, the GUS Group will only hold a very small number of Burberry Shares (that number reflecting the balance of Burberry Shares held after applying the Special Dividend ratio) and that agreement will automatically terminate. If the Demerger does not proceed, that agreement will continue and Burberry may resume off-market purchases from the GUS Group.

(G) *Facility Agreement*

On 30 March 2005, the Company entered into a facility agreement with Barclays Capital, HSBC Bank plc, Lloyds TSB Bank plc – Capital Markets, The Royal Bank of Scotland plc and Société Générale (as lenders) and with HSBC Bank plc acting as agent (the *Facility Agreement*).

The facility provided under the Facility Agreement is a revolving credit facility of an amount of up to £200,000,000 to be provided to the Company and Burberry Limited (UK) and each other subsidiary of the Company which accedes to the Facility Agreement (the *Facility*). It may be used for the general corporate purposes of each borrower and has a maturity date of 30 March 2010.

Provisions as regards drawdown, repayment (including early voluntary repayment, mandatory prepayment and cancellation) and timing for payment of interest customary for a facility of this type are included in the Facility Agreement.

The interest rate for borrowings under the Facility is variable and is determined on the basis of a margin of 0.325% per annum plus the London Interbank Offered Rate (LIBOR) per annum (as calculated in accordance with the Facility Agreement) plus the mandatory costs of the lenders (if any) (as calculated in accordance with the Facility Agreement, as explained below). Interest in the event of the borrowers' default is payable at a rate which is 1% higher than the rate which would have ordinarily applied to the relevant borrowing.

As is customary in such agreements, there are detailed provisions in the Facility Agreement regarding the calculation of mandatory costs. The mandatory costs are an amount charged in addition to the interest rate to compensate the lenders for the cost of compliance with: (a) the requirements of the Bank of England and/or the Financial Services Authority (or, in either case, any other authority which replaces all or any of its functions) or (b) the requirements of the European Central Bank.

Mandatory costs are not capped, but are controlled in accordance with the provisions of a formula or other terms of the Facility Agreement. Broadly, in the case of a United Kingdom lender, the result of that formula depends on the percentage of each lender's eligible liabilities which it is required to maintain as an interest free cash ratio deposit at the Bank of England, the rate of interest payable under the Facility Agreement, the percentage of its eligible liabilities which each lender is required to maintain as an interest bearing special deposit with the Bank of England (and the rate of interest thereon) and the amount of fees payable by lenders to the Financial Services Authority.

Broadly, in the case of lenders from European member states which participate in the Euro, mandatory costs depend on the cost of complying with the minimum reserve requirements of the European Central Bank.

HSBC Bank plc (as the co-ordinator of the Facility) has been paid an arrangement fee by the Company. The Company is also paying the lenders a commitment fee and HSBC Bank plc an agency fee (the commitment fee is only payable on the amount of the Facility not drawn down during any interest period). The amounts and timings of payment of such fees are on market terms and are standard for facilities of this type. For each day on which the aggregate amount of all borrowings under the Facility Agreement exceeds half of the total commitments of the lenders, the Company is obliged to pay the lenders a utilisation fee (being 0.05% per annum on such excess).

The Facility Agreement contains various representations, warranties and undertakings including certain restrictions on the manner in which the Company and certain of its subsidiaries can conduct their business and certain financial ratio covenants, including guarantor and interest cover. It contains a number of customary default clauses. If there is an event of default (as defined therein) and the default, if capable of being cured, is not cured within the specified period, the lenders may require that any loans under the Facility Agreement be repaid in full immediately.

Although the Facility is unsecured, the Company, Burberry Limited, Burberry (Spain), S.A. and Burberry Asia Limited have guaranteed the performance of the borrowers' obligations under the Facility Agreement.

(H) *Burberry Spain and MyC acquisitions*

On 30 June 2000, an agreement was entered into regarding two related acquisitions:

- agreement to sell Burberry (Spain) S.A. (*Burberry Spain*), the Company's former licensee in Spain, between the former shareholders and certain key executives of Burberry Spain and companies associated therewith (the *Spain Vendors*), GUS International Holdings B.V. (*BV*) and Burberry Limited; and
- agreement to sell Mercader y Casadevall S.A. (*MyC*) between the former shareholders and certain key executives of MyC and companies associated therewith (the *MyC Vendors*), BV and Burberry Limited.

As explained above, the vendors in relation to the first of these two acquisitions were the Spain Vendors. The Spain Vendors are Anteridion Consultadoria e Investimentos, Lda; Carnival Servicos e Investimentos, Lda; Cerceta Trading, Lda; Tamborim Servicos, Lda; Gineto Trading, Lda; Albel, S.A.; and Juan Mercader Fortuny. In relation to the second of these two acquisitions, the vendors were the MyC Vendors, who are the same persons as the Spain Vendors, save that Jorge Mercader Esplugas was an additional vendor.

The consideration for the sale of the shares in Burberry Spain and MyC was Euro 209,392,617, which sum could be increased in accordance with earn-out provisions and is subject to adjustment, as explained below.

Payment of Euro 146,574,832 was made directly to the Spain Vendors and the MyC Vendors at completion on 30 June 2000. The rest of the consideration (excluding the earn-out) was paid into an escrow account at completion.

The earn-out operates by reference to the profits of Burberry Spain, MyC and the UK wholesale business of Burberry for the five financial years ending on 31 March 2005. If profits during that period are below £240,800,000, no payments are to be made under the earn-out. If profits during that period are equal to or exceed £240,800,000 up to £267,500,000, a payment up to Euro 20,939,262 is made. If profits exceed £267,500,000, a further payment up to Euro 20,939,262 is made. The amount of the earn-out is paid to the Spain Vendors and MyC Vendors on determination.

Of that part of the consideration paid into the escrow account, subject to warranty claims and whether certain employees are still in the employment of a member of Burberry Group or not, Euro 20,939,262 was to be (and was) released in 2002 and Euro 41,878,523 was to be released in 2005. Of the amount due to be released in 2005, approximately Euro 36,000,000 (plus accrued interest of approximately Euro 1,800,000) has been released, with the balance of approximately Euro 6,000,000 being retained in respect of potential tax liabilities.

Certain of the Spain Vendors and MyC Vendors have assigned their aforementioned rights and obligations to various third parties associated with them.

The obligations of BV under the agreement were guaranteed by Burberry Limited and the rights and obligations of BV under the agreement and the escrow agreement were assigned to Burberry (Spain) Holdings S.L.

#### **4. Litigation and arbitration**

Other than as disclosed in the following paragraph, no member of the Burberry Group is or has been engaged in nor, so far as the Company is aware, has pending or threatened, any governmental, legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on the Burberry Group's financial position.

Burberry Limited granted a licence to Safilo in respect of eyewear in 1994. The licence expires on 31 December 2005. Safilo did not accept the terms of a new licence which Burberry offered it for a period from 1 January 2006. In October 2005, Burberry entered into a licence with Luxottica srl for eyewear for a ten year period from 1 January 2006. Safilo has alleged in correspondence that it has a right of first refusal in respect of any licence for eyewear from 1 January 2006. It is possible that Safilo might make a claim for damages or an account of profits for alleged breach of contract, although no proceedings have been commenced. Accordingly, Burberry is not aware of what the quantum of any such claim might be. Burberry intends to defend any such claim vigorously, which (on legal advice) it considers to be without merit.

#### **5. Significant change**

There has been no significant change in the financial or trading position of the Burberry Group since 30 September 2005, the date to which the Burberry Group's most recent unaudited interim financial information has been published.

#### **6. Consents**

Each of Merrill Lynch and Morgan Stanley has given, and has not withdrawn, its consent to the issue of this document with the inclusion herein of its name and references to it in the form and context in which they are included.

## **7. Costs**

The Demerger Agreement provides that GUS will be responsible for all third party costs incurred by Burberry in connection with the Demerger. This responsibility is not conditional on the Demerger proceeding.

These costs include the professional and advisory fees which Burberry has incurred in relation to the Demerger, the costs associated with holding the Burberry Extraordinary General Meeting (e.g. the cost of hiring the venue) and the costs of printing and posting this document.

## **8. Documents available for inspection**

Copies of the following documents are available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of publication of this document until the close of the Burberry Extraordinary General Meeting at the offices of Slaughter and May, One Bunhill Row, London EC1Y 8YY and at the registered office of the Company:

- (A) this document (including the Notice of Extraordinary General Meeting);
- (B) the Company's Memorandum of Association;
- (C) the Articles (in their current form);
- (D) the Articles (in the form they will be in should all the amendments to be tabled at the Burberry Extraordinary General Meeting be approved);
- (E) the Material Contracts;
- (F) the Trust Deed;
- (G) the consents referred to in paragraph 6 above; and
- (H) the draft Preference Share Repurchase Contract.

Items (B), (C), (D) and (H) will also be on display at the Burberry Extraordinary General Meeting.

# DEFINITIONS

The following definitions apply throughout this document, except where the context otherwise requires:

<b>Act</b>	the Companies Act 1985 (as amended);
<b>Admission</b>	the admission of Burberry Shares to the Official List and their admission to trading on the London Stock Exchange (both on 18 July 2002) in connection with the Burberry IPO;
<b>Annual General Meeting</b>	the annual general meeting of the Company held on 14 July 2005;
<b>Articles</b>	the articles of association of Burberry;
<b>associates</b>	has the meaning given to it by the Listing Rules;
<b>Board</b>	the board of directors of Burberry;
<b>Burberry</b>	the Company or, where the context so requires, the Burberry Group;
<b>Burberry Employees</b>	the employees of the Burberry Group;
<b>Burberry Group</b>	the Company, its subsidiaries and subsidiary undertakings;
<b>Burberry IPO</b>	the global offer of 112,359,600 Burberry Shares made in 2002 at a price of 230 pence per share, and the associated admission to the Official List and to trading on the London Stock Exchange of Burberry Shares;
<b>Burberry Resolutions</b>	the first three resolutions to be proposed at the Extraordinary General Meeting of Burberry, as set out in the Notice of Extraordinary General Meeting;
<b>Burberry Share Register</b>	the register of members of Burberry;
<b>Burberry Shareholders</b>	registered holders of Burberry Shares;
<b>Burberry Shares</b>	ordinary shares of 0.05 pence each in the capital of the Company;
<b>Company</b>	Burberry Group plc, a company registered in England and Wales with registered number 03458224 and having its registered office at 18-22 Haymarket, London SW1Y 4DQ;
<b>Completion</b>	completion of the Demerger, being the point at which:  (i) the GUS Shareholders are registered by Burberry as being the owners of the Burberry Shares which are the subject of the Demerger; and (ii) the Trustee is registered by Burberry as being the owner of the Preference Shares;
<b>CREST</b>	the UK-based system for the paperless settlement of trades in securities and the holding of uncertificated securities, of which CRESTCo is the operator;
<b>CRESTCo</b>	CRESTCo Limited, the operator of CREST;
<b>Demerger</b>	the intended demerger of GUS's interests in Burberry to GUS Shareholders by way of dividend <i>in specie</i> as described in this document;
<b>Demerger Agreement</b>	the demerger agreement dated 16 November 2005 between Burberry and GUS;
<b>Directors</b>	the directors of Burberry;

<b>Extraordinary General Meeting</b>	as the context requires, either: <ul style="list-style-type: none"> <li>(i) the extraordinary general meeting of Burberry Shareholders to which the Notice of Extraordinary General Meeting relates; or</li> <li>(ii) the extraordinary general meeting of GUS Shareholders which is to be convened for the purpose of considering, and if thought fit passing, resolutions relating to the Demerger;</li> </ul>
<b>Facility</b>	has the meaning given to it in paragraph 3 of Part 2 of this document;
<b>Facility Agreement</b>	has the meaning given to it in paragraph 3 of Part 2 of this document;
<b>Form of Proxy</b>	the form of proxy accompanying this document, for use in connection with the Extraordinary General Meeting of Burberry;
<b>FSA</b>	the Financial Services Authority;
<b>GUS</b>	GUS plc, a company registered in England and Wales with registered number 00146575 and having its registered office at One Stanhope Gate, London W1K 1AF;
<b>GUS Circular</b>	the circular issued by GUS regarding the Demerger;
<b>GUS Group</b>	GUS, its subsidiaries and subsidiary undertakings (other than any member of the Burberry Group);
<b>GUS Resolutions</b>	each of the resolutions to be considered at the Extraordinary General Meeting of GUS, as set out in the notice of that meeting;
<b>GUS Shareholders</b>	registered holders of GUS Shares;
<b>GUS Shares</b>	ordinary shares in the capital of GUS;
<b>Independent Directors</b>	the directors of Burberry other than John Peace and David Tyler (who are not independent for the purposes of this circular);
<b>Independent Shareholders</b>	Burberry Shareholders, other than any member of the GUS Group;
<b>Listing Particulars</b>	the listing particulars which were issued by Burberry in connection with the Burberry IPO;
<b>Listing Rules</b>	“The Listing Rules Sourcebook” annexed to the Listing Rules Instrument 2005 made by the board of the FSA on 16 June 2005 (as amended);
<b>Lloyds TSB Registrars</b>	Burberry’s registrars, and a trading name of Lloyds TSB Bank plc;
<b>London Stock Exchange</b>	London Stock Exchange plc;
<b>Material Contracts</b>	the contracts listed in paragraph 3 of Part 2 of this document;
<b>Merrill Lynch</b>	Merrill Lynch International;
<b>Morgan Stanley</b>	Morgan Stanley & Co. International Limited;
<b>Non-Independent Directors</b>	John Peace and David Tyler, being the Directors who are also directors of GUS;
<b>Notice of Annual General Meeting</b>	the notice of the Annual General Meeting, dated 14 June 2005;
<b>Notice of Extraordinary General Meeting</b>	the notice of extraordinary general meeting set out in this document;
<b>Official List</b>	the Official List of the UKLA;
<b>Preference Share Repurchase Contract</b>	the contract to be entered into by Burberry and the Trustee, if (among other things) the Burberry Resolutions are passed;
<b>Preference Shareholder</b>	the registered holder of the Preference Shares;

<b>Preference Shareholder Consent</b>	the consent in writing of the Preference Shareholder to the variation of the Preference Share class rights contemplated in the Notice of Extraordinary General Meeting becoming effective;
<b>Preference Shares</b>	preference shares of 0.05 pence each in the capital of the Company;
<b>Record Time</b>	the time for calculation of entitlements under the Demerger, proposed to be 7.00am on 13 December 2005 (or such other time and date as the directors of GUS (or any duly authorised committee of them) may determine);
<b>Relationship Agreement</b>	the relationship agreement dated 11 July 2002 between Burberry and GUS (in anticipation of the Burberry IPO);
<b>Repurchase Agreement</b>	the New GUS Agreement (as defined in the Notice of Annual General Meeting), being an agreement dated 14 July 2005 between Burberry and GUS for the off-market repurchase of Burberry Shares by the Company in certain circumstances;
<b>Services Agreement</b>	the services agreement dated 11 July 2002 and made between Burberry and GUS (in anticipation of the Burberry IPO);
<b>Shareholder</b>	reference to shareholder (without any name before it) means a Burberry Shareholder;
<b>Special Dividend</b>	the dividend <i>in specie</i> proposed to be paid to GUS Shareholders to effect the Demerger;
<b>subsidiaries</b>	has the meaning given to it in the Act;
<b>subsidiary undertakings</b>	has the meaning given to it in the Act;
<b>Tax Indemnity</b>	the tax indemnity dated 11 July 2002 between Burberry and GUS;
<b>Tax Sharing Agreement</b>	the tax sharing agreement dated 11 July 2002 between Burberry and GUS;
<b>Trust Deed</b>	the trust deed dated 17 November 2005 between GUS and the Trustee pursuant to which the Trustee will hold the Preference Shares on trust for the GUS Shareholders;
<b>Trustee</b>	means The Law Debenture Trust Corporation p.l.c.;
<b>UK</b>	the United Kingdom of Great Britain and Northern Ireland;
<b>UK Burberry Shareholders</b>	holders of Burberry Shares before Completion (other than any member of the GUS Group) who are resident or, in the case of individuals, ordinarily resident in the UK for UK tax purposes at all relevant times, who are absolute beneficial owners of their Burberry Shares and who hold their Burberry Shares as an investment (and who are not dealers, collective investment schemes or persons who are regarded as having acquired their Burberry Shares by reason of their office or employment);
<b>UKLA</b>	the FSA acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000, including, where the context so requires, any committee, employee, officer or servant to whom any function of the UK Listing Authority may for the time being be delegated;
<b>US</b>	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia; and
<b>US Exchange Act</b>	the US Securities Exchange Act of 1934 (as amended).

# NOTICE OF EXTRAORDINARY GENERAL MEETING

Notice is hereby given that an extraordinary general meeting of Burberry Group plc will be held at the Millennium Hotel, Grosvenor Square, London W1K 2HP on 12 December 2005 at 9.00am for the purpose of considering and, if thought fit, passing the following resolutions respectively as ordinary and special resolutions of the Company.

## ORDINARY RESOLUTION

1. That subject to and conditional upon:

- (A) the second and third resolutions set out in this notice being passed; and
- (B) each of the GUS Resolutions being passed,

the Demerger Agreement be and is hereby approved, and the Directors (or any duly authorised committee of them) be and are hereby authorised to carry the same into effect and to make such non-material amendments to the Demerger Agreement or any documents relating thereto as they (or any duly authorised committee of them) shall deem necessary or appropriate.

## SPECIAL RESOLUTIONS

2. That subject to and conditional upon:

- (A) the first and third resolutions set out in this notice being passed;
- (B) each of the GUS Resolutions being passed; and
- (C) Preference Shareholder Consent being received by the Company,

the Articles be amended as set out in paragraphs 1 and 2 of the attached Appendix in order to:

- (i) facilitate the intended repurchase of the Preference Shares; and
- (ii) to remove references to GUS and the Relationship Agreement from the Articles (such references no longer being required once GUS no longer owns any Burberry Shares).

3. That subject to and conditional upon:

- (A) the first and second resolutions set out in this notice being passed;
- (B) each of the GUS Resolutions being passed; and
- (C) Preference Shareholder Consent being received by the Company,

the terms of an agreement between the Company and Trustee for the purchase out of distributable reserves by the Company from the Trustee of all of the Preference Shares which are in issue (being 1,600,000,000 preference shares of 0.05 pence each) (as set out in the draft Preference Share Repurchase Contract) be and are hereby approved and the Company be and is hereby authorised to enter into and complete the Preference Share Repurchase Contract, provided that the authority granted by this resolution shall expire on the day which is 18 months after the date on which this resolution was passed.

4. That the Articles be amended as set out in paragraph 3 of the attached Appendix to update the provisions of the Articles relating to the indemnification of directors and officers of Burberry and other members of the Burberry Group.

Words and expressions defined in the circular to Burberry Shareholders dated 18 November 2005 shall have the same meaning when used in the above resolutions.

By order of the Board

Michael Mahony  
General Counsel and Secretary

Dated 18 November 2005

Burberry Group plc, registered in England and Wales with registered number 03458224, registered office 18-22 Haymarket, London SW1Y 4DQ.

Notes:

- (1) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered in the register of members of the Company as at 6.00pm on 10 December 2005 or, if the Extraordinary General Meeting is adjourned, in the register of members as at 6.00pm two days before the adjourned meeting, shall be entitled to attend or vote at the Extraordinary General Meeting in respect of the number of Burberry Shares registered in their name at the relevant time.

Changes to entries on the register of members after 6.00pm on 10 December 2005 or, if the Extraordinary General Meeting is adjourned, as at 6.00pm two days before the adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the Extraordinary General Meeting.

- (2) A member entitled to attend and vote at the Extraordinary General Meeting may appoint a proxy or proxies to attend and, on a poll, to vote in his or her place. A proxy need not be a member of the Company. The return of a proxy will not preclude members entitled to attend and vote at the Extraordinary General Meeting (or at any adjournment thereof) from doing so in person if they wish to do so.
- (3) To be valid, an appointment of proxy must be returned using one of the following methods:
- (i) by sending the enclosed Form of Proxy (together, if appropriate, with the power of attorney or other written authority under which it is signed or an office copy or a certified copy of such power or authority) to Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6ZL; or
  - (ii) in the case of CREST members, by using a CREST electronic proxy appointment,

and, in either case, the appointment of proxy (together with any relevant power/authority) must be received (or, in the case of the appointment of a proxy through CREST, retrieved by enquiry to CREST in the manner prescribed by CREST) by Lloyds TSB Registrars not later than 48 hours before the time appointed for holding the Extraordinary General Meeting.

- (4) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Extraordinary General Meeting and any adjournment of the Extraordinary General Meeting by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a *CREST proxy instruction*) must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 7RA01) by the latest time for receipt of proxy appointments specified above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST proxy instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his or her CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST proxy instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

- (5) The definitions set out in the circular (which is contained in this document with this notice) shall apply in this notice, except where the context otherwise requires.



# APPENDIX

## CHANGES TO ARTICLES

These are the proposed changes referred to in the second and fourth resolutions set out in the Notice of Extraordinary General Meeting dated 18 November 2005.

An amended and restated version of the Articles incorporating the changes will be initialled by the Secretary for the purposes of identification, and filed at Companies House, should the changes be adopted.

### 1. Repurchase of the Preference Shares

The following changes are required in order to facilitate the repurchase of the Preference Shares:

- (A) in Article 2, in the definition of "Preference Shares", the substitution of the word "Irredeemable" for the word "Redeemable";
- (B) in Article 2, the deletion of the definition of "Redemption Date";
- (C) in Article 9.4 (Redemption), the deletion of Articles 9.4.1 to 9.4.9, and the insertion (in their place) of the sentence "The Preference Shares are not redeemable.";
- (D) the insertion of the following as a new Article 9.5:
  - "9.5 Purchase
  - 9.5.1 Subject to the provisions of the Statutes and without prejudice to the generality of Article 6, the Company shall (at any time) be entitled to purchase all of the Preference Shares for a total consideration of £1 (one pound) in aggregate. That consideration of £1 (one pound) shall be divided equally between all the Preference Shares which are in issue and paid to the holders thereof accordingly.
  - 9.5.2 The right of purchase set out in Article 9.5.1 shall be exercisable by the Company in any matter in which the Company sees fit.
  - 9.5.3 On the exercise of the right of purchase set out in Article 9.5.1, the holders of the Preference Shares shall forthwith deliver up to the Company their share certificates therefor."

### 2. Removal of references to GUS and Relationship Agreement

The following changes are required in order to remove references to GUS and the Relationship Agreement from the Articles:

- (A) in Article 2, the deletion of the definitions of "GUS", "GUS Group" and "Relationship Agreement";
- (B) the references to GUS and the Relationship Agreement in Article 84 (Election of two or more Directors) shall be deleted, so that such Article reads:

"A resolution for the election of two or more persons as Directors by a single resolution shall not be moved at any General Meeting unless a resolution that it shall be so moved has first been agreed to by the meeting without any vote being given against it. Any resolution moved in contravention of this provision shall be void.";
- (C) the references to GUS and the Relationship Agreement in Article 86 (Election or appointment of additional Director) shall be deleted, so that such Article reads:

"The Company may by Ordinary Resolution elect, and without prejudice thereto the Directors shall have power at any time to appoint, any person to be a Director either to fill a casual vacancy or as an additional Director, but so that the total number of Directors shall not thereby exceed the maximum number (if any) fixed by or in accordance with these Articles. Any person so appointed by the Directors shall hold office only until the next Annual General Meeting and shall then be eligible for election.";
- (D) the reference to the Relationship Agreement in the first part of Article 96 (Directors may have interests) shall be deleted, so that such part reads:

"Subject to the provisions of the Statutes, and PROVIDED THAT a Director has disclosed to the Directors the nature and extent of any interests of the Director, a Director notwithstanding his/her office:";

- (E) in Article 97 (Restrictions on voting):
  - (i) in the first line of Article 97.2, the deletion of the words “the Relationship Agreement (while that Agreement remains in force and effect) and”;
  - (ii) in the first and second lines of Articles 97.3 and 97.4, the deletion of the words “Subject to the provisions of the Relationship Agreement (while that Agreement remains in force and effect),”; and
  - (iii) in the seventh and eighth lines of Article 97.4, the deletion of the words “subject to the provisions of the Relationship Agreement (while that Agreement remains in force and effect),”; and
- (F) in the fourth and fifth lines of Article 101 (General powers), the deletion of the words “to the terms of the Relationship Agreement (while that Agreement remains in force and effect),”.

### 3. Indemnification of directors and officers

The following changes are required in order to update the provisions of the Articles relating to the indemnification of directors and officers of Burberry and other members of the Burberry Group:

- (A) in Article 77 (Director’s expenses), the numbering of the existing paragraph below that heading as paragraph 77.1, and the insertion of the following new paragraph:

“77.2 The Company may also fund a Director’s expenditure on defending proceedings and may do anything to enable a Director to avoid incurring such expenditure, both as provided in the Statutes.”;

- (B) in Article 97 (Restrictions on voting):

- (i) the deletion of the word “and” at the end of Article 97.2(d);
- (ii) the insertion of the word “and” at the end of Article 97.2(e); and
- (iii) the insertion of the following as a new Article 97.2(f):

“(f) a proposal concerning either:

- (i) the giving to him or her of an indemnity;
- (ii) the Company funding his or her expenditure on defending proceedings; or
- (iii) the Company doing something to enable him or her to avoid incurring expenditure on defending proceedings,

in each case where all the other Directors are being offered substantially the same arrangements.”; and

- (C) the deletion of Article 141 (Indemnity) in its entirety, and its replacement with the following:

**“141 Indemnity**

141.1 Subject to the provisions of the Statutes, any director of the Company or any associated company may be indemnified by the Company out of its own funds against any liability.

141.2 Subject to the provisions of the Statutes, the Company may purchase and maintain for any director of the Company or any associated company insurance against any liability.

141.3 In this Article 141, the term “director” shall include any former director.”