HAMLEYS ANNUAL REPORT & ACCOUNTS 1998

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Hamleys

FINANCIAL HIGHLIGHTS

	1999 £'000	1998 £'000	% Change
Group turnover	**47,862**	45,935	+4.2%
Group operating profit (before acquisition reorganisation costs)	**6,564**	8,074	–18.7%
Group operating profit	**6,704**	7,556	–11.3%
Profit before tax	**6,409**	7,571	–15.3%
Profit after tax	**4,368**	5,116	–14.6%
Earnings per share	**20.2p**	22.2p	–9.0%
Dividend per share	**11.0p**	11.0p	–

CHAIRMAN'S STATEMENT

The year ended 30 January 1999 was a very disappointing year for the Group and, against a backdrop of a difficult retail environment, profit before tax declined by 15% to £6.4m.

RESULTS Sales increased by 4.2% to £47.9m (1998: £45.9m), but operating profits before acquisition reorganisation costs decreased to £6.6m (1998: £8.1m), a fall of 19%. After the release of the unutilised balance of the acquisition reorganisation provision set up in the prior year of £0.14m and the exceptional profit from the sale of fixed assets of £0.18m, profit before interest and tax fell to £6.7m (1998: £7.6m). Profit before tax decreased from £7.6m to £6.4m in the year.

On fully diluted earnings per share of 20.2p (1998: 22.2p), the Board is recommending a maintained final dividend of 7.7p (1998: 7.7p) making a total for the year of 11.0p (1997: 11.0p). If approved the dividend will be paid on 16 June 1999 to shareholders registered at the close of business on 21 May 1999.

To improve transparency in the reporting of our annual results the Group has for the first time prepared a segmental analysis to show the underlying performance of its three separate trading divisions (Hamleys, Toystack and House of Toys) and also the level of head office costs.

Sales at Regent Street were up marginally year on year. Despite being affected by lower tourist spend in the summer period, Christmas sales in Hamleys' flagship store were at record levels in 1998. Hamleys' European satellites showed the strongest growth with healthy double-digit increases in sales. Underlying margins were improved significantly throughout Hamleys as the business benefited from better buying terms from suppliers and improvements in sales mix. As a result, the contribution by the Group's core trading division increased by 8.0% over the prior year, to £8.6m.

During the year, the Group pressed forward with the integration of its recently acquired Toystack subsidiary and in May transferred Toystack onto the Group's common stock and merchandising system.

In July 1998 Toystack's warehousing operations were combined with Hamleys at the Group's Saffron Walden site. In November 1998 Toystack's former warehouse at Wembley was sold for a cash consideration of £1.2m, giving a profit over net book value of £178,000.

Partly as a result of problems encountered during the integration and expansion process, like for like sales in the division fell by 13% and this had an adverse impact on the profit contribution made by Toystack in the year, which fell by £0.8m to £0.9m. The integration process is now fully complete and by January 1999 sales had recovered to prior year levels.

The House of Toys concession operation which trades in 48 Debenhams stores also had a less successful year with like for like sales down 15% over the prior period. As a result, the contribution made by the division fell to £0.3m (1998: £0.7m). Hamleys' contract to operate these concessions ends in February 2000 and it has been agreed with Debenhams that the scale of the Group's activities in House of Toys will be substantially reduced in 1999.

Hamleys

B SHARE REDEMPTION At the Extraordinary General Meeting of the Company held on 21 May 1998 shareholders approved proposals for the return of capital to shareholders by way of a bonus issue of one B Share for each existing ordinary share and a 9 for 10 capital consolidation of ordinary shares. During the initial redemption period which ended on 29 June 1998 approximately 96% of the B shares originally issued were redeemed.

The Board decided to offer a further opportunity for shareholders to redeem their B shares in the tax year ending 5 April 1999. This second redemption period closed on 26 March 1999, and on 1 April 1999, 622,497 B shares were redeemed.

The Company intends to redeem all outstanding B shares in accordance with their terms during the tax year ending on 5 April 2000.

THE BOARD As announced last year my role became Non-executive in August 1998. However as a consequence of the difficulties faced by the Company during the year, Stephen Woodbridge rejoined the Executive team as Deputy Executive Chairman in October 1998. Donald Mackenzie after ten years as a Director of Hamleys, resigned from the Board of the Company on 27 April 1999 following his relocation overseas. Donald has been a very valued member of the Board and I wish on behalf of the Board to thank him for his significant contribution and support for the Company.

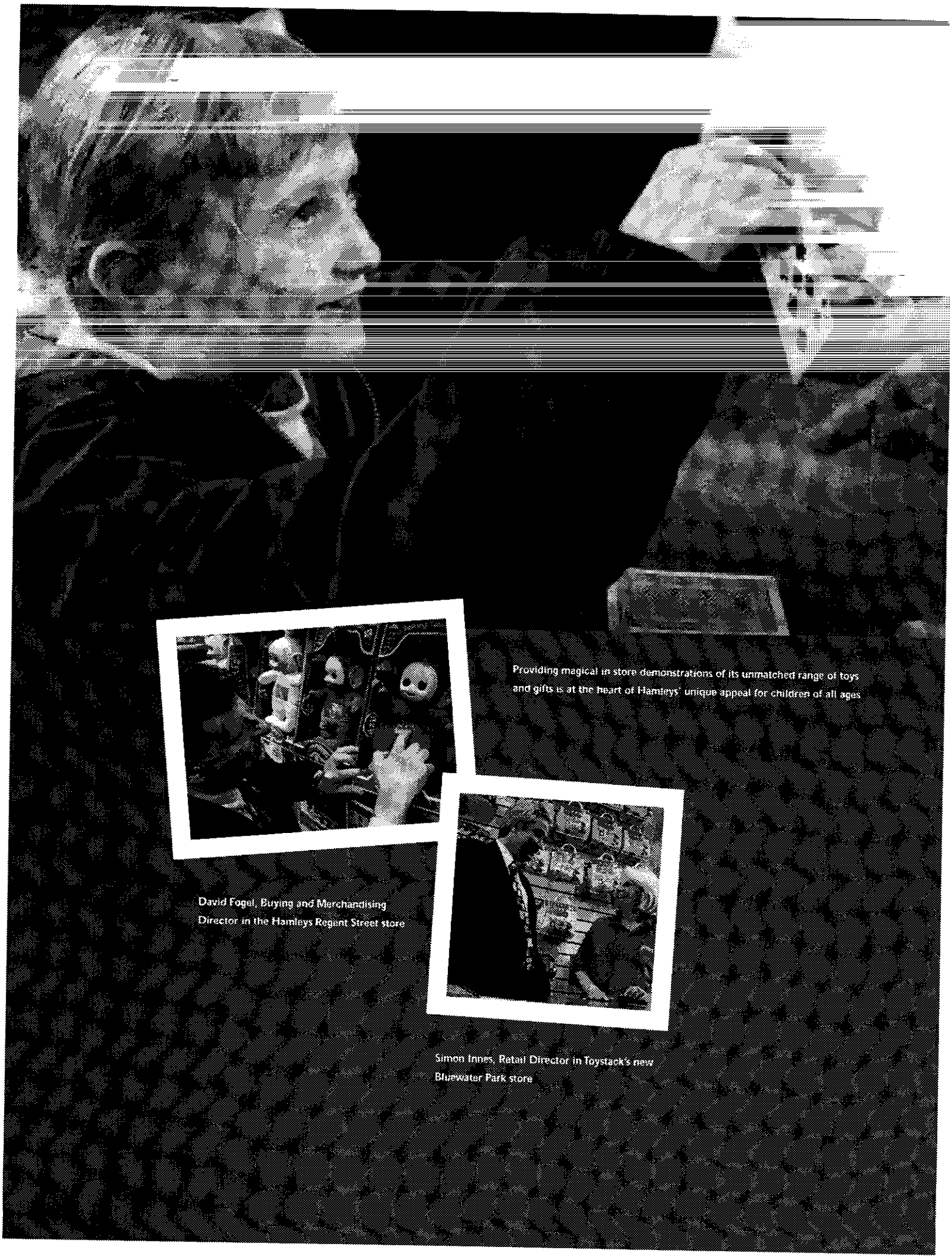
THE FUTURE Despite the setbacks seen in the current year, Hamleys remains well placed to develop its principal trading formats. The Board intends to focus resource on Hamleys and Toystack to ensure progress is made in the current year.

In February 1999 the first phase of the planned £4m refurbishment of the Regent Street store commenced with the aim of improving customer circulation and developing the atmosphere and in-store theatre of our flagship outlet to reinforce its reputation as the finest toy shop in the world. This, together with the effort focused on Hamleys' overseas business and the further development of our own brand range, will underpin growth of the Group's core trading brand over the medium term.

The problems encountered during the integration of the Toystack business have now been resolved, like for like sales have recovered and this performance has been maintained into the current year. Two new Toystack stores were opened in March 1999 at Bluewater Park in Kent and Buchanan Galleries in Glasgow. These are currently trading ahead of expectations.

TRADING OUTLOOK As a result of the Regent Street refurbishment programme and increased overhead costs, the Group's performance in the first half of 1999 will be depressed. However, following completion of Phase 1 of the refurbishment (1 July) we expect a significant uplift in sales performance in the remainder of the year. We remain confident in the strength of our core business and of its prospects for growth over the medium term.

HOWARD DYER, Chairman, 28 April 1999



Providing magical in store demonstrations of its unmatched range of toys and gifts is at the heart of Hamleys' unique appeal for children of all ages

David Fogel, Buying and Merchandising Director in the Hamleys Regent Street store

Simon Innes, Retail Director in Toystack's new Bluewater Park store

1998/99 has been a difficult year for the Hamleys' Group with the retail market somewhat depressed and an increased burden caused by the first full year of managing a greatly expanded business. Overall sales have grown by 4.2%, gross margin percentage is up by 1.6% but operating profits before acquisition reorganisation costs fell during the year to £6.6m from £8.1m. The contribution from the Hamleys' Branded business was up 8% but there was a significant reduction in profits year on year in both House of Toys and Toystack. In addition an increased central overhead was required to run the expanded Group.

The performance in the first six months of the year was adversely affected by seasonal loss making in House of Toys concessions and the cost of fully integrating Toystack. Although the second half saw some improvements in all areas there were disappointing sales performances in many of the House of Toys concessions and in Toystack.

Christmas sales were again concentrated into the latter part of December with a strong last two weeks failing to offset a weaker November and early December.

It is clear that the business needs to concentrate on growing the Hamleys' Brand, and after a difficult integration, expanding the number of Toystack outlets. House of Toys on the other hand is a marginally profitable operation at best and we will be significantly reducing our involvement in the next 12 months.

The traditional Toy market has seen a decline in unit sales with sterling values flat year on year. Although toys are under increased competition from music and clothing as children grow up earlier, a market that has expanded rapidly is Electronic Games, which is clearly aligned to Toys, and Hamleys will be expanding its offer in this area over the next 12 months.

The gross margin percentage has improved across the Group as a result of securing improved terms with key suppliers and careful management of the product mix in stores.

Stock has been closely managed throughout the year and despite increased sales and four new retail outlets stock was lower at the year end than the previous year.

Significant work has been undertaken in systems and logistics during the year. The Group's computer systems have been reviewed against Year 2000 requirements and as a result the Merchandising, Finance and Retail Systems have all been changed or upgraded. The introduction of new Year 2000 compliant E.P.O.S. tills will be completed by July 1999 and the Group's Year 2000 programme is scheduled for completion by August 1999. Stock management processes have been changed with the introduction of new Open to Buy procedures and the introduction of automatic replenishment into all outlets.

We have moved from having two geographically separate warehouse sites and outsourcing the House of Toys warehousing, to operating on one site in Saffron Walden with a shared stockbase and one common system.

Each Toystack store carries a range of over 3,000 product lines focused on offering exceptional value to customers

With the opening of Toystack's new store at Bluewater Park the Group now trades from 16 shopping mall based Toystack stores

Hamleys

A key initiative in the year was the development of a £4m refurbishment plan for Hamleys Regent Street. The work is split into two phases over 1999 and 2000 to minimise disruption but will see significant improvements to the physical layout of the store, customer access and ease of shopping during the current year.

Hamleys has strengthened its presence at Heathrow airport with a greatly improved refurbished shop in Terminal 4 and a new site opened in Terminal 2 in December.

An agreement has been signed to extend the Hamleys Franchise operation in Saudi Arabia to the broader region of the Middle East, it is planned to expand significantly the Hamleys presence in the region over the next two years.

Hamleys has moved onto the Internet with two trials pre Christmas, one in the United States and one in the UK. The opportunities of this new medium are well aligned to Hamleys' Brand strengths and accordingly this area will be developed further in 1999.

In Toystack the chain of 12 stores was expanded to 14 with the addition of three new stores in Brighton, Dudley and St. Enochs Glasgow and the closure of Kenton, which did not fulfil the Shopping Centre criteria. Two further sites were secured in Bluewater Park and the Buchanan Galleries in Glasgow and both stores opened successfully in March 1999.

HAMLEYS

REGENT STREET Overall sales were up 1% for the full year, recovering from a fall of 2% at the half year. The continued strength of sterling and the recession in the Far East adversely affected tourist numbers and their willingness to spend and this particularly impacted performance in the first half. However, this was more than offset by the strength of the product performance throughout the second half and a particularly strong last two weeks before Christmas.

The creation of a Yo Yo shop on the Ground Floor and the introduction of a 'Ty Beanie Babies' shop in early December strongly supported the Christmas and January performance.

The most successful individual product during 1998 was the Furby. Sales are continuing strongly into the current year and it is set to be a winner throughout 1999.

SATELLITES Sales were up strongly by 11% with excellent growth seen in the Schiphol, Channel Tunnel and the refurbished Heathrow Terminal 4 outlets. The product mix has been carefully improved to increase the degree of unique selection in those outlets and as a result the margin has increased and contribution is up 24%.

We opened a Hamleys outlet in Heathrow Terminal 2 in early December with good early results and benefits from management synergies with Terminal 4.

INTERNATIONAL OPERATIONS The Joint Venture operation in Changi Airport in Singapore saw a significant downturn in sales as the Asian crisis affected passenger numbers. The Group's share of the resulting losses from its Joint Venture amounted to £139,000 in the year.

We will be reviewing the future prospects and our position in Singapore very carefully in 1999.

We have extended our Franchise agreement with our partner in Saudi Arabia to cover the Middle East and will be opening four stores in the area in the next two years.

Sales for Skyflyers, our inflight toy offer for British Airways, suffered as a result of residual stocks built up in BA's supply chain. As a result income was significantly down in 1998. With the removal of surplus stocks in the supply chain a new contract has been agreed with BA and supplies have now recommenced.

TOYSTACK

1998/99 has been the first full year of trading with Toystack and we have seen its contribution fall year on year from £1.7m to £0.9m. This fall results from a lower like for like sales performance of a fall of 13%, caused by a generally weaker market in the high street, and mid year stock replenishment problems that have now been resolved.

Action was taken in the year to ensure that Toystack was in a position to expand beyond its initial portfolio of ten London based stores and one in Norwich. This included relocating the Toystack warehouse to the Group's Saffron Walden site and upgrading the computer systems, both in the stores and in central merchandising. As a result Toystack's old warehouse in Wembley was sold in November 1998 at above book value.

Three new Toystack stores were opened in the second half in Brighton, Dudley and Glasgow. The encouraging sales performance in these new stores demonstrates the opportunity in Toystack and two further stores have opened in March 1999.

Like for like sales in Toystack recovered strongly in the final quarter and moved ahead of prior year levels from mid December onwards. This encouraging performance has continued into the current year.

HOUSE OF TOYS

The concession operation House of Toys has been operating in Debenhams for some 18 months and achieved sales of £10.5m in 1998/9. 25 stores operated on an all year round basis and another 23 opened over Christmas only.

Sales were below expectations and a significant number of stores failed to deliver a profit contribution after apportioning central costs.

The contract to operate House of Toys in Debenhams expires in February 2000 and we have announced our intention to reduce significantly the scale of this operation in 1999.

Hamleys

S U M M A R Y Development in the year ahead will be concentrated on two brands, Hamleys and Toystack, whilst fulfilling our obligations to House of Toys.

Hamleys will benefit in the second half of 1999 from the improvements being made to the Regent Street store following the first phase of the refurbishment programme, our increased presence in airports, the international expansion now underway and the excellent potential offered by utilising the strength of the brand name on the Internet and associated media.

Toystack now has an expanded base of 16 stores and the infrastructure is in place to manage a progressive new store opening programme over the next few years.

Year 2000 compliance is a key concern for the business and Hamleys' has a programme to ensure that no adverse impact is experienced by the Group's business as a result of this issue, which is scheduled for completion by August this year.

There will be significant investment in the current year to enable our plans to come to fruition and I remain confident about the prospects for continued growth from both Hamleys and Toystack in the coming year.

C H R I S A S H , **Chief Executive, 28 April 1999**

FINANCIAL REVIEW

INTRODUCTION To provide greater transparency and clarity on the Group's activities, a segmental analysis of the trading performance of the Group's three principal operating divisions has been provided for the first time (see note 3 on pages 29 and 30).

SALES Consolidated Group sales increased by 4.2% from £45.9m to £47.9m. The increase reflects the impact of a full year's trading from both Toystack and Debenhams in the year.

GROSS MARGIN The consolidated gross margin percentage increased in the year to 49.7% as a result of improved buying terms obtained from suppliers following the acquisition of Toystack.

OPERATING PROFIT Operating profit before acquisition reorganisation costs decreased by 19% to £6,564,000. After releasing £140,000 of unutilised reorganisation provisions, Group operating profit fell 11% to £6,704,000.

HAMLEYS Sales in the Hamleys branded businesses moved ahead by 0.5% in the year. Following an increase of 2.4 percentage points at the gross margin level, divisional contribution from Hamleys rose by 8% to £8.6m (1997/8, £8.0m).

TOYSTACK The recently acquired Toystack business had a more difficult year. Like for like sales fell by 13% and this, in addition to seasonal losses experienced in the first half, saw the contribution from Toystack fall from £1.67m to £0.92m in the current year.

HOUSE OF TOYS The Group's department store concession operation House of Toys also had a disappointing year with like for like sales down 15%. As a result its contribution fell to £0.27m (1997/8, £0.67m).

SHARE OF OPERATING LOSS OF JOINT VENTURE During 1998 the downturn in the Far East significantly affected sales in Hamleys' Joint Venture at Changi Airport in Singapore. The Group's share of the resulting losses in the year was £139,000.

PROFIT ON SALE OF FIXED ASSET In November 1998 the Group sold its interest in the former warehouse of Toystack for a cash sum of £1.2m yielding a profit of £178,000 on the sale.

INTEREST In June 1998 the Group returned approximately £6.0m of capital to shareholders and as a result Group borrowings increased substantially. This increase in borrowings led to an interest charge of £334,000 (1998: £3,000 income) in the year.

TAXATION In line with the unchanged rate of corporation tax, the effective rate of tax for the year was maintained at 32% (1998: 32%). It is anticipated that in future years the effective rate will fall, in line with actual rates.

Hamleys

DIVIDENDS The proposed dividend is covered 1.9 times (1998: 2.0 times) by earnings.

EARNINGS PER SHARE Earnings per share fell by 9.0% from 22.2p to 20.2p. Further details are given in note 11 to the financial statements.

BALANCE SHEET AND CASH FLOW The major movements in the balance sheet categories reflect the return of capital in June 1998, the sale of Toystack's Wembley warehouse and the substantial investment in I.T. and E.P.O.S. systems undertaken in the year.

Net assets decreased from £5,109,000 to £1,308,000 due principally to the 25.75p per share return of capital in June 1998, which reduced shareholders' funds by £6,122,000.

Investments in tangible fixed assets grew by £473,000 in the year with expenditure of £2,346,000 offset by depreciation of £837,000 and asset disposals of £1,036,000.

Stocks at 30 January 1999 were £115,000 lower than the prior year at £6,012,000 despite the increased number of trading outlets because of an increased focus on stock management.

Debtors increased from £2,555,000 to £2,726,000 in line with sales.

The Group's brought forward surplus net cash resources of £3,088,000 were utilised to fund the £6m return of capital to shareholders. As at 30th January 1999 cash balances of £5,515,000 were offset by borrowings due after more than one year of £6,244,000, leaving net borrowings of £729,000.

Creditors falling due within one year increased by £217,000 to £11,018,000 in line with the Group's increased scale of activities.

As a result net current assets increased from £969,000 to £3,235,000.

Cash flow generated from our trading operations remained strong at £8,056,000. After net payments for capital expenditure, taxation and dividends, the Group had a net cash flow before use of liquid resources of £2,010,000.

The repayment of B shares of £6,093,000 was funded by bank loans received of £6,244,000 and cash from the issue of new shares of £266,000 leaving a net inflow from financing of £417,000. As a result, the Group had a net cash inflow for the year of £2,427,000.

JOHN FOSTER, **Finance Director, 28 April 1999**

Howard Dyer
Non-executive Chairman (49) 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 Plc since June 1993 and New Look Group Plc since September 1996. Prior to joining Hamleys he was a director of Williams PLC with responsibility for North American operations.

Stephen Woodbridge
Executive Deputy Chairman (57) 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. In October 1998 he rejoined the executive team as Executive Deputy Chairman. Prior to this he was with Williams PLC, where he was responsible for special assignments in North America. He is currently a Senior Executive of Ascot Plc.

Chris Ash
Chief Executive (46) 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
Finance Director (41) joined Hamleys on 23 March 1998. He was formerly corporate finance director at Ascot 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.

David Fogel
Buying and Merchandising Director (44) joined the Hamleys' board in June 1997. Previously the managing director and founder of Hobbies and Models Limited (Toystack) he has 23 years' experience in the toy retailing industry and was invited to join the board as buying and merchandising director on completion of the acquisition of Toystack.

Simon Innes
Retail Director (38) 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.

John Allan
Non-executive (50) 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.

Donald Mackenzie
Non-executive (42) 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 a managing director of CVC Capital Partners and holds a number of other non-executive directorships. He resigned from the board of Hamleys on 27 April 1999 following his relocation overseas.

Jim Hodkinson
Non-executive (54) has 36 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, chairman and chief executive in 1995 and director of Kingfisher plc. He is currently chief executive of New Look Group Plc, where he was previously a non-executive director. He is also a non-executive director of Provident Financial.

DIRECTORS' REPORT

The Directors of Hamleys Plc present their Annual Report and the audited financial statements for the year ended 30 January 1999.

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 2 to 11.

Directors

The present membership of the Board is set out on page 12 and comprises five Executive and four Non-executive Directors. During 1998 Howard Dyer's role became Non-executive Chairman and Stephen Woodbridge rejoined the Executive team as Executive Deputy Chairman. As discussed in last year's Annual Report, on March 23 1998, John Foster and Simon Innes were appointed to the Board and Michael Riddy resigned. Donald Mackenzie resigned from the Board on 27 April 1999 following his relocation overseas.

In accordance with the Articles of Association one third of the Board will retire by rotation at the Annual General Meeting. The Directors retiring by rotation are Stephen Woodbridge, Simon Innes and John Allan who, being eligible, offer themselves for re-appointment. The current service agreement both of Stephen Woodbridge and Simon Innes are terminable by one year's written notice by the Company or six months' written notice by the Director. John Allan is a Non-executive Director and does not have a contract of service.

Details of Directors' interests in the Company's shares are included in the Remuneration Report on pages 19 to 23.

Corporate Governance

Details concerning the Group's arrangements relating to Corporate Governance and its compliance with Section 1 of the Combined Code are given on pages 16 to 18.

Directors' responsibilities in relation to financial statements

The following statement, which should be read in conjunction with the auditors' report set out on page 41, 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 the 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.

Annual General Meeting

The notice of the Annual General Meeting includes:

(a) a resolution (resolution 8, which is proposed as an ordinary resolution) to renew the authority of the Directors to allot securities of the Company up to an aggregate nominal amount equal to £356,834 being the unissued authorised share capital of the Company less the options reserved for issue as at the date of this report; and

(b) a resolution (resolution 9, which is proposed as a special resolution) to renew the power of the Directors to allot equity securities for cash without first being required to offer such securities to existing shareholders. The power is limited to an aggregate nominal amount equal to £58,350, being 5% of the current issued ordinary share capital of the Company.

The Directors have no present intention to exercise either the authority or the power that will be renewed under these resolutions. The authority and the power will lapse after 15 months or, if earlier, at the end of the next Annual General Meeting. Both resolutions 8 and 9 are consistent with the recommendations of the Investment Committees of the National Association of Pension Funds and the Association of British Insurers.

Dividends

The Group's net profit before tax decreased from £7,571,000 to £6,409,000. An interim dividend of £689,000 was paid on 20 November 1998 and a final dividend of £1,617,000 is proposed and, subject to shareholders' approval, will be paid on 16 June 1999.

Substantial shareholdings

Other than the Directors' interests as disclosed on page 21, the Company has been notified or is aware of the following holdings over 3% in the Company's share capital as at 9 April 1999.

Name of the Company	Number of ordinary 5 5/9p shares	Percentage of issued share capital
M & G	2,150,998	10.24
Jupiter Asset Management	1,984,160	9.45
Schroder	1,972,649	9.39
Prudential	1,477,002	7.03
Phillips & Drew	1,476,389	7.03
Fidelity (London)	1,134,480	5.40
Axa Sun Life	1,004,400	4.78
Martin Currie	999,276	4.76
Baillie Gifford & Co	907,000	4.32
Bellpoint Limited	812,870	3.87

Donations

During the year the Group made donations of toys, gifts and cash totalling £8,766 (1998: £5,750) to various charities mainly associated with children. There were no political donations.

Auditors

Our auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998, following which Coopers & Lybrand resigned and the Directors appointed the new firm, PricewaterhouseCoopers, as auditors. A resolution to reappoint PricewaterhouseCoopers as auditors to the Company will be proposed at the Annual General Meeting.

Policy on payment of suppliers

The Group 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 72 days (1998: 54 days).

Hamleys

The Millennium

Hamleys, in conjunction with independent expert consultants, established a Year 2000 Programme in 1998 which represents a systematic and thorough evaluation of the Group's electronic systems. The Programme aims to ensure that all electronic systems with a date function within the business, from hardware and software packages to lifts, security systems and other embedded systems, are certified as being Year 2000 compliant and, if required, are properly tested. Additionally, as part of the Programme, Hamleys are seeking confirmation from suppliers and other business partners that they are taking appropriate measures to safeguard their own operations from Year 2000 problems thus minimising any external effects on Hamleys' business as it enters the next Millennium.

Hamleys understands that external influences may cause Year 2000 related problems, and is preparing a Contingency Plan to ensure the business will continue trading normally until any problems are rectified.

The Programme has not delayed any internal Group projects that would have a material adverse affect on the Group's consolidated financial position. Significant expenditure was incurred in 1998/99 and is planned for the current year to upgrade the Group's principal business systems and this has had the incidental benefit of providing Year 2000 compliance for the systems affected. The Group's direct expenditure on dedicated Year 2000 programmes was immaterial. All costs of the Programme will be generated from internal cash flows.

The Board intends to be in a position to issue a statement confirming the completion of the Year 2000 Programme in the latter half of 1999.

European Monetary Union

The Group took appropriate steps to prepare for the introduction of the Euro on 1 January 1999 which directly affected the day to day operations of its Hamleys Satellite store in Schiphol Airport, Amsterdam.

In addition, the Group is committed to providing facilities to both its customers and suppliers to enable its day to day business to be conducted in Euros as required.

Post Balance Sheet Event

As described in note 29 to the financial statements, on 22 January 1999 the Board offered a further opportunity for shareholders to redeem their B shares in the tax year ending 5 April 1999. This second redemption period closed on 26 March 1999.

On 30 March 1999, the Board announced its intention to reduce substantially the scale of the Group's activities trading under the House of Toys name, which operates on a concession basis within Debenhams stores.

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

Maria Prendergast, Secretary, 28 April 1999

Compliance

The Company has complied throughout the year with the principles set out in Section 1 of The Combined Code. In accordance with paragraph 12.43A of the Listing Rules, set out below is an explanation of how the Company has applied the principles set out in Section 1 of the Combined Code.

DIRECTORS

The Board

The Company is headed by an effective Board, which includes a strong independent Non-executive presence. The Board meets on a regular basis and has a formal schedule of matters specifically reserved to it for decision. Each Board member brings an independent judgement to bear on issues of strategy, performance, resources and standards of conduct. The Board has approved a procedure for the Directors to take independent professional advice where necessary in the furtherance of their duties at the Company's expense. The Directors have access to the advice and services of the Company Secretary.

Chairman and Chief Executive

The roles of the Chairman and Chief Executive Officer are clearly defined and separate to ensure a balance of power and authority between the two functions.

Board Balance

As stated on page 12 Stephen Woodbridge is a senior executive and Jim Hodkinson is a Director of companies of which Howard Dyer is an Executive Chairman. Although the Board recognises that there is a risk that in each case this might be viewed as a business relationship capable of materially interfering with the exercise of the Directors' independent judgement, the Board has considered the facts in this matter and is of the opinion that both Directors are independent. Howard Dyer was an Executive Director of the Company until 31 July 1998 and is now regarded by the Board as being independent of management. John Allan and Donald Mackenzie are considered by the Board to be independent. John Allan is the senior independent Non-executive Director .

Supply of Information

Relevant papers are circulated to all Board members on a timely basis and in advance of each meeting. Directors provide feedback to management to enhance reporting formats and information content of Board papers and, in addition, make further enquiries of management wherever they consider it necessary to allow the appropriate decisions to be made with regard to Company matters.

Appointment to the Board

The Nomination Committee of the Board comprises the Chairman and all the Non-executive Directors and is chaired by Howard Dyer. Its main duty is to make recommendations to the Board of Directors as regards new appointments to the Board.

Re-election

In accordance with the Company's Articles of Association, all Directors are subject to election by shareholders at the first opportunity after their appointment. The Articles also provide that at least one third of the Directors be subject to re-election by rotation at each Annual General Meeting. The Annual Report contains biographical information to enable shareholders to make informed decisions on the re-election of the Directors.

DIRECTORS' REMUNERATION

The Remuneration Committee comprises all the Non-executive Directors of the Board with the exception of Howard Dyer and is chaired by Jim Hodkinson. The Committee considers that it is currently complying with the provisions of the Combined Code. The procedures and guidelines used by the Remuneration Committee in determining remuneration are outlined in a separate Remuneration Report on page 19. Details of the Directors' remuneration for 1998/99 and Directors' interests in shares are included in the Report. The Remuneration Report contains details of the remuneration of the Non-executive Directors.

RELATIONS WITH SHAREHOLDERS

Dialogue with Institutional Shareholders

The Board recognises the benefits of maintaining regular dialogue with institutional investors to improve the mutual understanding of the aspirations and objectives of both the Company and investors. Each year the Directors hold a series of meetings with institutional investors after the publication of the Company's full and half year financial results.

Constructive use of the Annual General Meeting

The Chairmen of the Audit, Nominations and Remuneration Committees will be available to answer questions at the Annual General Meeting. Separate resolutions are proposed for substantially separate issues at the meeting and the Chairman will declare the number of proxy votes received both for and against each separate resolution.

ACCOUNTABILITY AND AUDIT

Financial reporting

Statements of the responsibilities of the Directors and auditors can be found on pages 13 and 41 respectively. The Directors have complied with their responsibility to ensure that all interim and other price sensitive reports include not simply figures but also a narrative that presents a coherent picture of the Company's performance and prospects.

Internal Control

The Combined Code contains a requirement for the Directors to report on internal controls including non-financial controls within the Group. The Company is currently reviewing its internal control systems in the light of the Combined Code and will report on its review next year after the guidance from the ICAEW Committee has been issued. In the meantime, as permitted by the London Stock Exchange, the Company will continue to report on its review of internal financial controls.

The Directors have overall responsibility for ensuring that the Company maintains a system of internal financial control, including suitable monitoring procedures. Responsibility for operating the system is delegated to the Executive Directors. The system is designed to ensure the maintenance of proper accounting records and the reliability of the financial information used within the business for publication, but any such system can only provide reasonable and not absolute assurance against misstatement or loss.
The Board in conjunction with the Audit Committee have reviewed the effectiveness of the system of internal financial controls for the year covered by the accounts presented in this report.

Audit Committee and Auditors

The Audit Committee comprises all the Non-executive Directors and was chaired by Donald Mackenzie. The Committee meets at least twice a year to discharge the duties that have been specifically delegated to it by the Board. These are:

- 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 principles of financial reporting and internal control are applied through internal standard reporting procedures and structures and the flow of information on a regular basis. The Board through the Audit Committee and the Executive Directors maintains an appropriate relationship with the Company's auditors through regular meetings, correspondence and involvement throughout the year, not just at the time of the annual audit. The auditors advise the Company on a range of issues including internal control matters.

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 the Company continues to adopt the going concern basis in preparing the accounts.

By order of the Board

Maria Prendergast, Secretary, 28 April 1999

REMUNERATION REPORT

The Remuneration Report is set out below, giving prescribed details relating to the Directors' remuneration as required by the Listing Rules of the London Stock Exchange. The Company has complied throughout the year with Best Practice regarding the Remuneration Committee as set out in Section 1 of the Combined Code. The Company's auditors have reviewed those parts of the Remuneration Report which are specified for review by the London Stock Exchange.

Composition of the Remuneration Committee

The Remuneration Committee comprises all the Non-executive Directors with the exception of Howard Dyer and is chaired by J C Hodkinson.

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*

The annual executive bonus scheme 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 targets agreed with the Remuneration Committee (in the year to which this report relates the target was £2m in excess of the budgeted figure).

(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 on 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.

(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.

(vi) *Pensions*

The Directors do not belong to a Company pension scheme. However, they receive a supplement of 20% of basic salary which they can elect to have paid directly into a pension fund or invest in a PEP or other investments.

Policy on remuneration of Non-executive Directors

Non-executive Directors receive 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. S J Woodbridge exercised options as a Non-executive Director during the year. These options were granted to him as an Executive Director. The main benefit to which they are entitled is a staff discount on merchandise sold by the Company.

Directors' emoluments Executive	**Basic salary/fees £'000**	**PRP Bonus £'000**	**Pension £'000**	**Benefits £'000**	**Compen-sation £'000**	**Total 1999 £'000**	Total 1998 £'000
H P Dyer – Executive	**30**	**–**	**–**	**9**	**–**	**39**	79
H P Dyer – Non-executive	**30**	**–**	**–**	**9**	**–**	**39**	–
S J Woodbridge – Executive	**34**	**–**	**–**	**–**	**–**	**34**	120
S J Woodbridge – Non-executive	**12**	**–**	**–**	**–**	**–**	**12**	3
C J Ash	**245**	**–**	**–**	**16**	**–**	**261**	86
J L Foster (2)	**85**	**–**	**17**	**13**	**–**	**115**	–
D R Fogel	**141**	**–**	**–**	**12**	**–**	**153**	98
S C Innes (2)	**74**	**–**	**–**	**7**	**–**	**81**	–
A M Riddy (1)	**8**	**–**	**–**	**1**	**72**	**81**	87
Non-executive							
J C Hodkinson	**17**	**–**	**–**	**–**	**–**	**17**	15
A D Mackenzie	**17**	**–**	**–**	**–**	**–**	**17**	15
J M Allan	**17**	**–**	**–**	**–**	**–**	**17**	15
Total	**710**	**–**	**17**	**67**	**72**	**866**	518
Total 1998	467	3	–	48	–	518	

(1) A M Riddy received £72,000 as compensation for loss of office during 1998. This is included in the amounts above.

(2) J L Foster and S C Innes were appointed Directors of the Company on 23 March 1998, therefore their salaries are pro-rated for the period that they have served.

(3) J L Foster has elected to have the Company pay his 20% supplement directly into a pension fund.

An amount of £33,065 was paid to Ascot plc as follows, £29,600 for the services of S J Woodbridge and £3,465 for benefits in relation to J L Foster.

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

Hamleys

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 5 5/9p shares 30 January 1999	Ordinary 5p shares 31 January 1998
H P Dyer	**1,170,885**	1,300,984
C J Ash	**13,090**	2,878
D R Fogel	**288,461**	320,513
S J Woodbridge	**166,161**	184,624
J L Foster	**4,500**	-
S C Innes	**225**	-
A D Mackenzie	**106,099**	117,888
J C Hodkinson	**2,250**	2,500

The Directors' interests shown above reflect the consolidation of shares which took place during the year. With the exception of the exercise of options by S J Woodbridge as noted on page 22 no other Director has sold shares during the year.

J L Foster purchased 15,000 ordinary 5 5/9p shares on 7 April 1999 at 167p and there has been no further movement in Directors' interests between 30 January 1999 and 16 April 1999.

Directors' share options

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

Options granted to the Chief Executive:

		Number of options					
	Scheme type	At start of year	Granted during year	Exercised during year	At end of year	Option price pence	Specified price pence
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:

		Number of options				
	Scheme type	At start of year	Granted during year	Exercised during year	At end of year	Option price pence
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		130,469	–	114,205	16,264	
J L Foster	Approved	–	11,152	–	11,152	269
	Unapproved	–	81,784	–	81,784	269
Total		–	92,936	–	92,936	
S C Innes	Approved	9,772	–	–	9,772	307
	Unapproved	16,484	–	–	16,484	273
	Unapproved	–	27,881	–	27,881	269
Total		26,256	27,881	–	54,137	

S J Woodbridge exercised 114,205 options on 6 April 1998. The exercise price was 185p and the market price was 283p which resulted in a total gain of £111,921.

There have been no further changes to the above options between 30 January 1999 and 1 April 1999.

Further information on the executive share options scheme is included in note 19 to the financial statements.

Notes

1 *An option may be exercised after three and prior to ten years from the of the grant as follows:*

(i) three years from the grant date in respect of 25% of the shares subject to the option;

(ii) four years from the grant date in respect of a further 25% of the shares subject to the option;

(iii) 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 126p. During the year the market price ranged from 297p to 99p.

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 FRS14.

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.

Stephen Woodbridge, Simon Innes and John Allan are proposed for re-election at the forthcoming Annual General Meeting. The current service agreements of Stephen Woodbridge and Simon Innes are terminable by one year's written notice by the Company or six months written notice by the Director. John Allan is a Non-executive Director and does not have a contract of service.

On behalf of the Board

Jim Hodkinson, Non-executive Director and Chairman of the Remuneration Committee
28 April 1999

CONSOLIDATED PROFIT & LOSS ACCOUNT

FOR THE YEAR ENDED 30 JANUARY 1999

	Note	1999 £'000	1998 £'000
TURNOVER	2	**48,393**	46,744
Less: share of turnover of Joint Venture		**(531)**	(809)
Group turnover		**47,862**	45,935
GROUP OPERATING PROFIT BEFORE ACQUISITION REORGANISATION COSTS	6	**6,564**	8,074
Acquisition reorganisation costs	5	**140**	(518)
GROUP OPERATING PROFIT		**6,704**	7,556
Share of operating (loss)/profit of joint venture		**(139)**	12
Profit on sale of fixed assets		**178**	–
Net interest (payable)/receivable	7	**(334)**	3
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		**6,409**	7,571
Taxation on profit on ordinary activities	8	**(2,041)**	(2,455)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		**4,368**	5,116
Dividends	10	**(2,313)**	(2,571)
RETAINED PROFIT FOR THE YEAR		**2,055**	2,545
EARNINGS PER SHARE			
– Basic	11	**20.2p**	22.2p
– Diluted	11	**20.2p**	22.1p
DIVIDENDS PER SHARE	10	**11.0p**	11.0p

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

There are no recognised gains or losses other than those recognised 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.

No adjustment of prior periods earnings per share has been made in respect of the share buy back in the year as the shares were repurchased at market value.

The movements in reserves are given in note 20 to the financial statements.

CONSOLIDATED BALANCE SHEET

AT 30 JANUARY 1999

	Note	£'000	1999 £'000	£'000	1998 £'000
FIXED ASSETS					
Intangible assets	12		172		174
Tangible assets	13		4,427		3,954
			4,599		4,128
Interest in Joint Venture:					
Share of gross assets		–		80	
Share of gross liabilities		–		(45)	
Net interest in joint venture	14		–		35
CURRENT ASSETS					
Stocks – goods for resale		6,012		6,127	
Debtors	15	2,726		2,555	
Cash at bank and in hand		5,515		3,088	
		14,253		11,770	
CREDITORS					
Amounts falling due within one year	16	(11,018)		(10,801)	
NET CURRENT ASSETS			3,235		969
TOTAL ASSETS LESS CURRENT LIABILITIES			7,834		5,132
CREDITORS					
Amounts falling due after more than one year					
Bank borrowings	17		(6,244)		–
Interest in joint venture:					
Share of gross assets		17		–	
Share of gross liabilities		(121)		–	
Net interest in joint venture	14		(104)		–
PROVISIONS FOR LIABILITIES AND CHARGES					
Deferred taxation	18		(178)		(23)
NET ASSETS			1,308		5,109
CAPITAL AND RESERVES					
Called up share capital	19		1,394		1,160
Share premium account	20		321		62
Capital redemption reserve	20		6,176		393
Profit and loss account	20		(6,583)		3,494
SHAREHOLDERS' FUNDS			1,308		5,109

Shareholders' Funds include non equity shareholder funds of £227,000 (1998: £Nil).

Approved by the Board on 28 April 1999

H P Dyer Director

J L Foster Director

COMPANY BALANCE SHEET

AT 30 JANUARY 1999

	Notes	£'000	1999 £'000	£'000	1998 £'000
FIXED ASSETS					
Investments	14		27,982		27,982
CURRENT ASSETS					
Debtors	15	3,122		3,563	
Cash at bank and in hand		2		2	
		3,124		3,565	
CREDITORS					
Amounts falling due within one year	16	(1,955)		(4,075)	
NET CURRENT ASSETS/(LIABILITIES)			1,169		(510)
TOTAL ASSETS LESS CURRENT LIABILITIES			29,151		27,472
CREDITORS					
Amounts falling due after more than one year					
Bank borrowings	17		(6,052)		–
NET ASSETS			23,099		27,472
CAPITAL AND RESERVES					
Called up share capital	19		1,394		1,160
Share premium account	20		321		62
Capital redemption reserve	20		6,176		393
Merger relief reserve	20		978		978
Special reserve	20		10,921		16,931
Profit and loss account	20		3,309		7,948
SHAREHOLDERS' FUNDS			23,099		27,472

Approved by the Board on 28 April 1999

H P Dyer Director

J L Foster Director

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JANUARY 1999

	Notes	1999 £'000	1998 £'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	22	**8,056**	9,577
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		**47**	218
Interest paid		**(369)**	(146)
Preference dividends paid		**(7)**	–
		(329)	72
TAXATION PAID		**(2,371)**	(2,855)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Purchases of intangible fixed assets		**(55)**	(32)
Purchases of tangible fixed assets		**(2,040)**	(661)
Sale of tangible fixed assets		**1,214**	–
		(881)	(693)
ACQUISITIONS			
Acquisition of business		**–**	(7,698)
EQUITY DIVIDENDS PAID		**(2,465)**	(2,156)
NET CASH FLOW BEFORE USE OF LIQUID RESOURCES		**2,010**	(3,753)
MANAGEMENT OF LIQUID RESOURCES			
Movement in short term deposits with banks		**–**	3,000
FINANCING			
Receipt of bank loans		**6,244**	3,500
Repayment of bank loan		**–**	(3,500)
Issue of ordinary shares		**266**	64
Repayment of B shares		**(6,093)**	–
		417	64
MOVEMENT IN CASH		**2,427**	(689)

RECONCILIATION OF NET FUNDS	**1999 £'000**	1998 £'000
Balance at 1 February 1998	**3,088**	6,777
Net cash inflow/(outflow)	**2,427**	(689)
Movement in short term deposits with banks	**(6,244)**	(3,000)
Balance at 30 January 1999	**(729)**	3,088

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 30 January 1999.

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. In accordance with the provisions of FRS10 'Goodwill and intangible assets', prior years' 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, has been offset against the special reserve, merger relief reserve and profit and loss reserve in the year of acquisition. The elimination is disclosed in note 20. Any goodwill on future acquisitions will be capitalised and written off over its useful economic life.

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%
Other 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

FRS11 'Impairment of fixed assets and goodwill' came into effect for these financial statements, but has not resulted in any changes in presentation.

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

g) Joint Venture 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 Joint Ventures. The Group's profit and loss account and cash flow statement have been presented in accordance with the new requirements of FRS9 'Associates and joint ventures' and include the appropriate share of results and the Group's balance sheet includes the appropriate share of gross assets and gross liabilities of these companies, based on their accounts, to the Hamleys' Group, at the balance sheet date (see note 14).

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.

m) Earnings per share FRS14 'Earnings per share' has been adopted and, consequently, basic and diluted earnings per share have been calculated in accordance with the new methology. Comparative basic and diluted earnings per share for 1998 has been recalculated on the same basis. Earnings per share is disclosed in note 11.

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.

3 SEGMENTAL REPORTING	**Hamleys (incl Satellites)**		**Toystack**		**House of Toys**		**Total**	
	1999 £'000	1998 £'000	**1999 £'000**	1998 £'000	**1999 £'000**	1998 £'000	**1999 £'000**	1998 £'000
Turnover	**26,965**	26,841	**10,374**	8,739	**10,523**	10,355	**47,862**	45,935
Gross profit	**14,945**	14,221	**4,458**	3,804	**4,376**	4,046	**23,779**	22,071
Contribution	**8,604**	7,967	**916**	1,669	**274**	670	**9,794**	10,306
Head Office costs							**(3,150)**	(2,232)
Compensation for loss of office							**(80)**	–
Total Head Office costs							**(3,230)**	(2,232)
GROUP OPERATING PROFIT BEFORE ACQUISITION REORGANISATION COSTS							**6,564**	8,074

Included in the above is turnover of £545,000 (1998: £363,000) for Hamleys BV, a wholly owned subsidiary operating a satellite store in The Netherlands.

3 Segmental Reporting continued

	Hamleys (incl Satellites)		Toystack		House of Toys		Total	
	1999 £'000	1998 £'000	**1999 £'000**	1998 £'000	**1999 £'000**	1998 £'000	**1999 £'000**	1998 £'000
Operating net assets								
– Group	**1,901**	1,826	**608**	698	**1,256**	1,248	**3,765**	3,772
– Joint Venture	**(104)**	35	**–**	–	**–**	–	**(104)**	35
	1,797	1,861	**608**	698	**1,256**	1,248	**3,661**	3,807
Central								
Dividends							**(1,624)**	(1,786)
Net (Borrowing)/Cash							**(729)**	3,088
Net assets							**1,308**	5,109

Central net assets comprise dividends, cash and borrowings which have not been allocated to segments.

4 INFORMATION REGARDING DIRECTORS AND EMPLOYEES	**1999 £'000**	1998 £'000
Directors		
Aggregate emoluments	**744**	503
Aggregate gains made on the exercise of share options	**112**	–
Company contributions to money purchase pension schemes	**17**	–
Compensation to past Directors for loss of office	**72**	–
Sums paid to third parties for Directors' services	**33**	15
	978	518
Highest paid Director		
Aggregate emoluments	**261**	123

Fees are paid only to Non-executive Directors.

More information concerning Directors' emoluments and their interests in shares is given in the Remuneration Report on pages 19 to 23.

	1999 £'000	1998 £'000
Employees		
Employee costs during the year:		
Wages and salaries	**6,543**	4,957
Social security costs	**477**	401
Other pension costs	**106**	80
	7,126	5,438

4 Information Regarding Directors and Employees continued

The average number of staff employed by the Group during the year:	**Number**	Number
Sales and distribution	**401**	302
Administration	**37**	37
	438	339

5 ACQUISITION REORGANISATION COSTS

The reorganisation costs of £518,000 provided for in 1998 comprised the cost of warehousing and financial restructuring as a result of the acquisition of Hobbies & Models Limited during that year.

During the year ended 30 January 1999 £304,000 (1998: £74,000) was utilised, and the remaining £140,000 was released to the profit and loss account.

6 GROUP OPERATING PROFIT	**1999 £'000**	1998 £'000
Group turnover	**47,862**	45,935
Cost of sales	**(24,083)**	(23,864)
Gross profit	**23,779**	22,071
Distribution expenses	**(14,392)**	(12,236)
Administration expenses	**(2,823)**	(1,761)
Group operating profit before acquisition reorganisation costs	**6,564**	8,074

All items above relate to continuing activities.

	1999 £'000	1998 £'000
Total operating profit is after charging:		
Rentals under operating leases:		
Hire of machinery and equipment	**127**	118
Other operating leases – rental on the Regent Street store	**1,416**	1,416
– rental on other stores	**1,480**	881
Depreciation and amortisation:		
Owned assets – intangible	**57**	47
– tangible	**835**	724
Under finance leases	**2**	4
Auditors' remuneration	**59**	55

Fees paid to PricewaterhouseCoopers for non-audit services were £339,000 (1998: £191,500 – Coopers & Lybrand). Included within the auditors' remuneration above are amounts of £1,600 (1998: £1,550) in respect of the Company.

7 NET INTEREST (PAYABLE)/RECEIVABLE	1999 £'000	1998 £'000
Interest receivable on bank deposit	67	149
Interest payable on bank loan	(401)	(146)
	(334)	3

8 TAX ON PROFIT ON ORDINARY ACTIVITIES	1999 £'000	1998 £'000
Corporation tax payable at 31% (1998: 31.33%)	2,027	2,452
Corporation tax repayment – prior years	(52)	(28)
Deferred tax – current year	53	31
Deferred tax – prior year	13	–
	2,041	2,455

No tax credit arises on the loss of Joint Venture. The Joint Venture has tax losses carried forward.

9 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 30 January 1999 amounted to £3,796,000 (1998: £9,044,000).

10 DIVIDENDS	1999 £'000	1998 £'000
Interim paid – 3.3p per ordinary share (1998: 3.3p)	689	785
Final proposed – 7.7p per ordinary share (1998: 7.7p)	1,617	1,786
Preferential dividend paid on B shares – 0.74p per B share (1998: nil)	7	–
	2,313	2,571

11 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has only one category of dilutive potential ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

Hamleys

11 Earnings Per Share continued

	Year ended 30 January 1999 Earnings £'000	Weighted average no. of shares '000	Per share amount pence	Year ended 31 January 1998 Earnings £'000	Weighted average no. of shares '000	Per share amount pence
Profit attributable to shareholders	**4,368**	–	–	5,116	–	–
Less: B share dividends	**(7)**	–	–	–	–	–
Basic EPS						
Ordinary shares in issue	**–**	**21,691**	–	–	23,077	–
Shares held by Employee Share Trust	**–**	**(69)**	–	–	(74)	–
Earnings attributable to ordinary shareholders	**4,361**	**21,622**	**20.2**	5,116	23,003	22.2
Effect of dilutive securities						
Options	**–**	**8**	–	–	142	(0.1)
Diluted EPS						
Adjusted earnings	**4,361**	**21,630**	**20.2**	5,116	23,145	22.1

12 INTANGIBLE FIXED ASSETS	**Trademarks £'000**	**Other £'000**	**Total £'000**
The Group			
Cost			
At 1 February 1998	**122**	**199**	**321**
Additions	**55**	**–**	**55**
At 30 January 1999	**177**	**199**	**376**
Accumulated amortisation			
At 1 February 1998	**29**	**118**	**147**
Provisions	**23**	**34**	**57**
At 30 January 1999	**52**	**152**	**204**
Net book value			
At 30 January 1999	**125**	**47**	**172**
At 31 January 1998	93	81	174

The Company had no intangible fixed assets at 30 January 1999 or 31 January 1998.

13 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 1 February 1998	1,000	600	504	3,580	1,253	44	6,981
Additions	–	–	43	1,411	892	–	2,346
Disposals	(1,000)	–	–	(213)	–	(30)	(1,243)
At 30 January 1999	–	600	547	4,778	2,145	14	8,084
Accumulated depreciation							
At 1 February 1998	20	53	33	2,068	844	9	3,027
Provisions	15	14	45	544	211	8	837
Disposals	(35)	–	–	(160)	–	(12)	(207)
At 30 January 1999	–	67	78	2,452	1,055	5	3,657
Net book value							
At 30 January 1999	–	533	469	2,326	1,090	9	4,427
At 31 January 1998	980	547	471	1,512	409	35	3,954

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:

	1999 £'000	1998 £'000
Cost	1,190	1,190
Accumulated depreciation	(241)	(217)
Net book value	949	973

c) Motor vehicles with a net book value £6,143 (1998: £11,589) were held under finance leases.

d) The Company had no tangible fixed assets at 30 January 1999 or 31 January 1998

Hamleys

14 INTEREST IN JOINT VENTURE AND INVESTMENTS IN SUBSIDIARIES

Interest in Joint Venture

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 $SG1 each. The Group owns the 'B' ordinary shares of the Company. The principal activity of the Joint Venture is toy retailing. The Company has a 31 December year end.

Investments in Subsidiaries	**1999 £'000**	1998 £'000
The Company		
Shares in subsidiary undertakings		
At 1 February 1998	**27,982**	18,699
Additions	**-**	9,283
At 30 January 1999	**27,982**	27,982

The Company owns the entire share capital of Hamleys of London Limited, Hobbies and Models 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.

The principal activity of each trading subsidiary is as follows:

Hamleys of London Limited	- toy retailing
Hobbies and Models Limited	- toy retailing
Hamleys Trustees Limited	- employee share trust
Hamleys BV	- toy retailing
Hamleys Employment 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.

15 DEBTORS	**The Group**		**The Company**	
	1999 £'000	1998 £'000	**1999 £'000**	1998 £'000
Trade debtors	**1,630**	1,107	**-**	-
Amounts owed by Group undertaking	**-**	-	**3,099**	3,099
Amounts owed by joint venture	**-**	8	**-**	-
Other debtors	**103**	698	**23**	464
Prepayments and accrued income	**993**	742	**-**	-
	2,726	2,555	**3,122**	3,563

16 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	The Group		The Company	
	1999 £'000	1998 £'000	**1999 £'000**	1998 £'000
Trade creditors	**4,729**	3,558	**-**	-
Amounts owed to Group undertakings	-	-	**275**	1,618
Other creditors	**502**	574	**-**	-
Corporation tax	**1,381**	2,223	-	646
Other taxation and social security	**2,260**	2,079	**-**	-
Dividends	**1,624**	1,786	**1,624**	1,786
Accruals	**522**	581	**56**	25
	11,018	10,801	**1,955**	4,075

17 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

Bank Borrowings

The Group has a revolving credit facility of £11,500,000 with the Bank of Scotland which is due for review on 19 March 2000. The interest rate on this facility is calculated at 1% above LIBOR.

£6,000,000 of the facility was granted for the purpose of the share redemption (see note 19) and £5,500,000 for working capital purposes (with a sub limit of £2,000,000 for contingent liabilities).

The facility will reduce to £7,500,000 for the 12 months ending 19 March 2001.

The Company had £6,052,000 (1998: £Nil) bank borrowings falling due after more than one year.

18 DEFERRED TAX

Deferred tax provided in the Group financial statements is as follows:	**1999 £'000 Provided**	1998 £'000 Provided
Capital allowances in excess of depreciation	**130**	79
Short term timing differences	**48**	(15)
Advance corporation tax	**-**	(41)
	178	23

Movements on the Group deferred tax position during the year ended 30 January 1999 were as follows:	**£'000**
Balance at 1 February 1998	**23**
Provided in the year	**66**
Transfer	**48**
Net transfers from ACT recoverable	**41**
Balance at 30 January 1999	**178**

The Group had no unprovided amounts of deferred tax at 30 January 1999 or 31 January 1998.

The Company had no deferred tax, provided or unprovided, at 30 January 1999 or 31 January 1998.

Hamleys

19 SHARE CAPITAL	30 January 1999 Number	30 January 1999 £'000	31 January 1998 Number	31 January 1998 £'000
Ordinary 5 5/9 p shares (1998: 5p) shares				
(i) Authorised	**28,170,000**	**1,565**	31,300,000	1,565
(ii) Allotted, issued and fully paid	**21,006,160**	**1,167**	23,195,881	1,160
Non-cumulative redeemable B preference shares of 25 3/4 p				
(i) Authorised	**23,944,998**	**6,166**	-	-
(ii) Allotted, issued and fully paid	**881,354**	**227**	-	-

The non-cumulative B preference shareholders are entitled to a net dividend of 75% of six month LIBOR. Unless redeemed earlier the outstanding B shares will be redeemed on 31 May 2003. The shares do not carry any voting rights. In the event of consideration of a resolution for winding up of the Company or if dividends on the shares are in arrears for six months or more, holders of the preference shares become entitled to vote at general meetings of members. On winding up the preference shareholders rank above ordinary shareholders.

As described in the circular to shareholders on 27 April 1998, the Company proposed to return £6,010,095 to shareholders by way of a bonus issue of redeemable 'B' shares and a 9 for 10 consolidation of ordinary shares. Following shareholder approval, £5.8m of the redeemable preference shares had been redeemed by 30 January 1999. In addition, immediately after the allotment of the redeemable preference shares, the ordinary share capital was consolidated and the new nominal value per ordinary share was adjusted to 5 5/9p.

During the year 144,297 shares were issued under employee share schemes for a total consideration of £266,949

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 ended 31 January 1998, consent was obtained from the Inland Revenue to amend the existing scheme to include an Unapproved Share Option Scheme.

Options granted during the year to the senior management of the Company were as follows:

	Options granted under Approved Scheme Number	Price	Options granted under Unapproved Scheme Number	Price
27 May 1998	90,749	269p	134,742	269p

At 31 January 1999 the number of shares over which there were unexercised options amounted to 797,931 ordinary shares of 5 5/9p each.

19 Share Capital continued

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 nor later than ten years after the grant date and unless performance conditions have been met.

20 RESERVES	Share Premium Account £'000	Capital Redemption Reserve £'000	Merger Relief Reserve £'000	Goodwill Reserve £'000	Special Reserve £'000	Profit and Loss Account £'000
The Group						
As previously reported at 1 February 1998	62	393	978	(9,722)	-	12,238
Reinstate Special Reserve	-	-	-	(16,931)	16,931	-
Elimination of goodwill write off reserve	-	-	(978)	26,653	(16,931)	(8,744)
As restated	62	393	-	-	-	3,494
Retained profit for the period	-	-	-	-	-	2,055
Issue of ordinary shares	259	-	-	-	-	-
Issue of B shares	-	-	-	-	-	(6,010)
Cost of issue	-	-	-	-	-	(339)
Redemption of B shares	-	5,783	-	-	-	(5,783)
At 30 January 1999	321	6,176	-	-	-	(6,583)

	Share Premium Account £'000	Capital Redemption Reserve £'000	Merger Relief Reserve £'000	Special Reserve £'000	Profit and Loss Account £'000
The Company					
At 1 February 1998	62	393	978	16,931	7,948
Retained profit for the period	-	-	-		1,483
Issue of ordinary shares	259	-	-	-	-
Issue and redemption of B shares	-	5,783	-	(6,010)	(6,122)
At 30 January 1999	321	6,176	978	10,921	3,309

The special reserve is not distributable.

The Company's distributable reserves within the profit and loss account at 30 January 1999 were £3,309,000 (1998: £7,948,000).

Hamleys

21 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS	1999 £'000	1998 £'000
The Group		
Profit on ordinary activities after tax	**4,368**	5,116
Dividends	**(2,313)**	(2,571)
Share capital issued	**266**	80
Issue and redemption of B shares	**(6,122)**	–
Merger relief arising on acquisition of Hobbies and Models Limited	**–**	978
Goodwill on acquisition	**–**	(7,596)
	(3,801)	(3,993)
Opening shareholders' funds	**5,109**	9,102
Closing shareholders' funds	**1,308**	5,109

22 RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES	1999 £'000	1998 £'000
Operating profit	**6,704**	7,568
Amortisation on intangible fixed assets	**57**	47
Depreciation on tangible fixed assets	**837**	728
Decrease/(increase) in stocks	**115**	(1,385)
(Increase) in debtors	**(151)**	(280)
Increase in creditors	**494**	3,069
(Increase) in provisions for liabilities and charges	**–**	(170)
Net cash flow from operating activities	**8,056**	9,577

23 CONTINGENT LIABILITIES	1999 £'000	1998 £'000
The Group		
Guarantee in favour of HM Customs & Excise	**40**	80
Guarantee in favour of Joint Venture	**212**	209
Documentary credits	**42**	80
	294	369

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 30 January 1999 or 31 January 1998.

24 CAPITAL COMMITMENTS	1999 £'000	1998 £'000
The Group		
Contracted for but not provided in the financial statements	**2,672**	137

The Company had no capital commitments at 30 January 1999 or 31 January 1998.

25 OPERATING LEASE COMMITMENTS

At 30 January 1999 the Group was committed to making the following annual payments in respect of operating leases:

Leases which expire:	**Land and buildings 1999 £'000**	Land and buildings 1998 £'000	**Other 1999 £'000**	Other 1998 £'000
Within one year	**162**	246	**10**	17
Within two to five years	**170**	86	**97**	101
After five years	**3,038**	2,191	**-**	-
	3,370	2,523	**107**	118

The Company had no operating lease commitments at 30 January 1999 or 31 January 1998.

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 £106,000 (1998: £80,000), being 8.75% (1998: 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. The shares are held at cost of £23,000 (1998: £17,000) in Other debtors.
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 30 January 1999 the trust held 66,870 5 5/9p ordinary shares in the Company (1998: 74,300 5p ordinary shares). The market value of these shares at 30 January 1999 was £84,256 (1998: £192,437).
No shares held by the trust are currently under option to employees or have been conditionally gifted to them.

28 RELATED PARTY TRANSACTIONS

As disclosed in note 14 a joint venture Company, Weitnauer Hamleys Pte Limited, was incorporated in September 1996. The Group has supplied stock of £45,644 (1998: £64,465) and has given guarantees, as disclosed in note 23 to the joint venture Company Weitnauer Hamleys Pte Limited.

29 POST BALANCE SHEET EVENTS

On 22 January 1999, the Board offered a further opportunity for shareholders to redeem their B shares in the tax year ending 5 April 1999. This second redemption period closed on 26 March 1999.
On 30 March 1999, the Board announced its intention to substantially reduce the scale of the Group's activities trading under the House of Toys name which operates on a concession basis within Debenhams stores.

REPORT OF THE AUDITORS

TO THE MEMBERS OF HAMLEYS PLC

We have audited the financial statements on pages 24 to 40 which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out on pages 28 to 29. We have also examined the amounts disclosed relating to the emoluments and share options of the Directors which form part of the Remuneration Report on pages 19 to 23.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual Report, including as described on page 13 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on page 16 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Group's corporate governance procedures or its internal controls.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 at 30 January 1999 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.

PricewaterhouseCoopers

PricewaterhouseCoopers

Chartered Accountants and Registered Auditors

Derby, 28 April 1999

FIVE YEAR FINANCIAL RECORD

YEAR TO END OF JANUARY

	1995 £'000	1996 £'000	1997 £'000	1998 £'000	**1999 £'000**
Group turnover	26,160	30,123	30,486	45,935	**47,862**
Group operating profit before acquisition reorganisation costs and rate rebate	5,201	6,107	6,558	8,074	**6,564**
Rate rebate on Regent Street	615	–	–	–	**–**
Acquisition reorganisation costs	–	–	–	(518)	**140**
Group operating profit	5,816	6,107	6,558	7,556	**6,704**
Share of operating profit/(loss) of joint venture	–	–	–	12	**(139)**
Profit on sale of fixed asset	–	–	–	–	**178**
Net interest (payable)/receivable	(163)	268	324	3	**(334)**
Profit on ordinary activities before taxation	5,653	6,375	6,882	7,571	**6,409**
Tax on profit on ordinary activities	(1,208)	(1,964)	(2,340)	(2,455)	**(2,041)**
Profit on ordinary activities after taxation	4,445	4,411	4,542	5,116	**4,368**
Dividends	(1,599)	(1,850)	(2,056)	(2,571)	**(2,313)**
Retained profit for the year	2,846	2,561	2,486	2,545	**2,055**
Gross margin %	50.0%	49.7%	52.4%	48.1%	**49.7%**
Operating margin % before acquisition reorganisation costs and rate rebate	19.9%	20.3%	21.5%	17.6%	**13.7%**
Earnings per share – Basic	21.2p	19.3p	19.9p	22.2p	**20.2p**
Net cash inflow from operating activities (£'000)	4,932	7,544	4,151	9,577	**8,056**
Net assets (£'000)	4,055	6,616	9,102	5,109	**1,308**

NOTICE OF THE ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Hamleys plc (the "Company") will be held at The Langham Hilton, 1c Portland Place, Regent Street, London W1N 4JA on 4 June 1999 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 30 January 1999.

2 To declare a final dividend.

3 To re-elect as a Director S J Woodbridge who retires by rotation.

4 To re-elect as a Director J M Allan who retires by rotation.

5 To re-elect as a Director S C Innes who retires by rotation.

6 To re-appoint PricewaterhouseCoopers as auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.

7 To authorise the Directors to determine the remuneration of PricewaterhouseCoopers.

8 To consider and, if thought fit, pass a resolution that the section 80 amount shall be £356,834 and that the power in the 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.

Special Resolution

9 To consider and, if thought fit, pass a resolution that the section 89 amount shall be £58,350 and that the power in the articles 4(C) and for (D) of the articles of association of the Company be extended until the conclusion of the next Annual General Meeting of the Company.

By order of the Board

Maria Prendergast, Secretary, 28 April 1999

Notes:

1 To have the right to attend and vote at the meeting (and also for the purpose of calculating how many votes a person may cast), a person must have his/her name entered on the register by no later than the close of business on 2 June 1999. Changes to entries on the register after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

2 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 instructions specified therein and deposited with Exchange Registrars Limited, 18 Park Place, Cardiff CF1 3PD not later than 11.00am on 2 June 1999. Members who complete and return the form of proxy will not be precluded from attending and voting.

3 The register of Directors' interests will be available for inspection at the place of the Annual General Meeting from 10.45am on 4 June 1999 until the conclusion of the meeting.

4 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 4 June 1999 until the conclusion of the meeting.

Hamleys

LOCATION OF OPERATIONS

HAMLEYS

REGENT STREET

THE FINEST TOY SHOP IN THE WORLD

FORMULA: 'UNIQUE' NO. OF LINES CARRIED: 40,000 SITE: REGENT STREET

9TH MOST FAMOUS RETAIL BRAND IN THE WORLD **LARGEST** RANGE OF TOYS IN THE UNITED KINGDOM

SATELLITE STORES

FORMULA: 'MINIATURE HAMLEYS' HIGH TRAFFIC TOURIST AND AIRPORT SITES UP TO 2,000 CUSTOMERS WALK PAST PER HOUR

NO. OF LINES CARRIED: 2,500+ POTENTIAL FOR FURTHER SITES WORLDWIDE

SITES: COVENT GARDEN, HEATHROW TERMINAL 4, HEATHROW TERMINAL 2, SCHIPHOL AMSTERDAM, JEDDAH SAUDI ARABIA, CHANGI SINGAPORE, CHANNEL TUNNEL FOLKESTONE

VISIT HAMLEYS WEB SITE AT WWW.HAMLEYS.COM

TOYSTACK

ESTABLISHED, LOCALLY KNOWN VALUE TOY RETAILER, BUSINESS ACQUIRED IN MAY 1997

FORMULA: AUTHORITATIVE RANGE EXCEPTIONAL VALUE SHOPPING CENTRE LOCATIONS WITH EXCELLENT ROAD ACCESS WITH CUSTOMER PARKING

CATCHMENT: 0.25 MILLION POPULATION WITHIN 30 MINUTES DRIVE

NO. OF LINES CARRIED: 3,000 POTENTIAL FOR 40-50 STORES IN THE UNITED KINGDOM

SITES: 9 SITES WITHIN M25, PLUS STORES IN NORWICH, NOTTINGHAM, BRIGHTON, DUDLEY, GLASGOW (ST ENOCH & BUCHANAN), BLUEWATER PARK, KENT

HOUSE OF TOYS DURING 1997 AND 1998 THE GROUP OPERATED CONCESSIONS IN DEPARTMENT STORE LOCATIONS ACROSS THE UK PRINCIPALLY IN DEBENHAMS STORES. DURING 1999 THE SCALE OF HOUSE OF TOYS ACTIVITIES WILL BE SIGNIFICANTLY REDUCED.

SHAREHOLDER INFORMATION

REGISTERED OFFICE

[illegible]

PRINCIPAL BANKERS

[illegible] General Lugburg

[illegible] payable

[illegible] accounts receivable

[illegible] payable

Secretaries

[illegible]

Auditors

[illegible]

Auditors

[illegible]

Registrars

[illegible]

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Hamleys

188-196 REGENT STREET
LONDON W1R 6BT
TELEPHONE 01-[illegible]