

N Brown

N Brown Group plc Interim Report 2004

You & your style

We know all our customers personally

Online & on time

Quick and convenient buying

The season's finest

Faster fashion and more choice



We are a leading direct catalogue home shopping, financial services and fulfilment company.

Our strategy is to:

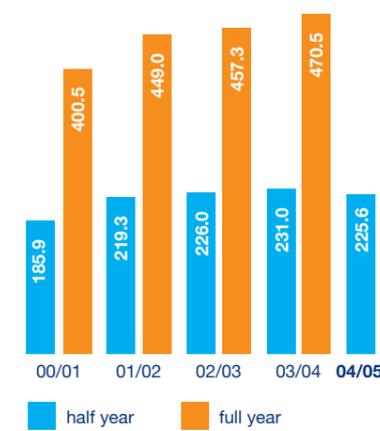
- Trade remotely with customers in target markets.
- Identify customer niches and tailor an appropriate offer of goods and financial services.
- Be the first name in larger size clothing and footwear in UK home shopping.

With home shopping as our focus, we are able to offer distance shopping and financial services through a variety of channels to our own customers, and to our fulfilment clients for their customers.

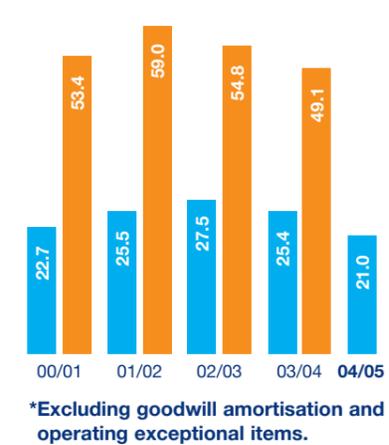
Financial highlights

FOR THE 26 WEEKS ENDED 28 AUGUST 2004	2004	2003
Turnover	£225.6m	£231.0m
Operating profit	£24.8m	£28.1m
Profit before taxation	£21.0m	£25.1m
Earnings per share	5.12p	6.11p
Dividends per share	1.74p	1.74p
Net assets	£254.5m	£255.5m
Net asset value per share	86p	87p
Gearing	54%	56%

TURNOVER (£M)



PRE-TAX PROFIT (£M)*



Chairman's statement

The group results comprise a better performance from the core home shopping business offset by disappointing results from our other activities. Group turnover is down 2.3% at £225.6m with operating profit down 12.0% at £24.8m. A cash inflow of £7.8m compares with an outflow of £28.3m last year and the dividend has been maintained at 1.74p per share.

HOME SHOPPING

Core home shopping results, excluding Teleview and House of Stirling, which are covered separately below, show a 0.7% increase in sales to £206.3m and a positive 40bps movement in gross margin, and an overall increase in operating profit by 6.7% from £26.0m to £27.9m. This improvement has been achieved as a result of our strategy to focus on those product ranges where we have a competitive advantage.

The 0.7% increase in sales was achieved despite a 4.2% reduction in home and leisure sales, following the decision not to offer interest-free credit on low margin, high value electrical and furniture lines. Sales of clothing and footwear were up by 2.5%, with encouraging performances in lingerie, footwear and larger sized ladies clothing. The success in creating a clothing range for the younger, larger woman has resulted in a 23% increase in sales to Simply Be customers.

During the first half we have continued to revise the format and frequency of our catalogues to good effect. We have increased the number of major offers at the expense of the smaller leaflets contained within our statement packs. This has provided a significant increase in sales of 4% to established customers.

The promotion of our multiple websites has led to a further 68% increase in on-line sales to £21m and we are now seeing an increasing proportion of new customers registering on-line. We have started collecting new customers' e-mail addresses enabling us to drive even more sales through this channel, which will reduce operating costs.

Gross margins within the core home shopping have risen as the mix of product moved towards clothing and footwear, and the rate of bad debts to debtors reduced. A targeted cost reduction programme has delivered some good savings in the first half, although parcel distribution costs continue to rise at above the rate of inflation.

HOUSE OF STIRLING

House of Stirling, our weekly collected credit operation, has incurred a £4.2m loss (LY £0.1m) due to a sales reduction of 36% to £9.2m, and a significant increase in bad debts. These are the results of a deteriorating cash collection performance and a consequent restriction on the credit available to customers.

A recovery plan is in place to improve performance within House of Stirling, seeking to focus sales activity on lower ticket items with shorter credit terms, improve cash collection, and a better balanced remuneration package for field staff has already been introduced.

TELEVIEW

The disposal of Teleview, which lost £0.2m during the period against a profit of £0.6m last year, is at an advanced stage of negotiation.

FULFILMENT AND FINANCIAL SERVICES

Zendor, our third party fulfilment business, made a small operating loss of £0.1m compared to a £0.2m loss last year. The interactive services activity was closed down as planned in July and the business re-focussed on fulfilment contracts. There is a strong pipeline of prospects and we have secured the contract to fulfil all Woolworth's on-line and catalogue orders, excluding entertainment.

First Financial improved its profit from the second half of last year despite the tighter underwriting criteria we are applying and the reduction in warranty income from lower electrical sales.

BALANCE SHEET

We have been continuing to focus on ensuring that capital is only invested where there is an adequate return. We have tightened the control over working capital and the requirements for capital expenditure are now lower than in recent years. The result is a cash inflow of £7.8m, against a cash outflow of £28.3m in the prior year, reducing borrowings to £137.8m, and gearing down to 54%.

PROSPECTS

Core home shopping sales in the first seven weeks of the current period are level with last year and the positive trends from the first half are continuing. The main Autumn catalogues are driving sales increases in clothing and footwear, which are 2% ahead, whilst home and leisure sales are down by 5%. However, we have recently launched a new home and gift book containing many new product lines, from which the early signs are encouraging. We believe that this category can be driven forward in a more profitable way during the second half.

Group sales are currently down 1.5% due to the continuing impact of House of Stirling, although profitability has been enhanced through a better mix of activities.

The development of our home shopping business will rely increasingly on a multi-channel approach and we have invested jointly with Northern and Shell to create the Express Shopping Channel. Transmitted on satellite and cable television, this channel sells a selection of our products supplemented by a number of special purchases, and went live as planned in September. It will be promoted strongly throughout the Autumn season to build up the customer base.

Additionally internet sales continue to flourish, and will be complemented shortly by the launch of a new website, VivaLaDiva.com, providing the largest on-line footwear range for the fashion conscious woman.

We are confident that by maintaining our focus on the core product ranges which provide us with a competitive advantage, further developing new channels to market, and reducing our operating costs we will continue to improve our underlying business performance.



Lord Alliance, CBE
19 October 2004

Group profit and loss account (unaudited)

	Note	26 weeks to 28 Aug 2004 £m	26 weeks to 30 Aug 2003 £m	52 weeks to 28 Feb 2004 £m
Turnover	1	225.6	231.0	470.5
Operating profit	2	24.8	28.1	36.1
Profit on sale of tangible fixed assets		0.1	(0.1)	1.0
Profit on ordinary activities before finance charges		24.9	28.0	37.1
Net interest payable and similar charges		(3.9)	(2.9)	(6.1)
Profit on ordinary activities before taxation		21.0	25.1	31.0
Taxation on profit on ordinary activities	4	(6.0)	(7.2)	(12.6)
Profit on ordinary activities after taxation		15.0	17.9	18.4
Equity minority interests		-	-	(0.5)
Profit for the financial period		15.0	17.9	17.9
Dividends	5	(5.1)	(5.1)	(17.1)
Retained profit		9.9	12.8	0.8
Earnings per share	6	5.12p	6.11p	6.11p
Diluted earnings per share	6	5.11p	6.08p	6.08p
Dividends per share	5	1.74p	1.74p	5.84p

Group balance sheet (unaudited)

	28 Aug 2004 £m	30 Aug 2003 (restated) £m	28 Feb 2004 (restated) £m
Fixed assets			
Intangible assets	-	9.7	-
Tangible assets	80.9	88.1	83.0
	80.9	97.8	83.0
Current assets			
Stocks	43.9	42.4	46.4
Debtors	353.9	343.7	354.1
Cash at bank and in hand	33.4	21.9	26.8
	431.2	408.0	427.3
Creditors			
Amounts falling due within one year	(82.0)	(83.8)	(90.4)
Net current assets	349.2	324.2	336.9
Total assets less current liabilities	430.1	422.0	419.9
Creditors			
Amounts falling due after more than one year	(170.6)	(161.1)	(170.6)
Provisions for liabilities and charges	(5.0)	(5.4)	(5.0)
Net assets	254.5	255.5	244.3
Capital and reserves			
Called-up share capital	29.5	29.5	29.5
Share premium account	9.1	8.7	9.1
Revaluation reserve	-	1.3	-
Own shares	(1.7)	(2.7)	(2.3)
Profit and loss account	217.6	219.3	208.0
Equity shareholders' funds	254.5	256.1	244.3
Equity minority interests	-	(0.6)	-
Capital employed	254.5	255.5	244.3
Gearing	54%	56%	60%

Group cash flow statement (unaudited)

	26 weeks to 28 Aug 2004 £m	26 weeks to 30 Aug 2003 £m	52 weeks to 28 Feb 2004 £m
Operating activities			
Operating profit	24.8	28.1	36.1
Decrease/(increase) in stocks	2.5	(0.8)	(4.7)
Increase in debtors	(3.4)	(16.9)	(23.2)
Increase/(decrease) in creditors	3.9	(8.6)	(9.6)
Depreciation	5.7	6.7	12.6
Amortisation of goodwill and other intangible fixed assets	-	0.3	0.7
Impairment of goodwill and tangible fixed assets	-	-	17.5
Net cash inflow from operating activities	33.5	8.8	29.4
Returns on investments and servicing of finance	(4.6)	(2.8)	(6.4)
Taxation paid	(9.2)	(6.2)	(12.8)
Capital expenditure and financial investment	0.1	(16.0)	(23.3)
Acquisitions and disposals	-	(0.1)	(0.3)
Equity dividends paid	(12.0)	(12.0)	(17.1)
Cash inflow/(outflow) before financing	7.8	(28.3)	(30.5)
Financing	-	26.5	33.4
Increase/(decrease) in cash in the financial period	7.8	(1.8)	2.9
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash in the financial period	7.8	(1.8)	2.9
Cash inflow from increase in loans	-	(27.0)	(34.0)
Repayment of loans	-	0.5	0.5
Repayment of capital element of finance leases	-	-	0.5
Changes in net debt resulting from cash flows	7.8	(28.3)	(30.1)
Movement in net debt in the period	7.8	(28.3)	(30.1)
Net debt at the beginning of the financial period	(145.6)	(115.5)	(115.5)
Net debt at the end of the financial period	(137.8)	(143.8)	(145.6)

Statement of group total recognised gains and losses (unaudited)

	26 weeks to 28 Aug 2004 £m	26 weeks to 30 Aug 2003 £m	52 weeks to 28 Feb 2004 £m
Profit for the financial period	15.0	17.9	17.9
Exchange adjustments offset in reserves	-	-	(0.1)
Total recognised gains relating to the financial period	15.0	17.9	17.8

Reconciliation of movements in group shareholders' funds (unaudited)

	26 weeks to 28 Aug 2004 £m	26 weeks to 30 Aug 2003 (restated) £m	52 weeks to 28 Feb 2004 (restated) £m
Profit for the financial period	15.0	17.9	17.9
Dividends	(5.1)	(5.1)	(17.1)
	9.9	12.8	0.8
Other recognised gains and losses (net) relating to the financial period	-	-	(0.1)
Share option charge	0.3	0.3	0.2
Issue of ordinary share capital	-	-	0.4
Net addition to shareholders' funds	10.2	13.1	1.3
Opening equity shareholders' funds (as restated)	244.3	243.0	243.0
Closing equity shareholders' funds	254.5	256.1	244.3

Notes to the accounts (unaudited)

	26 weeks to 28 Aug 2004 £m	26 weeks to 30 Aug 2003 £m	52 weeks to 28 Feb 2004 £m
1. Analysis of turnover			
Home shopping	206.3	204.9	412.6
Door to door selling	9.2	14.3	33.1
TV Rental	3.2	3.7	7.2
Financial services	3.8	4.4	8.7
Fulfilment	3.1	3.7	8.9
	225.6	231.0	470.5
2. Analysis of operating profit			
Home shopping	27.9	26.0	52.2
Door to door selling	(4.2)	(0.1)	(2.0)
TV Rental	(0.2)	0.6	(8.4)
Financial services	1.4	1.8	2.4
Fulfilment	(0.1)	(0.2)	(8.1)
	24.8	28.1	36.1

3. The report was approved by the board of directors on 19 October 2004. The accounts for the 26 weeks to 30 August 2003 and the 52 weeks to 28 February 2004 have been restated following the implementation of UITF Abstract 38 - Accounting for ESOP Trusts. The effect of this change is that shares held within Employee Share Option Schemes are no longer classified in the balance sheet as a fixed asset investment but as a deduction from shareholders' funds. This change has no impact on the profit and loss account. All other accounting policies adopted are consistent with those set out in the Annual Report and Accounts for the 52 weeks ended 28 February 2004.

The figures for the 52 weeks ended 28 February 2004 have been extracted from the statutory accounts which have been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain any statement under section 237 of the Companies Act 1985.

4. The taxation charge for the 26 weeks ended 28 August 2004 is based on the estimated effective tax rate for the full year.
5. The interim dividend of 1.74p per ordinary share will be paid on 7 January 2005 to shareholders on the register at the close of business on 10 December 2004.
6. The calculation of earnings per share is based on the profit for the financial period and the weighted average number of shares in issue during the period of 293,746,000 (2003, 292,778,000). For diluted earnings per share, the weighted average number of shares of 294,502,000 (2003, 294,264,000) has been calculated after adjusting for the potential dilution of outstanding share options.

Home Shopping

Young (30-45)
Fashion World fashionworld.co.uk
Simply Be simplybe.co.uk
Naturally Close naturallyclose.co.uk
Classic Confidence classicconfidence.co.uk
New Now newnow.co.uk

Midlife (45-65)
J D Williams jdwilliams.co.uk
Ambrose Wilson ambrosewilson.com
Oxendales oxendales.com
Heather Valley heathervalley.com
Fifty Plus fiftyplus.co.uk
Shoe Tailor shoetailor.com
Shapely Figures shapelyfigures.com
Classic Detail classic-detail.co.uk
Premier Man premierman.com
Express Shopping Channel expressshopping.tv
Inspirational Home inspirationalhome.co.uk
Christmas Gifts Direct christmasgiftsdirect.co.uk
Home Shopping Direct homeshoppingdirect.com
Discount World discountworld.com
House of Stirling houseofstirling.co.uk
Televue Direct televuedirect.co.uk

Elderly (65+)
Special Collection specialcollection.com
Sartor
Whitfords
Bury Boot and Shoe

Fulfilment

Zendor Group zendor.com

Financial services

First Financial firstfinancial.co.uk

N Brown Group plc
Griffin House
40 Lever Street
Manchester M60 6ES

nbrown.co.uk