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After a very difficult period for the business, the sales picture is now positive and the stores well stocked for Christmas trading. Gross margins are now benefiting from a less promotional stance. The high cost of warehousing and distribution continues to be a major impediment, and new options to bring it back to acceptable levels are being urgently considered.

Group sales up 0.8 per cent to £228.0 million (2001 – £226.2 million), UK like-for-like sales down 2.1 per cent, International sales up 29.5 per cent, Direct sales up 11.0 per cent.

Gross margin down by 0.8 percentage points, affected by discounting, product and business mix.

Cost increases of 13.8 per cent, driven by warehouse and distribution.

Loss before tax and exceptional items £10.0 million (2001 – £4.8 million profit).

UK like-for-like sales in the five weeks to 15 November 2002 now positive, 1.4 per cent, and at higher gross margins.

28 weeks ending 12 October 2002

Group sales in the first half increased by 0.8 per cent to £228.0 million (2001 – £226.2 million). The gross margin declined by 0.8 percentage points. This was due to a combination of discounting, product mix and growth in the lower margin International business. After a 13.8 per cent increase in costs, the group made an operating loss of £9.9 million (2001 – £3.9 million profit) before exceptional items. The loss before tax and exceptionals was £10.0 million (2001 – £4.8 million profit).

An exceptional credit of £10.0 million, a non-cash release of a corporation tax provision relating to a property reorganisation in 1996/7, is explained in note 2 to the group profit statement.

Basic and diluted earnings per share were 0.0p (2001 – 1.0p). The loss per share before exceptional items was 14.9p (2001 – earnings per share 7.1p). As a result of the performance in the first half, no interim dividend will be paid, (2001 – 1.0p).

Working capital requirements have been held since the year end, with excess stock from the Spring/Summer being successfully traded out through the clearance stores. Capital investment of £8.9 million in the first half reflects the

ongoing new store programme, with five out of town stores opened in the first half, and the development of the model for the high street. The Company has no long-term debt and overall net debt of £0.9 million (being cash at bank and in hand of £2.3 million and an overdraft of £3.2 million).

UK stores

Sales in the UK stores fell by 2.3 per cent to £195.1 million (2001 – £199.8 million), 2.1 per cent down on a like-for-like basis. Sales of Clothing, especially babywear, under-performed through Spring/Summer, while warm weather in September held back sales of the Autumn ranges until the last three weeks of the half. Hardware (home, travel and toys) was flat for the first six months, but has performed well since September against weak comparatives arising from the disruption after the warehouse move in August 2001.

The average gross margin in the UK stores fell as a result of the weaker sales of Clothing compared to other, lower margin, product. In addition, discounting was required to dispose of residual Spring/Summer clothing lines successfully, initially through the main chain and, from August, through five clearance stores converted for the purpose. Profitability was also

affected by increased warehouse and distribution costs. As a result, UK stores made an operating loss of £12.7 million (2001 – £2.1 million profit).

Mothercare International

Mothercare International benefited from the focus on a small number of core territories. Most franchises were ahead with the Middle East strongly up. Overall, International sales increased by 29.5 per cent to £24.7 million (2001 – £19.1 million) against weak comparatives, and the order book for next Spring is well ahead. Profitability improved strongly with operating profits increasing to £2.8 million (2001 – £1.9 million).

Mothercare Direct

Mothercare Direct, the catalogue and website business, continued to make good progress both in its own right, and in enhancing the range of product that can be made available to customers in store. The business generated by Mothercare.com, while still small, grew by 43 per cent against strong comparatives. Sales by Mothercare Direct in total increased by 11.0 per cent to £8.1 million (2001 – £7.3 million), and the business broke even against losses of £0.1 million in the comparable period.

Stores – at 12 October 2002

	Stores	Total selling area (000's sq ft)
Out of town	68	1,109
High Street	179	857
Total UK stores	247	1,966
International (franchise stores)*	166	400
Total	413	2,366

Stores – at 13 October 2001

Total UK stores	248	1,946
Total (incl. International)	415	2,323

*International (franchise stores)	Europe	Middle East	Far East	Other	Total
	69	62	32	3	166

Product – % of total UK sales



Employees – full time equivalents at 12 October 2002

UK stores	2,634
Support	307
Direct	88
International	17
Total	3,046
Total at 13 October 2001	3,104

Development of the business

Warehousing and distribution

The primary focus in warehousing and distribution over the past twelve months has been to restore service levels and meet the stock volume requirements of the business, particularly during the all-important peak periods. This objective has been achieved, but at a very high cost of £18.3 million (2001 – £9.7 million). Various initiatives were jointly undertaken with Tibbett & Britten to drive down costs in the Daventry warehouse and to improve operational efficiency, but these did not result in the expected level of improvement. As a consequence, warehouse and distribution costs have not reduced as anticipated and continue to run at an unacceptable 8.0 per cent of sales. Options to address this issue are currently being intensively examined. In the meantime, the Daventry warehouse will continue to be supported by the second warehouse at Coventry, operated by Exel, which has been retained until March 2004.

Ranging and sourcing

Under the new Product Director appointed in May 2002, the Autumn/Winter ranges were rationalised wherever possible to reduce potential end of season markdown. There is much work still to be done but the

number of options is being substantially reduced as too many options lead to fragmented ranges, operational complexity and excessive cost. Action already taken will see further progress in the Spring.

Design and technical input is being increased, and communication with the customer based on the excellence of the product, through the campaign *'because little things matter'*.

The merchandise sourcing strategy continues to develop with sourcing in more depth, across fewer options, from a reduced supplier base to unlock further potential in the intake margin across all product categories.

Store development

Out of town stores

Five stores were opened in the format proven in the blueprint stores in Kew, Milton Keynes and Rotherham, which themselves continue to show improved sales densities. The new locations are Bradford, Leicester, Manchester (Eccles), Newbury and Walsall, while Bristol opened at the end of the previous financial year. The search for high quality outlets in the right locations remains a key priority but the current shortage of such sites means that there may be no new openings in the second half.

High street stores

The first stage in the development of a high street format for the future was unveiled in the refurbished Hammersmith store in early October. Whilst still early days, sales growth is currently ahead of planned performance in both Clothing and Hardware. The store focus is on delivering specialist service, improved facilities and access to a much wider range of merchandise through in-store, easy-to-use ordering linked to the home delivery service of Mothercare Direct. The high street model will be refined as we learn from the Hammersmith store's trading performance over Christmas and the January sale period, prior to remodelling further high street stores in the next financial year.

Management changes

Ben Gordon assumes the role of chief executive officer on 2 December 2002. On that date Mark McMenemy will resume his role as finance director having acted as chief executive since 15 July 2002. As previously announced, Ian Peacock became chairman on 1 November 2002.

Operating review

continued

Current trading

Group sales in the five weeks ending 15 November have increased by 6.7 per cent. All sales channels are showing improvement. Within the total increase, UK like-for-like sales are ahead by 1.4 per cent. The business is well positioned for Christmas trading and inventory is currently at satisfactory levels, although it is early in the second half and peak trading is still to come. The form of trading is substantially different to last year when the business was in distress with a heavy reliance on promotion. A greater proportion of the merchandise is now being sold at full price and this is having a beneficial effect on gross margins.

Trading update

A trading update will be published in January 2003 after the Christmas and early January sales period.

Biographies



Ian Peacock (55)
Chairman

Ian is 55 years old and lives in West London. He was appointed to the board as a non-executive director on 1 August 2002, and became chairman on 1 November.

He is currently Chairman of MFI Furniture Group plc, and a non-executive director of I-document systems plc, Lombard Risk Management plc, Norwich and Peterborough Building Society and a Trustee of the WRVS.

His early career was as an economist within Unilever, following which he held a number of senior management positions in the banking industry in London, New York and Asia including service with BZW and Kleinwort Benson. From 1998 to 2000, Ian was a special adviser to the Bank of England.

Ian is married with one son.



Ben Gordon (43)
Chief executive

Ben is 43 years old and lives in Buckinghamshire. He joins the business on 2 December 2002 as chief executive.

Ben's early career was as a graduate engineer. In 1988, following an MBA at INSEAD, he joined L'Oreal S.A. in Paris. He subsequently joined WH Smith group in a number of senior management positions in its US and European divisions, including Managing Director of WH Smith Travel Retail. Since 2000, Ben has been Senior Vice President & Managing Director, Disney Stores Europe and Asia.

Ben is married with three young children.

Group profit statement

28 weeks ended 12 October 2002				
	Note	Before exceptional items £ million	Exceptional items £ million	Total £ million
Turnover		228.0	–	228.0
(Loss)/profit from retail operations		(9.9)	–	(9.9)
Exceptional items	2	–	–	–
Interest	3	(0.1)	–	(0.1)
(Loss)/profit before taxation		(10.0)	–	(10.0)
Taxation	2,4	–	10.0	10.0
(Loss)/profit after taxation		(10.0)	10.0	–
Dividends	5			–
Retained profit/(loss)				–
Dividend per share	5			0.0p
Earnings per share	6			0.0p
Earnings per share diluted	6			0.0p

Reconciliation of movements in shareholders' funds

	28 weeks ended 12 October 2002 £ million
Profit for the financial period	–
Dividends	–
Movement in shareholders' funds	–
Opening shareholders' funds	125.4
Closing shareholders' funds	125.4

28 weeks ended 13 October 2001

	Before exceptional items £ million	Exceptional items £ million	Total £ million	52 weeks ended 30 March 2002 £ million
	226.2	—	226.2	426.9
	3.9	—	3.9	3.0
	—	(4.1)	(4.1)	(4.1)
	0.9	—	0.9	1.2
	4.8	(4.1)	0.7	0.1
	—	—	—	—
	4.8	(4.1)	0.7	0.1
			(0.7)	(1.7)
			—	(1.6)
			1.0p	2.5p
			1.0p	0.2p
			1.0p	0.2p

28 weeks ended 13 October 2001
£ million

52 weeks ended 30 March 2002
£ million

	0.7	0.1
	(0.7)	(1.7)
	—	(1.6)
	127.0	127.0
	127.0	125.4

Group balance sheet

	Note	12 October 2002 £ million	13 October 2001 £ million	30 March 2002 £ million
Fixed assets				
Tangible fixed assets		90.3	85.3	88.6
Investments		5.0	4.9	5.0
		95.3	90.2	93.6
Current assets				
Stocks		51.8	43.7	55.1
Debtors		31.2	27.4	35.2
Cash at bank and in hand		2.3	32.6	12.3
Creditors – amounts falling due within one year	7	(50.4)	(57.1)	(65.3)
Net current assets		34.9	46.6	37.3
Creditors – amounts falling due after more than one year	7	(2.7)	(2.6)	(2.8)
Provisions for liabilities and charges	8	(2.1)	(7.2)	(2.7)
Net assets		125.4	127.0	125.4
Capital and reserves attributable to equity interests				
Called-up share capital		35.3	35.3	35.3
Profit and loss account		90.1	91.7	90.1
		125.4	127.0	125.4

Group cash flow

	28 weeks ended 12 October 2002 £ million	28 weeks ended 13 October 2001 £ million	52 weeks ended 30 March 2002 £ million
(Loss)/profit from retail operations	(9.9)	3.9	3.0
Depreciation	6.5	6.2	11.6
Working capital	0.8	(0.6)	(11.5)
Exceptional costs	(0.6)	(6.9)	(13.6)
Net cash flow from operating activities	(3.2)	2.6	(10.5)
Returns on investments and servicing of finance	(0.1)	0.9	1.2
Taxation	–	0.1	(0.1)
Capital expenditure	(8.9)	(4.8)	(10.7)
Trading cash flow	(12.2)	(1.2)	(20.1)
Acquisitions and disposals			
Acquisition of own shares by Employee Trust	–	(0.5)	(0.7)
Equity dividends paid	(1.0)	(1.0)	(1.7)
	(13.2)	(2.7)	(22.5)
Management of liquid resources	6.1	10.0	3.9
Financing	–	(1.5)	(2.0)
(Decrease)/increase in cash in the period	(7.1)	5.8	(20.6)

Reconciliation of net cash flow to movement in net funds

	28 weeks ended 12 October 2002 £ million	28 weeks ended 13 October 2001 £ million	52 weeks ended 30 March 2002 £ million
(Decrease)/increase in cash for the period	(7.1)	5.8	(20.6)
Cash flow from liquid resources	(6.1)	(10.0)	(3.9)
Cash flow from financing	–	1.5	2.0
Movement in net (debt)/funds in the period	(13.2)	(2.7)	(22.5)
Net funds at the beginning of the period	12.3	34.8	34.8
Net (debt)/funds at the end of the period	(0.9)	32.1	12.3

Analysis of net cash

	28 weeks ended 12 October 2002 £ million	28 weeks ended 13 October 2001 £ million	52 weeks ended 30 March 2002 £ million
Cash at bank and in hand	2.3	32.6	6.2
Overdrafts	(3.2)	–	–
Time deposits	–	–	6.1
Obligations under finance leases			
Short term	–	(0.5)	–
	(0.9)	32.1	12.3

1 Accounting policies

This interim report has been prepared under the historic cost convention and using accounting policies which are consistent with previous years.

2 Exceptional items

A corporation tax provision of £10.0 million made in a prior year has been released in the period as an exceptional credit to the profit and loss account. This provision related to outstanding tax issues from the reorganisation of various property interests conducted in 1996/7. These have now been resolved with the Inland Revenue.

In the 28 weeks to 13 October 2001 exceptional costs of £4.1 million were charged to profit before taxation in relation to the additional costs incurred as a result of the warehouse transition. This was the last stage of the reorganisation in relation to the disposal of Bhs that occurred in May 2000.

3 Interest

	28 weeks ended 12 October 2002 £ million	28 weeks ended 13 October 2001 £ million	52 weeks ended 30 March 2002 £ million
Interest comprises			
Interest receivable	0.1	1.0	1.3
Interest payable	(0.2)	–	–
Obligations under finance leases	–	(0.1)	(0.1)
	(0.1)	0.9	1.2

4 Tax

Current tax is calculated at nil per cent (2001 – nil per cent) being the estimated effective rate of tax on the expected result for the 52 weeks ending 29 March 2003.

The only significant timing differences impacting the group are accelerated capital allowances and tax losses generated in prior years which are available to offset future profits.

The group had tax losses carried forward of approximately £44 million at 12 October 2002 (30 March 2002 – £35 million). Tax losses have been recognised to the extent of any deferred tax liabilities arising primarily from accelerated capital allowances.

No further deferred tax asset has been recognised for the remaining losses of £30 million (2001 – £17 million) as the directors are of the opinion that there is sufficient uncertainty over the recoverability of these losses against future taxable profits such that in accordance with FRS 19 it is not appropriate to recognise any further asset at this time. This position will be reviewed at the year end and future balance sheet dates.

A corporation tax provision of £10.0 million made in a prior year, has been released in the period, as set out in note 2.

5 Dividend

No interim dividend is to be paid (2001 – 1.0p per share).

6 Earnings per share

	28 weeks ended 12 October 2002	28 weeks ended 13 October 2001	52 weeks ended 30 March 2002
Weighted average number of shares in issue	67.1m	67.2m	67.2m
Dilution			
Option schemes	0.0m	1.1m	0.9m
Diluted weighted average number of shares in issue	67.1m	68.3m	68.1m
Profit after tax	£0.0m	£0.7m	£0.1m
Earnings per share			
Basic	0.0p	1.0p	0.2p
Diluted	0.0p	1.0p	0.2p

7 Creditors

	28 weeks ended 12 October 2002 £ million	28 weeks ended 13 October 2001 £ million	52 weeks ended 30 March 2002 £ million
Due within one year			
Overdrafts	3.2	–	–
Obligations under finance leases	–	0.5	–
Trade creditors	26.1	17.5	27.0
Proposed dividend	–	0.7	1.0
Corporation tax	0.9	11.1	10.9
Payroll and other taxes, including social security	1.2	0.9	1.4
Accruals and deferred income	17.5	25.0	23.6
Landlords' contributions	1.4	1.3	1.2
Other creditors	0.1	0.1	0.2
	50.4	57.1	65.3
Due after one year			
Landlords' contributions	2.7	2.6	2.8
	2.7	2.6	2.8

8 Provisions for liabilities and charges

	Disposal provisions £ million	Reorganisation provisions £ million	Total £ million
Opening balance as at 31 March 2002	0.1	2.6	2.7
Utilised	–	(0.6)	(0.6)
Closing balance as at 12 October 2002	0.1	2.0	2.1

The reorganisation provisions principally represent the costs of the Mothercare store disposal programme provided in previous years.

This interim report was approved by the directors on 21 November 2002. Results for the two half years have not been audited, but have been reviewed by the auditors. The financial information contained in the interim accounts does not constitute statutory accounts as defined in Section 240 of the Companies Act. The full year comparatives were extracted from the full group accounts which have been filed with the Registrar of Companies together with an unqualified auditors' report. All shareholders will receive a copy of this statement.

Introduction

We have been instructed by the Company to review the financial information for the 28 weeks ended 12 October 2002 which comprises the group profit statement, the group balance sheet, the group cash flow and related notes 1 to 8. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Mothercare plc management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the 28 weeks ended 12 October 2002.

Deloitte & Touche
Chartered Accountants, London
21 November 2002

Shareholder information

Financial calendar	2003
Preliminary results announcement for the year ended 29 March 2003	22 May
Mailing of Annual Report and Accounts	mid June
Annual General Meeting	mid July
Announcement of results for the 28 weeks ended 11 October 2003	20 November

Registered office and head office

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Registered number 1950509

Company secretary

Clive E Revett

Registrars

Administrative enquiries concerning shareholders in Mothercare plc such 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 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. Ltd
12 Tokenhouse Yard, London EC2R 7AN
Telephone 020 7606 1768

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