We look at people differently

People differ. An appreciation of this simple fact underpins N Brown's unique approach to home shopping. We refuse to homogenise our customers. We endeavour to know more about them, about their tastes, their expectations of quality and their size specifications. From what we learn we are able to tailor our services and, quite literally, our merchandise to satisfy their requirements. This understanding makes us different. It gives N Brown a competitive advantage and drives our business success.

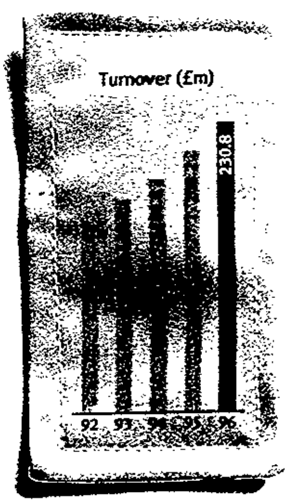
Contents

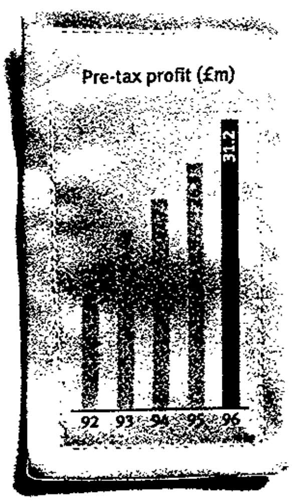
Financial highlights

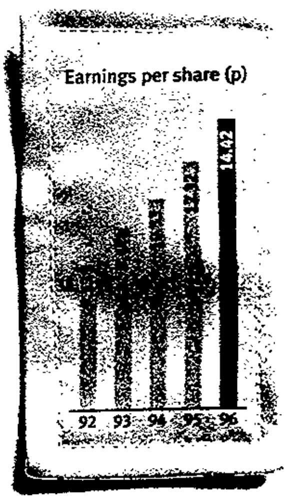
For the 53 weeks ended 2nd March 1996

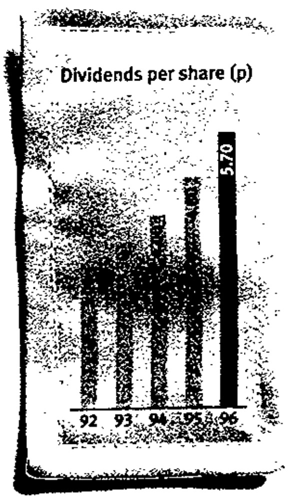
Summary of results	1996	1995	Change (%)
Turnover	£230.8m	£208.2m	10.9
Operating profit	£33.4m	£28.6m	16.8
Profit before taxation	£31.2m	£26.5m	17.9
Profit after taxation	£21.1m	£18.0m	17.1
Earnings per share	14.42p	12.32p	17.1
Dividends per share	5.70p	4.80p	18.8
Net assets	£103.8m	£91.5m	13.5
Net asset value per share	71p	63p	
Gearing	23%	34%	

Five year review









Chairman's statement

Despite challenging retail conditions, the group has continued to grow with turnover up by 10.9% to £230.8m, profit before tax up by 17.9% to £31.2m and earnings per share up by 17.1% to 14.42p. The directors are pleased to recommend a final dividend of 4.1p per share which makes a total for the year of 5.7p, up 18.8% on last year. Net assets this year have risen by 13.5%, breaking through £100m for the first time, whilst gearing has fallen further to 23% on the back of a cash inflow before financing of £7.9m.

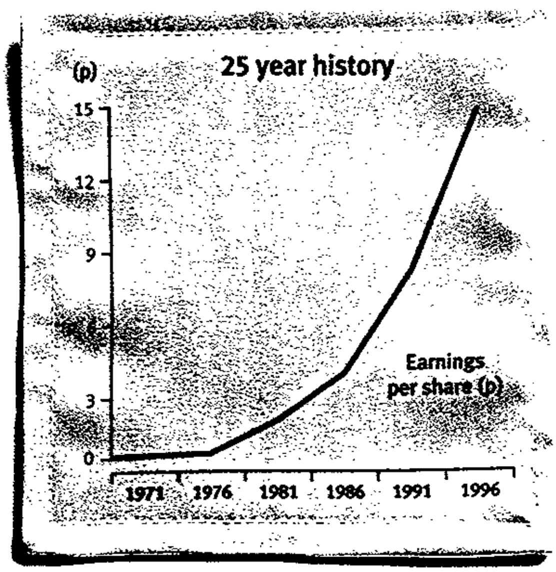
The fastest growth within our catalogue brands came from Classic Combination, Fashion World and Candid.

All of the catalogue groups have increased in both turnover and profits, with the fastest growth coming as planned from Classic Combination, Fashion World and Candid which are all targeted at the slightly younger market. Product ranges in all the catalogues have been expanded and have been well received by our customers. The customer database has increased by 7% in the year under review and this trend has continued since the year end.

The home shopping board is promoting a number of new developments and initiatives across a wide spectrum and where necessary the management team is being further strengthened to ensure successful implementations. These initiatives are not only designed to support the continued growth of the company, but also to provide an even higher standard of service for our customers.

Our policy of investing in people, automation and computing systems to improve efficiency is continuing in all areas of the business. Some of the central systems are being replaced and upgraded in a programme designed to improve both the speed of transaction processing and the quality and availability of information needed to manage the business over the next decade. The major item of capital expenditure in 1995 was a £4m investment in new sorting and packing machines at the distribution centre, which will increase the speed and accuracy of despatches to customers and provide a greater degree of control over the distribution chain. The board has approved a further £10m to add a high bay extension to the present warehouse complex by 1998 which will double our existing storage capacity.

Chairman's statement



Earnings per share have grown to a compound rate of 20% p.a. over the last 25 years

Sander & Kay, a menswear catalogue business, was acquired in March 1995 and has performed to our expectations. Last November, together with Iceland Group plc, we approached the management and family shareholders of Littlewoods with an offer of £1.1bn to acquire the whole organisation. Subsequently, their shareholders voted not to accept any offers at that time but to continue their own strategic review of the future. Although the bid did not succeed, it received widespread support from our principal shareholders, financiers and commentators and is an indication of the direction in which we want to take the company. Senior management is ready for major new challenges and we believe there will be further opportunities.

The directors have ensured throughout the year that the group is managed in line with the best principles of corporate governance, reflecting the essential aspects of both the Cadbury and Greenbury reports. At an extraordinary general meeting on 26th June 1996 we will be asking shareholders to consider a new long term incentive share plan for directors and senior executives in lieu of the grant of further options under the executive share option scheme.

On behalf of the board I would like to thank the management and staff in the group for their efforts throughout the year which have enabled us to outperform the retail sector. The support from our suppliers, advisors and trade unions has also been commendable.

It is 25 years since I transferred my home shopping companies to N Brown. In that time earnings per share have multiplied 103 times, a compound growth rate of 20% per annum. Whilst I cannot promise such growth over the next quarter of a century, sales in the current financial year have got off to a good start and I am confident that we will have another successful year.

Sir David Alliance CBE

Chief Executive's review

This has been another successful year with growth in turnover and profits resulting from the ongoing development of our clearly focused strategies. Turnover for the 53 weeks to 2nd March 1996 was 10.9% ahead at a record £230.8m compared with £208.2m for the 52 weeks last year. Profit before tax grew by 17.9% to £31.2m, including the benefit of a £1.0m refund of VAT arising from the successful resolution of a dispute regarding the change of rate in 1991.

The balance sheet has been strengthened, with gearing down from 34% to 23%. Stocks have increased by only 3.6%. Trade debtors have risen in line with turnover and we now have over 1m customers with an average balance of £103. Part of our success is due to a sustained policy of investment, with capital expenditure for the year of £7.7m mainly on warehouse and technology applications and the provision of additional operational facilities in Manchester.

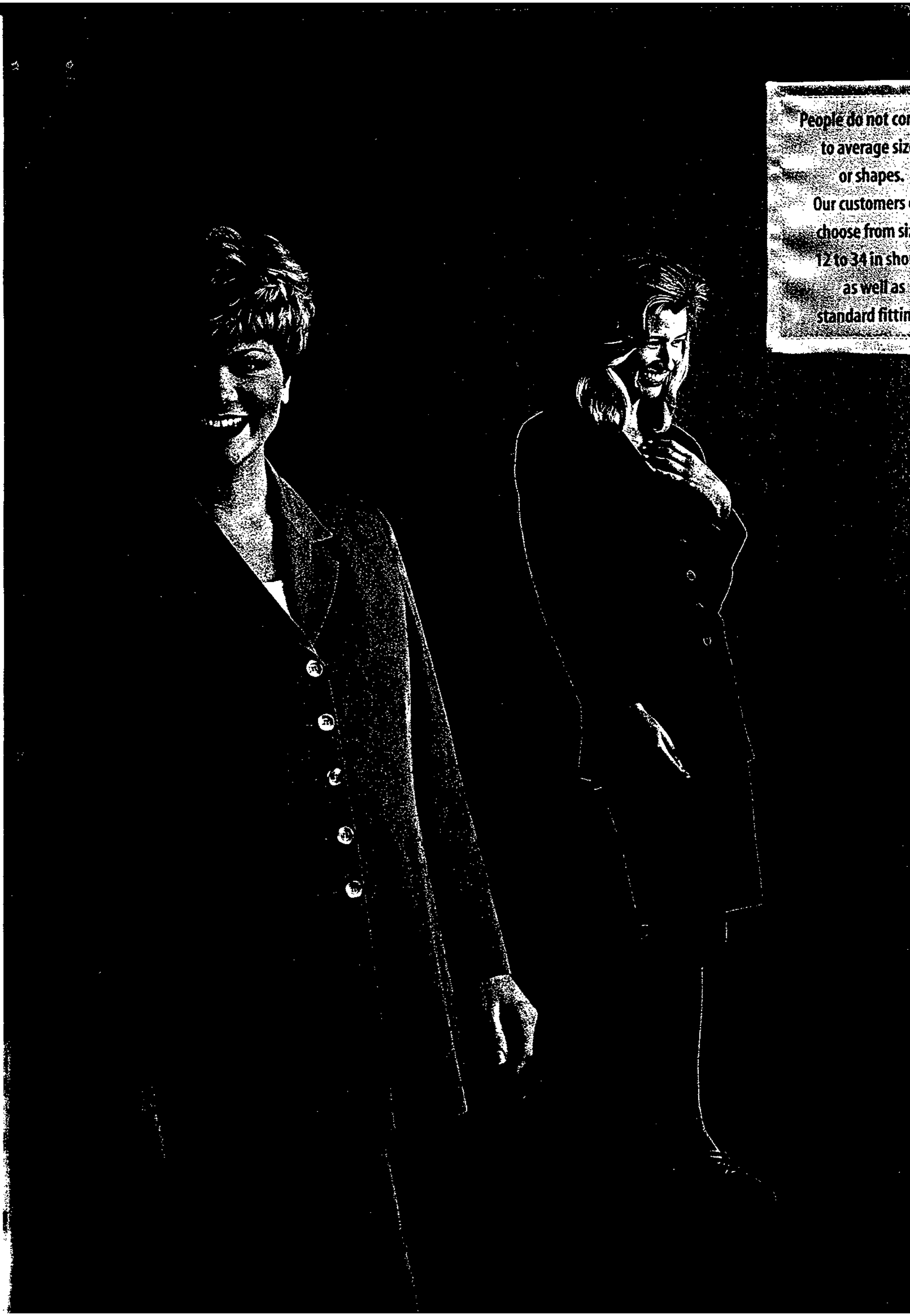
Home shopping

In a challenging year for retailers generally, turnover for the 53 weeks reached £224.3m which is 11.6% up on last year. Operating profit was up by 19.4% to £33.6m. Gross margins have been maintained despite intense pressures in the market place. The net profit has benefited from general reductions in overheads after absorbing significant increases in paper prices.

The number of customers buying from group catalogues increased by 7% to 1.6m and their average spend rose by 4%. Turnover growth has been achieved by the ongoing organic development of catalogues, assisted by the acquisition of Sander & Kay in March 1995. This company has had a successful year with turnover of £5m from catalogues containing mainly menswear. It is now playing an important role in the database development for male customers.

N Brown's home shopping business is based on a range of lifestyle catalogues targeted at distinct groups of consumers from thirty five years of age through to retirement. Our philosophy is that there is no such thing as an average customer. Everybody has distinct needs and characteristics and we aim to serve them accordingly. The different catalogues sent to each group of customers provide for their particular financial and product needs and offer a range of services, including flexible credit terms, designed to make home shopping a pleasurable experience. Most customers are recruited to our database by responding to focused selling propositions in national magazines and newspapers which have readership profiles close to our target customers.

Customers are recruited mostly through advertising in national magazines and newspapers.


People do not cor
to average siz
or shapes.
Our customers
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standard fittin

Chief Executive's review

The largest and longest established catalogue group comprises J D Williams, Oxendales, Heather Valley, Fifty Plus and Ambrose Wilson

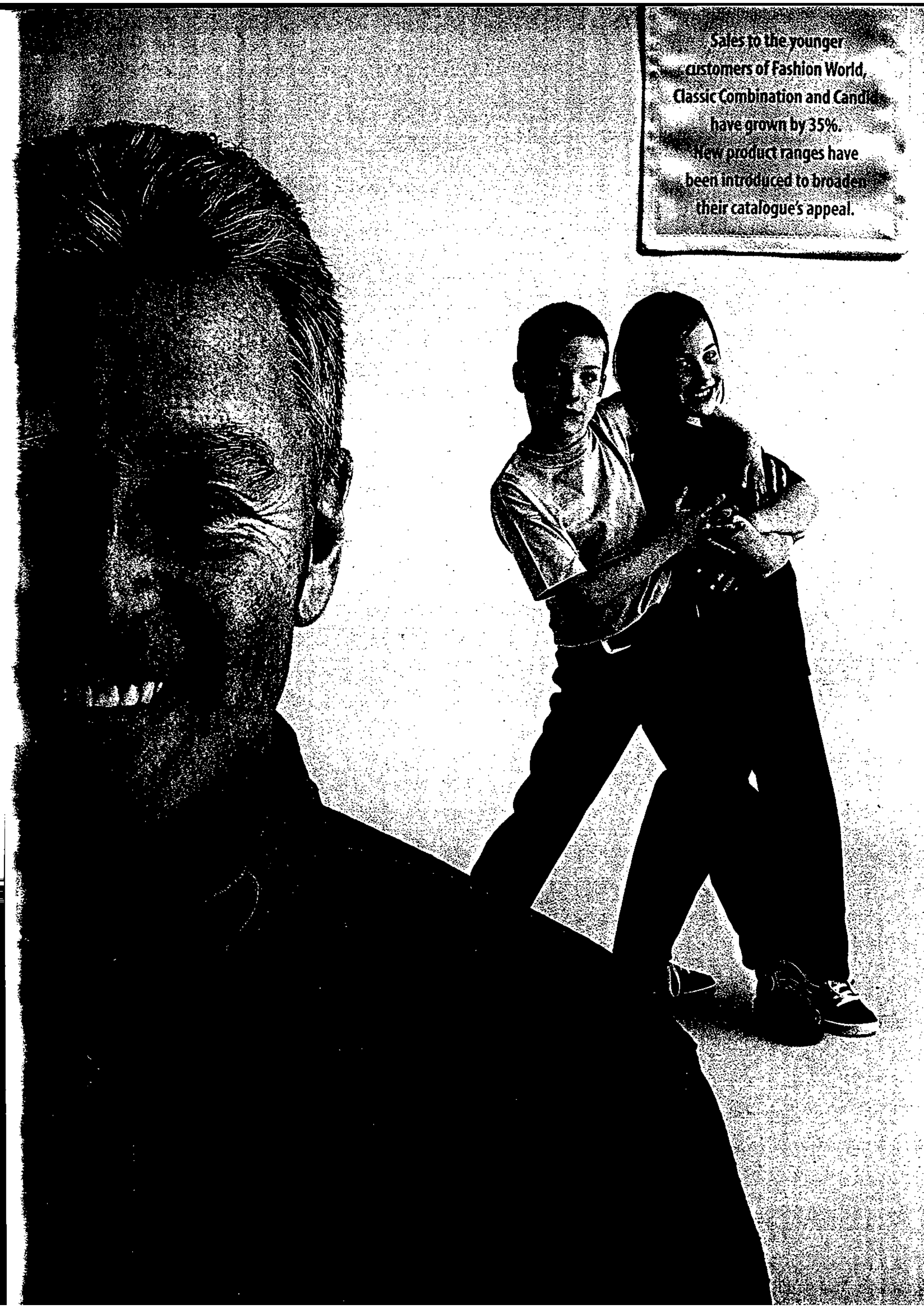
There are three main groups of catalogues, with the largest and longest established being that comprising J D Williams, Oxendales, Heather Valley, Fifty Plus and Ambrose Wilson. These catalogues are focused on mid-life customers within the age range 45–65 and their aggregate turnover has increased by 5% over last year to £177m, representing 79% of the home shopping division. We have created within each catalogue a number of complementary ranges presented rather like shops within a departmental store, such as casualwear, smart daywear styles, evening ranges and sportswear which this year offered a wider choice of leading brands. Womenswear is available in sizes 12 to 34. We also cater for the needs of shorter women by having around a third of womenswear available in short as well as standard fittings.

The second group of Whitfords, Bury Boot & Shoe, Aldrex and Special Collection serves the elderly and those who are disabled or have dressing difficulties. Customers are generally over the age of 60 and use these catalogues for traditional clothing and footwear. Aggregate turnover is £8m, which accounts for 4% of the total.

The third group of catalogues is targeted at younger customers aged 35 – 50 and comprises Fashion World, Candid and Classic Combination. Propositions include value for money prices and a wide range of styles and sizes. This year a new range was successfully promoted within these catalogues by TV celebrity Emma Forbes.

Around four years ago we identified that the British Standard sizes, which originated in the 1950's, could be greatly improved for the 1990's woman. Although we changed the patterns of all our womenswear, we recognised that a selling proposition based on good fit presented a marketing opportunity and this resulted in the 1994 launch of Classic Combination. The press campaign was successful and during 1995 we experimented with advertising on satellite television, which was then subsequently extended to terrestrial channels. Having achieved the required response we embarked on a campaign involving an investment of over £1m on national television advertising. Classic Combination and the other younger catalogues Fashion World and Candid now have a turnover of £34m which has risen since last year by 35% and represents 15% of total home shopping sales, with an improving level of profitability. This is evidence of our taking advantage of opportunities whilst managing and controlling the associated risks.

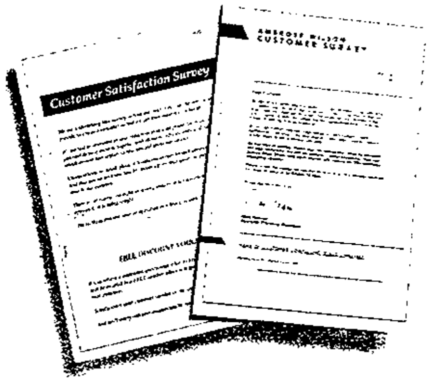
Whitfords, Boot & Sho Aldrex anc Collection the elderl those whc disabled c dressing difficulties


Sales to the younger
customers of Fashion World,
Classic Combination and Candid
have grown by 35%.
New product ranges have
been introduced to broaden
their catalogue's appeal.

Chief Executive's review

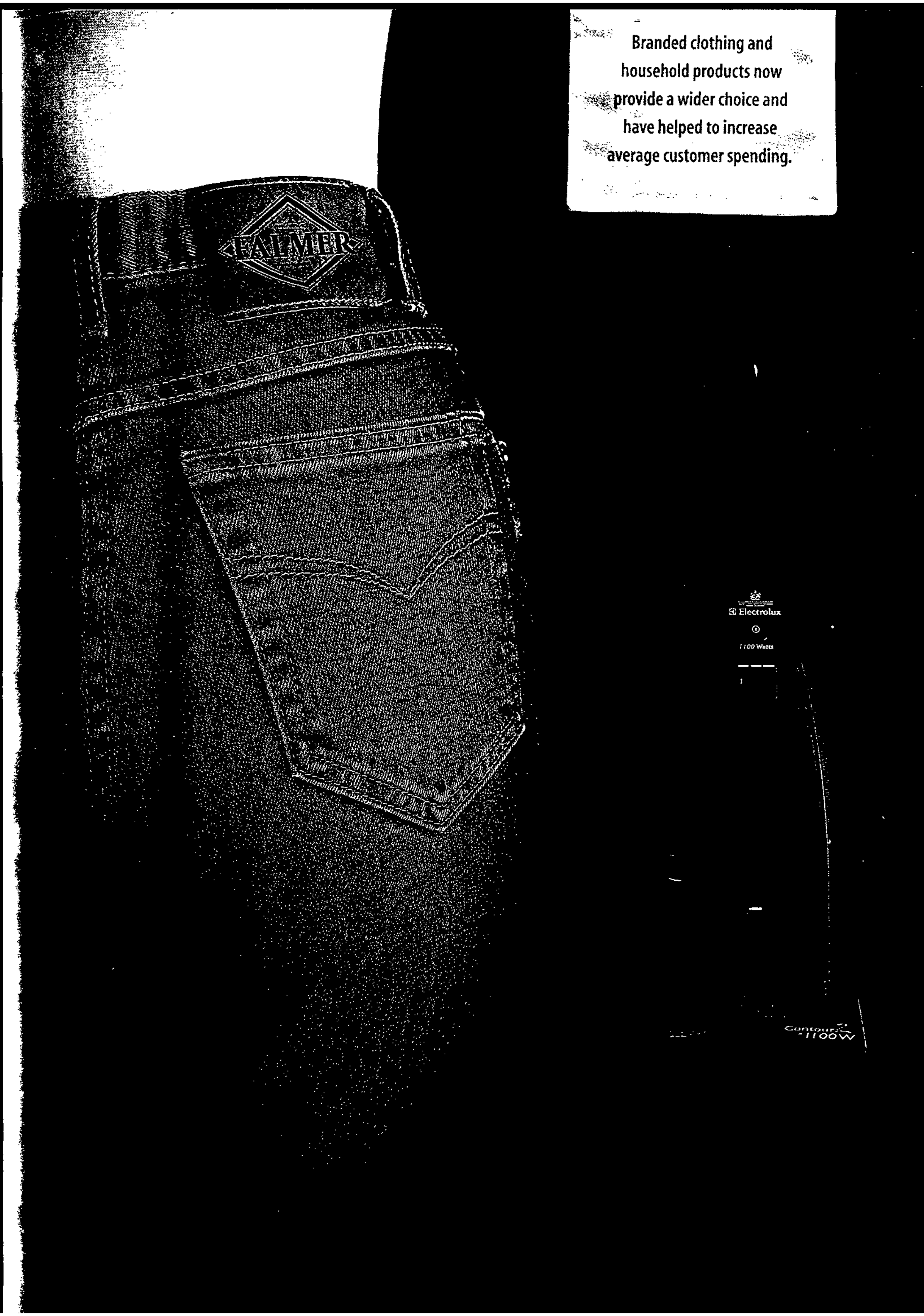
We have strong retailing propositions which need to be supported by merchandise carefully selected for each lifestyle group. Some of the core products will feature across two or more of the catalogues, but each has its own discrete ranges selected to appeal to its own particular customers, all of whom continue to demand good service and value for money. This is reflected in our choice and pricing of merchandise, with all catalogues promoting highly competitive prices for the basic products. We have however also extended the price architecture to offer customers a greater choice of higher priced and branded merchandise. Sportswear, leisurewear and childrenswear have been added to our ranges in addition to a wider choice of electrical, furniture and household products. This extension of the range requires us to work closely with suppliers and to improve each link in the supply chain. Whilst we prefer to buy within the UK, because it allows us to respond more quickly to changing sales trends, competitive pressures force us to source around half our products overseas, predominantly in the Far East and the Indian sub-continent. The careful management of product selection and syndication has allowed the expansion of our catalogues and brochures without any increase in the 30,000 stock options warehoused each season.

Customers are now being offered a wider choice of branded merchandise



Listening to customers is essential so that our various offers reflect their real needs. This is achieved through a variety of research initiatives, generally undertaken by our own management. We conduct surveys which invite customers to answer questions on all aspects of our service including the layout and content of catalogues and brochures and which additional merchandise they would like to see featured. Qualitative research is regularly conducted on a wide range of topics and followed up by in depth quantitative research on any new ideas or concepts. A recent survey identified customers who required a faster delivery service on some of their urgent orders and this encouraged us to introduce a 48 hour premium service last August which in the period immediately before Christmas was used by almost 20% of customers.

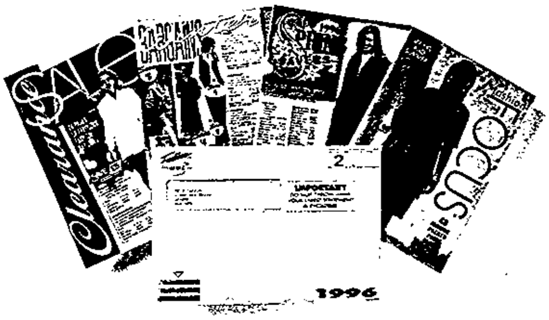
For many years we have captured behavioural and transactional data on each of our customers including size and fitting details of products purchased and the publications they have used. This database gives us a competitive advantage over most other retailers which we use to tailor our offers. It is essential to constantly manage and filter this data to ensure that only relevant and



Branded clothing and household products now provide a wider choice and have helped to increase average customer spending.

Chief Executive's review

Database management techniques allow us to tailor our offers to customers' needs

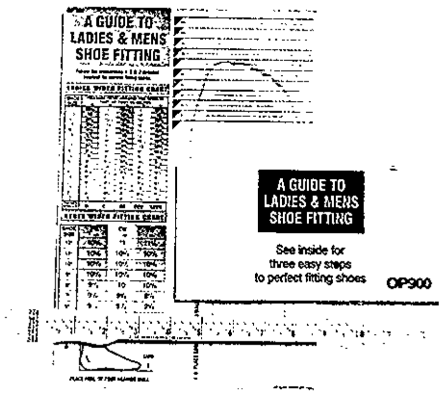


predictive information is used. This represents a complex dimension to our business requiring sophisticated software tools to extract the maximum benefit. Over the last year we have made further investments in people and technology to focus on individual customers' behaviour, the main benefits of which will be seen in 1997 and beyond.

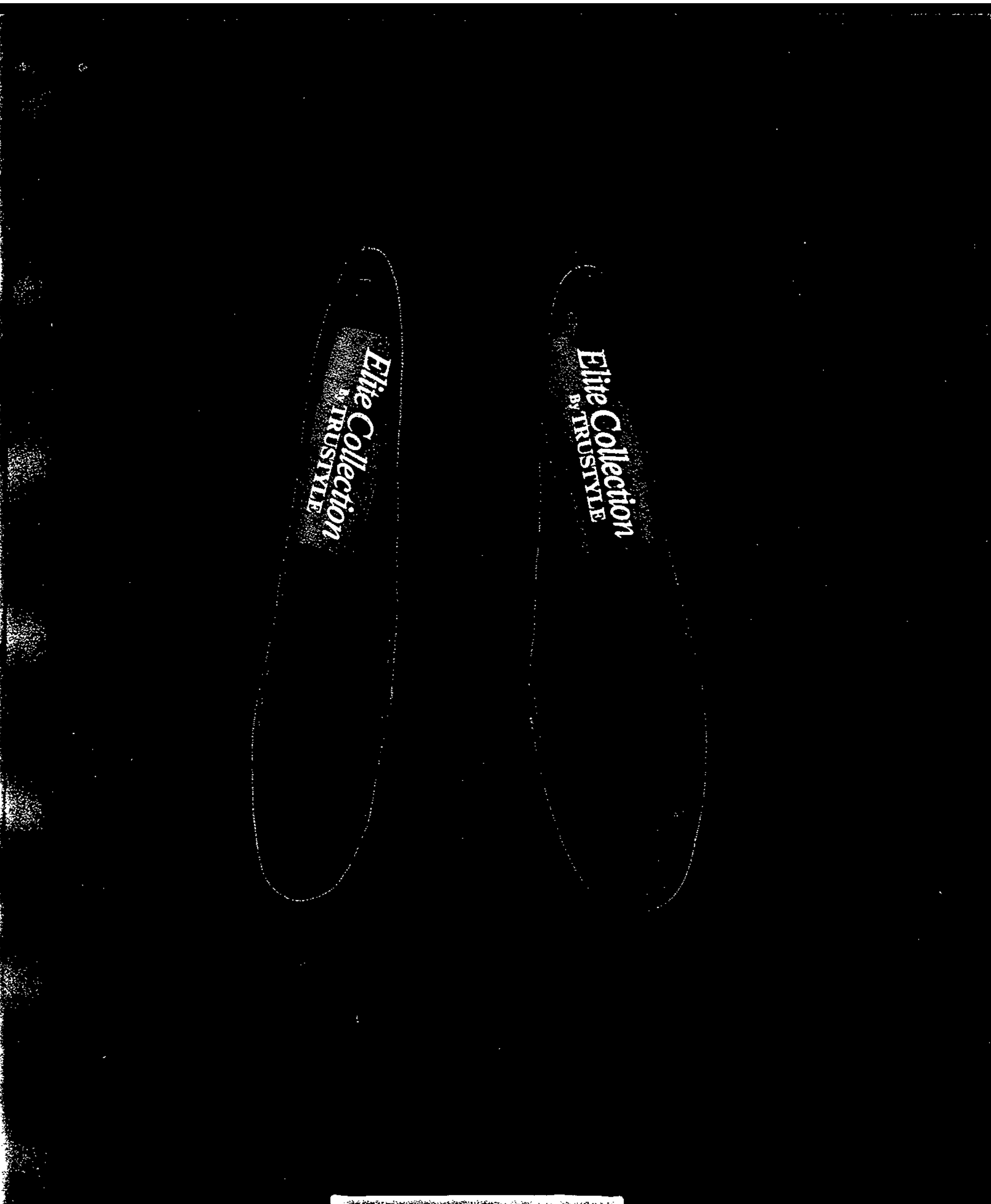
Research is also helping us to re-launch ladies footwear. In order to define the shape of their feet, we collected more than 20,000 foot measurements from 600 women and with the help of laser scanning technology compared their true size and fitting with the shoes they were wearing. This demonstrated that one third of women are walking around in shoes with the wrong width, and over 80% have shoes with the wrong size. We have the largest range of wide fitting footwear in Europe which is significantly greater than any retail outlet can ever economically display. To further promote footwear sales, we have recently launched The Shoe Tailor catalogue, backed by a campaign which will give customers the opportunity to use a personal measuring device to confirm their correct size and fitting.

Another initiative based on research into the differing needs of consumers resulted in a test to cater for people who prefer not to buy from a home shopping catalogue in the conventional way but are happy for salespeople to visit them each week to collect their payments and take further orders. Known as House of Stirling, results so far are encouraging and we plan to develop this operation further in the months ahead.

The continuing demands of our business mean that information systems can never stand still. Although our systems have responded extremely well to the challenges of the last decade we are investing in the next generation of technology to provide a solid foundation for future growth. Telephone technology integrated with computing is fast changing and of growing importance. Over 60% of orders are now taken by telephone and we firmly believe this will reach 75% over the next three years. Incremental sales are being made by telephone operators offering additional products related to the original items ordered and the advance of technology can increase this further.



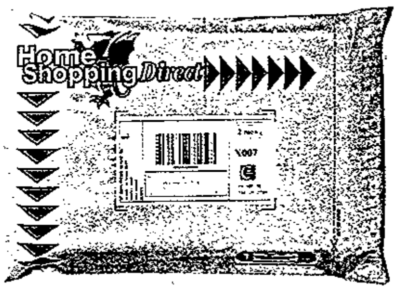
The Shoe Tailc measuring de allows custom to confirm the own shoe size fitting



One third of women are wearing shoes with the wrong width, based on our survey involving 20,000 foot measurements from 600 women. We stock over 3,000 footwear options with width fittings from a standard D

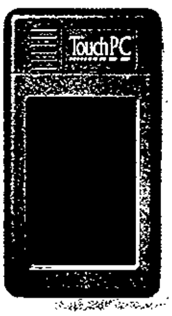
Chief Executive's review

Bar code technology means we can track customers' orders more efficiently



We have recently completed a £4m enhancement to the packing systems at our main distribution centre which will give us significant gains in order accuracy and speed of service to take us into the next century. Equally significant is the strategic control this will give over our distribution network by allowing us to geographically sort and then track each customer's order using bar code technology. This will remove some of the sorting processes within our carrier's organisation and give a faster and more accurate service at a lower cost. Following successful tests in 1995 we plan to carry out further experiments in appropriate areas with delivery couriers who will utilise notepad computers linked to our warehouse systems.

We are now piloting the use of notepad computers linked to our warehouse systems



Home shopping prospects

All our catalogues have started well this season and customer recruitment programmes are on target. We believe we are well positioned in the faster growing and more economically stable population groups and our success will be strengthened by creating further differentiation between catalogues and seeking excellence in customer service.

Property and financial services

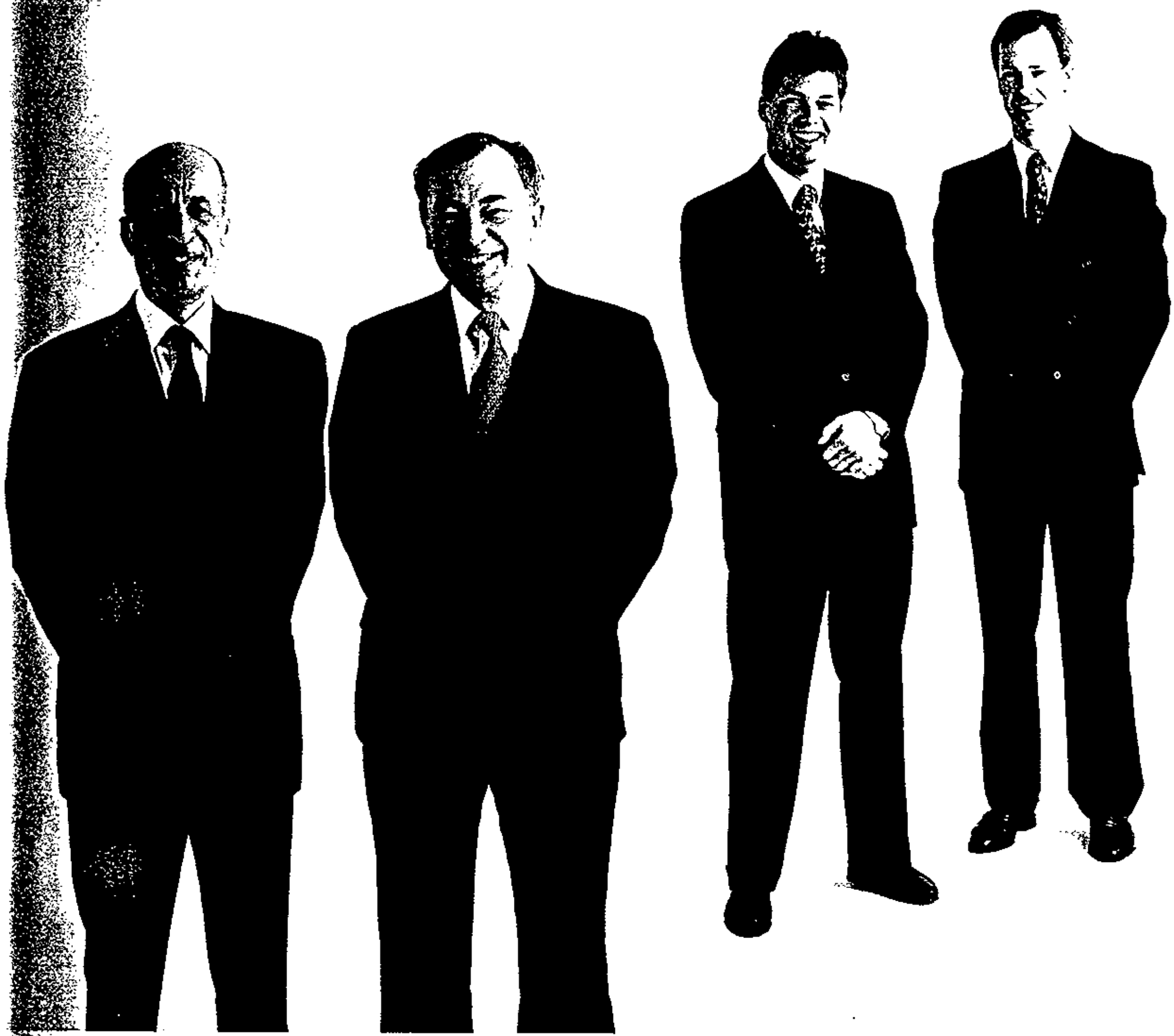
The division comprises Dunlop Heywood, consultant commercial property surveyors, and Morfitt & Turnbull, independent financial advisors. Overall, operating profit fell to £0.2m with fee income down 9.6% to £6.5m.

Dunlop Heywood has had another satisfactory year, especially compared with the surveying sector generally. The firm has been particularly successful in the purchase of buildings and sites for development and institutional investment, both for offices and industrial use. The majority of the fee income is from professional services, where the valuation and management departments produced encouraging levels of growth throughout the country.

The overall reduction in profit for the division is due to a shortfall in new business income at Morfitt & Turnbull where the requirement of the Securities and Investment Board for full disclosure of commissions earned is undoubtedly deterring many clients from making investments in life assurance products and pensions.

There is unlikely to be a sharp upturn in demand in these market sectors and the emphasis will therefore remain on providing a high class service to clients across the whole spectrum.

Jim Martin



Directors

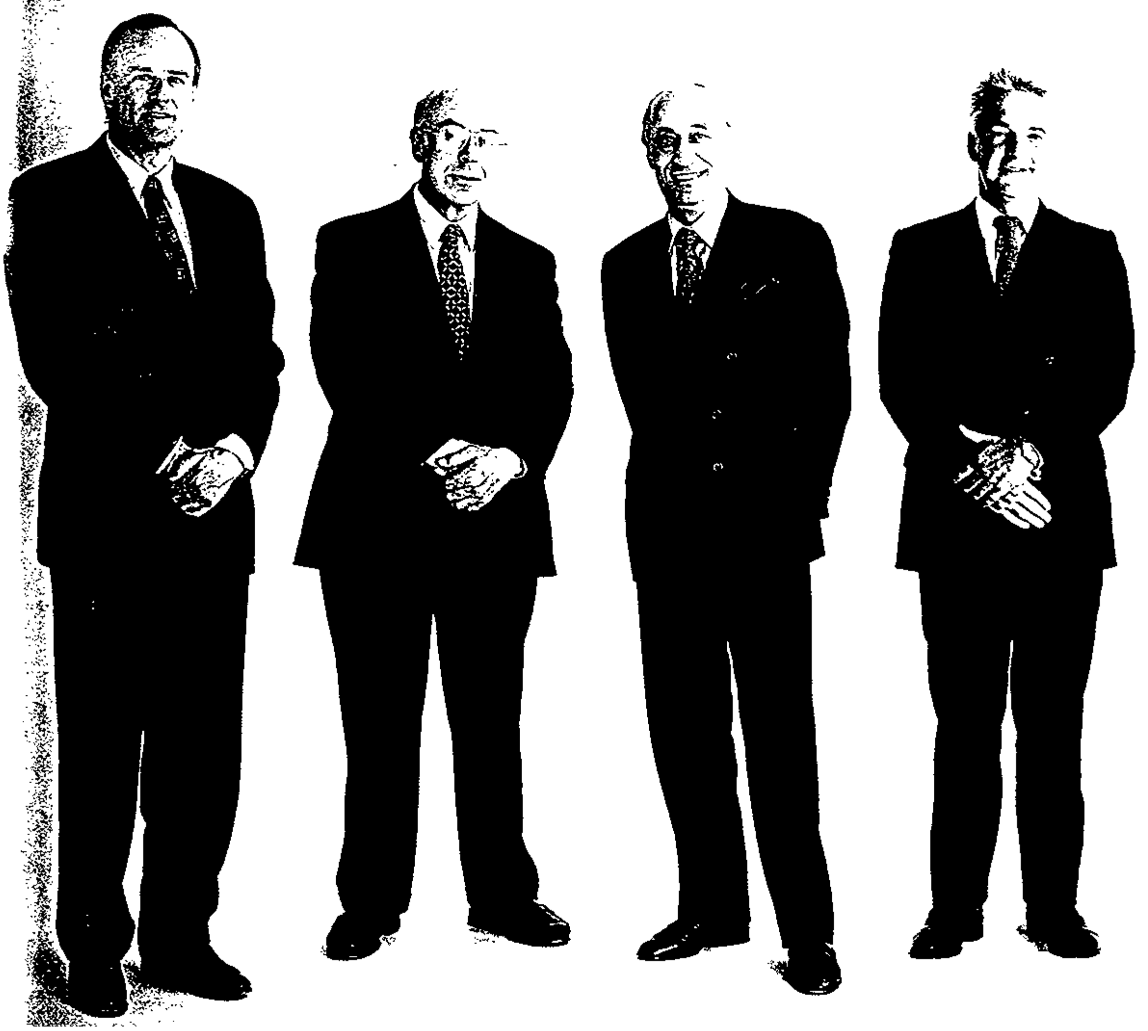
left to right

Sir David Alliance (63)
Chairman
Appointed a director and Chairman in 1968. He is also Chairman of Coats Viyella Plc and a director of a number of private companies.

Jim Martin (53)
Chief Executive
Formerly with Unilever and Dunlop, he worked as Operations Director before becoming Chief Executive in 1984. He is also a non-executive director of Gradus Group PLC.

Alan White (41)
Finance Director
Joined initially as Company Secretary in 1985, appointed a director in 1989. Previously with Sharp Electronics and Arthur Andersen.

Paul Grundy (39)
Company Secretary
Joined the company in 1993 having formerly been Director of Finance with Hilti (GB) Ltd.



left to right

Paul Forster (54) * †
Non-Executive Director
Appointed 1992. He is Chairman of Lifetime Business Group and a Visiting Professor at Nottingham Business School. Chairman of the Remuneration Committee.

Lawrence Ziman (57) * †
Non-Executive Director
Appointed 1994. Formerly a senior partner with solicitors Nabarro Nathanson, he is now General Counsel of specialist international engineers TI Group plc. Chairman of the Audit Committee.

Nigel Alliance (61) * †
Non-Executive Director
Appointed a director in 1969, changed to non-executive status on 1st September 1995. He is also a director of a number of private companies.

Ivan Fallon (51) * †
Non-Executive Director
Appointed 1994. A leading financial journalist, now Deputy Chief Executive and Editorial Director of Argus Newspapers in South Africa.

Financial review

This review covers the results for the year and the main underlying issues and, together with the Chief Executive's review, complies with the 'Operating and financial review' guidelines published in 1993.

Turnover and operating results

Group turnover has increased by 10.9% to £230.8m, fuelled by increases in the number of customers and their average spend and benefiting from a fifty-third week in accordance with our policy of making accounts up to the Saturday nearest to the end of February.

Operating profits increased by 16.8% to £33.4m including a £1.0m refund of VAT. This arose from the successful resolution of a dispute with HM Customs and Excise regarding the appropriate rate to be applied to cash received from April 1991 for sales processed before the increase to 17.5% came into effect.

Operating profit excluding the VAT refund rose by 13.2% to £32.4m, the 0.3% increase in operating margin primarily resulting from strict control over costs despite the impact of higher paper prices.

Interest payable increased by 2.9% to £2.3m, which is covered 14.4 times (1995, 12.7). Average borrowings reduced to £30m but average interest rates rose as a higher proportion of borrowings were locked into medium term rates.

Pre-tax profits rose 17.9% to £31.2m. The tax rate was up from 32.1% to 32.5% due to the absence of the tax free income from the employee trust.

Accounting standards

All new accounting standards have been adopted up to and including FRS 7: "Fair Values in Acquisition Accounting" and we continue to monitor any proposals from the Accounting Standards Board.

Going concern

The directors report that, having made appropriate enquiries, the group has adequate resources to continue in operational existence for the foreseeable future. Therefore it is appropriate to adopt the going concern basis in preparing the accounts.

Acquisitions

Sander & Kay, a menswear catalogue business, was acquired in March 1995. It contributed £5.2m to turnover and an operating profit of £0.4m.

The offer submitted to Littlewoods plc in the autumn would have been financed by a mixture of debt and equity. Fees related to this offer, totalling £0.1 million, have been absorbed within central administration costs.

Financial review

Financial needs and resources

Net borrowings at the year end were £23.4m (1995, £31.1m) and the cash inflow before financing of £7.9m (1995, outflow of £2.3m) contributed to a fall in gearing from 34% to 23%. The reduction in extra working capital requirements from £12.9m last year to £5.0m this year has significantly contributed to the cash inflow. It reflects tight control over stocks together with debtors rising only in line with sales this year.

Capital expenditure amounted to £7.7m (1995, £6.5m). The major project was the installation of new £4.0m sortation and packing machinery at the distribution centre, together with a further investment of £2.2m in computer hardware and information systems. Capital commitments of £14m primarily relate to a £10m warehouse extension planned for 1998, but there will also be a higher level of expenditure on information systems in the next three years to redevelop certain of our central systems onto more advanced database and hardware structures.

In February we signed a £50m five year committed revolving credit agreement with a consortium of eight banks led by The Royal Bank of Scotland plc. Total bank facilities, including a £9m ECSC loan and short term and overdraft arrangements, amount to £74m and generally have covenants linked to levels of gearing, net assets and interest cover.

The group's treasury policy is designed to reduce risk whilst ensuring that adequate and cost effective arrangements are in place to support planned future activities. Interest rate swaps are used to hedge against fluctuations in interest rates and £18m of the £23.4m borrowing at the year end has been locked into fixed rates for up to four years. Similarly, as the majority of our imported merchandise is US dollar denominated, we aim to cover forward at least 70% of our annual foreign exchange exposure.

Shareholders' return

The financial strength of the group continues to increase with shareholders' funds up by 13.5% to £103.8m and improved levels of gearing and interest cover as referred to earlier. No shares have been issued during the year and therefore growth in profits after tax of 17.1% is mirrored in the increase in earnings per share to 14.42p. The dividend has been raised by 18.8% to 5.7p (1995, 4.8p) per share, covered 2.5 times.

During the financial year the share price started at 235p, dipped to 205p, then finished at a record level of 281p, an increase of 20%. Since the year end the share price has risen further to 334p, representing a market capitalisation of £488m.

Alan White
Finance Director

Directors' report

The directors submit their report and accounts for the 53 weeks ended 2nd March 1996.

1 Activities and results

The principal activities of the group are retailing through direct home shopping catalogues and the provision of financial and commercial property services. The activities are more fully explained in the Chief Executive's review on pages 4 to 12. Group profit before taxation for the 53 weeks ended 2nd March 1996 amounted to £31.2m.

No geographical segmentation is provided as, apart from a small operation in Eire, all activities take place in the United Kingdom.

2 Dividends and reserves

An interim dividend of 1.60p per share (1995, 1.35p) was paid on the ordinary shares of the company on 4th January 1996. The net cost of this dividend was £2.3m (1995, £2.0m). The directors recommend a final dividend of 4.10p per share (1995, 3.45p) for the 53 weeks ended 2nd March 1996, the net cost of which will be £6.0m (1995, £5.0m).

Movements in reserves are shown in note 20 on page 40.

3 Acquisitions and disposals

Sander & Kay, a menswear catalogue business, was acquired in March 1995 for a consideration of £0.9m.

The directors do not consider it to be a significant acquisition in relation to the requirements of the accounting standard FRS3.

The group did not make any significant disposals during the year.

4 Share capital

No changes have been made to the authorised or issued share capital during the year. Details of outstanding share options are shown in note 19 on page 40.

5 CREST

CREST is a new computerised settlement system for dealings in publicly quoted shares. It will become operational in July 1996. In accordance with the Uncertificated Securities Regulations 1995 ("the Regulations"), the company resolved by a resolution of its directors on 25th April 1996 that title to the issued and unissued ordinary shares of the company may be transferred by means of a relevant system (as defined in the Regulations). The resolution will take effect immediately prior to CRESTCo Limited granting permission for the shares to be transferred by means of the CREST system.

The effect of the resolution is to disapply those provisions of the company's articles of association that are inconsistent with the holding and transfer of such shares in CREST and any provision of the Regulations.

A separate notification of the passing of the above resolution is being sent to shareholders together with the 1996 annual report and accounts.

Directors' report

6 **Annual and extraordinary general meetings**

The annual general meeting will be held on 26th June 1996. On the same date, an extraordinary general meeting will also be held, at which proposals will be made to carry out the following as special business:

i) renew the authorities which have been given to the directors to disapply the statutory pre-emption provisions in order to allow for rights issues and small issues of shares for cash.

ii) approve a new long term incentive share plan, to be used to reward executive directors and eligible senior executives for the achievement of challenging business targets.

iii) approve the adoption of an unapproved executive share option scheme, to permit the grant of options in excess of the limit of £30,000 imposed by the Finance Act 1996.

iv) approve an amendment to the group's employee savings related share option scheme, to permit a minimum monthly contribution payable under the related savings contract by a participant of not less than £5.

Further information relating to the above proposals is set out in a circular to shareholders dated 3rd June 1996.

7 **Directors**

The biographies of the directors, all of whom served throughout the year, are shown on page 13.

In accordance with the articles of association Nigel Alliance and Paul Forster will retire by rotation and, being eligible, offer themselves for re-election. Neither of these directors have service contracts with the company or any of its subsidiary undertakings other than contracts expiring or determinable by the company within one year.

Directors' interests are separately disclosed in the remuneration committee report on page 23.

8 **Directors' and officers' liabilities**

The group maintains insurance for directors and officers of the group indemnifying them against certain liabilities incurred by them whilst acting on behalf of the group.

9 **Major shareholders**

In addition to the directors' shareholdings shown in the remuneration committee report on page 23, the directors are aware of the following shareholdings of 3 per cent or more of the issued share capital at 9th May 1996.

	Holding	% of issued share capital
Gartmore Investment Management Ltd	10,486,000	7.2
N Brown Group plc Employee Share Ownership Trust	4,567,000	3.1
Prudential Portfolio Managers Ltd	4,848,000	3.3

10 **Employee involvement**

The group firmly believes that continuing success can only be achieved through an enthusiastic, motivated and well trained workforce. Consequently, resources devoted to staff training have increased, departmental team briefings are held and a staff attitude survey is conducted regularly. This is in addition to established communication channels such as corporate videos, staff magazines and meetings with the recognised trade unions.

Over 700 group employees either hold shares in the company or have options to acquire them through the executive and savings related share option schemes.

Directors' report

11 Disabled persons

It is the group's policy to offer equal opportunities to disabled persons applying for vacancies. Employees who become disabled are given every opportunity and assistance to continue in their employment or be trained for other suitable positions.

12 Pension fund

The group continues to ensure that the N Brown Group Pension Fund is managed in accordance with best practice. The fund's assets are administered by a trustee company which is controlled by a board of directors, a majority of whom have a vested interest in the performance of the fund, representing the interests of pension fund members, pensioners and N Brown Group plc.

The fund's investments are managed by Mercury Asset Management Plc and the actuarial and administration services are provided by William M Mercer Ltd.

The triennial actuarial valuation of the fund was completed in 1994 and its results are disclosed in note 27 on page 42.

13 Tax status

The company is not a close company within the meaning of the Income and Corporation Taxes Act 1988.

14 Charitable and political donations

Charitable donations totalled £25,240 (1995, £19,548). No political donations have been made.

15 Auditors

A resolution to re-appoint Arthur Andersen as auditors to the company and to authorise the directors to fix their remuneration will be proposed at the annual general meeting on 26th June 1996.

By order of the board
Paul Grundy FCA
Secretary
9th May 1996

Corporate governance

The directors continue to fully support the proposals of the Cadbury Committee on the Financial Aspects of Corporate Governance and the related Code of Best Practice ("the Code").

Internal financial control

The board of directors has overall responsibility for ensuring that the group maintains a system of internal financial control to provide them with reasonable assurance regarding the reliability of financial information used within the business and for publication and that assets are safeguarded. There are inherent limitations in any system of internal financial control and accordingly even the most effective system can provide only reasonable, and not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets.

The audit committee of the board has reviewed the effectiveness of the system of internal financial control for the year under review.

The key features of the internal financial control system that operated throughout the period covered by the accounts are as follows:-

Organisation structure

There is a well defined organisation structure throughout the group, with clear lines of responsibility and appropriate authority delegated to divisional boards and executive management. The Chief Executive and/or the Finance Director of the group are also directors of the principal subsidiary companies within the group and regularly attend board meetings.

Long term planning

The board has defined and quantifiable long term objectives contained within its three year plan. This is regularly reviewed and contains an assessment of key business risks and strategic plans which are consistent with the group's mission statement and statement of values.

Financial reporting

The group has a comprehensive system of planning, budgeting and monthly reporting of results to appropriate levels of management, including the board.

Matters requiring authorisation

The board has a number of matters reserved for its approval, including those relating to major capital expenditure, corporate plans and budgets, banking facilities, acquisitions and disposals.

Monitoring/corrective action

The board meets on a regular basis and receives a comprehensive pack of information, which includes reports on progress with key projects and issues which need to be brought to the board's attention. Any weaknesses identified by management or the auditors are formally reported on and progress with necessary corrective action is reviewed.

Compliance with the Code

In the opinion of the directors, the group has complied throughout the year with the Code.

Remuneration committee report

The remuneration committee of the board ("the committee") is responsible for the review and determination of policy on the remuneration of executive directors of N Brown Group plc ("executive directors") and other senior executives within the group. The individual elements of the remuneration package of each executive director are also determined by the committee.

The committee is comprised solely of the non-executive directors of the board. The committee members have no personal financial interest other than as shareholders in the matters to be decided, no potential conflicts of interest arising from cross-directorships and no day to day involvement in running the business. Members of the committee are shown on page 13.

Although recent amendments to the London Stock Exchange Listing Rules, to incorporate the main provisions of the Code of Best Practice ("the Code") issued by the Greenbury Study Group on directors' remuneration, do not fully take effect for the year under review, the group has adopted the provisions of the Code early.

The committee considers that throughout the year under review, the group has complied with section A of the best practice provisions annexed to the Listing Rules. In addition, the committee can confirm that, in determining its remuneration policy, full consideration has been given to the matters set out in section B of those provisions.

Remuneration policy for executive directors and senior executives

The group aims to attract, motivate and retain executive directors and senior executives by offering them competitive remuneration packages which are linked to individual and corporate performance. The main elements of these packages are described below.

Basic salary

Salaries are established by reference to individual performance and external market information for executives of comparable status, responsibility and skills in organisations of broadly similar size, in particular, those existing in the home shopping and retail market sectors.

Annual performance related bonus

In addition to basic salary, each executive director and senior executive participates in an annual performance related bonus scheme. Each scheme is designed to stretch the performance of the executive and is linked to the growth in annual profit and the achievement of other business targets. These targets are reviewed and agreed by the committee at the beginning of each financial year.

For executive directors the level of bonus is capped at 50% of annual basic salary.

Long term incentive share plan

As mentioned in the Chairman's statement, an extraordinary general meeting is to be convened on 26th June 1996, at which shareholders will be asked to approve the adoption of a new long term incentive share plan. Executive directors and certain senior executives will be eligible to participate in the plan instead of receiving further grants of executive share options (see below). It will provide appropriate incentives to reward sustained success through the achievement of challenging business targets, thereby better aligning the interests of shareholders and executives.

The plan is based on the achievement of targets that are geared to the amount by which the annual rate of growth in the group's earnings per share exceeds that of the Retail Price Index (by a minimum of 3%). The executives will be

Remuneration committee report

allocated a number of shares to which they will be entitled at the end of the third year, provided they are still employed by the group at that time. The number of shares allocated will be increased by 50% if the entitlement is not taken up until the end of the fifth year.

The principal elements of the plan are further explained in a circular to shareholders which accompanies the 1996 annual report and accounts. The plan was approved by the committee on 25th April 1996 after taking independent advice from external consultants and having regard to best practice in other similar schemes operated by publicly quoted companies.

Executive share option scheme

The group operates an Inland Revenue approved executive share option scheme ("the 1990 scheme") under which executive directors, senior executives and other group employees have been granted options over N Brown Group plc shares. Under normal circumstances, the options can only be exercised after they have been held for three years (provided the option holder is still employed by the group) and will lapse after having been held for ten years.

At the extraordinary general meeting referred to above, shareholders will be asked to approve the adoption of an unapproved executive share option scheme, the rules of which will mirror the rules of the 1990 scheme. As explained in the accompanying circular, the purpose of the unapproved scheme will be to permit the grant of options in excess of the limit of £30,000 imposed under the 1990 scheme by the Finance Act 1996.

Following the introduction of the above long term incentive share plan, only those executives and other group employees ineligible to participate in that plan will be considered in future for grants of executive share options, which will be conditional on the growth in the group's earnings per share exceeding that of the Retail Price Index by at least 9.2% (equivalent to 3% per annum compound growth) for the three year period immediately preceding the exercise of the option.

Savings related share option scheme

The group operates a savings related share option scheme for the benefit of all employees in the group, provided they have completed one years service. Eligible employees, including executive directors and senior executives, may be granted options over N Brown Group plc shares at a discount of up to 20% to the prevailing market price at the time of grant of the options, which (subject to certain conditions) can be exercised after five years. Approximately 30% of group employees currently participate in the scheme.

At the extraordinary general meeting referred to above, shareholders will be asked to approve an amendment to the rules of the scheme to permit a minimum monthly contribution payable under the related savings contract of not less than £5. This amendment reflects the new savings contract, which also introduced the choice of 3 year and 5 year savings periods, and should encourage increased participation in the scheme.

Pension schemes

The group operates a number of Inland Revenue approved pension schemes for the benefit of all eligible employees. The executive directors are members of the N Brown Group Pension Fund, which is a defined benefit scheme and provides for them a normal retirement age of 60, a pension accrual rate based on 1/40th of pensionable salary and a lump sum death benefit of four times pensionable salary.

Remuneration committee report

All members of the N Brown Group Pension Fund pay contributions at the rate of 6% of pensionable salary. The group bears the cost of providing the lump sum death benefit and the balance of contributions necessary to fund the scheme benefits, currently 6%.

Pensionable salary is defined for executive directors as basic salary plus annual performance related bonus.

The pension scheme rules incorporate annual bonuses in the definition of pensionable salary for all pension scheme members, to reflect the group's philosophy of linking a significant proportion of the overall remuneration package of its executives and other relevant employees to business performance and the achievement of demanding targets. The committee regards this policy as being appropriate to the group's present circumstances, although it intends to review the policy annually in the light of the prevailing best practice.

Benefits in kind

Other benefits in kind are provided to executive directors and senior executives commensurate with their position, principally a company car, permanent health insurance and private medical expenses cover.

Service contracts

Until recently, notice periods required to be given by the company under the executive directors' service contracts could in certain circumstances amount to three years. In view of the recommendations of the Code on this subject, the executive directors have voluntarily agreed to an amendment to their service contracts to provide for a notice period not exceeding two years. The committee has endorsed this amendment and considers it to be appropriate for the directors concerned.

None of the directors who are proposed for re-election at the annual general meeting to be held on 26th June 1996 have service contracts with notice periods of one year or more.

Directors' remuneration

The individual elements of directors' remuneration for the year were as follows:

	Salaries/fees	Taxable benefits	Performance related bonus	Pension contributions	1996 Total	1995 Total
	£000	£000	£000	£000	£000	£000
Sir David Alliance	17	18	—	—	35	34
Jim Martin	178	16	79	16	289	265
Alan White	113	12	50	10	185	163
Nigel Alliance	32	14	—	—	46	83
A Paul Forster	18	—	—	—	18	18
Lawrence D Ziman	18	—	—	—	18	18
Ivan Fallon	15	—	—	—	15	6
	391	60	129	26	606	587

Remuneration committee report

Directors' interests

Directors' interests in shares of the company were as follows:

	1996 Ordinary shares	1996 Options (including SAYE)	1995 Ordinary shares	1995 Options (including SAYE)
Sir David Alliance	59,834,602	—	59,834,602	—
Sir David Alliance *Non Beneficial*	5,204,408 [1,2]	—	5,204,408 [1,2]	—
Nigel Alliance	18,592,914	—	18,592,914	—
Nigel Alliance *Non Beneficial*	1,996,368 [1]	—	1,996,368 [1]	—
Jim Martin	500,164	618,386	500,000	770,386
Alan White	75,500	96,112	75,500	194,112
A Paul Forster	—	—	—	—
Lawrence D Ziman *Non Beneficial*	3,208,040 [2]	—	3,208,040 [2]	—
Ivan Fallon	—	—	—	—

Duplicated holdings included above are 1,996,368[1] and 3,208,040[2].

Details of directors' share options are as follows :

		At 25th Feb 1995	Granted in year	Exercised in year	At 2nd Mar 1996	Exercise price	Date from which exercisable	Expiry date
Jim Martin								
		72,000	—	72,000	—	157.5p		
		80,000	—	80,000	—	115.5p		
		200,000	—	—	200,000	187.0p	30/06/96	30/06/03
		400,000	—	—	400,000	150.0p	13/08/96	13/07/00
	SAYE	12,162	—	—	12,162	92.5p		
	SAYE	6,224	—	—	6,224	120.5p		
		770,386	—	152,000	618,386			
Alan White								
		48,000	—	48,000	—	157.5p		
		50,000	—	50,000	—	115.5p		
		60,000	—	—	60,000	187.0p	30/06/96	30/06/03
		30,000	—	—	30,000	242.0p	09/11/97	09/11/04
	SAYE	4,054	—	—	4,054	92.5p		
	SAYE	2,058	—	—	2,058	167.5p		
		194,112	—	98,000	96,112			

The market price of the shares at the date on which the above options were exercised was 227p.

The market price of the shares at 2nd March 1996 was 281p (1995, 235p) and the range during the year was 205p to 281p.

There have been no changes in the above interests between the year end and 9th May 1996.

A Paul Forster

Chairman of the remuneration committee.

Statements of responsibilities and auditors' reports

Statement of directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss of the group for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report by the auditors to N Brown Group plc on corporate governance matters

In addition to our audit of the accounts, we have reviewed the directors' statement on page 19 on the company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which is not disclosed.

We carried out our review in accordance with Bulletin 1995/1 "Disclosures relating to corporate governance" issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the company's system of internal financial control or its corporate governance procedures nor on the ability of the company to continue in operational existence for the foreseeable future.

Opinion

With respect to the directors' statements on internal financial control on page 19 and going concern on page 14, in our opinion the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and such statements are not inconsistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statement on page 19 appropriately reflects the company's compliance with the other paragraphs of the Code specified for our review.

Arthur Andersen
Chartered Accountants and Registered Auditors
Manchester
9th May 1996

Statements of responsibilities and auditors' reports

Statement of auditors' responsibilities

Company law requires auditors to form an independent opinion on the accounts presented by the directors based on their audit and to report their opinion to the shareholders. The Companies Act 1985 also requires auditors to report to the shareholders if the following requirements are not met:

- that the companies in the group have maintained proper accounting records;
- that the accounts are in agreement with the accounting records;
- that directors' emoluments and other transactions with directors are properly disclosed in the accounts; and
- that the auditors have obtained all the information and explanations which, to the best of their knowledge and belief, are necessary for the purpose of their audit.

The auditors' opinion does not encompass the directors' report on pages 16 to 18. However, the Companies Act 1985 requires auditors to report to the shareholders if the matters contained in the directors' report are inconsistent with the accounts.

Auditors' report to the shareholders of N Brown Group plc

We have audited the accounts on pages 26 to 42 which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, the accounting policies set out on pages 31 and 32 and the detailed information disclosed in respect of directors' remuneration, share interests and long term incentive plans set out in the report to shareholders by the remuneration committee on pages 20 to 23.

Respective responsibilities of directors and auditors

As described opposite the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the company and of the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group at 2nd March 1996 and of the group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Chartered Accountants and Registered Auditors

Manchester

9th May 1996

Group profit and loss account

For the 53 weeks ended 2nd March 1996	Note	1996 £'000	1995 as restated (note 3) £'000
Turnover	2	230,804	208,164
Cost of sales		(105,389)	(94,822)
Gross profit		125,415	113,342
Distribution costs		(19,871)	(17,698)
Sales and administration expenses	3	(73,182)	(67,061)
VAT refund	2	1,015	—
Operating profit	2	33,377	28,583
Interest payable	4	(2,315)	(2,250)
Income from listed investments		159	155
Profit on ordinary activities before taxation	5	31,221	26,488
Taxation on profit on ordinary activities	8	(10,158)	(8,501)
Profit for the financial year	9	21,063	17,987
Dividends	10	(8,324)	(7,009)
Retained profit for the year	20	12,739	10,978
Earnings per share	11	14.42p	12.32p

THE NOTES ON PAGES 31 TO 42 FORM PART OF THESE ACCOUNTS

Balance sheets

As at 2nd March 1996	Note	Group 1996 £'000	Group 1995 as restated (note 3) £'000	Company 1996 £'000	Company 1995 £'000
Fixed assets:					
Tangible assets	12	33,496	29,735	7	33
Investments	13	7,644	8,509	7,917	7,625
		41,140	38,244	7,924	7,658
Current assets:					
Stocks	14	31,826	30,730	—	—
Debtors	15	121,140	110,934	69,994	60,544
Cash at bank and in hand		4,410	2,654	—	659
		157,376	144,318	69,994	61,203
Creditors:					
Amounts falling due within one year	16	(65,203)	(56,304)	(18,066)	(7,915)
Net current assets		92,173	88,014	51,928	53,288
Total assets less current liabilities		133,313	126,258	59,852	60,946
Creditors:					
Amounts falling due after more than one year	17	(27,446)	(32,966)	(14,000)	(18,000)
Provisions for liabilities and charges	18	(2,021)	(1,789)	—	—
		103,846	91,503	45,852	42,946
Capital and reserves:					
Called up share capital	19	14,603	14,603	14,603	14,603
Share premium account	20	17,551	17,551	17,551	17,551
Revaluation reserve	20	3,972	3,713	2,426	2,134
Other reserves	20	—	70	—	—
Profit and loss account	20	67,720	55,566	11,272	8,658
		103,846	91,503	45,852	42,946

The accounts were approved by the board of directors on 9th May 1996 and signed on its behalf by

Jim Martin
Alan White
Directors

THE NOTES ON PAGES 31 TO 42 FORM PART OF THESE ACCOUNTS

Group cash flow statement

For the 53 weeks ended 2nd March 1996	Note	1996 £'000	1995 £'000
Net cash inflow from operating activities	a	32,178	19,023
Returns on investments and servicing of finance:			
Interest paid		(2,315)	(2,250)
Ordinary dividends paid		(7,374)	(6,169)
Dividends received from investments		159	155
Net cash outflow from returns on investments and servicing of finance		(9,530)	(8,264)
Taxation:			
Corporation tax paid (including advance corporation tax)		(7,860)	(7,358)
Investing activities:			
Purchase of tangible fixed assets		(7,501)	(5,862)
Sale of tangible fixed assets		146	306
Purchase of goodwill		(688)	(27)
Other investing activities		1,157	(116)
Net cash outflow from investing activities		(6,886)	(5,699)
Net cash inflow/(outflow) before financing		7,902	(2,298)
Financing:			
(Repayment)/increase of bank loans	d	(5,500)	2,000
Capital element of finance lease rental payments	d	(127)	(6)
Cost of scrip issue	d	—	(27)
Net cash (outflow)/inflow from financing		(5,627)	1,967
Increase/(decrease) in cash and cash equivalents	d	2,275	(331)

THE NOTES ON PAGE 29 FORM PART OF THIS STATEMENT

Notes to the group cash flow statement

		1996 £'000	1995 as restated (note3) £'000
a	**Reconciliation of operating profit to net cash inflow from operating activities**		
	Operating profit	33,377	28,583
	Increase in stocks	(1,096)	(1,531)
	Increase in creditors	6,337	3,776
	Increase in debtors	(10,206)	(15,107)
	Depreciation	3,735	3,332
	Loss/(profit) on sale of tangible fixed assets	31	(30)
	Net cash inflow from operating activities	32,178	19,023
b	**Analysis of changes in cash and cash equivalents during the year**		
	Balance at 25th February 1995	1,962	2,293
	Net cash inflow/(outflow)	2,275	(331)
	Balance at 2nd March 1996	4,237	1,962
c	**Analysis of the balances of cash and cash equivalents as shown in the balance sheet**		
	Cash at bank and in hand	4,410	2,654
	Bank overdrafts	(173)	(692)
		4,237	1,962

		Share capital (including premium) £'000	Bank loans & finance lease obligations £'000
d	**Analysis of changes in financing during the year**		
	Balance at 26th February 1994	32,181	30,500
	Cash (outflow)/inflow from financing	(27)	1,994
	Inception of finance lease contracts	–	599
	Balance at 25th February 1995	32,154	33,093
	Cash outflow from financing	–	(5,627)
	Inception of finance lease contracts	–	172
	Balance at 2nd March 1996	32,154	27,638

Statement of total recognised gains and losses

For the 53 weeks ended 2nd March 1996

	1996 £'000	1995 £'000
Profit on ordinary activities after taxation	**21,063**	17,987
Unrealised gain/(loss) on trade investment	**292**	(1,198)
Cost of scrip issue	**—**	(27)
Total recognised gains relating to the year	**21,355**	16,762

Note of historical cost profits and losses

For the 53 weeks ended 2nd March 1996

	1996 £'000	1995 £'000
Reported profit on ordinary activities before taxation	31,221	26,488
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	33	17
Historical cost profit on ordinary activities before taxation	31,254	26,505
Historical cost profit for the year retained after taxation and dividends	12,772	10,995

Reconciliation of movements in shareholders' funds

For the 53 weeks ended 2nd March 1996

	1996 £'000	1995 £'000
Profit on ordinary activities after taxation	21,063	17,987
Dividends	(8,324)	(7,009)
	12,739	10,978
Other recognised gains and losses relating to the year	292	(1,225)
Goodwill written off	(688)	(27)
	12,343	9,726
Shareholders' funds at 25th February 1995	91,503	81,777
Shareholders' funds at 2nd March 1996	103,846	91,503

Notes to the accounts

1 Accounting policies

The principal accounting policies of the group are set out below and are consistent with previous periods.

a Basis of accounting

The accounts are prepared under the historical cost convention, modified to include the revaluation of certain listed investments and certain freehold properties, and in accordance with applicable accounting standards.

b Accounting period

Throughout the accounts, the notes to the accounts and the directors' report and financial review, reference to 1996 means at 2nd March 1996 or the 53 weeks ended 2nd March 1996; reference to 1995 means at 25th February 1995 or the 52 weeks ended 25th February 1995.

c Basis of consolidation

The group accounts consolidate the accounts of the company, all of its subsidiary undertakings and the Employee Share Ownership Trust which are made up to a date co-terminous with the financial period of the parent company. All unrealised internal profits are eliminated on consolidation.

d Turnover

Turnover represents the total amount receivable in the ordinary course of business for goods and services supplied and excludes VAT and intra-group sales.

e Value added tax

Certain subsidiary undertakings in the group participate in one of HM Customs and Excise's special schemes for retailers. Under this scheme VAT on sales is accounted for on a cash receipts basis. The group provides for the VAT due on unpaid sales to the extent that it is likely that a liability will crystallise.

f Tangible fixed assets

Land and buildings are shown at original cost or subsequent valuation as set out in note 12 on page 36. Other fixed assets are shown at cost. Computer software costs relating to major projects are capitalised. Assets held under finance leases are included in tangible fixed assets at a value equal to the original cost incurred by the lessor less depreciation, and obligations to the lessor are shown as part of creditors. The interest element is charged to profit and loss account under the reducing balance method.

g Depreciation

No depreciation is charged on freehold land. Depreciation of all other tangible fixed assets is calculated so as to write off the cost or valuation over their estimated useful lives. In this respect the following annual depreciation rates apply:

On freehold buildings	2% of cost or valuation.
On leasehold property and improvements	equal annual amounts over the unexpired years of the lease.
On motor vehicles	20% of cost.
On computer equipment and software	20% of cost.
On plant and machinery	between 10% and 20% of cost.
On all other tangible fixed assets	between 10% and 20% of cost.

Notes to the accounts

1 Accounting policies continued

h Capitalisation of interest

Interest incurred on funding for major capital projects is capitalised as part of the cost of the assets up to the time that they come into use. The interest rate applied is calculated by reference to the actual rate payable on borrowings utilised for the project.

i Goodwill

Goodwill arising on acquisitions of businesses, being the excess of cost over fair value of the group's share of net tangible assets acquired, is charged against reserves in the year of acquisition and written back through the profit and loss account in the year of disposal.

j Investments

In the company's accounts, investments in subsidiary undertakings are stated at cost. N Brown Group plc shares held by the Employee Share Ownership Trust are stated at cost. Other listed investments are included in the balance sheet at their mid-market value on the relevant balance sheet date. Surpluses or deficits arising on revaluations are reflected by a movement on the revaluation reserve, which is a non-distributable reserve.

k Operating lease rentals

Assets leased from third parties under operating leases are accounted for by charging costs to the profit and loss account over the period of the lease.

l Stocks

Stocks have been valued at the lower of cost and net realisable value. Net realisable value means estimated selling price less all costs to be incurred in marketing, selling and distribution.

m Taxation

Advance corporation tax payable on dividends paid or provided in the year is written off when recoverability against corporation tax payable is not considered to be reasonably assured. Deferred taxation is provided using the liability method to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

n Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Other transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All resulting exchange differences are taken directly to the profit and loss account.

o Pension costs

The group operates a number of pension schemes. Money purchase scheme contributions are charged against profits as they accrue. Contributions in respect of the defined benefits scheme are charged to the profit and loss account, based on the advice of an independent actuary, to spread the expected cost of providing pensions over the employees' working lives within the scheme.

Notes to the accounts

2 Analysis of turnover and operating profit	Turnover 1996 £'000	Turnover 1995 £'000	Operating profit 1996 £'000	Operating profit 1995 as restated (note3) £'000
Home shopping	224,327	200,998	33,601	28,151
Property and financial services	6,477	7,166	233	440
Central administration costs	–	–	(457)	(340)
Net income of employee trust	–	–	–	332
	230,804	208,164	33,377	28,583

All turnover and operating profit is generated from continuing activities in the United Kingdom and Eire.

This year's home shopping operating profit includes the benefit of a £1,015,000 refund of VAT arising from the successful resolution of a dispute regarding the change of rate in 1991.

Sander & Kay, a menswear catalogue business, was acquired in March 1995. It contributed £5,200,000 to turnover and an operating profit of £400,000. This acquisition is not considered to be significant in relation to the requirements of the accounting standard FRS3.

3 Restatement of prior year figures

To conform with UITF 13, N Brown Group plc shares held by the Employee Share Ownership Trust have been reclassified as a fixed asset investment. In addition, the net income of the trust has been incorporated into operating profit. The comparative figures for 1995 have therefore been restated.

4 Interest payable	1996 £'000	1995 £'000
Bank loans and overdrafts and other loans wholly repayable within five years	2,260	2,230
Finance charges payable under finance leases	55	20
	2,315	2,250

5 Profit on ordinary activities before taxation	1996 £'000	1995 £'000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation of owned assets	3,571	3,279
Depreciation of assets held under finance leases	164	53
Operating lease rentals	2,932	3,567
Auditors' remuneration – audit fees	40	39
– non audit related fees	72	105

Notes to the accounts

6 Directors' remuneration	1996 £'000	1995 £'000
Salaries	333	344
Taxable benefits	60	72
Performance related bonus	129	102
Pension contributions	26	27
Fees	58	42
	606	587

The emoluments of the Chairman and the Chief Executive (highest paid director) comprised:

	Chairman		Chief Executive	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Salaries	17	17	178	174
Taxable benefits	18	17	16	15
Performance related bonus	—	—	79	62
Pension contributions	—	—	16	14
	35	34	289	265

The directors' emoluments (excluding pension contributions) paid by companies in the group were within the following ranges:

	1996 Number	1995 Number
£5,001 – £10,000	—	1
£10,001 – £15,000	1	—
£15,001 – £20,000	2	2
£30,001 – £35,000	—	1
£35,001 – £40,000	1	—
£45,001 – £50,000	1	—
£75,001 – £80,000	—	1
£150,001 – £155,000	—	1
£175,001 – £180,000	1	—
£250,001 – £255,000	—	1
£270,001 – £275,000	1	—

A more detailed analysis of directors' remuneration and interests is given in the remuneration committee report on pages 20 to 23.

Notes to the accounts

7 Staff costs (including directors)	1996 £'000	1995 £'000
Wages and salaries	26,017	23,168
Social security costs	1,881	1,830
Other pension costs	627	568
	28,525	25,566

The average number of staff employed by the group was:	Number	Number
Distribution	699	626
Sales and administration	1,264	1,151
	1,963	1,777
Of the above:		
Full-time employees	1,705	1,497
Part-time employees	258	280
	1,963	1,777

8 Taxation on profit on ordinary activities	1996 £'000	1995 £'000
Corporation tax at 33% (1995, 33%)	9,908	8,712
Deferred taxation	232	(211)
Tax credits on franked investment income	18	—
	10,158	8,501

9 Profit for the financial year

In accordance with the exemption given by Section 230 of the Companies Act 1985 the company has not presented its own profit and loss account. The amount of profit on ordinary activities after taxation dealt with in the accounts of the parent company is £10,938,000 (1995, £10,964,000).

10 Dividends	1996 Pence per share	1996 £'000	1995 Pence per share	1995 £'000
Interim paid	1.60	2,336	1.35	1,971
Final proposed	4.10	5,988	3.45	5,038
	5.70	8,324	4.80	7,009

Notes to the accounts

11 Earnings per share

Earnings per share is calculated by reference to profit on ordinary activities after taxation of £21,063,000 (1995, £17,987,000) and to the weighted average of 146,028,930 ordinary shares (1995, 146,028,930) in issue during the period.

12 Tangible fixed assets

	Group				Company
	Freehold property	Long leasehold property	Plant, equipment and motor vehicles	Total	Plant, equipment and motor vehicles
	£'000	£'000	£'000	£'000	£'000
At cost or valuation:					
At 25th February 1995	13,437	165	30,349	43,951	125
Additions	437	—	7,236	7,673	7
Disposals	(5)	—	(631)	(636)	(41)
At 2nd March 1996	13,869	165	36,954	50,988	91
Accumulated depreciation:					
At 25th February 1995	961	68	13,187	14,216	92
Provided in year	497	30	3,208	3,735	4
Disposals	—	—	(459)	(459)	(12)
At 2nd March 1996	1,458	98	15,936	17,492	84
Net book value:					
At 2nd March 1996	12,411	67	21,018	33,496	7
At 25th February 1995	12,476	97	17,162	29,735	33

The cost of freehold property and plant, equipment and motor vehicles includes capitalised interest of £2,143,000 (1995, £2,143,000). Included in freehold property are certain properties which were revalued in January 1994 on the basis of open market value assuming a continuation of their existing use at £2,450,000 by Lambert Smith Hampton, consultant surveyors. The historical cost of these properties is shown below.

	£'000
Historical cost	845
Depreciation	(198)
Net book value	647

The net book value of plant, equipment and motor vehicles above includes £595,000 (1995, £546,000) in respect of assets held under finance leases.

Notes to the accounts

13 Fixed asset investments	Listed investments £'000	Own shares £'000	Total £'000
Group:			
At 25th February 1995	2,587	5,922	8,509
Surplus on revaluation	292	—	292
Disposals on exercise of share options	—	(1,157)	(1,157)
At 2nd March 1996	**2,879**	**4,765**	**7,644**

	Listed investments £'000	Shares in subsidiary undertakings £'000	Total £'000
Company:			
At 25th February 1995	2,587	5,038	7,625
Surplus on revaluation	292	—	292
At 2nd March 1996	**2,879**	**5,038**	**7,917**

The listed investments are quoted on the London Stock Exchange and their historical cost in the group and the company is £453,000 (1995, £453,000).

Shares in N Brown Group plc are held by the Employee Share Ownership Trust for subsequent disposal to employees under the executive and savings related share option schemes operated by the group.
At 2nd March 1996 the trust held 4,567,000 shares in the company (1995, 5,675,000). The market value of the shares at that date was £12,833,000 (1995, £13,336,000). No dividends have been waived by the trust.

Notes to the accounts

14 Stocks	Group 1996 £'000	Group 1995 £'000
Finished goods	30,958	29,391
Sundry stocks	868	1,339
	31,826	30,730

15 Debtors	Group 1996 £'000	Group 1995 £'000	Company 1996 £'000	Company 1995 £'000
Trade debtors	110,215	99,748	—	—
Amounts owed by subsidiary undertakings	—	—	69,763	59,241
Prepayments and accrued income	10,401	10,081	123	95
Other debtors	524	1,105	108	1,208
	121,140	110,934	69,994	60,544

Included in other debtors is £Nil (1995, £567,000) relating to deferred revenue expenditure incurred in connection with the centralised distribution centre at Shaw.

16 Creditors: amounts falling due within one year	Group 1996 £'000	Group 1995 £'000	Company 1996 £'000	Company 1995 £'000
Bank loans and overdrafts	173	692	11,689	2,505
Obligations under finance leases	192	127	—	—
Trade creditors	21,213	20,194	99	39
Current taxation	10,362	8,296	98	177
Social security and other taxes	9,171	8,114	—	—
Accruals and deferred income	17,250	12,309	192	156
Other creditors	854	1,534	—	—
Proposed dividend	5,988	5,038	5,988	5,038
	65,203	56,304	18,066	7,915

Notes to the accounts

17 Creditors: amounts falling due after more than one year	Group 1996 £'000	Group 1995 £'000	Company 1996 £'000	Company 1995 £'000
Bank loans repayable between two and five years	27,000	32,500	14,000	18,000
Obligations under finance leases repayable between two and five years	446	466	—	—
	27,446	32,966	14,000	18,000

18 Provisions for liabilities and charges	Group £'000
Deferred taxation:	
At 25th February 1995	1,789
Charged during the year	232
At 2nd March 1996	2,021

The amounts of provided and unprovided deferred taxation are as follows:

	Provided 1996 £'000	Provided 1995 £'000	Unprovided 1996 £'000	Unprovided 1995 £'000
Accelerated capital allowances	2,420	2,117	1,071	1,021
Sundry timing differences	(399)	(328)	—	—
	2,021	1,789	1,071	1,021

The group has approximately £708,000 (1995, £682,000) of capital losses. After accounting for these losses there would be a tax liability of approximately £455,000 (1995, £374,000) if the listed investments and revalued properties were disposed of at their balance sheet value.

Notes to the accounts

19 Share capital	Authorised £'000	Allotted, called up and fully paid £'000
Ordinary shares of 10p each:		
At 25th February 1995 and at 2nd March 1996	19,500	14,603

At 2nd March 1996 options over N Brown Group plc ordinary shares under the share option schemes were outstanding as follows:

Option scheme	Exercise dates	Option price	Number of shares
1984 Executive scheme	June 1990 – June 1999	82.5p – 157.5p	232,000
1990 Savings related scheme	May 1996 – February 2001	74p – 215p	1,943,000
1990 Executive scheme	June 1994 – December 2005	115.5p – 269p	1,904,000
Unapproved scheme	August 1996 – July 2000	150p	400,000

It is anticipated that these options will be satisfied from the shares currently held by the Employee Share Ownership Trust.

	Group				Company		
20 Reserves	Share premium account £'000	Revaluation reserve £'000	Other reserves £'000	Profit and loss account £'000	Share premium account £'000	Revaluation reserve £'000	Profit and loss account £'000
At 25th February 1995	17,551	3,713	70	55,566	17,551	2,134	8,658
Retained profit for the year	—	—	—	12,739	—	—	2,614
Surplus on revaluation of listed investments	—	292	—	—	—	292	—
Amortisation of revaluation surplus on properties	—	(33)	—	33	—	—	—
Goodwill written off	—	—	(70)	(618)	—	—	—
At 2nd March 1996	17,551	3,972	—	67,720	17,551	2,426	11,272

The cumulative amount of goodwill resulting from acquisitions in the current and earlier financial years which has been written off is £24,135,000 (1995, £23,447,000).

Notes to the accounts

21 Capital commitments	Group 1996 £'000	Group 1995 £'000	Company 1996 £'000	Company 1995 £'000
Contracted but not provided for	912	2,683	—	—
Authorised but not contracted for	13,043	3,442	—	—
	13,955	6,125	—	—

22 Group operating lease commitments in the next financial year	1996 Leasehold property £'000	1996 Plant and equipment £'000	1996 Total £'000	1995 Leasehold property £'000	1995 Plant and equipment £'000	1995 Total £'000
Leases expiring within one year	27	316	343	11	218	229
Leases expiring in two to five years	328	1,056	1,384	188	1,030	1,218
Leases expiring in more than five years	542	—	542	570	83	653
	897	1,372	2,269	769	1,331	2,100

23 Guarantees

The parent company has guaranteed the indebtedness of certain subsidiary undertakings which at 2nd March 1996 amounted to £Nil (1995, £Nil). In addition, parent company borrowings which at 2nd March 1996 amounted to £25,689,000 (1995, £19,846,000) have been guaranteed by certain subsidiary undertakings. The parent company together with certain subsidiary undertakings have guaranteed the borrowings of the N Brown Group plc Employee Share Ownership Trust, which at 2nd March 1996 amounted to £4,000,000 (1995, £5,500,000).

24 Contingent liabilities

In February 1996, the High Court dismissed a claim by a leasing company for £2.6m plus interest against J D Williams & Co Ltd in connection with a computer leasing contract. The leasing company has appealed, but it is likely to be several months before the appeal, which is being vigorously contested, is heard by the Court.

25 Other statutory information

At no time during the 53 weeks ended 2nd March 1996 did any director have either any beneficial interest in any shares, stocks or debentures of any subsidiary undertaking or any material interest in any contract of significance to the group's business.

Notes to the accounts

26 Principal subsidiary undertakings

The principal subsidiary undertakings of the company are:

Company	Principal activity
J D Williams & Co Ltd	Direct home shopping by catalogue
Sander & Kay plc	Direct home shopping by catalogue
Dunlop Heywood & Co Ltd	Consultant property surveyors
Morfitt & Turnbull (Management Services) Ltd	Investment management and life and pensions broking

All the companies are wholly owned subsidiary undertakings and operate within the United Kingdom and are registered in England and Wales. Segmental information has not been given other than as disclosed in note 2 on page 33 due to the immaterial size of the property and financial services division in respect of the requirement of SSAP 25.

27 Pensions

The group operates a defined benefit scheme, the N Brown Group Pension Fund, which provides benefits based on final pensionable salaries. The assets of the scheme are held separately in trustee administered funds. The pension cost charged to the profit and loss account is calculated by a qualified actuary so as to spread the cost of pensions over the employees' working lives within the scheme. The most recent actuarial valuation was undertaken as at 30th June 1994 using the projected unit method. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be 2% per annum higher than the rate of annual salary increase and 5½% higher than the rate at which present and future pensions would increase. The next actuarial valuation is due to take place as at 30th June 1997.

At 30th June 1994 the market value of the assets of the scheme was £8,034,200 and the actuarial value of these assets represented 103% of the benefits that had accrued to members to the valuation date based on salaries projected to retirement or earlier exit.

There is no material difference between the calculated pension cost to be charged to the profit and loss account and the contributions paid to the scheme.

The group operates a number of much smaller pension schemes. These schemes are not material in relation to the group's accounts.

The total pension cost for the group was £627,000 (1995, £568,000).

Shareholder information

Financial timetable

1995	12th October	Announcement of interim results
	28th November	Closing of register for interim dividend
1996	4th January	Payment of interim dividend
	2nd March	Financial year end
	9th May	Preliminary announcement of annual results
	3rd June	Publication of 1996 annual report and accounts
	25th June	Closing of register for final dividend
	26th June	Annual general meeting
	26th July	Payment of final dividend

Registered office
53 Dale Street
Manchester
M60 6ES
Registered No. 814103
Telephone 0161 236 8256

Registrars
Independent Registrars Group Ltd
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

Stockbrokers
de Zoete & Bevan Ltd
Ebbgate House
2 Swan Lane
London
EC4R 3TS

Shareholder benefits

Subject to certain conditions, shareholders are entitled to a 20% privilege discount off the selling price of consumer merchandise in any of the group catalogues. Discounts are also available to shareholders through Morfitt & Turnbull on a range of financial products including life insurance, pensions and unit trusts. Shareholders interested in these facilities should write for further information to The Secretary of N Brown Group plc, 53 Dale Street, Manchester M60 6ES stating the number of shares held and the catalogue or product of interest.

Personal equity plans (PEPs)

The company has established the N Brown Group plc corporate PEP and single company PEP which are open to existing and prospective shareholders. Further information concerning the PEPs is available from the plan manager, Halifax Investment Services Ltd (a member of IMRO), Trinity Road, Halifax HX1 2RG. Telephone 01422 335991.

Capital gains tax

For the purpose of capital gains tax, the value of the company's ordinary shares of 10p each was 12.8125p per share on 31st March 1982 and 2.65625p on 6th April 1965.

Notice of annual general meeting

Notice is hereby given that the thirty first annual general meeting of N Brown Group plc will be held at the Ramada Hotel, Manchester, on Wednesday, 26th June 1996 at 2.30pm for the following purposes:–

As ordinary business:–

1 To consider and, if thought fit, to adopt the accounts and the report of the directors for the 53 weeks ended 2nd March 1996.

2 To approve the payment of a final dividend of 4.10p per ordinary share in respect of the 53 weeks ended 2nd March 1996.

3 To re-elect Nigel Alliance as a director.

4 To re-elect A Paul Forster as a director.

5 To re-appoint Arthur Andersen as auditors and to authorise the directors to fix their remuneration.

Registered Office
53 Dale Street
Manchester
M60 6ES

By order of the board
Paul Grundy FCA
Secretary
3rd June 1996

Notes

1 Only holders of ordinary shares are entitled to attend and vote at the annual general meeting.

2 A holder of ordinary shares is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the company. A proxy card is enclosed.

3 Proxy cards must be deposited at the office of the company's registrars not less than 48 hours before the time for holding the meeting.

4 Copies of directors' service contracts will be available for inspection at the registered office during normal working hours and at the place of the meeting for at least 15 minutes prior to and throughout the meeting.