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Delivering the goods

N Brown Group plc

Annual Report and Accounts 2007

Financial Summary

	2007	2006
Revenue	£533 8m	£468 7m
Operating profit	£76 4m	£60 4m
Profit before taxation	£65 4m	£54 1m
Basic earnings per share	15 89p	13 11p
Dividend per share	7 53p	6 27p
Net assets	£202 5m	£246 0m
Net asset value per share	75 6p	83 3p
Gearing	51%	38%

The last twelve months have been rewarding for N Brown Group and its shareholders in every sense. Hard work, careful planning and conscientious management continue to yield impressive returns. The result is that we are a highly effective business facing the future with quiet confidence In short, the focus on our core home shopping business is delivering the goods.

Success isn't confined to any particular area of our business Instead we are performing well across the board, with every area of N Brown producing success stories Our current success is the cumulative effect of many individual achievements and is something we have every confidence will continue into the future Customer knowledge is the key By understanding and satisfying our customers' needs and ambitions over the past twelve months we have strengthened our financial position

Today we are able to deliver exactly what our customers want, when they want it. By focussing on proven areas like larger size clothing and footwear, and doing what we have always done (but doing it better), we have achieved double digit like for like sales growth Clearly our approach is one that delivers continuity, stability and above all, results

Contents

Chairman's Statement

The group results for the 52 weeks ended 24th February 2007 show continued progress in our specialist home shopping business, resulting in record levels in both sales and profits To reflect this the directors are proposing a 20% increase in the final dividend on top of the 27p per share return of value paid to shareholders in March 2007 The group has also announced its commitment to clearing the current pension fund deficit of £27m by 2010

Lord Alliance of Manchester CBE
Chairman

Group
Group revenue from continuing operations is up by 13 9% to £533 8m and operating profit is up by 26 5% to £76 4m Profit before taxation is up by 20 9% to £65 4m after providing for costs of £0 9m arising from the £80m return of value to shareholders, and a £2 4m adverse fair value adjustment on foreign exchange contracts (2006 £1 7m gain) Excluding these items, the group profit before taxation is up by 31 1% Earnings per share from continuing operations are 15 89p, an increase of 21 2% The directors are proposing a 20 0% increase in the final dividend to 5 34p, making a total for the year of 7 53p (up 20 0%), covered 2 1 times

Net debt at the year-end was £104 0m, up £11 1m on last year principally due to the acquisition of Gray & Osbourn and an increase in home shopping debtors as a consequence of buoyant trading Net interest payable on borrowings was £7 1m, covered 10 7 times Gearing at the year end was 51% (2006 38%) before the return of £80m to shareholders in March 2007

Home Shopping
Turnover in our home shopping division was £523 8m, an increase of 14 0% Operating profit rose 22 3% to £76 3m These results have been driven by strong levels of growth in all key customer groups and product categories, supported by improvements in customer service and efficiencies in our operating costs

Sales to mid-life customers, aged 45 to 65, rose by 14% to £363m and there is further excellent growth potential in this core market These sales include £12m from Gray & Osbourn, an upmarket ladieswear catalogue which we acquired in June 2006 for £9 4m Revenue from the younger titles, serving those customers aged 30 to 45, increased by 16% to £136m Our catalogue brands for the 65 plus market contributed sales of £25m, up by 4%

The number of active established customers on our database rose by 3% and improvements to our product ranges and catalogue offers combined to increase the average spend per customer by 7% Sales from newly recruited customers rose by 9% This demonstrates the success of our continued focus on targeting those customers who will purchase from us over the long-term, even though the initial recruitment costs are much higher

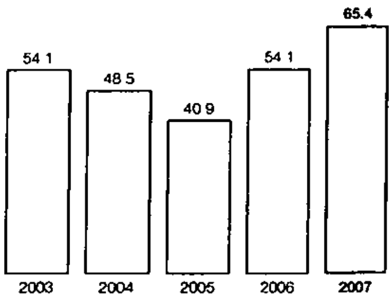
The sales growth has been fairly evenly spread amongst our four product groups with ladieswear up 15%, footwear up 11%, menswear up 9% and home and leisure up 14% on the previous year In the clothing and footwear categories we have expanded the number of lines and size options even further to reinforce our market-leading position as the best provider of a wide choice of fittings in the UK The ranges are now more fashionable reflecting the younger outlook of our existing customers This has also proved attractive to new customers who find it hard to match the choice of styles and sizes we offer when they are on the high street

The format and frequency of our mailing program has continued to evolve, complemented by expanded email and telemarketing campaigns We have implemented a significant increase in the number of pages contained in our mid-season mailings facilitated by the Royal Mail's new pricing structure introduced in August 2006 This reduces costs in the short-term and gives downstream benefits to ourselves, Royal Mail and our customers. The increased pagination has benefited our home and leisure ranges in particular as this increased exposure, together with a successful Christmas catalogue, accounts for the substantial sales uplift we have experienced

We have focused more of our resources on developing online sales and the internet remains our fastest growing channel to market Online orders have now overtaken those received by mail, rising by 51% to £112m, and accounting for 22% of total home shopping sales compared with 16% last year The internet is more convenient for our customers and continues to deliver incremental sales, attract customers and reduce our operating costs

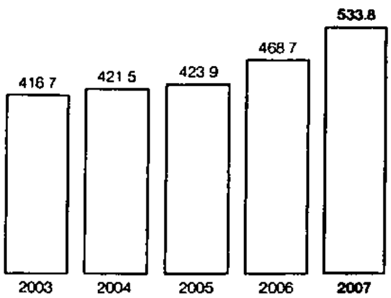
There are good reasons behind the fall in gross margin on home shopping sales from 56 8% to 55 6% Our new credit scoring systems have enabled us to target increases in customers' credit limits

Pre-tax Profit (£m)*



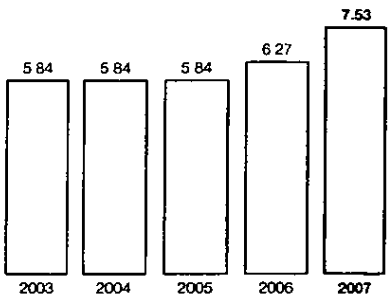
Excluding operating exceptional items, 2005 £22 5m 2004 £17 5m

Revenue – Continuing Operations (£m)



** Results presented under IFRS from 2005 previously UK GAAP

Dividends Per Share (p)



thereby generating profitable incremental sales However as expected this has also led to some additional bad debt and there has been a reduction in the VAT recoverable on bad debt We have been more aggressive with our in-season mark down activity both in the discount leaflets and our online clearance sites, which has contributed to the gross margin reduction The benefit of this action is that, excluding the stock we acquired with Gray & Osbourn, there has been no increase in our stock levels

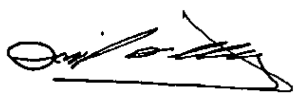
Operating costs have only increased by 8 0% with substantial efficiencies achieved in carriage, marketing and payroll costs The net result of these offsetting factors is a 1 0% increase in the operating margin rate to 14 6%

Current Trading
The favourable sales trends have continued into the new financial year Sales for the ten weeks to 5th May 2007 have increased by 17 9%, or by 14 0% excluding the sales of Gray & Osbourn Again we are seeing good growth rates across all our major product categories and customer groups Online sales continue to flourish with an increase of 47%, representing 26% of the total

Two new launches have taken place this season Simply Be Home, a catalogue of home and leisure goods suitable for our younger customers, was launched in February 2007 In addition, we launched Simply Yours in March 2007 to capture an increased share of the lingerie market, particularly in the larger sizes Both of these catalogue brands have delivered to our expectations and will be developed further during the year

Outlook
We believe we have a clear understanding of the needs and requirements of our customers and will continue to expand the range of catalogues and products to meet their demands The internet provides a very good forum for low-cost testing of new products and concepts and we plan to take full advantage of our expertise in this field During the last year we have invested over £12m in our customer contact centres and distribution centres to ensure we can improve the service to our customers as well as driving additional efficiencies in our operations

As a result of the stronger than expected trading since the beginning of 2007 the board is confident that the management and our excellent workforce have the skills and expertise to deliver further progress this year



Lord Alliance of Manchester, CBE

Home Shopping

'Delivering the Goods'

For shareholders that means keeping our promises and exceeding expectations. For customers it means offering the products they want at attractive prices. Following a customer's order from catalogue to completion shows how N Brown truly delivers the goods at every stage.

Young (30-45)
fashionworld co uk
simplybe co uk
naturallyclose co uk
classicconfidence co uk
newnow co uk
vivaladiva com

Midlife (45-65)
jdwilliams co uk
ambrosewilson com
oxendales com
fiftyplus co uk
shoetailor com
shapelyfigures com
classic-detail co uk
premierman com
homeshoppingdirect com
inspirationalhome co uk
petfoodnstuff com
discountworld com
houseofbath co uk
crazyclearance co uk
grayandosbourn co uk

Elderly (65+)
heathervalley com
specialcollection com

Fulfilment
zendor com

Chief Executive's Review

The results for the 52 weeks to 24th February 2007 demonstrate clearly that our home shopping strategy to focus on niche customers and products has been executed successfully with record results from every part of the business Group sales were £533 8m, up by 13 9% on last year, and operating profit from continuing businesses increased by 26 5% to £76 4m

Alan White
Chief Executive

Home Shopping
Home shopping sales rose by 14 0% to £523 8m We anticipated a decline in the rate of sales growth in the second half as the year on year comparatives became more demanding but the momentum built up from the first half in fact strengthened in the second half Underlying sales growth of 11 4% for the year was complemented by the acquisition of Gray & Osbourn in June 2006 which saw sales of £12m during the period

The most pleasing aspect of the results was the increase in sales from all customer and product groups together with improved levels of customer service and real reductions in major operating costs

Customer Groups
We have seventeen different catalogue brands to which we recruit customers, each of them focusing on a particular type of customer or product For simplicity we group them by age into younger, midlife and older

The younger customer group comprises Fashion World, Classic Confidence and Simply Be and, in aggregate, sales rose last year by 16% to £136m, the fastest growth of all the groups, representing 26% of group sales The highest sales in this group are from Fashion World which serves value conscious customers in their forties and saw double-digit sales growth Simply Be remains the star performer, with sales exceeding £50m for the first time, an increase of over 30% Simply Be's success can be attributed to the provision of fashionable clothing in all sizes through to size 34 (and occasionally up to size 38) for the woman in her thirties who finds it hard to find clothes on the high street to fit her These are our highest spending customers and during the year we increased the catalogue by 20 pages to accommodate larger ranges of lingerie and footwear, all of which have been well received

The largest and longest established group comprises our midlife brands which are targeted at customers aged between 45-65 and account for £351m, or 67%, of group sales Despite the fact these brands are already well-established we saw encouraging sales growth of 10%, with particularly strong performances from Ambrose Wilson, Oxendales, Fifty Plus and Shapely Figures These customers love to shop from the comfort of their own home from our catalogues which provide a full range of stylish, yet comfortable, clothing and footwear which is available in a wide assortment of sizes and fittings, as well as a targeted range of home and leisure merchandise

The latest addition to the midlife group is Gray & Osbourn, an upmarket ladieswear catalogue mainly selling high quality German brands The business was acquired in June 2006 for a consideration of £9 4m and has since performed to our expectations contributing sales of £12m The upmarket fifty plus customer segment is the fastest growing part of home shopping and Gray & Osbourn complements our acquisition in 2004 of House of Bath, which specialises in hard to find items for the home and garden

The third group of catalogue brands is our older group, targeting customers over 65, which contributed sales of £25m, up by 4%, principally through Heather Valley and Special Collection, representing 5% of total sales

The vast majority of the sales growth has come from our established database of customers recruited in previous financial years We have a database of over five million customers who have placed an order in the last two years and during 2006/7 the number of active customers rose by 3% and the average spend per customer rose by 7% The remainder of the sales growth was from newly recruited customers who respond to product advertisements or mini-catalogues in womens magazines or the national press, or are attracted by our television advertisements In addition we have recruited encouraging levels of new customers through the internet search engines The sales from all newly recruited customers rose by 9%

WEDNESDAY

09:15

Delivering to all our customers

For many of our customers, 60 is the new 40 As they get older they see no reason to put aside their interest in fashion For example, over 15% of sales of an embroidered basque went to customers over 60 The point is that as our customers get older they still want fashionable, attractive clothing, and look to us to supply it We are able to meet this demand for the simple reason that we know what our customers want

As well as servicing the midlife customers who are interested in more fashionable styles, we are also targeting younger buyers For example, we have always sold wide fitting shoes, now we are producing those wider fittings in younger styles

WEDNESDAY

Is that the letterbox?
Hope it's something good

A new Simply Be catalogue!
I'll just take a quick look.

Chief Executive's Review

Product Groups
Ladieswear sales, excluding Gray & Osbourn, increased by 10% to £270m, accounting for 52% of total sales Our customers want to dress more fashionably but still comfortably and our buying team have managed this balance particularly well this year We are subject to the same fashion trends as the market as a whole so we saw a strong performance from casual clothing in the first half with the smarter, more tailored styles prevalent in the second half Younger fashion did well on the back of Simply Be's strength and knitwear performed strongly throughout the year

We specialise in offering our clothing in a wide range of sizes such that over half our ladieswear sales are in size 20 or above, sizes which are difficult for high street chains to manage effectively and profitably

We also have an enormous range of options for corsetry and lingerie For example, we sell bras from size 32A right through to 54K in a selection of styles and colours which is not matched by any other retailer We have expanded the styles suitable for our younger customers which has generated incremental sales growth

Wide-fitting footwear sales have seen a further 11% growth One of the key drivers of this growth was introducing a footwear range more suitable for our younger customers, and the encouraging results mean this range will be expanded in future seasons

We have specifically focused some marketing campaigns to encourage more of our customers to buy from product areas where they have not previously done so From our experience we know the more categories a customer purchases from the higher their loyalty in the future and it is promising that these campaigns have been successful Currently only 11% of customers buy from all three of our clothing, lingerie and footwear ranges and there is a strong growth opportunity in the future to increase the level of cross-selling

Menswear has continued its upward sales trend with an increase of 9% The fastest growth came from our younger styles and sportswear which we have developed to complement our Premier Man ranges

Sales of home and leisure products grew by 14% to £146m, well above our expectations, and now account for 28% of total sales There were particularly strong performances from household textiles, electrical, furniture, homewares and gifts The success was partially derived from more pages being allocated to home and leisure in the expanded mid-season mailings as a result of the lower postage costs In addition we had an extremely strong Christmas gift catalogue due to increased pagination and improved presentation

One of the core features of our business is the high number of product options to provide our extensive choice of sizes and fittings During the year we increased the number of options by 22% to over 150,000 The management of such a large option range within a multiplicity of catalogues, brochures and leaflets, balancing the need for a high level of service with low levels of dormancy is one of our key skills

An encouraging feature of the sales performance was a 4% increase in the average selling price, after a number of years of falling prices The increase was down to the mix of price points, as like for like selling prices were stable

Internet
In order to maintain our position in the home shopping sector there have been significant changes in the ways we communicate with our customers in recent years The most fundamental change has been the emergence of the internet Our online sales rose by a further 51% this year to £112m, representing 22% of total sales, compared with 16% last year

What a great top, I'd love that

WEDNESDAY
10:00

Delivering what customers really want

What sets us apart is our unique customer understanding For example when we undertake a promotional email campaign it is based on specific information about the target customers and is carefully designed to address a specific need The detailed customer information, together with our analytical skills and our extensive database is the key to giving customers what they want

I'll get some shoes to match

Chief Executive's Review

This increase is due to a number of factors The growth of broadband penetration is giving more customers the facility to use the internet and whereas young customers were the early adopters we are now seeing growth rates which are similar right across the age spectrum which plays very well for our target markets We continue to promote the internet to our customers through prominent display of the website address on all catalogues and advertisements and offer an introductory incentive for them to place their first order online

Once customers go online we continue to see an uplift of about 25% in their average order value, as they are able to switch seamlessly between all of our many websites and access the entire group's product assortment and promotions

In addition we are then able to include them in our email marketing campaigns During the year we ran over 200 email campaigns which generated further incremental demand at a very low promotional cost

Recruitment of new customers by sponsoring key words in the internet search engine is now a core part of our recruitment campaigns and there is further work we can do to optimise this activity

Mailings
The mailing of catalogues remains the key stimulus to customers ordering whether they use the telephone, online or postal channels We have further refined our mailing programme this year The main branded catalogues had additional pages and increased sales by 7% but it was the mid-season mailings which saw the largest increases from publications such as Classic Detail, Selections, New Now, Christmas Gifts and the seasonal Value catalogues

These mailings are mainly comprised of existing product lines, but by introducing some new lines and changing catalogue formats and photography we can create a very different feel to the new offer Overall sales from these mid-season mailings rose by 16% to £195m We added more pages into the mailings as a direct consequence of the new Royal Mail pricing structure introduced in August 2006 which allows larger catalogues to be mailed cost effectively These drive a higher response level and keep our customers more active

Incremental sales are also generated by our telemarketing activities on both inbound and outbound calls, and during the year sales from these activities rose by 20% to £41m

Service and Costs
There has been a focus on improving the conversion of customer demand into net sales We delivered a higher level of stock availability during the year and saw the rate at which customers return goods reduce by 0 7%, due to improved product quality and fit In addition the introduction of the new behavioural credit scoring systems has reduced the proportion of credit rejects The benefit of these actions has been reflected in the lower level of marketing discounts and incentives needed to stimulate sales and higher levels of customer satisfaction reported by our internal surveys

The increased frequency of mailings allows the progressive mark down of excess stocks during the season This resulted in higher in-season discounting but reduced terminal stocks, leaving total stock levels at only a similar level to last year on a like for like basis However the main reason for the 1 2% decline in the rate of gross margin is the higher bad debt charge resulting from the mix of customers and changes to our credit policies to increase profitable sales, together with reduced VAT relief on bad debts

We have seen significant efficiencies in our operating costs, especially carriage, marketing and payroll costs, and this has been the main contributor to the 1 0% increase to 14 6% in the operating margin

Great, they're a wide fitting I'll order online

WEDNESDAY

11:28

Delivering through every channel

Last year our online sales grew by 51% to £112m, and since the year end have accounted for 26% of all sales Average order values are 25% higher online than for telephone orders

At the same time changes to the Royal Mail's charging structure have reduced postage costs which are being reinvested in larger catalogues or increased mailings Lower prices mean we can mail more pages for the same cost or increase our mailing to marginal customers it would otherwise be uneconomical to contact

Although much of our thinking is geared around the web, actual sales tend to come from online and offline initiatives working in tandem What we are seeing is the increasing maturity of our multi-channel approach, with the superior quality of a printed catalogues photographs working to create interest which can then be fulfilled quickly and easily online

Another benefit to using the web is the ease with which we can trial new products online, with proven winners then moving offline to benefit from additional exposure via catalogue At the same time, as more incoming orders arrive via the internet instead of the telephone, we are able to redeploy this spare capacity into increased outbound telephone marketing

**Click, click, click.
That was easy**

WEDNESDAY
11:40

Delivering behind the scenes

Telephone orders are processed at our 1,200 seat call centre in Manchester where they are handled by a customer service advisor This state of the art facility employs the latest call routing technology including an innovative voice-to-computer system that enables customers to make payments by voice alone The result is a significant improvement in both efficiency and security

N Brown has resolved to keep its call centre operations firmly in the UK We believe the positive publicity and goodwill this generates more than compensate for any cost differences Excellent customer service is essential if we are to retain our best customers and we go to great lengths to keep them happy Wherever it is appropriate we use the direct telephone contact with customers to cross-sell additional items and services based on their behavioural profile

Jayne's order arrives at our Manchester call centre

Our system automatically checks to see if her goods are in stock.

WEDNESDAY

14:30

Delivering all the flexibility we need

All orders ultimately end up as an instruction to "pick, pack and dispatch" in our distribution centres Over the last twelve months these two facilities typically process between 100,000 and 150,000 items per day, employing around 1,000 staff at peak times

The key feature of these operations is flexibility N Brown's commitment to customer service means busy times like Easter and Christmas require more resources, so we make sure they are available Technology also contributes to our flexibility, with a fully automated sortation process for collatable items (like clothing) and a semi automated process for non-collatable items (such as televisions)

Jayne's order is processed and a picking note created automatically

State of the art technology speeds the "pick, pack and dispatch" process.

Chief Executive's Review

Infrastructure
We have made a number of significant improvements to our operating infrastructure The £17m development of our second distribution centre at Hadfield has seen one new warehouse completed before Christmas and two others constructed for commissioning in the first half of 2007, including a bespoke hanging garments warehouse Additional call centre capacity has been secured with an outsourced facility in Scotland and our call centre in Manchester has had upgrades applied to all of the major operating equipment In August 2006 we transferred the management of our self-employed courier network, who deliver about two-thirds of all our customer orders, to TNT Post as part of a 10-year distribution agreement which should result in improved services at an attractive price

The new generation of websites with many enhanced features are currently under development and will start to be deployed throughout 2007

Zendor
Zendor, which provides home shopping services to other retailers, increased its revenues by 9 9% to £10 0m and produced an operating profit of £0 1m, compared with a loss of a similar amount last year We have invested in additional warehouse facilities, which will be further expanded during 2007, in readiness for winning new business from a strong client prospect list

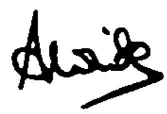
Current Trading and Prospects
The growth trends established in 2006 have continued into 2007, with group sales for the 10 weeks to 5th May 2007 up by 17 9%, or 14 0% on a like for like basis This growth is spread across all the customer and products groups and the business has continued to increase the volume and variety of catalogues distributed

We have a number of initiatives to widen the appeal of our catalogues whilst continuing to develop our core selling propositions We recently launched Simply Living which is a more contemporary home and leisure offer for our younger customers In March 2007 we commissioned a television advertising and media campaign to promote the launch of Simply Yours, with the strapline "the above average underwear company" targeting the younger, larger but more affluent customer for our corsetry and lingerie ranges

We are increasing the range of products available to our online customers, including our version of fast fashion which will see twenty new lines promoted exclusively on the internet in May 2007, although they may be included in the catalogues later in the year The internet model has changed dramatically from the days when we merely replicated our catalogues online, to one where it is the testing ground for new concepts

The demographic trends for the customer population over 40 are very favourable and we believe we are well-placed to deliver the appropriate products to the different segments of this group through a portfolio of existing and new catalogues which will appeal to both the value conscious and the upmarket customer We will endeavour to increase our market share through a wide assortment of recruitment techniques which should increase our active customer database as well as driving higher sales per customer

I am confident that our strategy has the ability to deliver further growth in the current financial year which will be for the 53 weeks to 1st March 2008



Alan White

THURSDAY

With the order complete TNT deliver the items to a local courier

The local courier, often well known and trusted by customers, makes the final delivery

THURSDAY

13:00

Delivering to our customers' door

Completed orders are dispatched from our warehouses via TNT's delivery network Working with a strategic partner like TNT makes sense from both an economic and efficiency point of view – their core competence in logistics and delivery enables N Brown to concentrate on our core competence of home shopping TNT then deliver to a nationwide network of local self-employed couriers who take the parcels to the customer's home

This arrangement has several advantages – local couriers have local knowledge and often become well known in their area In fact we encourage them to build strong relationships with our customers As far as the customer is concerned these couriers are the face of N Brown, so building trust through a reliable, efficient service is essential This arrangement also works in reverse – if a customer needs to return an item then their local courier is the place that process starts

Knock knock, sign here please

THURSDAY

14:30

Delivering to every part of our market

As well as providing our more fashion conscious customers with the high style garments they demand, we have not abandoned customers who want more traditional clothing

Our broad-based approach means we now have a portfolio of brands, from Simply Be aimed at buyers in their 30s, to Special Collection targeted at people in their 70s As well as covering a spectrum of ages, we also cover different socio-economic groups, from ABC orientated Gray & Osbourn, to C2D focused Fashion World

The point is simple we cater for all customer groups, both conservative and contemporary, with equal enthusiasm Filling gaps in the High Street's offering and servicing the market for older and/ or larger customers continues to be a successful strategy which still has further growth opportunities

Can't wait to try it on

FRIDAY

20:00

Delivering real satisfaction

We know what gives our customers a feeling of real satisfaction – great looking clothes that make them feel fantastic To make that happen we size our products to reflect our customers' figures, with options for wider calves, shorter leg lengths, larger bust sizes and wider fitting shoes Larger size clothes that look fantastic are a core N Brown market which we'll continue to put at the heart of our business

Then there's the issue of age Two thirds of our business still comes from where it always has – our midlife customers aged between 45-65 The fastest growth is still from our younger customers, under 45 years of age, with targeted product ranges These have an important halo effect, with our older audiences seeing these clothes and wanting to look good for longer In short, customers of every age trust us to deliver the sort of goods they want at a price that suits their budget.

FRIDAY

A perfect fit Just right for Debbie's 40th tonight!

Financial Review

The 52 weeks to 24 February 2007 was a record year for the group reflecting the successful continuation of our strategy to develop the core home shopping business As a result group sales exceeded the prior year by 13 9% to achieve £533 8m

Dean Moore
Finance Director

Group Trading Summary
Group operating profit for the same period amounted to £76 4m (2006, £60 4m) and was achieved despite a 1 3% reduction in gross margin arising from a higher charge for bad debts, in season discounting and product mix Additional reductions in distribution and marketing costs more than offset this shortfall, increasing the group operating margin to 14 3%, compared with 12 9% last year

During the year, House of Stirling, our door-to-door selling business was closed down and its debtor book sold for £5 6m and consequently accounted for as a discontinued operation Gray and Osbourn Limited contributed £0 4m of operating profit since its acquisition on 30 June 2006

Profit before taxation amounted to £65 4m (2006, £54 1m), despite a loss of £2 4m (2006, £1 7m gain) in respect of fair value movements on the group's forward foreign currency contracts and a rise in net finance charges to £8 6m (2006, £8 0m) on higher net debt

Taxation
The effective rate of corporation tax for the year is 28 3% (2006, 28 6%) as we continue to benefit from lower overseas tax rates and tax planning

Balance Sheet and Cash Flow
Net assets within the business have fallen from £246 0m to £202 5m at the year end primarily due to a declared £79 9m return of value to shareholders referred to below Total capital expenditure for the year was £20 9m of which £10m was invested in the Hadfield warehousing facility and £8m was spent on developing website and call centre systems These investments have and will continue to generate operational savings Excluding the stock we acquired with Gray and Osbourn, there has been no increase in stock levels in the year as the benefits of in season discounting were realised

Trade debtors at the year end were £343 4m compared to £310 4m last year reflecting the buoyant trading Bad debts increased due to the growth of the younger titles and mix of customers

The group's defined benefit pension scheme deficit fell to £27 7m (2006, £34 4m) following the 2006 actuarial valuation As part of the return of value to shareholders, the group has agreed to make additional payments to the scheme over the next four years

Net cash generated from operating activities fell from £71 3m to £42 8m primarily due to the growth in trade debtors and higher corporation tax paid Continual investment in the fixed asset infrastructure together with the purchase of Gray and Osbourn for £7 3m, increased net debt in the year to £104 0m (2006, £92 9m) and gearing to 51% (2006, 38%)

On a pro-forma basis gearing would rise to 98% after the return of value and the first additional payment to the pension scheme was paid in March 2007

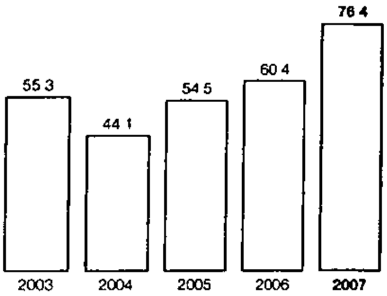
Key Performance Indicators
The directors use a number of key performance indicators (KPIs) to monitor the progress of the group, including

- Like for like sales (see page 6)
- Internet sales (see page 8)
- The number of customer debtor accounts and their average debtor balance, which at the year end was 1,467,000 (2006, 1,412,000) and £234 (2006, £215) respectively
- Mix of sales by product and customer groups (see pages 6 to 8)
- Gross Margin (see page 10)
- Operating margin (see page 10)

Risks and Uncertainties
There are a number of risks and uncertainties, which could have an impact on the group's long-term performance They include the potential threat from our competitors, our relationship with key suppliers, the loss of key personnel, potential disruption to our key information systems, warehousing or call centre facilities arising from events beyond our control such as fire or other issues which could have a detrimental impact on sales and profit, changes to the regulatory environment that the business operates under, primarily regulated by the Financial Services Authority and the Office of Fair Trading

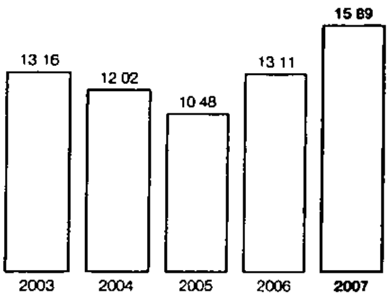
Operating Profit – Continuing Operations (£m)	Earnings Per Share* (p)	Net Assets (£m)

Operating Profit – Continuing Operations (£m)



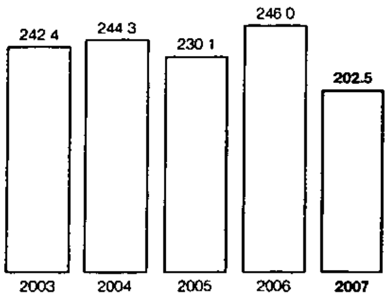
Excluding operating exceptional items, 2005 £22 5m 2004 £17 5m

Earnings Per Share* (p)



** Results presented under IFRS from 2005 previously UK GAAP

Net Assets (£m)



The directors routinely monitor all these risks and uncertainties and appropriate actions are taken to mitigate these risks, such as having business continuity procedures in place, a dedicated team assessing regulatory developments, ensuring we treat our customers fairly and hosting regular reviews with all of our strategic partners The board are also committed to continually invest in updating its systems and infrastructure to keep a pace with new technology

Treasury
Funding arrangements have been set to adequately support the ongoing trading and development activity of the group Borrowing requirements are provided by a £200m securitisation facility arranged by HSBC Bank plc, which has recently been renewed for a further five years to 2012 During the year the group also entered into two new five-year loan facilities of £50m each with HSBC Bank plc and The Royal Bank of Scotland plc primarily in order to finance the payments under the return of value to shareholders All the current facilities are arranged at floating interest rates Where appropriate, exposure to interest rate fluctuations on indebtedness is managed by using derivatives such as interest rate swaps

Anticipated foreign exchange requirements for the purchase of stocks denominated in US dollars are hedged for up to three years ahead to fix the cost of sterling This hedging activity involves the use of spot, forward and option contracts At the year end the group had outstanding forward foreign exchange contract commitments of $61m (2006, $52m)

Accounting Standards and Going Concern
Group accounting policies reflect current professional standards and related guidelines issued by the International Accounting Standards Board and are prepared in accordance with International Financial Reporting Standards as adopted for use in the EU

Having made appropriate enquiries and having continued to operate an appropriate risk management process during the year, the directors are pleased to report that adequate resources exist to enable the group to operate for the foreseeable future A going concern basis adopted in the preparation of the accounts is therefore considered appropriate

Shareholders Return and Share Capital Consolidation
In February 2007 the group completed a share capital reorganisation of 19 new ordinary shares for every 21 existing ordinary shares and also provided for a return of value to shareholders equivalent to 27p per ordinary share amounting to £79 9m, which was paid in March 2007 The number of shares in issue at the year end was 267 7m compared to 295 4m last year

At the same time an agreement was reached with the group pension trustees and the pension regulator to increase the contributions towards the funding deficit in the pension scheme over the next 4 years A one-off contribution of £15m was paid in March 2007, which will be followed by three further contributions of £4m per annum for three years, with the final payment in 2010 being subject to the results of the actuarial valuation in 2009

The share price of 201 5p at the start of the year had risen to 334 5p at the year end giving a market capitalisation of £895 5m (2006, £595 2m) up by 50 5% A final dividend of 5 34p per share has been recommended by the board and represents an increase of 20% on the previous year giving a total dividend for the year of 7 53p per share, also up by 20%, covered 2 1 times (2006, 2 1 times)

Dean Moore

Directors and Officers

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1 **Lord Alliance of Manchester CBE (74)**
Non-executive Chairman c
Appointed a director and Chairman in 1968 Formerly Chairman of Coats Viyella Plc He is also a director of a number of private companies and was appointed a life peer in 2004

2 **Alan White (52)**
Chief Executive
Rejoined the company as Chief Executive in 2002 Previously with Arthur Andersen and Sharp Electronics he originally started with the company in 1985 and was Finance Director until 1999, when he left to become Group Finance Director of Littlewoods Plc

3 **Dean Moore (49)**
Group Finance Director
Appointed in November 2003 Previously Group Finance Director at T&S Stores Plc and Graham Group Plc Also held various roles with Lloyds Chemist Plc, Sketchley Plc Blue Circle Industries and Grant Thornton

4 **Nigel Alliance OBE (72)**
Non-executive Director
Appointed a director in 1969 he changed to non-executive status in 1995 He is also a director of a number of private companies

5 **Ivan Fallon (62)**
Non-executive Director a, b, c
Appointed a director in 1994 He is also Chief Executive of Independent News & Media (UK) and a director of Independent News & Media Plc Chairman of the remuneration committee

6 **Lord Stone of Blackheath (64)**
Non-executive Director a, b, c
Appointed a director in 2002 Formerly with Marks & Spencer Plc until he retired as Joint Managing Director in 1999 Currently Deputy Chairman of Sindicatum Carbon Capital Chairman of the nomination committee

7 **Philip Harland (51)**
Company Secretary
Joined the company in 2000 Previously company secretary and associate director of legal affairs at GUS Home Shopping Ltd Admitted as a solicitor in 1981

8 **John McGuire (58)**
Non-executive Director a, b, c
Appointed a director in March 2004 Formerly Chairman of Corporate Banking for Royal Bank of Scotland Group in the North of England and Midland regions Associate Councillor with Manchester Chamber of Commerce and Industry Audit Chair of Stockport NHS Foundation Trust Chairman of the audit committee

a Audit committee member
b Remuneration committee member
c Nomination committee member

Financial Statements

Directors' Report

The directors present their report and accounts for the 52 weeks ended 24 February 2007

Activities and results
The principal activities of the group are retailing through direct home shopping, fulfilment and financial services The activities are more fully explained in the chief executive's review on pages 6 to 17 Group profit before taxation from continuing operations for the 52 weeks ended 24 February 2007 amounted to £65 4m (2006, £54 1m) No geographical segmentation is provided as, apart from a small operation in the Republic of Ireland, all activities take place in the United Kingdom

Enhanced Business Review
The company is required to set out in this report a fair review of the business of the group during the financial year ended 24 February 2007 and the position of the group at the end of that period The company is also required to set out a description of the principal risks and uncertainties facing the group The information fulfilling the above requirements can be found within this report and within the chief executive's review and financial review which are deemed to be incorporated in this report by this cross-reference

The board monitors a number of financial and non-financial Key Performance Indicators and these are detailed on page 18

Dividends and reserves
An interim dividend of 2 19p per share (2006, 1 82p) was paid on the ordinary shares of the company on 5 January 2007 The net cost of this dividend was £6 5m (2006, £5 3m)

The directors recommend a final dividend of 5 34p per share (2006, 4 45p) for the 52 weeks ended 24 February 2007, the net cost of which will be £14 3m (2006, £13 1m) The dividend will be paid on 27 July 2007

Movements in reserves are shown in note 27 on page 60

Acquisitions and disposals
On 30 June 2006 the group acquired the entire share capital of Gray & Osbourn Limited for £9 4m In July 2006 the group sold the debtor book of its door-to-door selling business House of Stirling for £5 6m and the operation ceased trading

Share capital
Details of the company's authorised and issued share capital are shown in note 23 on page 58, together with details of the return of value paid in March 2007

Details of outstanding share options are shown in note 33 on page 62

Annual general meeting
The annual general meeting is to be held on 17 July 2007 The notice convening the annual general meeting is being sent to members by way of separate circular together with full explanatory notes on each resolution to be proposed at the meeting

Directors
The biographies of the directors, all of whom served throughout the year are shown on page 20 In accordance with the provisions of the Combined Code (2003) those non executive directors who have served a term of more than 9 years on the board will be subject to annual re-election Those affected by such a provision are, Lord Alliance of Manchester CBE, Nigel Alliance OBE and Ivan Fallon Accordingly they will retire at the next annual general meeting and, being eligible, offer themselves for reappointment at that meeting

In addition, in accordance with the Articles of Association of the company Dean Moore and John McGuire will retire at the next annual general meeting and being eligible, offer themselves for reappointment at the meeting

Details of directors interests (beneficial and non-beneficial) in shares of the company are given in the remuneration report on page 37 and are deemed to be incorporated into this report by this cross-reference

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

Major shareholders
In addition to the directors' shareholdings shown in the remuneration report on page 37, the directors are aware of the following shareholdings of 3 per cent or more of the issued share capital at 30 April 2007

	Holding	% of issued share capital
Fidelity Investment Services Ltd (Europe)	18,927,223	7 1
Standard Life Investments Ltd	15,997,452	6 0
Aberforth Partners	9,845,679	3 7

The directors are not aware of any other holders of 3% or more in the issued ordinary share capital

Directors' Report

Ethical and social issues
In February 2007 the ABI published Responsible Investment Disclosure Guidelines intended to replace the Socially Responsible Investment Guidelines (2001) As the new guidelines were published towards the end of the company's reporting year, this report has been prepared on the basis of the old Socially Responsible Investment Guidelines It is the intention to prepare future reports in line with the new Responsible Investment Disclosure Guidelines

Ethics
The board regards achievement and maintenance of the highest ethical standards in business as an essential feature in the way in which the group conducts its business A code of ethical conduct dealing with commercial standards, conflicts of interest, gifts and hospitality has been circulated to all staff All directors and employees of the group are required to comply with both the letter and the spirit of the code of ethical conduct in all their dealings on behalf of the group and directors and senior staff are required to file an electronic return detailing compliance with the policy on gifts and hospitality, online each month

In their dealings with each other, other group companies and their shareholders, customers, suppliers, competitors with regulatory authorities and the wider community, employees are required to

- conduct all dealings with honesty, integrity and fairness,
- comply with all relevant laws, regulations and internal company policy;
- encourage and support a business culture which exhibits and promotes ethical conduct at all levels within the organisation, and
- avoid any situation or action which could cause damage to the group's reputation

Directors of all group companies will be required to disclose details of related party transactions for review by the audit committee

A register of gifts and benefits offered by, and to, suppliers and other parties whether accepted or declined is maintained under the control of the head of internal audit Summary information is presented to the group's audit committee All employees, managers and directors are required, each month, to declare any offer of gifts or hospitality with a value of £25 or more, offered, accepted or declined

The group has drawn up and issued a comprehensive "whistleblowing policy" providing employees with an appropriate means of communication in case of ethical concerns regarding the way the group operates in its day-to-day activities

Environment
The group recognises its environmental responsibilities and is committed to minimising any damage which its activities may cause to the environment It has delegated specific responsibility for environmental matters to a nominated director on each of its principal subsidiary boards In addition, it actively pursues a number of environmental policies, including those designed to contain energy costs, the recycling of paper and packaging materials wherever practical and the use of information technology systems to reduce the level of consumption of paper by its employees In 1994 the Government in consultation with Europe adopted an environmental policy (EC Packaging Waste Directive 94/62/EC), which required larger companies to recover and recycle the packaging waste that they put into the environment The group was one of the first organisations to join the Valpak Organisation, which, with the endeavours of its members and their combined financial contributions, has succeeded in building a national sustainable recovery and recycling infrastructure

The group's complement of skilled packaging technologists look at every product sold within the group to ensure its compliance to European Environmental Law with particular emphasis on the Pack Minimisation (Essential Requirements) 1998 Regulations

All packaging components are made from materials and processes causing minimum harm to the environment when either manufactured, processed, recycled or eventually disposed of All of the group's paper packaging is made from a minimum of 75% recycled paper and all other paper is sourced from 100% recyclable papers Wherever practically possible packaging materials and processes are derived from managed and renewable sources The majority of the paper used by the group in its publications comes from such sources

The group will continue to search out new ways of reducing our packaging impact on the environment by adopting a "cradle to grave" view on all packaging products used by the group The group has recently commissioned the production of a "Carbon Footprint" analysis to determine the group's impact on the environment

Employees
- Employee involvement. The group firmly believes that continuing success can only be achieved by an enthusiastic, motivated and well-trained workforce Consequently, considerable resources are devoted to staff training Departmental team briefings are held and a staff attitude survey is conducted regularly Over 500 group employees either hold shares in the company or have options/ awards to acquire them through the group's various share option and long-term incentive schemes

The company has worked with Dale Carnegie to produce a tailor-made Leadership Development programme, from which more than 100 of our managers have benefited in the past three years Raising the bar for our more junior managers and specialist employees is achieved through Management Modules – a suite of a dozen distinct workshops that allow employee delegates to perfect their talents in specific skill areas These workshops often incorporate the Myers Briggs Type Indicator, which help employees gain an unprecedented understanding of how they interact with their peers and their teams Our employees are free to undertake any of these modules, meaning that they are truly empowered to take charge of their own management development

- Consultation Constructive relationships with the trade unions which represent its employees (principally USDAW and SATA) are encouraged Elements of the group are covered by a collective bargaining arrangement with USDAW

- Equal Opportunities. The group supports the principle of equal opportunities in employment and is opposed to all forms of discrimination, including those on the grounds of colour, race, nationality, ethnic or national origin, religion, gender, age, sexual orientation, marital status or disability

Our selection processes for recruitment, promotion, training and development are non-discriminatory We believe it is in the best interests of employees and the group to provide these opportunities to the most suitable candidates

Directors' Report

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned In the event of any employee becoming disabled, every effort is made to ensure that their employment with the group continues and that appropriate training is arranged It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees

Each year the group rewards and recognises significant contribution from its customer contact centre staff by inviting them to compete for a nomination to receive an award for outstanding customer service The award ceremony is a 'Red-Carpet' event which is well received by all staff who are nominated for an award

- **Health and safety** The group's policy is to adhere to all relevant legislation to ensure, as far as is reasonably practicable, the health, safety and welfare at work of all employees and of other people working on our premises but not employed by the group We endeavour to ensure that products and services used in the workplace or sold by us are designed so that they are safe and without risk when properly used Pre-employment questionnaires, physiotherapy, audiometry, an improved management referral process and rehabilitation programs have enabled occupational health issues to be better controlled

Cumulative group accident statistics for the last 6 months immediately prior to the publication of this report show a 52% reduction on the same period last year, with both reportable accidents and days lost through accident showing month-on-month reductions

Customers

One of the key factors of the group's success is the quality of its relationship with its customers Regular customer satisfaction surveys are conducted, both directly and through third parties, to ensure that the group closely monitors the opinions and requirements of its customers In addition, telephone enquiry and complaint calls received from customers are analysed and appropriate action taken to improve the levels of service offered to them

Suppliers

The group sources products and services from across the world A significant proportion of this expenditure is with suppliers with whom the group has a long-term relationship, which helps to provide a continually improving quality of product and service to customers, whilst reducing costs

It is the group's policy to comply with the terms of payment agreed with its suppliers Trade creditors of the group at 24 February 2007 represented 34 days (2006, 38 days) of purchases

The group is aware of the potential social impact of its business dealings, particularly in developing countries Our standard terms and conditions for the purchase of all goods for resale require that, in relation to the manufacture of merchandise, the supplier warrants that all labour, safety and other relevant laws in the country of manufacture will be strictly observed with respect to all workers at all stages of production

Community

The group believes that it has a responsibility to invest in the communities in which it operates The family, health and well-being programme launched in 2003 providing additional benefits for all our employees is actively supported and continues The group maintains close links with the Christie Hospital in Manchester, the Marie Curie Foundation and the Retail Trust The group encourages staff to participate in fundraising activities for these, and other, worthwhile causes and maximises the potential donation by matching the level of many raised by employees to double the size of the donation

In the last financial year, via this method, more than £66,000 was raised for noteworthy causes such as Cancer UK and MacMillan Nurses Recently the group has agreed to start donating its redundant IT equipment to charities operating in third world and developing countries

Charitable and political donations

During the year, the group made charitable donations of £52,371 (2006, £39,593) No political donations have been made

Pension fund

The group continues to ensure that the N Brown Group Pension Fund is managed in accordance with best practice and current legislation, including the Pensions Act 1995 The fund's assets are administered by a trustee company which is controlled by a board of directors, all 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 Aberdeen Management Limited and Legal and General Assurance (Pensions Management) Limited and the actuarial and administration services are provided by Mercer Human Resource Consulting Limited

The N Brown Group Pension Fund was closed to new entrants with effect from 31 January 2002 New employees joining the group after 31 January 2002, and existing employees who had not joined the N Brown Group Pension Fund as at that date, are entitled to join a stakeholder pension scheme providing a defined contribution pension arrangement, administered by Prudential Stakeholder Pensions

Financial risk management, objectives and policies

The group is exposed to certain financial risks, namely interest rate risk, currency risk and credit risk Information regarding such financial risks is detailed in notes 18, 19 and 20 The group's risk management policies and procedures are also discussed in the financial review

Tax status

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

Auditors

A resolution to reappoint Deloitte & Touche LLP as auditors to the company and to authorise the directors to fix their remuneration will be proposed at the annual general meeting on 17 July 2007

Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements The directors are required to prepare financial statements for the group in accordance with International Financial

Directors' Report

Reporting Standards (IFRS) and have chosen to prepare company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP) Company law requires the directors to prepare such financial statements in accordance with IFRS, UK GAAP, the Companies Act 1985 and Article 4 of the IAS Regulation

In the case of UK GAAP accounts, the directors are required to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent, and
- state whether applicable accounting standards have been followed

In the case of IFRS accounts, International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and Presentation of Financial Statements' In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards Directors are also required to

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 1985

The directors are responsible for the maintenance and integrity of the company website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Each of the directors at the date of approval of this report confirms that -

- So far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- The directors have taken all the steps they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of section 234ZZA of the Companies Act 1985

By order of the board P.F.H

Philip F Harland LLB(Hons) (Solicitor)
Secretary

25 May 2007

Corporate Governance Statement

Combined Code
The board is committed to high standards of corporate governance and compliance with the principles in the Combined Code on Corporate Governance issued by the UK Financial Services Authority in July 2003 (the "Code") The purpose of this statement is to explain how the group has applied the principles of good governance set out in the Code

For the year in review the board has complied with the Code

The directors confirm that the business is a going concern

Board composition
The board currently comprises seven members five of whom are non executive There is a clear division of responsibilities between the chairman, Lord Alliance of Manchester CBE, who is responsible for the effective operation of the board and the Chief Executive, Alan White, who is responsible for the group's operational performance

The five non executive directors comprise the chairman, Lord Alliance of Manchester CBE, Nigel Alliance OBE, both of whom are not regarded by the board as independent under the provisions of the Code, and Ivan Fallon, Lord Stone of Blackheath and John McGuire all of whom are considered by the board to be independent The senior independent non executive director is Ivan Fallon

Ivan Fallon was appointed to the board in October 1994 Ivan Fallon has served on the board for a period beyond which the Code suggests that his independence may be affected The board, nonetheless, holds Ivan Fallon to be independent and that his broad-based commercial experience, allied with his extensive knowledge of the group's businesses gained during his thirteen years as a non executive director with the group is invaluable to the board

The board considers that it had a majority of independent non executive directors during the year It is considered that the composition of the board during the year had the necessary balance of skills and experience appropriate for the requirements of the business

All directors joining the board are required to submit themselves for election at the next following annual general meeting They are subject to re-election every third year thereafter All non executive directors have written letters of appointment These letters of appointment previously stipulated three-year renewable terms of office On renewal, the board intends to replace the three-year term with one of indefinite duration but terminable on six months notice All letters of appointment are subject to early termination provisions, for example allowing earlier termination without compensation in the event a director is not re-elected upon retirement by rotation in accordance with the articles In line with the Code all non executive directors who have served for nine years will be subject to annual re-election As such, Lord Alliance of Manchester CBE, Nigel Alliance OBE and Ivan Fallon will be subject to re-election at the forthcoming AGM Sufficient biographical detail will be provided in the circular accompanying the AGM notice to enable shareholders to make an informed decision on any re-election resolution

Board operation
An effective board of directors leads and controls the group The members of the board are shown on page 20 of this report The board met 8 times during the year Director's attendance at board meetings was as follows

	Attendance	Apologies
Lord Alliance of Manchester CBE	8	-
Ivan Fallon	8	-
Alan White	8	-
Lord Stone of Blackheath	8	-
Nigel Alliance OBE	7	1
Dean Moore	8	-
John McGuire	8	-

The board is collectively responsible for providing effective leadership and promoting the success of the group It has a formal schedule of matters reserved for its approval (a copy of which is available on the company's website, www nbrown co uk) This document includes decisions on all major strategic issues, approval of financial statements, capital and operating expenditure, investment, treasury and dividend policy, overseeing the group's risk control procedures, board membership and that of its committees Currently, at least one of its meetings in each year (held over two days) is entirely devoted to the development and review of corporate strategy and the group's three year plan The board delegates the day-to-day management of the group to the J D Williams & Company Limited operational board

Comprehensive briefing papers including management accounts, broker analyses and shareholder analyses are circulated to each director not less than seven days prior to each board meeting Procedures are in place to enable all directors to obtain independent professional advice in respect of their fiduciary duties and obligations and all board members have full and direct access to the company secretary, who attends all board and committee meetings and is charged with providing advice to the board on matters of corporate governance, continuing director education and ensuring the timely provision of information

Since the last report the board has once again undertaken a formal appraisal of its own performance, that of the chairman and that of its committees The process consisted of individual assessment by detailed questionnaire completed by all directors The results were compiled by the company secretary for review by the chairman and then joint review by the board The performance of the chairman was appraised by the senior non executive director in consultation with the other board members The Chief Executive's performance was appraised by the chairman and the non executive directors The Finance Director (the only other executive director on the board) was subject to the same process

Committee structure
The board has delegated specific authorities to a number of sub committees to deal with specific aspects of management and control of the group All of these committees meet regularly and have formal written terms of reference which are available for inspection on request and are also available on the company's website The minutes of the meetings of these committees are circulated to all board directors in advance of the next following board meeting, at which they are ratified The following committees of the board have been established

- Audit committee
- Remuneration committee
- Nomination committee

Corporate Governance Statement

Audit committee
The audit committee consists entirely of independent non executive directors The current chairman is John McGuire The other members are Ivan Fallon and Lord Stone of Blackheath All members of the audit committee are regarded as having recent and relevant financial experience

The committee met three times during the year Committee attendance was as follows

	Attendance	Apologies
Lord Stone of Blackheath	3	0
John McGuire	3	0
Ivan Fallon	3	0

The audit committee considers the nature and scope of the audit process (both internal and external) and its effectiveness The committee reviews and approves the internal audit programme, meets with the external auditors and considers the annual and interim financial statements before submission to the board The committee also reviews the group's system of internal control and reports its findings twice yearly to the board The committee holds an "away day" each year, which is a meeting to which certain executives and senior employees of the group are invited, but otherwise the meeting is not attended by executive directors or the chairman The committee meets with the external auditors, in the absence of the executive directors, at least twice a year

The board consider that the processes of the audit committee comply with the guidance issued by the Smith Committee

As stated above, part of the role of the audit committee is to review the independence of the company's auditors The company's external auditors, Deloitte & Touche LLP have provided non-audit services to the company in the form of tax advice The audit committee is aware that providing audit and non-audit advice could give rise to a potential conflict of interest To address this concern recognised by the audit committee, when the need has arisen the remuneration committee has sought advice on executive remuneration issues, where appropriate, from independent advisors who do not provide the group with other services (further details are set out in the remuneration report on page 29) Some due diligence and other corporate strategic work is handled by other external advisors The audit committee has concluded that in the circumstances, the auditors, Deloitte & Touche LLP, are independent

Remuneration committee
The remuneration committee consists entirely of independent non executive directors The current chairman is Ivan Fallon The other members are Lord Stone of Blackheath and John McGuire

The remuneration committee met three times this year Member's attendance was as follows

	Attendance	Apologies
Lord Stone of Blackheath	3	0
John McGuire	3	0
Ivan Fallon	3	0

The purpose of this committee is to review and formulate the company's remuneration policy and consider how the company is applying the principles of the Code in respect of directors' remuneration

Further details are set out in the remuneration report on pages 29 to 37 which will be put to an advisory vote by the members at the company's annual general meeting

Nominations committee
The nominations committee is chaired by Lord Stone of Blackheath The other members are currently Lord Alliance of Manchester CBE, Ivan Fallon and John McGuire The formal terms of reference for this committee require it to make recommendations to the board for appointments of directors (including directors of the operating company board JD Williams & Company Limited) and other senior executive staff Where appropriate, the chief executive and company secretary attend meetings of the nominations committee

Appointments to the board are made on merit, against objective criteria, taking into account the skills and experience required Where appropriate, external search consultants are enlisted

The company secretary is responsible for the induction of new directors New directors are provided with a comprehensive pack of information (including terms of reference, information regarding the business and guidance on their roles and duties as directors) and meetings/site visits with key employee contacts are arranged as appropriate

The nominations committee had no occasion to meet this year

Internal control
The directors have overall responsibility for ensuring that the group maintains a sound system of internal control, to give them reasonable assurance regarding effective and efficient operations and compliance with laws and regulations There are, of course, inherent limitations in any system of internal control and accordingly even the most effective system can provide only reasonable, and not absolute, assurance against loss or failure

The board continues to operate a formal risk management process throughout the group A cyclical programme of assessments of operational, financial and other business risks has been implemented at each principal operating subsidiary of the group (each cycle comprising at least two reviews annually), which takes into account the internal controls that exist to mitigate the impact of those risks Any significant residual risks are then evaluated and action plans to further reduce their impact are initiated and monitored where necessary Fifteen such cycles have been carried out to date A risk management committee, which met three times last year, oversees the above process and reports progress to the audit committee, which thereafter reports to the board and draws all appropriate matters to its attention The risk management committee, together with the audit committee, is also responsible for ensuring that the principles of sound risk management and effective internal control are fully embedded within the organisation, a process which the board has satisfied itself has continued to operate during the year

In pursuance of the above, the board of directors (through the audit committee) has reviewed the effectiveness of the system of internal control for the year under review As well as receiving regular reports from the risk management committee described above, the board (through the audit committee) discusses with the external auditors the results of their work and any resulting internal control issues, and also reviews the work carried

Corporate Governance Statement

out by the internal audit department, including monitoring the implementation of actions arising from previous audits

The internal audit function is independent of management and the head of the function has direct access to the chief executive and the chairman of the audit committee Internal audit plans are discussed and agreed annually between the head of internal audit and the audit committee

Appropriate internal financial controls are operated throughout the group, some of which have already been referred to in this statement. Other examples include the existence of a well defined group organisation structure, with clear lines of responsibility and explicit authority delegated to divisional boards and executive management, and a comprehensive financial reporting system which communicates plans, budgets and monthly results to relevant levels of management, including the board

The company has complied and continues to comply with the provisions of the Combined Control on internal controls, and the relevant parts of the Turnbull and Smith Guidance There is an ongoing process in place for identifying, evaluating and managing the significant risks facing the group that has been in place throughout the year under review and to the date of approval of the accounts This process has been reviewed regularly by the audit committee and the board, and accords with guidance appended to the Code

Relations with investors
The company believes in the importance of good communications with shareholders, both institutional and individual investors Institutional investors, fund managers and analysts are kept informed of the company's overall strategy through regular meetings and 'roadshows' All non executive directors are kept informed of shareholders' views through detailed feedback and analyst's reports tabled at each board meeting The senior independent director is available to meet with, and understand, the views of major shareholders In January 2006 a group comprising of around 40 analysts and institutional shareholders attended an Open Day presentation at the company's offices in Manchester

The company aims to ensure that all shareholders have full and timely access to information it discloses and that shareholders have opportunities to meet with management through ad hoc and one-to-one meetings at least twice a year at the announcement of results and also at events such as the Open Day and constructive use of the AGM As well as being provided with a copy of our annual report and results announcements, our website provides shareholders with comprehensive and accessible information about the group

Compliance with the Code
Throughout the year ended 24 February 2007, the group has been in compliance with the Code's provisions set out in section 1 of the Code

Details of directors' contract terms are shown in the remuneration report on page 33

Remuneration Report

Introduction
This report has been prepared in accordance with the Companies Act 1985 as amended by the Director's Remuneration Report Regulations 2002 ("the regulations") This report also meets the relevant requirements of the listing rules of the Financial Services Authority and describes how the board have applied the principles of good governance relating to directors' remuneration

This report will be put to an advisory vote of the company's shareholders at the annual general meeting on 17 July 2007 The auditors are required to report on the 'audited' section of this report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the regulations) The report is therefore divided into separate sections for audited and unaudited information

Unaudited information

Remuneration committee
During the financial year, the remuneration committee of the board ("the committee") comprised Ivan Fallon (chairman), Lord Stone of Blackheath and John McGuire, all of whom are non executive and considered by the company to be independent The committee members have no personal financial interest (other than as shareholders) in matters to be decided, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in running the business The committee has formal written terms of reference which are available for shareholders to inspect at the registered office of the company and on the corporate website

The committee met three times during the year in question

In setting remuneration levels of the executive directors the committee had regard to the findings of a remuneration survey and research issued generally by Deloitte & Touche LLP, the company's auditors, who have also provided audit and tax services to the group Addleshaw Goddard Solicitors provide legal advice in relation to the share incentive arrangements and have also provided general legal advice to the group The committee received advice concerning the Chief Executive's remuneration and specifically his pension arrangements from Mercer Human Resources Limited Deloitte & Touche LLP and Addleshaw Goddard are general advisers to the company and were not specifically appointed by the committee Mercer Human Resource Consulting Limited was appointed by the committee In determining executive directors' remuneration for the year, the committee consulted Alan White, the chief executive No director played a part in any discussion about his own remuneration

The board have reviewed the group's compliance with the Combined Code 2003 ("the Code") on remuneration related matters It is the opinion of the board that the group complied with the remuneration related aspects of the Code during the year, however, the following exception should be noted

- the annual bonus plan for 2005/06 provided for company expensed matching shares at the end of two years (i e maturing in July 2008) and the provision of these matching shares was not subject to additional performance conditions (see page 30) This policy was abandoned in 2006/07

Remuneration policy for executive directors and senior executives

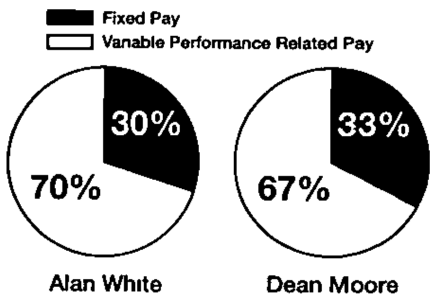
The committee's policy is designed to ensure that the main elements of the remuneration package attract, motivate and retain executive directors and senior executives by offering them competitive remuneration packages, which are prudently constructed and linked to strengthen individual and corporate performance targets The normal remuneration package for executive directors comprises basic salary, an annual performance-related bonus (including a deferred element with a matching share award subject to a further performance condition), a long-term incentive program, a pension and other benefits in kind including a company car allowance and medical insurance

The committee regularly reviews the structure of the executive package, including the balance between fixed and variable pay to ensure that the remuneration remains competitive and challenging The policy will continue to apply for the current financial year The committee will review the policy on an annual basis and recommend changes as and when appropriate

A review of the bonus structure and the use of long-term share based incentives was undertaken in the year under review The charts below demonstrate the balance between fixed and variable performance based pay for each executive director

Basic salary
When determining the salary of the executive directors the committee has taken into consideration the levels of base salary for similar positions with comparable

Analysis of Performance vs Non Performance element of Remuneration Package



status, responsibility and skills in competitor organisations of broadly similar size and complexity, in particular those existing in the home shopping and retail market sectors, the performance of the individual executive director; the individual executive director's experience and responsibilities, and the pay and conditions throughout the group Salaries and conditions are reviewed on an annual basis

Annual performance-related bonus
Each executive director and senior executive participates in one of a number of annual performance-related bonus schemes Each scheme is designed to stretch the performance of the executive and is linked to the growth in annual profit, the achievement of other business targets and the achievement of personal objectives These targets are reviewed and agreed by the committee at the beginning of each financial year to ensure that they are appropriate to the current market conditions, the objectives of the company and that they continue to remain stretching and challenging Payments under the annual bonus schemes consist of an immediate cash element, a deferred element in shares (net of tax) and a 1 1 matching share element based on the pre-tax value of the bonus used to acquire the deferred shares Matching shares are released two years from their date of award provided the executive retains his deferred shares and remains in employment. Previously the provision of the matching shares was not subject to the satisfaction of any additional performance requirements It was the opinion of the committee that the difficulty in satisfying the underlying performance requirements to earn the annual bonus was commensurate with the potential value of the maximum immediate and deferred bonus payable However, since 2006 the grant of matching shares has been made subject to an additional performance requirement for all future grants The matching shares will not be issued unless the growth in earnings per share is equal to or greater than the growth of the retail price index over the deferral period The levels of bonus earned for this year are set out in the following table

Name	Alan White	Dean Moore
2006/07 Bonus & Deferred Shares	£417,100	£217,728
2006/07 Matching Share Award	£104,275	£54,432
Total 2006/07 Bonus & Matching Share Award as a %age of Salary	120%	113%

The performance targets used for 2006/07 were based on a combination of profit, the delivery of customer retention initiatives and the achievement of personal objectives The performance targets for 2007/08 have recently been reviewed and will be based upon a combination of profit, absolute growth in numbers of customers and the achievement of personal objectives The maximum potential bonus payable to an executive director for 2006/07 was 100% of basic salary of which, if achieved, 75% will be immediately payable in cash and 25% will be deferred It has been agreed to keep these levels for 2007/08

Share incentives
It is the policy of the committee that executive directors and senior executives generally receive an annual award under either the long-term incentive plan or one of the company's executive share option schemes Before allowing any individual to participate in both the long-term incentive plan and one of the executive share option schemes in any one year, the committee will carefully assess the expected value of the combined total award, particularly if it exceeds the maximum value possible under either scheme individually In addition, it is the committee's policy only to grant combined grants where there are some or all of the following circumstances

- to minimise the P&L cost to the company and dilutive cost for shareholders for a given share commitment to an executive,
- where different performance conditions apply to awards and options, or
- on initial recruitment of a senior executive

For the year under review no combined awards were made In respect of share awards the performance condition is based upon Total Shareholder Return ("TSR") TSR as a performance condition is considered appropriate for the following reasons

- market research indicated that TSR is a more appropriate and common measure for long-term incentive arrangements within FTSE 250 companies,
- a TSR performance condition is more closely aligned with shareholder interests than EPS Growth,
- a TSR performance condition more closely evaluates company performance against a basket of comparator companies in the same sector,
- a TSR performance condition is more easily understood and measurable by eligible executives and is considered to be a suitably challenging measure in the current retail sector trading environment.

Remuneration Report

The committee determines whether the TSR performance conditions for share awards and options are satisfied by ranking the company over a 3 year performance period measured from the date of grant against a matrix of comparator companies currently comprising Alexon, Blacks Leisure, Instore, DSG International, Findel, French Connection, Home Retail Group, Homestyle, JJB Sports, Kesa Electrical, Laura Ashley, Marks & Spencer, Moss Bros Group, Mothercare, Next and Woolworths The committee determines which companies are to be added or removed from the comparator group For 2004/05 awards a ranking in the lower quartile will mean that no award will vest, a 10% to 50% award will vest in the third quartile depending on rank, a 60% to 95% award will vest in the second quartile depending on rank and a 100% award will vest in the upper quartile regardless of rank

For 2005/06 awards and onwards the remuneration committee determined that if TSR is below the median ranking company there will be no entitlement to any of the award For median performance the entitlement will be 50% of the maximum award rising pro rata in the second quartile to 90% depending on rank A 100% award will vest upon the company ranking in the upper quartile regardless of rank

For share option schemes a performance condition of growth in EPS applies (see below)

Long-term incentive share plan
Executive directors and certain senior executives are eligible to participate in the group's long-term incentive share plan The plan provides appropriate incentives to reward sustained success through the achievement of challenging business targets, thereby better aligning the interests of shareholders and executives

Long-term Incentive Share Plan	**Description**
Maximum Annual Award (%age Salary)	150%
Nature of Right	To receive a fixed number of shares subject to the satisfaction of conditions
Performance Period	Three years
Performance Requirements	Total Shareholder Return subject to decile ranking of company against comparator group of companies calculated over a performance period of 3 years
Additional Features	None

Executive share option schemes
The rationale for executives participating in the option schemes is the same as for their participation in the LTIP

Term	**Description**
Schemes	Inland Revenue Approved Option Scheme and the 2000 Unapproved Option Scheme – Aggregate under both Approved and Unapproved Schemes
Maximum Annual Award (%age Remuneration)	200% of remuneration (salary, bonus and commission) "Normal" maximum 100% of remuneration
Nature of Right	A right to purchase a fixed number of shares at the market price on the date of grant subject to the satisfaction of conditions
Performance Period	Three years from the date of grant
Performance requirements	Growth in EPS equal to, or greater than, the growth of the Retail Price Index ("RPI") +9 2% (equivalent to 3% p a compound growth) over the three year performance period

Remuneration Report

All employee share schemes
The group operates an Inland Revenue approved savings related share option scheme for the benefit of group employees, provided they have completed at least six months' service Eligible employees, including executive directors and senior executives, may be granted options over the company's shares at a discount of up to 20% to the prevailing market price at the time of grant of the option, which (subject to certain conditions) can be exercised after either three or five years

Over 500 of eligible group employees currently participate in the scheme

An all-employee share ownership plan (now known as a share incentive plan) was established and approved by shareholders in July 2000 No invitations or awards have yet been made under this plan

Pension
The group operates a number of pension schemes for the benefit of all eligible employees Alan White is a member of the N Brown Group Pension Fund ("the fund"), which is an Inland Revenue approved defined benefit scheme Currently this scheme provides for him a normal retirement age of 60, a pension accrual rate based on 1/40th of pensionable salary (to give a maximum pension of 2/3 pensionable salary at normal retirement date, including retained benefits) and a lump sum death benefit of four times pensionable salary No part of a director's pensionable salary includes remuneration other than basic pay

All members of the fund currently pay contributions at the rate of 8% of pensionable salary The group bears the cost of providing the lump sum death benefit and the balance of contributions necessary to finance fund benefits

The fund is now closed to new entrants Eligible employees who would otherwise have been entitled to join the fund are now able to join a new defined contribution pension scheme

Dean Moore is a member of the defined contribution scheme Members of this scheme pay contributions at the rate of 6% of pensionable salary The company contributes 6% of Dean Moore's annual salary into the defined contribution scheme

Benefits in kind
Executive directors receive the following additional benefits

- a car and fuel allowance, and
- medical insurance

Directors' contracts
It is the company's policy that executive directors should have contracts with an indefinite term providing for a maximum of 12 month's notice

The policy, on termination, is that the company does not make payments beyond its contractual obligations In addition, executive directors are expected to mitigate their loss or, within existing contractual constraints, accept phased payments In addition, the committee ensures that there are no unjustified payments for failure None of the executive directors' contracts provide for liquidated damages There are no special provisions contained in any of the executive directors' contracts that provide for longer periods of notice on a change of control of the company Further, there are no special provisions providing for additional compensation on an executive director's cessation of employment with the company

Name	Potential termination payment	Potential payment upon company takeover	Potential payment in event of liquidation
Alan White	12 months salary	Nil	Nil
Dean Moore	12 months salary	Nil	Nil

Remuneration Report

Non executive directors are retained on letters of appointment, normally providing for a renewable fixed term of 3 years These are subject to early termination provisions in certain circumstances (e g failure to be re-appointed upon election at the company's AGM) without compensation As and when these arrangements fall due for renewal it is the company's intention to move to an arrangement whereby non executive directors will be appointed for an indefinite term, terminable upon six months notice

All non executive appointments are subject to a notice period of six months and subject to successful re-election upon retirement by rotation as required by the company's articles of association

The details of directors' contracts are summarised below

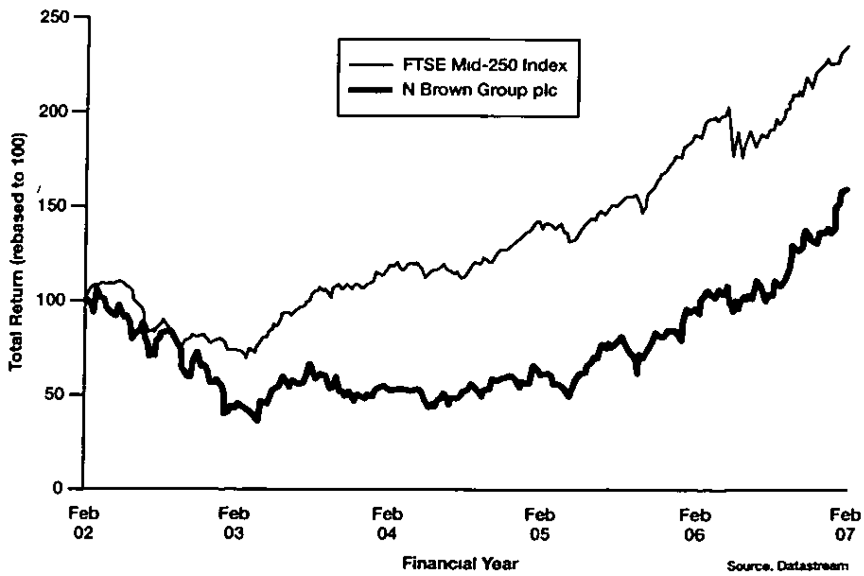
Name	Status	Date of contract/letter	Unexpired term	Notice period
Lord Alliance of Manchester CBE	non executive	16 May 2007	n/a	6 months
Alan White	executive	10 August 2002	n/a	12 months
Dean Moore	executive	20 December 2004	n/a	12 months
Nigel Alliance OBE	non executive	16 May 2007	n/a	6 months
Ivan Fallon	non executive	19 May 2005	2 months	6 months
Lord Stone of Blackheath	non executive	19 May 2005	5 months	6 months
John McGuire	non executive	16 May 2007	1 year	6 months

Non executive directors
All non executive directors have specific terms of engagement and their remuneration is determined by the board within the limits set by the articles of association and based on independent surveys of fees paid to non executive directors of similar companies

The basic fee paid to each non executive director in the year was within the range £17,000 – £35,000 per annum Further fees are payable for additional work performed in respect of the chairmanship of the remuneration and audit committees
Non executive directors cannot participate in any of the company's share incentive schemes or performance based plans and are not eligible to join the company's pension scheme

Performance graph
The graph shows the company's 5 year performance, measured by total shareholder return ("TSR"), compared with the performance of the FTSE Mid-250 Index, also measured by TSR The company is a member of this index and accordingly it is felt to be the most appropriate comparator group for this purpose

Total Shareholder Return Performance: N Brown vs FTSE 250



Source. Datastream

Remuneration Report

Audited information

Directors' remuneration and interests

Emoluments
The individual elements of directors' emoluments for the year are as follows

	Salaries / fees	Taxable benefits[1]	Performance-related bonuses[2]	2007 total £'000	2006 total £'000
Executive (salaries)					
Alan White	435	1	417	**853**	758
Dean Moore	240	1	218	**459**	390
Non executive (fees)					
Lord Alliance of Manchester CBE	17	–	–	**17**	17
Jim Martin (left 21 July 2005)	–	–	–	**–**	15
Nigel Alliance OBE	18	–	–	**18**	18
Ivan Fallon	36	–	–	**36**	36
Lord Stone of Blackheath	33	–	–	**33**	33
John McGuire	33	–	–	**33**	33
	812	2	635	**1,449**	1,300

1 Taxable benefits comprise the provision of private medical expenses cover
2 Included in the performance-related bonus awards stated above are £104 275 for Alan White and £54,432 for Dean Moore which (after deduction of income tax) are shortly due to be transferred to the deferred annual bonus scheme referred to above

Remuneration Report

Pensions

Details of directors' accrued pension entitlements under the group's defined benefit schemes are as follows

	Accrued pension at 25 Feb 2006 [1] £'000	Increase during year [2] £'000	Accrued pension at 24 Feb 2007 [1] £'000	Transfer value of increase [2,3,4] £'000	Transfer value of accrued pension at 25 Feb 2006 [3] £'000	Increase in transfer value during year [3,4,5] £'000	Transfer value of accrued pension at 24 Feb 2007 [3] £'000
Alan White	129	23	157	259	1,658	163	1,821

1 Pension entitlements shown are those that would be paid annually on retirement based on service to the end of the year or leaving date if earlier
2 Increase stated net of inflation
3 Transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note 11
4 Stated after deduction of member's contributions
5 The change in the transfer value includes the effects of fluctuations in the transfer value due to factors beyond the control of the company and directors, such as gilt yield changes
6 Members of the scheme have the option to pay additional voluntary contributions, neither the contributions nor the resulting benefits are included in the above table

Contributions paid by the company into the group's defined contribution scheme during the year in respect of Dean Moore amounted to £13,133 (2006, £11,933)

Share options

Details of directors' share options are as follows

	At 25 Feb 2006	Granted in year	Lapsed in year	Exercised in year	At 24 Feb 2007	Exercise price	Date from which exercisable	Expiry date
Alan White								
SAYE	15,461	–	–	–	15,461	103 0p	01/08/08	31/01/09
	15,461	–	–	–	15,461			
Dean Moore								
Executive	144,000	–	–	–	144,000[1]	125 0p	28/02/07	10/02/14
SAYE	18,579	–	–	–	18,579	88 0p	01/08/09	31/01/10
	162,579	–	–	–	162,579			

1 Exercise subject to achievement of minimum 3% p a average annual growth in the group's earnings per share over and above that of the Retail Price Index, measured over the three year period commencing with the year in which the option was granted

The market price of the company's shares at 24 February 2007 was 334 5p (2006, 201 5p) and the range during the year was 199p to 335p

Remuneration Report

Deferred annual bonus share awards
Details of awards made to the directors under the group's deferred annual bonus scheme are as follows

	At 25 Feb 2006	Awarded in year	Lapsed in year	Exercised in year	At 24 Feb 2007	Market price at date of award	Market price at date of exercise	Date from which exercisable	Expiry date
Alan White	14,282	–	–	(14,282)	–	102 75p	264 5p	28/05/06	27/11/06
	30,351	–	–	–	30,351	135 0p		27/05/07	26/11/07
	–	36,071	–	–	36,071	212 0p		26/05/08	25/11/08
	44,633	36,071	–	(14,282)	66,422				
Dean Moore	1,890	–	–	(1,890)	–	102 75p	217 0p	28/05/06	27/11/06
	15,597	–	–	–	15,597	135 0p		27/05/07	26/11/07
	–	18,000	–	–	18,000	212 0p		26/05/08	25/11/08
	17,487	18,000	–	(1,890)	33,597				

The total gains made by Alan White and Dean Moore on the exercise of the awards during the year was £37,704 and £4,101 respectively

Long term incentives
Details of awards of shares made to the directors are as follows

	At 25 Feb 2006	Awarded in year	Lapsed in year	Exercised in year	At 24 Feb 2007	Market price at date of award	Market price at date of exercise	Date from which exercisable	Expiry date
Alan White	250,000	–	–	–	250,000[1]	102 0p		26/08/07	26/02/08
	200,000	–	–	–	200,000[1]	135 0p		28/06/08	27/12/08
	59,677	–	–	–	59,677[1]	135 0p		08/02/09	07/08/09
	–	154,769	–	–	154,769[1]	207 5p		13/06/09	12/12/09
	–	61,907	–	–	61,907[1]	268 0p		19/10/09	18/04/10
	509,677	216,676	–	–	726,353				
Dean Moore	136,029	–	–	–	136,029[1]	102 0p		26/08/07	26/02/08
	113,055	–	–	–	113,055[1]	135 0p		28/06/08	27/12/08
	–	80,623	–	–	80,623[1]	207 5p		13/06/09	12/12/09
	249,084	80,623	–	–	329,707				

1 Exercise is subject to performance condition geared to Total Shareholder Return

Remuneration Report

Interests

Directors' interests in shares of the company are as follows	**At 24 Feb 2007 Ordinary shares of 11 1/19p each**	At 25 Feb 2006 Ordinary shares of 10p each
Lord Alliance of Manchester CBE	86,525,232	95,644,204
Lord Alliance of Manchester CBE (non beneficial)	8,512,737	9,408,816
Alan White	211,742	198,107
Dean Moore	21,335	10,492
Nigel Alliance OBE	31,489,268	34,803,928
Ivan Fallon	-	-
Lord Stone of Blackheath	6,333	10,000
John McGuire	9,047	10,000

Together with other employees and former employees of the group, the executive directors are potential beneficiaries of the following trusts, and as such are deemed to have a beneficial interest in the following shares of the company held by these trusts

	At 24 Feb 2007	At 25 Feb 2006
N Brown Group plc No 2 Employee Share Ownership Trust	16,195	333,055

There have been no changes in the above interests of the directors between the year end and 30 April 2007

Approval
This report was approved by the board of directors on 25 May 2007 and signed on its behalf by

Ivan Fallon
Chairman of the remuneration committee

Independent Auditors' Report – Group Accounts

To the members of N Brown Group plc
We have audited the group financial statements of N Brown Group plc for the 52 week period ended 24 February 2007, which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, reconciliation of operating profit to net cash from operating activities, the consolidated statement of recognised income and expense and the related notes 1 to 35 These group financial statements have been prepared under the accounting policies set out therein We have also audited the information in the directors' remuneration report that is described as having been audited

We have reported separately on the parent company financial statements of N Brown Group plc for the year ended 24 February 2007

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the annual report, the directors' remuneration report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the directors' report

Our responsibility is to audit the group financial statements and the part of the remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards to the group financial statements, Article 4 of the IAS regulation We report to you if, whether in our opinion, the information given in the directors' report is consistent with the group financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not We are not required to consider whether the board's statement on internal control covers all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures

We read the other information contained in the annual report as described in the contents section and consider whether it is consistent with the audited group financial statements We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements Our responsibilities do not extend to any other information

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements and the part of the remuneration report described as having been audited It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the company's circumstances, 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 group financial statements and the part of the remuneration report described as having been audited 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 group financial statements and the part of the remuneration report to be audited

Opinion
In our opinion

- the group financial statements give a true and fair view, in accordance with those IFRS's adopted by the European Union, of the state of the group's affairs as at 24 February 2007 and of its profit for the 52 week period then ended,
- the group financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS regulation, and
- the information given in the directors' report is consistent with the group financial statements

Separate opinion in relation to IFRSs
As explained in note 2 to the group financial statements, the group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with IFRSs as issued by the International Accounting Standards Board In our opinion the group financial statements give a true and fair view, in accordance with IFRSs, of the state of the group's affairs at 24 February 2007 and of its profit for the 52 week period then ended

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Manchester

25 May 2007

Consolidated Income Statement

For the 52 weeks ended 24 February 2007	Note	2007 £m	2006 £m
Revenue – continuing operations	3	**533 8**	468 7
Operating profit			
Group operations	5	**76 4**	62 3
Share of joint venture operating loss	16	**–**	(1 9)
Operating profit – continuing operations		**76 4**	60 4
Investment income	7	**2.7**	2 8
Finance costs	8	**(11 3)**	(10 8)
Fair value adjustments to financial instruments	20	**(2 4)**	1 7
Profit before taxation		**65 4**	54 1
Taxation	9	**(18 5)**	(15 5)
Profit for the year from continuing operations		**46 9**	38 6
Loss for the year from discontinued operations	10	**(1.2)**	(2 5)
Profit attributable to equity holders of the parent		**45 7**	36 1
Earnings per share from continuing operations	12		
Basic		**15.89p**	13 11p
Diluted		**15.80p**	13 06p
Earnings per share from continuing and discontinued operations			
Basic		**15 48p**	12 26p
Diluted		**15 40p**	12 22p

Consolidated Statement of Recognised Income and Expense

For the 52 weeks ended 24 February 2007	Note	2007 £m	2006 £m
Exchange differences on translation of foreign operations	26	**0 4**	(0 2)
Actuarial gains/(losses) on defined benefit pension schemes		**8 3**	(4 9)
Tax on items recognised directly in equity		**(0 5)**	1 5
Net income/(expense) recognised directly in equity		**8 2**	(3 6)
Profit for the year		**45 7**	36 1
Recognised income for the year attributable to equity holders of the parent	27	**53 9**	32 5

Consolidated Balance Sheet

As at 24 February 2007	Note	2007 £m	2006 £m
Non-current assets			
Intangible assets	13	**30 9**	22 0
Property, plant & equipment	14	**68 9**	61 0
Deferred tax assets	21	**11 3**	10 4
		111 1	93 4
Current assets			
Inventories	17	**54 9**	52 5
Trade and other receivables	18	**359 2**	326 0
Derivative financial instruments	20	**–**	0 7
Cash and cash equivalents	30	**40 0**	51 1
		454 1	430 3
Total assets		**565 2**	523 7
Current liabilities			
Bank overdrafts	19	**(0.2)**	(0 2)
Trade and other payables	22	**(83.7)**	(79 1)
Derivative financial instruments	20	**(1 7)**	–
Dividends declared	23	**(79 9)**	–
Current tax liability		**(18 6)**	(14 9)
		(184 1)	(94 2)
Net current assets		**270 0**	336 1
Non-current liabilities			
Bank loans	19	**(143.8)**	(143 8)
Retirement benefit obligation	34	**(27 7)**	(34 4)
Deferred tax liabilities	21	**(7 1)**	(5 3)
		(178 6)	(183 5)
Total liabilities		**(362.7)**	(277 7)
Net assets		**202.5**	246 0
Equity			
Share capital	23	**29.6**	29 5
Share premium account	24	**10 3**	9 2
Own shares	25	**–**	(0 8)
Foreign currency translation reserve	26	**0 4**	–
Retained earnings	27	**162.2**	208 1
Total equity		**202.5**	246 0

The financial statements were approved by the board of directors on 25 May 2007 and signed on its behalf by

Alan White
Dean Moore
Directors

Consolidated Cash Flow Statement

For the 52 weeks ended 24 February 2007	Note	2007 £m	2006 £m
Net cash from operating activities		**42 8**	71 3
Investing activities			
Purchases of property, plant and equipment		**(12.9)**	(11 7)
Proceeds on disposal of property, plant and equipment		**–**	0 2
Purchases of intangible fixed assets		**(8 0)**	(8 1)
Acquisition of subsidiary	29	**(7 3)**	–
Disposal of subsidiary	28	**–**	5 3
Interest received		**1 0**	1 4
Net cash used in investing activities		**(27.2)**	(12 9)
Financing activities			
Interest paid		**(8 0)**	(7 9)
Dividends paid		**(19 6)**	(17 4)
Repayment of bank loans		**–**	(26 2)
Repayment of obligations under finance leases		**–**	(0 6)
Proceeds on issue of share capital		**0 5**	–
Proceeds on issue of shares held by ESOT		**0 4**	0 2
Increase in bank overdrafts		**–**	0 1
Net cash used in financing activities		**(26 7)**	(51 8)
Net (decrease)/increase in cash and cash equivalents		**(11 1)**	6 6
Cash and cash equivalents at beginning of year		**51 1**	44 5
Cash and cash equivalents at end of year	30	**40 0**	51 1

Reconciliation of Operating Profit to Net Cash from Operating Activities

For the 52 weeks ended 24 February 2007	2007 £m	2006 £m
Operating profit from continuing operations	**76 4**	62 3
Operating loss from discontinued operations	**(1 7)**	(2 2)
Adjustments for:		
Depreciation of property, plant and equipment	**5.1**	4 2
Loss on disposal of property, plant and equipment	**–**	0 2
Amortisation of intangible assets	**7 0**	5 8
Share option charge	**1 2**	0 6
Operating cash flows before movements in working capital	**88 0**	70 9
Increase in inventories	**–**	(7 8)
Increase in trade and other receivables	**(32.5)**	(2 2)
Increase in trade and other payables	**1 4**	13 4
Pension obligation adjustment	**0 1**	(0 2)
Cash generated by operations	**57 0**	74 1
Taxation paid	**(14 2)**	(2 8)
Net cash from operating activities	**42.8**	71 3

Notes to the Group Accounts

1 General information

N Brown Group plc is a company incorporated in the United Kingdom under the Companies Act 1985 The address of the registered office is listed at the end of the report The nature of the group's operations and its principal activities are set out on page 22 of the directors' report

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the group operates Foreign operations are included in accordance with the policies set out in note 2

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective

IFRS 7 Financial instruments Disclosures, and the related amendment to IAS 1 on capital disclosures

IFRS 8 Operating Segments

IFRIC 7 Applying the restatement approach under IAS 29

IFRIC 8 Scope of IFRS2

IFRIC 9 Reassessment of embedded derivatives

IFRIC 10 Interim financial reporting and impairment

IFRIC 11 IFRS2 Group and treasury share transactions

IFRIC 12 Service concession arrangements

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the group except for additional disclosures on capital and financial instruments when the relevant standards come into effect for periods commencing on or after 1 January 2007

2 Accounting policies

Adoption of International Financial Reporting and Accounting Standards (IFRS)

The group has adopted Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations Individual standards and interpretations have to be adopted by the European Commission (EC) and the process leads to a delay between the issue and adoption of new standards and interpretations and in some cases amendments by the EC Where the group has applied a new standard or interpretation in advance of EC adoption this will be noted below in the relevant policy statement.

Basis of accounting

The financial statements have been prepared in accordance with IFRS The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation These are subject to ongoing amendment by the IASB and subsequent endorsement by the EC and are therefore subject to change As a result information contained herein will need to be updated for any subsequent amendment to IFRS or any new standard that the group may elect to adopt early

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments The principal accounting policies adopted are set out below

Accounting period

Throughout the accounts and the directors report and financial review, reference to 2007 means at 24 February 2007 or the 52 weeks then ended, reference to 2006 means at 25 February 2006 or the 52 weeks then ended

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries) made up to the Saturday that falls closest to 28 February each year The Employee Share Ownership Trust and the No 2 Employee Share Ownership Trust ("the employee trusts") are also made up to a date co-terminus with the financial period of the parent company

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate Control is achieved where the company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the group

All intra-group transactions, balances, income and expenses are eliminated on consolidation

The results of jointly controlled entities are incorporated in the financial statements using the equity method of accounting

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree, plus any costs directly attributable to the business combination The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised If, after reassessment, the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss

Goodwill is reviewed for impairment at least annually Any impairment is recognised immediately in the income statement and is not subsequently reversed

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal

Purchased goodwill arising on acquisitions before 1 March 1998 was charged against reserves in the year of acquisition in accordance with UK GAAP and has not been reinstated and is not included in determining any subsequent profit or loss on disposal

Notes to the Group Accounts

2 Accounting policies continued

Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable and represents the total amount receivable for goods and services provided in the normal course of business net of returns, VAT and sales related taxes

Sales of goods are recognised when goods are delivered and title has passed Interest income is accrued on a time basis, by reference to the principal outstanding and the applicable effective interest rate which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to that assets net carrying amount Income from other services is recognised when the services have been performed

Property, plant & equipment
Property, plant and equipment is stated at cost, less accumulated depreciation and any provision for impairment in value

Depreciation is charged so as to write off the cost of assets to their estimated residual values, based on current prices at the balance sheet date, over their remaining useful lives, using the straight-line method No depreciation is charged on freehold land

In this respect the following annual depreciation rates apply

Freehold buildings	2%
Leasehold property and improvements	over the period of the lease
Motor vehicles	20%
Computer equipment	20%
Plant and machinery	between 5% and 20%
Fixtures and fittings	between 10% and 20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale

All other borrowing costs are recognised in profit or loss in the period in which they are incurred

Intangible assets
Computer software development costs that generate economic benefits beyond one year are capitalised as an intangible assets and amortised on a straight-line basis over five years

Customer databases arising on acquisitions assessed under the requirements of IFRS 3 are amortised over their useful economic lives, which have been assessed as being five years

Legally protected or otherwise separable trade names acquired as part of a business combination are capitalised at fair value on acquisition Brand names are individually assessed and are assumed to have an indefinite life and are not amortised, but are subject to annual impairment tests

Impairment of tangible and intangible assets excluding goodwill
At each balance sheet date, the group reviews the carrying value of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any) Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs

Recoverable amount is the higher of fair value less costs to sell and value in use In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimate of future cash flows have not been adjusted

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount An impairment loss is recognised as an expense immediately

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years A reversal of an impairment loss is recognised as income immediately

Leasing
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee All other leases are classified as operating leases

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease

Assets held under finance leases are included in tangible fixed assets at a value equal to the original costs incurred by the lessor less depreciation, and obligations to the lessor are shown as part of creditors The interest element is charged to the income statement over the period of the lease to produce a constant rate of charge on the balance of capital repayments outstanding

Inventories
Inventories have been valued at the lower of cost and net realisable value Cost comprises direct materials and those overheads that have been incurred in bringing inventories to their present location and condition Net realisable value means estimated selling price less all costs to be incurred in marketing, selling and distribution

Taxation
The tax expense represents the sum of the tax currently payable and deferred tax

The tax currently payable is based on taxable profit for the year Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets

Notes to the Group Accounts

2 Accounting policies continued

and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity

Foreign currencies
The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency) For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in pounds sterling, which is the functional currency of the company, and the presentation currency for the consolidated financial statements

In preparing the financial statement of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity

In order to hedge its exposure to certain foreign exchange risks, the group enters into forward contracts and options (see below for details of the group's accounting policies in respect of such derivative financial instruments)

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations are translated at exchange rates prevailing on the balance sheet date Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used Exchange differences arising, if any, are classified as equity and transferred to the group's translation reserve Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of

Financial instruments
Financial assets and financial liabilities are recognised on the group's balance sheet when the group becomes a party to the contractual provisions of the instrument. Profits and losses on financial instruments are recognised in the income statement as they arise

Trade receivables
Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities

Bank borrowings
Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in profit or loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise

Trade payables
Trade payables are not interest bearing and are stated at their nominal value

Equity instruments
Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs

Derivative financial instruments and hedge accounting
The group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates relating to the purchase of overseas sourced product, and interest rates relating to the group's debt The group uses foreign exchange forward contracts and interest rate swap contracts where appropriate to hedge these exposures In accordance with its treasury policy, the group does not use derivative financial instruments for speculative purposes

Notes to the Group Accounts

2 Accounting policies continued

The use of financial derivatives is governed by the group's policies approved by the board of directors, which provide written principles on the use of financial derivatives

Derivatives are stated at their fair value The fair value of foreign currency derivatives contracts is their quoted market value at the balance sheet date Market values are based on the duration of the derivative instrument together with the quoted market data including interest rates, foreign exchange rates and market volatility at the balance sheet date The fair value of interest rate contracts is the estimated amount that the group would receive or pay to terminate them at the balance sheet date, taking into account prevailing interest rates

Changes in the fair value of currency derivative financial instruments are recognised in the income statement as they arise

Share-based payments
The group issues equity-settled share-based payments to certain employees Equity-settled share-based payments are measured at fair value at the date of grant The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest Fair value is measured by use of a Black-Scholes model

Retirement benefit costs
Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme

For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date Actuarial gains and losses are recognised in full in the period in which they occur They are recognised outside profit or loss and presented in the statement of recognised income and expense

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation, as reduced by the fair value of scheme assets

Key sources of estimation uncertainty
The key assumptions concerning the future and other sources of estimation uncertainty at the year end date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below

Trade receivables
An appropriate allowance for estimated irrecoverable trade receivables is derived where there is an identified event which, based on previous experience, is evidence of a potential reduction in the recoverability of future cash flows This estimation is based on assumed collection rates which, although based on the group's historic experience of customer repayment patterns, remains inherently uncertain

Inventory
Provision is made for those items of inventory where the net realisable value is estimated to be lower than cost Net realisable value is based on both historic experience and assumptions regarding future selling values, and is consequently a source of estimation uncertainty

3 Revenue

	2007 £m	2006 £m
An analysis of the group's revenue is as follows		
Continuing operations		
Sale of goods	**378.2**	324 8
Rendering of services	**155 6**	143 9
Revenue – continuing operations	**533.8**	468 7
Investment income	**2.7**	2 8
Discontinued operations		
Door to door selling	**4 6**	16 1
TV Rental	**–**	0 8
Financial services	**–**	0 9
Total revenue	**541 1**	489 3

Notes to the Group Accounts

4 Business segments	2007 £m	2006 £m
Revenue		
Continuing operations		
Home shopping	523 8	459 6
Fulfilment	10 0	9 1
	533 8	468 7
Operating profit		
Continuing operations		
Home shopping	76 3	62 4
Fulfilment	0.1	(0 1)
	76.4	62 3
Share of joint venture operating loss	–	(1 9)
Fair value adjustments to financial instruments	(2.4)	1 7
Investment income	2.7	2 8
Finance costs	(11.3)	(10 8)
Profit before taxation	65 4	54 1
Taxation	(18 5)	(15 5)
Loss for the period from discontinued operations	(1.2)	(2 5)
Profit after tax and discontinued operations	45 7	36 1

The analysis above is in respect of continuing operations Information in respect of discontinued operations is shown in note 10

Other Information

	2007 Home Shopping £m	2007 Fulfilment £m	2007 Consolidated total £m	2006 Home Shopping £m	2006 Fulfilment £m	2006 Consolidated total £m
Capital additions	28 3	0 5	28.8	19 5	0 2	19 7
Depreciation and amortisation	11 9	0 2	12.1	9 9	0 1	10 0
Balance sheet						
Assets	562 8	2 4	565.2	521 4	2 3	523 7
Liabilities	(360 9)	(1 8)	(362.7)	(276 2)	(1 5)	(277 7)
Segment net assets	201 9	0 6	202.5	245 2	0 8	246 0

The assets and liabilities of the door to door selling operation were included in the Home shopping segment in line with the group's operating structure

Notes to the Group Accounts

5 Profit for the year	2007 £m	2006 £m
Continuing operations		
Revenue	533 8	468 7
Cost of sales	(240 8)	(205 4)
Gross profit	293 0	263 3
Distribution costs	(55 4)	(51 6)
Administration costs	(161.2)	(149 4)
Operating profit – group operations	76 4	62 3

Profit for the year has been arrived at after charging/(crediting)

	Continuing operations		Discontinued operations		Total	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
Net foreign exchange (gains)	(1 1)	(2 0)	–	–	(1.1)	(2 0)
Depreciation of property, plant and equipment	5 1	4 2	–	–	5 1	4 2
Amortisation of intangible assets	7 0	5 8	–	–	7 0	5 8
Cost of inventories recognised as expense	156 9	137 4	1.3	5 1	158 2	142 5
Staff costs	59 3	59 7	2.4	8 0	61 7	67 7
Auditors remuneration for audit services (see below)	0.2	0 1	–	–	0.2	0 1

Amounts payable to Deloitte & Touche LLP and their associates by the company and its UK subsidiary undertakings in respect of non-audit services were £0 2m (2006, £0 4m)

A more detailed analysis of auditors' remuneration is provided below

	2007 £m	2006 £m
Audit fees		
The audit of the company's subsidiaries pursuant to legislation	0.2	0 1
Other services		
Tax services	0 2	0 3
Other services	–	0 1
	0.2	0 4

Fees payable to the company's auditors for the audit of the company's annual accounts were £10,000 (2006, £10,000)

Fees for other services in 2006 relate principally to advice for the IFRS conversion and pension scheme advice

In addition to the amounts shown above, the auditors received fees of £4,000 (2006, £2,200) for the audit of the group pension scheme

A description of the work of the audit committee is set out in the audit committee report and includes an explanation of how auditor objectivity and independence is safeguarded when non audit services are provided by the auditors

Notes to the Group Accounts

6 Staff costs	2007	2006
The average monthly number of employees (including executive directors) was		
Distribution	1,031	1,472
Sales and administration	1,978	2,245
	3,009	3,717

Their aggregate renumeration comprised	2007 £m	2006 £m
Wages and Salaries	54 1	59 7
Social security costs	5 1	5 4
Other pension costs (see note 34)	2.5	2 6
	61 7	67 7

Details of individual directors' remuneration is disclosed in the remuneration report on page 34

7 Investment income	Continuing operations 2007 £m	2006 £m
Interest on bank deposits	1 0	1 1
Other interest receivable	-	0 3
Expected return on pension assets	1 7	1 4
	2.7	2 8

8 Finance costs	Continuing operations 2007 £m	2006 £m	Discontinued operations 2007 £m	2006 £m	Total 2007 £m	2006 £m
Interest on bank overdrafts and loans	8 1	8 2	-	0 2	8 1	8 4
Interest on pension scheme liabilities	3 2	2 8	-	-	3 2	2 8
Total borrowing costs	11 3	11 0	-	0 2	11 3	11 2
Less amounts included in the cost of warehouse development	-	(0 2)	-	-	-	(0 2)
	11 3	10 8	-	0.2	11 3	11 0

Borrowing costs included in the cost of warehouse development during 2006 arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4 7% to expenditure on such assets

Notes to the Group Accounts

9 Tax	Continuing operations 2007 £m	Continuing operations 2006 £m	Discontinued operations 2007 £m	Discontinued operations 2006 £m	Total 2007 £m	Total 2006 £m
Current tax – charge for the year	**19 8**	13 1	**(0 5)**	(1 1)	**19 3**	12 0
Current tax – adjustment in respect of previous years	**(1 7)**	–	**–**	–	**(1 7)**	–
Deferred tax (see note 21)	**(0 9)**	2 4	**–**	–	**(0 9)**	2 4
Deferred tax – adjustment in respect of previous years	**1 3**	–	**–**	–	**1 3**	–
	18 5	15 5	**(0 5)**	(1 1)	**18 0**	14 4

UK Corporation tax is calculated at 30% (2006, 30%) of the estimated assessable profit for the year Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions

The charge for the year can be reconciled to the profit per the income statement as follows

	2007 £m	2006 £m
Profit before tax		
Continuing operations	**65 4**	54 1
Discontinued operations	**(1.7)**	(3 6)
	63 7	50 5
Tax at the UK corporation tax rate of 30% (2006, 30%)	**19 1**	15 2
Tax effect of expenses that are not deductible in determining taxable profit	**0 4**	0 9
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(1 1)**	(1 7)
Tax effect of adjustments in respect of previous periods	**(0 4)**	–
Tax expense for the year	**18 0**	14 4

10 Discontinued operations

In July 2006 the debtor book of the group's door to door selling business, House of Stirling, was sold and the operation ceased trading

In May 2005, the group disposed of Teleview Direct Limited, the group's TV rental business The disposal was completed in accordance with the strategy to focus on core home shopping

During 2005 the board decided to discontinue the direct lending and retail credit business operated through First Financial Limited The personal loans portfolio was sold in June 2005 and the retail credit portfolio was sold in September 2005

The results of the discontinued operations, which have been included in the consolidated income statement, were as follows

	2007 £m	2006 £m
Revenue	4 6	17 8
Expenses	(6 0)	(20 0)
Operating loss	(1 4)	(2 2)
Interest	–	(0 2)
Loss on disposal of discontinued operations	(0 3)	(1 2)
Attributable tax credit	0.5	1 1
Net loss attributable to discontinued operations	(1.2)	(2 5)

The effect of the contribution of the discontinued operations on the group's cash flows have not been disclosed as they are not considered to be significant

11 Dividends

	2007 £m	2006 £m
Amounts recognised as distributions to equity holders in the period		
Final dividend for the 52 weeks ended 25 February 2006 of 4 45p (2005, 4 1p) per share	13 1	12 1
Interim dividend for the 52 weeks ended 24 February 2007 of 2 19p (2006, 1 82p) per share	6 5	5 3
	19 6	17 4
Proposed final dividend for the 52 weeks ended 24 February 2007 of 5 34p (2006, 4 45p) per share	14 3	13 1

The proposed final dividend is subject to approval by shareholders at the annual general meeting and has not yet been included as a liability in these financial statements

The return of value to shareholders is detailed in note 23 on page 58

Notes to the Group Accounts

12 Earnings per share

From continuing and discontinued operations

The calculations of the basic and diluted earnings per share is based on the following data

Earnings	**2007 £m**	**2006 £m**
Earnings for the purposes of basic earnings per share being net profit attributable to equity shareholders of the parent	**45 7**	36 1

Number of shares ('000s)	**2007 Number**	**2006 Number**
Weighted average number of ordinary shares for the purposes of basic earnings per share	**295,160**	294,349
Effect of dilutive potential ordinary shares		
Share options	**1,676**	1,177
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**296,836**	295,526

From continuing operations	**2007 £m**	**2006 £m**
Earnings		
Net profit attributable to equity holders of the parent	**45 7**	36 1
Adjustments to exclude loss for the year from discontinued operations	**1.2**	2 5
Earnings from continuing operations for the purposes of basic earnings per share excluding discontinued operations	**46 9**	38 6

The denominators used are the same as those detailed above for both basic and diluted earnings per share from continuing and discontinued operations

From discontinued operations	**Pence**	**Pence**
Basic	**(0 41)**	(0 85)
Diluted	**(0 40)**	(0 84)

Notes to the Group Accounts

13 Intangible assets	Brands £m	Software £m	Customer Database £m	Total £m
Cost				
At 26 February 2005	–	53 3	1 8	55 1
Additions	–	8 0	0 1	8 1
At 25 February 2006	–	61 3	1 9	63 2
Additions	–	8 0	–	8 0
Arising on acquisition	7 9	–	–	7 9
At 24 February 2007	**7 9**	**69 3**	**1 9**	**79 1**
Amortisation				
At 26 February 2005	–	35 1	0 3	35 4
Charge for the year	–	5 5	0 3	5 8
At 25 February 2006	–	40 6	0 6	41 2
Charge for the year	–	6 7	0 3	7 0
At 24 February 2007	**–**	**47.3**	**0 9**	**48 2**
Carrying amount				
At 24 February 2007	**7 9**	**22.0**	**1 0**	**30 9**
At 25 February 2006	–	20 7	1 3	22 0

The amortisation periods for intangible assets are

	Years
Software	5
Customer Database	5

The brand name arising from the acquisition of Gray & Osbourn Limited is deemed to have an indefinite life as there is no foreseeable limit to the period over which it is expected to generate cash inflows and will be subject to annual impairment tests

Notes to the Group Accounts

14 Property, plant and equipment	Land and Buildings £m	Fixtures and Equipment £m	Total £m
Cost			
At 26 February 2005	30 8	64 4	95 2
Additions	6 9	4 7	11 6
At 25 February 2006	37 7	69 1	106 8
Additions	7 7	5 2	12 9
Acquisition of subsidiary undertakings	–	0 2	0 2
At 24 February 2007	**45 4**	**74 5**	**119 9**
Accumulated depreciation and impairment			
At 26 February 2005	3 7	37 9	41 6
Charge for the year	0 6	3 6	4 2
At 25 February 2006	4 3	41 5	45 8
Charge for the year	0 8	4 3	5 1
Acquisition of subsidiary undertakings	–	0 1	0 1
At 24 February 2007	**5 1**	**45 9**	**51 0**
Carrying amount			
At 24 February 2007	**40 3**	**28 6**	**68 9**
At 25 February 2006	33 4	27 6	61 0

Assets in the course of construction included in property, plant and equipment at the year end date total £7 9m (2006, £17 1m)

At 24 February 2007, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to nil (2006, £1 3m)

Notes to the Group Accounts

15 Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation, proportion of ownership interest is given in note 3 to the company's separate financial statements

16 Other investments

The group holds 50% of the ordinary share capital of Express Shopping Channel Limited, which is incorporated in England and Wales The company ceased trading in November 2005

Amounts recognised in the income statement and in the balance sheet are as follows

	2007 £m	2006 £m
Share of operating loss	–	(1 9)
Net investment in joint venture	–	–

17 Inventories	2007 £m	2006 £m
Finished goods	52 4	50 6
Sundry stocks	2.5	1 9
	54.9	52 5

18 Trade and other receivables	2007 £m	2006 £m
Amount falling due within one year		
Amount receivable for the sale of goods	343 4	310 4
Other debtors and prepayments	15 8	15 6
	359.2	326 0

The average credit period given to customers for the sale of goods is 227 days (2006, 221 days) The effective interest rate on customer receivables is 38 3% (2006, 38 4%)

The directors consider that the carrying amount of trade and other receivables approximates their fair values

Credit risk

The group's principal financial assets are trade and other receivables
The group's credit risk is primarily attributable to its trade receivables The amounts presented in the balance sheet are net of allowances for impairment losses An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows
The group has no significant concentration of credit risk, with exposure spread over a large number of customers

Notes to the Group Accounts

19 Bank overdraft and loans	**2007 £m**	**2006 £m**
Bank overdrafts	**0 2**	0 2
Bank loans	**143 8**	143 8
	144 0	144 0
The borrowings are repayable as follows		
On demand or within one year	**0 2**	0 2
In the second year	**–**	143 8
In the third to fifth year	**143.8**	–
	144 0	144 0
Less Amount due for settlement within 12 months (shown under current liabilities)	**(0 2)**	(0 2)
Amounts due for settlement after 12 months	**143.8**	143 8

All borrowings are held in sterling

The weighted average interest rates paid were as follows	**2007 %**	**2006 %**
Bank overdrafts	**5.8**	5 6
Bank loans	**4.9**	4 7

The principal features of the group's borrowings are as follows

(i) Bank overdrafts are repayable on demand, unsecured and bear interest at a margin over bank base rates

(ii) The group has one principal bank loan of £143 8m (2006, £143 8m) secured by a charge over certain 'eligible' trade debtors of the group and is without recourse to any of the group's other assets The facility has a current limit of £200m and finance costs are linked to US commercial paper rates

(iii) All borrowings are arranged at floating rates, thus exposing the group to cash flow interest rate risk The group use derivatives such as interest rate swaps where appropriate

At 24 February 2007, the group had available £176 2m (2006, £76 2m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. The increase in facilities is to finance the payments under the return of value to shareholders in March 2007

The Financial Review on page 18 summarises the objectives and policies for holding or issuing financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the period

There is no material difference between the fair value and book value of the group's borrowings and other financial assets and liabilities (excluding derivative financial instruments in note 20)

Notes to the Group Accounts

20 Derivative financial instruments

The group utilises currency derivatives to hedge significant future transactions and cash flows The group is a party to a variety of foreign currency forward contracts and options in the management of its exchange rate exposures The instruments purchased are primarily denominated in the currencies of the group's principal markets

At the balance sheet date, details of outstanding forward foreign exchange contracts that the group has committed to are as follows

	2007 £m	2006 £m
Notional amount	**32 9**	28 9
Fair value (liability)/asset	**(1 7)**	0 7

Changes in the fair value of non-hedging currency derivatives amounting to £2 4m have been charged to income in the year (2006, £1 7m credit)

21 Deferred tax

The following are the major deferred tax liabilities and assets recognised by the group and movements thereon during the current and prior reporting periods

	Share based payments £m	Currency derivatives £m	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
At 26 February 2005	–	0 3	(5 0)	8 6	2 1	6 0
(Charge)/credit to income	–	(0 5)	(0 3)	0 3	(1 9)	(2 4)
Credit to equity	–	–	–	1 5	–	1 5
At 25 February 2006	–	(0 2)	(5 3)	10 4	0 2	5 1
Credit/(charge) to income	0 4	0 7	(0 4)	0 5	(1 6)	(0 4)
Credit/(charge) to equity	2 0	–	–	(2 5)	–	(0 5)
As 24 February 2007	**2.4**	**0.5**	**(5 7)**	**8.4**	**(1.4)**	**4.2**

Certain deferred tax assets and liabilities have been offset The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes

	2007 £m	2006 £m
Deferred tax assets	**11.3**	10 4
Deferred tax liabilities	**(7.1)**	(5 3)
	4.2	5 1

At the balance sheet date, the group has unused tax losses of £1 2m (2006, £1 2m) available for offset against future profits No deferred tax asset has been recognised due to the unpredictability of future profit streams

Notes to the Group Accounts

22 Trade and other payables	2007 £m	2006 £m
Trade payables	37 6	38 9
Other taxes and social secunty	17 4	14 6
Other creditors	6 9	6 6
Accruals and deferred income	21.8	19 0
	83 7	79 1

Trade payables and accruals pnncipally compnse amounts outstanding for trade purchases and ongoing costs The average credit penod taken for trade purchases is 34 days (2006, 38 days)

23 Share capital	2007 £m	2006 £m
Authonsed		
352,857,142 (2006, 390,000,000) ordinary shares of 11 1/19p each (2006, 10p)	39 0	39 0
296,258,787 (2006, nil) B shares of 0 01p each	-	-
	39.0	39 0
Alloted, called-up and fully paid		
267,724,741 (2006, 295,393,482) ordinary shares of 11 1/19p each (2006, 10p)	29 6	29 5
295,906,293 (2006, nil) B shares of 0 01p each	-	-
	29 6	29 5

Dunng the year 262,811 shares were issued to N Brown Group Quest Trustee Limited for a consideration of £470,347 and 250,000 ordinary shares were issued to the N Brown Group Employee Share Ownership Trusts for £683,750 Movements in share capital dunng the year relate to the exercise of share options The company has one class of ordinary share which carry no nght to fixed income

On 21 February 2007 the group approved a share reorganisation with shareholders given 1 B share of 0 01 pence for every existing ordinary share held and 19 new ordinary shares of 11 1/19 pence for every 21 existing ordinary shares held of 10 pence

On 22 February 2007 the group issued 295,906,293 B shares of 0 01 pence each Holders of the B shares were entitled to receive a single dividend of 27 pence per B share, equivalent to £79,894,699, payable on 12 March 2007

Immediately after payment of the single B share dividend, the B shares automatically converted into Deferred shares which were repurchased by the company for the total sum of one penny

Notes to the Group Accounts

24 Share premium	2007 £m	2006 £m
Balance at 25 February 2006	9 2	9 2
Premium arising on issue of equity shares	1.1	–
Balance at 24 February 2007	**10 3**	**9 2**

During the year 295,906,293 B shares of 0 01 pence each amounting to £29,591 were capitalised against the share premium account

25 Own shares	2007 £m	2006 £m
Balance at 25 February 2006	0.8	1 5
Additions	0 7	–
Issue of own shares on exercise of share options	(1 5)	(0 7)
Balance at 24 February 2007	**–**	**0 8**

The own shares reserve represents the cost of shares in N Brown Group plc held by the N Brown Group plc Employee Share Ownership Trusts to satisfy options under the group's various share benefit schemes (see note 33)

During the year the employee trusts subscribed for 250,000 shares in N Brown Group plc for a consideration of £683,750

At 24 February 2007 the employee trusts held 14,950 shares in the company (2006, 566,509)

26 Foreign currency translation reserve	£m
Balance at 26 February 2005	0 2
Exchange difference on translation of overseas operations	(0 2)
Balance at 25 February 2006	–
Exchange difference on translation of overseas operations	0 4
Balance at 24 February 2007	**0 4**

Notes to the Group Accounts

27 Retained earnings

	£m
Balance at 26 February 2005	192 7
Ordinary dividends paid	(17 4)
Recognised income for the year	32 5
Exchange difference on translation of foreign operations	0 2
Adjustment to equity for share payments	(0 5)
Share option charge	0 6
Balance at 25 February 2006	208 1
Ordinary dividends paid	(19 6)
B share dividend declared	(79 9)
Recognised income for the year	53 9
Exchange difference on translation of foreign operations	(0 4)
Adjustment to equity for share payments	(1 1)
Share option charge	1 2
Balance at 24 February 2007	**162.2**

28 Disposal of subsidiary

As referred to in note 10, the group disposed of its interest in Teleview Direct Limited during 2006

The net assets of Teleview Direct Limited at the date of disposal were as follows

	2006 £m
Plant and equipment	6 8
Inventories	0 1
Trade receivables	0 2
Bank balances and cash	0 4
Trade payables	(0 6)
Net assets	6 9
Loss on disposal	(1 2)
Total consideration	5 7
Satisfied by	
Cash	6 2
Disposal costs	(0 5)
	5 7
Net cash inflow arising on disposal	
Cash consideration	5 7
Cash and cash equivalents disposed of	(0 4)
	5 3

Notes to the Group Accounts

29 Acquisition of subsidiary

On 30 June 2006 the group acquired the entire share capital of Gray & Osbourn Limited for a total cash consideration of £9.4m. Its principal activity is direct home shopping by catalogue.

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

	£m
Plant and equipment	0.1
Inventories	2.4
Cash and cash equivalents	2.1
Trade and other receivables	0.4
Trade and other payables	(3.2)
Current tax liability	(0.3)
Net assets acquired	1.5
Intangible brand asset arising on acquisition	7.9
Total consideration	9.4
Satisfied by:	
Cash	9.1
Directly attributable costs	0.3
	9.4
Cash acquired with business	(2.1)
Net cash outflow	7.3

The company contributed £11.8m revenue and £0.4m to the group's operating profit for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on the first day of the financial year, group revenues for the year would have been £541.3m and the group's operating profit would have been £77.0m.

30 Cash and cash equivalents

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

A breakdown of significant cash and cash equivalent balances by currency is as follows:

	2007 £m	2006 £m
Sterling	38.7	50.4
Euro	1.3	0.7
	40.0	51.1

31 Contingent liabilities

Parent company borrowings which at 24 February 2007 amounted to £2.4m (2006, £0.2m) have been guaranteed by certain subsidiary undertakings.

Notes to the Group Accounts

32 Operating lease arrangements	2007 £m	2006 £m
Minimum lease payments under operating leases recognised in income for the year	5 0	5 9

At the balance sheet date, the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows

	2007 £m	2006 £m
Within one year	0 3	0 8
In the second to fifth years inclusive	7 9	6 6
After five years	19 8	19 0
	28 0	26 4

Operating lease payments represent rentals payable by the group for certain buildings, plant and equipment and motor vehicles

33 Equity settled share based payments

The remuneration report on pages 29 to 37 contains details of management and sharesave options/awards offered to employees of the group

Details of the share options/awards outstanding during the year are as follows

	Option price in pence	Exercise period	Number of shares 2007	Number of shares 2006
Option scheme				
1990 Savings related scheme	153 – 227 5	August 2005 – February 2006	–	2,504
2000 Savings related scheme	88 – 228	August 2006 – February 2012	2,262,666	2,894,041
1990 Executive scheme	129 5 – 284	November 2001 – May 2010	130,800	224,200
2000 Executive scheme	106 – 288	October 2003 – May 2016	1,171,704	3,260,556
Unapproved executive scheme	125 – 284	May 2003 – May 2016	553,771	1,367,960
Long-term incentive scheme awards				
August 2004	–	August 2007 – February 2008	1,752,403	2,158,019
May 2005	–	May 2008 – November 2008	1,497,525	1,687,734
June 2006	–	June 2009 – December 2009	952,625	–
October 2006	–	October 2009 – October 2010	61,907	–
Deferred annual bonus scheme awards				
May 2004	–	May 2006 – November 2006	–	75,891
May 2005	–	May 2007 – November 2007	181,325	219,672
May 2006	–	May 2008 – November 2008	227,067	–

33 Equity settled share based payments continued

Movements in share options/awards are summarised as follows

	2007		2006	
	Number of share options/awards	Weighted average exercise price £	Number of share options/awards	Weighted average exercise price £
Outstanding at the beginning of the period	**11,890,577**	**0 81**	12,152,101	0 97
Granted during the period	**2,260,069**	**0 75**	3,000,021	0 44
Forfeited during the period	**(4,285,302)**	**1 15**	(2,689,780)	1 20
Exercised during the period	**(1,073,551)**	**0 80**	(571,765)	0 36
Outstanding at the end of the period	**8,791,793**	**0 63**	11,890,577	0 81
Exercisable at the end of the period	**633,250**	**1 61**	348,091	2 08

Options were exercised on a regular basis throughout the year and the weighted average share price during this period was 147 pence (2006, 155 pence) The options/awards outstanding at 24 February 2007 had a weighted average exercise price of 63 pence, and a weighted average remaining contractual life of 5 3 years (2006, 4 5 years)

The fair value of management and sharesave options/awards granted is calculated at the date of grant using a Black-Scholes option pricing model The inputs into the Black-Scholes model are as follows

	2007	2006
Weighted average share price at date of grant (pence)	**212**	134
Weighted average exercise price (pence)	**75**	44
Expected volatility (%)	**37 0**	36 0
Expected life (years)	**3.5 – 5 5**	3 5 – 5 5
Risk-free rate (%)	**4 3**	5 0
Dividend yield (%)	**5 0**	5 0

Expected volatility was determined by calculating the historical volatility of the group's share price over a period equivalent to the expected life of the option The expected life used in the model has been adjusted, based on managements best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations

The group recognised total expenses of £1 2m and £0 6m related to equity-settled share based payment transactions in 2007 and 2006 respectively

Notes to the Group Accounts

34 Retirement benefit schemes

Defined contributions scheme
The group operates defined contribution retirement benefit schemes for all qualifying employees

The group is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits The only obligation of the group with respect to the retirement benefit scheme is to make the specified contributions

The total cost charged to income of £0 5m (2006, £0 5m) represents contributions payable to the schemes by the group at rates specified in the rules of the plans As at 24 February 2007, contributions of £0 1m (2006, £0 1m) due in respect of the current reporting period had not been paid over to the schemes

Defined benefit schemes
The group operates a defined benefit scheme, the N Brown Group Pension Fund Under the scheme, the employees are entitled to retirement benefits based on final pensionable earnings which are salaries and was closed to new members from 31 January 2002 No other post-retirement benefits are provided The scheme is a funded scheme

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2006 by an independent qualified actuary The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method The principal actuarial assumptions used in determining the group's net retirement benefit obligations at the balance sheet date were as follows

	2007	2006
Discount rate	5 0	4 7
Expected return on scheme assets	5 2	5 6
Expected rate of salary increase	4 6	4 4
Pension increase rate for post 1997 pensions	3 1	2 9
Pension increase rate for pre 1997 pensions	2.0	2 0

Amounts recognised in income in respect of these defined benefit schemes are as follows	2007 £m	2006 £m
Current service cost	2.9	2 1
Interest cost	3 2	2 8
Expected return on scheme assets	(1 7)	(1 4)
Past service cost	–	–
	4 4	3 5

Actuarial gains and losses have been reported in the statement of recognised income and expense

The actual return on scheme assets was £2 6m (2006, £4 4m)

The scheme is a closed scheme and therefore, under the projected unit method, the current service cost would be expected to increase

Notes to the Group Accounts

34 Retirement benefit schemes continued

The amount included in the balance sheet arising from the group's obligations in respect of its defined benefit retirement benefit schemes is as follows

	2007 £m	2006 £m
Present value of defined benefit obligations	63 5	65 6
Fair value of scheme assets	(35 8)	(31 2)
Deficit in the scheme and liability recognised in the balance sheet	27.7	34 4

Movements in the present value of defined benefit obligations were as follows	2007 £m	2006 £m
At 25 February 2006	65 6	52 9
Service cost	2.9	2 1
Interest cost	3.2	2 8
Contributions from scheme members	–	0 5
Actuarial gains and losses	(7 4)	7 9
Benefits paid	(0 8)	(0 6)
Past service cost	–	–
At 24 February 2007	63.5	65 6

Movements in the fair value of the scheme assets were as follows	2007 £m	2006 £m
At 25 February 2006	31 2	24 6
Expected return on scheme assets	1 7	1 4
Actuarial gains and losses	0 9	3 0
Contributions from sponsoring companies	2.8	2 3
Contributions from scheme members	–	0 5
Benefits paid	(0.8)	(0 6)
At 24 February 2007	35 8	31 2

34 Retirement benefit schemes continued

The analysis of the scheme assets and the expected rate of return at the balance sheet date was as follows

	Expected Return		Fair value of assets	
	2007 %	2006 %	2007 £m	2006 £m
Equities	6 0	6 0	20 8	18 1
Bonds	4 3	4 2	15 0	13 1
	5.2	5 6	35 8	31 2

Expected rates of return on the scheme assets are based on consistent assumptions with the previous year, adjusted to reflect changes in market conditions since that date

The three year history of experience adjustments is as follows

	2007 £m	2006 £m	2005 £m
Present value of defined benefit obligations	63 5	65 6	52 9
Fair value of scheme assets	(35 8)	(31 2)	(24 6)
Deficit in the scheme	27 7	34 4	28 3
Experience adjustments on scheme liabilities			
Amount (£)	1 2	–	–
Percentage of scheme liabilities (%)	2%	0%	0%
Difference between expected and actual return on scheme assets			
Amount (£)	1 0	3 0	0 7
Percentage of scheme assets (%)	3%	10%	3%

The estimated amounts of contributions expected to be paid to the scheme during the current financial year is £16 1m

Notes to the Group Accounts

35 Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note Transactions between the group and its joint venture are disclosed below Transactions between the company and its subsidiaries are disclosed in the company's separate financial statements

Trading transactions

During the year, group companies entered into the following transactions with related parties who are not members of the group

	Sales of goods		Recharge of expenses		Amount owed by related parties	
	2007	2006	2007	2006	2007	2006
	£m	£m	£m	£m	£m	£m
Joint venture	–	1 0	–	1 1	–	0 4

Sale of goods to related parties were made at the group's usual list prices, less any settlement discount The amounts outstanding are unsecured and will be settled in cash No guarantees have been given or received Provisions have been made for doubtful debts in respect of the amounts owed by related parties

Independent Auditors' Report – Company Accounts

To the members of N Brown Group plc
We have audited the parent company financial statements of N Brown Group plc for the 52 week period ended 24 February 2007 which comprise the balance sheet and the related notes 1 to 8 These parent company financial statements have been prepared under the accounting policies set out therein

We have reported separately on the group financial statements of N Brown Group plc for the 52 week period ended 24 February 2007 and on the information in the directors' remuneration report that is described as being audited

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the annual report, the directors' remuneration report and the group financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the directors' report

Our responsibility is to audit the parent company financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether they have been properly prepared in accordance with the Companies Act 1985 We also report to you if, in our opinion, the directors' report is consistent with the parent company financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read other information contained in the annual report as described in the contents section and consider whether it is consistent with the audited parent company financial statements We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements Our responsibilities do not extend to any other information

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, 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 individual company financial statements 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 parent company financial statements

Opinion
In our opinion

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 24 February 2007,
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985
- the information given in the directors' report is consistent with the parent company financial statements

Deloitte & Touche LLP
Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Manchester

25 May 2007

Company Balance Sheet

As at 24 February 2007	Note	2007 £m	2006 £m
Fixed assets			
Investments	3	**268 0**	268 0
		268 0	268 0
Current assets			
Debtors	4	**94 6**	93 9
Cash at bank and in hand		**–**	19 8
		94 6	113 7
Creditors			
Amounts falling due within one year	5	**(280 3)**	(302 6)
Net current liabilities		**(185 7)**	(188 9)
Net assets		**82.3**	79 1
Capital and reserves			
Called-up share capital	6	**29.6**	29 5
Share premium account	7	**10.3**	9 2
Profit and loss account	7	**42 4**	40 4
Total equity		**82.3**	79 1

The financial statements were approved by the board of directors and authorised for issue on 25 May 2007
They were signed on its behalf by

Alan White
Dean Moore
Directors

Notes to the Company Accounts

1 Significant accounting policies

Basis of accounting
The separate financial statements of the company are presented as required by the Companies Act 1985 They have been prepared under the historical cost convention and in accordance with United Kingdom Accounting Standards and law

The principal accounting policies are summarised below They have all been applied consistently throughout the year and the preceding year

Investments
Fixed asset investments in subsidiaries and associates are shown at cost less provision for impairment

2 Profit for the year

As permitted by section 230 of the Companies Act 1985 the company has elected not to present its own profit and loss account for the year N Brown Group plc reported a profit after tax for the financial year ended 24 February 2007 of £101 5m (2006, £19 4m)

The auditors' remuneration for audit services to the company was borne by subsidiary undertakings

Total employee costs were

	2007 £m	2006 £m
Wages and salaries	0 2	0 2

The executive directors were remunerated by a subsidiary undertaking

3 Fixed asset investment	Shares £m	Total £m
Cost		
At 25 February 2006 and 24 February 2007	268 0	**268 0**

The company and group has investments in the following subsidiaries and joint ventures which principally affected the profits or net assets of the group To avoid a statement of excessive length, details of investments which are not significant have been omitted

Company	Principal activity	Country of incorporation and operation	Proportion held by parent company (%)	Proportion held by the group (%)
J D Williams & Co Limited	Direct home shopping by catalogue	England		100
Zendor com Limited	Home shopping fulfilment services	England	75	
Oxendale & Co Limited	Direct home shopping by catalogue	Republic of Ireland		100
J D W Finance Limited	Financing and ancillary services	England		100
N B Insurance Guernsey Limited	Insurance services	Guernsey		100
First Financial Limited	Financial services	England		100
Express Shopping Channel Limited	TV Shopping channel	England	50	
Gray & Osbourn Limited	Direct home shopping by catalogue	England		100

Notes to the Company Accounts

4 Debtors	2007 £m	2006 £m
Amounts falling due within one year		
Amounts owed by group undertakings	93 7	93 3
Prepayments and accrued income	0 5	0 5
Other debtors	0 4	0 1
	94 6	93 9

5 Creditors	2007 £m	2006 £m
Amounts falling due within one year		
Bank loans and overdrafts	2.4	0 2
Trade creditors	0 4	0 1
Amounts owed to group undertakings	193 0	300 3
Corporation tax	1 1	–
Accruals and deferred income	3 5	2 0
B share dividends declared	79 9	–
	280 3	302 6

6 Share capital	2007 £m	2006 £m
Authorised		
352,857,142 (2006, 390,000,000) ordinary shares of 11 1/19p each (2006, 10p)	39 0	39 0
296,258,787 (2006, nil) B shares of 0 01p each	–	–
	39 0	39 0
Alloted, called-up and fully paid		
267,724,741 (2006, 295,393,482) ordinary shares of 11 1/19p each (2006, 10p)	29 6	29 5
295,906,293 (2006, nil) B shares of 0 01p each	–	–
	29 6	29 5

During the year 262,811 shares were issued to N Brown Group Quest Trustee Limited for a consideration of £470,347 and 250,000 ordinary shares were issued to the N Brown Group Employee Share Ownership Trusts for £683,750 Movements in share capital during the year relate to the exercise of share options The company has one class of ordinary share which carry no right to fixed income

On 21 February 2007 the group approved a share reorganisation with shareholders given 1 B share of 0 01 pence for every existing ordinary share held and 19 new ordinary shares of 11 1/19 pence for every 21 existing ordinary shares held of 10 pence

On 22 February 2007 the group issued 295,906,293 B shares of 0 01 pence each Holders of the B shares were entitled to receive a single dividend of 27 pence per B share, equivalent to £79,894,699, payable on 12 March 2007

Immediately after payment of the single B share dividend, the B shares automatically converted into Deferred shares which were repurchased by the company for the total sum of one penny

Notes to the Company Accounts

7 Reserves	Share premium account £m	Profit and loss account £m
At 25 February 2006	9 2	40 4
Issue of shares	1 1	–
Retained profit for the year	–	2 0
At 24 February 2007	**10 3**	**42.4**

During the year 295,906,293 B shares of 0 01 pence each amounting to £29,591 was capitalised against the share premium account

8 Guarantees

Parent company borrowings which at 24 February 2007 amounted to £2 4m (2006, £0.2m) have been guaranteed by certain subsidiary undertakings

Shareholder Information

Financial timetable

2006	11 October	Announcement of interim results
	8 December	Closing of register for interim dividend
2007	5 January	Payment of interim dividend
	24 February	Financial year-end
	9 May	Preliminary announcement of annual results
	8 June	Publication of 2007 annual report and accounts
	29 June	Closing of register for final dividend
	17 July	Annual general meeting
	27 July	Payment of final dividend

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Registrars
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Auditors
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Manchester
M60 2AT

Bankers
HSBC Bank plc
The Royal Bank of Scotland plc
Alliance & Leicester Commercial Bank plc

Solicitors
Addleshaw Goddard
Halliwell Landau

Stockbrokers
Credit Suisse (UK) Ltd
Hoare Govett Limited

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 Shareholders interested in these facilities should write for further information to the Company Secretary, N Brown Group plc, Griffin House, 40 Lever Street, Manchester M60 6ES stating the number of shares held and the catalogue or product of interest

Capital gains tax
For the purpose of capital gains tax, the value of the company's ordinary shares of 10p each was 6 40625p per share on 31 March 1982 and 1 328125p on 6 April 1965

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