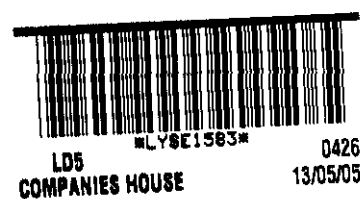


The Hamleys Group Limited
(formerly Hamleys plc)

**Directors' report and financial
statements**

Registered number 2352435

For the period ended 27 March 2004



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Directors' report

The directors present their annual report and the audited financial statements for the period ended 27 March 2004.

Principal activities and business review

The principal activity of the company is that of an investment holding company.

On 17 July 2003, the Independent Board of Directors of the company announced that they were recommending an offer for the company at 254p per share by Soldier Limited. Soldier Limited is a bid vehicle used by the management team of Hamleys plc, backed by Baugur Group hf. On 4 August, the offer became unconditional and on 1 October 2003, following the expiration of the Section 429 notice period, Soldier Limited acquired the remaining share capital of Hamleys plc.

From 4 August 2003, the ultimate parent company and controlling party is Corporal Limited. The majority shareholder of Corporal Limited is Baugur Group hf, a company registered in Iceland.

On 27 October 2003 the company changed its name to The Hamleys Group Limited and re-registered as a private company limited by shares.

The results for the period and the position at 27 March 2004 are shown in the profit and loss account on page 4 and balance sheet on page 5 respectively.

Directors and directors' interests

The directors of the company during the period and changes to directors since the end of the period were as follows:

J Watkinson	
I Parker	(resigned 3 September 2004)
S Burke	(resigned 6 August 2003)
N Mather	(appointed 28 October 2004)
K Osborne	(appointed 3 September 2004)

The directors had no beneficial interest in the shares of the company at 27 March 2004. All of the directors' interests in the shares of Corporal Limited are disclosed in the financial statements of that company.

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 contracted or other legal obligations.

Auditors

During the period, PricewaterhouseCoopers LLP resigned as auditors and the board appointed KPMG LLP to fill the casual vacancy.

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming annual general meeting.

By order of the board



John Watkinson
Director

2 Fouberts Place
London
W1F 7PA

11 May 2005

Statement of directors' responsibilities

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

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

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



KPMG LLP
2 Cornwall Street
Birmingham
B3 2DL

Independent auditors' report to the members of The Hamleys Group Limited (formerly Hamleys plc)

We have audited the financial statements on pages 4 to 11.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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 the company's affairs as at 27 March 2004 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

11 May 2005

Profit and loss account
for the period ended 27 March 2004

	<i>Note</i>	Period ended 27 March 2004 £000	Period ended 29 March 2003 £000
Administrative expenses (including operating exceptional costs of £5,488,000)		(5,489)	(3)
Operating loss	<i>4</i>	(5,489)	(3)
Interest payable and similar charges	<i>5</i>	(92)	(141)
Loss on ordinary activities before taxation		(5,581)	(144)
Tax on loss on ordinary activities	<i>5</i>	1,272	42
Loss for the financial period	<i>13</i>	(4,309)	(102)
Dividend		-	(508)
Retained loss for the financial period	<i>13</i>	(4,309)	(610)

All amounts relate to continuing activities.

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

The notes on pages 5 to 11 form part of these financial statements.

Movements on reserves are shown in note 13 to the financial statements.

Balance sheet
at 27 March 2004

	Note	2004 £000	2003 £000
Fixed assets			
Investments	6	31,410	32,910
		<u>31,410</u>	<u>32,910</u>
Current assets			
Debtors	8	8,381	3,328
Cash at bank and in hand		738	-
		<u>9,119</u>	<u>3,328</u>
Creditors: Amounts falling due within one year	9	<u>(17,811)</u>	<u>(7,764)</u>
Net current liabilities		<u>(8,692)</u>	<u>(4,436)</u>
Total assets less current liabilities		<u>22,718</u>	<u>28,474</u>
Creditors: Amounts falling due after more than one year	10	-	(2,287)
Net assets		<u>22,718</u>	<u>26,187</u>
Capital and reserves			
Called up share capital	11	1,319	1,284
Share premium account	12	4,316	3,511
Capital redemption reserve	12	6,403	6,403
Merger relief reserve	12	978	978
Special reserve	12	10,921	10,921
Profit and loss account	12	(1,219)	3,090
Equity shareholders' funds	13	<u>22,718</u>	<u>26,187</u>

These financial statements were approved by the board of directors on 11 May 2005 and were signed on its behalf by:



J Watkinson
Director

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom and under the historical cost convention.

The company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts. The financial statements present information about the company as an individual undertaking and not about its group.

Cash flow

As a wholly owned subsidiary undertaking of Corporal Limited, the company has relied upon the exemption in Financial Reporting Standard No 1 (revised) and has not included a cash flow statement as part of these financial statements.

Related party transactions

Transactions with other group companies have not been disclosed, as permitted by FRS 8 "Related party disclosures".

Deferred tax

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen, but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Leases

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases.

Investments

Shares in subsidiary undertakings are stated at cost less amounts written off where, in the opinion of the directors there has been a diminution in the value of the investments.

2 Directors' emoluments

The emoluments of the directors are borne by Hamleys of London Limited.

3 Staff numbers and costs

The company has no employees.

Notes (continued)

4 Loss on ordinary activities before taxation

	2004 £000	2003 £000
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Loss on ordinary activities before taxation is stated

After charging

Operating exceptional items	5,488	-
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Audit fees are borne by other group undertakings.

Operating exceptional items relate primarily to transaction costs associated with the recommended offer for Hamleys plc and its subsidiaries by Soldier Limited. In addition, an impairment provision of £1.5 million has booked against the carrying value of an investment in a subsidiary undertaking. The exceptional items give rise to a tax credit of £1,196,000.

5 Interest payable and similar charges

	Period ended 27 March 2004 £000	Period ended 29 March 2003 £000
Bank loans and overdrafts	92	141

6 Tax on loss on ordinary activities

Analysis of credit in year

	Period ended 27 March 2004 £000	£000	Period ended 29 March 2003 £000	£000
<i>UK corporation tax</i>				
Current tax on income for the year	(1,224)		(42)	
Tax in respect of prior periods	(48)			
	(1,272)		(42)	
Total current tax		(1,272)		(42)
Tax on profit on ordinary activities		(1,272)		(42)

Notes (continued)

6. Tax on loss on ordinary activities (continued)

Factors affecting the tax credit for the current period

The current tax credit for the period is lower than the standard rate of corporation tax in the UK (30% (2003: 30%)). The differences are explained below:

	Period ended 27 March 2004 £000	Period ended 29 March 2003 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	(5,581)	(144)
	<hr/>	<hr/>
Current tax at 30% (2003: 30%)	(1,674)	(42)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	450	-
Adjustment in respect of prior periods	(48)	-
	<hr/>	<hr/>
Total current tax credit (see above)	(1,272)	(42)
	<hr/>	<hr/>

Factors that may affect future charges

There is no deferred tax arising in the company.

7 Investments

	Shares in subsidiary undertakings £000
Cost	
At start and end of period	32,910
	<hr/>
Provisions	
At start of period	-
Provision for impairment	1,500
	<hr/>
At end of period	1,500
	<hr/>
Net book value	
At 27 March 2004	31,410
	<hr/>
At 29 March 2003	32,910
	<hr/>

Notes (continued)

7 Investments (continued)

The company's wholly owned subsidiary undertakings are as follows, all of which are owned directly:

Company	Activity
Hamleys of London Limited	toy retailing
Hamleys Trustees Limited	employee share trust
Hamleys BV	toy retailing
Hamleys Employment Services Limited	employment services
The Bear Factory Limited	toy retailing
Hamleys Financial Services Limited	card handling company
Hamleys Properties Limited	property holding company
Hamleys Bear Investment Limited	toy retailing

All subsidiaries other than Hamleys BV are registered in Great Britain and operate within the United Kingdom. Hamleys BV is incorporated, registered and operates in The Netherlands.

8 Debtors

	2004 £000	2003 £000
Amounts owed by group undertakings	7,134	3,099
Other debtors	23	23
Corporate tax recoverable	1,224	206
	<u>8,381</u>	<u>3,328</u>

9 Creditors: Amounts falling due within one year

	2004 £000	2003 £000
Amounts owed to group undertakings	17,809	7,711
Other creditors	2	48
Accruals and deferred income	-	5
	<u>17,811</u>	<u>7,764</u>

10 Creditors: Amounts falling due after more than one year

	2004 £000	2003 £000
Bank loans	-	2,287

Bank loans were repaid during the year.

Notes (continued)

11 Share capital

	27 March 2004		29 March 2003	
	Number	£000	Number	£000
Ordinary 5 5/9p shares				
Authorised	28,170,000	1,565	28,170,000	1,565
Allotted, issued and fully paid	23,740,354	1,319	23,106,775	1,284
	<hr/>	<hr/>	<hr/>	<hr/>
Non-cumulative redeemable B preference shares of 25.75p				
Authorised	23,944,998	6,166	23,944,998	6,166
	<hr/>	<hr/>	<hr/>	<hr/>

As a result of the acquisition of the company by Soldier Limited, the company allotted and issued 633,579 new ordinary shares of 5 5/9p relating to share options. The issue gave rise to total proceeds of £839,936.

12 Reserves

	Share premium account £000	Capital redemption reserve £000	Merger relief reserve £000	Special reserve £000	Profit and loss account £000
As at 30 March 2003	3,511	6,403	978	10,921	3,090
Loss for the period	-	-	-	-	(4,309)
Premium on shares issued	805	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 27 March 2004	4,316	6,403	978	10,921	(1,219)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The special reserve is not distributable.

13 Reconciliation of movements in shareholders' funds

	2004 £000	2003 £000
Loss for the financial period	(4,309)	(610)
Shares issued in the period	840	3,307
Opening shareholders' funds	26,187	23,490
	<hr/>	<hr/>
Closing shareholders' funds	22,718	26,187
	<hr/>	<hr/>

14 Contingent liabilities

The company has guaranteed the overdrafts of Hamleys of London Limited, Hamleys Bear Investment Limited and Soldier Limited; the amount outstanding at the year end was £9,576,000 (2003: £6,632,000).

Notes *(continued)*

15 Ultimate parent company

The ultimate parent company and controlling party is Corporal Limited, a company incorporated in Great Britain. Copies of the group financial statements are available from the Registrar of Companies, Companies House, Cardiff.

On 17 July 2003, the Independent Board of Directors of Hamleys plc announced that they were recommending an offer for the group at 254p per share by Soldier Limited. Soldier Limited is a bid vehicle used by the management team of Hamleys plc, backed by Baugur Group hf. On 4 August, the offer became unconditional and on 1 October 2003, following the expiration of the Section 429 notice period, Soldier Limited acquired the remaining share capital of Hamleys plc.

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