N Brown Group plc. 53 Dale Street Manchester M60 6ES

N Brown Group plc
Interim report 2001

The direct home shopping, fulfilment and financial services company

Focus

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

Our strategy is to:

- Grow our core home shopping business by focusing on a wide range of value products and offers to our customers.
- Offer comprehensive end-to-end fulfilment services to external clients.
- Capitalise on the significant growth opportunities within financial services.
- Form strategic alliances in order to broaden the reach of our proposition.

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.

www.nbrown.co.uk

Financial highlights

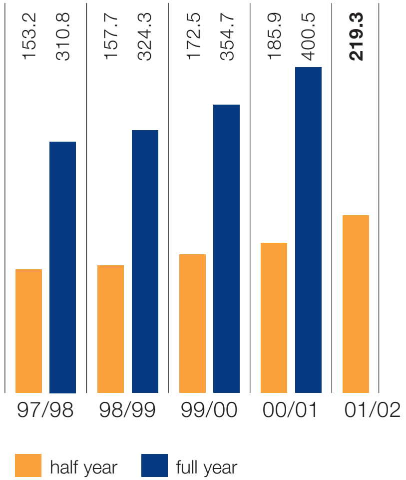
For the 26 weeks ended 1 September 2001

	2001	2000	Change %
Turnover	**£219.3m**	£185.9m	18.0
Operating profit	**£28.0m**	£24.7m	13.0
Profit before taxation	**£25.3m**	£22.7m	11.5
Earnings per share	**6.28p**	5.55p	13.2
Dividends per share	**1.65p**	1.45p	13.8
Net assets	**£208.5m**	£183.0m*	13.9
Net asset value per share	**71p**	63p	
Gearing	**41%**	34%*	

* restated following the adoption of FRS19 (see note 3 on page 8).

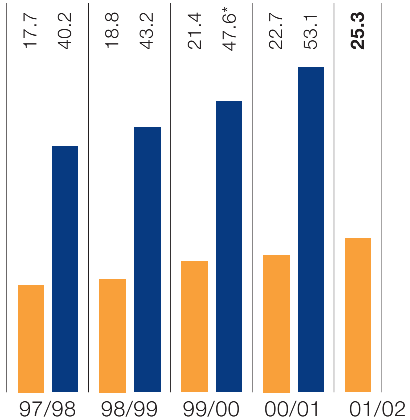
Turnover (£m)

Continuing operations



Pre-tax profit (£m)

Continuing operations



* Excluding exceptional credit.

I am delighted to report another strong performance for the six months to 1 September 2001, with profit before tax up by 11.5% to £25.3m on turnover 18.0% higher at £219.3m. Earnings per share rose 13.2% to 6.28p and the board has recommended a 13.8% increase in the interim dividend to 1.65p per share. Most encouragingly, the core home shopping division performed particularly well, with both sales and operating profit up 16%.

Home Shopping

This division has handsomely outperformed both the High Street and distance shopping sectors of the retail market with a 16% increase in turnover to £214m, matched by a similar increase in operating profit to £28m. Most of this increase in turnover has come from our longer established customers, who have grown in number by 6% to just under 2 million with spending ahead by 9%. An increased level of marketing investment has been directed at these customers, offering them a wider range of products, particularly household and electrical goods, which has contributed to the impressive rise in their average spending.

Sales of womenswear, which continues to be the major part of our product offer, increased by 11% to £120m and now represents 56% of home shopping turnover. In a reversal of last year's performance, turnover in menswear has increased by 17% to £18m and footwear is ahead by 9% to £19m.

The growth in sales of household and electrical goods has continued to justify the concentration we have placed on this area of our business, with sales growing by 31% to £54m, representing 26% of turnover against 23% a year ago.

Product ranges have been continually enhanced and customers are being offered more flexible credit propositions. Given the overall size of this product category in the marketplace, we believe there is considerable growth potential for us in sales of these goods in the future.

We have a wide portfolio of catalogues directed at discrete groups of customers. The largest of these, aged between 40 and 65 years, increased its sales by 11% to £145m, now representing 68% of home shopping turnover. Consumers in this age category are growing in number and affluence and we are well positioned to benefit from this demographic trend. Additionally, we recognise the opportunity provided by younger consumers aged between 30 and 45 years and we are delighted that sales to this group increased by 30% to £48m. This rise was assisted by the successful launch of our 'Simply Be' catalogue, which is aimed at the younger, fuller figured woman. Our third group of catalogues, directed at those customers in retirement, increased sales by 10% to £13m. House of Stirling, our door-to-door sales operation, has successfully completed a period of consolidation and performed well with sales up by 31% to £5m.

Sales through our internet sites reached £5m in the period, a tenfold increase since last year and, with a current annualised rate of £12m, we have confidence in the growth potential of this channel. These sales, which have the benefit of reduced transactional costs, came from a wide range of customers who were generally younger and higher spending.

The sustainable competitive advantages that we have in our home shopping business will continue to be based on a highly targeted and cost effective customer contact strategy, a detailed knowledge of product trends and range architecture and a culture of responding rapidly to changes in market conditions and consumer trends.

Fulfilment

Our fulfilment division consists of Zendor, the end-to-end fulfilment solutions company which largely uses the facilities of N Brown, and the recently acquired Eunite, a leading provider of multi-channel e-commerce services.

Eunite has been affected by the downturn in e-commerce and has made an operating loss of £0.9m. We have implemented steps to reduce costs and examine areas for new sales opportunities whilst at the same time augmenting the management team. We still anticipate a small loss in the second half, but remain confident about the long-term future of Eunite as a complementary business to Zendor.

Zendor has continued to invest in its people for the future in order to offer quality end-to-end fulfilment and consultancy services to third parties. It is developing well and has entered into long-term arrangements with several large clients whose expectations of their own home shopping sales, to be serviced through Zendor, amount to £38m in their first year of operation. In line with expectations, Zendor made a small operating loss of £0.3m in the period but, with an encouraging flow of new prospects into the business, we believe that it will make an early move into profit.

Financial Services

First Financial, our financial services division, increased its operating profit by 11% to £0.9m.

Acting as a commission based intermediary, this division offers a variety of financial products, such as life assurance, personal finance and house and contents insurance, sourced from reputable financial organisations. In addition, acting as principal lender, First Financial has recently started to provide unsecured personal loans directly to our customers. We are aware of the need to lend responsibly and, to ensure this, the personal circumstances of applicants are carefully considered by our dedicated financial services team, which has been strengthened with experienced personnel drawn from the consumer credit industry.

Balance Sheet

Net assets increased by 14% to £209m and stocks were up by 5% to £37m. Capital expenditure was broadly similar to last year and the net cash outflow before financing decreased from £15m to £9m. Gearing rose from 34% to 41% due mainly to an increase in interest bearing home shopping debtors, up by 19% to £231m, as a result of customers taking advantage of one or more of our popular credit propositions.

Prospects

The continued success of the Group, against a highly competitive retail background, owes much to our declared strategy of aligning new initiatives to our core skills in home shopping. We believe that the direct distance shopping marketplace, in which we operate, is set for a sustained period of long-term growth and we are well positioned to take advantage of this opportunity.

The second half has begun well, with turnover for the first six weeks up by 12%, after making an allowance for the negative effect of last year's petrol shortages. It is too early to assess whether the present uncertainty in world markets will have any impact on our business. However, I am confident in the ability of our management teams to respond positively to market conditions and I remain cautiously optimistic for the Group's full year results.

On behalf of the shareholders, I would like to thank all of our staff for their unstinting efforts in achieving such a strong set of results.

Sir David Alliance, CBE
16 October 2001

Group profit and loss account (unaudited)

	Note	26 weeks to 1 Sept 2001 £'000	26 weeks to 26 Aug 2000 £'000	53 weeks to 3 Mar 2001 £'000
Turnover	1	**219,331**	185,938	400,492
Operating profit	2	**27,964**	24,748	57,154
Share of associates' operating (loss) profit		**-**	(141)	253
Loss on disposal of associated undertaking		**(28)**	-	-
Income from listed investments		**22**	22	44
Interest payable and similar charges		**(2,681)**	(1,967)	(4,398)
Profit on ordinary activities before taxation		**25,277**	22,662	53,053
Taxation on profit on ordinary activities	5	**(7,508)**	(6,731)	(15,332)
Profit on ordinary activities after taxation		**17,769**	15,931	37,721
Equity minority interests		**499**	166	427
Profit for the financial period		**18,268**	16,097	38,148
Dividends	6	**(4,808)**	(4,214)	(15,135)
Retained profit		**13,460**	11,883	23,013
Earnings per share	4	**6.28p**	5.55p	13.14p
Diluted earnings per share	4	**6.24p**	5.50p	13.04p
Dividends per share	6	**1.65p**	1.45p	5.20p

Group balance sheet (unaudited)

	1 Sept 2001 £'000	26 Aug 2000 £'000 restated (note 3)	3 Mar 2001 £'000 restated (note 3)
Fixed assets			
Intangible assets	**9,043**	9,370	9,307
Tangible assets	**75,735**	65,920	70,826
Investments	**3,078**	3,431	3,441
	87,856	78,721	83,574
Current assets			
Stocks	**37,214**	35,518	37,814
Debtors	**259,678**	210,648	244,860
Cash at bank and in hand	**6,322**	2,186	3,710
	303,214	248,352	286,384
Creditors			
Amounts falling due within one year	**(92,839)**	(79,257)	(91,146)
Net current assets	**210,375**	169,095	195,238
Total assets less current liabilities	**298,231**	247,816	278,812
Creditors			
Amounts falling due after more than one year	**(84,167)**	(59,719)	(78,193)
Provisions for liabilities and charges	**(5,541)**	(5,069)	(5,541)
Net assets	**208,523**	183,028	195,078
Capital and reserves			
Called-up share capital	**29,308**	29,278	29,298
Share premium account	**5,168**	4,335	4,919
Revaluation reserve	**1,740**	1,661	1,576
Profit and loss account	**173,342**	148,035	159,821
Equity shareholders' funds	**209,558**	183,309	195,614
Equity minority interests	**(1,035)**	(281)	(536)
Capital employed	**208,523**	183,028	195,078
Gearing	**41%**	34%	40%

Group cash flow statement (unaudited)

	26 weeks to 1 Sept 2001 £'000	26 weeks to 26 Aug 2000 £'000	53 weeks to 3 Mar 2001 £'000
Operating activities			
Operating profit	**27,964**	24,748	57,154
Decrease (increase) in stocks	**600**	(39)	(2,335)
Increase in debtors	**(16,856)**	(6,867)	(40,983)
Increase (decrease) in creditors	**44**	(9,997)	(1,690)
Depreciation (net of profit (loss) on disposals)	**6,264**	5,662	11,793
Goodwill amortisation	**264**	90	349
Net cash inflow from operating activities	**18,280**	13,597	24,288
Returns on investments and servicing of finance	**(2,634)**	(2,077)	(4,833)
Taxation paid	**(5,482)**	(3,110)	(12,427)
Capital expenditure and financial investment	**(8,409)**	(9,377)	(19,988)
Acquisitions and disposals	**575**	(4,432)	(4,534)
Equity dividends paid	**(10,913)**	(9,277)	(13,494)
Net cash outflow before financing	**(8,583)**	(14,676)	(30,988)
Financing	**10,946**	11,940	30,340
Increase (decrease) in cash in the period	**2,363**	(2,736)	(648)

Statement of group total recognised gains and losses (unaudited)

	26 weeks to 1 Sept 2001 £'000	26 weeks to 26 Aug 2000 £'000	53 weeks to 3 Mar 2001 £'000
Profit for the financial period	**18,268**	16,097	38,148
Unrealised gain on trade investment	**164**	150	99
Exchange adjustments offset in reserves	**-**	-	51
Total recognised gains relating to the period	**18,432**	16,247	38,298
Prior year adjustment (see note 3 on page 8)	**(1,816)**		
Total gains and losses recognised since last annual report	**16,616**		

Reconciliation of movements in group shareholders' funds (unaudited)

	26 weeks to 1 Sept 2001 £'000	26 weeks to 26 Aug 2000 £'000	53 weeks to 3 Mar 2001 £'000
Profit for the financial period	**18,268**	16,097	38,148
Dividends	**(4,808)**	(4,214)	(15,135)
	13,460	11,883	23,013
Other recognised gains and losses relating to the period	**164**	150	150
Transfer in respect of employee share ownership trusts	**62**	-	1,158
Issue of ordinary share capital	**258**	130	147
Net addition to shareholder's funds	**13,944**	12,163	24,468
Opening equity shareholders' funds as previously stated	**197,430**	172,962	172,962
Prior year adjustment (see note 3 on page 8)	**(1,816)**	(1,816)	(1,816)
Opening equity shareholders' funds as restated	**195,614**	171,146	171,146
Closing equity shareholders' funds	**209,558**	183,309	195,614

	26 weeks to 1 Sept 2001 £'000	26 weeks to 26 Aug 2000 £'000	53 weeks to 3 Mar 2001 £'000
1. **Analysis of turnover**			
Home shopping	**214,219**	184,960	395,984
Fulfilment	**3,378**	6	2,354
Financial services	**1,734**	972	2,154
	219,331	185,938	400,492
2. **Analysis of operating profit**			
Home shopping	**28,242**	24,320	56,931
Fulfilment	**(1,198)**	(399)	(1,385)
Financial services	**920**	827	1,608
	27,964	24,748	57,154

3. The interim accounts were approved by the board of directors on 16 October 2001 and have been prepared in accordance with the accounting policies set out in the Annual Report and Accounts for the 53 weeks ended 3 March 2001 except for the adoption of Financial Reporting Standard ("FRS") 19 - "Deferred tax". FRS 19 requires deferred taxation to be accounted for on a full provision basis instead of a partial provision method as previously adopted by the group. This change in accounting policy has been recognised in the accounts as a prior year adjustment and comparative figures for the 26 weeks ended 26 August 2000 and the 53 weeks ended 3 March 2001 have been restated. As a result of this change, net assets as at 3 March 2001 have been reduced by £1,816,000. There is no impact on the profit and loss account for either period.

4. 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 291,039,000 (2000, 289,854,000). For diluted earnings per share, the weighted average number of shares of 292,706,000 (2000, 292,687,000) has been calculated after adjusting for the potential dilution of outstanding share options.

5. The taxation charge for the 26 weeks ended 1 September 2001 is based on the estimated effective tax rate for the full year.

6. The interim dividend of 1.65p per ordinary share will be paid on 4 January 2002 to shareholders on the register at the close of business on 30 November 2001.

7. The figures for the 53 weeks ended 3 March 2001 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.

Core home shopping

Young (30-45)

Fashion World www.fashionworld.co.uk
Simply Be www.simplybe.com
Naturally Close www.naturallyclose.co.uk
The Value Catalogue www.valuecatalogue.co.uk
Classic Combination www.classiccombination.com
Classic Confidence www.classicconfidence.co.uk

Midlife (45-65)

JD Williams www.jdwilliams.co.uk
Ambrose Wilson www.ambrosewilson.com
Oxendales www.oxendales.com
Heather Valley www.heathervalley.com
Fifty Plus www.fiftyplus.co.uk
Shoe Tailor www.shoetailor.com
Shapely Figures www.shapelyfigures.com
Simply Yours www.simplyyours.co.uk
Compliments www.compliments.co.uk
Premier Man www.premierman.com
Full Power www.fullpower.co.uk
Inspirational Home www.inspirationalhome.co.uk
Discountworld www.discountworld.com
Teleview Direct www.televiewdirect.co.uk

Elderly (60+)

Special Collection www.specialcollection.com
Sartor www.sartor.co.uk
Whitfords www.whitfords.com
Bury Boot and Shoe www.burybootandshoe.com

Fulfilment

Zendor www.zendor.com
Eunite www.eunite.co.uk

Partners

GE Capital www.ge.com
AHL Services www.ahls.com

www.nbrown.co.uk

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