

Executive Scheme, the Group Scheme and the Performance Share Plan to reflect these changes. The amendments will alter two aspects of these rules: (i) flow-rate limits and (ii) limits on maximum individual participation.

FLOW RATE LIMITS

The plans are all subject to "flow rate" limits which regulate the number of new shares in the Company which may be issued to satisfy options granted and awards made under the plans. It is proposed that the rules of the plans be simplified by removing some of these anti-dilution limits to reflect current institutional investor guidelines. The limits to be removed are the following:

- that the number of new shares over which options or awards may be granted and remain outstanding in any three year period be limited to three per cent. of the issued share capital of the Company, excluding options under plans available to the majority of employees (the 3 Year Limit);
- that the number of new shares over which options or awards may be granted and remain outstanding under all plans in any five year period be limited to five per cent. of the issued share capital of the Company (the 5 Year Limit).

After removing the 3 Year Limit and the 5 Year Limit, all the Company's share plans will still provide, as under their current rules, that the number of new shares over which options or awards may be granted and remain outstanding under all plans will not exceed ten per cent. of the Company's issued share capital and that, for ordinary options or awards made under the Executive Scheme and the Performance Share Plan, the number of new shares so used may not exceed five per cent. of the Company's issued share capital (the 5% Limit). The proposed changes provide further that the 5% Limit may be exceeded provided that options and awards in excess of the 5% Limit are granted subject to more stretching and demanding performance criteria than those which would normally be imposed under the Executive Scheme and the Performance Share Plan.

INDIVIDUAL LIMITS

In addition to flow-rate limits, the Performance Share Plan and Section B of the Executive Scheme (the section relating to options without Inland Revenue approval) also include limits on individual participation. The current institutional investor guidelines suggest a limit of either annual awards equal to no more than an individual's basic salary, or equivalent longer term awards. Once again, this limit may be exceeded provided that options and awards in excess of it are granted subject to more stretching and demanding performance criteria than those which would normally be imposed. In order to harmonise the approach to individual limits in the Executive Scheme and the Performance Share Plan, to reflect the greater flexibility allowed by the current institutional investor guidelines and to allow future awards with especially demanding performance criteria, it is proposed that the rules of these plans be amended to impose a limit on an individual's subsisting rights to acquire shares under both plans of ten times their basic salary.

In considering the number and timing of options or awards to be granted, and the performance conditions to be imposed, the remuneration committee of the board will continue to have regard to institutional investor guidelines.

Resolutions 12, 13 and 14 for the approval of the amendments to the rules of the Executive Scheme, the Group Scheme and the Performance Share Plan are set out in the Notice of AGM on page 48 of the Report & Accounts.

Copies of the rules of the Executive Scheme, the Group Scheme and the Performance Share Plan as proposed to be amended will be available for inspection at the Company's principal business address, during usual business hours on any weekday (excluding Saturdays, Sundays and public holidays) from the date of despatch of this document up to and including the date of the AGM, and at the venue of the AGM for at least 15 minutes prior to and during the AGM.

By order of the Board – C F Anderson, Secretary, 24 March 2003.

Registered office – The Ugly Brown Building, 6A St Pancras Way, London NW1 OTB

page 16

CORPORATE GOVERNANCE STATEMENTS

THE BOARD

The Board currently comprises a non-executive chairman, a chief executive, one other executive director and three non-executive directors. During the year Mr B S North retired and Mr D Bernstein and Lord Stone of Blackheath were appointed as non-executive directors. Biographies of these directors appear on page 10.

David Hewitt has held the position of non-executive director since 1997 and has been confirmed by the Board as the Company's senior independent director. All the non-executive directors are considered by the Board to be independent of management and free of any relationship that could materially interfere with the exercise of their independent judgement.

The Board meets regularly throughout the year. It considers all issues relating to the strategy, direction and future development of the Group. The Board has a schedule of matters reserved to it for decision that is regularly updated. The requirement for Board approval on these matters is understood and communicated widely throughout the Group.

To enable the Board to function effectively and the directors to discharge their responsibilities, full and timely access is provided to all relevant information. There is an agreed procedure for directors to take independent professional advice if necessary, at the Company's expense. This is in addition to the access every director has to the Company Secretary.

The Board appoints all directors for specified terms on the basis of recommendations put to the Board by the Nomination committee whose members are disclosed on page 11.

STATEMENT OF COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied throughout the year with the provisions of the Code of Best Practice set out in section 1 of the Combined Code with the exception that the Company's audit committee only reached three non-executive directors following the appointment of David Bernstein and Lord Stone of Blackheath (24 January 2003).

STATEMENT ABOUT APPLYING THE PRINCIPLES OF GOOD GOVERNANCE

The Company has applied the principles of Good Governance set out in section 1 of the Combined Code by complying with the Code of Best Practice as reported above. Further explanation of how the principles have been applied is set out below and, in connection with directors' remuneration, in the Remuneration Report.

APPOINTMENTS TO THE BOARD

Any director appointed during the year is required, under the provisions of the Company's Articles of Association, to retire and seek re-election by the shareholders at the next Annual General Meeting.

The Company's Articles of Association require those directors who have been in office for at least two years from the date of their original appointment (or from the date of their latest re-election if later) to retire from office.

COMMUNICATION WITH SHAREHOLDERS

The Group attaches considerable importance to the effectiveness of its communication with shareholders.

The full report and accounts are sent to all shareholders and further copies are distributed to others with potential interest in the Group's performance.

The directors seek to build on a mutual understanding of objectives between the Company and its institutional shareholders by making general presentations after the interim and preliminary results; meeting shareholders to discuss long-term issues and feedback; and communicating regularly throughout the year. All shareholders can gain access to these presentations, as well as the annual report and accounts and to other information about the Company, through the website at www.tedbaker.co.uk. They may also attend the Company's Annual General Meeting at which they have the opportunity to ask questions.

INTERNAL CONTROL

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

Following publication of guidance for directors on internal control "Internal Control: Guidance for Directors on the Combined Code" ('the Turnbull guidance'), the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, that has been in place for the year under review and up to the date of approval of the annual report and accounts, and that this process is regularly reviewed by the Board and accords with the guidance.

The Board has reviewed the effectiveness of the system of internal control. In particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the business and the policies and procedures by which these risks are managed. Management is responsible for the identification and evaluation of significant risks applicable to its areas of business together with the design and operation of suitable internal controls. These risks are assessed on a continual basis and may be associated with a variety of internal or external sources including control breakdowns, disruption in information systems, competition, natural catastrophe and regulatory requirements.

The Board has concluded that there is currently no requirement for an Internal Audit function due to the size of the business.

Management reports regularly on its review of risks and how they are managed to the Risk Committee, whose main role is to review, on behalf of the Board, the key risks inherent in the business and the system of control necessary to manage such risks, and to present its findings to the Board.

The Chief Executive also reports to the Board on behalf of the Executive Committee on significant changes in the business and the external environment which affect significant risks. The Finance Director provides the Board with monthly financial information which includes key performance indicators. Where areas for improvement in the system are identified, the Board considers the recommendations made by the Risk Committee and the Audit Committee.

The Risk Committee includes the Finance Director and various heads of department. It reviews, on a twice yearly basis, the risk management and control process and considers the:

- authority, resources and co-ordination of those involved in the identification, assessment and management of significant risks faced by the Group;
- response to the significant risks which have been identified by management and others;
- maintenance of a control environment directed towards the proper management of risk; and
- annual reporting procedures.

Additionally, the Risk Committee keeps abreast of all changes made to the system and follows up on areas that require improvement. It reports to the Board at twice yearly intervals or more frequently should the need arise.

REMUNERATION REPORT

As well as complying with the Provisions of the Code as disclosed in the Company's corporate governance statements, the Board has applied the Principles of Good Governance relating to directors' remuneration as described below.

The Directors' Remuneration Report Regulations 2002 require the auditor to report to the Company's members on the auditable part of the directors' remuneration. The report has therefore been divided into two sections for audited and unaudited information.

UNAUDITED INFORMATION

THE LEVEL AND COMPOSITION OF DIRECTORS' REMUNERATION

The Board has shown that it does not pay more than is necessary to attract and retain the directors needed to run the Company successfully as executive directors' remuneration, excluding performance-related incentives, has risen on average by 7.4 per cent per annum over the past two years whereas the Company's earnings per share have risen by 7.0 per cent over the same period. Excluding one off costs, adjusted earnings per share have risen by 15.6 per cent over the same period.

PROCEDURES FOR DEVELOPING POLICY AND FIXING REMUNERATION

The members of the remuneration committee are disclosed on page 11. The Board has shown its commitment to formal and transparent procedures for developing remuneration policy, fixing executive remuneration and ensuring that no director is involved in deciding his or her own remuneration by consulting the Monk partnership (an associate firm of PriceWaterhouseCoopers who also provided tax and accounting services to the Group in the year) on executive directors' pay trends. This policy is expected to continue in forthcoming years.

STATEMENT OF REMUNERATION POLICY

The aim of the Company's remuneration policy is to attract, motivate and retain high quality management and to incentivise them to achieve growth in earnings per share which delivers value to the shareholders.

The remuneration policy is as follows:

Basic Salary – The aim is to reflect movement towards upper quartile performance with upper quartile rewards.

Annual Bonus – The annual grant of bonuses is conditional upon achievement of certain company performance conditions, which require sustained improvement in the underlying financial performance of the Group and which are designed to provide a direct link between the rewards of executives and returns to shareholders. Bonuses are capped at 40% of basic salary. This scheme is applicable to Mr R S Kelvin and Mr L D Page. Amounts received in the year may be found in note 6 to the accounts.

Benefits – Taxable benefits include such items as company cars, fuel and medical expense insurance. Life assurance is provided as a non-taxable benefit.

Pensions – The Company operates a money purchase scheme with a Company contribution of 10 per cent for executive directors apart from Mr R S Kelvin.

Long Term Incentive Plan and Share Options – The Company believes that share ownership by executive directors and senior executives strengthens the link between their personal interests and those of the