

OTTAKAR'S PLC
ANNUAL REPORT AND ACCOUNTS
YEAR ENDING JAN 2002

COMPANY NUMBER 02133199



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Directors' Report

The Directors present their annual report and the audited financial statements for the 52 weeks ended 26 January 2002.

Principal activities

The Group's principal activity continues to be the retail sale of books.

Business review

A review of the period's results and prospects is included in the Chairman's Statement, Operating Review and Financial Review on pages 3 to 11.

Results and dividends

The profit of the Group for the 52 weeks ended 26 January 2002 is shown in the Consolidated Profit and Loss Account on page 22.

The Directors recommend a final dividend of 2.0 pence per share (2001: 1.5 pence per share) giving a total dividend of 3.2 pence per share (2001: 2.5 pence per share) for the 52 weeks to 26 January 2002.

Directors

The Directors who held office during the year were as follows:

Non-Executive Directors:

PM Dunne (Chairman and Non-Executive Director)

MW Fane (Independent Non-Executive Director)

CJ Thornton (Senior Independent Non-Executive Director)

Executive Directors:

JA Heneage (Managing Director)

EM Knighton (Finance Director)

Employees

The Group places a strong emphasis on maintaining good relationships with its employees, who it regards as essential to the Group's future prosperity. Where appropriate, employees are provided with information on matters of interest and concern to them and kept apprised of the financial progress of the Group. We consult with our employees on a regular basis so that their views can be taken into account when making decisions that affect their interests.

The Group provides equality of opportunity for all employees and in particular ensures that fair selection and development procedures apply. The Group at all times gives full and fair consideration to applications for employment from disabled persons, having regard to their aptitude and abilities. If an employee were to become disabled, every effort would be made for them to continue in employment and to receive appropriate training.

It is the Group's policy to grant options to all its senior employees in order to attract, retain and motivate the best quality staff.

Directors' Report continued

Donations

During the period, the Group made charitable donations of £6,500 (2001: £2,100). There were no political donations during the period (2001: £nil).

Policy on payment to suppliers

The Group does not follow any particular code on payment practice. Where the supply of goods and services is satisfactory and in the absence of any dispute, the Company's and the Group's policy is to pay its suppliers in accordance with the terms agreed prior to the supply of goods and services. Where no such agreement exists, the Company's and the Group's policy is to pay suppliers in accordance with the invoice terms. The Company and Group's average payment period at 26 January 2002 was 63 days (2001: 67 days).

Substantial shareholdings

The Company has been notified of the following persons who are interested directly or indirectly in 3% or more of the issued share capital of the Company at 26 March 2002.

	% of ordinary shares held	No. of ordinary shares held
ABN AMRO Asset Management Limited	14.0	2,820,682
JA Heneage	11.8	2,390,835
Graphite Capital	7.8	1,581,071
Ivory and Sime UK Discovery Trust	6.3	1,267,643
PM Dunne	5.6	1,136,100

REPORT OF THE BOARD OF DIRECTORS ON REMUNERATION

The Remuneration Committee comprises the three Non-Executive Directors, and is chaired by C J Thornton. Contrary to the provisions of the Combined Code the committee is not made up exclusively of independent non-executive directors as PM Dunne is not deemed to be independent under the provisions, being co-founder of the Company and holding more than 5% of the issued share capital. In framing its remuneration policy, the Remuneration Committee has given full consideration to the matters set out in the Combined Code.

The Remuneration Committee is required to review the terms and conditions of employment of the Executive Directors, including levels of remuneration and other benefits. Recommendations are made to the Board as appropriate. The Board fixes the remuneration of the Non-Executive Directors.

Remuneration Policy

The remuneration policy for Executive Directors is determined by a variety of factors including individual performance, the need to attract, retain and motivate directors, and the general trend of remuneration packages for similar sized quoted companies within the retail sector.

Directors' remuneration is aligned with shareholder interest to the extent that bonuses and the exercise of share options are dependent in part upon the overall profitability of the Company.

Directors' Report continued

Directors' Remuneration

The remuneration receivable by each Director during the period was as follows:

	Fees £000	Salary £000	Bonus £000	Benefits in Kind £000	2002 Total £000	2002 Pension £000	2001 Total £000	2001 Pension £000
Executive								
JA Heneage	–	126	24	8	158	13	152	12
EM Knighton	–	92	16	1	109	9	94	8
SJ Warner	–	–	–	–	–	–	12	1
Non-Executive								
PM Dunne	–	16	–	9	25	–	29	–
MW Fane	8	8	–	–	16	–	17	–
CJ Thornton	–	16	–	–	16	–	16	–
Total	8	258	40	18	324	22	320	21

Bonus Scheme

All Executive Directors participate in the Executive Bonus Scheme, payment of which is based upon Company and personal performance. The maximum bonus which an Executive Director may earn under the Executive Bonus Scheme is 40% of basic salary.

Directors' Interests in Share Capital

The Directors who held office at the end of the financial year held directly, or through family trusts, the following interests in the share capital of the Company:

	At 26 January 2002 5p Ordinary Shares	At 27 January 2001 5p Ordinary Shares
Executive		
JA Heneage	2,390,835	2,370,835
EM Knighton	56,951	51,004
Non-Executive		
PM Dunne	1,136,100	1,102,600
MW Fane	361,160	361,160
CJ Thornton	28,171	18,171

Directors' Report continued

Directors' Interests in Share Options

The number of share options attributable to each Director at 26 January 2002 was as follows:

	As at 27 January 2001	Granted in the period	Lapsed in the period	As at 26 January 2002	Exercise Price	Exercise Period
Executive						
JA Heneage						
Second Unapproved scheme	99,800	–	–	99,800	153p	April 2001 - April 2005
EM Knighton						
Approved scheme	76,923	–	–	76,923	39p	Feb 2003 - Feb 2010
Second Unapproved scheme	73,077	–	–	73,077	39p	Feb 2003 - Feb 2007

None of the other Directors held any options over the shares. There have been no changes in the Director's shares or options since the year end, up to the date of this report.

Approved Scheme

The exercise of options under the Approved Scheme is conditional upon the satisfaction of a performance target requiring an increase in the Group's earnings per share in any continuous three years from the date of grant equal to or exceeding the increase in the Retail Price Index – All Items, plus 5% per annum compound.

Second Unapproved Scheme

The exercise of options under the Second Unapproved Scheme is conditional upon the satisfaction of a performance target requiring an increase in the Group's earnings per share in any continuous three years from the date of grant equal to or exceeding the increase in the Retail Price Index – All Items, plus 5% per annum compound.

The mid-market quoted share price at 26 January 2002 was 136.5p. During the 52 weeks to 26 January 2002, the share price traded in the range between 81p and 157.5p.

Employee Benefit Trust

Ottakar's operated an employee benefit trust during the year funded by a loan from the company to acquire shares. The trust acquired 260,000 shares (1.29%) for a total nominal value of £13,000 with total funding to date being £350,000. All the shares held by the employee benefit trust have been issued as employee share options under the Approved Scheme and Second Unapproved Scheme.

Shares held by the trust have waived their rights to receive dividends.

Pension Scheme

The Group operates a defined contribution personal pension scheme for certain senior employees. During the period under review, the Group contributed up to 10% of basic salary to the personal pension schemes of the Executive Directors.

Directors' Report continued

Service Contracts

It is the Company's policy that contracts for the employment of Executive Directors provide for notice periods for termination of twelve months or less. All Executive Directors' contracts comply with this policy.

CORPORATE GOVERNANCE

Principles of the Combined Code

In accordance with the Listing rules of the Financial Services Authority, the following statement sets out how the Board has applied the principles of the Combined Code. Except for the composition of the Remuneration Committee as detailed above, the Board considers that, throughout the 52 weeks ended 26 January 2002, the Group complied with the provisions of the Combined Code.

Board of Directors

The Board comprises the three Non-Executive Directors and two Executive Directors. John Thornton is the Senior Independent Non-Executive Director. Of the Non-Executive Directors, John Thornton and Mark Fane are considered to be independent as defined by the Combined Code.

The Board is responsible for the leadership and control of the Company. Board meetings are scheduled to take place every two months and six meetings of the full Board took place during the period under review. There is a formal schedule of matters reserved to the Board for collective decision. This includes approval of new shop openings, borrowing facilities, major capital expenditure and the approval of annual budgets. The Board receives information in advance of each meeting and additional information is available on request.

Directors are selected on the basis of their level of competence and experience. Although there is no formal procedure for the Directors to seek independent professional advice and training, Directors are aware that they can do so at the Company's expense. No such advice or training has been sought during the period.

The Board has considered the formation of a Nominations Committee but does not consider it to be appropriate for the current nature and size of the Board and Company. The Board will continue to monitor this issue.

Throughout the period under review, all Directors have had access to the Company Secretary's services informally and through Board meetings.

All Directors' contracts have notice periods of twelve months or less.

Directors' Remuneration

The Remuneration Committee is composed of the three Non-Executive Directors and is responsible for the terms and conditions of employment and remuneration of the Executive Directors according to written terms of reference. John Thornton has chaired the Remuneration Committee since its establishment in March 1998. As stated in the Report of the Board of Directors on Remuneration, Philip Dunne is not deemed to be independent.

Details of the Company's policy on Directors' remuneration are contained in the Board's report on remuneration on page 13.

Directors' Report continued

Relations with shareholders

The Board recognises the importance of regular dialogue with the shareholders as a means of communicating the Group's direction and strategy and to respond to their concerns. All shareholders are invited to the AGM at which the annual report is presented and Directors, including the chairmen of the Audit and Remuneration Committees are present to answer any questions that may arise. The number of proxy votes received for and against each resolution is disclosed at the AGM and a separate resolution is proposed on each separate item.

Accountability and Audit

The Board's assessment of the Group's position and prospects is set out in the main body of the report on pages 3 to 11.

The Audit Committee, which consists of the Non-Executive Directors, is chaired by Mark Fane and has written terms of reference detailing its authority and duties. The Committee meets at least twice each period to monitor the accounting policies, internal controls and financial reporting of the Group. The external auditors attend all meetings and have direct access to the Committee Chairman.

Internal Controls

The Directors have overall responsibility for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement. An ongoing process for identifying, evaluating and managing the significant risks faced by the Group has been in operation throughout the year and up to the date of approval of the annual report and accounts. This process is reviewed regularly by the Directors and complies with the Internal Control Guidance issued by the Turnbull Committee.

The organisational structure of the Group is clearly defined, ensuring that responsibilities and tasks are appropriately assigned. Business and financial risks are formally assessed during the annual budgeting and planning process.

At the beginning of the period under review, a formal risk assessment took place, addressing each key area of the business operations and considering both the financial and operational risk faced by the business. Using the results of this review, a programme of internal audits was devised. These internal audits initially focussed primarily on store financial controls, but also considered certain operational areas such as health and safety and internal security. A series of store-by-store internal audits was conducted using a database of specific risks and controls. This enabled a formal assessment of the appropriateness and effectiveness of the store control environment to take place. A formal audit report, including a programme of recommendations and timetable for achievement was produced for each store and circulated to key business managers.

The results of these internal audits, together with ongoing processes in place to identify and mitigate risk, led to the strengthening of certain existing controls, and the introduction of new controls where appropriate.

In addition, a series of operational reviews were carried out to address areas of perceived risk. Reports arising from these reviews were made available to the Board. The Group has taken, and continues to take, measures to improve the internal control environment as identified as part of the internal audit and operational reviews.

Directors' Report continued

During the period under review, the Board reviewed the requirement for a separate internal audit function. Based on work undertaken during the period, the Board considers the internal audit process to be most effective when conducted by the specific business managers concerned, using third party resources where appropriate. Internal audit work is undertaken based on a pre-determined programme of work arising from the risk review process. These business managers conduct their audits and report to the members of the Board.

The Board recognises that the review and assessment of the Group's system of internal controls is an ongoing process and continues to review the process by which risks are identified and controls assessed.

Retirement of Directors

At the forthcoming Annual General Meeting, Mr JA Heneage and Mr PM Dunne will retire by rotation in accordance with the articles and, being eligible, offer themselves for re-election.

Mr PM Dunne has a service contract that is terminable by the Company on three months notice.

Mr JA Heneage has a service contract that is terminable by the Company on twelve months notice.

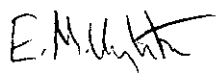
Going Concern

After reviewing current performance, plans, the facilities available to the Group and making further enquiries as considered appropriate, the Directors are satisfied that at the time of approving the financial statements, adequate resources are available to the Group to enable it to continue in business for the foreseeable future. For this reason the Directors believe it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board



Edward Knighton, Secretary

26 March 2002

Statement of Directors' Responsibilities

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

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and Group and to prevent and detect fraud and other irregularities.

Independent Auditors Report to the Members of Ottakar's plc



KPMG Audit Plc

PO Box 695
8 Salisbury Square
London EC4Y 8BB
United Kingdom

We have audited the financial statements on pages 22 to 39.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual Report. As described on page 19, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom 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 financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, 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 Group is not disclosed.

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

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

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 financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

Report of the Auditors to the Members of Ottakar's plc continued

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 26 January 2002 and of the profit of the Group for the 52 week period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

26 March 2002

Consolidated Profit and Loss Account

	Note	52 Weeks to 26 January 2002 £000	Restated 52 Weeks to 27 January 2001 £000
Turnover	1	98,049	86,287
Cost of sales		(59,152)	(52,755)
Gross profit		38,897	33,532
Selling and distribution costs		(29,881)	(26,219)
Administration expenses		(4,400)	(3,797)
Operating profit	2	4,616	3,516
(Loss)/profit on disposal of fixed assets	3	(53)	4
Profit before interest and taxation		4,563	3,520
Other interest receivable and similar income		2	3
Interest payable and similar charges	6	(562)	(727)
Profit on ordinary activities before taxation		4,003	2,796
Taxation on profit on ordinary activities	7	(1,417)	(925)
Profit for the financial period		2,586	1,871
Equity dividends paid and proposed	9	(640)	(503)
Retained profits for the period for equity shareholders		1,946	1,368
Earnings per share:	10		
Basic earnings per share		12.88p	9.30p
Diluted earnings per share		12.70p	9.28p

All of the results presented above derive from continuing business activities. A note on historical cost profits and losses has not been included as part of these financial statements as the results as disclosed in the profit and loss account are prepared on an unmodified historical cost basis.

Statement of Total Recognised Gains and Losses

	Note	52 Weeks to 26 January 2002 £000	Restated 52 Weeks to 27 January 2001 £000
Profit for the financial period		2,586	1,871
Prior period adjustment	1	(364)	(186)
Total gains and losses recognised since last annual report		2,222	1,685

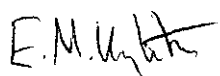
Consolidated Balance Sheet

	Note	26 January 2002 £000	Restated 27 January 2001 £000
Fixed assets			
Intangible assets	11	801	793
Tangible assets	12	17,968	17,692
Investments	13	350	—
		19,119	18,485
Current assets			
Stocks	14	16,307	14,692
Debtors	15	3,099	2,798
Cash at bank and in hand		680	370
		20,086	17,860
Creditors:			
Amounts falling due within one year	16	(15,709)	(14,379)
Net current assets		4,377	3,481
Total assets less current liabilities		23,496	21,966
Creditors:			
Amounts falling due after more than one year	17	(7,515)	(7,920)
Provisions for liabilities and charges	18	(713)	(767)
Net assets		15,268	13,279
Capital and reserves			
Called up share capital	19	1,009	1,006
Share premium account	20	6,081	6,041
Capital redemption reserve	20	512	512
Profit and loss account	20	7,666	5,720
Equity shareholders' funds	21	15,268	13,279

These financial statements were approved by the Board of Directors on 26 March 2002.

JA Heneage
Director

EM Knighton
Director

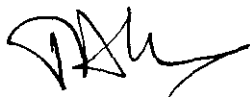
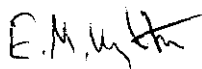
Company Balance Sheet

	Note	26 January 2002 £000	Restated 27 January 2001 £000
Fixed assets			
Intangible assets	11	801	793
Tangible assets	12	17,968	17,692
Investments	13	550	200
		19,319	18,685
Current assets			
Stocks	14	16,307	14,692
Debtors	15	3,099	2,798
Cash at bank and in hand		680	370
		20,086	17,860
Creditors:			
Amounts falling due within one year	16	(15,906)	(14,576)
Net current assets		4,180	3,284
Total assets less current liabilities		23,499	21,969
Creditors:			
Amounts falling due after more than one year	17	(7,515)	(7,920)
Provisions for liabilities and charges	18	(713)	(767)
Net assets		15,271	13,282
Capital and reserves			
Called up share capital	19	1,009	1,006
Share premium account	20	6,081	6,041
Capital redemption reserve	20	512	512
Profit and loss account	20	7,669	5,723
Equity shareholders' funds	21	15,271	13,282

These financial statements were approved by the Board of Directors on 26 March 2002.

JA Heneage
Director

EM Knighton
Director

Consolidated Cash Flow Statement

	Note	52 Weeks to 26 January 2002 £000	52 Weeks to 27 January 2001 £000
Net cash inflow from operating activities	22	5,931	7,191
Returns on investments and servicing of finance			
Interest paid		(562)	(727)
Interest received		2	3
Net cash outflow from returns on investments and servicing of finance		(560)	(724)
Taxation		(1,085)	(367)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(3,070)	(2,885)
Payments to acquire investments		(350)	-
Receipts from sales of tangible fixed assets		-	25
Net cash outflow from capital expenditure and financial investment		(3,420)	(2,860)
Acquisitions and disposals			
Acquisition of business		(55)	-
Net cash outflow from acquisitions and disposals		(55)	-
Net cash inflow before use of liquid resources and financing		811	3,240
Equity dividends paid		(544)	(302)
Financing			
Repayment of capital element of finance leases		-	(1)
Gross proceeds from issue of share capital		43	-
Net cash inflow/(outflow) from financing		43	(1)
Increase in cash	23	310	2,937

Notes to the Financial Statements

(forming part of the financial statements)

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

During the year the Group has adopted Financial Reporting Standard 17 "Retirement Benefits" ("FRS 17"), Financial Reporting Standard 18 "Accounting Policies" ("FRS 18"), and Financial Reporting Standard 19 "Deferred Tax" ("FRS 19") for the first time. As disclosed below, the adoption of FRS 19 has led to a prior period adjustment.

Basis of consolidation

The Group accounts comprise the accounts of Ottakar's plc and its subsidiaries, all of which are drawn up to co-terminus period-ends.

In accordance with section 230 (4) of the Companies Act 1985, the Company is exempt from the requirement to present its own profit and loss account.

Prior Period Adjustment

The Group has adopted FRS 19 in the period. Under the standard, deferred tax is provided for on the full provision basis, whereas previously it had been provided for using the partial provision method. The application of this change in accounting policy has been treated as a prior period adjustment to the 52 weeks ended 27 January 2001. As a result, for the 52 weeks ending 27 January 2001, taxation on profit on ordinary activities is £79,000 lower and profit for the financial period is £79,000 higher than previously reported. Provisions for liabilities and charges have increased by £364,000 and there is a cumulative reduction to the profit and loss reserve of £364,000 at 27 January 2001.

Had the Group continued with the partial provision method of deferred tax, the taxation charge in respect of deferred tax would have been £37,000 and the provision carried forward for deferred taxation would have been £365,000 for the 52 weeks ended 26 January 2002. This would have resulted in the profit for the financial period being £16,000 lower than reported and net assets £348,000 higher as at 26 January 2002.

The prior period adjustment made in the 52 weeks ended 27 January 2001 related to the adoption of UITF 24 "Accounting for start up costs". Previously start up costs had been capitalised within prepayments and amortised over two years.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separately indefinable net assets acquired) arising in respect of acquisitions since 1 January 1998 is capitalised.

The Directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises. Purchased goodwill to date is being amortised over a period of 20 years.

Notes to the Financial Statements continued

1. Accounting policies (continued)

Fixed assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is provided on a straight-line basis to write down the assets to their estimated residual values over their expected useful lives as follows:

Leasehold improvements	-	over the period of the lease up to a maximum of 15 years
Fixtures and fittings	-	over 10 years
Office equipment	-	over 5 years
Motor vehicles	-	over 4 years

Stocks

Stocks are stated at the lower of cost and net realisable value.

Leased assets

The Group has no assets obtained under finance leases or hire purchase agreements.

Rentals paid under operating lease contracts are charged to the profit and loss account evenly over the period of the contract.

Lease incentives

Any benefits received as an incentive to sign a lease, specifically rent free periods and reverse premia, are capitalised in deferred income and spread on a straight line basis over the lease term or, if shorter, over the period to the next review date on which the rent is first expected to be adjusted to the prevailing market rate.

Pension costs

The Group operates a defined contribution personal pension scheme. Pension costs comprise contributions paid to the personal pension plans of certain senior employees and Directors, and are charged to the profit and loss account as incurred.

Turnover

Turnover, which excludes value added tax, represents the value of products sold and concessions income received. Turnover arose from a single class of business and was derived entirely from within the United Kingdom.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Notes to the Financial Statements continued

2. Operating Profit

	52 Weeks to 26 January 2002 £000	52 Weeks to 27 January 2001 £000
Operating profit is stated after charging/(crediting):		
Auditors' remuneration:		
Audit services:		
KPMG Audit Plc:		
– Ottakar's plc (Company and Group)	54	48
Other services:		
KPMG	8	51
Depreciation of owned tangible fixed assets	2,741	2,359
Amortisation of goodwill	47	45
Operating lease rentals		
Land and buildings	8,605	8,099
Equipment	186	239
Rental income	(24)	(90)

3. Loss on Disposal of Fixed Assets

The loss of £53,000 related to stores refurbished during the period. Profit on disposal of fixed assets in the prior period comprised £4,000 in respect of the sale of company cars.

4. Remuneration of Directors

	52 Weeks to 26 January 2002 £000	52 Weeks to 27 January 2001 £000
Fees	8	49
Salary	258	212
Bonus	40	36
Pension	22	21
Benefits in kind	18	23
	346	341

Directors' fees of £8,553 (2001: £17,116) included above were paid to companies of which one Director is a Director and shareholder.

Details of Directors' emoluments, share options, interests and pension entitlements are set out on pages 13 to 16 of the Directors' Report.

Notes to the Financial Statements continued

5. Staff Numbers and Costs

The average monthly number of employees and the costs in their respect were as follows:

	52 Weeks to 26 January 2002 Number	52 Weeks to 27 January 2001 Number
Administration	58	57
Sales	955	856
	1,013	913
	£000	£000
Wages and salaries	11,545	10,054
Social security costs	863	737
Other pension costs	159	137
	12,567	10,928

6. Interest Payable and Similar Charges

	52 Weeks to 26 January 2002 £000	52 Weeks to 27 January 2001 £000
On bank loans and overdrafts	562	726
Finance charges payable in respect of finance leases and hire purchase contracts	—	1
	562	727

7. Taxation on Profit on Ordinary Activities

	52 Weeks to 26 January 2002 £000	Restated 52 Weeks to 27 January 2001 £000
Analysis of charge in the period		
UK corporation tax		
Current tax on income for the period	1,305	865
Adjustments in respect of prior periods	91	8
Total current tax	1,396	873
Deferred tax (see note 18)		
Origination and reversal of timing differences	21	52
Tax on profit on ordinary activities	1,417	925

Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2001: higher) than the standard rate of corporation tax in the United Kingdom (30%, 2001: 30%). The differences are explained on the following page.

Notes to the Financial Statements continued**7. Taxation on Profit on Ordinary Activities (continued)**

	52 Weeks to 26 January 2002 £000	Restated 52 Weeks to 27 January 2001 £000
Current tax reconciliation		
Profit on ordinary activities before tax	4,003	2,796
Current tax rate at 30%	1,201	839
Effects of:		
Depreciation for period in excess of capital allowances	190	104
Other items treated differently for tax purposes (primarily the treatment of amortisation of goodwill and lease premia)	(86)	(78)
Adjustments to tax charge on respect of prior periods	91	8
Total current tax charge (see above)	1,396	873

8. Profit attributable to members of the parent undertaking

The profit dealt with in the accounts of the parent undertaking was £2,586,000 (Restated 2001: £1,871,000).

9. Dividends

	52 Weeks to 26 January 2002 £000	52 Weeks to 27 January 2001 £000
Equity		
Interim paid 1.2p per share (2001: 1.00p)	242	201
Final proposed 2.0p per share (2001: 1.50p)	398	302
	640	503

The final dividend will be paid on 17 May 2002 to shareholders on the register as at 19 April 2002.

Shares held by the employee benefit trust have waived their right to receive dividends.

Notes to the Financial Statements continued

10. Earnings Per Share

The earnings and shares used in the calculation are as follows:

	52 Weeks to 26 January 2002 Earnings £000	52 Weeks to 26 January 2002 Weighted Average Shares 000	52 Weeks to 26 January 2002 EPS pence	Restated 52 Weeks to 27 January 2001 Earnings £000	52 Weeks to 27 January 2001 Weighted Average Shares 000	Restated 52 Weeks to 27 January 2001 EPS pence
Basic	2,586	20,073	12.88	1,871	20,121	9.30
Additional shares issuable other than at fair value in respect of options outstanding		285			47	
Diluted	2,586	20,358	12.70	1,871	20,168	9.28

11. Intangible Fixed Assets**Group and Company**

£000

Goodwill at cost

At 28 January 2001

902

Acquisition of business

55

At 26 January 2002**957****Goodwill amortisation**

At 28 January 2001

109

Charge for period

47

At 26 January 2002**156****Goodwill net book value**

At 26 January 2002

801

At 27 January 2001

793

During the period, the Company acquired the business of Jura Bookshops based in St Helier on Jersey, for a consideration of £55,000. No assets or liabilities were acquired and therefore goodwill of £55,000 arose on acquisition.

Notes to the Financial Statements continued

12. Tangible Fixed Assets

	Short Leasehold Land and Buildings £000	Fixtures and Fittings £000	Office Equipment £000	Total £000
Group				
Cost				
At 28 January 2001	5,242	17,276	2,863	25,381
Additions	229	1,809	1,032	3,070
Disposals	—	(225)	(47)	(272)
At 26 January 2002	5,471	18,860	3,848	28,179
Depreciation				
At 28 January 2001	1,317	4,823	1,549	7,689
Charge for the period	354	1,792	595	2,741
Disposals	—	(174)	(45)	(219)
At 26 January 2002	1,671	6,441	2,099	10,211
Net book value				
At 26 January 2002	3,800	12,419	1,749	17,968
At 27 January 2001	3,925	12,453	1,314	17,692
Company				
Cost				
At 28 January 2001	5,125	17,276	2,863	25,264
Additions	229	1,809	1,032	3,070
Disposals	—	(225)	(47)	(272)
At 26 January 2002	5,354	18,860	3,848	28,062
Depreciation				
At 28 January 2001	1,200	4,823	1,549	7,572
Charge for the period	354	1,792	595	2,741
Disposals	—	(174)	(45)	(219)
At 26 January 2002	1,554	6,441	2,099	10,094
Net book value				
At 26 January 2002	3,800	12,419	1,749	17,968
At 27 January 2001	3,925	12,453	1,314	17,692

All land and buildings are held under short leasehold of up to 25 years.

Notes to the Financial Statements continued

13. Investments

	Own shares held £000	Group Total £000	Subsidiary undertakings £000	Own shares held £000	Company Total £000
At 28 January 2001	—	—	200	—	200
Additions	350	350	—	350	350
At 26 January 2002	350	350	200	350	550

The employee benefit trust, funded by a loan from the Company acquired 260,000 shares with a total nominal value of £13,000. The market value of the shares at 26 January 2002 was 136.5p (total value £355,000). The shares will be held in trust until such time as they may be transferred to participants of the Ottakar's Approved and Second Unapproved share schemes. Details of the schemes are set out in the Report of the Board of Directors on Remuneration on page 15.

Subsidiary undertakings

Ottakar's Town Limited is registered at St John's House, 72 St John's Road, London SW11 1PT and is dormant. Ottakar's plc owns 100% of the ordinary share capital and voting rights.

Town Booksellers Limited is registered at St John's House, 72 St John's Road, London SW11 1PT and is dormant. Ottakar's plc owns 100% of the ordinary share capital and voting rights.

Both these companies, being fully owned subsidiaries, are included within the consolidated accounts.

14. Stocks

Group and Company

	26 January 2002 £000	27 January 2001 £000
Goods purchased for resale	16,307	14,692

15. Debtors

Group and Company

	26 January 2002 £000	27 January 2001 £000
Trade debtors	472	301
Other debtors	9	19
Value Added Tax	273	603
Prepayments and accrued income	2,345	1,875
	3,099	2,798

Notes to the Financial Statements continued

16. Creditors: Amounts Falling Due Within One Year

	Group		Company	
	26 January 2002 £000	27 January 2001 £000	26 January 2002 £000	27 January 2001 £000
Trade creditors	10,648	10,027	10,648	10,027
Corporation tax	801	490	801	490
Amounts due to subsidiary undertakings	—	—	197	197
Other creditors including taxation and social security	945	443	945	443
Accruals and deferred income	2,917	3,117	2,917	3,117
Proposed dividends	398	302	398	302
	15,709	14,379	15,906	14,576

17. Creditors: Amounts Falling Due After More Than One Year
Group and Company

	26 January 2002 £000	27 January 2001 £000
Term loan	7,000	7,000
Deferred income	515	920
	7,515	7,920

Interest on the term loan is calculated at 1.125% above LIBOR. The loan is secured by a floating charge against the assets of the Group.

18. Provisions for Liabilities and Charges
Group and Company

	Deferred Taxation £000	Dilapidation Provision £000	Total £000
At 28 January 2001 (restated)	692	75	767
Charged / (credited) to profit and loss account	21	(75)	(54)
At 26 January 2002	713	—	713

The deferred tax provision is made up as follows:

	26 January 2002 £000	Restated 27 January 2001 £000
Accelerated capital allowances	779	758
Other timing differences	(66)	(66)
	713	692

Notes to the Financial Statements continued

19. Share Capital
Group and Company

	26 January 2002 Number	27 January 2001 Number	26 January 2002 £000	27 January 2001 £000
Authorised:				
Ordinary shares of 5p each	65,900,000	65,900,000	3,295	3,295
Allotted, called up and fully paid:				
Ordinary shares of 5p each	20,179,669	20,120,869	1,009	1,006

The nominal value of the 58,800 Ordinary shares issued during the year under the company share option schemes was £2,940. The consideration received was £43,000.

Share Options

Share options outstanding at 26 January 2002 were as follows:

Scheme	No. of Shares	Exercise Price	Exercise Dates
First Unapproved scheme	63,400	£0.72	April 1999 – April 2002
Second Unapproved scheme	150,200	£1.53	April 2001 – April 2005
	11,394	£2.22	May 2001 – May 2005
	71,814	£2.28	Jan 2002 – Jan 2006
	73,077	£0.39	Feb 2003 – Feb 2007
	220,000	£1.26	Nov 2004 – Nov 2011*
Approved scheme	156,856	£1.53	April 2001 – April 2008
	13,513	£2.22	May 2001 – May 2008
	13,186	£2.28	Jan 2002 – Jan 2009
	76,923	£0.39	Feb 2003 – Feb 2010
	26,500	£0.58	April 2003 – April 2010
	40,000	£1.26	Nov 2004 – Nov 2011*
SAYE	104,400	£1.60	July 2002 – July 2004
	344,233	£0.35	July 2003 – July 2005

*Shares held under the employee benefit trust.

Notes to the Financial Statements continued

20. Reserves

	Share Premium (Group and Company)	Capital Redemption Reserve (Group and Company)	Profit and Loss Account (Group)	Profit and Loss Account (Company)
	£000	£000	£000	£000
As previously reported	6,041	512	6,084	6,087
Prior period adjustment	–	–	(364)	(364)
At 27 January 2001 as restated	6,041	512	5,720	5,723
Retained profit for the period	–	–	1,946	1,946
Issue of shares	40	–	–	–
At 26 January 2002	6,081	512	7,666	7,669

The Capital Redemption Reserve arose on cancellation of 2,047,304 deferred shares of 25p each, less £12 paid in consideration for these shares.

21. Reconciliation of Movements in Shareholders' Funds

	Group		Company	
	52 Weeks to 26 January 2002 £000	Restated 52 Weeks to 27 January 2001 £000	52 Weeks to 26 January 2002 £000	Restated 52 Weeks to 27 January 2001 £000
Profit for the financial period	2,586	1,871	2,586	1,871
Dividends	(640)	(503)	(640)	(503)
Net proceeds from the issue of shares	43	–	43	–
	1,989	1,368	1,989	1,368
Equity shareholders' funds at the beginning of the period	13,279*	11,911	13,282*	11,914
Equity shareholders' funds at the end of the period	15,268	13,279	15,271	13,282

* Originally £13,643,000 (Company: £13,646,000) before deducting prior period adjustment of £364,000 (Company: £364,000).

Notes to the Financial Statements continued

22. Reconciliation of Operating Profit to Net Cash Inflow From Operating Activities

	52 Weeks to 26 January 2002 £000	52 Weeks to 27 January 2001 £000
Operating profit	4,616	3,516
Depreciation	2,741	2,359
Amortisation of goodwill	47	45
Increase in stocks	(1,615)	(1,091)
Increase in debtors	(301)	(202)
Increase in creditors	518	2,499
(Decrease)/increase in provisions	(75)	65
Net cash inflow from operating activities	5,931	7,191

23. Reconciliation of Cash Flows to Net Debt

	52 Weeks to 26 January 2002 £000	52 Weeks to 27 January 2001 £000
Increase in cash in the period	310	2,937
Cash flow from lease financing	-	1
Change in debt from cash flows	310	2,938
Net debt brought forward	(6,630)	(9,568)
Net debt carried forward	(6,320)	(6,630)

24. Analysis of Net Debt

	At 27 January 2001 £000	Cash Flows £000	At 26 January 2002 £000
Cash at bank and in hand	370	310	680
Long term loan	(7,000)	-	(7,000)
Total	(6,630)	310	(6,320)

25. Major Non-Cash Transactions

There were no major non-cash transactions during the period.

Notes to the Financial Statements continued

26. Commitments**Operating Leases**

Annual commitments in respect of non-cancellable operating leases are as follows:

	26 January 2002 £000	27 January 2001 £000
Equipment leases expiring		
Within one year	58	34
In the second to fifth year inclusive	109	81
Building leases expiring		
In the second to fifth year inclusive	54	243
After five years	8,740	8,133
	8,961	8,491

Capital Commitments

The Group had no contracted capital expenditure at 26 January 2002 (2001: £nil).

27. Related Party Transactions

There were no related party transactions for the period under review.

28. Financial Instruments

The Group's financial instruments comprise borrowings, cash and various items such as trade debtors and creditors that arise directly from its operating activities. The main purpose of these financial instruments is to raise finance for the Group's operations. The main risk associated with these financial instruments is interest rate risk.

As permitted under FRS 13, short term debtors and creditors have been excluded from the following disclosures except those related to currency risk.

Interest rate risk

The interest rate profile of the Group's financial assets and liabilities were:

	26 January 2002 Fixed Rate £000	26 January 2002 Floating Rate £000	26 January 2002 Total £000	27 January 2001 Fixed rate £000	27 January 2001 Floating Rate £000	27 January 2001 Total £000
Financial assets	–	680	680	–	370	370
Financial liabilities	–	(7,000)	(7,000)	–	(7,000)	(7,000)

The Groups' borrowings attract interest at a floating rate based on bank base rate. (See note 17). The cash attracts interest at a rate linked to bank base rate. The interest rate is fixed for a period of less than one year.

Notes to the Financial Statements *continued***28. Financial Instruments (continued)****Currency risk**

All the financial assets and liabilities are denominated in sterling, the Group's functional currency.

Fair value

The carrying values disclosed above approximate to fair value.

Liquidity

The maturity profile of the Group's financial liabilities were:

	26 January 2002 £000	27 January 2001 £000
In more than 1 year, but no more than 2 years	7,000	7,000
Total	7,000	7,000

At 26 January 2002, the Group had available £7,500,000 (27 January 2001: £7,500,000) undrawn overdraft facilities. These expire within one year. (2001: within one year).

29. Post Balance Sheet Event

On 26 March 2002, the Company contracted with the administrators of James Thin Limited to acquire eight bookstores in England and Scotland for a consideration equal to net assets, currently estimated to be £1.64m, payable in cash.

Five Year Summary

	1998 £000	1999 £000	2000 £000	2001 £000 <i>As restated (1)</i>	2002 £000
Turnover	38,649	57,316	72,922	86,287	98,049
Gross profit	14,988	22,343	28,371	33,532	38,897
Operating profit	2,619	3,312	1,678	3,516	4,616
(Loss)/profit on sale of fixed assets	(193)	—	(336)	4	(53)
Net interest	(247)	(257)	(560)	(724)	(560)
Profit before tax	2,179	3,055	782	2,796	4,003
Tax	(662)	(775)	(319)	(925)	(1,417)
Profit after tax	1,517	2,280	463	1,871	2,586
Dividends	(384)	(494)	(302)	(503)	(640)
Retained profit	1,133	1,786	161	1,368	1,946
Basic earnings per share (pence)	10.61	12.36	2.31	9.30	12.88
Diluted earnings per share (pence)	9.38	11.69	2.29	9.28	12.70

(1) The change in accounting policy for the year ended 26 January 2002 as described in note 1 to the accounts above has been reflected in the comparatives for 2001 only.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at the offices of Teather & Greenwood, Beaufort House, 15 St Boroloph Street, London EC3A 7QR on Tuesday, 14 May 2002 at 11.00 am for the following purposes;

1. To receive and adopt the Report of the Directors and the Financial Statements of the Company for the 52 weeks ended 26 January 2002 together with the Report of the Auditors thereon;
2. To declare a dividend;
3. To re-elect James Arthur Heneage as a Director;
4. To re-elect Philip Martin Dunne as a Director;
5. To re-appoint KPMG Audit Plc as Auditors,
6. To authorise the Directors to fix the remuneration of the Auditors
7. To consider as an Ordinary Resolution that the Directors be generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 to allot, make offers or agreements to allot or grant the right to subscribe for or convert other securities into, relevant securities (as defined in the said Section 80) provided that:
 - (i) such authority shall be limited to an aggregate nominal amount of £331,994;
 - (ii) such authority shall expire at the sooner of the close of the following Annual General Meeting or the expiry of fifteen months from the date of the passing of the Resolution; and
 - (iii) the Company may before such expiry make such an offer or agreement which would, or might, require relevant securities to be allotted after that expiry.(See Explanatory Note 1)
8. To consider as a Special Resolution that the Directors be empowered pursuant to Section 95 of the Companies Act 1985 ("the Act") to exercise their power to allot equity securities (as defined in Section 94 of the Act) as if, in the following cases, sub-section 89(1) of the Act did not apply:
 - (i) to the allotment of equity securities whereby there will be an offer of all such securities, whether made by the Company or some other person, open for acceptance for a period fixed or approved by the Directors, to holders of Ordinary Shares on the Register on a fixed record date in proportion to their then holdings of such shares (but subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or overseas shareholders); and
 - (ii) to the allotment of equity securities up to an aggregate nominal amount of £49,799.

Notice of Annual General Meeting continued

But provided in both cases:

- (a) that the power shall expire at the sooner of the close of the following Annual General Meeting and the expiry of fifteen months following the date of the passing of the Resolution; and
 - (b) the Company may before such expiry make an offer or agreement thereunder which would or might require equity securities to be allotted after its expiry.
- (See Explanatory Note 2)

26 March 2002

By Order of the Board,

Registered Office:
St John's House
72 St John's Road
London SW11 1PT

EM Knighton
Secretary

Notes

1. Resolution 7 grants the Directors authority to allot relevant securities (as defined in the resolution) with an aggregate nominal value equal to approximately one third of the Company's issued ordinary share capital as at today's date. The authority replaces all existing equivalent authorities and will expire at the conclusion of the following year's Annual General Meeting or if sooner on 14 August 2003. The Directors have no present intention of exercising this authority.
2. Resolution 8 disapplies the statutory pre-emption rights and grants authority to the Directors to allot equity securities (as defined in the resolution) for cash. This authority which applies to any equity securities issued pursuant to the authority to allot conferred in resolution 7 will expire at the conclusion of the following year's Annual General Meeting or 14 August 2003 if sooner.

This authority to issue equity securities for cash on a non-pre-emptive basis is limited so that the aggregate nominal value of equity securities so issued may not exceed five per cent (5%) of the Company's issued ordinary share capital.

3. A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and (on a poll) vote instead of him. A form of proxy, for use at the Annual General Meeting, has been enclosed with this document. A proxy need not be a member of the Company. To be effective, a form of proxy must be deposited at the offices of the Company's registrars, IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH not less than 48 hours before the time fixed for the meeting. If a member has deposited a form of proxy this does not preclude him/her attending and voting in person at the meeting if he/she so wishes.

Notice of Annual General Meeting continued

4. Pursuant to regulation 34 of the Uncertificated Securities Regulations 1995, the Company has specified that only those shareholders registered on the register of members of the company at 11.00 am on 12 May 2002 shall be entitled to attend and vote at the Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register of Members after 11.00 on 14 May 2002 shall be disregarded in determining the rights of any person to attend and vote at the Meeting.

The Register of Directors' interests in the shares of the Company and the copies of the service agreements between the Company and its Directors will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays and public holidays excluded) until the date of the Meeting and also on the date and at the place of the Meeting from 9.00am until the conclusion of the Meeting.