

**OTTAKAR'S PLC**  
**ANNUAL REPORT AND ACCOUNTS**  
**YEAR ENDED 29 JANUARY 2005**



**Company registration number: 2133199**

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## Ottakar's traded at the period end from 131 stores nationwide

### Scotland

- Aberdeen
- St Andrews
- Aviemore
- Ayr
- Cameron Toll, Edinburgh
- Dumfries
- Dundee
- East Kilbride
- Elgin
- Falkirk
- Buchanan Galleries, Glasgow
- George Street, Edinburgh
- Inverness
- Kirkcaldy
- Newton Mearns
- Oban
- Grimsby
- Hexham
- Harrogate
- Kendal
- Lancaster
- Northallerton
- Oldham
- Ormskirk
- Sunderland
- Wakefield
- Wilmslow

### Wales and Midlands

- Abergavenny
- Aberystwyth
- Banbury
- Bromsgrove
- Burton-on-Trent
- Carmarthen
- Cheltenham
- Cirencester
- Coventry
- Crewe
- Gloucester
- Huddersfield

### North

- Barrow-in-Furness
- Carlisle
- Darlington
- Douglas, Isle of Man

- Lincoln
- Llandudno
- Loughborough
- Market Harborough
- Meadowhall Shopping Centre, Sheffield
- Milton Keynes
- Newport, Gwent
- Stafford
- Sutton Coldfield
- Walsall
- Witney
- Worcester

### East

- Basildon
- Bury St. Edmunds
- Brentwood
- Boston
- Bishops Stortford
- Chelmsford
- Jersey, De Gruchy

- Jersey, St Helier
- King's Lynn
- Lowestoft
- Norwich
- Southend
- Stevenage
- St Neots

### South East

- Andover
- Ashford
- Barnet
- Basingstoke
- Berkhamsted
- Bracknell
- Bromley
- Camberley
- Canterbury
- Chatham
- Clapham
- Crawley
- East Grinstead
- Eastbourne
- Eastleigh

- Enfield
- Epsom
- Fareham
- Farnham
- Folkestone
- Greenwich
- Guildford
- Harrow
- Hastings
- Haywards Heath
- Hemel Hempstead
- High Wycombe
- Horsham
- Luton
- Lymington
- Maidenhead
- Petersfield
- Portsmouth
- Putney
- Redhill
- Science Museum
- Slough
- St Albans
- Staines
- Teddington

- Tenterden
- Tunbridge Wells
- Twickenham
- Walthamstow
- Windsor
- Woking – Peacocks Centre
- Woking – Wolsey Walk
- Wood Green

### South West

- Barnstaple
- Chippenham
- Dorchester
- Newport, Isle of Wight
- Newton Abbot
- Poole
- Salisbury
- Tiverton
- Torquay
- Trowbridge
- Truro
- Wells
- Weston Super Mare
- Yeovil

## Highlights

- Total turnover increased by 12.7% from £153.7m to £173.2m
- Like for like sales increased by 3.5%
- Gross margin increased by 0.8% to 43.0%
- Profit before taxation increased by 15.9% from £6.1m to £7.1m
- Total dividend increased by 18% to 6.5p per share
- Diluted earnings per share up 11.3% to 20.32p
- 37,000 square feet of retail space added
- At period end, trading from 562,000 square feet in 131 stores

# Ottakar's at a glance

*Jacqueline Wilson, the well known children's author, attends a book signing at the newly relocated Walthamstow store*

**February** •

*For the second year in a row, Ottakar's won the "Bookselling Company of the Year" award at British Book Awards*

**March** •

*The Ottakar's band play at the 16th Annual Managers' Conference in Amsterdam*

*Ottakar's was delighted to open the Tintin store at the National Maritime Museum exhibition 'Tintin at Sea'*

**April** •

*Ottakar's hold Easter Parties in many of its stores throughout the school holidays*

*Jordan attends a book signing at the Sunderland store*

**May** •

*The Guildford store holds a 'Superheroes' event during the Guildford literary festival*

**June** •

*Summer activities take place in stores, including 'Cat in a Hat' events and Fairy parties*

**July** •

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- **August**

*Launch of 'Deogarh Week' – a week of fundraising activities and events to raise money for the children of Deogarh in India*

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- **September**

*The Basingstoke store relocates to new premises*

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- **October**

*Opening a new store in St Andrews, Scotland*

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- **November**

*A new lifestyle store opens in Torquay*

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- **December**

*Ottakar's largest opening of the year takes place at the 12,000 square feet store in Canterbury*

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- **January**

*Launch of 'YouZone' in the Canterbury store – an innovative means of presenting titles in the growth area of health, personal and spiritual development*

*Ottakar's launches its Inaugural Children's Book prize. It is won by Stuart Hill, a bookseller from Waterstones*

**I am pleased to report increased profits for the 52 week period to 29 January 2005. This year has seen good sales and margin growth from existing, new and relocated stores.**

Ottakar's has reinforced its position as one of the UK's leading specialist book retailers, and at the period end traded from a portfolio of 131 prime sited stores in towns and cities across England, Scotland and Wales. Ottakar's stores provide depth of range and high levels of customer service to a broad customer base.

#### **RESULTS**

During the period under review, Ottakar's produced a good trading performance. Turnover increased by 12.7% to £173.2m (2004: £153.7m) and pre-tax profits increased by 15.9% to £7.1m (2004: £6.1m). Diluted earnings per share increased by 2.06p to 20.32p (2004: 18.26p).

After a strong first half, Ottakar's stores traded well for the period as a whole, but sales growth softened in the final quarter in common with other retailers. Like-for-like sales increased by 3.5% to £107.9m (2004: £104.3m), representing 2.4% of total sales growth. New and refurbished stores and those opened during the 52 weeks to 31 January 2004 contributed 10.3% to total sales growth during the period. Performance from all the new and relocated stores was satisfactory, given that most only opened in the second half of the year. Total turnover increased by £19.5m (2004: £38.8m) to £173.2m (2004: £153.7m), which includes £31.9m (2004: £24.4m) from the 24 Hammicks stores that were acquired in April 2003.

For a fifth year in succession gross margins improved, increasing from 42.2% to 43.0% for the period. This was driven by improvements in buying discipline, reduced shrinkage, measures to minimise obsolete stock, and the product mix of the Hammicks stores coming more into line with the Ottakar's stores.

There was an increase in our cost base. Selling and distribution costs (pre exceptional costs) were 32.6% of turnover (2004: 31.7%), coming mainly from increased store payroll and property costs. All stores have been affected by higher occupational costs, largely rent and rates, rising more quickly than sales growth. All operational costs are currently the subject of a detailed commercial audit and management is focussed on achieving improvements in this area.

Administration costs (pre-exceptional costs) were 5.6% of turnover (2004: 5.2%). The increase reflects an upgrade in functional infrastructure for the next stage of the business's growth. Previously reported one-off costs of £0.3m (not included in exceptional costs) (2004: £nil) were incurred from changes within the Finance team, including the cost of departure of the previous Finance Director.

Exceptional sales and distribution costs of £0.1m (2004: £1.2m) and exceptional administration costs of £0.1m (2004: £nil) represent payments to individuals leaving the company as the senior management

## **Chairman's Statement**

**Ottakar's has reinforced its position as one of the UK's leading specialist book retailers and at the period end traded from a portfolio of 131 prime sited stores in towns and cities across England, Scotland and Wales. Ottakar's stores provide depth of range and high levels of customer service to a broad customer base.**

team below Board level is restructured for the next phase in the business's development.

#### NEW STORES

During the period we opened ten stores adding 37,000 square feet of net retail space. Two stores were relocated. At the period end, total selling space was 562,000 square feet (2004: 525,000 square feet), of which 33,750 square feet opened in the 26 weeks to 29 January 2005.

Ottakar's traded from 131 stores at the period end. Of these, 38 stores covering 280,000 square feet are in our Lifestyle format which includes a coffee shop, and comprises some 50% of our total selling space – a net increase of three stores (2004: 35 stores covering 260,700 square feet).

#### FORMER HAMMICKS STORES

In April 2003 we acquired 24 stores from Hammicks Bookshops Limited. We have now traded for a full year from these stores and we are pleased with their progress. Sales and gross margins are growing to an expected level as buying practices and product sales mix become integrated with the rest of the business.

#### DIVIDEND

To reflect our confidence to grow the business further and extract operating efficiencies from our stores, alongside our desire to increase steadily the dividend yield, the directors are recommending a 17% increase in the final dividend to 4.10 pence per share (2004: 3.50 pence per share). This makes a total dividend of 6.50 pence per share for the 52 weeks to 29 January 2005 (2004: 5.50 pence per share), an increase of 18% for the year as a whole. Subject

to shareholders' approval, the final dividend will be paid on 13 May 2005 to shareholders on the register at 15 April 2005.

#### MANAGEMENT

This year has seen more change in Board composition than for some time. Edward Knighton left the company in November 2004 by mutual agreement after five years as Finance Director. We wish him well. We are very pleased to welcome Michael Hitchcock to the Board, who joined as Finance Director just before the year end, in January 2005. He brings considerable experience of managing a large finance team within a retail environment.

We are also delighted to welcome to the Board David Adams, who joined as an Independent Non-Executive Director in December 2004 and has taken over as Chairman of our Audit Committee.

In addition, at senior management level, some changes have been made in order to provide optimal functional management to facilitate the next stage of growth. The Range Department has been upgraded to include all product buying functions and a new Commercial Department has been created, tasked with maximising margin. Meanwhile, the Marketing Department, under new management, will be focussed on building a stronger brand proposition. The New Product Development function has been streamlined, with the departure of its director, to concentrate on local and stationery products.

#### CURRENT TRADING AND PROSPECTS

Ottakar's enjoyed another year of continued organic growth, increasing contribution from the former Hammicks stores and generating a good contribution from new, refurbished and

relocated stores. The outlook for the forthcoming year remains positive as we look to focus on our cost base to obtain operating efficiencies, and a clear shop opening programme weighted this year towards smaller stores with an expected rapid payback.

We are confident that as Ottakar's approaches the £200m turnover milestone, there is significant opportunity for the company to extend its total floor space through the opening of new stores across a broad spectrum of town size.

As with many retailers, the start to the year has proved challenging with total company sales up 3.6%, down 1.6% on a like-for-like basis for the seven weeks to 19th March. Since the year end we have successfully relocated our Hastings store and opened a new store in Hitchin. A total opening programme of up to 50,000 square feet is expected this year, the majority of which has already been identified.

On behalf of the Board I would especially like to thank our staff for their continuing commitment to the business. They continue to serve our customers with a knowledge and passion to deliver a first class customer experience.



PHILIP DUNNE, *Chairman*  
29 March 2005

## Operating Review

**2004 has been a year in which Ottakar's has shown steady progress.**

**This Operating Review covers strategy, business performance and future developments. It should be read in conjunction with the Directors' Report and the Financial Statements.**

### GENERAL

2004 has been a year in which Ottakar's has shown steady progress, notwithstanding a 'late' Christmas which ultimately failed to meet expectations. The company grew turnover by 12.7% or 3.5% on a like-for-like basis and increased margin by 80 basis points to 43.0%. It also continued to successfully integrate the Hammicks stores into the business. This has resulted in pre-tax profit of £7.1m, an increase of 15.9% from last year.

### RESULTS

The like-for-like sales increase was achieved in spite of the previous year's new Harry Potter title and the BBC's 'Big Read' campaign, both of which generated significant sales, and a slower market before Christmas. This was due to continuing growth of the market overall and by successful marketing campaigns such as 'The Real Read' featuring non-fiction titles and

'Ottakar's Originals' featuring classics.

The 0.8% margin increase was achieved through the continued improvement in margins from the stores acquired from Hammicks, tighter buying disciplines, less promotional discounting and reduced shrinkage. With the appointment of a new Commercial Manager and with our Intranet central range selection system now fully functioning, we can expect buying to become even more efficient.

Over the year we opened 37,000 square feet in ten new stores in St Andrews, Berkhamsted, Boston, Canterbury, Falkirk, St Neots, Teddington, Torquay, Twickenham and Wells. In addition we relocated our Basingstoke and Walthamstow stores and also refitted stores in Brentwood, Folkestone, Horsham, Stafford and Stevenage. New stores in general are trading encouragingly and all are expected to make positive contributions in their first full year of trading. At year-end the group traded from 562,000



square feet across 131 stores in England, Scotland, Wales and the Channel Islands.

Both selling and distribution and administration costs rose across the period reflecting continuing inflationary trends within staff and property costs, as well as necessary investment in the next stage of growth. All these costs are in the process of being reviewed by the new finance team as part of a detailed commercial audit.

## OPERATIONS

The book market grew by some 4.8% in 2004, broadly in line with recent years, mainly due to long term trends such as changes to the demographic make-up of the population. Other more recent influences, such as the media interest generated by books featured on television as in 'Richard and Judy' are acting as a powerful catalyst to sales.

Ottakar's continued to expand within this growing market with the opening of ten new stores in diverse centres, thus underlining the flexibility of a formula proven to work in every size and type of town.

Three of the ten new stores opened with Costa Coffee concessions. The relocated Basingstoke store included a coffee concession and a concession was added to our store in Eastbourne. By year-end some 280,000 square feet, representing 50% of our total selling space

was designated as 'lifestyle' - that is with a coffee shop and events area included. These openings re-emphasise our belief in the commercial compatibility of books and coffee.

Over the year further improvements were made to the core range with greater categorisation and regional orientation. New title buying accuracy was improved through greater use of the content and processes of our Intranet central title selection system. Furthermore the Microsites, our twelve online-based category magazines, were developed to include a training function by which staff can be awarded a Bookselling Diploma linked to an increase in pay.

Our marketing strategy focused on generating sales to replace those of Harry Potter and 'The Big Read' in the previous year. Our distinctive campaigns, 'The Real Read' and 'Ottakar's Originals' contributed to significant

## Operating Review continued

sales growth through the Spring and Summer.

In 2004 we launched our first comprehensive range of exclusive product in local books and associated merchandise, designer stationery and seasonal humour product. The first two of these performed satisfactorily, while the humour product fared less well. We intend to capitalise on what worked well in the coming year.

Staff welfare remained at the heart of our agenda in 2004 as we maintained our strategy through the period of recruiting talented individuals and then providing them with the local autonomy that makes for job satisfaction. We are delighted to acknowledge the results of our second staff survey, carried out by 'Employeesurveys' in January 2005, which recorded 94% of staff agreeing that 'Ottakar's is a good company to work for', and one of the lowest levels of staff turnover amongst retailers in the country.

## CURRENT STRATEGY

At the period end, Ottakar's traded from 131 branches nationwide and is the UK's second largest specialist chain behind Waterstone's.

The book market is undergoing considerable change with the expansion of specialist chains such as Ottakar's and established penetration by the supermarkets and the Internet. The market is valued at some £2.5 billion (source: Book Marketing Limited) and Ottakar's believes it has an 8% share of this market.

The market is growing at an annualised rate of 3 to 5% (source: Book Marketing Limited) spurred on by a new level of consumer interest in books galvanised by film and other media. Over the years Ottakar's will continue to pursue its PRISM strategy comprising physical expansion, range development, innovation, staff welfare and margin growth.

## PHYSICAL EXPANSION

Ottakar's, with its formula proven to succeed in towns as diverse as Tenterden and Aberdeen, is in the unique position of being able to exploit all areas of the market.

In 2005, we intend opening some 50,000 square feet of new space of which over 30,000 square feet has already been committed in Chesterfield, Hitchin, Maidstone, Sudbury and Worthing as well as two stores in Amersham and Alton being acquired from Corbetts, a small regional chain. Two relocations have been secured for our Dundee and Hastings stores, and our Bishop Stortford store will be expanded to include a coffee concession.

The majority of openings in 2005 will be in secondary and tertiary towns where the competition tends to be W H Smith and independent bookshops, but we will also continue to invest in 'flagship' stores in larger centres such as an 8,000 square feet store in Doncaster which will open in 2006; and a 12,000 square feet store in the new Drakes Circus scheme in Plymouth scheduled to open in Autumn 2008. Where possible, coffee shops will be included, particularly given the success of the experimental Costa Coffee concession opened in the tertiary centre of Berkhamsted in 2004.

**At period end, Ottakar's traded from 131 branches nationwide and is the UK's second largest specialist chain behind Waterstone's.**

## RANGE DEVELOPMENT

In early 2005 we announced the reorganisation of the Range Department, expanding it significantly to include the buying function currently within the Marketing Department and a new Commercial Department tasked with improving margin and taking costs out of the supply chain. The result of these changes will be more accurate and imaginative product selection at lower cost. This department expansion will also lead to higher levels of regional flexibility in range allocation, allowing shops to become even more locally reactive.

## INNOVATION

Ottakar's has won industry awards for its constant innovation in areas such as Microsites, on-line buying and range diversification - particularly with Children's books. In 2004 we developed a range of exclusive product covering local books, designer stationery and seasonal humour product. The first two of these ranges worked sufficiently well for us to develop them further and 2005 will see the launch of further titles in the local series as well as further stationery items. The purpose of extending the product mix is to build brand differentiation, sales and margin, and its scale will be designed to complement the essential specialist proposition.

## STAFF WELFARE

Staff remain the jewel in Ottakar's crown and it is their knowledge and enthusiasm for books which persuades customers to return again and again to our shops. We have made real attempts in 2004 to devise new ways of incentivising and rewarding staff such as the new store Manager and Assistant Manager bonus scheme and the new Bookselling Diploma which can be achieved through an online course via our Microsites and which brings with it an increment in pay. It is satisfying to see that our staff turnover continues to fall (down by 4 percentage points from last year) and that it remains one of the lowest in the industry (27% versus an average for retailers of 58%. Source: 'Employesurveys'). It is vital that we maintain the extraordinary culture which lies at the heart of Ottakar's and will continue to invest in new ways of attracting and rewarding talent.

The Ottakar's van is a direct response to the needs of our customers in the vast geographical area of Argyll and the Highlands & Islands. Operating from our Oban store, the van delivers books to rural areas that would otherwise find it difficult to visit our Oban store.

The van services a schedule of events organised by the Oban store that runs from March to December, and in 2005 will cover all of the major locations and events in the region, including bookfairs, author tours, and events such as Mull Wildlife Week, several Highland Games and Skye's annual Music Festival.

The idea to operate a van to service the local community came entirely from the staff in our Oban store, perfectly encapsulating the idea that Ottakar's staff are key to our ability to be imaginative and flexible, delivering real levels of customer service in the heart of the local community.

## Staff remain the jewel in Ottakar's crown and it is their knowledge and enthusiasm for books which persuades customers to return again and again to our shops.

### Operating Review continued

#### MARGIN GROWTH

Over the past five years, Ottakar's has grown gross margin by 4.1% through changes in its supply base, through adaptation of its product mix and by reducing shrinkage.

We believe there is still scope to increment margin through these means and continue to look for ways to develop an ever more commercial approach to buying and promotions planning. To this end we have set up a new Commercial Department headed by our former Acting Director of Finance, which has been tasked with looking at all areas of supplier terms, buying and control processes and the supply chain in general. We expect this to have a positive effect on margin.

#### SYSTEMS

Sales and margin growth will also be enhanced, as will be the improvements in title availability and margin measurement through introducing the final element of our EPOS programme - the stock management system. The stock management system underwent a preliminary test in our Epsom store over Christmas 2004 and initial results are encouraging. We are pleased to be able to build on these during the forthcoming year and improvements identified during the course of the test will be worked on through 2005. It is intended to put the stock system through a full working trial in our Epsom store over this coming Christmas prior to final testing

in a range of stores in 2006. We also intend to implement a new finance system during the forthcoming year.

#### MANAGEMENT

We have undertaken a critical review of our senior management structure in the latter half of the period. The Finance Department was strengthened with the appointment of Michael Hitchcock as Finance Director who has had a career in finance with larger companies since qualifying as a Chartered Accountant, and brings these financial disciplines to us.

The Range and Marketing functions have been reorganised and a new commercial function set up to build margin.

The purpose of these changes is to build an appropriate platform for the next stage of Ottakar's growth.

#### PROSPECTS

The medium term opportunity for the company remains strong. The book market continues a trend of encouraging growth and as people show a greater appetite for books, so the specialist sector, with its emphasis on range and service, will continue to thrive.

Ottakar's with its unique franchise as the country's leading provincial bookseller, should especially prosper. Ottakar's is at the heart of local communities with autonomous local managements supported by efficient systems. Our stores meet a mood amongst consumers

increasingly jaded by the similarity of the nation's high streets.

Despite not achieving all the expectations on us after five years of strong profit growth, 2004/05 was a respectable year for Ottakar's since we showed solid sales, margin and bottom line profit growth. While improvements in operational efficiencies and good new stores played their part, as always it was the hard work and goodwill of our talented staff that remained the significant factor. I would like to join the Board in expressing our gratitude for their continued commitment to the business.

2005/06 promises to be another year of steady growth helped by an expanding market, the launch of the sixth Harry Potter title 'Harry Potter and the Half-Blood Prince' in July, and a programme of exciting new store openings.



**JAMES HENEAGE**, *Managing Director*  
29 March 2005

# Financial Review

## RESULTS

Sales increased by 12.7% to £173.2m (2004: £153.7m) during the period. New and refurbished stores and those opened during the 52 weeks to 31 January 2004 contributed 10.3% to sales growth during the period. Like-for-like sales growth was 3.5%.

For the 26 weeks to 29 January 2005, like-for-like sales growth was 3.0% compared with 4.7% for the 26 weeks to 31 July 2004.

Turnover includes £1,394,000 (2004: £1,188,000) of concession income.

Gross margins increased during the period to 43.0% (2004: 42.2%) reflecting further improvements in buying discipline, reduced shrinkage measures to minimise obsolete stock, and the product mix of the Hammicks stores coming more into line with Ottakar's stores.

Selling and distribution costs before exceptional items increased by 0.9% to 32.6% (2004: 31.7%), largely because of increased store payroll and property costs.

Administration expenses were 5.6% of turnover (2004: 5.2%). The increase reflected an upgrade in functional infrastructure for the next stage of the business's growth and some one off costs incurred from changes within the Finance team, including the cost of departure of the previous Finance Director.

Exceptional selling and distribution costs of £0.1m (2004: £1.2m) and exceptional administration expenses of £0.1m (2004: £nil) represent payments to individuals leaving the company as senior management is restructured for the next phase in the business's development.

Profit before taxation was £7.1m (2004: £6.1m). Profit after taxation was £4.4m (2004: £3.9m).

## TAXATION

Our effective rate of tax increased this period to 37.2% (2004: 36.6%). 2.2% of this charge relates to prior years (2004: 1.9%). Our deferred tax provision is £1,127,000 (2004: £889,000).

## SHAREHOLDERS FUNDS AND EARNINGS PER SHARE

Funds attributable to equity shareholders have increased to £25.9m (2004: £22.7m). Retained profits were £3.1m (2004: £2.7m).

Diluted earnings per share were 20.32p (2004: 18.26p).

## DIVIDEND

The Board is recommending a final dividend of 4.10 pence per share (2004: 3.50 pence per share) giving a total dividend of 6.50 pence per share for the 52 weeks to 29 January 2005 (2004: 5.50 pence per share). Subject to shareholders' approval, the final dividend will be paid on 13 May 2005 to shareholders on the register at 15 April 2005.

## CAPITAL EXPENDITURE

Capital expenditure for the year totalled £9.4m (2004: £10.9m). £6.4m of this total related to new store and re-fit expenditure (2004: £5.8m). £6.7m of the total fell in the second half.

## CASH FLOW AND BORROWINGS

Cash flow generated by operations totalled £7.5m (2004: £9.3m). Net capital expenditure after disposals of £0.4m (2004: £0.5m) was £9.0m (2004: £14.1m including £4.2m relating to the acquisition of the Hammicks stores) and outflows relating to interest, taxation and equity dividends were £4.9m (2004: £3.7m). £2m of term loan was repaid and £0.2m was raised from

the issue of share capital arising from the exercise of share options, giving a net decrease in cash during the period of £8.2m (2004: £1.0 m).

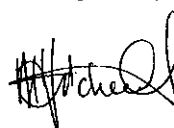
The Group ended the period with net borrowings of £20.9m (2004: £14.7m), including £10m of long-term bank loans, and gearing at 29 January 2005 was 80% (2004: 65%).

## INTERNATIONAL FINANCIAL REPORTING STANDARDS

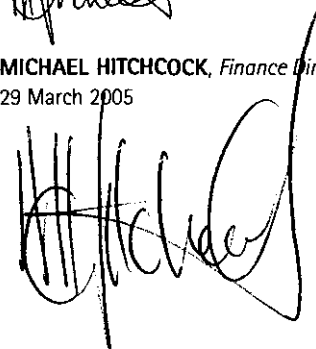
All European Union Listed companies are required to adopt International Financial Reporting Standards for accounting periods beginning on or after 1 January 2005. In preparation for this, the Group has embarked on a process to review the impact of the adoption of IFRS upon its annual report and accounts.

Preliminary analysis of the likely impact on our reported numbers has taken place and the main areas impacted by the adoption of IFRS have been identified as accounting for lease incentives, share based payments, dividends, goodwill and deferred taxation. We will report on these matters in due course.

I look forward to helping Ottakar's manage the next stage of its profitable growth.



MICHAEL HITCHCOCK, Finance Director  
29 March 2005



## Sales increased by 12.7% to £173.2m during the period.

# Board of Directors

## Executive Directors

### *James Heneage, Managing Director (47)*

Founded Ottakar's plc in 1987 and is responsible for the overall control and direction of the business.

### *Michael Hitchcock, ACA, Finance Director (40)*

Joined Ottakar's plc as Finance Director in January 2005. Previously worked for MFI Furniture Plc, most recently as Commercial Finance Director, UK Retail & Developing Markets, and has held other senior positions in Rank Group plc and Diageo plc.

## Non-Executive Directors

### *Philip Dunne, Chairman (46)*

Co-founded Ottakar's, being appointed to the Board in 1987 and as Chairman in October 1997. An investment banker for 20 years, he is Non-Executive Chairman of Baronsmead VCT 4 plc, a venture capital trust, and a director of private companies and charities, including Ruffer LLP, an investment management firm.

### *David Adams (50)*

Appointed to the Board in December 2004. Group Finance Director and Deputy Chief Executive of House of Fraser Group plc. Senior Independent Non-Executive Director of Eidos plc.

### *Mark Fane (46)*

Appointed to the Board in February 1996. Executive Chairman of Waterers Landscape plc since 1990 until its sale in 2003. Chief Executive of Crocus.co.uk since 1999. Non-Executive Director of Graphite Enterprise Trust plc since 2000.

### *Christopher John Thornton (61)*

Appointed to the Board in February 1998. Senior Independent Non-Executive Director. Executive Chairman until his retirement in 2004, and now Non-Executive Director of Thorntons plc, the specialist retailer and manufacturer of high quality chocolate and confectionery. Non-Executive Director of JP Morgan Fleming European Fledgling Investment Trust plc.

# Directors' Report

The Directors present their annual report and the audited financial statements for the 52 weeks ended 29 January 2005.

## 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 4 to 11.

## Results and dividends

The profit of the Group for the 52 weeks ended 29 January 2005 is shown in the Consolidated Profit and Loss Account on page 28.

The Directors recommend a final dividend of 4.10 pence per share (2004: 3.50 pence per share) giving a total dividend of 6.50 pence per share (2004: 5.50 pence per share) for the 52 weeks to 29 January 2005.

## Directors

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

### Non-Executive Directors:

PM Dunne	(Chairman, Non-Executive Director and Chairman of the Nominations Committee)
DAR Adams	(Independent Non-Executive Director and Chairman of the Audit Committee, appointed 9th December 2004)
MW Fane	(Non-Executive Director)
CJ Thornton	(Senior Independent Non-Executive Director and Chairman of the Remuneration Committee)

### Executive Directors:

JA Heneage	(Managing Director)
MP Hitchcock	(Finance Director, appointed 24th January 2005)
EM Knighton	(Finance Director, resigned 30th November 2004)

## 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 29 March 2005.

	% of ordinary shares held	No. of ordinary shares held
Framlington Investment Management	12.72	2,771,165
JA Heneage	9.14	1,990,835
Morley Fund Management	8.66	1,885,718
Threadneedle Asset Management	6.91	1,504,844
Insight Asset Management	5.61	1,222,322
Aberforth Partners	5.60	1,220,283
PM Dunne	5.35	1,166,100
Foreign and Colonial Asset Management	3.53	769,122

# Directors' Report continued

## 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 29 January 2005 5p ordinary shares	At 31 January 2004 5p ordinary shares
<i>Executive</i>		
JA Heneage	1,990,835	2,140,835
MP Hitchcock	–	–
<i>Non-Executive</i>		
PM Dunne	1,166,100	1,136,100
DAR Adams	–	–
MW Fane	247,160	241,160
CJ Thornton	48,171	28,171

Between the end of the financial period and 29 March 2005, there were no changes in Directors' interest in the share capital of the Company.

## Employee Benefit Trust

Ottakar's operated an Employee Benefit Trust during the year funded by a loan from the Company. The trust holds 260,000 shares (1.19%) 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. The aggregate exercise price of the options is £350,000.

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

## Share capital

During the period, the Company issued 183,668 ordinary shares of 5p for £228,749 (2004: £2,502,127) to meet the exercise of share options by employees (2004: 1,345,239 ordinary shares of 5p). The nominal value of the shares issued was £9,183 (2004: £67,262).

## Employees

Ottakar's 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. Ottakar's has recently formalised the process of employee consultation so that employee views can be more effectively taken into account when making decisions that affect their interests. The Group has also undertaken formal and confidential employee surveys on a range of issues which are used to inform the development of employee strategy where appropriate.

The Group provides equality of opportunity for all employees and in particular ensures that fair selection and development procedures apply. Ottakar's 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 Ottakar's policy to grant options to all its senior employees in order to attract, retain and motivate the best quality staff. All store managers employed at the date of flotation were granted options under this policy. The Group also has in place Save As You Earn Schemes to facilitate greater participation of employees in future financial success.



#### **Corporate Social Responsibility and Donations**

In 2004, the Group established the Ottakar's Charitable Trust, which is intended to harness the enthusiasm of our staff and customers to raise money for charitable causes. The first appeal in August 2004 raised funds for the children of Deogarh, an area of Rajasthan in northern India. During the period under review, the Group made charitable donations of £51,405 (2004: £1,400) of which £48,882 was to the Ottakar's Charitable Trust (2004: £nil). There were no political donations during the year (2004: £nil).

#### **Policy on payment to suppliers**

Ottakar's 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 29 January 2005 was 60 days (2004: 63 days).

#### **Annual General Meeting**

The Annual General meeting will be held on Wednesday 11 May 2005 at 3.00pm at the offices of Teather and Greenwood Limited, Beaufort House, 15 St Botolph Street, London, EC3A 7QR. Notice is sent to shareholders separately with this report together with an explanation of special business to be considered at the meeting.

#### **Auditors**

In accordance with Section 384 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  
*Rebecca Kong*  
Company Secretary  
29 March 2005

# Directors' Remuneration Report

## Introduction

The report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002, which introduced new statutory requirements for the disclosures of Directors' Remuneration. The Regulations require the auditors to report to the Company's members on the "auditable part" of the Directors' Remuneration Report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). Sections that are audited are identified within the report.

## The Remuneration Committee

The Remuneration Committee is made up of the four Non-Executive Directors, and is chaired by CJ Thornton. Contrary to the provisions of the Combined Code the committee is not made up exclusively of Independent Non-Executive Directors, as PM Dunne and MW Fane are not deemed to be independent under the provisions. Mr Dunne is co-founder of the Company and holds more than 5% of the issued share capital. Mr Fane has served as a Non-Executive Director for more than nine years and so is no longer considered independent as defined under the terms of the Combined Code. The Board considers that the composition of the Remuneration Committee is sufficient to ensure that a fair and balanced assessment of the Company's remuneration policy takes place.

The Committee has specific terms of reference and meets at least twice a year. Four meetings of the Remuneration Committee took place during the period under review. In framing its remuneration policy, the Board has given full consideration to the matters set out in the Combined Code.

The Committee agrees with the Board the framework and policy for remuneration and determines on behalf of the Board the terms and conditions of employment of the Executive Directors, including levels of remuneration and other benefits. The Board agrees the remuneration of the Non-Executive Directors. The Remuneration Committee has access to independent advice where it considers it to be appropriate. No such advice has been sought during the period under review.

## 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.

The package for each Executive Director currently comprises a basic salary, an annual bonus scheme, share incentives, pension contributions and benefits.

The structure of the package has been chosen because it is believed that it meets the criteria set out above and because it is aligned with shareholder interest to the extent that bonuses and the exercise of share options are dependent in large part upon the overall profitability of the Company.

## Share Option Schemes

Details of the performance criteria attached to the share options schemes are as follows:

### *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. All Executive Directors are members of this scheme.

## 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. Bonuses are not pensionable.

### 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.

The remuneration policy discussed above will continue in place over the coming year. Details of the agreed basic salary levels for 2005/06 are given in page 18 of this report.

### 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.

Details of the contracts currently in place for directors who have served during the period is as follows:

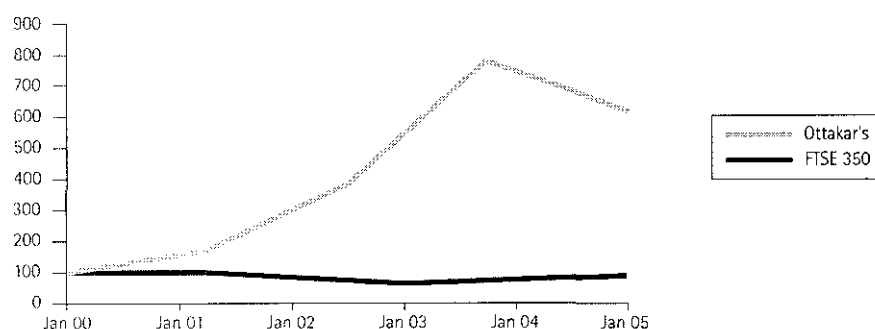
	Date of contract	Notice period
<i>Executive</i>		
JA Heneage	6 April 1998	12 months
MP Hitchcock	24 January 2005	12 months
<i>Non-Executive</i>		
PM Dunne	6 April 1998	3 months
DAR Adams	9 December 2004	3 months
MW Fane	6 April 1998	3 months
CJ Thornton	6 April 1998	3 months

None of the contracts terminate on a fixed date and there is no provision for compensation for loss of office.

In September 2004, agreement was reached with EM Knighton that he should resign as Finance Director. Under this agreement he worked out two months of his notice period and was paid the balance of his contractual entitlement under his service contract at a one-off cost to the Company. Details of his financial settlement are set out in page 18 of this report.

### Total shareholder return

The following graph charts the total cumulative shareholder return of the company since January 2000. The graph was rebased to 100 at this date.



The index selected was the FTSE 350 as this was considered to be most appropriate comparator.

# Directors' Remuneration Report continued

## Directors' Remuneration

The auditors are required to report on the information contained in this section of the report.

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

	Salary	Bonus	Benefits in Kind	Payment on Termination of Service Contract	2005 Total	2005 Pension	2004 Total	2004 Pension
	£000	£000	£000	£000	£000	£000	£000	£000
<i>Executive</i>								
JA Heneage	159	–	17	–	176	16	171	14
MP Hitchcock	3	–	–	–	3	–	–	–
EM Knighton	98*	–	2	103**	203	9	115	10
<i>Non-Executive</i>								
PM Dunne	39	–	12	–	51	–	41	–
DAR Adams	4	–	–	–	4	–	–	–
MW Fane	21	–	–	–	21	–	20	–
CJ Thornton	21	–	–	–	21	–	20	–
<b>Total</b>	<b>345</b>	<b>–</b>	<b>31</b>	<b>103</b>	<b>479</b>	<b>25</b>	<b>367</b>	<b>24</b>

\* Includes £8,000 cash allowance in lieu of company car. \*\* Includes £94,000 salary and £9,000 pension contributions made in lieu of notice.

Benefits in kind consist primarily of company cars, private health cover and the provision of secretarial support for Mr Dunne.

The pension figures shown above are the group's contribution to the defined contribution personal pension scheme in respect of directors.

Salaries for 2005/06 are as follows:

	£000
<i>Executive</i>	
JA Heneage	160
MP Hitchcock	140
<i>Non-Executive</i>	
PM Dunne	40
DAR Adams	25
MW Fane	22
CJ Thornton	22
<b>Total</b>	<b>409</b>

### Directors' Interests in Share Options

The auditors are required to report on the information contained in this section of the report.

The number of share options attributable to each Director who served during the period at 29 January 2005 was as follows:

	As at 31 January 2004	Granted in the period	Exercised in the period	As at 29 January 2005	Exercise price	Exercise period
<i>Executive</i>						
JA Heneage						
Second Unapproved scheme	99,800	-	-	<b>99,800</b>	153p	April 2001-April 2005
MP Hitchcock						
Approved scheme	-	10,169	-	<b>10,169</b>	295p	January 2008-January 2015
Second Unapproved scheme	-	89,831	-	<b>89,831</b>	295p	January 2008-January 2012
EM Knighton						
Second Unapproved scheme	73,077	-	73,077	-	39p	-
SAYE scheme	9,588	-	-	<b>9,588</b>	35.2p	December 2004-May 2005
SAYE scheme	2,384	-	-	<b>2,384</b>	309.5p	December 2004-May 2005

During the period under review, Mr EM Knighton exercised 73,077 options held under the Second Unapproved scheme. At the date of exercise, the market price was 363p, with a total market value of £265,269. The gain made on the exercise of the share options was £236,769.

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

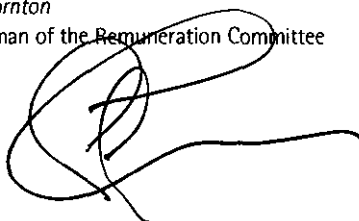
The mid-market quoted share price as at 29 January 2005 was 276p. During the 52 weeks to 29 January 2005 the share price traded in the range between 275p and 409p.

Performance criteria for the above schemes are detailed earlier in this report.

The remuneration report was approved by the Board of Directors on 29 March 2005 and was signed on its behalf by:

*CJ Thornton*

Chairman of the Remuneration Committee



# 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 as set out in section 1 of the Combined Code. Except as detailed below, the Board considers that, throughout the 52 weeks ended 29 January 2005, the Group complied with the provisions of the revised Combined Code issued in July 2003.

## Board of Directors

The Group is committed to maintaining a balance of Executive and Non-Executive Directors. The current Board comprises six members, the Chairman, three other Non-Executive Directors and two Executive Directors. Biographical details for each Director are set out in page 12. The Chairman is PM Dunne, the Chief Executive is JA Heneage and the Senior Independent Non-Executive Director is CJ Thornton. Of the Non-Executive Directors, CJ Thornton and DAR Adams are considered to be independent as defined by the revised Combined Code.

Details of the Chairman's professional commitments are included in his biography. The Board is satisfied that the Chairman's commitments are not such as to interfere with the performance of his duties as Chairman of the Company which are based around a commitment of approximately 1-2 days per month.

The Board considers DAR Adams and CJ Thornton to be independent in character and judgement. No Independent Non-Executive Director:

- has been an employee of the Group within the last five years;
- has, or has had within the last three years a material business relationship with the Group;
- receives remuneration other than a director's fee;
- has close family ties with any of the Group's advisors, Directors or senior employees;
- holds cross-directorships or has significant links with other Directors through involvement in other companies or bodies; or
- represents a significant shareholder.

The Board is responsible for the leadership and control of the Company. 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 has delegated certain responsibilities to the Board Committees, the key committees being the Remuneration Committee, the Audit Committee and the Nominations Committee.

During the period under review, the Board sought to strengthen the balance of Independent Non-Executive Directors by appointing DAR Adams to the Board as Non-Executive Director and Chairman of the Audit Committee.

Throughout the period under review, all Directors have had access to the Company Secretary's services informally and through Board meetings. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

## Division of Responsibilities

The Combined Code recommends that there should be a clear division of responsibilities between the Chairman and Managing Director. The Group is committed to this principle. The Chairman is primarily responsible for running the Board while the Managing Director is responsible for the overall strategy and direction of the Group and for implementing Board strategy and policy.

### Timeliness and Quality of Board Information

The number of full scheduled Board meetings and committee meetings attended by each Director during the period under review was as follows:

	Board	Audit Committee	Remuneration Committee	Nominations Committee
PM Dunne	7 (7)	3 (3)	4 (4)	3 (3)
JA Heneage	7 (7)	NA	NA	NA
MP Hitchcock	0 (0)	NA	NA	NA
EM Knighton	6 (7)	NA	NA	NA
DAR Adams	0 (0)	0 (0)	1 (1)	1 (1)
MW Fane	7 (7)	3 (3)	3 (4)	3 (3)
CJ Thornton	7 (7)	3 (3)	4 (4)	3 (3)

Figures in brackets show the maximum number of meetings in the period in which the member was a Board Director.

The Board ensures that Directors are properly briefed in advance of Board meetings and additional information is available on request. A formal agenda is drawn up and all members are given the opportunity to include items on the agenda.

Board papers are circulated one week in advance of Board meetings in order that the Board can arrive at properly informed decisions. Full minutes and agreed action points are included in the Board papers and reviewed at each Board meeting.

### Nominations Committee

During the period under review, the Board established a Nominations Committee, chaired by PM Dunne. Its members comprise the Non-Executive Directors. The Nominations Committee meets not less than once a year and three meetings of the Nominations Committee took place during the period under review.

The Nominations Committee has specific terms of reference and is responsible for reviewing the structure, size and composition of the Board and for making recommendations with regard to any changes. The Committee is also responsible for succession planning, defining and monitoring the time commitments of the Non-Executive Directors, and the implementation of clearly defined areas of responsibilities for all Board members.

### Board Appointments

The Board considers that appointments to the Board have followed a rigorous and transparent process. The Nominations Committee engaged the services of external consultants when recruiting for the Board positions during the period under review. Job descriptions were drawn up and CVs of prospective candidates were circulated to all Board members. All Non-Executive Directors were given the opportunity to meet with the short-listed candidates prior to approval and appointment to the Board.

Directors are elected on the basis of their level of competence and experience. On joining the Board, new Directors receive an induction pack containing key information appropriate for discharging Directors' duties. 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.

# Corporate Governance continued

## Evaluation of Board

During the period, the Board has undertaken an informal review of the performance of the Directors, and has considered the need to refresh progressively the composition of the Board. It is the policy of the Non-Executive Directors to hold an annual meeting without the presence of the Executive Directors and such a meeting took place during the period under review.

The Board recognises the need to conduct a formal and rigorous review of the effectiveness of the Board. Since the period under review, a process of formal evaluation of the Directors has commenced and will be embedded into the Board's ongoing responsibilities.

## Re-election of Directors

The Board has established procedures for the regular re-election of Directors. In line with the requirements of the Combined Code, each Director offers himself for re-election every three years.

Accordingly, JA Heneage and PM Dunne will offer themselves for re-election at the forthcoming Annual General Meeting.

DAR Adams and MP Hitchcock, both of who have been appointed since the last Annual General Meeting will also stand for re-election at the Annual General Meeting in May 2005.

In accordance with the Combined Code, MW Fane, being a Non-Executive Director having served more than 9 years, will offer himself for annual re-election.

Messrs Heneage and Hitchcock have service contracts that are terminable by the Company on 12 months notice. Messrs Dunne, Adams, Fane and Thornton have service contracts that are terminable by the Company on 3 months notice.

## Audit Committee

The Audit Committee consists of the four Non-Executive Directors and is chaired by DAR Adams. Contrary to the provisions of the Combined Code the Committee is not made up exclusively of Independent Non-Executive Directors, as PM Dunne and MW Fane are not deemed to be independent under the provisions. Mr Dunne is co-founder of the Company and holds more than 5% of the issued share capital. Mr Fane has served as a Non-Executive Director for more than nine years and so is no longer considered independent as defined under the terms of the Combined Code.

The Committee meets at least twice each period and three such meetings took place during the period under review. The Audit Committee has written *terms of reference*. It monitors the integrity of the financial statements of the Group and reviews the significant financial reporting judgements contained in them. It is responsible for the monitoring and review of the effectiveness of the internal audit function and for reviewing the company's internal financial controls. The Committee is responsible for overseeing the Group's relations with the external auditor. It is responsible for reviewing arrangements by which staff of the company may in confidence raise concerns about possible improprieties in matters of financial reporting or other matters. The external auditors attend all meetings of the Audit Committee and have direct access to the Committee Chairman.

In 2004, the Audit Committee discharged its responsibilities by:

- reviewing the Group's draft financial statements for the period ended 29 January 2005 and the July 2004 interim statements prior to formal Board approval and reviewing the external auditors' detailed reports thereon;
- reviewing the Group's January trading update announcement prior to release;
- reviewing the potential impact in the Group's financial statements on certain matters such as proposed International Accounting Standards;
- reviewing an annual report on the Group's system of internal control and its effectiveness;
- receiving updates on the work of the Risk Management Function and reviewing and approving its strategy;
- reviewing and approving the audit fee for the period ended 29 January 2005 and reviewing non-audit fees payable to the Group's external auditors in 2004;
- reviewing the external auditor's plan for the audit of the Group for the period ended 29 January 2005, which included key areas of extended scope work, key risks on the accounts, confirmations of the auditor's independence and the proposed audit fee.

The Board recognises the importance of maintaining an objective and effective audit committee. Accordingly, during the period under review, MW Fane, who is no longer considered independent under the terms of the Combined Code, resigned as Chairman of the Audit Committee and was replaced by DAR Adams, an Independent Non-Executive Director with strong financial experience within the retail sector.



#### **Auditors' Independence and Objectivity**

The Audit Committee is responsible for managing the ongoing relationship with the external auditors, including their appointment, reappointment and removal.

The Audit Committee monitors the non-audit services being provided to the Group by its external auditors to ensure that they would not impair the independence and objectivity of the external auditors. Such an evaluation will be put in place during the current financial period and from time to time thereafter. Details of the amounts paid to the external auditors during the period under review for audit and other services are detailed in note 3 to the financial statements.

#### **Whistle blowing**

Open and honest dialogue with employees is embedded within the culture of Ottakar's and channels of communication are in place whereby staff may raise any concerns they have with the business or its staff. The Board has sought to strengthen this position by developing a formal policy by which staff may in confidence, raise concerns about possible improprieties in financial matters or other areas. This policy will be issued in the first half of the current financial year.

#### **Directors' Remuneration**

A detailed report which sets out the Group's compliance with the provisions of the Combined Code is set out in the Directors' Remuneration Report on pages 16 to 19.

#### **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. Regular meetings with institutional shareholders have taken place during the period under review with both Executive and Non-Executive Directors.

Throughout the period under review the Senior Independent Non-Executive Director has been available to meet with all major shareholders, although no requests for such a meeting were received.

All shareholders are invited to the Annual General Meeting at which the annual report is presented. All 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 4 to 11.

# Corporate Governance continued

## 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.

The organisational structure of the group is clearly defined, ensuring that responsibilities and tasks are appropriately assigned.

Having identified last year that the Group was of a size where a formal internal audit function should be created, a Head of Risk Management was appointed in April 2004. The Risk Management function has developed during the year to include the work of the Loss Prevention team and the recent recruitment of two internal auditors. The primary focus of work has been on the financial processes and controls at a store level, culminating in the introduction of a comprehensive store audit program for the coming year.

During the period under review internal audit work was undertaken based on a pre-determined programme of work arising from the risk review process. A detailed review of the risks across the existing IT infrastructure and centrally provided systems was completed. Summary reports of these audits were presented to the members of the Board. The result 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.

An IT Steering Committee was established during the year with terms of reference to raise and resolve matters across the business arising from enhancements to, and the introduction of, new systems to ensure that control risks are effectively managed. A Health & Safety Committee was introduced to oversee all aspects of health and safety pertaining to employees and customers in our stores.

The Head of Risk Management undertook a review of the risks across the business and how these are managed. The findings were presented to the Board. A review of the effectiveness of the group's internal controls was conducted and presented to 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.

## 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.

# Advisors

## **Auditors**

KPMG Audit Plc  
8 Salisbury Square  
London  
EC4Y 8BB

## **Solicitors**

Laytons  
Carmelite  
50 Victoria Embankment  
London  
EC4 0LS

## **Registered Number**

2133199

## **Company Secretary**

Rebecca Kong, ACA

## **Stockbrokers**

Teather & Greenwood Limited  
Beaufort House  
15 St Botolph Street  
London  
EC3A 7QR

## **Registrars**

Capita IRG Plc  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

## **Bankers**

Bank of Scotland  
Head Office  
The Mound  
Edinburgh  
EH1 1YZ

## **Registered Office**

St John's House  
72 St John's Road  
London  
SW11 1PT

# 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 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 Group and to prevent and detect fraud and other irregularities.

# Independent Auditors' Report to the members of Ottakar's plc

KPMG Audit Plc  
8 Salisbury Square  
London  
EC4Y 8BB  
United Kingdom

We have audited the financial statements on pages 28 to 45. We have also audited the information in the directors' remuneration report that is described as having been audited.

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

## Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 26, 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 whether the financial statements and the part of the directors' remuneration report to be audited have been 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 regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the corporate governance statement on page 20 to 24 reflects the company's compliance with the nine provisions of the 2003 FRC 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 the unaudited part of the directors' remuneration report, 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 and the part of the directors' remuneration report to be audited. 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 and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be audited.

## 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 29 January 2005 and of the profit of the group for the 52 week period then ended; and
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor

29 March 2005

*KPMG Audit Plc*

# Consolidated Profit and Loss Account

	Note	52 Weeks to 29 January 2005 £000	52 Weeks to 31 January 2004 £000
Turnover	1	173,172	153,657
Cost of sales		(98,666)	(88,822)
<b>Gross Profit</b>		<b>74,506</b>	<b>64,835</b>
Selling and distributing costs before exceptional items		(56,441)	(48,757)
Exceptional items	2	(115)	(1,222)
Selling and distributing costs		(56,556)	(49,979)
Administration expenses before exceptional items		(9,683)	(7,927)
Exceptional items	2	(66)	-
Administration expenses		(9,749)	(7,927)
<b>Operating profit</b>	3	<b>8,201</b>	<b>6,929</b>
Other interest receivable and similar income		5	2
Interest payable and similar charges	5	(1,118)	(813)
<b>Profit on ordinary activities before taxation</b>		<b>7,088</b>	<b>6,118</b>
Taxation on profit on ordinary activities	6	(2,639)	(2,242)
<b>Profit for the financial period</b>		<b>4,449</b>	<b>3,876</b>
Equity dividends paid and proposed	8	(1,397)	(1,167)
<b>Retained profits for the period for equity shareholders</b>	19	<b>3,052</b>	<b>2,709</b>
<b>Earnings per share:</b>	9		
Basic earnings per share		20.77p	18.60p
Diluted earnings per share		20.32p	18.26p

All of the results presented above derive from continuing business activities.

There were no recognised gains or losses other than the gains reported above. Accordingly, no statement of recognised gains or losses has been presented.

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.

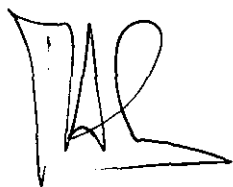
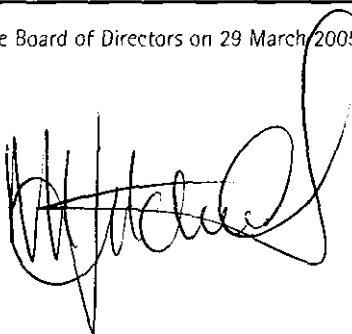
# Consolidated Balance Sheet

	Note	29 January 2005 £000	31 January 2004 Restated £000
<b>Fixed assets</b>			
Intangible assets	10	674	722
Tangible assets	11	33,882	30,552
		<b>34,556</b>	<b>31,274</b>
<b>Current assets</b>			
Stocks	13	32,606	28,500
Debtors	14	6,732	4,696
Cash at bank and in hand		221	187
		<b>39,559</b>	<b>33,383</b>
<b>Creditors: Amounts falling due within one year</b>	15	<b>(35,265)</b>	<b>(27,593)</b>
<b>Net current assets</b>		<b>4,294</b>	<b>5,790</b>
<b>Total assets less current liabilities</b>		<b>38,850</b>	<b>37,064</b>
<b>Creditors: Amounts falling due after more than one year</b>	16	<b>(11,785)</b>	<b>(13,518)</b>
<b>Provisions for liabilities and charges</b>	17	<b>(1,127)</b>	<b>(889)</b>
<b>Net assets</b>		<b>25,938</b>	<b>22,657</b>
<b>Capital and reserves</b>			
Called up share capital	18	1,089	1,080
Share premium account	19	8,782	8,562
Capital redemption reserve	19	512	512
Profit and loss account	19	15,555	12,503
<b>Equity shareholders' funds</b>	20	<b>25,938</b>	<b>22,657</b>

These financial statements were approved by the Board of Directors on 29 March 2005.

JA Heneage  
Director

MP Hitchcock  
Director

# Company Balance Sheet

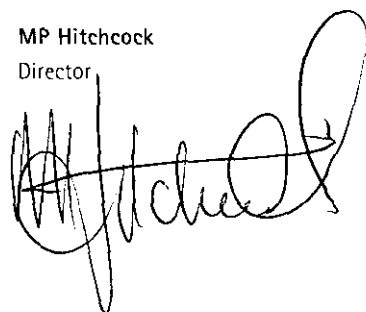
	Note	29 January 2005 £000	31 January 2004 Restated £000
<b>Fixed assets</b>			
Intangible assets	10	674	722
Tangible assets	11	33,882	30,552
Investments	12	200	200
		<b>34,756</b>	<b>31,474</b>
<b>Current assets</b>			
Stocks	13	32,606	28,500
Debtors	14	6,732	4,696
Cash at bank and in hand		221	187
		<b>39,559</b>	<b>33,383</b>
<b>Creditors: Amounts falling due within one year</b>	15	<b>(35,462)</b>	<b>(27,790)</b>
<b>Net current assets</b>		<b>4,097</b>	<b>5,593</b>
<b>Total assets less current liabilities</b>		<b>38,853</b>	<b>37,067</b>
<b>Creditors: Amounts falling due after more than one year</b>	16	<b>(11,785)</b>	<b>(13,518)</b>
<b>Provisions for liabilities and charges</b>	17	<b>(1,127)</b>	<b>(889)</b>
<b>Net assets</b>		<b>25,941</b>	<b>22,660</b>
<b>Capital and reserves</b>			
Called up share capital	18	1,089	1,080
Share premium account	19	8,782	8,562
Capital redemption reserve	19	512	512
Profit and loss account	19	15,558	12,506
<b>Equity shareholders' funds</b>	20	<b>25,941</b>	<b>22,660</b>

These financial statements were approved by the Board of Directors on 29 March 2005.

JA Heneage  
Director



MP Hitchcock  
Director





# Consolidated Cash Flow Statement

	Note	52 Weeks to 29 January 2005 £000	52 Weeks to 31 January 2004 £000
<b>Net cash inflow from operating activities</b>	21	<b>7,544</b>	<b>9,332</b>
<b>Returns on investments and servicing of finance</b>			
Interest received		5	2
Interest paid		(1,109)	(703)
Interest element of finance lease rental payments		(30)	(37)
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(1,134)</b>	<b>(738)</b>
<b>Taxation</b>		<b>(2,543)</b>	<b>(1,999)</b>
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets		(9,387)	(10,441)
Receipts from sales of tangible fixed assets		426	483
<b>Net cash outflow from capital expenditure and financial investment</b>		<b>(8,961)</b>	<b>(9,958)</b>
<b>Acquisitions and disposals</b>			
Net overdraft acquired with the business		-	(601)
Acquisition of business		-	(3,550)
<b>Net cash outflow from acquisitions and disposals</b>		<b>-</b>	<b>(4,151)</b>
<b>Equity dividends paid</b>		<b>(1,262)</b>	<b>(930)</b>
<b>Net cash outflow before financing</b>		<b>(6,356)</b>	<b>(8,444)</b>
<b>Financing</b>			
Term loan		(2,000)	5,000
Gross proceeds from issue of share capital		229	2,502
Capital element of finance lease payments		(82)	(75)
<b>Net cash (outflow)/inflow from financing</b>		<b>(1,853)</b>	<b>7,427</b>
<b>Decrease in cash</b>	22	<b>(8,209)</b>	<b>(1,017)</b>

# Notes to the Financial Statements

## 1. Accounting Policies

### Basis of preparation

The financial statements have been prepared on a 52 week basis (2004: 52 weeks), and are prepared under the historical cost convention and in accordance with applicable accounting standards.

The Group's year end falls on the last Saturday of January.

The Group has adopted UITF 38 "Accounting for ESOP Trusts" ("UITF 38") in the period. Under UITF 38 the Company's own shares held in the ESOP trust are deducted from the shareholder's funds until they vest unconditionally with employees. Previously, the cost of the investment was shown within Fixed Asset Investments. This application of this change has been treated as a prior period adjustment with the comparatives restated accordingly. The impact of the change to the 2004 comparatives is to reduce Fixed Asset Investments and Shareholder's Funds by £350,000. If UITF 38 had not been adopted, Fixed Asset Investments and Shareholder's Funds would be £350,000 higher at 29 January 2005.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements.

### 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.

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of the subsidiary undertaking acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

### Goodwill

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

#### Positive goodwill

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

#### Negative goodwill

Negative goodwill up to the fair values of the non-monetary assets acquired is included in fixed assets and released to the profit and loss account in the periods in which the fair values of the non-monetary assets are recovered, whether through depreciation or sale.

### 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:

Freehold buildings	-	over 50 years
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

Freehold land is not depreciated.

**Stocks**

Stocks are stated at the lower of cost and net realisable value. Stocks are calculated at retail prices and reduced by appropriate margins.

**Leased assets**

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

**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 net of discounts given. It includes concession income received. Turnover arose from a single class of business and was derived entirely from within the United Kingdom. Therefore no segmental analysis is disclosed.

**Onerous Leases**

Provision is made for the future rent expense and related costs of leasehold property (net of estimated sublease income) where a property remains empty or is sub-let at below head-rent.

**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.

**Employee Share Schemes**

The cost of awards to employees that take the form of shares or rights to shares are recognised over the period of the employee's related performance. No cost is recognised in respect of SAYE schemes that are offered on similar terms to all or substantially all employees.

# Notes to the Financial Statements continued

## 2. Exceptional Items

	52 Weeks to 29 January 2005 £000	52 Weeks to 31 January 2004 £000
<b>Restructuring of head office departments:</b>		
Selling and distribution costs	115	-
Administration expenses	66	-
Restructuring costs of acquired stores	-	531
Property disposal costs	-	691
	<b>181</b>	<b>1,222</b>

Exceptional costs of £181,000 were incurred in respect of the restructure of certain head office departments. These costs included the termination payments to senior managers as a result of the restructure.

## 3. Operating Profit

	52 Weeks to 29 January 2005 £000	52 Weeks to 31 January 2004 £000
<b>Operating profit is stated after charging/(crediting):</b>		
Impairment of tangible fixed assets	-	318
Depreciation of owned tangible fixed assets	5,580	4,542
Depreciation of tangible fixed assets held under finance leases	90	90
Amortisation of positive goodwill	48	49
Operating lease rentals:		
Land and buildings	16,663	14,522
Equipment	114	67
Rental income	(175)	(183)

Fees payable by the Group to KPMG Audit Plc and its associates for non-audit services principally comprise of further assurance services and tax advisory services as disclosed below:

	52 Weeks to 29 January 2005 £000	52 Weeks to 31 January 2004 £000
<b>Audit services</b>		
Statutory audit (Group and Company)	93	79
Non statutory audit	24	16
	<b>117</b>	<b>95</b>
<b>Further assurance services</b>		
Accounting advice	-	4
Transaction support	-	125
<b>Tax services</b>		
Compliance	45	10
	<b>45</b>	<b>139</b>
	<b>162</b>	<b>234</b>

#### 4. Staff Numbers and Costs

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

	52 Weeks to 29 January 2005 Number	52 Weeks to 31 January 2004 Number
Administration	105	90
Sales	1,918	1,695
	2,023	1,785
	£000	£000
Wages and salaries	23,096	20,109
Social security costs	1,844	1,573
Other pension costs	343	278
	25,283	21,960

Staff costs include £181,000 of cost which has been shown as exceptional (2004: Enil). Details of directors' emoluments are detailed in the Directors' Remuneration Report on pages 16 to 19.

#### 5. Interest Payable and Similar Charges

	52 Weeks to 29 January 2005 £000	52 Weeks to 31 January 2004 £000
On bank loans and overdrafts	1,088	776
Interest on finance leases	30	37
	1,118	813

#### 6. Taxation on Profit on Ordinary Activities

	52 Weeks to 29 January 2005 £000	52 Weeks to 31 January 2004 £000
Analysis of charge in the period		
<b>UK corporation tax</b>		
Current tax on income for the period at 30% (2004: 30%)	2,246	1,999
Adjustments in respect of prior periods	155	118
Total current tax	2,401	2,117
<b>Deferred tax (see note 17)</b>		
Origination of timing differences	238	125
Tax on profit on ordinary activities	2,639	2,242

# Notes to the Financial Statements continued

## 6. Taxation on Profit on Ordinary Activities (continued)

### Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2004: higher) than the 30% standard rate of corporation tax in the United Kingdom (2004: 30%). The differences are explained below.

	52 Weeks to 29 January 2005 £000	52 Weeks to 31 January 2004 £000
<b>Current tax reconciliation</b>		
Profit on ordinary activities before tax	7,088	6,118
Current tax rate at 30%	2,126	1,835
<b>Effects of:</b>		
Depreciation for period in excess of capital allowances	465	176
Other items treated differently for tax purposes (primarily the treatment of amortisation of goodwill and lease premia)	(345)	(12)
Adjustments to tax charge on respect of prior periods	155	118
<b>Total current tax charge (see above)</b>	<b>2,401</b>	<b>2,117</b>

The exceptional costs charged in the period (note 2) had a £54,000 credit impact on the current tax charge.

## 7. Profit Attributable to Members of the Parent Undertaking

The profit for the financial period dealt with in the accounts of the parent undertaking was £4,449,000 (2004: £3,876,000).

## 8. Dividends

	52 Weeks to 29 January 2005 £000	52 Weeks to 31 January 2004 £000
<b>Equity</b>		
Interim paid 2.4p per share (2004: 2.0p)	515	420
Final proposed 4.1p per share (2004: 3.5p)	882	747
<b>Total dividend 6.5p per share (2004: 5.5p)</b>	<b>1,397</b>	<b>1,167</b>

The final dividend will be paid on 13 May 2005 to shareholders on the register as at 15 April 2005.  
Shares held by the employee benefit trust have waived their right to receive dividends.

## 9. Earnings Per Share

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

	52 Weeks to 29 January 2005 Earnings £000	52 Weeks to 29 January 2005 Weighted Average Shares 000	52 Weeks to 29 January 2005 EPS pence	52 Weeks to 31 January 2004 Earnings £000	52 Weeks to 31 January 2004 Weighted Average Shares 000	52 Weeks to 31 January 2004 EPS pence
Basic	4,449	21,423	20.77	3,876	20,834	18.60
Additional shares issuable other than at fair value in respect of options outstanding		474			397	
Diluted	4,449	21,897	20.32	3,876	21,231	18.26

The weighted average number of shares excludes those held by the Employee Benefit Trust, which are treated as cancelled.

## 10. Intangible Fixed Assets

### Group and Company

	Positive Goodwill £000
Goodwill at cost	
At 31 January 2004 and 29 January 2005	976
Goodwill amortisation	
At 31 January 2004	254
Charge for period	48
At 29 January 2005	302
Goodwill net book value	
At 29 January 2005	674
At 31 January 2004	722

# Notes to the Financial Statements continued

## 11. Tangible Fixed Assets

	Freehold Land and Buildings £000	Short Leasehold Land and Buildings £000	Fixtures and Fittings £000	Office Equipment £000	Motor Vehicles £000	Total £000
<b>Group and Company Cost</b>						
At 31 January 2004	389	7,680	31,039	9,449	7	48,564
Additions	-	202	7,145	2,073	6	9,426
Disposals	(389)	-	(189)	-	-	(578)
<b>At 29 January 2005</b>	<b>-</b>	<b>7,882</b>	<b>37,995</b>	<b>11,522</b>	<b>13</b>	<b>57,412</b>
<b>Depreciation</b>						
At 31 January 2004	22	2,502	11,298	4,187	3	18,012
Charge for the period	1	548	3,516	1,602	3	5,670
Disposals	(23)	-	(129)	-	-	(152)
<b>At 29 January 2005</b>	<b>-</b>	<b>3,050</b>	<b>14,685</b>	<b>5,789</b>	<b>6</b>	<b>23,530</b>
<b>Net book value</b>						
<b>At 29 January 2005</b>	<b>-</b>	<b>4,832</b>	<b>23,310</b>	<b>5,733</b>	<b>7</b>	<b>33,882</b>
At 31 January 2004	367	5,178	19,741	5,262	4	30,552

Included within office equipment are assets with a gross book value of £450,000 (2004: £450,000), which are held under finance leases. Depreciation charged on these assets totalled £90,000 during the period (2004: £90,000). The assets had a net book value of £270,000 (2004: £360,000) at 29 January 2005.



## 12. Investments

### Company

	Note	Subsidiary Undertakings Restated £000
At 31 January 2004 and 29 January 2005	1	200

### 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. The company is incorporated in England and Wales.

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. The company is incorporated in England and Wales.

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

## 13. Stocks

### Group and Company

	29 January 2005 £000	31 January 2004 £000
Goods purchased for resale	32,606	28,500

## 14. Debtors

### Group and Company

	29 January 2005 £000	31 January 2004 £000
Trade debtors	369	417
Other debtors	837	114
Value Added Tax	707	170
Prepayments and accrued income	4,819	3,995
	6,732	4,696

Debtors all fall due within one year.

# Notes to the Financial Statements continued

## 15. Creditors: Amounts Falling Due Within One Year

	Group 29 January 2005 £000	Group 31 January 2004 £000	Company 29 January 2005 £000	Company 31 January 2004 £000
Bank loans and overdraft	10,783	2,540	10,783	2,540
Obligations under finance leases	89	82	89	82
Trade creditors	17,454	18,451	17,454	18,451
Amounts due to subsidiary undertakings	–	–	197	197
Corporation tax	910	1,052	910	1,052
Other creditors	1,451	1,200	1,451	1,200
Other taxes and social security	598	486	598	486
Accruals and deferred income	3,098	3,035	3,098	3,035
Proposed dividends	882	747	882	747
	35,265	27,593	35,462	27,790

## 16. Creditors: Amounts Falling Due After More Than One Year

### Group and Company

	29 January 2005 £000	31 January 2004 £000
Term loan	10,000	12,000
Obligations under finance leases	204	293
Deferred income	1,581	1,225
	11,785	13,518

Interest on the term loan is calculated at a rate between 1.0% and 1.5% above LIBOR. The loan is secured by a floating charge against the assets of the Group.

## 17. Provisions for Liabilities and Charges

### Group and Company

	Deferred Taxation £000
At 31 January 2004	889
Charged to profit and loss account (note 6)	238
At 29 January 2005	1,127

The deferred tax provision is made up as follows:

	29 January 2005 £000	31 January 2004 £000
Accelerated capital allowances	1,275	987
Other timing differences	(148)	(98)
	1,127	889

## 18. Share Capital

### Group and Company

	29 January 2005 Number	31 January 2004 Number	29 January 2005 £000	31 January 2004 £000
<b>Authorised:</b>				
Ordinary shares of 5p each	65,900,000	65,900,000	3,295	3,295
<b>Allotted, called up and fully paid:</b>				
Ordinary shares of 5p each	21,778,273	21,594,605	1,089	1,080

During the period, the Company issued 183,668 ordinary shares of 5p, with a nominal value of £9,183, for consideration of £228,748. The shares were issued under the Company share option schemes.

### Share Options

Share options outstanding at 29 January 2005 were as follows:

Scheme	No. of Shares	Exercise Price	Exercise Dates
Second Unapproved scheme	99,800	£1.53	April 2001 – April 2005
	46,814	£2.28	January 2002 – January 2006
	220,000	£1.26	November 2004 – November 2008*
	21,667	£2.25	May 2006 – May 2010
	20,882	£3.29	November 2006 – November 2010
	83,565	£3.64	October 2007 – October 2011
	89,831	£2.95	January 2008 – January 2012
Approved scheme	78,428	£1.53	April 2001 – April 2008
	13,186	£2.28	January 2002 – January 2009
	40,000	£1.26	November 2004 – November 2011*
	13,333	£2.25	May 2006 – May 2013
	9,118	£3.29	November 2006 – November 2013
	211,435	£3.64	October 2004 – October 2011
	10,169	£2.95	January 2008 – January 2015
SAYE	106,422	£0.35	October 2005 – March 2006
	63,687	£3.10	December 2006 – May 2007
	31,218	£3.92	July 2007 – December 2007

\* Shares held under the Employee Benefit Trust.

# Notes to the Financial Statements continued

## 19. Reserves

	Note	Share Premium (Group and Company) £000	Capital Redemption Reserve (Group and Company) £000	Profit and Loss Account (Group) £000	Profit and Loss Account (Company) £000
At 31 January 2004 as previously stated		8,562	512	12,853	12,856
Prior period adjustment	1	-	-	(350)	(350)
At 31 January 2004 as restated		8,562	512	12,503	12,506
Retained profit for the period		-	-	3,052	3,052
Issue of shares		220	-	-	-
<b>At 29 January 2005</b>		<b>8,782</b>	<b>512</b>	<b>15,555</b>	<b>15,558</b>

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

The profit and loss reserve (Group and Company) is net of £350,000 in relation to shares acquired by the employee benefit trust.

The employee benefit trust, funded by a loan from the Company holds 260,000 shares with a total nominal value of £13,000. The market value of the shares at 29 January 2005 was 276p (total value £717,000). (2004: market value 356p per share, £925,600 total). 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 Remuneration Report on pages 16 to 19.

## 20. Reconciliation of Movements in Shareholders' Funds

	Group		Company	
	52 Weeks to 29 January 2005 £000	52 Weeks to 31 January 2004 £000	52 Weeks to 29 January 2005 £000	52 Weeks to 31 January 2004 £000
Profit for the financial period	4,449	3,876	4,449	3,876
Dividends	(1,397)	(1,167)	(1,397)	(1,167)
Retained profit for the period	3,052	2,709	3,052	2,709
Net proceeds from the issue of shares	229	2,502	229	2,502
	3,281	5,211	3,281	5,211
Equity shareholders' funds at the beginning of the period*	22,657	17,446	22,660	17,449
Equity shareholders' funds at the end of the period	25,938	22,657	25,941	22,660

\*Originally Group £23,007,000 (Group 2004: £17,796,000) and Company of £23,010,000 (Company £17,799,000) before deducting prior year adjustment of £350,000.

## 21. Reconciliation of Operating Profit to Net Cash Inflow From Operating Activities

	52 Weeks to 29 January 2005 £000	52 Weeks to 31 January 2004 £000
Operating profit	8,201	6,929
Impairment of tangible fixed assets	-	318
Depreciation of tangible fixed assets	5,670	4,632
Amortisation of positive goodwill	48	49
Increase in stocks	(4,106)	(2,721)
(Increase)/decrease in debtors	(2,036)	215
Decrease in creditors	(233)	(90)
Net cash inflow from operating activities	7,544	9,332

Exceptional items charged in the period (note 2) had £nil cash impact in the period.

## 22. Reconciliation of Cash Flows to Net Debt

	52 Weeks to 29 January 2005 £000	52 Weeks to 31 January 2004 £000
Decrease in cash in the period	(8,209)	(1,017)
Cash outflow/(inflow) from decrease/(increase) in debt and lease financing	2,082	(4,925)
Change in debt from cash flows	(6,127)	(5,942)
New finance leases	-	(450)
Net debt brought forward	(14,728)	(8,336)
Net debt carried forward	(20,855)	(14,728)

## 23. Analysis of Net Debt

	At 31 January 2004 £000	Cash Flows £000	At 29 January 2005 £000
Cash at bank and in hand	187	34	221
Bank overdraft	(2,540)	(8,243)	(10,783)
	(2,353)	(8,209)	(10,562)
Long term loan	(12,000)	2,000	(10,000)
Finance leases	(375)	82	(293)
Total	(14,728)	(6,127)	(20,855)

# Notes to the Financial Statements continued

## 24. Major Non-Cash Transactions

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

## 25. Commitments

### Operating Leases

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

	29 January 2005 £000	31 January 2004 £000
<b>Equipment leases expiring</b>		
Within one year	89	176
In the second to fifth year inclusive	149	135
<b>Building leases expiring</b>		
Within one year	170	-
In the second to fifth year inclusive	1,197	1,091
After five years	16,125	14,563
	<b>17,730</b>	<b>15,965</b>

### Capital Commitments

The Group had contracted capital expenditure of £3m at 29 January 2005 (2004: £nil), arising from contracted fit out costs for stores due to open in 2005, and from certain committed IT projects.

## 26. Financial Instruments

The Group's financial instruments comprise borrowings, obligations under finance leases, 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:

	29 January 2005 Fixed Rate £000	29 January 2005 Floating Rate £000	29 January 2005 Total £000	31 January 2004 Fixed Rate £000	31 January 2004 Floating Rate £000	31 January 2004 Total £000
Financial assets	221	-	221	187	-	187
Financial liabilities	(293)	(20,783)	(21,076)	(375)	(14,540)	(14,915)

The Groups' borrowings attract interest at a floating rate linked to LIBOR. (See note 16).

The Groups' assets do not attract interest.

### 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:

	29 January 2005 £000	31 January 2004 £000
In less than one year	10,872	2,622
In more than one year, but no more than two years	10,098	12,089
In more than two years, but no more than five years	106	204
Total	21,076	14,915

At 29 January 2005, the Group had available £3.7m (31 January 2004: £12.1m) undrawn overdraft facilities. These expire within one year. (2004: within one year).

Included within the financial liabilities are obligations under finance leases totalling £293,000 (2004: £375,000). £89,000 of the obligation is payable within one year (2004: £82,000), £98,000 in more than one year but no more than two years (2004: £89,000), and £106,000 (2004: £204,000) in more than two years but no more than five years.

The finance lease obligations bear interest at a fixed rate of 8.8% per annum. The interest rate is fixed over the period of the finance lease, which is more than one year.

# Five Year Summary

Year ending January	2001 £000	2002 £000	2003 £000	2004 £000	2005 £000
Turnover	86,287	98,049	114,839	153,657	173,172
Gross profit	33,532	38,897	47,729	64,835	74,506
Operating profit	3,516	4,616	5,625	6,929	8,201
(Loss)/profit on sale of fixed assets	4	(53)	-	-	-
Net interest	(724)	(560)	(525)	(811)	(1,113)
Profit before tax	2,796	4,003	5,100	6,118	7,088
Tax	(925)	(1,417)	(1,822)	(2,242)	(2,639)
Profit after tax	1,871	2,586	3,278	3,876	4,449
Dividends	(503)	(640)	(800)	(1,167)	(1,397)
Retained profit	1,368	1,946	2,478	2,709	3,052
Basic earnings per share (pence)	9.30p	12.88p	16.41p	18.60p	20.77p
Diluted earnings per share (pence)	9.28p	12.70p	16.18p	18.26p	20.32p
Net asset value	13,279	14,918	17,446	22,657	25,938

The table above has been restated for UITF 38 (note 1). The results for 2003 are for a 53 week period. All other periods are 52 weeks.



# Notice of Annual General Meeting continued

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 Botolph Street, London EC3A 7QR on Wednesday, 11 May 2005 at 3.00pm for the following purposes:

## Ordinary Business:

1. To receive the Annual Report and Accounts of the Company for the 52 weeks ended 29 January 2005 together with the report of the Auditors.
2. To receive the Directors' Remuneration Report for the 52 weeks ended 29 January 2005 set out in pages 16 to 19 of the Annual Report and Accounts of the Company for the 52 weeks ended 29 January 2005.
3. To declare the final dividend for the 52 weeks ended 29 January 2005.
4. To re-elect as a Director James Arthur Heneage who retires by rotation but, being eligible, will be proposed for re-election.
5. To re-elect as a Director Philip Martin Dunne who retires by rotation but, being eligible, will be proposed for re-election.
6. To re-elect Michael Paul Hitchcock as a Director.
7. To re-elect David Alexander Robertson Adams as a Director.
8. To re-elect Mark William Fane as a Director who, as a Non-Executive Director who has served more than nine years on the Board, offers himself for annual re-election.
9. To re-appoint KPMG Audit Plc as Auditors for the period until the next Annual General Meeting.
10. To authorise the Directors to agree the remuneration of the Auditors.
11. 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 £358,638;
  - (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)
12. 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 £53,796  
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)

## Special Business:

13. To consider as a Special Resolution that pursuant to the Articles of Association of the Company and subject to the provisions of the Companies Act 1985 ("the Act") the Company be generally and unconditionally authorised to purchase by market purchase (as defined by Section 163 of the Act) up to 3,227,741 ordinary shares of 5p each in its own capital subject to the following:
  - (i) the purchase price for any shares so purchased shall not exceed a sum (exclusive of all expenses) equal to 105% of the average of the middle market quotations for ordinary shares for the five business days immediately preceding the day of purchase (as derived from the London Stock Exchange Daily Official List) and shall not be less than the nominal value of the share;
  - (ii) the authority shall expire on the earlier of the close of the following Annual General Meeting or the expiry of fifteen months from the date of the passing of this Resolution;
  - (iii) the Company may make a contract for purchase which would, or might, be executed wholly or partly after the expiry of the authority;
  - (iv) any shares purchased pursuant to the authority may be selected by the Directors in any manner as they from time to time deem appropriate.  
(See Explanatory Note 3)

# Notice of Annual General Meeting continued

14. To consider as an Ordinary Resolution that the Company be authorised to make Donations to EU Political Organisations and to incur EU Political Expenditure in aggregate amount not exceeding £25,000 during the period ending on the date of the next Annual General Meeting. For the purpose of this resolution the terms "Donations", "EU Political Organisations" and "EU Political Expenditure" have the meanings set out in section 347A of the Act, as amended by the Political Parties, Elections and Referendums Act 2000.

(See Explanatory Note 4)

By Order of the Board,  
29 March 2005  
**RMB Kong**  
Secretary

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

## Notes

1. Resolution 11 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 11 August 2006. The Directors have no present intention of exercising this authority.
2. Resolution 12 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 11 will expire at the conclusion of the following year's Annual General Meeting or 11 August 2006 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. Resolution 13 grants the Company authority to purchase by market purchase ordinary shares in its own capital; the authority is limited so that the aggregate nominal value of ordinary shares which can be so purchased may not exceed fifteen per cent (15%) of the Company's issued ordinary share capital, and the amount which may be paid for such shares may not exceed a sum equal to one hundred and five per cent (105%) of the average middle market quotations for such shares for the five business days immediately preceding the purchase.

This authority to purchase ordinary shares in the capital of the Company by market purchase shall expire at the conclusion of the following year's Annual General Meeting or 11 August 2006 if sooner.

The Directors have no present intention of exercising this authority.

4. The Political Parties, Elections and Referendums Act 2000 ("PPERA") came into force on 16 February 2001 and amongst other things requires companies to seek prior shareholder approval for any EU political donations or expenditure in any twelve month period. It has been, and continues to be, the Company's policy not to make donations to political parties. However, the definitions of "Donations", "EU Political Organisations" and "EU Political Expenditure" are very widely drafted and the Company has been advised that the definitions could include routine business activities undertaken by the Company (such as involvement in law reform and policy review or special interest groups which the Company may support in the ordinary course of its business). The purpose of resolution 14 therefore is to prevent any inadvertent infringement of the law. The Company has no intention of using this authority for any purpose other than a continuation of normal business and employment practices.

Authority to make such donations can be granted by shareholders for a period of up to 4 years. However, the Directors consider it appropriate to request this authority for a period of 1 year only. The Directors also consider it appropriate to limit the authority requested to £25,000 until the next AGM.

5. 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/her. A white 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.
6. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those shareholders registered on the Register of Members of the Company at 3.00 pm on 9 May 2005 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 3.00pm on 9 May 2005 shall be disregarded in determining the rights of any person to attend and vote at the Meeting.
7. The Register of Directors' (and their families') interests in the shares of the Company and 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) from the date of this Notice 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.

# Children Of Deogarh

## Fundraising Appeal, August 2004

In August 2004, Ottakar's launched an appeal to help the children of Deogarh. Deogarh lies in the southern area of the state of Rajasthan, Northern India, where rural life is precarious and the mostly illiterate population depend on the climate for survival. The region is in its fourth year of serious drought.

In 2003, Ann Davies our Llandudno store manager, together with Latha Bala from our Head Office travelled to the region to meet with people working in the area and assess for themselves where money could be most useful. It was decided that the funds raised by the appeal could help the children of the Deogarh district where 55 of the 78 primary schools cater for extremely poor pupils. In the school they visited, Chitardai School, 98 of the 112 pupils

are classed as under the poverty line. The list of needs is endless: school buildings, equipment, cooking facilities, better clothing, better food, a vaccination programme, water supplies.... A very little money goes a long way in India where a new classroom could be built for £500, equipped for £100 and a child clothed and given books for a mere £5.

Fundraising was centered around 'Deogarh week' and all stores participated in events and activities designed to raise money for the appeal. Each of our bookstores decided how they would approach fundraising and a variety of ideas emerged, including quiz nights, rock concerts, Indian cookery displays, children's themed parties, car boot sales, cake stalls and individual initiatives such as a bookseller who shaved his head. With donations, the sale of Indian themed books and all these activities, well over £80,000 was raised. We are now ensuring that every penny of this money goes to the Children of Deogarh. Two

representatives from the company, Laura Barbey from Guildford and Bob Williams from Barnet who won the competition for staging the best event for the cause, are visiting the region later this year to meet with the schools, talk to the people involved and assess for themselves how the money should be spent for maximum effect.

A great deal of fun was had in raising this money. The staff of Ottakar's are very proud to have succeeded in raising an amount that will have a direct and positive impact on the lives of many poor children.

# OTTAKAR'S

Ottakar's plc  
72 St John's Road, London SW11 1PT