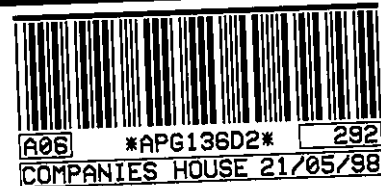


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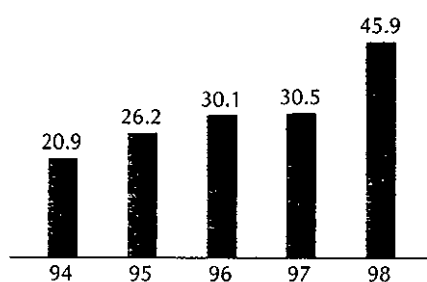
Contents

Financial Highlights	1
Chairman's Statement	4
Operating Review	6
Financial Review	8
Directors	10
Directors' Report	12
Report of the Remuneration Committee	16
Report of the Auditors	20
Report by the Auditors on Corporate Governance Matters	21
Consolidated Profit & Loss Account	22
Consolidated Balance Sheet	23
Company Balance Sheet	24
Consolidated Cash Flow Statement	25
Notes to the Financial Statements	26
Five Year Financial Record	41
Notice of the Annual General Meeting	42
Shareholder Information	43
Financial Calendar	43
Advisers	44

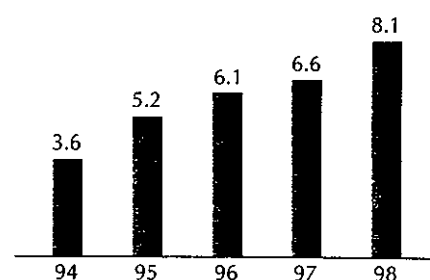
Hamleys

FINANCIAL HIGHLIGHTS

Turnover (£m)

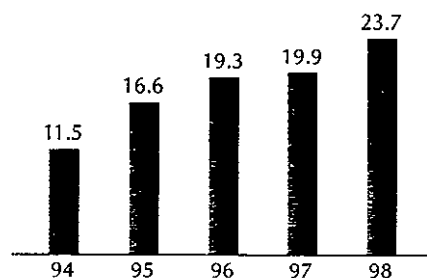


Operating profit (£m)



(before exceptional items and acquisition reorganisation costs)

Earnings per share (pence)



(before exceptional items and acquisition reorganisation costs)

	1998	1997	%
	£'000	£'000	Change
Turnover	45,935	30,486	50.7
Operating profit (before acquisition reorganisation costs)	8,086	6,558	23.3
Operating profit	7,568	6,558	15.4
Profit before tax	7,571	6,882	10.0
Profit after tax	5,116	4,542	12.6
Earnings per share (before acquisition reorganisation costs)	23.7p	19.9p	19.1
Earnings per share	22.2p	19.9p	11.6
Dividend per share	11.0p	9.0p	22.2



Hamleys

Hamleys is a unique, internationally recognised specialist retailer of toys, games, gifts and sports. It is one of the oldest and best known toy retailers. Its flagship Regent Street store is widely regarded as the finest toy shop in the world.

However there is far more to the business than the Regent Street store. Since the company's flotation in 1994 the group has expanded its business, utilising both the company's internationally recognised brand name and its toy retailing expertise.

Hamleys Regent Street store
The Hamleys Regent Street store is the benchmark of toy retailing excellence, spanning more than 47,000 sq.ft. and extending to seven floors. Shoppers visit the store to be entertained as well as to buy toys, and our staff and team of demonstrators help to bring to life the 40,000 toys sold there – the biggest range in the world.

Hamleys is constantly developing discovery areas and in the last 12 months has introduced the Manchester United shop, a new children's book department, as well as areas featuring a range of products centred on favourite characters such as Wallace and Gromit, Teletubbies and Spice Girls. In addition to this, Hamleys' planned expansion of its own brand range, which currently consists of 480 items, enables its 5 million visitors a year to buy well known toys such as Paddington Bear in a form exclusive to Hamleys.

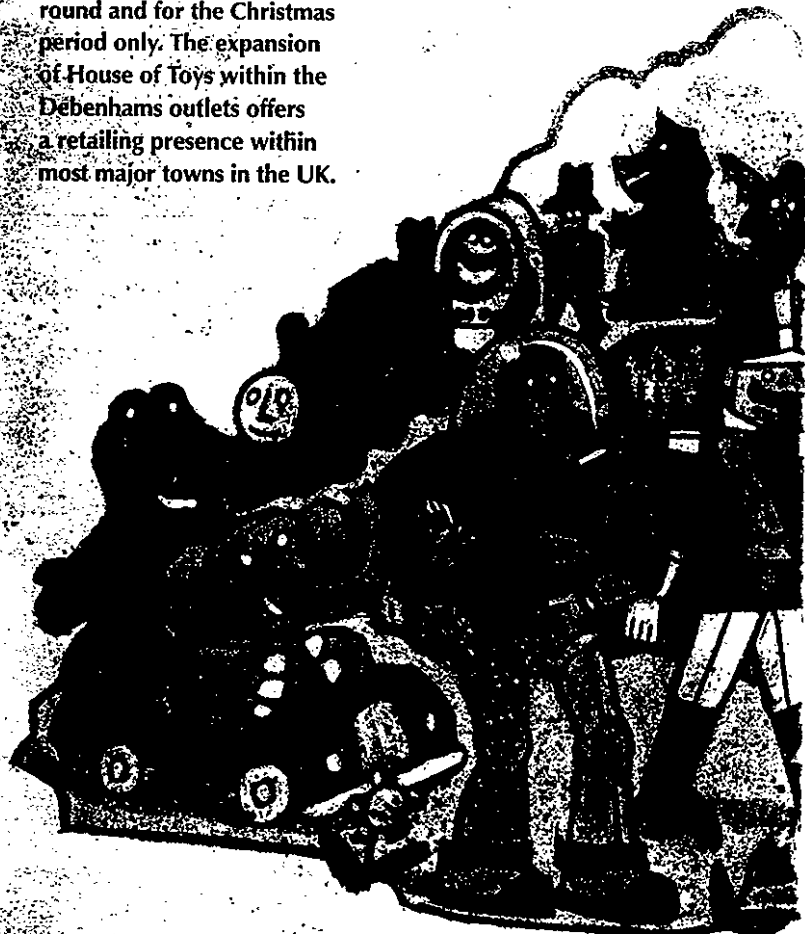
Hamleys Satellite stores and International Operations
Satellite stores are located in tourist locations and airports. Hamleys is now represented in Jeddah, Saudi Arabia and Singapore as well as in Covent Garden, the Channel Tunnel, Heathrow Airport's Terminal 4 and Schiphol, Amsterdam.

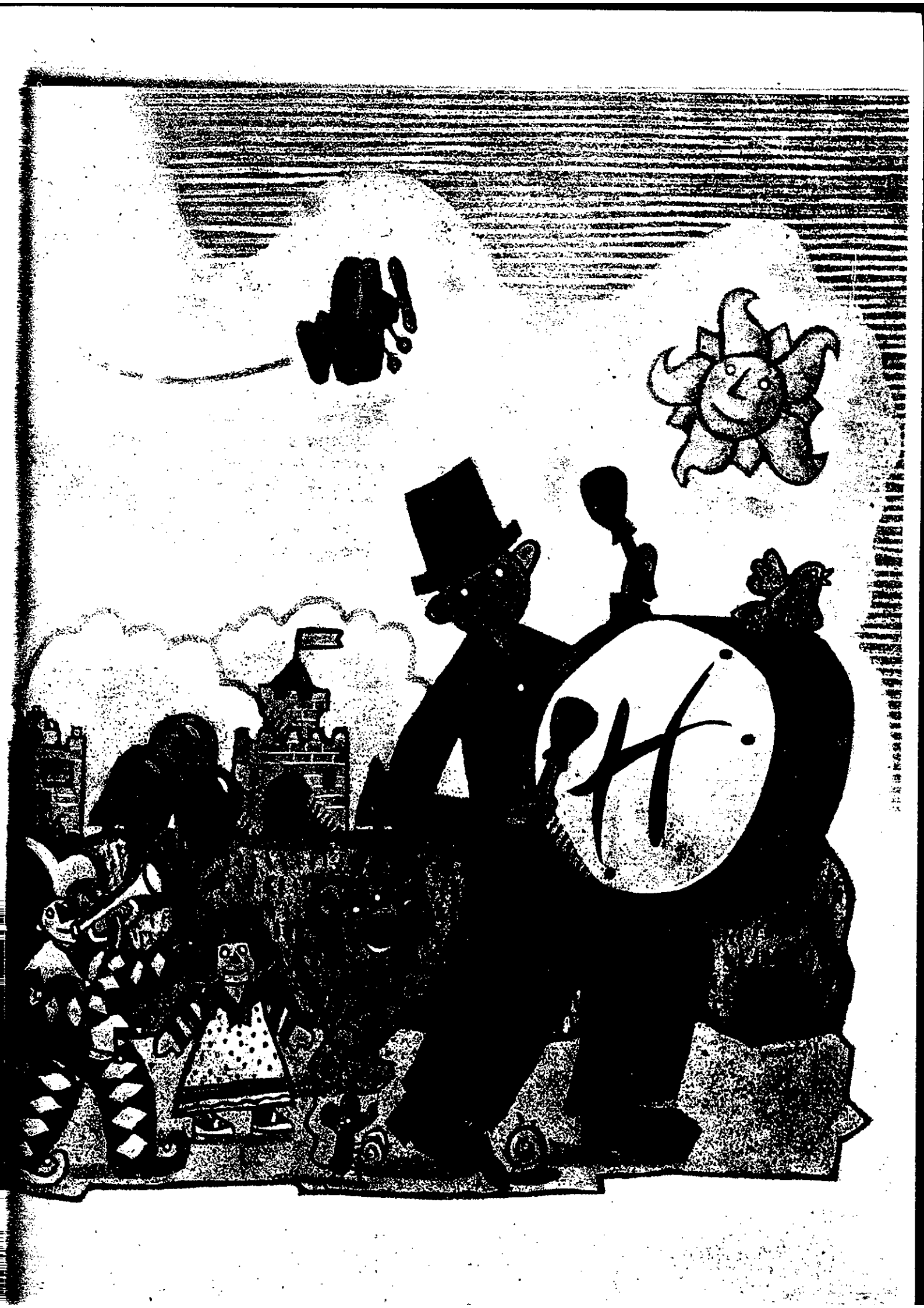
The International development builds on the strength of the Hamleys name, seen in research by Interbrand as the world's ninth most powerful retail brand.

Toystack
Toystack, acquired in May 1997, is a highly successful chain of 12 shops, positioned in shopping centres around the South East of England. Toystack offers an authoritative range of toys combined with excellent bargains. A roll-out programme will be undertaken over the next few years.

House of Toys – Debenhams
The group also trades under the House of Toys name.

There is a combination of outlets opened all year round and for the Christmas period only. The expansion of House of Toys within the Debenhams outlets offers a retailing presence within most major towns in the UK.







CHAIRMAN'S STATEMENT

It is a great pleasure to report another good year's set of results. Since flotation of the company in May 1994, underlying profits before tax have grown threefold and the business has broadened, reducing dependency on the Regent Street store.

Results

Sales increased to £45.9m (1997: £30.5m), a 51% increase year-on-year. Operating profit before acquisition reorganisation costs increased to £8.1m (1997: £6.6m), being an increase of 23%. After acquisition reorganisation costs of £0.5m operating profit increased to £7.6m (1997: £6.6m). Profit before tax increased to £7.6m (1997: £6.9m). To fund the acquisition of Toystack we utilised all of our cash resources and secured bank debt to fund the significant increase in working capital required as a consequence of our new operations.

On earnings per share before acquisition reorganisation costs of 23.7p (1997: 19.9p), the Board is recommending a final dividend of 7.7p (1997: 6.0p), making a total for the year of 11.0p (1997: 9.0p), an increase of 22%. If approved the dividend will be paid on 1 June 1998 to shareholders registered at the close of business on 22 May 1998.

As a Board we are committed to generating value for shareholders and it is with this in mind that we are announcing a return of capital of approximately £6m which will be put to shareholders for approval at the EGM.

During the year several major steps have been taken. The acquisition of Toystack for a total consideration of £8.7m on historic earnings of £1.2m has been very successful. Toystack has met all of our expectations; we opened a further shop in Nottingham in July and intend to open more shops located in shopping malls in the coming years. The first new site for 1998/99 is already secured. In addition to purchasing Toystack, we entered into a concession agreement to sell toys within selected Debenhams stores, 24 on an all year round basis and a further 23 for the Christmas period only. This has also proved to be a success.

Sales at Regent Street were flat year on year; we believe being affected by lower tourist spend. Hamleys' satellites, including international operations, showed a marginal increase in sales. Underlying margins were maintained. Hamleys' Own Label product development progressed well.



The Board

As a consequence of the development and opportunities facing the company, the Board has been restructured. I am delighted to welcome Chris Ash who joined as Chief Executive in October 1997 and David Fogel, Buying and Merchandising Director, who joined us with the acquisition of Toystack. Simon Innes is joining the Board as Retail Director, having been employed within the company for some 11 months. It is with regret that Michael Riddy has resigned as Finance Director, but I am particularly pleased to welcome John Foster as his successor. As you can see from their biographical details on pages 10 and 11 this team brings a breadth and depth of retailing experience to the company. On behalf of the Board, I am most grateful for the significant contribution Michael Riddy has made over the years with the company.

As a result of these changes we have a strong executive team in place and in respect of my role as Executive Chairman, I plan over the next few months gradually to transfer my existing responsibilities to the Chief Executive, Chris Ash, and become Non-Executive Chairman at the half year.

Stephen Woodbridge stepped down as Managing Director in November 1997 and I am pleased that we are retaining his involvement as a Non-Executive Director.

The Future

Hamleys is now well placed to exploit its two trading formats.


We continue to drive organic growth in the Hamleys branded business, committing capital to upgrade the Regent Street store as well as developing the overseas business. The growth of our own brand range will continue as we introduce further new products.

The first stage in the integration of Toystack has been completed, and we are commencing a roll-out programme. The House of Toys' format is now proven and we are well placed for improving performance in the years ahead.

Trading Outlook

Sales for the year to date are marginally up like-for-like in the context of a retail market that we believe will slow down in 1998.

However with our expansion plans and consolidation of our new operations we continue to view the company's future with confidence.



Howard Dyer Chairman
2 April 1998





OPERATING REVIEW

The business has expanded significantly in the last year and as a result operating profit rose 23% year-on-year to £8.1m before accounting for acquisition reorganisation costs. Hamleys Regent Street remains the key driver of profit but contained within this result are significant first time contributions from Toystack acquired in May 1997 and the House of Toys concession business now operating within Debenhams stores.

Margins have been maintained on a like-for-like basis but group consolidated margin has reduced as a result of the lower margin structure of Toystack and the House of Toys.

The toy market remains flat with growth in the pre-school sector offset by a decline in sales to children over 8 years old. However, within the market the launch of Tamagotchi virtual pets, Teletubbies, Spice Girls Dolls and Nintendo 64 have been very successful.

Capital expenditure has been focused on improvements in Regent Street, the new Toystack in Nottingham and upgrading our computer systems to accommodate the expanded business.

The Hamleys business has seen significant developments in the growth of the Own Brand range and in International expansion. We signed our first franchise partnership agreement

for Saudi Arabia, adding to the Hamleys managed operation in Schiphol Amsterdam and the Joint Venture in Changi Singapore.

We have greatly increased the number of shops around the UK with 47 House of Toys concessions operating within Debenhams and 12 Toystacks where a new store in Nottingham was added in July.

As a result of the significant expansion of the business the management team has been strengthened.

Hamleys

Regent Street

The strength of the pound has affected tourist spending, whilst we had a strong but late start to Christmas trade, with the result that sales are flat year-on-year. Sales of the Hamleys Own Brand range grew strongly from 6% in 1996 to nearly 10% of Regent Street's business.

During the year in-store feature areas were created for the Manchester United shop on the 5th floor, building on our Sport on 5 concept, the children's book department was refitted and the number of titles increased.

In addition feature areas were given to 'character' merchandise such as Star Wars, Teletubbies, Spice Girls and Wallace and Gromit.



Hamleys Satellite and International Operations

Sales grew overall with particularly good performances from Covent Garden and the Channel Tunnel. In Heathrow our sales were depressed as a result of the increased shopping choice created in Terminal 4. However, we have renewed our contract with BAA for a further three year period; as a result the shop has been completely refitted and re-merchandised.

Own Brand sales have increased significantly rising from 16% in 1996 up to 23% in this last year.

The International business has now grown with the addition of our franchise operation in Saudi Arabia. The first store opened in July 1997 in Jeddah and we will be looking to expand further in 1998.

Toystack

Toystack, a chain of toy shops largely based around the M25, was acquired in May 1997 and since acquisition the 11 shops have been increased to 12 by the opening in July 1997 of Toystack in Nottingham Victoria Centre.

Trading since May has been good, delivering a strong profit return in the eight months of ownership.

The Toystack Head Office has been closed and the store management, buying and finance integrated with the Hamleys business.

House of Toys

The House of Toys business, having moved out of House of Fraser, started up with Debenhams in July 1997. By the end of September 47 outlets throughout the UK were up and running, 24 all year round and 23 Christmas only.

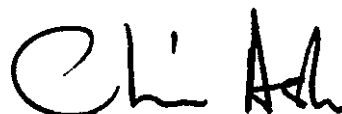
Substantial sales have been achieved in the seven months of operation.

Summary

The Hamleys business is well placed to continue to grow in the next few years. Hamleys' development will continue through the refurbishment of Regent Street planned for Spring 1999, the Own Brand range will be increased and the International business expanded.

Toystack will be rolled out and has many synergies with the House of Toys operation, giving us a solid UK basis for growth.

Overall 1998/99 should be another good year of progress.



Chris Ash Chief Executive

2 April 1998





FINANCIAL REVIEW

Sales

Consolidated group sales increased from £30,486,000 to £45,935,000. Over 50% of the increase reflects the significant expansion of the group following the acquisition of Toystack in May 1997 and the commencement of the House of Toys operation within Debenhams.

Gross Margin

The consolidated gross margin percentage fell in the year as a result of the increased revenue from Toystack and House of Toys' operations which together accounted for 40% of group turnover in the year. These businesses operate at lower gross margins than the core Hamleys business.

Operating Profit

Operating profit before acquisition reorganisation costs increased by 23% to £8,086,000. After allowing for acquisition costs operating profit grew by 15% to £7,568,000.

Interest

Net interest receivable in the year fell from £324,000 to £3,000 following the substantial utilisation of the group's cash balances to fund the acquisition of Toystack.

Taxation

Following a reduction in the rate of corporation tax the effective rate of tax for the year decreased from 34% to 32%. It is anticipated that in future years the rate will fall in line with actual rates.

Dividends

The dividend is covered 2.0 times by earnings.

Earnings per share

Earnings per share before acquisition reorganisation costs grew by 19% from 19.9p to 23.7p. Further details are given in note 10 to the financial statements.

Balance Sheet and Cash Flow

The major movements in the balance sheet categories reflect the acquisition of Hobbies and Models Limited (Toystack) made in the period and the growth of the House of Toys' concession in Debenhams.

Net assets decreased from £9,102,000 to £5,109,000 due to the goodwill write-off on the acquisition.



Hamleys Annual Report & Accounts 1998

Investments in fixed assets grew by £1,411,000 in the year with expenditure of £661,000 and acquisitions of £1,493,000 offset by depreciation of £728,000.

Stocks and debtors increased by £2,832,000 as the group expanded the scale of its activities. In addition part of the group's surplus cash resources were utilised to fund the acquisition of Hobbies and Models Limited. This reduced net cash balances at year-end by £3,689,000 to £3,088,000. Creditors falling due within one year also increased by £4,743,000. This was partly due to the acquisition and reorganisation provision, but also as a result of a return to a normal pattern of payments to suppliers prior to the year-end.

As a result net current assets decreased from £6,569,000 to £969,000.

The group continues to have a strong underlying cash flow, emphasising the importance of cash management throughout the business. Cash flow from our trading operations rose to £9,577,000. However, after net payments for capital expenditure, taxation, acquisition, dividends

and other payments, the group had a net cash outflow of £3,753,000 in the year.

Going Concern

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.



John Foster Finance Director
2 April 1998





DIRECTORS

Chris Ash (below)

Chief Executive (45) joined the Hamleys' board in October 1997. He started his career in Boots plc in 1975 and moved to International Stores and Argyll Stores in 1983 and 1984 respectively. He joined Kingfisher plc in 1985, becoming commercial director of Entertainment UK in 1989, Woolworths in 1991 and Superdrug in 1994.

John Foster (below)

Finance Director (40) joined Hamleys on 23 March 1998. He was formerly corporate finance director at Ascot Holdings Plc between September 1995 and February 1998 and prior to that worked for nine years as a senior executive with NatWest Capital Partners in London. A Chartered Accountant, he qualified in 1983 with Arthur Andersen in Leeds.



Howard Dyer (above)

Chairman (48) became a consultant to Hamleys in February 1991 before being appointed chief executive in January 1992 and chairman in March 1994. He has been executive chairman of Ascot Holdings Plc since June 1993 and New Look Group Limited since September 1996. Prior to joining Hamleys he was a director of Williams PLC with responsibility for North American operations.

David Fogel (above)

Buying and Merchandising Director (43) joined the Hamleys' board in June 1997. Previously the managing director and founder of Hobbies and Models Limited, he has 22 years' experience in the toy retailing industry and was invited to join the board as buying and merchandising director on completion of the acquisition.

Simon Innes (above)

Retail Director (37) joined Hamleys on 5 May 1997. He previously worked with Marks & Spencer for 10 years where he had roles in Store Management, Central Planning and became the regional commercial controller for North and Central Europe.



Hamleys Annual Report & Accounts 1998

Donald Mackenzie (below)

Non-executive (41) joined the Hamleys' board in May 1989 as an alternate director, became a full member of the board in January 1992 and is chairman of the audit committee. He is managing director of CVC Capital Partners Limited and holds a number of other non-executive directorships.

John Allan (below)

Non-executive (49) joined the Hamleys' board in March 1996. He has been chief executive of Ocean Group plc since September 1994. Previously he was a director of BET PLC with specific responsibilities as sector director of business services (Europe) and for group marketing.



Jim Hodkinson (above)

Non-executive (53) has 35 years' retailing experience. He joined the Hamleys' board in April 1994 and is chairman of the remuneration committee. He started his career at F.W. Woolworth Limited in 1962 and joined B & Q plc in 1972, becoming operations director in 1979 and group managing director in 1986. He is currently a director of Kingfisher plc, chairman and chief executive of B & Q plc and a non-executive director of New Look Group Limited.

Stephen Woodbridge (above)

Non-executive (56) became a consultant to Hamleys in February 1991 before being appointed operations director in January 1992. In March 1994 he was appointed managing director, responsible for day-to-day management of Hamleys. In November 1997 he stepped down as managing director and remained on the board as a non-executive director. Prior to this he was with Williams PLC, where he was responsible for special assignments in North America.





Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 January 1998.

Principal activity and review of business

The principal activity of the group is the retailing of toys, games, gifts and sports.

A detailed review of the business is contained in the chairman's statement, operating review and financial review on pages 4 to 9.

Directors

The present membership of the board is set out on pages 10 to 11 and comprises five executive and four non-executive directors.

On 31 May 1997 and 6 October 1997, David Fogel and Chris Ash respectively were appointed directors of the company. In addition, on 23 March 1998, John Foster and Simon Innes were appointed directors of the company. In accordance with the Articles of Association, they will retire at the Annual General Meeting and offer themselves for re-appointment. The directors retiring by rotation are Howard Dyer and Jim Hodgkinson who, being eligible, offer themselves for re-appointment. The current service agreements of all the directors seeking re-appointment are terminable by one year's written notice by the company or six months' written notice by the director.

Michael Riddy served as a director during the year until he resigned on 23 March 1998.

Details of directors' interests in the company's shares are included in the report of the remuneration committee on pages 16 to 19.

Corporate governance

a) Directors' responsibilities in relation to financial statements

The following statement, which should be read in conjunction with the auditors' report set out on page 20, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

As required by company law, the directors have prepared financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for the financial year. The directors consider that, in preparing the financial statements, the company has used appropriate accounting policies, consistently applied, which are supported by judgements and estimates that are reasonable and prudent and that all accounting standards which they consider to be applicable have been followed.

The directors are responsible for ensuring that the company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the company and the group and to prevent and detect fraud and other irregularities.



b) Compliance

The company has complied throughout the year with the Code of Best Practice published by the Committee on the Financial Aspects of Corporate Governance in December 1992. The company's auditors have reviewed the directors' compliance statement and the auditors' report is on page 21.

c) Internal financial controls

The board of directors has overall responsibility for the group's system of internal financial controls. Responsibility for operating the system is delegated to the executive directors.

The board holds regular meetings and has a number of matters reserved for its approval, including major capital expenditure, treasury and dividend policy. The board is responsible for overall group strategy and for approving all group budgets. There is a comprehensive system of budgeting with frequent reporting of results to each level of management as appropriate, including monthly reporting to the board.

The audit committee

The board has also delegated specific responsibilities to the audit committee. This comprises all the non-executive directors, is chaired by A D Mackenzie and meets at least twice a year.

Its main duties are as follows:

- to review the half year and annual financial statements before their submission to the board.
- to review the effectiveness of the group's internal financial control environment, including the monitoring of key business and financial risks.
- to consider the appointment of the external auditors and the agreement of their fees.
- to review the scope of work undertaken by the external auditors.

The board has reviewed the effectiveness of the system of internal financial control through the monitoring process set out above. It must be recognised that such a system can provide only reasonable and not absolute assurance against material misstatement and loss.

d) Other specific responsibilities have been delegated by the board to the following committees:

The remuneration committee

This comprises all the non-executive directors and is chaired by J C Hodgkinson. Meetings are held at least once a year. Its main duty is to determine the remuneration of the executive directors.

The nomination committee

This comprises the chairman and all the non-executive directors and is chaired by H P Dyer. Its main duty is to approve the nomination of new members to the board of directors.

Dividends

The group's net profit before tax increased from £6,882,000 to £7,571,000. An interim dividend of £785,000 was paid on 21 November 1997 and a final dividend of £1,786,000 is proposed and, subject to shareholders' approval, will be paid on 1 June 1998.



Directors' Report

Substantial shareholdings

Other than disclosed on page 18, the company has been notified of the following holdings over 3% in the company's share capital as at 27 March 1998.

Name of the company	Number of ordinary 5p shares	Percentage of issued share capital
Schroders plc (through its subsidiaries)	2,510,888	10.82%
M&G	2,290,000	9.87%
Prudential Assurance Co Limited	1,769,420	7.63%
Jupiter Asset Management	1,372,400	5.92%
Axa Sun Life	1,116,000	4.81%
Standard Life Group	1,097,144	4.73%
Martin Currie	1,000,000	4.31%
General Accident	922,578	3.98%
Bellepoint Limited	812,500	3.50%

Donations

During the year the group made donations of toys, gifts and cash totalling £5,750 (1997: £2,400) to various charities mainly associated with children. There were no political donations.

Auditors

Coopers & Lybrand have expressed their willingness to continue in office as auditors of the company and a resolution to re-appoint them will be proposed at the Annual General Meeting.

Annual General Meeting – special business

The notice of the Annual General Meeting sent with these accounts includes two items of special business. The first (resolution 11 which is proposed as an ordinary resolution) is to renew the authority of the directors to allot securities of the company up to an aggregate nominal amount equal to £386,598, being 33⅓% of the current issued ordinary share capital of the company as at the date of this report. The directors have no present intention to exercise this authority. The second (resolution 12 which is proposed as a special resolution) is to renew the power of the directors to allot equity securities for cash without first being required to offer such securities to existing shareholders. This power is limited to an aggregate nominal amount equal to £57,990, being 5% of the current issued ordinary share capital. The directors have no present intention to exercise this power. These will lapse after fifteen months or, if earlier, at the end of the next Annual General Meeting.

Policy on payment of suppliers

The company either agrees payment terms with each of its suppliers or ensures that the supplier is made aware of the company's standard payment terms. In either case payment is made in accordance with the company's contractual or other legal obligations. The company does not trade, however creditor days in relation to group trade creditors outstanding at the year end was 54 days.



Hamleys Annual Report & Accounts 1998

The Millennium

A group-wide programme is under way to address the impact of the Millennium date change on the group's business. The programme covers all electronic systems that incorporate a calendar from financial and operating software to security systems. Whenever possible, changes to ensure that systems are year 2000 compliant are being incorporated into upgrades of software. A significant profit and loss charge for the change required to overcome the Millennium problem is not expected. The group expects to complete all major aspects of the Millennium programme on time.

European Monetary Union

As a retailer Hamleys will be in the front line in managing the transition for consumers if and when it comes. We are acutely aware of the potential impact and we have a team examining the implications for our business.

Post Balance Sheet Event

As described in note 29 to the financial statements, on 23 March 1998 the company announced that it intended to return approximately £6m to ordinary shareholders representing approximately 10% of the market capitalisation of the company as at close of business on Friday 20 March 1998. These proposals are subject to shareholders' approval which will be sought at an Extraordinary General Meeting on 21 May 1998.

Equal opportunities

The employment policies of the group are designed to attract, retain and motivate the highest quality personnel, recognising that this can only be achieved through offering equal opportunities, irrespective of race, colour, creed, age, sex, marital status, national origin or disability. Therefore, recruitment and promotion are solely dependent upon the suitability of an applicant for the job.

In respect of disabled personnel, it is the policy of the group to give full and fair consideration to applicants for employment from people with disabilities, having regard to the nature of their employment. Suitable opportunities are offered to people with disabilities in order to promote their career development and, where appropriate, to continue the employment of those individuals who become disabled.

Employee involvement

The group recognises the need to provide effective communication and consultation with employees through bulletins relating to the business performance and objectives and other issues.

By order of the board

Ladan Hall
Ladan Hall Secretary

2 April 1998





Report of the Remuneration Committee

The report of the Study Group on directors' remuneration chaired by Sir Richard Greenbury was published in July 1995. Central to its recommendations was a Code of Best Practice, the main provisions of which have been incorporated in the London Stock Exchange Listing Rules.

The company has complied with Section A of the best practice provisions annexed to the Listing Rules and the remuneration committee has given full consideration to Section B of the Best Practice provisions in framing the remuneration packages for directors.

Composition of the remuneration committee

The members of the committee are given on page 13 in the directors' report.

Policy on remuneration of executive directors

a) Total level of remuneration

The remuneration committee aims to ensure that remuneration packages offered are competitive and designed to attract, retain and motivate executive directors of the right calibre.

b) Main components

The main components are:

(i) Basic salary

Basic salary for each director is determined by the remuneration committee, taking into account the performance of the individual and information from independent sources on the rates of salary for similar jobs.

(ii) Annual executive bonus scheme

This scheme was introduced in the year and rewards executive directors for achieving operating efficiencies and profitable growth in the financial year. The maximum size of the annual bonus award is the equivalent of 50% of annual salary if the profit after interest and before tax exceeds the budgeted figure by £500,000.

(iii) Share options and long term incentive plans

The company believes that share ownership by executive directors and senior employees strengthens the link between their personal interest and those of the shareholders. Share options were first granted at the flotation date of 6 May 1994. Further options were granted during the current year.

(iv) Company policy on contracts of service

The notice period for the termination of executive directors' service contracts is one year. No other director has a service contract.

(v) Policy on external appointments

Hamleys recognises that its directors are likely to be invited to become non-executive directors of other large companies and that exposure to such non-executive duties can broaden experience and knowledge which will benefit Hamleys. Executive directors are, therefore, allowed to accept non-executive appointments as long as these are not with competing companies and are not likely to lead to conflicts of interest. Executive directors are allowed to retain the fees paid.



Hamleys Annual Report & Accounts 1998

Policy on remuneration of non-executive directors

The remuneration for non-executive directors consists of fees for their services in connection with board and board committee meetings and, where relevant, for additional services such as chairing the board or a board committee. They do not have contracts of service and do not participate in the group's executive share option scheme. The only benefit to which they are entitled is staff discount on merchandise sold by the company.

Directors' emoluments	Basic salary/fees £'000	PRP Bonus £'000	Benefits £'000	Compensation £'000	Total 1998 £'000	Total 1997 £'000
Executive						
H P Dyer	60	1	18	—	79	73
C Ash	79	—	7	—	86	—
D Fogel	89	—	9	—	98	—
A M Riddy	77	1	9	—	87	80
S J Woodbridge (1)	114	1	5	—	120	132
G P Cullinan (2)	—	—	—	—	—	252
Non-executive						
J C Hodgkinson	15	—	—	—	15	15
A D Mackenzie	15	—	—	—	15	15
J M Allan	15	—	—	—	15	13
S J Woodbridge (1)	3	—	—	—	3	—
Total	467	3	48	—	518	580
Total 1997	402	—	36	142	580	

(1) S J Woodbridge resigned from his position as managing director on 30 November 1997 and was appointed non-executive director.

(2) G P Cullinan received £142,000 as compensation for loss of office during the year ended 1 February 1997. This is included in the amounts above.

Benefits incorporate all assessable tax benefits arising from employment by the company, which relate in the main to the provision of a company car.



Report of the Remuneration Committee

Directors' interests

The interests, all of which are beneficial, of the directors (and their immediate families) in the share capital of the company are set out below:

	Ordinary 5p shares	
	31 January 1998	1 February 1997*
H P Dyer	1,300,984	1,300,984
C Ash	2,878	—
D Fogel	320,513	320,513
S J Woodbridge	184,624	184,624
A M Riddy	192,500	192,500
J C Hodgkinson	2,500	2,500
A D Mackenzie	117,888	117,888

* Or date of appointment if later.

There has been no movement in the directors' interests between 31 January 1998 and 1 April 1998.

J Foster became a director of the company on 23 March 1998 and had an interest on 1 April 1998 in 5,000 ordinary 5p shares.

Directors' share options

The following share options have been granted under the Hamleys' Executive Share Option Scheme.

Options granted to the Chief Executive:

	Scheme type	Number of options			Option price pence	Specified price pence
		At start of year	Granted during year	At end of year		
C J Ash	Approved	—	8,862	8,862	338.5	400
	Unapproved	—	50,222	50,222	338.5	400
	Unapproved	—	59,084	59,084	338.5	450
	Unapproved	—	59,084	59,084	338.5	500
Total		—	177,252	177,252		

The options become exercisable if the price of an ordinary share in the company exceeds the specified price (shown above) at any time after the date of the grant.

The specified price in respect of the unapproved options is subject to adjustment from the fourth anniversary of the date of grant, in line with annual increases in the Retail Price Index.



Directors' share options continued

Options granted to the other executives:

	Scheme type	Number of options			Option price pence
		At start of year	Granted during year	At end of year	
D Fogel	Approved	–	10,381	10,381	289
	Unapproved	–	115,385	115,385	273
Total		–	125,766	125,766	
S J Woodbridge	Approved	114,205	–	114,205	185
	Unapproved	–	16,264	16,264	273
Total		114,205	16,264	130,469	
A M Riddy	Approved	57,103	–	57,103	185
	Unapproved	–	9,450	9,450	273
Total		57,103	9,450	66,553	

There have been no changes to the above options between 31 January 1998 and 1 April 1998.

Further information on the executive share option scheme is included in note 18 to the financial statements.

No options lapsed or were exercised during the year or up to 1 April 1998.

Notes

- 1 An option may be exercised after:
 - (i) three and prior to ten years from the date of the grant;
 - (ii) three years from the grant date in respect of 25% of the shares subject to the option;
 - (iii) four years from the grant date in respect of a further 25% of the shares subject to the option;
 - (iv) five years from the grant date in respect of the remaining shares subject to the option.
- 2 The market price of the company's ordinary shares at the year end was 259p. During the year the market price ranged from 239p to 360p.
- 3 The options may not be exercised unless the company's earnings per share grow by at least 6% more than the Retail Price Index over a three year period. This period is any three consecutive financial years of the company ending before the date of exercise of the option.
Earnings per share is calculated on the "net basis" as defined by SSAP 3.

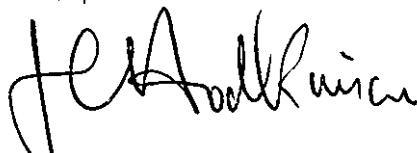
Other matters relating to directors

The company's register of directors' interests, together with copies of their contracts of service, are available for inspection in accordance with the Companies Act 1985.

On behalf of the board

J C Hodgkinson Chairman of the remuneration committee

2 April 1998






Report of the Auditors

TO THE MEMBERS OF HAMLEYS PLC

We have audited the financial statements on pages 22 to 40. We have also examined the amounts disclosed relating to the emoluments and share options of the directors which form part of the report of the remuneration committee on pages 16 to 19.

Respective responsibilities of directors and auditors

As described on page 12 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

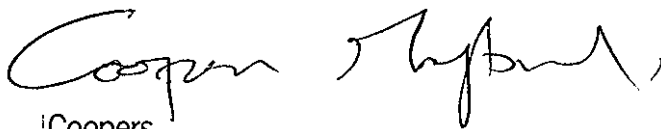
Basis of opinion

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

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

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 31 January 1998 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Coopers
& Lybrand

Chartered Accountants and Registered Auditors

Derby

2 April 1998



Hamleys

Report by the Auditors

TO HAMLEYS PLC ON CORPORATE GOVERNANCE MATTERS

In addition to our audit of the financial statements, we have reviewed the directors' statements on page 13 concerning the company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and page 9 concerning their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the company's system of internal financial control or its corporate governance procedures nor on the ability of the company to continue in operational existence.

Opinion

With respect to the directors' statements on internal financial controls on page 13 and going concern on page 9, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statement on page 13 appropriately reflects the company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

Coopers & Lybrand

Coopers
& Lybrand

Chartered Accountants

Derby

2 April 1998





Consolidated Profit & Loss Account

FOR THE YEAR ENDED 31 JANUARY 1998

	Notes	Before acquisitions £'000	Acquisitions £'000	1998 Total £'000	1997 Total £'000
TURNOVER	2	37,195*	8,740	45,935	30,486
OPERATING PROFIT BEFORE ACQUISITION					
REORGANISATION COSTS		6,617	1,469	8,086	6,558
ACQUISITION REORGANISATION COSTS	6	–	(518)	(518)	–
OPERATING PROFIT		6,617	951	7,568	6,558
Net interest receivable	4			3	324
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5			7,571	6,882
Tax on profit on ordinary activities	7			(2,455)	(2,340)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION				5,116	4,542
Dividends	9			(2,571)	(2,056)
RETAINED PROFIT FOR THE YEAR				2,545	2,486
EARNINGS PER SHARE	10				
– Basic				22.2p	19.9p
– Adjusted for acquisition reorganisation costs				23.7p	19.9p
DIVIDEND PER SHARE	9			11.0p	9.0p

* Turnover before acquisitions includes £6,710,000 of increased turnover from the House of Toys business against 1997.

The movements on reserves are given in note 19 to the financial statements.

All items in the profit and loss account relate to continuing activities.

There are no recognised gains or losses other than in the profit and loss account.

The reported profit in the year is not materially different from the profit on an unmodified historical cost basis.



Hamleys

Consolidated Balance Sheet

AT 31 JANUARY 1998

	Notes	1998 £'000	1997 £'000
FIXED ASSETS			
Intangible assets	11	174	189
Tangible assets	12	3,954	2,528
		4,128	2,717
Investments	13	35	23
CURRENT ASSETS			
Stocks – goods for resale		6,127	3,729
Debtors	14	2,555	2,121
Cash at bank and in hand		3,088	6,777
		11,770	12,627
CREDITORS			
Amounts falling due within one year	15	(10,801)	(6,058)
NET CURRENT ASSETS		969	6,569
TOTAL ASSETS LESS CURRENT LIABILITIES		5,132	9,309
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred tax	16	(23)	(37)
Other provisions	17	–	(170)
NET ASSETS		5,109	9,102
CAPITAL AND RESERVES			
Called up share capital	18	1,160	1,142
Share premium account	19	62	–
Capital redemption reserve	19	393	393
Merger relief reserve	19	978	–
Goodwill reserve	19	(9,722)	(2,126)
Profit and loss account	19	12,238	9,693
SHAREHOLDERS' FUNDS	20	5,109	9,102

Approved by the board on 2 April 1998

H P Dyer Director

J L Foster Director



Hamleys

Company Balance Sheet

AT 31 JANUARY 1998

	Notes	1998 £'000	1997 £'000
FIXED ASSETS			
Investments	13	27,982	18,699
CURRENT ASSETS			
Debtors	14	3,563	3,458
Cash at bank and in hand	2	—	—
		3,565	3,458
CREDITORS			
Amounts falling due within one year	15	(4,075)	(2,126)
NET CURRENT (LIABILITIES)/ASSETS		(510)	1,332
TOTAL ASSETS LESS CURRENT LIABILITIES		27,472	20,031
PROVISIONS FOR LIABILITIES AND CHARGES	17	—	(90)
NET ASSETS		27,472	19,941
CAPITAL AND RESERVES			
Called up share capital	18	1,160	1,142
Share premium account	19	62	—
Capital redemption reserve	19	393	393
Merger relief reserve	19	978	—
Special reserve	19	16,931	16,931
Profit and loss account	19	7,948	1,475
SHAREHOLDERS' FUNDS		27,472	19,941

Approved by the board on 2 April 1998

H P Dyer Director

J L Foster Director



Hamleys

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 JANUARY 1998

	Notes	1998 £'000	1997 £'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	21	9,577	4,151
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		218	291
Interest paid		(146)	—
		72	291
TAXATION PAID		(2,855)	(2,157)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Intangible fixed assets – purchases		(32)	(92)
Tangible fixed assets – purchases		(661)	(814)
		(693)	(906)
ACQUISITIONS			
Acquisition of business	22	(7,698)	—
Investment in joint venture company		—	(23)
		(7,698)	(23)
EQUITY DIVIDENDS PAID		(2,156)	(1,918)
NET CASH FLOW BEFORE USE OF LIQUID RESOURCES		(3,753)	(562)
MANAGEMENT OF LIQUID RESOURCES			
Movement in short term deposits with banks		3,000	(3,000)
FINANCING			
Receipt of bank loans		3,500	—
Repayment of bank loans		(3,500)	—
Issue of ordinary shares		64	—
MOVEMENT IN CASH		(689)	(3,562)
		1998	1997
RECONCILIATION OF NET FUNDS		£'000	£'000
Balance at 2 February 1997		6,777	7,339
Net cash (outflow)		(689)	(3,562)
Movement in short term deposits with banks		(3,000)	3,000
Balance at 31 January 1998		3,088	6,777





Notes to the Financial Statements

FOR THE YEAR ENDED 31 JANUARY 1998

1 ACCOUNTING POLICIES

a) **Accounting convention** The financial statements are prepared in accordance with applicable Accounting Standards and under the historical cost convention, modified to include long leasehold property at a revalued amount.

b) **Basis of consolidation** The group financial statements consolidate the financial statements of the company and its subsidiaries for the year ended 31 January 1998.

c) **Accounting for acquisitions** On acquisition, the book value of tangible assets is adjusted to bring the accounting policies of businesses acquired into alignment with those of the group. Goodwill, being the difference between the cost of an acquired entity and the aggregate of the fair values of that entity's identifiable assets and liabilities, is offset against reserves in the year of acquisition.

d) **Intangible fixed assets** Amortisation is provided on cost in equal instalments over the estimated lives of the assets. The amortisation rates are as follows:

Trademarks	5% – 20%
Branding and franchising costs	20% – 50%

e) **Tangible fixed assets** Depreciation is provided on cost and revalued amounts in annual instalments over the estimated lives of the assets. The rates of depreciation are as follows:

Freehold property	2% per annum
Long leasehold property	2% per annum
Improvements to leasehold properties	Over the term of the lease
Leased assets	Over the term of the lease
Computer equipment	20% per annum
Fixtures and fittings	15% – 20% per annum
Motor vehicles	25% reducing balance

f) **Investments** Investments held as fixed assets are stated at cost less provision for permanent diminution in value.

g) **Associated undertaking** Companies which are not subsidiaries, but in which the group has an investment comprising an interest which is for the long term and over which it exerts significant influence, are treated as associated companies. The group's profit and loss account includes the appropriate share of results and the group's balance sheet includes the appropriate share of net assets of these companies based on their accounts to the Hamleys' group balance sheet date.



- h) **Stocks** Stocks are stated at the lower of invoice cost and net realisable value.
- i) **Deferred tax** Deferred tax is provided at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.
- j) **Pension cost** The pension cost represents contributions payable by the group in the year.
- k) **Leases** Assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the leases. The amounts by which the lease payments exceed the recorded lease obligations are treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligation. Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases.
- l) **Foreign exchange** Assets and liabilities denominated in overseas currencies are translated into sterling at the balance sheet date. The trading results are translated into sterling at the average rate of exchange during the period except for Hamleys BV where transactions and non-monetary assets and liabilities are translated at rates appropriate at the transaction date.

2 TURNOVER AND PROFIT

Turnover represents sales and the net income from concession sales excluding VAT. The turnover and profit before taxation are attributable to the principal activity of the group.



Notes to the Financial Statements

3 INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1998 £'000	1997 £'000
Directors		
Aggregate emoluments	503	423
Compensation for loss of office	—	142
Sums paid to third parties for directors' services	15	15
	<u>518</u>	<u>580</u>
 Highest paid director (excluding compensation for loss of office)		
Aggregate emoluments	<u>123</u>	<u>132</u>

Fees are paid only to non-executive directors.

More detailed information concerning directors' emoluments and their interests in shares is given in the report of the remuneration committee on pages 16 to 19.

	1998 £'000	1997 £'000
Employees		
Employee costs during the year:		
Wages and salaries	4,957	3,567
Social security costs	401	271
Other pension costs	80	80
	<u>5,438</u>	<u>3,918</u>

The average number of staff employed by the group during the year:

	Number	Number
Sales and distribution	302	186
Administration	37	27
	<u>339</u>	<u>213</u>

4 NET INTEREST RECEIVABLE

	1998 £'000	1997 £'000
Interest receivable on bank deposit	149	324
Interest payable on bank loan	(146)	—
	<u>3</u>	<u>324</u>



Hamleys Annual Report & Accounts 1998

5 OPERATING PROFIT

	Before acquisitions £'000	Acquisitions £'000	1998 Total £'000	1997 Total £'000
Turnover	37,195	8,740	45,935	30,486
Cost of sales	(18,935)	(4,929)	(23,864)	(14,526)
Gross profit	18,260	3,811	22,071	15,960
Distribution expenses	(10,205)	(2,031)	(12,236)	(7,922)
Administration expenses	(1,450)	(311)	(1,761)	(1,480)
Share of profit of associated undertaking	12	–	12	–
Operating profit before acquisition reorganisation costs	6,617	1,469	8,086	6,558

All items above relate to continuing activities.

	1998 £'000	1997 £'000
Total operating profit is after charging:		
Rentals under operating leases:		
Hire of plant and machinery	118	118
Other operating leases – rental on the Regent Street store	1,416	1,428
– rental on other stores	881	276
Depreciation and amortisation:		
Own assets – intangible	47	58
– tangible	728	550
Auditors' remuneration	55	44
Fees paid for non-audit services:		
Coopers & Lybrand	62	41

In addition to the remuneration noted above, £105,000 of fees were paid to the auditors for work in connection with the acquisition of Hobbies & Models Limited and £24,500 in connection with the review of the merchandising and accounting systems.

Included within the auditors' remuneration above are amounts of £1,550 (1997: £1,500) in respect of the company.

6 ACQUISITION REORGANISATION COSTS

The reorganisation costs comprise the cost of warehousing and financial restructuring as a result of the acquisition of Hobbies & Models Limited during the year.



Notes to the Financial Statements

7 TAX ON PROFIT ON ORDINARY ACTIVITIES

	1998 £'000	1997 £'000
Corporation tax payable at 31.33% (1997: 33%)	2,452	2,259
Corporation tax repayment – prior years	(28)	–
Deferred tax – current year	31	93
Deferred tax – prior year	–	(12)
	<u>2,455</u>	<u>2,340</u>

8 PARENT COMPANY PROFIT AND LOSS ACCOUNT

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's profit attributable to shareholders for the year ended 31 January 1998 amounted to £9,044,000 (1997: £2,094,000).

9 DIVIDENDS

	1998 £'000	1997 £'000
Interim paid – 3.3p per ordinary share (1997: 3.0p)	785	685
Final proposed – 7.7p per ordinary share (1997: 6.0p)	1,786	1,371
	<u>2,571</u>	<u>2,056</u>

10 EARNINGS PER SHARE

The calculation of basic earnings per ordinary share is derived from the profit of £5,116,000 (1997: £4,542,000) and the weighted average number of ordinary shares in issue during the year of 23,076,514 (1997: 22,841,028).

To give a meaningful comparison an adjusted earnings per ordinary share has been calculated which excludes the acquisition reorganisation costs.

	31 Jan 1998 £'000	Pence per share	1 Feb 1997 £'000	Pence per share
Basic				
Earnings	5,116		4,542	
Average number of ordinary shares				
1998 – 23,076,514				
1997 – 22,841,028				
Earnings per ordinary share – basic		22.2		19.9
Adjusted				
Earnings	5,116		4,542	
Acquisition reorganisation costs	518		–	
Tax effect on acquisition reorganisation provision	(165)		–	
	<u>5,469</u>		<u>4,542</u>	
Adjusted earnings per ordinary share		23.7		19.9



Hamleys Annual Report & Accounts 1998

11 INTANGIBLE FIXED ASSETS

	Trademarks £'000	Other £'000	Total £'000
The group			
Cost			
At 2 February 1997	90	199	289
Additions	32	—	32
At 31 January 1998	122	199	321
Accumulated amortisation			
At 2 February 1997	17	83	100
Provisions	12	35	47
At 31 January 1998	29	118	147
Net book value			
At 31 January 1998	93	81	174
At 1 February 1997	73	116	189

Other intangible fixed assets comprise costs incurred in developing a range of Hamleys' Own Brand products and a franchising concept for use in overseas markets.

The company had no intangible fixed assets at 31 January 1998 or 1 February 1997.

12 TANGIBLE FIXED ASSETS

	Freehold property £'000	Long leasehold property £'000	Short leasehold property £'000	Fixtures and fittings £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
The group							
Cost or valuation							
At 2 February 1997	—	600	—	3,245	982	—	4,827
Subsidiary acquired	1,000	—	371	78	—	44	1,493
Additions	—	—	133	257	271	—	661
At 31 January 1998	1,000	600	504	3,580	1,253	44	6,981
Accumulated depreciation							
At 2 February 1997	—	40	—	1,548	711	—	2,299
Provisions	20	13	33	520	133	9	728
At 31 January 1998	20	53	33	2,068	844	9	3,027
Net book value							
At 31 January 1998	980	547	471	1,512	409	35	3,954
At 1 February 1997	—	560	—	1,697	271	—	2,528



Notes to the Financial Statements

12 Tangible Fixed Assets continued

Notes

a) The long leasehold property was valued at £600,000 at 29 January 1994 on the basis of existing use.

b) The historical cost of long leasehold property included at valuation is as follows:

	1998 £'000	1997 £'000
Cost	1,190	1,190
Accumulated depreciation	(217)	(193)
Net book value	973	997

c) The company had no tangible fixed assets at 31 January 1998 or 1 February 1997.

13 FIXED ASSETS – INVESTMENTS

The group

Investment in associated undertaking

	1998 £'000	1997 £'000
At 2 February 1997	23	23
Share of profit	12	–
At 31 January 1998	35	23

The group owns 50% of the ordinary share capital of Weitnauer Hamleys Pte Limited, a joint venture company incorporated and trading in Singapore. The issued share capital of Weitnauer Hamleys Pte Limited comprises 50,000 'A' and 50,000 'B' ordinary shares of SGD1 each. The group owns the 'B' ordinary shares of the company. The principal activity of the associated undertaking is toy retailing.

	1998 £'000	1997 £'000
The company		
Shares in subsidiary undertakings		
At 2 February 1997	18,699	18,699
Additions (see note 22)	9,283	–
At 31 January 1998	27,982	18,699

The company owns the entire share capital of Hamleys of London Limited, Hobbies and Models Limited, Toystack Limited and Hamleys Employment Services Limited. Hamleys of London Limited owns the entire share capital of Hamleys Trustees Limited, Hamleys BV and House of Toys Limited. Hobbies and Models Limited owns the entire share capital of Toystack Limited. House of Toys Limited and Toystack Limited are dormant.



Hamleys Annual Report & Accounts 1998

13 Fixed Assets – Investments continued

The principal activity of each trading subsidiary is as follows:

Hamleys of London Limited	– toy retailing	Hamleys BV	– toy retailing
Hobbies and Models Limited	– toy retailing	Hamleys Employment	
Hamleys Trustees Limited	– employee share trust	Services Limited	– employment services

All subsidiaries other than Hamleys BV are registered in Great Britain and operate within the United Kingdom.

Hamleys BV was incorporated, is registered and operates in The Netherlands.

14 DEBTORS

	The group		The company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Trade debtors	1,107	944	–	–
Amounts owed by subsidiary undertaking	–	–	3,099	3,099
Amounts owed by associated undertaking	8	69	–	–
Other debtors	698	303	464	359
Prepayments and accrued income	742	805	–	–
	<u>2,555</u>	<u>2,121</u>	<u>3,563</u>	<u>3,458</u>

Included in the other debtors of the group is £406,000 (1997: £286,000) and the company is £447,000 (1997: £342,000) in respect of advance corporation tax recoverable after more than one year.

15 CREDITORS

	The group		The company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Amounts falling due within one year:				
Trade creditors	3,558	1,102	–	–
Amounts owed to subsidiary undertaking	–	–	1,618	363
Other creditors	574	172	–	50
Corporation tax	2,223	2,131	646	342
Other taxation and social security	2,079	1,013	–	–
Dividends	1,786	1,371	1,786	1,371
Accruals	581	269	25	–
	<u>10,801</u>	<u>6,058</u>	<u>4,075</u>	<u>2,126</u>

On acquisition of Hobbies and Models Limited reorganisation accruals of £518,000 were set up. During the period since the acquisition £74,000 has been utilised leaving £444,000 at the year end. This amount is included within the group's accruals balance.

At 31 January 1998, the group had contracted to exchange the equivalent of £2m (1997: Nil) under forward exchange contracts to hedge against future trading transactions.



Notes to the Financial Statements

16 DEFERRED TAX

Deferred tax provided in the group financial statements is as follows:

	1998 £'000 Provided	1997 £'000 Provided
Capital allowances in excess of depreciation	79	125
Short term timing differences	(15)	(32)
Advance corporation tax	(41)	(56)
	<u>23</u>	<u>37</u>

Movements on the group deferred tax provision during the year ended

31 January 1998 were as follows:

	£'000
Balance at 2 February 1997	37
Subsidiaries acquired in the year	(60)
Provided in the year	31
Advance corporation tax	15
Balance at 31 January 1998	<u>23</u>

The group had no unprovided amounts of deferred tax at 31 January 1998 or 1 February 1997.

The company had no deferred tax, provided or unprovided, at 31 January 1998 or 1 February 1997.

17 OTHER PROVISIONS

	The group £'000	The company £'000
Balance at 2 February 1997	170	90
Utilised in the year	(55)	(25)
Released in the year	(115)	(65)
Balance at 31 January 1998	<u>-</u>	<u>-</u>



Hamleys Annual Report & Accounts 1998

18 SHARE CAPITAL

	31 January 1998		1 February 1997	
	Number	£'000	Number	£'000
Ordinary 5p shares				
(i) Authorised	31,300,000	1,565	31,300,000	1,565
(ii) Allotted, issued and fully paid	23,195,881	1,160	22,841,028	1,142

During the year 34,340 shares were issued under employee share schemes for a total consideration of £63,529 and 320,513 shares were issued to D Fogel at market price as part of the consideration to acquire Hobbies and Models Limited as shown in note 22.

The Hamleys' executive share option scheme

On 11 April 1994, the company adopted an executive share option scheme. The scheme has been approved by the Inland Revenue. On 6 May 1994 options were granted to senior employees and directors of the company to acquire ordinary shares in the company at the offer price of 185p per share. During the year an application was made to the Inland Revenue to amend the existing Scheme to include an Unapproved Share Option Scheme. Following the consent obtained from the Inland Revenue, further options were granted during the year to the senior management and directors of the company. These were as follows:

	Options granted under Approved Scheme		Options granted under Unapproved Scheme	
	Number	Price	Number	Price
22 May 1997	79,111	307.0p	—	—
30 May 1997	10,381	289.0p	—	—
13 June 1997	—	—	173,444	273.0p
13 November 1997	8,862	338.5p	168,390	338.5p

At 31 January 1998 the number of shares over which there were unexercised options amounted to 749,117 ordinary shares of 5p each.

The number of ordinary shares which may be issued on the exercise of options granted under the scheme and any other executive share option scheme adopted by the company in any ten-year period may not exceed such number of ordinary shares as represents 5% of the ordinary share capital of the company. An option granted under the scheme may not be exercised earlier than three years or later than ten years after the grant date and unless performance conditions have been met.



Notes to the Financial Statements

19 RESERVES

	Share premium account £'000	Capital redemption reserve £'000	Merger relief reserve £'000	Goodwill reserve £'000	Profit and loss account £'000
The group					
Balance at 2 February 1997	-	393	-	(2,126)	9,693
Retained profit for the year	-	-	-	-	2,545
Shares issued and exercise of options	62	-	-	-	-
Arising on acquisition	-	-	978	(7,596)	-
Balance at 31 January 1998	62	393	978	(9,722)	12,238

	Share premium account £'000	Capital redemption reserve £'000	Merger relief reserve £'000	Special reserve £'000	Profit and loss account £'000
The company					
Balance at 2 February 1997	-	393	-	16,931	1,475
Retained profit for the year	-	-	-	-	6,473
Shares issued and exercise of options	62	-	-	-	-
Arising on acquisition	-	-	978	-	-
Balance at 31 January 1998	62	393	978	16,931	7,948

The profit and loss account balance of £7,567,000 shown in the Financial Statements for the year ended 1 February 1997 has been grossed up by £2,126,000 to show the amount of goodwill previously deducted.

The special reserve is not distributable.

20 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998 £'000	1997 £'000
The group		
Profit on ordinary activities after tax	5,116	4,542
Dividends	(2,571)	(2,056)
Share capital issued	80	-
Merger relief arising on acquisition of Hobbies and Models Limited	978	-
Goodwill on acquisition	(7,596)	-
	(3,993)	2,486
Opening shareholders' funds	9,102	6,616
Closing shareholders' funds	5,109	9,102



21 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1998 £'000	1997 £'000
Operating profit	7,568	6,558
Amortisation on intangible fixed assets	47	58
Depreciation on tangible fixed assets	728	550
(Increase) in stocks	(1,385)	(982)
(Increase) in debtors	(280)	(494)
Increase/(decrease) in creditors	3,069	(1,523)
(Decrease) in provisions for liabilities and charges	(170)	(16)
Balance at 31 January 1998	9,577	4,151

22 ACQUISITIONS

On 31 May 1997 the group acquired the whole of the issued share capital of Hobbies and Models Limited (trading as Toystack). The acquisition has been accounted for under the acquisition method.

	Book value £'000	Fair Value adjustments Accounting policy alignment £'000	Revaluation £'000	Fair Value £'000
Fixed assets	1,679	—	(186)	1,493
Stock	1,113	(100)	—	1,013
Debtors	121	—	—	121
Cash	542	—	—	542
Creditors	(1,449)	(33)	—	(1,482)
	2,006	(133)	(186)	1,687
Goodwill				7,596
Total consideration				9,283
Cash balances acquired				(542)
				8,741
Represented by:				
Cash paid				7,700
Acquisition costs paid				540
Less cash balances acquired				(542)
				7,698
Acquisition costs accrued				43
Shares issued				1,000
				8,741

The principal fair value adjustments were made to:

- revalue downwards the warehouse by £186,000. This was undertaken by external valuers.
- provide for slow moving stock of £100,000.
- adjust for rent free periods, rates and retrospective discounts of £93,000.
- provide for taxation thereon as appropriate of £60,000.



Notes to the Financial Statements

22 Acquisitions continued

The effect on the group's cash flows in the year is summarised below:

	<u>£'000</u>
Net operating cash inflow	2,698
Tax paid	798
Net capital expenditure and financial investment	<u>151</u>

The summarised profit and loss account from 1 February 1997, the beginning of the Hobbies and Models Limited financial year, to the date of acquisition is as follows:

	<u>£'000</u>
Turnover	1,882
Operating loss	(256)
Loss before taxation	(289)
Taxation	26
Loss after taxation	<u>(263)</u>

There were no recognised gains and losses other than in the profit and loss account.

The profit after taxation for the year ended 31 January 1997 was £1,164,071.

23 CONTINGENT LIABILITIES

	1998	1997
The group	<u>£'000</u>	<u>£'000</u>
Guarantee in favour of HM Customs & Excise	80	80
Guarantee in favour of associated undertaking	209	259
Documentary credits	80	49
	<u>369</u>	<u>388</u>

Guarantees have been given by the company to Hamleys of London Limited and Hobbies and Models Limited in respect of trading commitments in the normal course of business.

The company had no other contingent liabilities at 31 January 1998 or 1 February 1997.



Hamleys Annual Report & Accounts 1998

24 CAPITAL COMMITMENTS

The group	1998 £'000	1997 £'000
Contracted for but not provided in the financial statements	137	—

The company had no capital commitments at 31 January 1998 or 1 February 1997.

25 OPERATING LEASE COMMITMENTS

At 31 January 1998 the group was committed to making the following annual payments in respect of operating leases:

	Land and buildings 1998 £'000	Land and buildings 1997 £'000	Other 1998 £'000	Other 1997 £'000
Leases which expire:				
Within one year	246	—	17	6
Within two to five years	86	332	101	86
After five years	2,191	1,417	—	—
	2,523	1,749	118	92

The company had no operating lease commitments at 31 January 1998 or 1 February 1997.

26 PENSION SCHEME

There is no group or company pension scheme; however, the company does contribute to individual employee pension plans under a group administered personal pension scheme. Total group contributions in the year amounted to £80,000 (1997: £80,000), being 8.75% (1997: 8.75%) of pensionable salaries. There were no contributions payable at the year end.

27 EMPLOYEE SHARE TRUST

In 1989 the company established an employee share trust for the purpose of holding shares in the company for the benefit of employees of the group. In 1992 the employee share trust purchased shares in the company using funds borrowed from the company.

Hamleys Trustees Limited, a wholly owned subsidiary of the company, is the current trustee of the employee share trust. The trustee is obliged, under the terms of the trust deed, to transfer shares in the company, or grant options to acquire such shares, upon such terms and conditions as the company may from time to time direct.

At 31 January 1998 the trust held 74,300 5p ordinary shares in the company (1997: 74,300). The market value of these shares at 31 January 1998 was £192,437 (1997: £267,480).

No shares held by the trust are currently under option to employees or have been conditionally gifted to them.

Notes to the Financial Statements

28 RELATED PARTY TRANSACTIONS

As disclosed in note 13 a joint venture company, Weitnauer Hamleys Pte Limited, was incorporated in September 1996. The group has supplied stock of £64,465 (1997: £200,000) and has given guarantees, as disclosed in note 23 to the joint venture company Weitnauer Hamleys Pte Limited.

29 POST BALANCE SHEET EVENTS

On 23 March 1998 the board announced its proposals to return approximately £6m to ordinary shareholders representing approximately 10% of the market capitalisation of the company as at close of business on 20 March 1998. This equates to 25.75p per ordinary share by way of a bonus issue of redeemable "B" shares and a 9 for 10 consolidation of ordinary shares.

These proposals are subject to shareholders' approval, which will be sought at an Extraordinary General Meeting on 21 May 1998.



Hamleys

Five Year Financial Record

YEAR TO END OF JANUARY

	1994 £'000	1995 £'000	1996 £'000	1997 £'000	1998 £'000
Turnover	20,915	26,160	30,123	30,486	45,935
Operating profit before acquisition					
reorganisation costs and exceptional items	3,561	5,201	6,107	6,558	8,086
Acquisition reorganisation costs	—	—	—	—	(518)
Exceptional items	34	615	—	—	—
Operating profit	3,595	5,816	6,107	6,558	7,568
Net interest receivable/(payable)	(899)	(163)	268	324	3
Profit on ordinary activities before taxation	2,696	5,653	6,375	6,882	7,571
Tax on profit on ordinary activities	(837)	(1,208)	(1,964)	(2,340)	(2,455)
Profit on ordinary activities after taxation	1,859	4,445	4,411	4,542	5,116
Dividends	—	(1,599)	(1,850)	(2,056)	(2,571)
Retained profit for the year	1,859	2,846	2,561	2,486	2,545
Gross margin %	51.1%	50.0%	49.7%	52.4%	48.1%
Operating margin % before acquisition					
reorganisation costs and exceptional items	17.0%	19.9%	20.3%	21.5%	17.6%
Earnings per share					
– Basic	11.8p	21.2p	19.3p	19.9p	22.2p
– Adjusted	11.5p	16.6p	19.3p	19.9p	23.7p
Net cash inflow from operating activities (£'000)	4,556	4,932	7,544	4,151	9,577
Net assets/(liabilities) (£'000)	(10,697)	4,055	6,616	9,102	5,109



Notice of the Annual General Meeting

Notice is hereby given that the Annual General Meeting of Hamleys plc will be held at New Connaught Rooms, Covent Garden Exhibition Centre, Great Queen Street, London WC2B 5DA on 21 May 1998 at 11.00am for the transaction of the following business:

- 1 To receive and adopt the directors' report and the audited financial statements of the company for the year ended 31 January 1998.
- 2 To declare a final dividend.
- 3 To re-elect as a director H P Dyer who retires by rotation.
- 4 To re-elect as a director J C Hodgkinson who retires by rotation.
- 5 To re-elect as a director C J Ash who was appointed since the last Annual General Meeting.
- 6 To re-elect as a director D R Fogel who was appointed since the last Annual General Meeting.
- 7 To re-elect as a director J L Foster who was appointed since the last Annual General Meeting.
- 8 To re-elect as a director S C Innes who was appointed since the last Annual General Meeting.
- 9 To re-appoint Coopers & Lybrand as auditors.
- 10 To authorise the directors to determine the remuneration of Coopers & Lybrand.

SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolutions:

- 11 THAT
the section 80 amount shall be £386,598 and that the power in articles 4(B) and 4(D) of the articles of association of the company be extended until the conclusion of the next Annual General Meeting of the company or 21 August 1999, whichever is the earlier.

Special Resolution

- 12 THAT
the section 89 amount shall be £57,990 and that the powers in articles 4(C) and 4(D) of the articles of association of the company be extended until the conclusion of the next Annual General Meeting of the company or 21 August 1999, whichever is the earlier.

By order of the board

Ladan Hall Secretary
2 April 1998

Notes:

- 1 A member entitled to attend and vote may appoint a proxy or proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the company. A form of proxy is enclosed which, if required, should be signed in accordance with the instruction specified therein and deposited with Exchange Registrars Limited, 18 Park Place, Cardiff CF1 3PD not later than 11.00am on 19 May 1998. Members who complete and return the form of proxy will not be precluded from attending and voting.
- 2 The register of directors' interests will be available for inspection at the place of the Annual General Meeting from 10.45am on 21 May 1998 until the conclusion of the meeting.
- 3 Copies of directors' service contracts will be available for inspection at the registered office from the date of this notice until the date of the Annual General Meeting and at the place of the Annual General Meeting from 10.45am on 21 May 1998 until the conclusion of the meeting.





Shareholder Information

Registered office

Hamleys plc

188-196 Regent Street

London W1R 6BT

Registered number: 2352435

Hamleys' operations London

- Regent Street – West End
- Covent Garden
- Toystack – M25 Orbital Area

Channel Tunnel

- Folkestone

House of Toys' concessions

- In selected Debenhams stores

Airports

- Heathrow, Terminal 4
- Schiphol, Amsterdam
- Changi, Singapore

Other concessions

- In Hoopers,
Tunbridge Wells
- In John Menzies,
Edinburgh, Glasgow

Skyflyers

Financial Calendar

Annual General Meeting

21 May 1998

Final dividend payable

1 June 1998

Interim results announcement

October 1998

Interim dividend payable

November 1998



Hamleys
Advisers

Merchant Bankers

NatWest Markets
4 Great St. Helen's
London EC3A 6HA

Stockbrokers

Cazenove & Co.
12 Tokenhouse Yard
London EC2R 7AN

Bankers

Bank of Scotland
One Castle Terrace
Edinburgh EH1 2DP

Solicitors

Slaughter and May
35 Basinghall Street
London EC2V 5DB

Auditors

Coopers & Lybrand
Wilmot House
St James's Court
Friar Gate
Derby DE1 1BT

Registrars

Exchange Registrars Limited
18 Park Place
Cardiff CF1 3PD

