

12 October 2000

Interim Results Announcement 26 weeks to 26 August 2000

N Brown Group plc, the Manchester based direct catalogue home shopping and fulfilment services company, today announces its interim results for the 26 weeks to 26 August 2000.

The group continues to report a strong performance. Turnover growth in the core division of home shopping was ahead of the retail sector, reflecting increased customer spending and retention, and supported by a wider product range.

Our fulfilment services division has been further enhanced with the acquisition of Eunite, the e-convergence company providing multi-channel solutions and complementing Zendor.com's offer.

Highlights of the results include:

- Turnover £185.9m (1999 : £172.5m) **up 7.8%**
- Operating profit £24.7m (1999 : £23.0m) **up 7.5%**
- Profit before tax (before Zendor.com costs) £23.1m (1999 : £21.4m) **up 7.9%**
- Earnings per share 5.55p (1999 : 5.16p)* **up 7.6%**
- Interim dividend per share 1.45p (1999 : 1.35p)* **up 7.4%**

** 1999 figures restated to reflect the recent 1 for 1 bonus issue of shares*

Sir David Alliance CBE, Chairman, said:

"I am pleased to report a good set of results, particularly in the light of a difficult retail climate.

"Zendor.com is performing to expectations. We have a number of quality prospects which will be announced according to the client's plans.

"We are continuing to launch initiatives which will drive growth in our core businesses, as well as developing other opportunities leading to further progress this year and next."

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CHAIRMAN'S STATEMENT

I am delighted to report continued strong growth for the six months to August 2000 in a challenging retail climate. Turnover is up 7.8% to £185.9m and, before absorbing Zendor.com's first half costs of £0.4m, profit before tax has increased by 7.9% to £23.1m. Earnings per share have increased by 7.6% to 5.55 pence and the board has declared an interim dividend of 1.45 pence per share, up by 7.4%.

Home Shopping

Home shopping turnover is up by 7.8%, well ahead of the retail sector as a whole. Much of this is due to the continued support and loyalty of our existing established customers. Turnover from these customers increased by 8.5%, with a 4.5% rise in the number who ordered to 1.8 million and a 4% increase in their average spending. This growth in customer spending is particularly satisfying against a background of price deflation, which was around 4% in the period.

An important part of our growth strategy is the development of our household and electrical products, sales of which have grown by 25% to £42m, now representing 23% of home shopping turnover. We have increased the frequency as well as the number of customers contacted, using the Home Essentials brochure and a new publication, Inspirational Homes, as well as devoting more space to these items in our main catalogues. Product ranges have been widened and customers are being offered more flexible credit propositions.

Clothing and footwear sales volumes continue to be strong but selling prices are generally lower than last year, a situation which is reflected in the retail sector. Despite this, ladies clothing sales are ahead by 5% to £108m with demand favouring younger, informal separates. A new brochure, Naturally Close, containing a range of lingerie, nightwear and swimwear was successfully launched this season. Sales of menswear and footwear have declined by 3% in spite of increased volumes. This reflects the general pressure on pricing in these product groups.

Our main catalogues are well positioned demographically to take advantage of an ageing and more affluent population. Turnover from customers in their mid forties through to early sixties has advanced by 8% to £130m. We have also invested in the younger market of consumers in their thirties and forties and sales to these customers are up by 9% to £37m.

Due to better control of stock, gross margins are up by 0.6% to 56.6%, despite the increase in turnover of the traditionally lower margin ranges of household and electrical products. We are implementing further stock forecasting enhancements which will allow us to build on these gains next year and beyond.

Financial Services

Operating profit from the activities of First Financial, our financial services business, is up from £0.6m last year to £0.8m. This is a commission-based financial intermediary, offering unsecured loans, insurance and other products to home shopping customers. Our enhanced financial services database now enables us to segment and target customers with greater accuracy, offering appropriate and timely financial products.

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Fulfilment Services

Last year we recognised the strategic importance of fulfilment services when we announced the creation of a new division. This business offers complete fulfilment services to new and existing distance shopping companies operating in either the conventional catalogue or internet channels. The majority of these services already exists within the group and we are progressively strengthening the proposition by acquisition, joint venture and organic developments.

The marketing arm for this division is Zendor.com, 75% owned by the group and 25% owned by a division of GE. Zendor.com's dedicated management team has been involved in the lengthy process of helping clients to create their distance shopping strategies and this has resulted in contracts with New Look and River Island, the former having started recently with the launch of their first catalogues. We are in advanced discussions with a number of other leading organisations and are on track to achieve our overall plan. Announcements will be made according to the timing preference of each new client. There was a loss for Zendor.com of £0.4m in the first half and we expect a similar result in the second half as revenues begin to build. The benefits of Zendor.com will be seen next year.

In August we announced the acquisition of a 60% controlling interest in Eunite, an e-convergence company and leading provider of multi-channel e-commerce solutions with access through the internet, mobile phones and interactive television. The remaining 40% is intended to be acquired over the next three years at a price linked to challenging profit targets. This acquisition adds to Zendor.com's fulfilment strengths, furthering its ability to provide clients with an end-to-end service, as well as providing specialist support in the development of our existing and new home shopping channels.

We are also actively pursuing other investment opportunities which we believe will further enhance our fulfilment proposition to potential clients.

Balance Sheet

Net assets increased by 15.8% to £184.8m. Gearing has increased from 28% to 33% due to £9m capital expenditure, increases in working capital and the acquisition of Eunite. The net cash outflow before financing this year was £14.7m against £1.6m last year.

The main items of capital expenditure are an additional warehouse in Rochdale, Lancashire, enhancements to warehouse sorting machines and the initial payments for the second phase of the high bay warehouse extension which will become operational next year. These additions are necessary for both organic expansion and Zendor.com requirements. Interest bearing debtors increased by 9% to £194m and stocks were up by 7% to £36m.

Prospects

Despite the continuing highly competitive retail market, the second half began with turnover for the first two weeks up by 8%. Sales were affected to a small extent by the fuel crisis but we expect to recoup this by the year end.

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We are continuing to launch initiatives which will drive growth in our core businesses, as well as developing other opportunities leading to further progress this year and next. We have taken steps to reduce costs which will progressively contribute, including a blend of overhead sourcing gains and a restructuring of catalogues and brochures. We expect the deflationary pressure on selling prices to begin to ease next year, improving operating margins.

On behalf of the board, my sincere thanks to staff in all parts of the business for their continued outstanding contribution.

Sir David Alliance, CBE
12 October 2000

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N Brown Group plc – Interim Results
GROUP PROFIT AND LOSS ACCOUNT (Unaudited)

		26 weeks to 26 Aug 2000 £'000	26 weeks to 28 Aug 1999 £'000	52 weeks to 26 Feb 2000 £'000
	<u>Note</u>			
Turnover	1	185,938 =====	172,506 =====	354,733 =====
Operating profit	2	24,748	23,005	51,208
Profit on partial sale of subsidiary undertaking		-	-	3,802
Share of (loss)/profit of associated undertakings		(141)	18	(132)
Income from listed investments		22	23	53
Interest payable		(1,967)	(1,668)	(3,564)
Profit on ordinary activities before taxation		22,662	21,378	51,367
Taxation on profit on ordinary activities	6	(6,731)	(6,498)	(14,366)
Profit on ordinary activities after taxation		15,931	14,880	37,001
Equity minority interests		166	14	115
Profit for the financial period		16,097	14,894	37,116
Dividends	7	(4,214)	(3,916)	(13,187)
Retained profit		11,883 =====	10,978 =====	23,929 =====
Earnings per share	4	5.55p	5.16p	12.85p
Diluted earnings per share	4	5.50p	5.12p	12.72p
Dividends per share	4, 7	1.45p =====	1.35p =====	4.55p =====

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**N Brown Group plc – Interim Results
GROUP BALANCE SHEET – (Unaudited)**

	At 26 Aug 2000 £'000	At 28 Aug 1999 £'000	At 26 Feb 2000 £'000
Fixed assets:			
Intangible assets	9,370	2,007	2,885
Tangible assets	65,920	59,744	62,758
Investments	3,431	3,641	3,199
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	78,721	65,392	68,842
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Current assets:			
Stocks	35,518	33,081	35,467
Debtors	210,648	188,927	202,806
Cash at bank and in hand	2,186	3,580	5,083
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	248,352	225,588	243,356
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Creditors:			
Amounts falling due within one year	(79,257)	(91,509)	(88,471)
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Net current assets	169,095	134,079	154,885
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Total assets less current liabilities	247,816	199,471	223,727
Creditors:			
Amounts falling due after more than one year	(59,719)	(37,583)	(47,941)
Provisions for liabilities and charges	(3,253)	(2,270)	(3,253)
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Net assets	184,844	159,618	172,533
	=====	=====	=====
Capital and reserves:			
Called up share capital	29,278	14,616	14,634
Share premium account	4,335	17,923	18,714
Revaluation reserve	1,661	1,720	1,511
Profit and loss account	149,851	125,624	138,103
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Equity shareholders' funds	185,125	159,883	172,962
Equity minority interests	(281)	(265)	(429)
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Capital employed	184,844	159,618	172,533
	=====	=====	=====
Gearing	33%	28%	26%

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N Brown Group plc – Interim Results
GROUP CASH FLOW STATEMENT (Unaudited)

	26 weeks to 26 Aug 2000 £'000	26 weeks to 28 Aug 1999 £'000	52 weeks to 26 Feb 2000 £'000
Operating activities:			
Operating profit	24,748	23,005	51,208
(Increase)/decrease in stocks	(39)	592	(2,117)
Increase in debtors	(6,867)	(8,914)	(22,825)
(Decrease)/increase in creditors	(9,997)	(4,062)	1,283
Depreciation (net of profit on disposals)	5,662	4,868	10,158
Goodwill amortisation	90	49	116
Profit on sale of investments	-	(64)	(358)
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Net cash inflow from operating activities	13,597	15,474	37,465
Returns on investments and servicing of finance	(2,077)	(1,489)	(3,412)
Taxation paid	(3,110)	(1,583)	(14,080)
Capital expenditure and financing activities	(9,377)	(5,723)	(13,242)
Acquisitions and disposals	(4,432)	(157)	2,998
Equity dividends paid	(9,277)	(8,367)	(12,270)
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Net cash outflow before management of liquid resources and financing	(14,676)	(1,845)	(2,541)
Management of liquid resources	-	214	508
Financing	11,940	945	2,677
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(Decrease)/increase in cash	(2,736)	(686)	644
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N Brown Group plc – Interim Results

NOTES TO THE ACCOUNTS (Unaudited)

	26 weeks to 26 Aug 2000 £'000	26 weeks to 28 Aug 1999 £'000	52 weeks to 26 Feb 2000 £'000
1. Analysis of turnover			
Home shopping	185,932	172,506	354,733
Fulfilment services – Zendor.com	6	-	-
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	185,938	172,506	354,733
	=====	=====	=====
2. Analysis of operating profit			
Home shopping	25,502	23,358	51,957
Fulfilment services – Zendor.com	(399)	-	-
Central administration costs	(355)	(353)	(749)
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	24,748	23,005	51,208
	=====	=====	=====

- The interim accounts have been prepared in accordance with the accounting policies set out in the Annual Report and Accounts for the 52 weeks ended 26 February 2000 and were approved by the board of directors on 12 October 2000.
- 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 289,854,000 (1999, 288,496,000). For diluted earnings per share, the weighted average number of shares of 292,687,000 (1999, 290,768,000) has been calculated after adjusting for the potential dilution of outstanding share options.

The prior period comparatives for earnings per share and dividends per share have been restated to reflect the one-for-one bonus issue of shares on 7 July 2000 by way of capitalisation of a proportion of the share premium account.
- On 12 August 2000, the group acquired 60% of the issued ordinary share capital of Eunite Limited for a consideration of £6,911,000. This acquisition is not considered to be significant in relation to the reporting requirements of FRS3.
- The taxation charge for the 26 weeks ended 26 August 2000 is based on the estimated effective tax rate for the full year.
- The interim dividend of 1.45p per ordinary share will be paid on 5 January 2001 to shareholders on the register at the close of business on 1 December 2000.
- The figures for the 52 weeks ended 26 February 2000 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.
- It is expected that the interim report for the 26 weeks ended 26 August 2000 will be posted to shareholders on 16 October 2000.