

11 October 2006

N Brown Group plc

**INTERIM RESULTS ANNOUNCEMENT
SIX MONTHS ENDED 26 AUGUST 2006**

N Brown Group plc, the Manchester based direct home shopping company, today announces its interim results for the 26 weeks to 26 August 2006.

Highlights:

- Group turnover from continuing operations up by 11.8% to £255.8m (H1 2005: £228.8m)
- Group operating profits from continuing operations up 18.6%
- Group profits before tax up 16.3%% to £29.2m (H1 2005: £25.1m)
- Achieved growth in all product and customer groups with like for like Home Shopping sales increasing by 10.2% and operating profit by 18.6%
- Online sales grew by 57% to £52m representing 21% of total sales
- Acquisition of Gray & Osbourn in June 2006 expands portfolio into higher socio demographic customer base
- Earnings per share up 16.6% from continuing operations to 7.09p
- Interim dividend increase of 20.3% to 2.19p
- Current trading for the 6 weeks ended 7th October up 10.2% on like for like basis.

Alan White, Chief Executive, said:

“We have announced a strong set of results in the current retail environment and I am particularly pleased with our growth across all product and customer groups. We continue to improve both our product offer and our channel distribution as shown by the growth in internet sales and this is resulting in an increase in sales both to new customers as well as to our active customer base.”

Lord Alliance CBE, Chairman, added:

Our strategy of focusing on servicing the specialised clothing and footwear needs of our target customer groups has produced these encouraging results. With a strong start to the second half, despite increasingly tough comparators, we remain optimistic for the outlook for the full year.”

-Ends-

For further information please contact:

N Brown Group plc

Alan White, Chief Executive
Dean Moore, Finance Director

Website : www.nbrown.co.uk

On the day: 0207 554 1400

Thereafter: 0161 238 2202

Gavin Anderson & Company

Fergus Wylie / Clotilde Gros

Tel: 020 7554 1400

Chairman's Statement

Group

The group results for the six months to 26th August 2006 show further significant improvement has been achieved. Group turnover from the continuing businesses is up by 11.8% to £255.8m and profit before taxation of £29.2m is up by 16.3%. Net assets are up by 9.3% to £255.3m, including net debt of £105.3m compared with £114.4m last year. Earnings per share from continuing operations have risen by 16.6% to 7.09p and there is an increase of 20.3% in the interim dividend to 2.19 pence per share which is covered 3.2 times.

Home Shopping

Home Shopping sales (excluding House of Stirling which has now been closed and the newly acquired Gray & Osbourn) rose by 10.2% to £248.6m and operating profit rose by 18.6% to £35.1m. The most encouraging aspect of the results is that good progress has been made in all product and customer groups coupled with major efficiencies in our marketing and distribution overheads.

Ladieswear has been the strongest product sector with sales up 11% at £138m. We have capitalised on the trend for both older and larger customers to dress more fashionably with improved ladieswear ranges which have also been displayed in the catalogues in a more contemporary style. We have increased our market share in all key categories in both the home shopping and total retail markets.

We have also seen good growth in our corsetry sales where the extensive range of sizes and fittings, coupled with the introduction of more lines suitable for the woman in the 30-45 age range, has enabled us to gain market share. Footwear sales have maintained their strong upward momentum, increasing by 8% to £30m, and again it is the combination of a proposition which meets a specific customer need as well as the expansion of the range suitable for a younger customer that has driven this growth.

Sales of menswear were up by 9% to £18m where the larger sizes in both branded and unbranded product have delivered the growth. Home and leisure sales rose by 11% to £63m with particularly strong performances from the household textiles, homewares and electrical ranges.

We have delivered significant sales growth in each of our three customer groupings. The fastest growth continues to be in the younger titles, primarily Simply Be and Fashion World, where there has been a significant increase in the number of catalogue pages and the product bought specifically for that age group resulting in a 15% increase in sales to £66m. However the 9% growth to £170m in the midlife customer group, targeted at the 45-65 year old customer, shows there is still plenty of room for growth in our core target market due to the favourable demographic trends coupled with the more fashionable outlook of many of the customers.

The number of customers aged over 65 has increased, as has their average spend, generating an increase of 8% in sales to £13m primarily through the Heather Valley and Special Collection catalogues.

The presentation of the product to the customers has improved further with more pages in the major catalogues and brochures, lower density of product per page and an increase in the frequency of mailing customers. The proportion of our business transacted online has, in line with our strategy, risen sharply again as customers appreciate both the convenience and the special offers available. Online sales have increased by 57% to £52m and now represent 21% of home shopping sales compared with 15% last year. This rate of growth justifies the further investment we are making in our e-commerce infrastructure. The more orders we receive online the more subsequent sales activity we can generate through cost-effective and targeted email campaigns.

Customer recruitment campaigns have been successful in the first half with sales from new customers increasing by 6%. The mix of campaigns has seen more recruits from our insert and online campaigns who have a better retention rate in future seasons. The number of active established customers has risen by 4% and their average spend has increased by 5%. We have encouraged this through a number of targeted promotional campaigns, such as incentivising customers to buy from product ranges where they had not previously done so.

We have also improved the service to our customers. Stock availability was higher, the returns rates on product despatches reduced by 0.5% and our customer surveys showed satisfaction rates were at record levels.

The overall rate of gross margin on home shopping sales fell by 0.8% for two reasons which will be beneficial to the future performance of the business. We changed our policy to do more in-season discounting thereby reducing terminal stocks which has resulted in total underlying stock levels at the interim stage being just 4% up on last year despite the increase in activity levels. In addition we have seen the anticipated increase in bad debts due to the uplifting of credit limits following the commissioning of the new behavioural scoring system, and also from the mix of sales favouring the younger titles. Overheads have increased by just 6.2% with significant efficiencies arising in both our marketing and distribution costs.

Gray & Osbourn

Gray & Osbourn, an upmarket ladieswear catalogue retailer, was acquired on 30th June 2006 for a consideration of £9.2m as part of our strategy to expand our portfolio of catalogues into the higher socio demographic customer segments. The synergy benefits will come through in 2007 but trading to date has been in line with our expectations.

Zendor

Zendor, which provides home shopping services for third party retailers, has generated a 43.8% increase in revenues compared with the first half of last year as a consequence of the internet sales growth of its clients. However the costs of a new dedicated warehouse have increased overheads resulting in a marginal loss of £0.1m, the same as last year. During the period we have signed a five-year agreement with the Early Learning Centre for fulfilment services.

House of Stirling

The debtor book of our door-to-door selling business was sold in July 2006 for proceeds of £5.6m. The trading loss for the period together with the net cost of closing the operation amounted to £1.7m. No further costs are anticipated in the second half.

Current Trading and Outlook

The autumn catalogues have started strongly and total sales for the six weeks ended 7th October 2006 are up on last year by 15.7% or up by 10.2% excluding the sales of Gray & Osbourn. The comparatives get progressively tougher during the second half but there are a number of factors we believe can deliver further growth:

- the introduction of Royal Mail's new tariffs in August 2006 will result in lower overall mailing costs and we are re-investing this benefit during the second half in expanding the number of catalogue pages, mailing more customers and incremental customer recruitment
- the increasing proportion of our target customers who have broadband capability is helping us to drive our on-line activity through search engine recruitment, exclusive product ranges and email promotional campaigns, whilst also reducing our operating costs
- our ability to tailor products and promotions to the appropriate segments of our customer database, blending online and direct marketing activity.

To complement these growth drivers we are continuing to invest in our infrastructure to ensure our call centre, distribution and e-commerce capacity and functionality is available to provide both excellent customer service and incremental profit opportunities.

I am sure that our management team will continue to deliver a high level of innovation backed by top-class execution to bring our plans to fruition. The first half results and current trading give us reason to be confident of a good performance in the second half.

Lord Alliance , CBE
11th October 2006

Unaudited consolidated income statement

	Note	26 weeks to 26-Aug-06 £m	26 weeks to 27-Aug-05 £m	52 weeks to 25-Feb-06 £m
Revenue - continuing operations	1	<u>255.8</u>	<u>228.8</u>	<u>468.7</u>
Operating profit				
Group operations	1	35.0	29.5	62.3
Share of joint venture operating loss		<u>-</u>	<u>(1.0)</u>	<u>(1.9)</u>
Operating profit - continuing operations		35.0	28.5	60.4
Investment income		1.4	1.5	2.8
Finance costs		(5.5)	(5.8)	(10.8)
Fair value adjustments to financial instruments		<u>(1.7)</u>	<u>0.9</u>	<u>1.7</u>
Profit before taxation		29.2	25.1	54.1
Taxation	7	(8.3)	(7.2)	(15.5)
Profit for the period from continuing operations		<u>20.9</u>	<u>17.9</u>	<u>38.6</u>
Loss for the period from discontinued operations	2	(1.2)	(2.0)	(2.5)
Profit attributable to equity holders of the parent		<u>19.7</u>	<u>15.9</u>	<u>36.1</u>
Earnings per share from continuing operations	5			
Basic		7.09p	6.08p	13.11p
Diluted		7.05p	6.06p	13.06p
Earnings per share from continuing and discontinued operations	5			
Basic		6.68p	5.40p	12.26p
Diluted		6.64p	5.38p	12.22p

Unaudited consolidated statement of recognised income and expense

	26 weeks to 26-Aug-06 £m	26 weeks to 27-Aug-05 £m	52 weeks to 25-Feb-06 £m
Exchange differences on translation of foreign operations	(0.2)	(0.1)	(0.2)
Actuarial gains/(losses) on defined benefit pension schemes	2.9	(1.0)	(4.9)
Tax on items recognised directly in equity	(0.9)	0.3	1.5
Net expense recognised directly in equity	1.8	(0.8)	(3.6)
Profit for the period	19.7	15.9	36.1
Recognised income for the period attributable to equity holders of the parent	21.5	15.1	32.5

Unaudited consolidated balance sheet

	26-Aug-06 £m	27-Aug-05 £m	25-Feb-06 £m
Non-current assets			
Intangible assets	29.5	20.0	22.0
Property plant & equipment	63.9	54.8	61.0
Deferred tax assets	9.8	9.3	10.4
	<u>103.2</u>	<u>84.1</u>	<u>93.4</u>
Current assets			
Inventories	53.0	47.6	52.5
Trade and other receivables	341.2	321.4	326.0
Other financial assets	-	-	0.7
Cash and cash equivalents	38.7	30.1	51.1
	<u>432.9</u>	<u>399.1</u>	<u>430.3</u>
Non-current assets classified as held for sale	-	5.8	-
Total assets	<u>536.1</u>	<u>489.0</u>	<u>523.7</u>
Current liabilities			
Bank overdrafts	(0.2)	(0.1)	(0.2)
Obligations under finance leases	-	(0.6)	-
Trade and other payables	(78.7)	(66.7)	(79.1)
Other financial liabilities	(1.0)	(0.1)	-
Provisions	(2.0)	-	-
Current tax liability	(18.1)	(11.4)	(14.9)
	<u>(100.0)</u>	<u>(78.9)</u>	<u>(94.2)</u>
Net current assets	<u>332.9</u>	<u>320.2</u>	<u>336.1</u>
Non-current liabilities			
Bank loans	(143.8)	(143.8)	(143.8)
Retirement benefit obligation	(32.2)	(29.9)	(34.4)
Deferred tax liabilities	(4.8)	(2.9)	(5.3)
	<u>(180.8)</u>	<u>(176.6)</u>	<u>(183.5)</u>
Total liabilities	<u>(280.8)</u>	<u>(255.5)</u>	<u>(277.7)</u>
Net assets	<u>255.3</u>	<u>233.5</u>	<u>246.0</u>
Equity			
Share capital	29.5	29.5	29.5
Share premium account	9.5	9.2	9.2
Own shares	(0.5)	(1.4)	(0.8)
Foreign currency translation reserve	(0.2)	0.1	-
Retained earnings	217.0	196.1	208.1
Total equity	<u>255.3</u>	<u>233.5</u>	<u>246.0</u>

Unaudited consolidated cash flow statement

	26 weeks to 26-Aug-06 £m	26 weeks to 27-Aug-05 £m	52 weeks to 25-Feb-06 £m
Net cash inflow from operating activities	19.3	28.3	71.3
Cash flows from investing activities			
Purchases of property, plant and equipment	(5.3)	(3.3)	(11.7)
Proceeds on disposal of property, plant and equipment	-	-	0.2
Purchases of intangible fixed assets	(3.1)	(3.0)	(8.1)
Acquisition of subsidiary	(7.1)	-	-
Disposal of subsidiary	-	5.3	5.3
Interest received	0.6	0.8	1.4
Net cash flows from investing activities	(14.9)	(0.2)	(12.9)
Cash flows from financing activities			
Interest paid	(4.1)	(4.2)	(7.9)
Dividends paid	(13.1)	(12.1)	(17.4)
Repayment of bank loans	-	(26.2)	(26.2)
Repayment of obligations under finance leases	-	-	(0.6)
Proceeds on issue of share capital	0.3	-	-
Proceeds on issue of shares held by ESOT	0.1	-	0.2
Increase in bank overdrafts	-	-	0.1
Net cash flows from financing activities	(16.8)	(42.5)	(51.8)
Net (decrease)/increase in cash and cash equivalents	(12.4)	(14.4)	6.6
Opening cash and cash equivalents	51.1	44.5	44.5
Closing cash and cash equivalents	38.7	30.1	51.1

Reconciliation of operating profit to net cash inflow from operating activities

Cash flows from operating activities

Operating profit	35.0	29.5	62.3
Operating loss from discontinued operations	(1.7)	(1.5)	(2.2)
Depreciation	2.5	2.3	4.2
Loss on disposal of property, plant and equipment	-	-	0.2
Amortisation of intangible fixed assets	3.3	2.8	5.8
Share option charge	0.6	0.4	0.6

Operating cashflows before changes in working capital

Decrease/(increase) in inventories	2.0	(2.9)	(7.8)
Increase in trade and other receivables	(14.9)	(1.4)	(2.2)
(Decrease)/increase in trade and other payables	(1.7)	(0.1)	13.4
Pension obligation adjustment	(0.1)	(0.2)	(0.2)

Cash generated from operations

Taxation paid	(5.7)	(0.6)	(2.8)
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Net cash inflow from operating activities

19.3	28.3	71.3
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Notes to the interim financial statements

1. Analysis of revenue and operating profit

	26 weeks to 26-Aug-06 £m	26 weeks to 27-Aug-05 £m	52 weeks to 25-Feb-06 £m
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Analysis of revenue

Continuing operations

Home shopping	251.2	225.6	459.6
Fulfilment	4.6	3.2	9.1
	<u>255.8</u>	<u>228.8</u>	<u>468.7</u>

Analysis of operating profit

Continuing operations

Home shopping	35.1	29.6	62.4
Fulfilment	(0.1)	(0.1)	(0.1)
	<u>35.0</u>	<u>29.5</u>	<u>62.3</u>

2. Discontinued operations

	26 weeks to 26-Aug-06 £m	26 weeks to 27-Aug-05 £m	52 weeks to 25-Feb-06 £m
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Revenue

Door to door selling	4.6	8.5	16.1
TV rental	-	0.8	0.8
Financial services	-	0.9	0.9
	<u>4.6</u>	<u>10.2</u>	<u>17.8</u>

Operating (loss)/profit

Door to door selling	(1.4)	(1.6)	(2.3)
TV rental	-	(0.1)	(0.1)
Financial services	-	0.2	0.2
	<u>(1.4)</u>	<u>(1.5)</u>	<u>(2.2)</u>

Loss on disposal of discontinued operations

Finance costs	-	(0.2)	(0.2)
Taxation	0.5	0.9	1.1

Loss from discontinued operations

	<u>(1.2)</u>	<u>(2.0)</u>	<u>(2.5)</u>
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3. Reconciliation of equity

	26 weeks to 26-Aug-06 £m	26 weeks to 27-Aug-05 £m	52 weeks to 25-Feb-06 £m
Total recognised income for the period	21.5	15.1	32.5
Equity dividends declared	(13.1)	(12.1)	(17.4)
Issue of ordinary share capital	0.3	-	-
Issue of own shares via ESOT	0.1	-	0.2
Share option charge	0.5	0.4	0.6
Total movement during the period	9.3	3.4	15.9
Equity at the beginning of the period	246.0	230.1	230.1
Equity at the end of the period	255.3	233.5	246.0

4. Acquisition of subsidiary

On 30 June 2006 the group acquired the entire share capital of Gray & Osbourn Limited for a total cash consideration of £9.2m. Its principal activity is direct home shopping by catalogue.

The book value and provisional fair value of net assets acquired are as follows:

	£m
Plant and equipment	0.1
Inventories	2.4
Cash and cash equivalents	2.1
Trade and other receivables	0.4
Trade and other payables	(3.2)
Current tax liability	(0.3)
Net assets acquired	1.5
Goodwill arising on acquisition	7.7
Total consideration	9.2
Satisfied by:	
Cash	9.1
Directly attributable costs	0.1
	9.2
Cash acquired with business	(2.1)
Net cash outflow	7.1

A formal intangible asset valuation exercise is currently being performed.

5. Earnings per share

The calculation of earnings per share from continuing operations is based on the profit for the period from continuing operations of £20.9m (2005, £17.9m) and the weighted average number of shares in issue during the period of 294,923,000 (2005, 294,285,000). The calculation of earnings per share from continuing and discontinued operations is based on the profit attributable to equity holders of the parent of £19.7m (2005, £15.9m) and the weighted average number of shares in issue during the period of 294,923,000 (2005, 294,285,000). For diluted earnings per share, the weighted average number of shares of 296,511,000 (2005, 295,468,000) has been calculated after adjusting for the potential dilutive effect of outstanding share options.

6. Dividends

The directors have declared and approved an interim dividend of 2.19 pence per share (2005, 1.82p). This will be paid on 5 January 2007 to shareholders on the register at the close of business on 8 December 2006.

7. Taxation

The taxation charge for the 26 weeks ended 26 August 2006 is based on the estimated effective tax rate for the full year.

8. Basis of preparation

The accounting policies adopted in the preparation of the interim financial statement are consistent with those disclosed in the annual report and accounts for the 52 weeks ended 25 February 2006.

The financial information for the 52 weeks ended 25 February 2006 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. A copy of those accounts have been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain any statement under Section 237 (2) or (3) of the Companies Act 1985.

This report was approved by the Board of Directors on 11 October 2006.