Mothercare plc
Annual Report and Accounts 2001

mothercare

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- Mothercare returns to profit – profit before tax and exceptional items £10.2 million (loss £6.1 million)
- Sales up 4.7% to £419.1 million with growth achieved across UK stores, Direct and International
- Margin growth of 1.3 percentage points
- Return to dividend – final dividend of 1.5p recommended

Mothercare offers the widest range of clothing, hardware and toys for mothers-to-be and pre-school children through its chain of UK and international stores, catalogue and website.

Chairman's statement

Encouraging progress has been made during the year, with a continued focus on building solid foundations for Mothercare's recovery. Although there is still much work to do to rebuild the Mothercare brand, the Company's return to profit in the full year clearly demonstrates that the business has responded to the first phase of the recovery programme.

Results

Following the disposal of Bhs in May 2000 and the subsequent restructuring of the Mothercare business, including the disposal of underperforming stores, the 'ongoing' business is based on 252 UK stores, 157 overseas franchise stores and the Mothercare Direct channel, comprising the catalogue and website.

The ongoing business achieved an operating profit of £7.1 million, compared with £4.9 million last year on a 52 week basis. Sales in the ongoing business increased by 4.7 per cent to £419.1 million, an increase of 2.9 per cent on a like-for-like basis. Within this, sales in the ongoing UK stores increased by 3.7 per cent in the year and 3.6 per cent in the second half, with a stronger performance in the fourth quarter. International sales were up by 8.9 per cent and sales through the Direct channels grew by 32.7 per cent.

As a result of better buying and sourcing arrangements, combined with better stock control and therefore lower markdown, gross margin increased by 1.3 percentage points in the year.

Investment in training and service standards required as part of the recovery programme was reflected in an increase in costs of 7.0 per cent. This also includes the running costs of Mothercare.com and reflects higher rents and rates in stores.

An interest credit of £3.1 million has benefited from the proceeds of the Bhs disposal until the repayment of £105.1 million to shareholders. Mothercare's overall profit before tax and exceptional items increased to £10.2 million, compared to a loss of £6.1 million last year.

The effective rate of tax on earnings before exceptional charges was impacted by the utilisation of tax losses generated in previous years.

A net exceptional credit of £4.9 million relates to the start-up costs of Mothercare.com, the set up of the new warehouse at Daventry, other separation costs associated with the Bhs disposal, the net profit on disposal of stores and the release of the provision against the loss on disposal of Bhs.

Alan Smith, Chairman

Mothercare profile

Channels – at 31 March 2001

	Stores	Total selling area (000's sq ft)
Mothercare World (large store format)	62	1,076
Mothercare (smaller store format)	190	904
Total UK stores	**252**	**1,980**
Mothercare Direct (catalogue and .com)	–	–
International (franchise stores)	157	
Total	**409**	

Earnings per share for the continuing business before exceptional items was 6.5p (2.2p loss per share). Given the early signs of sustainable growth, the board has recommended a final dividend payment of 1.5p in respect of the year 2000/01.

The balance sheet remains strong and will support the investment required to drive the continued recovery of the business in 2001/02. Within this, the immediate priorities are the warehouse move this Summer and continued work on product and service improvement. This will be followed by the start of the roll-out of the large store format from January 2002.

People

A key priority during the year has been to build and strengthen the management team to deliver Mothercare's recovery with focus, energy and pace. The board has been delighted to welcome a number of experienced retailers to the senior management team, the most recent appointment being that of Mark McMenemy who joined as finance director and an executive director of Mothercare plc in April.

At the AGM last year, it was announced that I would revert to being non-executive Chairman as soon as Chris Martin became established in the role of chief executive. I am pleased to say that this has now been achieved and I returned to a non-executive role in April of this year.

The dedication and focus of our people, both in stores and in the support functions at the Watford office, have been the driving force behind the early stages of Mothercare's recovery and the board would like to thank everyone in the business for their commitment and hard work during the year.

The skills and expertise of our people are critical to the rebuilding of the Mothercare brand and the delivery of sustainable growth and profitability. Investing in our people through ongoing training and development is therefore a key priority for the business, building on the strong start made this year.

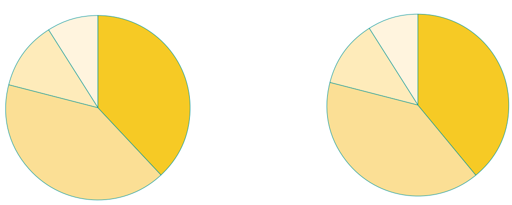
Looking ahead

With the initial benefits of Mothercare's phased recovery programme clearly evident, the business is well placed to pursue its ambition to become the leading specialist retailer for mothers-to-be and parents of young children, with expertise and service at the heart of the Mothercare offer. We will continue to strive to achieve this ambition and in doing so generate sustainable future growth and shareholder value.

People – full time equivalents at 31 March 2001

Support (Watford)	**287**
Direct	**84**
International	**19**
UK stores	**2,448**
Total	**2,838**

Product – turnover by category (%)



2000/01	1999/2000
Clothing **38**	Clothing **39**
Home and Travel **41**	Home and Travel **40**
Toys **12**	Toys **12**
Franchise **9**	Franchise **9**

The vision for Mothercare is to be the **leading specialist retailer** for mothers-to-be and parents of young children, with expertise and service at the heart of the offer

Chris Martin Chief executive

Mothercare's recovery programme

• June 2000
• March 2001

Phase 1 – Turnaround

- Restructuring and focusing the business
- Improving operating standards and service
- Working on the product
- Developing channels and formats

• August 2001
• September 2001
• From January 2002

Phase 2 – Recovery

- Implementing new warehouse
- Improvements in clothing range from Autumn/Winter 2001
- Rolling out Mothercare World

Profit performance

- Driving the full potential of the brand

The total value of the maternity and pre-school market in the UK today is estimated at around £3.4 billion* and average spend per child is continuing to increase year-on-year. Combined with the fact that more than 90% of all first time mothers-to-be go to Mothercare for advice on products, Mothercare has a significant opportunity to grow its share of the market from its current level of 11 per cent through driving the sales density in the UK chain from a current average of £187 per square foot.

In order to achieve Mothercare's vision, a phased recovery programme commenced in June 2000, as outlined at the interim results in November. The objective of the first phase of this programme was to achieve a turnaround which would set the business firmly on the road to recovery and return it to profitability.

Recovery programme

The priority actions behind Mothercare's phased recovery programme are set out in the chart at the bottom of page 4.

The focus in phase one of recovery has been to address fundamental operational issues in each of the areas highlighted. This has been supported by a restructuring of the business last Summer to achieve clearer accountability for the recovery programme and by the reshaping and strengthening of the senior management team.

A number of key appointments were therefore made during the year, including those of: Claire Tiney as human resources director; Vince Gunn as retail operations director; and Mark McMenemy who has joined the plc board as finance director, with responsibility for IT and Logistics. Each of these individuals has brought a wealth of relevant experience to Mothercare, which will be key in driving the business through its recovery and beyond.

Good progress has been made in phase one of the recovery programme, the detail of which is outlined on the following pages. As a result, the business returned to profit and is well positioned to continue to drive recovery through phase two and beyond.

* company estimates

Adrian Greenhalgh (49)
Buying & merchandising director
Joined Mothercare in 1992. Previous roles at Mothercare include stores operations director

Vince Gunn (34)
Retail operations director
Joined Mothercare in February 2001. Formerly retail development director at Thomson Travel Group

Claire Tiney (40)
Human resources director
Joined Mothercare in January 2001. Formerly human resources director at WH Smith High Street

Mark McMenemy (43)
Finance director*
Joined Mothercare in April 2001. Formerly group finance director at C&J Clark Ltd
*executive director of Mothercare plc

The successful delivery of phase two of the recovery programme which commenced in March 2001 will provide the platform for driving sustainable sales and profit growth in the future and will be the basis for rebuilding the Mothercare brand.

Building a destination range

Sales of home & travel products continued to grow strongly for the fourth consecutive year. Mothercare's market leadership in this area is built on innovation and exclusivity, with an unrivalled 'destination' range offering value through to premium product. The toy range is also being developed to destination status, with a focus on pre-school education and development, and is beginning to achieve growth.

A similar model is now being applied in clothing to address issues which contributed to the decline of Mothercare's clothing business over the past five years. Following changes in the buying team last Spring, the focus has been on building maternity, baby and pre-school children's ranges which offer value through to premium product. New buying arrangements have resulted in a larger proportion of clothing being sourced direct from manufacturers and improvements in margin, flexibility and speed of response.

Although early benefits of the clothing strategy have driven some sales and margin improvement in a number of areas for Spring/Summer 2001, the effect of work undertaken during the year will be seen to a greater extent in Autumn/Winter 2001/02.

One example of early improvement can be seen in the maternity range which is based on a return to classic styling and colours, with innovative designs for good fit throughout pregnancy, at prices which compare with non-maternity clothing in the market. This was recently recognised when Mothercare received the Tommy's Campaign Award for 'Most Pregnancy Friendly Maternity Wear'.

The overall performance of clothing during the year has seen growth in maternity and babywear offset by poor performance in older age ranges in the first half and in

Maternity fashion and essentials provide style and comfort throughout pregnancy. Mothercare recently received the Tommy's Campaign Award for 'Most Pregnancy Friendly Maternity Wear'

90%

of first-time mothers visit Mothercare

The market leader in babywear, Mothercare's range offers something for everyone – from great value basics to contemporary daywear and accessories designed exclusively for Mothercare

Education and development lie at the heart of Mothercare's own-brand pre-school toy range the Christmas period. Since the introduction of the Spring/Summer 2001 range at the end of January, a positive trend in clothing performance has been seen.

Improving operating standards and service

Service & expertise

Mothercare's vision of being a leading specialist retailer requires a continual improvement in operating standards and service across the whole organisation and is a key area for investment going forward. Improvement is central to the recovery programme and driving future sales growth.

In order to strengthen the expertise required in stores, a training and development programme has been introduced for over 4,000 sales associates, focusing on improving product knowledge, selling skills and customer service. This programme is supported by rigorous measurement on a regular basis. Although there is still some way to go to reach the level and consistency of service targeted, considerable improvements have been achieved during the year.

Availability

Product availability is essential in providing good customer service. Stock availability issues are being tackled through work on buying processes, with a particular focus on core lines and start of season clothing availability. Improvements have already been achieved and further significant benefits are anticipated when the new warehouse at Daventry becomes fully operational from August.

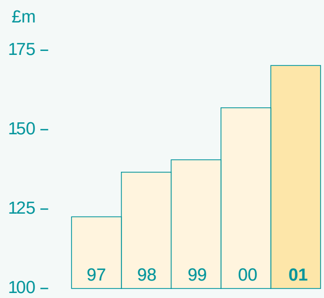
New warehouse

The split from the Bhs business during the year has provided Mothercare with the opportunity to move its distribution to a new warehouse facility. Working with a new logistics partner, Tibbett & Britten, Mothercare will move from the Bhs distribution facility at Atherstone in Warwickshire to a dedicated, stocked warehouse in Daventry, Northamptonshire this Summer. Built in 1999 and formerly occupied by C&A, the new warehouse will be fully operational from August 2001, serving the UK and international stores. The new warehouse provides a major opportunity to drive sales through improvements in operating standards, service and product availability.

As a specialist retailer for mothers-to-be and parents of young children, Mothercare's products are based on quality, innovation and expertise

Knowledge and expertise are key when advising parents on buying children's car seats. Mothercare's expertise and market leadership in this area was recognised this year by What Car? magazine, which named the chain 'The Specialist Safety Retailer'

Innovative and exclusive design are key features of Mothercare's range of pushchairs and strollers, including the fashionable, off-road three wheeler with lockable swivel wheel



Strong sales growth has been achieved over the last five years in Mothercare's destination range of home and travel products

The stock build for the new warehouse commences at the end of May 2001 and company stock levels will therefore build during this transition.

Developing channels & formats

UK stores

The large-store Mothercare World format (10,000 sq ft and over), which accounts for 55 per cent of total space, achieved a sales growth of 8 per cent in the year. Further work on developing and testing the large store format has focused on three stores: Kew and Milton Keynes (out-of-town) and Peterborough (high street).

Mothercare World provides more for the customer in terms of product, environment and service. The stores include a café, play area and web links and are increasingly becoming a focal point for local groups such as National Childbirth Trust classes to meet and share experiences and local information. This approach encourages customers to spend longer in the store, therefore driving up sales densities and has been particularly successful in the out-of-town locations.

As outlined in November, there is potential to grow the Mothercare World chain from the current 62 stores to at least 100 through a combination of new locations and re-sites. In phase two, activity will be focused on the identification of new out-of-town sites and the commencement of the roll-out in the fourth quarter.

On the high street, the focus in the coming year will be the continuation of the Mothercare World trial at Peterborough and work on developing the small store format.

Sales for the year as a whole in the smaller Mothercare stores were flat, with growth in the fourth quarter due to improvements in the range, service and standards beginning to come through. Further benefits will be derived from the implementation of the new warehouse and from the Autumn/Winter clothing ranges.

Action to improve basic operating standards is a critical part of Mothercare's recovery programme

Training and development is a key to driving improvements in customer service. As part of an on-going programme to 'fix' service standards in stores, over 4,000 employees participated in a training initiative to improve knowledge of key products

4,000

employees trained throughout the UK

The reshaping of the smaller stores portfolio will continue, with identification of opportunities to resite or relocate to larger spaces and some 11 store closures planned for the current year. The costs of these closures have already been provided for and the 11 stores represent approximately two per cent of total space.

In April 2001, Mothercare was delighted to receive the Tommy's Campaign Award for 'Most Parent Friendly Children's Clothes Shop' for the fifth year running.

Mothercare Direct

The investment in skills and infrastructure to support the catalogue and website over the last year has brought benefits to the whole of the Mothercare business. A focus on driving catalogue sales has achieved a strong uplift and a new call centre has dramatically improved service levels.

Since its 'hard' launch in September 2000, on-line sales and visitor numbers at Mothercare.com have continued to grow in line with expectations, with the site attracting around 60,000 visits per week. Reflecting the large-store concept, the website offers a wealth of parenting information and advice for mothers-to-be and parents of young children. This has been further strengthened through alliances with other organisations, such as Barclays which provides 'Family Finance' information on the site.

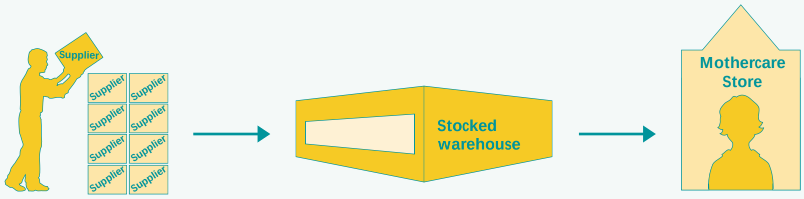
Mothercare International

With the major focus on revitalising the UK business, activity in the International operation has concentrated on consolidating and strengthening relationships with franchise partners. Based on solid foundations in the UK business, there will be significant opportunity to develop the International business going forward which currently comprises 157 stores around the world.

Community & environment

It is Mothercare's aim to demonstrate care for the environment and the communities in which it operates in every activity it undertakes. From the sourcing and distribution of products to the design and operation of stores, the Company recognises that it has an impact on society and the environment and, since becoming established as Mothercare plc in August 2000, has set

Improvements in stock availability in stores have resulted from work on buying processes in phase one of Mothercare's recovery programme. The move to a dedicated stocked warehouse at Daventry in Northamptonshire this Summer will drive further improvements



out to review its policies and practices in the key areas of: ethical trading; charity and community involvement; and the environment.

Ethical trading

Mothercare is committed to ensuring that workers employed in the manufacture of its products are fairly treated and is currently implementing its new Ethical Sourcing Policy and Code of Conduct. This updates the Company's previous policy and follows a review of industry best practice covering issues such as health and safety, working hours and the employment of children. The new Policy and Code adopts the base code of the Ethical Trading Initiative (ETI), an organisation comprising retailers, unions and non-governmental organisations such as Oxfam and Save the Children, which works to promote fair working practices amongst suppliers around the world. Mothercare has also recently applied to become a member of ETI in order to benefit itself and others through the sharing of best practice in this area.

Mothercare is committed to retaining its position at the forefront of product safety and innovation. This year, the Company has adopted a more proactive approach in establishing dialogue with expert bodies and non-governmental organisations to help in shaping policies on a range of issues, including the use of potentially harmful chemicals in the supply chain.

Charity & community involvement

The Company is currently undertaking a complete review of its policy on charity and community involvement with the objective of publishing further information later in the current year.

In 2000/01, activity was primarily focused on raising funds in aid of three nominated charities; Make a Wish, a charity dedicated to turning into reality the wishes of young children suffering from life threatening illnesses; Tommy's Campaign, a charity which funds vital medical research into the causes and prevention of problems in pregnancy; and Refuge, a charity which supports women

62

Mothercare World stores in the UK

Mothercare World at Kew in Surrey provides additional services and information for customers, including a café, play area and web links. Local groups such as St. John's Ambulance and the National Childbirth Trust host in-store classes and discussions for parents of young children

fleeing domestic violence. Activities included the sale of items in stores and employee fundraising.

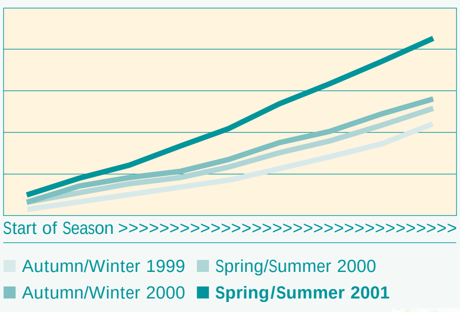
Environment

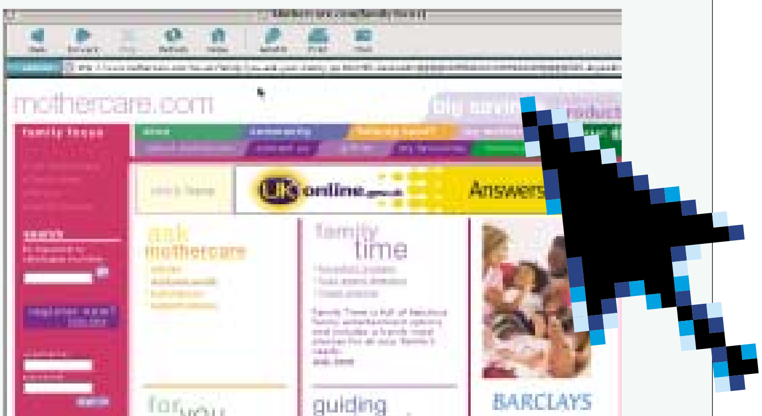
Mothercare recognises its responsibility to reduce the impact its activities have on the environment so far as is practicable through continuous improvement in areas such as energy consumption and the recycling and reduction of waste.

There are a number of examples of environmental initiatives and good practice across the business. These include the use of wood from sustainable forests in the manufacture of 70 per cent of Mothercare's own brand cots and the use of recycled packaging materials. All Mothercare stores utilise an energy management system to monitor and control energy consumption. A key focus in the forthcoming year will be to review policies and practices within this area.

Through its UK and international stores, catalogue and website, Mothercare offers customers three ways to shop and obtain comprehensive information

Spring/Summer 2001 catalogue sales vs previous seasons





Mothercare.com was launched in Autumn 2001 and attracts around 60,000 visits per week. The site is a rich source of information for mothers-to-be and parents as well as a convenient way to select and purchase products from the Mothercare range

Mothercare's Spring/Summer 2001 catalogue sales have more than doubled those achieved in the same season last year as a result of improvements in catalogue design and layout, ordering systems and product availability

Results for the Year

The group profit and loss account, balance sheet and cash flow statements are significantly impacted by the disposal of the Bhs business which took place on the 22 May 2000, and subsequent return of cash to shareholders following the adoption of a capital reduction scheme.

Profit and loss account

As a consequence of the Bhs disposal there is a full year of trading results for Bhs in last year's comparative figures but only 7 weeks trading in this year's results.

In order to aid presentation of the results we have adopted a columnar format for the profit and loss account to distinguish between the continuing Mothercare business and the now discontinued Bhs business. Furthermore there have been a number of exceptional items during the course of both years and these have been separated into another column for clarity of reporting. The sections below deal with firstly the discontinued Bhs business and secondly the exceptional items before returning to a more detailed review of the continuing Mothercare business.

a) Bhs

The consolidated results include the 7 weeks trading of Bhs before its disposal on 22 May 2000. During that period Bhs sales were £89.9 million and the loss was £6.7 million compared to sales in the 53 weeks to 1 April 2000 of £822.4 million and a profit of £13.1 million.

b) Exceptional items

The group charged £7.4 million in relation to the start-up of Mothercare.com during the first half of the year. £3.6 million was charged in the previous year.

The property disposal programme has continued and has generated a profit of £3.5 million and cash of £9.5 million during the year. In the prior year Mothercare generated a profit of £7.2 million and cash of £18.6 million on the disposal programme.

In addition the group has charged £9.9 million in relation to the set up of its new distribution facility at Daventry as a result of the impending move from the Bhs Atherstone facility and other costs associated with the separation of IT facilities and the closure of the old Storehouse offices at Marylebone Road. Separation costs in the prior year amounted to £6.8 million.

Last year the group provided for the estimated loss on the disposal of Bhs at 1 April 2000 of £300.6 million. After taking account of Bhs trading up to the date of the disposal and the final outcome of the negotiations, we have been able to release £18.7 million in the year to March 2001 which has been credited to the profit and loss account as an exceptional item.

The exceptional credit of £4.9 million is analysed below:

	2001 £ million	2000 £ million
Charged to retail profit		
Mothercare.com start up costs	**(7.4)**	(3.6)
Other items arising from strategic review	**–**	(89.2)
	(7.4)	(92.8)
Property disposals – Mothercare	**3.5**	7.2
Property disposals – Bhs	**–**	(3.4)
Demerger costs – including the move to Daventry	**(9.9)**	(6.8)
Release of provision against loss on disposal of Bhs	**18.7**	(300.6)
Net exceptional credit (charge)	**4.9**	(396.4)

c) Results for the year of Mothercare

Sales for the Mothercare business were £419.1 million compared to £443.7 million for the 53 weeks to 1 April 2000. The results for the previous year included stores which were closed during that year and were for a 53 week trading period. A more meaningful comparison is that the underlying ongoing business had sales growth of 4.7 per cent to £419.1 million. Within this UK stores sales increased by 3.7 per cent and were stronger in the final quarter. Operating profit from UK stores was £4.7 million. International sales grew 8.9 per cent, from £36.8 million to £40.0 million, as the franchisee base stabilised after declines in the previous year in the Far East and Middle East. Direct sales, which increased from £7.0 million to £9.0 million, included the results of the catalogue sales and the first period of trading for Mothercare.com, the website which was launched in September 2000. The International business achieved an operating profit of £3.4 million and, as expected, Direct made an overall loss of £1.0 million, due to the operating costs of Mothercare.com.

Costs grew by seven per cent as the group invested in store payroll to improve store service standards and in the infrastructure, including the running costs of the website, in order to commence the turnaround of the Mothercare business. In addition the rise has been driven by higher occupancy costs in the stores.

Profit before interest and tax increased to £7.1 million from £0.4 million last year. After excluding the impact of the closed stores (many of which were loss making) and the 53rd week from last year's result, the true comparative for last year was £4.9 million.

An interest credit of £3.1 million has benefited from the receipt of the proceeds of the disposal of Bhs of which

£105.1 million was returned to shareholders in August following Court approval of the capital reduction scheme. Overall profit before tax in the continuing business increased to £10.2 million from a loss of £6.1 million.

The effective rate of tax on earnings before exceptional charges was 12 per cent. This rate will remain below the UK standard rate of corporation tax as the group uses tax losses generated in previous years. The group received a tax repayment of £2.9 million during the year due to the carry back of some of these losses. Dependent on taxable profits in future years, it is not anticipated that any tax will become payable until the year ending March 2003.

Tax relief of £1.2 million relating to the exceptional items is due to the fact that the majority of these profits do not attract UK corporation tax.

Earnings per share for the year for the Mothercare continuing business before exceptional items were 6.5p compared to a loss per share of 2.2p in 2000. The earnings per share figure is calculated in accordance with FRS 14 (Earnings per share) so as to take account of the impact of the interest on the cash returned to shareholders on 17 August 2000. The board has proposed a final dividend of 1.5p per share.

Balance sheet

As with the profit and loss account, the balance sheet is difficult to compare year on year as a result of the Bhs disposal. However, whereas with the profit and loss account the use of columnar format aids analysis, this has not been possible in the body of the report and accounts. Below is an attempt at presenting a more consistent picture.

Balance sheet excluding cash/debt

	31 March 2001 £ million	Proforma at 1 April 2000 £ million
Fixed Assets		
Tangible fixed assets	**87.7**	92.5
Investments	**4.3**	1.5
Total	**92.0**	94.0
Current Assets		
Stocks	**43.6**	39.8
Debtors	**32.4**	31.7
Creditors – amounts falling due within one year	**(69.0)***	(59.8)
Net current assets	**7.0**	11.7
Creditors – amounts falling due after more than one year	**(2.4)**	(1.2)
Provisions for liabilities and charges	**(4.4)**	(8.5)
Net assets excluding cash/debt	**92.2**	96.0

*This excludes £2.0 million obligations under finance leases.

Stocks increased compared to last year end by 9 per cent as, to ensure availability at the start of the Spring/Summer season, stock was brought in early in March. The impact of this was offset by increased trade creditors at the year end. Creditors and provisions for liabilities and charges include the future costs of the move to the new warehouse and the remaining 11 store disposals as appropriate.

Cash flow

The final consideration from Measuremarket on the disposal of Bhs was £208.9 million after direct costs of £3.6 million. Of this £105.1million was returned to shareholders, a further £3.8 million was used by the employee trust to acquire Mothercare shares and £69.4 million used to repay debt. Net cash (including finance leases) ended the year at £34.8 million which is to be used to fund the store investment programme and the move of the distribution facility to Daventry. The continuing business generated £34.4 million and spent £24.3 million on exceptional items, mainly relating to the website start- up, redundancies and reverse premiums on store closures and other demerger issues.

Shareholders' funds reduced by £98.6 million to £127.0 million, the main movements being the profit after tax and dividend of £7.4 million and the return of capital to shareholders of £106.0 million, (excluding the element repaid to the employee trust) the cash cost to the group was £105.1 million.

Accounting policies

The group has adopted the new accounting standards FRS 16 (current taxation) and FRS 18 (accounting policies) during the year. There has been no impact on the current year financial statements as a result of adopting these standards. The group has not adopted FRS 19 (deferred taxation) or FRS 17 (pensions) and will do so at the appropriate time in line with the requirements of these reporting standards.

Pensions

The group's trading results continue to reflect reduced pension costs arising from surpluses in the pension schemes. The triennial valuation of the pension schemes by independent actuaries at 1 April 2000 and the separation of the scheme into Mothercare and Bhs schemes following the Bhs disposal were completed during the year. The valuations confirmed that there is a surplus in the funds of £35 million. The group commenced payments to the fund during the second half of the year based on the actuaries' recommendations and the cash cost of these payments of £0.5 million has been treated in the accounts as a prepayment. The cost of all the group pension schemes, net of the experience surpluses, in accordance with Statement of Standard Accounting Practice No 24, is £0.1 million.

Treasury operations

The group's funding, liquidity and currency and interest rate risks are managed within a framework of policies authorised by the board. The funding position is reported to the board every period and the overall treasury policy is reviewed annually by the board.

Currency risk

About ten per cent of Mothercare's sales are to franchisees overseas which are all billed in sterling. The group therefore has no currency exposure on these sales. Around two per cent of the group's purchases are made in a foreign currency and the exchange risk is hedged by using forward contracts. The group's policy is to cover 100 per cent of all material exposures on such creditors that arise from time to time.

Funding and liquidity

As a result of the disposal of Bhs the group repaid its bank debt consisting of the debt at 1 April 2000 of £69.4 million and subsequent trading movements and then returned £105.1 million to shareholders in August 2000. All of the group's banking facilities in existence were cancelled in May 2000 on the disposal of Bhs. The group has subsequently replaced these facilities with a £20 million committed bank facility which expires in August 2002 and is secured by a fixed charge over the group's properties and a floating charge over its assets.

Share activity

On 17 August 2000 the capital reduction scheme and share consolidation took place. This scheme resulted in each shareholder receiving 150p for one in six of the shares that they held being cancelled. The remaining five 10p shares were then consolidated into one 50p share. The result of this was that £105.1 million of the cash received from the disposal of Bhs was returned to shareholders. The share price on the first day of trading following the capital reduction scheme and share consolidation was 132p. The share price on 30 March the last trading day of the financial year was 206.75p.

Mark McMenemy
Finance director

Board of directors

Alan Smith ●[1]■[1]✶
Non-executive chairman

Appointed chairman in July 1996, having joined the board as a non-executive director and chairman-elect in January 1996. Previously a director of Marks & Spencer plc for 15 years and chief executive of Kingfisher plc 1993-1995. Non-executive director of Iceland Group plc, Colefax and Fowler plc, Space N K Ltd, The Health Clinic plc and Whitehead Mann Group Plc. Aged 60.

[1] With effect from 1 April 2001

Chris Martin
Chief executive

Appointed Mothercare CEO on 25 May 2000 and was previously group finance director from January 1997. Joined the group in April 1995 as Mothercare finance director and appointed Bhs finance director in October 1996. Former finance director of Pizza Hut (UK). Aged 40.

Angela Heylin, OBE ●■✶
Non-executive director

Appointed in March 1997. She is UK President of BSMG Worldwide, a director of Provident Financial plc, a trustee of Historic Royal Palaces and chairman of The House of St Barnabas, a hostel for homeless women, in Soho. Aged 57.

Brian Hardy ●■✶
Non-executive director

Appointed in November 1994. He is a chartered accountant, non-executive chairman of Boltblue Limited and, until his retirement in December 2000, was for ten years director, finance, of Burmah Castrol plc. Graduate of the London School of Economics and MBA from Stanford Business School, California. Aged 59.

Mark McMenemy
Finance director

Joined Mothercare as finance director on 17 April 2001. Former group finance director of C&J Clark Ltd and financial controller for UK and European Stores Marks and Spencer plc. CIMA. Aged 43.

Key:
● Audit committee
■ Remuneration committee
✶ Nomination committee

Business review

The principal companies within the Mothercare group for the year under review were Mothercare plc; (the "Company"), Bhs plc (sold on 22 May 2000), Mothercare UK Limited and Childrens World Limited. A review of the business strategy and a commentary on the performance of the Mothercare businesses is set out in the chairman's statement and chief executive's and finance director's reviews on pages 2 to 14.

Dividend

The directors recommend a final dividend of 1.5 per share. No interim dividend was paid. The total dividend of 1.5p per share compares with nil paid during 2000.

The final dividend will be payable on 17 August 2001 to shareholders registered on 29 June. Shareholders may continue to choose to receive shares in lieu of cash dividend through the dividend re-investment plan. The plan purchases existing shares using the cash dividend. A dealing fee (of 0.5 per cent) and stamp duty (currently 0.5 per cent) is charged. The shares will be acquired on the dividend payment day. Existing mandates will continue to apply unless the Company's registrars are advised to the contrary by 27 July 2001. Notifications withdrawing from the plan should be sent to Lloyds TSB Registrars, Share Dividend Team, The Causeway, Worthing, West Sussex, BN99 6DA. The latest date for election to the plan in relation to the final dividend is 27 July 2001.

Substantial shareholdings

As at 17 May 2001, the Company had been advised by the following companies of notifiable interests in its ordinary share capital:

Holder	Number of Shares	Percentage of issued capital
Fidelity	8,965,633	12.7
Legal & General	3,243,598	4.6
Barclays	2,502,247	3.5

Directors

Details of the directors of the Company are shown on page 15. Alan Smith was executive chairman during the year. With effect from 1 April 2001 Alan Smith, as previously announced at last year's Annual General Meeting, reverted to being non-executive chairman. Brian Hardy (senior non-executive director), Angela Heylin OBE and Chris Martin served as directors throughout the year ended 31 March 2001. Mark McMenemy was appointed finance director on 17 April 2001 and, having been appointed to the board since the last Annual General Meeting, offers himself for re-election. His biographical details, indicating his experience and qualifications, are set out on page 15.

Alan Smith and Brian Hardy retire by rotation and stand for re-election at the Annual General Meeting. Biographical details of Alan Smith and Brian Hardy, indicating their experience and qualifications, are set out on page 15.

Details of directors' service contracts are set out in the report of the remuneration committee on page 22. Brian Hardy and Angela Heylin do not have a service contract.

A statement of directors' interests in the shares of Mothercare plc and of their remuneration is set out on pages 20 to 23.

Corporate governance

The Company has complied with the Combined Code as determined by the Committee on Corporate Governance and as defined in the Listing Rules of the UK Listing Authority, ('The Code') with the exception of Code provision D3.1, composition of the audit committee. Following the retirement of David Tagg on 20 July 2000, until April 2001 the audit committee comprised two independent non-executive directors rather than three as required by The Code. With Alan Smith as non-executive chairman, the composition again complies with The Code.

The board has overall responsibility for the Company's system of internal control. The Company has established and maintained a system of internal control within an executive management structure that has clearly defined lines of responsibility and delegation of authority within prescribed financial and operational limits. The Company's system of internal control is based on financial, operational, compliance and risk control policies and procedures together with regular reporting of financial performance. Planning, budgeting and forecasting procedures are also in place together with formal capital investment appraisal arrangements.

The board recognises that the management of risk in accordance with Turnbull Committee principles is key to ensuring that a robust system of internal control is monitored by the business. In particular, the board has placed considerable emphasis on the identification and monitoring of the risks which may affect the continuance of the business over a time period of 18 months.
The board has also continued with its programme of structured risk assessments of those areas which may have a significant effect on the future of the business. This programme was implemented to ensure that the appropriate risk management processes were identified and established within the group and that the necessary environment was provided to ensure that those processes become an integral part of the ongoing business culture. A risk workshop was held during the year and key risks

identified. Those risks were then ranked in importance and monitoring and risk avoidance measures identified. These risks are reviewed on a periodic basis.

During the year, individual stores were tested against a risk assessment model with particular emphasis on health and safety, fire safety and internal process compliance. This process was further enhanced during the year by the development and implementation of a computer-aided 'Branch Risk Assessment Tool' which allows the business to review 20 key factors in store compliance on a weekly basis, highlight beneficial and adverse trends and take appropriate action. Other specific risks have been reviewed including a revised business continuity plan for the Watford head office. Areas which continue to be addressed are the critical information technology systems, document flows and security, corporate planning and strategic direction for the group and the establishment and review at each board meeting of key performance indicators.

During the year the board reviewed again the need for an internal audit function. The board remains of the opinion that it is able to use the audit resource available internally, supplementing this by specialist input from outside agencies. The board has pursued this policy in taking independent, specialist advice in other areas such as health and safety.

The board believes that the system of internal control described above is appropriate to the business. It can, however, only provide reasonable and not absolute assurance against material mis-statement or loss. The audit committee periodically reviews the system of internal control on behalf of the board.

The Code sets out the principles of good governance and these are briefly commented on below:

The board and directors During the year under review the board of Mothercare plc comprised two independent non-executive directors and two executive directors. The full board, which meets regularly, usually on a monthly basis, maintains overall control of the group's affairs through a schedule of matters reserved for its decision. These include setting the group strategy, the approval of the annual budget and financial statements, major acquisitions and disposals, authority limits for capital and other expenditure and treasury matters.

The non-executive directors are independent and free from any business or other relationship which could materially interfere with their judgement. Neither Brian Hardy nor Angela Heylin participates in any bonus, share option or pension scheme of the Company.

The board considers that the balance achieved between executive and non-executive directors during the year was appropriate and effective for the control and direction of the business. Alan Smith reverted to being non-executive chairman on 1 April 2001. From 25 May 2000 the separation of the roles of chairman and chief executive were re-established with the appointment of Chris Martin as chief executive. The composition of the board is now weighted in favour of non-executive directors.

The board is assisted by committees which it has established with written terms of reference. The roles of the remuneration and audit committees are set out below. During the year the audit and remuneration committees were composed of the two non-executive directors. The nomination committee comprised the two non-executive directors together with Alan Smith, and was responsible for making recommendations to the board on the appointment of directors at Mothercare plc board level.

The board has delegated day-to-day and business management control to the Mothercare UK Limited operating board.

Throughout the year the board has been supplied with information and papers submitted at each board meeting which ensures that all aspects of the group's affairs are reviewed at least on an annual basis in accordance with a rolling agenda and programme of work. All directors, whether executive or non-executive, have unrestricted access to the company secretary and executives within the businesses on any matter of concern to them in respect of their duties. In addition new directors are offered appropriate training on appointment to the board and subsequently as necessary. Furthermore, the Company has undertaken to reimburse legal fees to the directors if circumstances should arise in which it is necessary for them to seek separate legal advice in furtherance of their duties. In accordance with the Articles of Association, all directors are required to offer themselves for re-election every three years.

The remuneration committee, chaired by Angela Heylin, establishes the remuneration policy and arrangements for executive directors. The group pursues a policy of performance related benefits for both directors and other executives within the group. During the year no director was, and procedures are in place to ensure that no director is, involved in deciding or determining his or her own remuneration. Full disclosure of the Company's remuneration policy and details of the remuneration of each director are set out in the report of the remuneration committee on pages 20 to 23.

The audit committee, which is chaired by Brian Hardy, the senior non-executive director, reviews the scope and issues arising from the audit and matters relating to financial control. It also assists the board in its review of corporate governance and in its presentation of the Company's financial results and position through its review of the interim and full year accounts before approval by the board, focusing in particular on compliance with accounting principles, changes in accounting practice and major areas of judgement.

Shareholder relations The Company has a programme of regular dialogue with institutional shareholders. During such meetings the board is able to put forward its objectives for the business and discuss performance against those objectives. Mindful always of its obligations to the investing community as a whole, the Company reaches a wider audience by the use of its website (at *www.mothercare.com/investorinfo*) and, with a view to encouraging full participation of those unable to attend the AGM, provides an opportunity for shareholders to ask questions of their board by the provision of a reply-paid questions service to the chairman.

Accountability and audit The board makes three presentations of the financial performance of the business to the investing community through the interim and full year reports, and through a trading statement at the AGM.

Internal financial control is addressed by the audit committee at least twice on an annual basis. Internal control (other than internal financial control) is reserved to the board as a whole. The board considers that, subject to the temporary exception in respect of the composition of the audit committee referred to above, full compliance with all other provisions of The Code was achieved this year.

Employees

The group achieves an awareness amongst, and reviews with all its employees, corporate objectives and performance and economic activity relevant to its businesses. This is achieved through media such as corporate roadshows (four of which have been held this year), bulletins, e-mail and video presentations.

The capabilities of the group's senior management, management and associates have been measured, development needs ascertained and programmes designed to ensure that the critical skills required for the development of both the individual and the group are attained.

In addition to its incentive plans, the group operates various share schemes, details of which are set out on page 45.

Mothercare is an equal opportunities employer and ensures that recruitment and promotion decisions are made solely on the basis of suitability for the job. Disabled persons are given due consideration for employment opportunities and, if employees become disabled, every effort is made to retain them by providing requisite employment aids.

Payment of suppliers

Payments to merchandise suppliers are made in accordance with the general conditions of purchase, which are communicated to suppliers at the beginning of the trading relationship. It is the group's policy to make payments to non-merchandise suppliers, unless otherwise agreed, within the period set out in the supplier's invoice or within 30 days from the date of invoice.

The amount owed to trade creditors at the end of the financial year represented nil days (2000 – 13 days) of average daily purchases during the year for the Company and 17 days (2000 – 13 days) for the group.

Fixed assets

Changes in fixed assets are shown in note 8 to the accounts. A valuation of the group's freehold and long leasehold properties, excluding rack rented properties, was carried out by external valuers, primarily Messrs Healey & Baker, as at 1 April 2000 and this was updated on a 'desk top' basis during the year. The basis of the valuation is Existing Use Value in respect of properties primarily occupied by the group and on the basis of Open Market Value in respect of investment properties, both bases being in accordance with the Practice Statements contained in the RICS Appraisal and Valuation Manual. The updated valuation of the properties resulted in a surplus over their net book value of £11.6 million.

Corporate citizenship

The board recognises that corporate citizenship, or social responsibility, is an important factor in managing the reputation of a brand such as Mothercare.

Following the establishment of Mothercare plc, the previous policies of the group on charity and community, ethical trading, and environment have been the subject of review. As at the year-end, this process is not yet completed.

Charitable and political donations

Charitable donations for the year ending 31 March 2001 were £29,249 (2000 – £41,000). Further details of the Company's charitable activities are given on pages 10 and 11 in the chief executive's review.

It is the Company's policy not to make political donations.

Going concern

After making appropriate enquiries, the directors have a reasonable expectation that the Company and the group have adequate resources to continue in operational existence for the foreseeable future. The financial statements are therefore prepared on a going concern basis.

Annual General Meeting

The AGM will be held on Friday, 20 July 2001 at 10.30am at the Hilton National Hotel, Elton Way, Watford, WD2 8HA.

The notice of the meeting and a pre-paid form of proxy for the use of shareholders unable to come to the AGM but who may wish to vote or to put any questions to the board of directors are enclosed with this annual report. The chairman will respond in writing to questions received.

As in previous years a copy of the chairman's opening statement to the meeting, together with a resumé of questions and answers given at the meeting, will be prepared following the AGM. This will be made available to shareholders on request to the company secretary at the Company's head office.

Auditors

Arthur Andersen have indicated their willingness to continue as auditors to the Company and accordingly a resolution to reappoint them will be proposed at the AGM.

Special Business at the Annual General Meeting

In addition to the ordinary business, the directors will propose resolutions covering the following matters.

Ordinary resolution The directors are seeking authority under Section 80 of the Companies Act 1985 to allot shares up to an aggregate nominal value of £11,780,000. This represents approximately one third of the present issued share capital of the Company. The directors have no present intention of making such issues of shares save in respect of the Company's share option schemes but consider it desirable for them to be given this authority to allot shares in the event that they consider it appropriate to do so. The authority will be in substitution for all previous authorities which accordingly will be revoked. The authority sought is for a period of five years from the date of the AGM.

Special resolutions Special resolutions will be proposed at the AGM on the following matters:

Purchase of own shares The Company was authorised at the 2000 AGM to purchase up to 10 per cent of its shares in the market. This authority has not been used and expires at the conclusion of this year's AGM. Resolution 9 seeks to renew the authority for a further year. Shares purchased (if any) will be cancelled. The directors have no present intention of using this authority, but wish to be in a position to act quickly in the interests of the Company and shareholders generally if circumstances so warrant. Purchases of the Company's shares would only be made if these would result in an increase in earnings per share and be in the best interests of the Company at the time.

Disapplication of pre-emption rights The directors also recommend that Section 89 of the Companies Act 1985 should not apply to any allotment of shares in connection with a rights issue, in accordance with normal practice in the United Kingdom, or an issue for cash for shares of an aggregate nominal amount of up to £1,767,000, representing approximately five per cent of the present issued share capital of the Company. The authority sought is for a period of five years from the date of the AGM.

By order of the board
Clive E Revett, company secretary
24 May 2001

The remuneration committee presents its report on behalf of the board for the year ended 31 March 2001.

Composition of the remuneration committee

During the year the remuneration committee comprised two independent non-executive directors, Angela Heylin, chairman of the remuneration committee, and Brian Hardy. David Tagg's term as a non-executive director and chairman of the remuneration committee ended in July 2000. The remuneration committee determines the remuneration policy and arrangements for each of the executive directors and regularly takes advice from independent reward consultants who are experts in their fields. The committee monitors the compliance of the Company with the Code of Practice on directors' remuneration and the best practice provisions on the design of performance related remuneration included with The Code.

Remuneration policy

It is the Company's policy to provide competitive remuneration packages in order to recruit, retain and motivate directors and employees of the required calibre. The remuneration committee, with the assistance of an independent consultant, has taken the opportunity provided by the restructuring of the group to review the remuneration policy and to refine certain areas to ensure that it is consistent with current market practices and appropriate for Mothercare plc.

The key change has been to increase the emphasis on the variable pay elements of the package in order to strengthen the alignment of the interests of executives with those of the Company's shareholders. After receiving shareholder approval at the last AGM, a new executive share option scheme has been introduced.

The remuneration packages of the executive directors now include a fixed annual salary and benefits, variable annual bonuses, as well as the new executive share option scheme.

Salary

The remuneration committee considers the pay of each executive director individually. As a general policy, salaries are positioned at or around the market median to enable a greater emphasis to be placed on performance related pay.

Base salary is the only element of pay used in calculating pensionable earnings under the Mothercare pension arrangements.

Annual bonus

The annual bonus depends upon the achievement of annual corporate performance measures and personal targets linked to the delivery of strategic objectives for an individual's area of responsibility.

The maximum bonus that may ordinarily be paid to an executive director is 50 per cent of base salary. The remuneration committee has discretion to approve bonus payments which exceed this level in exceptional circumstances. Bonus payments are made provided that performance conditions as agreed by the remuneration committee are met.

For the year ended 31 March 2001, no executive director received a Company performance related bonus in excess of 50 per cent of basic salary.

Additional payments

Alan Smith does not participate in the bonus, pension or share option schemes. A one-off bonus of one and a half times salary was awarded to him as executive chairman payable on the achievement of his objectives in the transition to Mothercare plc. The first instalment of £315,000 was made on 8 June 2000, all of which Alan Smith invested in shares in the Company. The second instalment of £315,000 is due on 8 June 2001, again wholly payable in shares, provided that Mothercare has achieved its financial performance targets.

As part of the retention incentives operated by Storehouse plc and disclosed in the Storehouse 2000 Annual Report and Accounts, Chris Martin was awarded a payment of £131,250 in June 2000.

Long-term incentive plan

No further awards will be made under the Storehouse long-term incentive plan. Following the Storehouse plc restructuring all existing awards have lapsed.

Executive share option schemes

No further awards will be made under the former Storehouse 1995 executive share option scheme ('the Storehouse scheme'). The only awards still outstanding under it are those made on 1 June 2000 in connection with the appointment of the new Mothercare management team. These options, awarded under the Storehouse scheme, were granted at market value and will vest at the earliest in 2003 subject to the performance condition that growth in earnings per share has exceeded the growth in the Retail Price Index over a three-year period by at least six per cent. The directors exercised no options during the year.

The Storehouse scheme was replaced in July 2000 with the new Mothercare 2000 executive share option plan ('the Mothercare scheme'). Options under the new Mothercare scheme are granted at market value, and a significant improvement in the underlying performance of the Company is required before options can be exercised. Options will usually only be exercisable if earnings per share growth over a rolling three-year performance period equals or exceeds the Retail Price Index by nine per cent. Options will lapse if the performance condition is not achieved over the performance period. The Mothercare scheme includes an Inland Revenue approved part for the first £30,000 of outstanding options held at grant, as well as an unapproved part.

Annual option grants may be made to executive directors and senior employees of up to two times basic salary, although it is not expected that the annual level of grant will be as high as this. The remuneration committee will, however, retain the discretion to make grants above this level in exceptional circumstance such as recruitment. Since the introduction of the Mothercare scheme the remuneration committee has found two instances requiring such an exceptional grant: one in recognition of the appointment as chief executive to Chris Martin and the other on the recruitment of Mark McMenemy as finance director. Grants in excess of two times basic salary have a performance condition of earnings per share growth over a rolling three-year performance period which equals or exceeds the Retail Price Index by 20 per cent.

Directors' share options

Directors' share options under all schemes are shown in the following table:

	Options held at 1 April 2000 or date of appointment (Number)[1]	Storehouse options granted during the year (Number)[2]	Mothercare options granted during the year (Number)	Options exercised during the year (Number)	**Options held at 31 March 2001 or date of appointment (Number)**	Exercise price (pence)	Date from which exercisable	Latest exercise date
Chris Martin	–	460,737	–	–	**460,737**	123.71[2]	01.6.03	31.5.10
	–	–	400,000	–	**400,000**	165.00	22.1.04	21.1.11
	–	–	1,550	–	**1,550**[3]	125.00	22.12.03	22.12.03

[1] all options held at 1 April 2000 lapsed as a result of the Scheme of Arrangement on 17 August 2000.

[2] rebased to reflect the effect of the share consolidation and return of capital on 17 August 2000.

[3] options granted under the three year SAYE scheme.

Service contracts

The executive directors have service contracts that can be terminated on 12 months' notice. These currently provide for liquidated damages on termination by the Company of one year's basic salary, benefits, pension credits and the average of the past three years' annual bonus, and for exercisable share options to be retained for up to six months from the notice date.

Alan Smith reverted to being non-executive chairman with effect from 1 April 2001 and now spends 2-3 days per week in the business. His remuneration package has been adjusted accordingly. His salary is now £175,000 pa with no entitlements to bonus, pension or share options. Alan Smith is entitled to one year's salary and benefits upon summary termination of employment by the Company.

External appointments

Typically, an executive director may take one external appointment as a non-executive director for which he may retain the fees, subject to the approval of the board.

Pensions

Chris Martin and Mark McMenemy are members of the Mothercare executive pension scheme. Pension accrues at the rate of one forty-fifth of salary for each year of pensionable service. The normal retirement age is 60. Employees' contributions are up to five per cent of pensionable salary (the Company made no contributions to the scheme during the year).

In addition to membership of the Mothercare executive pension scheme, pension benefits on earnings in excess of the Inland Revenue earnings cap are provided to Chris Martin and Mark McMenemy through a Funded Unapproved Retirement Benefits Scheme. The Company made contributions of ten per cent of such earnings to that scheme in respect of Chris Martin.

The contribution rate for the Company for Chris Martin and Mark McMenemy in relation to salary in excess of the earnings cap is now 16.6 per cent of salary under age 40, rising in increments of five per cent to 50 per cent at age 55-60.

The table below shows, in relation to Chris Martin, the annual pension earned or accrued at the beginning and end of the year, the increase in the earned position during the year and the capital value of that increase.

	Annual pension accrued by 1 April 2000 £000s	Annual pension earned (in excess of inflation) during the year £000s	Capital value of increase in pension (in excess of inflation) £000s	Annual pension accrued by 31 March 2001 £000s	Company contributions £000s
Chris Martin	15	3	11	18	20

The capital value of the increase in pension represents a liability of the Company but not a sum paid or due to the individual. It cannot meaningfully be added to annual remuneration.

Non-executive directors' fees

The fees of the non-executive directors are determined by the board with the non-executive directors abstaining from discussions on their own arrangements.

Non-executive directors do not participate in any bonus, share options or pension scheme of the Company.

Directors' emoluments

Total emoluments (including pension contributions) in the year ended 31 March 2001 were £1,778,000 (2000 - £2,115,000). The following table shows the breakdown of emoluments:

	Salary/ fees		Performance bonus		Retention/ service bonus		Compensation for loss of office		Benefits		Total remuneration (excl. pensions)		Pension contributions	
		£000		£000		£000		£000		£000		£000		£000
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
Executive directors														
Alan Smith	360	331	–	–	315[1]	–	–	–	25	18	700	349	–	–
Chris Martin	290	251	114	–	131[2]	125[2]	–	–	16	22	551	398	20	12
Stephen Tague	41	199	–	–	–	–	381	–	16	10	438	209	2	13
Keith Edelman	–	64	–	–	–	–	–	547	–	7	–	618	–	14
Steve Bedford	–	119	–	–	–	–	–	278	–	18	–	415	–	–
Non-executive directors														
Brian Hardy	29	29	–	–	–	–	–	–	–	–	29	29	–	–
Angela Heylin	29	29	–	–	–	–	–	–	–	–	29	29	–	–
David Tagg	9	29	–	–	–	–	–	–	–	–	9	29	–	–

Notes

1. A one-off bonus was awarded to Alan Smith. Details are set out on page 20.
2. This bonus formed part of a Storehouse plc incentive linked to the restructuring of the business.

Beneficial interests of the directors

The beneficial interests of the directors in the share capital of the Company (excluding option awards which are set out on page 21) are as follows:

	Interest held at 31 March 2001 (Number)	Interest held at* 1 April 2000 (Number)
Alan Smith	77,079	8,333
Chris Martin	8,636	1,977
Brian Hardy	11,440	3,107
Angela Heylin	3,426	2,292

Alan Smith and Angela Heylin are the shareholders and directors of Mothercare Employees' Share Trustee Limited, which held 29,174 (2000 – 29,174*) Mothercare shares in trust on 2 April 2001. A separate trust, the Mothercare Employee Trust, held 3,524,071 shares on 2 April 2001 (2000 – 624,071*). The market value of shares held under these trusts at 2 April 2001 was £7,346,334.

*rebased to reflect the effect of the share consolidation and return of capital on 17 August 2000.

The executive directors of the Company are technically deemed to be interested in all of the shares held by Mothercare Employees' Share Trustee Limited and by the Mothercare Employee Trust as potential beneficiaries. There have been no movements in directors' interests, beneficial or non-beneficial, between 2 April 2001 and 24 May 2001.

Mark McMenemy has no beneficial or other interest in Mothercare shares or options subsisting at 24 May 2001.

Directors’ responsibilities for the accounts

This statement has been prepared in compliance with the Combined Code of Best Practice in order to explain the responsibilities of the directors in preparing the financial statements. It should be read in conjunction with the auditors’ report on page 25.

The Companies Acts require the directors to prepare accounts for each financial year which give a true and fair view of the state of the Company’s affairs and those of the group, as at the end of each financial year and of the profit or loss for that year.

In preparing those financial statements the directors are required to:

a Select suitable accounting policies and apply them on a consistent basis;

b Make prudent and reasonable judgements;

c State whether applicable accounting standards have been applied, identify where any material deviation from such standards have been made and the explanation for such deviation;

d Prepare the financial statements on a ‘going concern’ basis; and

e Keep proper accounting records, safeguard the group’s assets and take reasonable steps to prevent and detect fraud and other irregularities or risks.

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

To the shareholders of Mothercare plc

We have audited the accounts on pages 26 to 45 which have been prepared under the historical cost convention and the accounting policies set out on page 32. We have also examined the amounts disclosed relating to the emoluments, share options and long-term bonus scheme interests of the directors which form part of the remuneration committee report on pages 20 to 23.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report including, as described on page 24, preparing the accounts in accordance with applicable UK law and accounting standards. Our responsibilities, as independent auditors, are established in the UK by Statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if 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 or the Listing Rules regarding directors' remuneration and transactions with the Company and the group is not disclosed.

We review whether the statement on pages 16 to 18 reflects the Company's compliance with seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal financial control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the group at 31 March 2001 and of the group's profit and cash flows for the 52 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen
Chartered accountants and registered auditors
1 Surrey Street, London
24 May 2001

Group profit statement > for the 52 weeks ended 31 March 2001 (note 1)

	Continuing Mothercare £ million	Discontinued Bhs £ million	Total before exceptional items £ million
Turnover (note 2)	419.1	89.9	509.0
Cost of sales	(389.4)	(94.7)	(484.1)
Gross profit/(loss)	29.7	(4.8)	24.9
Administrative expenses	(22.6)	(1.9)	(24.5)
Profit/(loss) from retail operations (note 2)	7.1	(6.7)	0.4
Exceptional items (note 3):			
Profit and loss on disposal of stores			
Continuing operations	–	–	–
Discontinued operations	–	–	–
Provision for costs of separation (continuing operations)	–	–	–
Loss on disposal of Bhs (discontinued operations)	–	–	–
Interest (note 4)	3.1	–	3.1
Profit/(loss) before taxation	10.2	(6.7)	3.5
Taxation (note 5)	(1.2)	–	(1.2)
Profit/(loss) for the financial year	9.0	(6.7)	2.3
Dividends (note 6)			
Retained profit/(loss) for the financial year			
Earnings/(loss) per share – continuing business before exceptional items			
Earnings/(loss) per share (note 7)			
Earnings/(loss) per share diluted (note 7)			

Statement of recognised gains and losses > for the 52 weeks ended 31 March 2001

	2001 £ million	2000 £ million
Profit/(loss) for the financial year being total recognised gains and losses relating to the year	8.4	(389.7)

A statement of the movement in reserves is shown in Note 15.

The accounting policies on page 32 and the notes on pages 33 to 45 form an integral part of these accounts.

52 weeks ended 31 March 2001		53 weeks ended 1 April 2000				
Exceptional items (Note 3) £ million	Total £ million	Continuing Mothercare £ million	Discontinued Bhs £ million	Total before exceptional items £ million	Exceptional items (Note 3) £ million	Total £ million
–	509.0	443.7	822.4	1,266.1	–	1,266.1
(7.4)	(491.5)	(437.6)	(794.0)	(1,231.6)	(83.9)	(1,315.5)
–	17.5	6.1	28.4	34.5	(83.9)	(49.4)
–	(24.5)	(5.7)	(15.3)	(21.0)	(8.9)	(29.9)
(7.4)	(7.0)	0.4	13.1	13.5	(92.8)	(79.3)
3.5	3.5	–	–	–	7.2	7.2
–	–	–	–	–	(3.4)	(3.4)
(9.9)	(9.9)	–	–	–	(6.8)	(6.8)
18.7	18.7	–	–	–	(300.6)	(300.6)
–	3.1	(6.5)	–	(6.5)	–	(6.5)
4.9	8.4	(6.1)	13.1	7.0	(396.4)	(389.4)
1.2	–	0.4	(0.7)	(0.3)	–	(0.3)
6.1	8.4	(5.7)	12.4	6.7	(396.4)	(389.7)
	(1.0)					–
	7.4					(389.7)
	6.5p					(2.2)p
	6.0p					(152.7)p
	6.0p					(152.1)p

Group and Company balance sheets > as at 31 March 2001

	Group		Company	
	Total 2001 £ million	Total 2000 £ million	Total 2001 £ million	Total 2000 £ million
Fixed assets				
Tangible assets (note 8)	87.7	319.6*	–	5.0
Investments (note 9)	4.3	1.5	113.3	129.5
	92.0	321.1	113.3	134.5
Current assets				
Stocks	43.6	118.7	–	–
Debtors (note 10)	32.4	65.2	13.0	39.5
Cash at bank and in hand and time deposits	36.8	51.3	43.2	–
	112.8	235.2	56.2	39.5
Creditors (amounts falling due within one year – note 11)	(71.0)	(257.4)	(89.0)	(82.7)
Net current assets/(liabilities)	41.8	(22.2)	(32.8)	(43.2)
Total assets less current liabilities	133.8	298.9	80.5	91.3
Creditors (amounts falling due after one year – note 11)	(2.4)	(11.6)	–	(2.0)
Provisions for liabilities and charges (note 13)	(4.4)	(61.7)	–	–
Net assets	127.0	225.6	80.5	89.3
Capital and reserves attributable to equity interests				
Called-up share capital (note 14)	35.3	42.4	35.3	42.4
Share premium account (note 15)	–	31.7	–	31.7
Profit and loss account (note 15)	91.7	151.5	45.2	15.2
	127.0	225.6	80.5	89.3

* After reflecting the provision for the loss on the disposal of Bhs.

Approved by the board on 24 May 2001
CN Martin
M McMenemy

Reconciliation of movement in shareholders' funds > for the 52 weeks ended 31 March 2001

	2001 £ million	2000 £ million
Profit/(loss) for the financial year	8.4	(389.7)
Dividends	(1.0)	–
Net increase/(decrease) in shareholders' funds	7.4	(389.7)
Scheme of arrangement – reduction of share capital	(106.0)	–
Shareholders' funds at beginning of the year	225.6	615.3
Shareholders' funds at end of the year	127.0	225.6

The accounting policies on page 32 and the notes on pages 33 to 45 form an integral part of these statements.

Group cash flow statement > for the 52 weeks ended 31 March 2001 (note 1)

	2001 £ million	2001 £ million	2000 £ million	2000 £ million
Reconciliation of net cash inflow from operating activities				
Profit from retail operations before exceptional items	0.4		13.5	
Depreciation	18.5		66.6	
(Increase)/decrease in stocks	(5.5)		14.4	
Decrease/(increase) in debtors	18.8		32.6	
Increase/(decrease) in creditors	0.2		(26.6)	
Net cash flow in respect of exceptional costs	(28.3)		(5.3)	
Net cash inflow from operating activities		4.1		95.2

Group cash flow statement

	2001 £ million	2001 £ million	2000 £ million	2000 £ million
Net cash inflow from operating activities		4.1		95.2
Returns on investments and servicing of finance				
Interest received	4.3		2.4	
Interest paid (note b)	(1.2)		(8.9)	
		3.1		(6.5)
Taxation				
Corporation tax including ACT	2.9		(0.3)	
Overseas tax	–		(0.3)	
		2.9		(0.6)
Capital expenditure				
Purchase of tangible fixed assets	(17.5)		(92.5)	
Sale of tangible fixed assets	11.6		49.0	
		(5.9)		(43.5)
Trading cash flow		4.2		44.6
Acquisitions and disposals				
Disposal of Bhs (note 3 and note c)	208.9		–	
Acquisition of shares	(3.8)		–	
		205.1		–
Equity dividends paid		–		(22.8)
Management of liquid resources (note a)		26.3		(2.0)
Financing				
Scheme of arrangement – reduction in share capital	(105.1)		–	
Decrease in debt (notes a and b)	(98.0)		(17.3)	
		(203.1)		(17.3)
Increase in cash in the period		32.5		2.5

	2001 £ million	2000 £ million
Reconciliation of net cash flow to movement in net debt		
Increase in cash for the year	32.5	2.5
Cash flow from liquid resources	(26.3)	2.0
Cash flow from financing	98.0	17.3
Movement in net cash/(debt) in the year (note a)	104.2	21.8
Net debt at beginning of year	(69.4)	(91.2)
Net cash/(debt) at the end of the year	34.8	(69.4)

a Analysis of net cash/(debt)

	1999 £ million	Cash flow £ million	2000 £ million	Cash flow £ million	2001 £ million
Cash*	14.5	0.5	**15.0**	**11.8**	**26.8**
Overdrafts (note 11)	(22.7)	2.0	**(20.7)**	**20.7**	**–**
Net cash	(8.2)	2.5	**(5.7)**	**32.5**	**26.8**
Cash flow from management of liquid resources					
Time deposits*	34.3	2.0	**36.3**	**(26.3)**	**10.0**
(Increase)/decrease in debt					
Bills of exchange and bank loans (note 11)					
Due within one year	(93.0)	(0.5)	**(93.5)**	**93.5**	**–**
Due after one year	–	(2.5)	**(2.5)**	**2.5**	**–**
Obligations under finance leases (note 11)					
Due within one year	(1.9)	(0.1)	**(2.0)**	**–**	**(2.0)**
Due after one year	(3.9)	1.9	**(2.0)**	**2.0**	**–**
Obligations under property leases (note 11)					
Due within one year	(6.8)	6.8	**–**	**–**	**–**
Due after one year	(11.7)	11.7	**–**	**–**	**–**
(Increase)/decrease in debt	(117.3)	17.3	**(100.0)**	**98.0**	**(2.0)**
Net cash/(debt)	(91.2)	21.8	**(69.4)**	**104.2**	**34.8**

* Cash and time deposits on the balance sheet represents the total of cash of £26.8 million (2000 – £15.0 million) and time deposits of £10.0 million (2000 – £36.3 million).

b Obligations under property leases and finance leases

The capital element of lease payments made in the year was £2.0 million (2000 – £20.4 million) including the repayment of the obligations under property leases. Interest paid includes £0.1 million (2000 – £0.8 million) in relation to obligations under finance leases.

c Disposal of Bhs (note 3)

	2001 £ million
Fixed Assets	522.5
Stocks	80.7
Debtors	16.4
Creditors	(77.2)
Provisions for liabilities	(51.6)
	490.8
Provision for Bhs	(300.6)
Net assets disposed	190.2
Cash received	208.9
Net profit	18.7

The disposal of Bhs in May 2000 had the following effect on the Group's trading cash flows:

	Continuing Mothercare £ million	Discontinued Bhs £ million	Total £ million
Profit from retail operations before exceptional items	7.1	(6.7)	0.4
Depreciation	11.4	7.1	18.5
Working capital	9.9	3.6	13.5
Exceptional costs/other	(24.3)	(4.0)	(28.3)
Net cash flow from operating activities	4.1	–	4.1
Returns on investments and servicing of finance	3.1	–	3.1
Taxation	2.9	–	2.9
Capital expenditure			
Purchase of tangible fixed assets	(11.2)	(6.3)	(17.5)
Sale of tangible fixed assets	9.5	2.1	11.6
	(1.7)	(4.2)	(5.9)
Trading cash flow	8.4	(4.2)	4.2

Accounting policies

Accounting convention
The accounts have been prepared under the historic cost convention and in accordance with applicable accounting standards. The group has adopted FRS 16 (current taxation) and FRS 18 (accounting policies). There has been no impact on the accounts as a result of adopting these standards.

Basis of consolidation
The group accounts include the accounts of the Company and of all its subsidiary undertakings drawn up to the close of business on 31 March 2001.
Intercompany transactions have been eliminated on consolidation. The results of companies acquired or disposed of in the year are included to the date of disposal or from the effective date of acquiring control. Goodwill arising on the acquisition of subsidiary undertakings before 29 March 1997 and representing the difference between the consideration given and the fair value of the net assets acquired is written off to reserves but included in the calculation of the loss/gain on subsequent disposal. As provided by the Companies Act 1985, the Company does not disclose its own separate profit and loss account.

Stocks
Stocks consist substantially of goods for resale and are stated at the lower of cost and net realisable value. Cost includes an appropriate element of overhead expenditure.

Leased assets
Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Operating leases are charged to profit and loss as incurred.

Deferred taxation
Deferred taxation is provided on the excess of capital allowances over book depreciation and in respect of short-term timing differences to the extent that the directors are of the opinion that such tax will become payable in the foreseeable future.

Tangible fixed assets
Tangible fixed assets are included at cost, less accumulated depreciation and provision for impairment. Depreciation is charged on a straight-line basis over the following periods. Freehold land is not depreciated.

Freehold buildings	– 50 years
Fixed equipment in freehold buildings	– 20 years
Leasehold improvements	– the period of the lease
Fixtures, fittings and equipment	– 3 to 20 years.

Pension costs
The cost of providing pensions is calculated using actuarial valuation methods which reflect the long-term costs. The amount charged to the profit and loss account is calculated so as to produce a substantially level percentage of the current and future pensionable payroll. Variations from the regular cost so calculated are allocated to the profit and loss account over the average remaining service lives of employees.

Foreign currency
Transactions in foreign currencies are translated into local currency at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated into local currency at the rates ruling at each balance sheet date. Resulting exchange gains or losses are included in trading profit. For the purposes of consolidation, the results of overseas subsidiary undertakings are translated at average rates of exchange during the year. Translation differences on the opening net assets and results at average rates for the year of overseas subsidiary undertakings, are dealt with through reserves.

Investments
The Company's investment in subsidiary undertakings is stated at cost less provision for impairment. Dividends receivable are credited to the Company's profit and loss account.

Turnover
Group turnover comprises the value of sales (excluding sales taxes and net of discounts) of goods in the normal course of business.

1 Basis of presentation

The Company's accounting period covers the 52 weeks ended 31 March 2001. The comparative period covered the 53 weeks ended 1 April 2000.

2 Supplementary profit and loss information

All turnover and retail profit is derived from businesses in the UK.

Turnover by destination can be analysed as follows:

	Continuing Mothercare 2001 £ million	Discontinued Bhs 2001 £ million	Total 2001 £ million	Continuing Mothercare 2000 £ million	Discontinued Bhs 2000 £ million	Total 2000 £ million
UK including Channel Islands	379.1	88.2	467.3	406.9	801.7	1,208.6
Rest of Europe	17.8	0.2	18.0	17.1	4.9	22.0
Rest of World	22.2	1.5	23.7	19.7	15.8	35.5
	419.1	89.9	509.0	443.7	822.4	1,266.1

Profit/(loss) from retail operations has been determined after charging the following items:

	Continuing Mothercare 2001 £ million	Discontinued Bhs 2001 £ million	Total 2001 £ million	Continuing Mothercare 2000 £ million	Discontinued Bhs 2000 £ million	Total 2000 £ million
Depreciation of tangible assets	11.4	7.1	18.5	14.7	51.9	66.6
Net rent of properties	41.3	8.8	50.1	46.3	64.7	111.0
Auditors' remuneration – audit	0.1	–	0.1	0.1	0.1	0.2
Staff costs						
wages and salaries (including bonuses)	45.9	11.8	57.7	47.4	93.3	140.7
social security costs	2.5	0.7	3.2	2.6	4.8	7.4
other pension costs	0.1	–	0.1	0.1	–	0.1

Non audit fees for the continuing Mothercare business were £1.1 million (2000 – £0.5 million) of which £0.9 million (2000 – nil) was in relation to work on the demerger and disposal of Bhs.

An analysis of the average number of full and part-time employees throughout the group, all of whom are employed in the UK, including executive directors, is as follows:

	2001	2000
Number of employees	6,441	20,130
Full-time equivalents	4,255	10,620

3 Exceptional items

The exceptional items can be summarised as follows:

	Continuing Mothercare 2001 £ million	Discontinued Bhs 2001 £ million	Total 2001 £ million	Continuing Mothercare 2000 £ million	Discontinued Bhs 2000 £ million	Total 2000 £ million
Cost of sales						
Stock disposal programme	–	–	–	(15.9)	(38.3)	(54.2)
Store asset write-off	–	–	–	(16.4)	–	(16.4)
Mothercare.com	(7.4)	–	(7.4)	(3.6)	–	(3.6)
Store closure costs	–	–	–	(1.7)	(1.3)	(3.0)
Other one-off costs	–	–	–	(2.7)	(4.0)	(6.7)
	(7.4)	–	(7.4)	(40.3)	(43.6)	(83.9)
Administrative expenses						
Head office asset write-off	–	–	–	(1.8)	–	(1.8)
Other one-off costs:						
Mothercare	–	–	–	(0.4)	–	(0.4)
Storehouse	–	–	–	(5.8)	(0.9)	(6.7)
	–	–	–	(8.0)	(0.9)	(8.9)
Total charged to retail profit	(7.4)	–	(7.4)	(48.3)	(44.5)	(92.8)
Profit and loss on disposal of stores						
Profits on stores sold	3.5	–	3.5	16.5	12.3	28.8
Losses on stores sold	–	–	–	(0.7)	(3.8)	(4.5)
Net profits on stores sold	3.5	–	3.5	15.8	8.5	24.3
Provision for loss on disposal of stores	–	–	–	(8.6)	(11.9)	(20.5)
	3.5	–	3.5	7.2	(3.4)	3.8
Provision for costs of separation	(9.9)	–	(9.9)	(6.8)	–	(6.8)
Loss on disposal of Bhs	–	18.7	18.7	–	(300.6)	(300.6)
Total exceptional items	(13.8)	18.7	4.9	(47.9)	(348.5)	(396.4)

The tax effect of the exceptional items in 2000/01 was a tax credit of £1.2 million. There was no net tax effect in 1999/2000. The net cash impact of the exceptional items in 1999/2000 was a cash inflow of £43.7 million. Excluding the net proceeds on the disposal of Bhs, cash outflow in the continuing business in 2000/01 as a result of these exceptional items was £24.3 million and the estimated cash outflow in 2001/02 is £14.8 million.

3 Exceptional items continued

Exceptional items charged to the profit from retail operations – Mothercare.com

The group charged £7.4 million in relation to the start up of Mothercare.com during the first half of the year. £3.6 million was charged in the previous year.

Profit on disposal of stores

The property disposal programme has continued and has generated a profit of £3.5 million and cash of £9.5 million during the year. In the prior year Mothercare generated a profit of £7.2 million and cash of £18.6 million on the disposal programme.

Costs of separation of Bhs and Mothercare

The group has charged £9.9 million in relation to the set up of its new distribution facility at Daventry as a result of the impending move from the Bhs Atherstone facility and other costs associated with the separation of IT facilities and the closure of the old Storehouse offices at Marylebone Road. Separation costs in the prior year amounted to £6.8 million.

Loss on disposal of Bhs

On 22 May 2000, the group completed the disposal of Bhs to Measuremarket and received £208.9 million, net of the direct costs of disposal of £3.6 million. Last year the group provided for the estimated loss on the disposal of Bhs at 1 April 2000 of £300.6 million. After taking account of Bhs trading up to the date of the disposal and the final outcome of the negotiations, we have been able to release £18.7 million in the year to March 2001 which has been credited to the profit and loss account as an exceptional item.

4 Interest and other items

	2001 £ million	2000 £ million
Interest payable		
Bank loans and overdrafts (repayable within five years, not by instalments)	(1.1)	(8.1)
Obligations under finance leases (repayable within five years by instalments)	(0.1)	(0.2)
Obligations under property leases (repayable within five years by instalments)	–	(0.6)
Interest receivable	4.3	2.4
	3.1	(6.5)

5 Taxation

The charge for tax on profit on ordinary activities comprises:

	2001 £ million	2000 £ million
UK corporation tax at 30% (2000 – 30%)	–	(16.2)
Overseas taxation	–	0.4
Deferred taxation	0.6	19.9
	0.6	4.1
Adjustment for prior years	(0.6)	(3.8)
Taxation arising on income of the group	–	0.3

Deferred taxation included in the balance sheet comprises:

	Group	
	2001 £ million	2000 £ million
Excess of capital allowances over book depreciation	–	50.0
Other timing differences	–	(5.3)
	–	44.7

The movement on deferred taxation in the year was as follows:

	£ million
Balance at beginning of year	44.7
Disposal of Bhs	(45.3)
Charged to profit and loss	0.6
Balance at end of year	–

The amount of deferred taxation cumulatively not provided, principally arising on capital allowances in the group balance sheet, was £3.7 million (2000 – £1.4 million). The group has UK corporation tax losses which have not been recognised in the profit and loss account and can be offset against future UK taxable profits of £20 million.

6 Dividend on equity shares

	2001 £ million	2000 £ million
Final of 1.5p per share proposed (2000 – nil p)	**1.0**	–

7 Earnings per share

	2001	2000
Weighted average number of shares in issue	**138.8m**	255.2m
Dilution:		
Option Schemes	**0.3m**	–
LTIP Schemes	**–**	1.0m
Diluted weighted average number of shares in issue	**139.1m**	256.2m
Profit/(loss) after tax	**£8.4m**	£(389.7)m
Continuing business profit/(loss) after tax before exceptional items	**£9.0m**	£(5.7)m
Basic earnings/(loss) per share	**6.0p**	(152.7)p
Continuing business earnings/(loss) per share before exceptional items	**6.5p**	(2.2)p
Diluted earnings/(loss) per share	**6.0p**	(152.1)p

Earnings per share have been adjusted to take account of the impact of the capital reduction and subsequent share consolidation on 17 August 2000. The weighted average number of shares in issue in the period and the prior year comparatives have been restated accordingly.

The earnings per share of the continuing business have been shown to eliminate the impact of the disposal of Bhs.

8 Tangible assets

The net book value of tangible fixed assets shown in the group balance sheet comprises:

	Properties, including fixed equipment		Fixtures, fittings, equipment	Assets in course of construction	Total
	Freehold £ million	Leasehold £ million	£ million	£ million	£ million
Cost					
Balance at beginning of year	65.4	473.8	530.6	6.0	1,075.8
Transfers	–	2.8	3.2	(6.0)	–
Additions	0.2	6.6	9.4	0.8	17.0
Disposals	(3.4)	(9.0)	(4.0)	–	(16.4)
Disposal of Bhs	(43.9)	(378.2)	(406.4)	–	(828.5)
Balance at end of year	18.3	96.0	132.8	0.8	247.9
Accumulated depreciation					
Balance at beginning of year	5.4	147.7	302.5	–	455.6
Charge for the year	0.2	4.5	13.8	–	18.5
Disposals and provision for closure of stores	–	(3.8)	(4.1)	–	(7.9)
Disposal of Bhs	(4.0)	(95.0)	(207.0)	–	(306.0)
Balance at end of year	1.6	53.4	105.2	–	160.2
Net book value					
Continuing operations	17.8	43.8	30.1	0.8	92.5
Discontinued operations	42.2	282.3	198.0	5.2	527.7
Balance at beginning of year before provision for loss on disposal	60.0	326.1	228.1	6.0	620.2
Provision for loss on disposal of Bhs					(300.6)
Balance at beginning of year					319.6
Balance at end of year	16.7	42.6	27.6	0.8	87.7

The net book value of leasehold properties includes £42.4 million (2000 – £164.1 million) in respect of short leasehold properties. The net book value of fixtures, fittings and equipment include £nil (2000 – £5.0 million) held under finance leases.

The net book value of tangible fixed assets shown in the Company balance sheet comprises:

	Fixtures, fittings, equipment £ million
Cost	
Balance at beginning and end of year	5.0
Depreciation	
Charge and write-off for the year	5.0
Balance at end of year	5.0
Net book value	
Balance at beginning of year	5.0
Balance at end of year	–

Included in fixtures, fittings and equipment in 2000 was £5.0 million of assets held under finance lease, which have been provided against following the disposal of Bhs.

9 Investments

Investments in the group balance sheet consist of the group's interests in its own shares through an ESOP (Employee Share Ownership Plan). The movement in the year is as follows:

	2001 £ million
Cost of shares at beginning of year	1.5
Scheme of arrangement – reduction in share capital	(1.0)
Acquisition of shares	3.8
	4.3

Investments in the Company's balance sheet consist of its investments in its subsidiary undertakings.

The trading subsidiary undertakings at 31 March 2001 (all wholly owned and all of which are consolidated in the accounts) and their respective countries of incorporation or registration, which in the opinion of the directors principally affected the profits or net assets of the group, are:

	Business	Country of registration
Mothercare UK Limited	Retailing	England
Childrens World Limited	Retailing	England
Storehouse Finance plc*	Finance company	England

* Direct subsidiary of Mothercare plc

Issued share capital represents only ordinary shares or their equivalent.

The principal country of operation for the subsidiary undertakings is the UK. Details of investments which are not significant have been omitted to avoid a statement of excessive length.

The Company's investment in its subsidiary undertakings is as follows:

	2001 £ million	2000 £ million
Cost of investments (less amounts written off £153.0 million)	43.3	63.7
Loans to subsidiary undertakings	70.0	65.8
	113.3	129.5

Movement on investments during the year was as follows:

	2001 £ million
Balance at beginning of year	63.7
Disposal of Bhs	(20.4)
Balance at end of year	**43.3**

Details of the disposal of Bhs are given in Note 3 and on page 31.

10 Debtors

	Group		Company	
	2001 £ million	2000 £ million	2001 £ million	2000 £ million
Trade debtors	13.2	23.0	–	–
Amounts due from subsidiary undertakings	–	–	10.4	38.6
Prepayments and accrued income	15.3	41.9	–	–
Other debtors	3.9	0.3	2.6	0.9
	32.4	65.2	13.0	39.5

Included within group debtors is £nil (2000 – £0.3 million) which is due in over one year. There are no amounts due over one year within the Company.

11 Creditors (amounts falling due within one year and after one year)

	Group 2001 £ million	Group 2000 £ million	Company 2001 £ million	Company 2000 £ million
Amounts falling due within one year				
Bank overdrafts	–	20.7	–	19.6
Bills of exchange and bank loans	–	93.5	–	–
Obligations under finance leases	2.0	2.0	2.0	2.0
Trade creditors	22.3	43.8	–	1.1
Proposed dividend	1.0	–	–	–
Current taxation	11.0	10.5	–	–
Amounts due to subsidiary undertakings	–	–	83.2	44.9
Payroll and other taxes, including social security	1.5	6.0	0.1	0.3
Accruals and deferred income	31.9	71.1	3.7	14.8
Landlords' contributions	1.1	6.6	–	–
Other creditors	0.2	3.2	–	–
	71.0	257.4	89.0	82.7
Amounts falling due after one year				
Bank loans	–	2.5	–	–
Obligations under finance leases	–	2.0	–	2.0
Landlords' contributions	2.4	6.8	–	–
Corporation taxation	–	0.3	–	–
	2.4	11.6	–	2.0

	Group 2001 £ million	Group 2000 £ million	Company 2001 £ million	Company 2000 £ million
Bank loans are analysed as follows:				
Amounts payable within one year	–	91.0	–	–
Amounts payable within two to five years	–	2.5	–	–
	–	93.5	–	–
Obligations under finance leases are analysed as follows:				
Amounts payable within one year	2.1	2.1	2.1	2.1
Amounts payable within two to five years	–	2.1	–	2.1
	2.1	4.2	2.1	4.2
Finance charges allocated to future periods	(0.1)	(0.2)	(0.1)	(0.2)
	2.0	4.0	2.0	4.0

12 Group borrowings

The group uses financial instruments to raise finance for its operations and to manage risk arising from those operations. All transactions in derivatives (principally forward foreign exchange contracts) are taken to manage the risks outlined below. No transactions of a speculative nature are undertaken, and no options are used.

The major financial risks faced by the group are interest risk and exchange rate risk. The board reviews and agrees the policies for managing each of these risks as summarised below. There has been no change since the year-end to the major financial risks faced by the group or to the group's approach to the management of these risks.

As permitted by FRS13 'Derivatives and Other Financial Instruments' short-term debtors and creditors have been excluded from these disclosures.

Finance and interest rate risk

Following the disposal of Bhs and the repayment of its bank debt the group has maintained a cash balance in order to finance its current investment strategy. In both years' cash balances and time deposits were the group's only material financial assets and bear interest at commercial rates based on LIBID in both years.

The interest charge for the year, excluding interest receivable, of £1.2 million was 6.6 per cent when measured against average gross borrowings of £17.7 million (2000 – 5.8 per cent on borrowings of £151.7 million) excluding time deposits.

At the end of the year all of the group's gross borrowings were due to mature within one year. Short-term flexibility is achieved by overdraft facilities to meet the peak requirements of the group before Christmas.

Foreign currency risk

About 9.5 per cent of the sales of Mothercare's UK businesses in 2001 were to franchisees overseas which are all billed in sterling. The group therefore has no currency exposure on these sales. Less than 2 per cent of the group's purchases are made in a foreign currency and the exchange risk is hedged by using forward contracts. The group's policy is to cover 100 per cent of all material exposures on such creditors that arise from time to time. All other purchases sourced from overseas are invoiced in sterling and therefore the group manages the currency exposure by eliminating any adverse movements in sterling against the underlying currencies whilst foregoing the benefit of any upward movements.

Analysis of borrowings by interest rate, currency and maturity

The gross borrowings of the group at 31 March 2001, represent obligations under finance leases of £2.1 million, all of which are in sterling at fixed rates of interest and mature within one year.

All of the Bank borrowings were repaid on the disposal of Bhs on 22 May 2000. The gross borrowings of the group at 1 April 2000 all of which were in sterling, by interest rate exposure, were:

	Total £ million	Floating borrowings £ million	Fixed borrowings £ million
Bank overdrafts	20.7	20.7	–
Bills of exchange and bank loans	96.0	87.0	9.0
Obligations under finance leases excluding finance charges allocated to future periods	4.2	–	4.2
Gross borrowings	120.9	107.7	13.2

The floating rate borrowings comprise sterling denominated bank borrowings that bear interest rates based on LIBOR. The weighted average interest is 6.4 per cent and the weighted average time for which the rate was fixed was one year.

12 Group borrowings continued

Borrowing facilities

The group had £20.0 million committed borrowing facilities available to it at 31 March 2001. These expire in August 2002. The group had £126.8 million undrawn committed borrowing facilities available to it at 1 April 2000. All committed facilities were cancelled on the disposal of Bhs on 22 May 2000.

Currency analysis of net assets

The group's borrowings and net assets (excluding gross borrowings) by currency at 31 March 2001 were:

	2001		2000	
Currency	Net assets excluding gross borrowings by currency of operation £ million	Gross borrowings £ million	Net assets excluding gross borrowings by currency of operation £ million	Gross borrowings £ million
Sterling	128.5	2.1	345.0	120.9
US dollar	0.6	–	1.5	–
	129.1	2.1	346.5	120.9

The amounts shown in the previous table are after taking into account forward foreign currency contracts and the group had no material foreign currency exposures at either year end.

Fair values

Set out below is a year-end comparison of current book values of all the group's financial assets and liabilities by category.

Where market prices are not available for a particular instrument, fair values have been calculated by discounting cash flows at prevailing interest and exchange rates.

	2001		2000	
	Book values £ million	Fair values £ million	Book values £ million	Fair values £ million
Cash and time deposits	36.8	36.8	51.3	51.3
Other short-term financial assets	1.3	1.3	1.5	1.5
Forward currency contracts	3.7	3.7	2.3	2.3
Financial liabilities	2.1	2.1	120.9	122.0

Market price risk

The group monitors interest rate risk by determining the effect on profit before tax of a range of possible changes in interest rates. Assuming no changes to the borrowings described above, it is estimated that a rise of one percentage point in interest rates would have reduced 2000/01 continuing business profit before tax and exceptionals by approximately 0.1 per cent.

13 Provisions for liabilities and charges

	Group 2001 £ million	Group 2000 £ million
Deferred taxation (note 5)	–	44.7
Other provisions	4.4	17.0
	4.4	61.7

The movement on other provisions can be analysed as follows:

	Disposal provisions £ million	Exceptional provisions £ million	Total £ million
Balance at 1 April 2000	0.3	16.7	17.0
Utilised in year	(0.2)	(6.1)	(6.3)
Disposal of subsidiary	–	(6.3)	(6.3)
Balance at 31 March 2001	0.1	4.3	4.4

The disposal provisions arose on the disposal of Habitat in 1992 and Blazer in 1996. The provisions included the cost of disposing of leases which remained with the group and the balance represents the remaining costs under those leases where the group still has some exposure. The exceptional provisions principally represent the costs of the Mothercare store disposal programme.

14 Called-up share capital

The authorised share capital is represented by 95,767,413 ordinary shares of 50p each (2000 – 549,500,000 ordinary shares of 10p each). The called-up share capital, all fully paid, is as follows:

	Number of shares	£ million
Balance at 1 April 2000	424,087,745	42.4
Scheme of arrangement: reduction in share capital	(70,662,935)	(7.1)
share consolidation	(282,739,848)	–
Balance at 31 March 2001	70,684,962	35.3

On 17 August 2000, 70,662,935 shares were cancelled and 150p per cancelled share returned to shareholders. The total impact was to reduce shareholders' funds by £106.0 million and consolidated net cash by £105.1 million. The cost of this was charged firstly to share capital, then to share premium and the profit and loss account. Following the repayment, the nominal value of the shares was consolidated into one 50p share for every five 10p shares held.

15 Reserves

The movement on reserves is as follows:

	Group		Company	
	Profit and loss account £ million	Share premium account £ million	Profit and loss account £ million	Share premium account £ million
Balance at 1 April 2000	151.5	31.7	15.2	31.7
Profit for the financial year	8.4	–	98.2	–
Dividends paid and proposed	(1.0)	–	(1.0)	–
Scheme of arrangement – reduction in share capital	(67.2)	(31.7)	(67.2)	(31.7)
Balance at 31 March 2001	91.7	–	45.2	–

The Company's realised gains and losses are the same as the profit for the financial year and the historic cost profit and loss.

The cumulative amount of goodwill resulting from acquisitions, net of amounts written back on subsequent disposals, arising since the formation of Storehouse, which has been written off, is £30.1 million (2000 – £30.1 million).

16 Commitments

	Group 2001 £ million	Group 2000 £ million
Contracts for capital expenditure	**0.6**	26.7

Current annual rental commitments of the group under operating leases are as follows:

	Buildings		Other	
	2001 £ million	2000 £ million	**2001 £ million**	2000 £ million
Leases which expire				
– within one year	**0.2**	0.3	**0.6**	1.3
– between two and five years	**2.0**	2.6	**1.0**	3.6
– over five years	**40.3**	110.0	**–**	0.6
	42.5	112.9	**1.6**	5.5

The Company has committed to support certain of its subsidiary undertakings and has banking cross guarantees with certain of its principal subsidiary undertakings.

Pensions

The group has operated two defined benefit pension schemes for its employees during the year.

The majority of the assets of each scheme are held in a separate trustee common investment fund, the Mothercare Pension Investment Fund. The pension costs relating to the schemes were assessed in accordance with the advice of qualified actuaries using primarily the projected unit and current unit methods. The latest valuations were carried out at 31 March 2000. The next actuarial valuation will be carried out as at 1 April 2003.

The assumptions which have the most significant effect on the results of the valuation are set out below:

Rate of return on investments	8.25 per cent
Rate of increase in salaries	6.0 – 7.0 per cent
Rate of increase in pensions	3.5 per cent

The aggregate market value of the investments at 31 March 2000 was £136.2 million and the actuarial values were sufficient to cover between 135 per cent and 162 per cent (average 148 per cent) of the benefits that had accrued to members after allowing for expected future increases in earnings.

The total pension cost for the group is £0.1 million (2000 – £0.1 million) and includes a credit of £3.0 million (2000 – £13.3 million) in respect of amortisation of pension surpluses arising in earlier years which are being allocated to the remaining estimated service lives of members of between six and 15 years.

For the protection of members' interest, the group has appointed three trustees, two of whom are independent of the Company. To maintain this independence, the trustees and not the group are responsible for appointing their own successors.

17 Contingent liability

A warranty claim of £3.7 million has been asserted against the group by Measuremarket Limited in connection with their acquisition of Bhs from the Company in May 2000. On the basis of information currently available, the directors are of the considered opinion that no provision for this claim should be recorded in the accounts.

18 Employees' and executive share schemes

The Mothercare (formerly Storehouse) 1995 Executive Share Option Scheme

Under this scheme full-time executives were granted options to acquire shares in the Company. Further details of the scheme are given in the report of the remuneration committee. No further options are to be granted under this scheme.

The Mothercare Sharesave Scheme (SAYE)

This scheme enables all employees to acquire options over ordinary shares of the Company at 80 per cent of market price in conjunction with a save-as-you-earn contract. The options are exercisable firstly three years after the date of commencement (usually two months after the date of grant) of the SAYE contract.

In accordance with UITF Abstract 17 employee share schemes, the group has taken advantage of the exemption in relation to the SAYE scheme.

The Mothercare 2000 Executive Share Option Scheme

Under this scheme full-time executives are granted options to acquire shares in the Company. Further details of the scheme are given in the report of the remuneration committee. Options are usually granted each year after the announcement of the Company's full year results.

Mothercare Employee Trust

The Mothercare Employee Trust is a discretionary trust for the benefit of employees and former employees (and their dependants) of the Company and its subsidiaries. The trust may buy shares in the market or subscribe for new shares in the Company; for example it may buy shares for awards under any of the share schemes. The trust has waived the payment of any dividends.

Outstanding options at 31 March 2001 under the group's share option schemes were as follows:

	Ordinary shares 2001	Date of grant	Option price (p)
Mothercare 1995 executive share option scheme	**1,410,096**	June 00	123.71*
Mothercare 2000 executive share option scheme	**545,454**	Jan 01	165.00
	141,809	Feb 01	204.50
Mothercare sharesave scheme	**424,359**	Dec 00	125.00
	2,521,718		

* Rebased to reflect the effect of the share consolidation and return of capital on 17 August 2000.

All options outstanding at 1 April 2000 lapsed on 17 August 2000 as a result of the scheme of arrangement on that date.

Five year record

Summary of turnover and profit

	2001 £ million	2000 £ million	1999 £ million	1998 £ million	1997 £ million
Turnover					
Continuing – Mothercare	**419.1**	443.7	472.4	481.3	441.8
Discontinued	**89.9**	822.4	856.2	853.7	807.9
Total	**509.0**	1,266.1	1,328.6	1,335.0	1,249.7
Profit/(loss) from retail operations before exceptional items					
Continuing – Mothercare	**7.1**	0.4	17.9	31.4	30.8
Discontinued	**(6.7)**	13.1	86.4	96.5	88.2
Before exceptional items	**0.4**	13.5	104.3	127.9	119.0
Exceptional items	**4.9**	(396.4)	(18.3)	–	(20.5)
Interest and other items	**3.1**	(6.5)	(5.7)	(2.8)	(0.7)
Profit before taxation	**8.4**	(389.4)	80.3	125.1	97.8
Taxation	**–**	(0.3)	(26.5)	(35.0)	(34.0)
Profit/(loss) for the financial year	**8.4**	(389.7)	53.8	90.1	63.8
Earnings per share*	**6.0p**	(152.7)	7.0	11.7	8.4
Dividend per share	**1.5p**	–	9.1p	9.0p	8.1p

Summary of balance sheets

	2001	2000	1999	1998	1997
Fixed assets	**92.0**	321.1	665.2	613.8	546.5
Net current assets	**41.8**	(22.2)	8.8	33.7	53.3
Creditors falling due after one year	**(2.4)**	(11.6)	(27.3)	(32.6)	(43.9)
Provisions for liabilities and charges	**(4.4)**	(61.7)	(31.4)	(16.4)	(12.7)
Total net assets	**127.0**	225.6	615.3	598.5	543.2

Other key statistics (2001 key statistics represent the Mothercare business only and are not comparable with previous years)

	2001	2000	1999	1998	1997
Share price at year-end (p)	**206.75**	37.0	125.5	254.0	236.5
Net cash (debt)/equity (%)	**27.4**	(30.8)	(14.8)	(8.6)	(7.0)
Capital expenditure	**11.2**	92.5	140.2	124.1	94.1
Depreciation	**11.4**	66.6	63.2	55.1	45.3
Rents	**41.3**	111.0	108.0	98.5	90.9
Number of stores	**252**	427	494	485	481
Net selling space (000s sq ft)	**1,980**	6,423	6,774	6,520	6,349
Average number of employees	**5,353**	20,130	20,686	20,994	20,841
Average number of full-time equivalents	**3,167**	10,620	10,747	10,795	10,866

The results for 1997 to 1998 have been restated in accordance with FRS 14 Earnings per Share.

*Earnings per share has been adjusted to take account of the impact of the capital reduction and subsequent consolidation on 17 August 2000.

Shareholder analysis

A summary of holdings as at 17 May 2001 is as follows:

	Storehouse ordinary shares	
	Number million	Number of holders
Banks, insurance companies and pension funds	**0.1**	**15**
Nominee companies	**59.2**	**1,387**
Other corporate holders	**4.5**	**220**
Individuals	**6.9**	**31,785**
	70.7	**33,407**

As can be seen from the above analysis, many shares are registered in the name of a nominee company as the legal owner. The underlying holder of shares through a nominee account is the beneficial owner of these shares, being entitled to the capital value and the income arising from them. An analysis of these nominee holdings shows that the largest underlying holders are pension funds, with unit trusts and insurance companies the other major types of shareholder.

Individual shareholders owning 500 or more Mothercare shares are entitled to a 10 per cent discount in defined denominations on up to £500 of merchandise in Mothercare stores. If an individual shareholding of 500 or more shares is not on the share register but is held through a nominee or trustee, the book of vouchers can nevertheless be obtained by contacting the company secretary at the registered office.

Share price data

	2001	2000*
Share price at 30 March 2001 (31 March 2000)	**206.75p**	37.0p
Market capitalisation	**£146.1m**	£156.9m
Share price movement during the year		
high	**242.75p**	156.5p
low	**89.87p**	30.0p

* The share prices have not been amended to take account of the capital reduction scheme and share consolidation that took place on 17 August 2000.

All share prices are quoted at the mid-market closing price. For capital gains tax purposes:

(i) the market value on 31 March 1982 of one ordinary share in British Home Stores PLC is 155p and of one ordinary share in Habitat Mothercare PLC is 133p; and

(ii) the market value of each Mothercare plc 50p ordinary share immediately following the reduction of capital and consolidation for the purpose of allocating base cost between such shares and the shares disposed of as a result of the reduction is 135p.

Registrars and transfer office

Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6DA.

Shareholder information

Financial calendar

	2001
Annual General Meeting	20 July
Payment of final dividend	17 August
Announcement of interim results	23 November

	2002
Payment of interim dividend	February
Preliminary announcement of results for 52 weeks to end March 2002	end-May
Issue of report and accounts	mid-June
Annual General Meeting	mid-July
Payment of final dividend	mid-August

Registered office and head office

Cherry Tree Road, Watford, Hertfordshire WD24 6SH
Telephone 01923 241000
www.mothercare.com
Registered number 1950509

Company secretary

Clive E Revett

Registrars

Administrative enquiries concerning shareholders in Mothercare plc for such matters as the loss of a share certificate, dividend payments or a change of address should be directed, in the first instance, to the registrars:

Lloyds TSB Registrars
The Causeway, Worthing, West Sussex BN99 6DA
Telephone 0870 600 3965
www.lloydstsb-registrars.co.uk

Low cost share dealing service

A postal share dealing service is available through the Company's stockbrokers for the purchase and sale of Mothercare plc shares. Further details can be obtained from:

Cazenove & Co.
12 Tokenhouse Yard, London EC2R 7AN
Telephone 020 7606 1768

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