HORNBY®

Annual Report & Accounts

FOR THE YEAR ENDED 31 MARCH 2010

HORNBY PLC

Annual Report & Accounts 2010

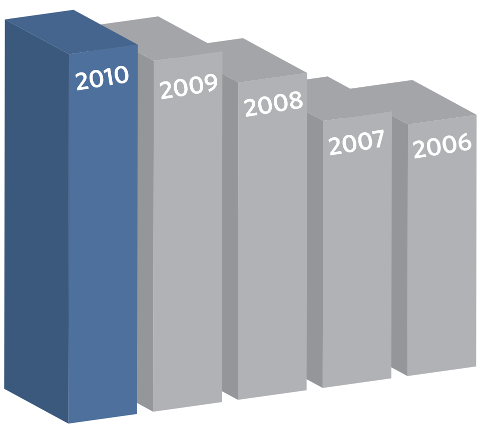
Contents

Financial Highlights

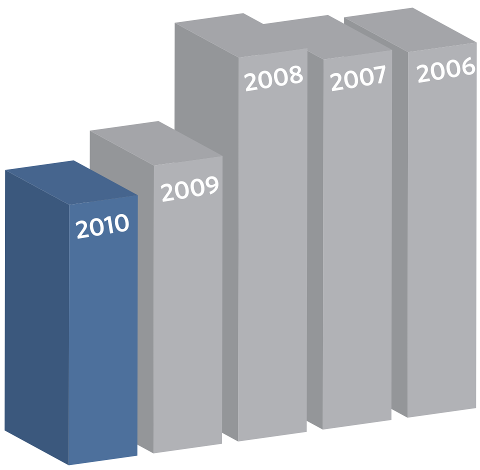
- Revenue up by 5% to £64.7m
- Underlying operating profit down 9% to £6.5m
- Underlying profit before taxation down 10% to £5.7m
- Tax charge down from 31.2% to 29.3%
- Net debt down from £11.8m to £3.2m
- Final dividend per share 5.0p

	2010 £'000	%	2009 £'000
Revenue	**64,736**	5%	61,569
Underlying*:			
Operating profit	**6,497**	(9%)	7,109
Profit before taxation	**5,708**	(10%)	6,331
Profit after taxation	**4,151**	(8%)	4,498
Basic earnings per share	**11.0**	(8%)	11.9
Reported:			
Operating profit	**6,004**	(13%)	6,899
Profit before taxation	**5,215**	(15%)	6,121
Profit after taxation	**3,685**	(13%)	4,212
Basic earnings per share (pence)	**9.8**	(13%)	11.2
Net debt	**(3,154)**	(73%)	(11,760)
Total dividend per share (pence)	**5.0**	85%	2.7

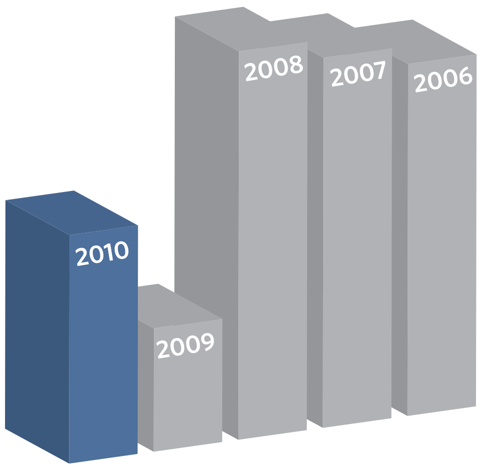
* Underlying figures are before amortisation of intangibles, net foreign exchange adjustments on intercompany loans, abortive due diligence and restructuring costs.



REVENUE
£'000



UNDERLYING PROFIT BEFORE
£'000



DIVIDEND PER SHARE
£'000

Chairman's Statement

The Group is emerging from a difficult trading period in sound financial health. The Board is pleased with the performance of the Group which gives us renewed confidence for the future. The Group now has significantly improved prospects for future growth.

Introduction

Over the past year we experienced challenging conditions, with adverse hedged exchange rates from rates achieved in 2009 between Sterling and the Hong Kong Dollar, the currency in which most of our purchases are made. We also experienced, in the early part of the period under review, heavy de-stocking amongst our UK retailers and International distributors. Consumer demand for our products during the year continued to be strong. This demonstrated once again the resilience of our portfolio of hobby-based brands in times of economic uncertainty. The very solid sell-through of our products prior to Christmas 2009 resulted in lower levels of inventory within the Group and amongst our customers. This, coupled with new, creative product innovation, has resulted in increased order intake since the beginning of January 2010, and a resilient finish to our financial year ended 31 March 2010.

Throughout the course of the year, we have maintained a close and positive relationship with our largest supplier in China. We have also diversified our sourcing successfully, particularly of model railway products, in order to reduce our overall dependency on a single supplier.

Results

Against a difficult economic background in most of our markets, sales grew by 5% to £64.7 million (2009 – £61.6 million).

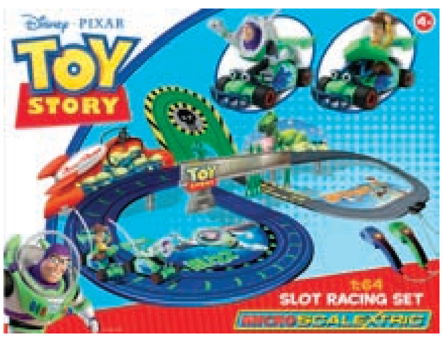
The first half sales increase of 5% was maintained in the second half against a strong prior year performance (when sales were 20% up on 2008). The UK in particular had an encouraging second half, reflecting buoyant demand in the pre-Christmas period. Sales by our Continental European subsidiaries were more muted in the second half. This reflected in part, the continuing recession, in particular in Spain. With this in mind, following the strong UK performance pre-Christmas, we took the decision to prioritise UK supplies in the final quarter of the financial year in order to refill the product pipeline as quickly as possible.

Pre-tax profit before amortisation of intangibles and net foreign exchange adjustments on intercompany loans (hereafter referred to as underlying pre-tax profits) was £5.7 million (2009 – £6.3 million) (see note 1). Basic earnings per share calculated on underlying pre-tax profit (hereafter referred to as underlying basic earnings per share) were 10.99p (2009 – 11.92p). Statutory pre-tax profit was £5.2 million (2009 – £6.1 million) and statutory basic earnings per share were 9.76p (2009 – 11.17p).

Cash generation was strong, which has enabled the Group to bring down debt levels considerably. Net debt as at 31 March 2010 was £3.2 million (2009 – £11.8 million).

Dividend

In view of the excellent progress that has been made in reducing Group borrowings and the improved prospects for growth, the Board is pleased to recommend a dividend for the year of 5.0p per ordinary share (2009 – 2.7p). This will be paid on 20 August 2010 to shareholders on the register at 16 July 2010.



Banking Facilities

The Group continues to have access to secured banking facilities of £21.5 million in the UK. These facilities comprise an £11.5 million amortising Term Loan which expires in July 2014 and a £10.0 million Secured Money Market Loan with an unexpired term of more than two years. Borrowings in the year ended 31 March 2010 peaked at £16.0 million. The Group remained within all of its covenants comfortably during the year.

Product Development

Our product development programme continues to be a key driver of our business. We continue to increase our resources in this area in order to cope with the additional demands of our subsidiaries and the increase in product categories.

Outlook

Over recent years the Group has built a formidable portfolio of premier hobby brands such as Corgi, Airfix, Lima, Rivarossi and Jouef, in addition to Hornby and Scalextric. During the past year it has become clear that to survive and thrive in our markets such brand strength is essential. We have also seen how we have been able to leverage the strength of our brands in securing licenses with Disney/Pixar, the McLaren and Mercedes Formula One teams and perhaps most significantly the London 2012 Olympic and Paralympic Games. This latter relationship will, we believe, begin to have a significant positive impact on our performance in the financial year to 31 March 2012 and of course during the following financial year to March 2013. However, we are already seeing significant interest in our existing and proposed London 2012 product ranges both from retailers and consumers.

Our supply chain is now more diversified, thus reducing the risk of product shortages. Given the strong start we have made to the new financial year in terms of order intake across the Group, we look forward with renewed confidence to the short and medium term.

Finally, I would like to thank our Chief Executive Frank Martin and through him, all our staff, for their continuing commitment to growing the business, and ensuring that future return to shareholders is maximised.

Neil Johnson
Chairman

4 June 2010

Chief Executive's Report

The Group's principal business is the development, production and supply of hobby and toy products. The Group distributes its products through a network of specialist and multiple retailers throughout the UK and overseas. The Group markets its products under a number of brands well known in their respective markets. These brands include Hornby, Scalextric, Electrotren, Lima, Jouef, Rivarossi, Arnold, Airfix, Humbrol and Corgi.

Financial Review

Consolidated revenue for the year ended 31 March 2010 was £64.7 million, an increase of 5% compared to the previous year's £61.6 million.

	2010	2009
Underlying profit before tax margin*	8.8%	10.3%
Reported profit before tax margin	8.1%	9.9%
Underlying basic earnings per share*	10.99p	11.92p
Statutory basic earnings per share	9.76p	11.17p

* Stated before amortisation of intangibles and net foreign exchange adjustments on intercompany loans

Reported full year gross profit margin was 49.6% (2009 – 47.8%), which does not take into account the impact of margin related hedged foreign exchange transaction gains and losses that are required to be reported within operating income / expense. The adjusted gross profit margin after incorporating net exchange losses was 48.4% (2009 – 49.7% after incorporating net exchange gains). The reduction in adjusted gross profit margin was primarily a result of higher product costs and adverse foreign exchange movements between Sterling and the Hong Kong Dollar hedge rate. We were able to mitigate some of the adverse currency effects by increasing our prices, but chose not to raise prices to a level at which market demand would be compromised.

Net debt at 31 March 2010 was £3.2 million compared with £11.8 million at 31 March 2009. The reduction of £8.6 million reflected profit attributable to equity holders (which was not impacted by dividend payments this year) and lower working capital. In particular, inventories reduced by £2.1 million compared to a year earlier. Expenditure on product development and capital projects continued and this investment will result in increased sales and margins in the new financial year and beyond. In particular, the development of a lower priced entry level Scalextric "Start" system will, we believe, provide the Group with a powerful competitive advantage in the 1:32 slot car market.

Hornby produces the majority of its products in China and India, via third-party contract manufacturers. Some packing operations remain in the UK where this strategy provides greater flexibility in meeting market needs. The problems the Group has faced in respect of its largest supplier in China have been referred to previously. Over the course of the past year we have brought on stream two alternative suppliers of model railway products. This reduces our dependence on our largest supplier and provides more flexibility to increase production volumes if required. We continue to work closely with our largest supplier and expect that this relationship will continue to the benefit of both parties, for many years to come.

All purchases from our Chinese suppliers are either in US or Hong Kong Dollars. It is the Group's policy to enter into forward currency contracts in anticipation of purchases for up to 12 months in the future. During the year to March 2010 we experienced exchange rates substantially less favourable than during the year to March 2009 as the hedged rates were worse in 2010 than 2009. This has had a negative effect on our earnings for the year to March 2010. For the year to March 2011 we have secured a substantial portion of our currency requirements by means of forward currency contracts at more favourable rates than full year 2010.

The Group retains intellectual property rights in its products and controls all sales of its products.

United Kingdom

UK retailers continued to de-stock during the first half of the financial year but by Christmas the continued demand for our products from consumers resulted in a late surge in orders and deliveries to our retailers. This positive trend continued after Christmas into the final quarter of our financial year, resulting in sales for the full year 7% above the previous year at £46.5 million (2009 £43.5 million). However, primarily as a result of the negative effects of foreign exchange on our product costs, underlying profit before tax fell to £4.8 million compared to £5.9 million the previous year. Reported profit before tax was £4.4 million (2009 – £5.9 million). This result includes export sales to third parties of £5.7 million (2009 – £5.2 million).

Sales via our independent retail channel were in line with the previous year whilst sales via our network of concessions showed encouraging growth. Whilst our major retailers performed well immediately prior to Christmas, the effects of destocking earlier in the year resulted in sales just slightly above the previous year. It is now clear that our larger retail customers recognise that they failed to fulfil their sales potential in 2009. We are now receiving much stronger indications of commitment from these retailers for the new financial year.

Sales of Hornby model railways were slightly lower than the previous year due to retailer destocking. Order intake since January 2010 has been strong, bolstered by product innovations including the Disney/Pixar Toy Story 3 film–related train set. We are expecting a healthy growth in Hornby model railway sales in the new financial year.

Sales of Scalextric were ahead of the previous year. For the new financial year Scalextric will also benefit from the Disney /Pixar Toy Story 3 franchise as we will be producing Micro Scalextric sets based on the film. This will build on our highly successful "Cars" movie–related Scalextric merchandise launched in 2009.

Sales of both Airfix and Corgi were substantially ahead of the previous year as we continue to rebuild product development and sales momentum in these

Chief Executive's Report (continued)

iconic brands. The launch of the widely acclaimed 1:24 scale Airfix Mosquito kit has set a new standard of quality and detail in model kits. This has helped to provide a focal point for the regeneration of Airfix sales. In Corgi the process of re-investment continues. The introduction of an orderly release programme for new models across the year has encouraged previous customers to recommence their collections and has attracted new collectors to the brand.

The strength in depth of our product and brand portfolio has stood us in good stead in difficult economic times and Hornby is now in an excellent position to continue to build on this strong position, at the expense of our competitors who have a much narrower product and market focus.

Continental Europe

Overall, our subsidiaries in mainland Europe recorded sales ahead of the prior year, although there were significant differences in performance between the individual markets. Italy had an excellent year, recording sales of £5.5 million, 24% up on the previous year. The remaining subsidiaries in Europe (Spain, France and Germany) recorded sales slightly below the previous year, due in part to the general economic climate, particularly in Spain, and also to the prioritisation of production to fulfil UK requirements towards the end of the financial year. All European subsidiaries enter the new financial year with order intake levels well ahead of the previous year. Hornby Italy reported a profit before tax for the year of £0.6 million compared to a loss of £(0.1) million in the previous year. In total, our subsidiaries in mainland Europe contributed an underlying profit before tax higher than the year before at £1.0 million on sales of £15.5 million, compared with an underlying profit before tax of £0.4 million in the previous year on sales of £14.8 million. Reported profit before tax was £0.9 million (2009 – £0.3 million). Our strong European brands continue to attract increasing support from the model railway communities in each of our key territories. The product development initiatives with Disney/Pixar in model railways will also have a positive effect on sales in mainland Europe.

America

Sales in Hornby America were lower at \$4.4 million (2009 – \$5.6 million), producing a loss before tax of \$(90,000) (2009 – profit \$13,000). Upon translation into Sterling, due to the stronger US dollar, sales were £2.8 million (2009 – £3.3 million) with a loss before tax of £(57,000) (2009 – profit £8,000). However, Hornby Hobbies in the UK benefits from a gross margin contribution of £398,000 (2009 – £565,000) generated on sales made to Hornby America, which has the effect of increasing significantly the overall contribution to Group profit of our US operation. The US market remains difficult, and whilst this persists, the focus for Hornby America will continue to be on overhead control and working capital management. In this respect, inventories in Hornby America were 23% lower at 31 March 2010 compared to a year previously.

London 2012 Olympic and Paralympic games

We are pleased to have secured a wide range of product rights related to the 2012 London Olympic and Paralympic games. The first mass market products related to the London 2012 games have been released in recent weeks and we are delighted with the initial rates of sale. We have recently appointed a Project Director to manage our London 2012 product development and marketing. Our London 2012 products will be drawn from across our brand portfolio and it is therefore important to ensure that the range is presented as a cohesive proposition to retailers and consumers, whilst ensuring that the core brand ranges are not neglected as the London 2012 momentum builds over the coming two years. During 2010 we will be launching a wide selection of products based on the London 2012 Olympic and Paralympic games. Price points will range from below £5 for collectable Corgi vehicles to over £100 for limited edition Hornby train sets. We expect that sales of our die cast replicas of the two London 2012 mascots will be particularly popular. We believe that the London Olympics will provide a significant opportunity to drive incremental sales and profits over the next two years. We also believe that there is clear potential to open additional channels of distribution which will continue to provide incremental sales opportunities for our core business after the games have finished.

Outlook

In my report last year I said that we expected to grow sales despite the difficult economic environment. We have achieved sales growth and, based on our current levels of order intake, we are forecasting a significant further increase in sales in the new financial year. I also said a year ago that we would lay the foundations for significantly stronger financial performance in future years. Each of our core brands is expected to show substantial growth this year. Our subsidiaries in Continental Europe are all expected to deliver further improvements in performance. We now have the brands, the products and the distribution network required to grow consistently over the coming years.

Frank Martin
4 June 2010

Directors and Corporate Information

DIRECTORS
N A Johnson
Non-Executive Chairman

F Martin
Chief Executive

A J Morris
Finance Director

N M Carrington
Non-Executive Director

M E Rolfe
Non-Executive Director

SECRETARY
J W Stansfield

REGISTERED OFFICE
Westwood
Margate
Kent CT9 4JX

COMPANY REGISTERED NUMBER
Registered in England No. 01547390

AUDITORS
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First Point
Buckingham Gate
Gatwick
RH6 0PP

SOLICITORS
Berwin Leighton Paisner LLP
Adelaide House
London Bridge
London EC4R 9HA

PRINCIPAL BANKERS
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Canterbury
Kent CT1 2JX

FINANCIAL ADVISERS AND BROKERS
Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT

REGISTRARS AND TRANSFER AGENTS
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire HD8 0GA

Directors' Report

The directors submit their Annual Report together with the audited financial statements for the year ended 31 March 2010.

PRINCIPAL ACTIVITIES

The Company is a holding company registered in England No. 01547390 with a Spanish branch and has six operating subsidiaries: Hornby Hobbies Limited in the United Kingdom, Hornby America Inc. in the USA, Hornby España S.A. in Spain, Hornby Italia s.r.l. in Italy, Hornby France S.A.S. in France and Hornby Deutschland GmbH in Germany. Hornby Plc is a public limited company incorporated and operating in the United Kingdom. Its registered office is set out on page 8.

The Group is principally engaged in the development, design, sourcing and distribution of hobby and interactive home entertainment products.

BUSINESS REVIEW

The Group's business review is included in the 'Results' section of the Chairman's Statement, and the 'Financial review' section in the Chief Executive's Report.

Future developments are included both in the 'Outlook' section of the Chairman's Statement and the 'Outlook' section in the Chief Executive's Report.

The principal business risks and uncertainties facing the Group are set out in the Corporate Governance Statement on pages 16 and 17.

RESULTS AND DIVIDENDS

The results for the year ended 31 March 2010 are set out in the Group Statement of Comprehensive Income on page 28. Revenue for the year was £64.7 million compared to £61.6 million last year. The profit for the year attributable to equity holders amounted to £3.7 million (2009 – £4.2 million). The position of the Group is set out in the Group Balance Sheet on page 29.

No interim dividend was declared in the year (2009 – 2.7p per ordinary share amounting to £1,018,136).

The directors recommend a final dividend of 5.0p (2009 – nil) per ordinary share amounting to £1,903,205 (2009 – £nil) payable on 20 August 2010 to those shareholders on the Register at 16 July 2010.

This represents a total dividend paid in respect of the year ended 31 March 2010 of 5.0p per ordinary share (2009 – 2.7p).

KEY PERFORMANCE INDICATORS (KPIs)

The directors are of the opinion that the KPIs are revenues, gross margins, underlying profit before tax, earnings per share and cash generation, the information for which is available in these financial statements and summarised on the financial highlights section at the beginning of this report. The Group maintains a robust planning system with individual targets for subsidiaries in terms of growth and profits. The Board monitors progress against plan on a regular basis adjusting future objectives annually in line with current circumstances.

RESEARCH & DEVELOPMENT

The Board considers that research and development into new products continues to play an important role in the Group's success.

All costs incurred in the year have been charged to the Statement of Comprehensive Income and are as set out in note 4.

PROPERTY VALUES

In the opinion of the directors, and given current planning use approvals, there is no significant difference between the book amount and the current market value of interests in land and buildings.

Land and buildings are valued according to the provisions of IAS 16's cost model. Assets are carried at cost less accumulated depreciation and impairment.

CHARITABLE DONATIONS

During the year the Group made donations of £20,200 (2009 – £21,635) for charitable purposes to include the Theatre Royal Margate (£20,000). There were no political donations in the year (2009 – £nil).

DIRECTORS

The persons who were directors during the year are listed below:

Neil A Johnson, aged 61, was originally appointed a non-executive director on 1 July 1998. On 22 December 2000 he assumed the responsibilities of Chairman. He is currently a member of the Metropolitan Police Authority. Neil served for five years as a member of the Prime Minister's Advisory Panel for the Citizen's Charter. He is a member of a number of private company Boards and Trusts, Chairman of Motability Operations Group Plc and on 19 October 2009 Mr Johnson was appointed Chairman of Umeco Plc.

Frank Martin, aged 58, was appointed Chief Executive on 3 January 2001. Frank was previously Chief Executive of

Directors' Report (continued)

Humbrol Limited, and formerly Managing Director of Denby Pottery Limited and Group Marketing Director of Hasbro (UK) Limited. His conditions of employment include a notice period of one year to be given by the Company and of six months to be given by him.

Andrew J Morris, aged 47, was appointed Group Finance Director on 26 November 2007. Andrew was previously CFO of Speedo International and formerly Finance Director, Africa Glaxo Smithkline plc. His conditions of employment include a notice period of one year to be given by the Company and of six months to be given by him.

Nigel M Carrington, aged 54, was appointed a non-executive director on 1 December 2007. Nigel is currently Rector of University of the Arts London and a member of the board of a number of charities. He was formerly a corporate lawyer and Managing Partner at Baker & McKenzie and Managing Director and Deputy Chairman of McLaren Group Limited.

Mark E Rolfe, aged 51, was appointed a non-executive director on 1 January 2008. After qualifying as a chartered accountant with Coopers and Lybrand, Mark joined Gallaher Group plc in 1986, where he was Finance Director for seven years retiring in 2007. He is a non-executive director of The Sage Group Plc and Barratt Developments Plc, and Chairman of Lane Clark & Peacock LLP.

The interests of the directors in the shares of the Company and in options granted over such shares are disclosed in the Directors' Remuneration Report on pages 22 to 24.

The number of Board meetings held during the year and attendance by the directors is set out on page 13.

DIRECTORS' INDEMNITIES

The Company maintains liability insurance for its directors and officers. The Company has also provided an indemnity for its directors and the secretary, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006.

SUBSTANTIAL SHAREHOLDINGS

The Company has been notified that at close of business on 28 May 2010 the following parties were interested in three per cent or more of the Company's ordinary share capital.

Shareholder	Number of Ordinary Shares	Percentage held
Phoenix Asset Management Partners Limited	4,037,573	10.61
P J Wood	4,012,500	10.54
Electra Quoted Partners	2,995,150	7.87
Aberdeen Asset Management	2,990,220	7.86
Legal & General Investment Management	2,251,725	5.92
J J Hosking	1,664,200	4.37

FINANCIAL INSTRUMENTS

The Group's financial instruments, other than derivatives, comprise borrowings, some cash and liquid resources, and various items, such as trade debtors, trade creditors, etc. that arise directly from its operations. The Group's financial liabilities comprise borrowings, trade creditors, other creditors and finance leases, the main purpose of which is to raise finance for the Group's operations. The Group also has financial assets comprising cash, trade and other debtors.

The Group also enters into derivatives transactions (principally forward foreign currency contracts). The purpose of such transactions is to manage the currency risks arising from the Group's operations. The Group has a FX collar in place to minimise risk on translation of Euro denominated intercompany loans.

It is, and has been throughout the period under review, the Group's policy that no speculative trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have been reviewed and remain unchanged.

Interest rate risk

The Group finances its operations through a mixture of retained profits and bank borrowings. The Group borrows, principally in Sterling, at floating rates of interest to meet short term funding requirements. At the year end the Group's only borrowings were finance leases, a revolving credit facility, bank overdrafts and a fixed term loan agreement. An interest rate hedge is in place to protect the Group against future interest rate rises.

Credit risk

The Group manages its credit risk through a combination of internal credit management policies and procedures and external credit insurance.

Liquidity risk

The Group re-arranged its borrowings into a revolving credit facility (£10 million – expiring July 2012) and a fixed-term loan agreement (£12 million – expiring July 2014). Previously the Group had a fixed term loan (£10 million) and an overdraft facility (£12 million). The Group's policy on liquidity risk is to ensure that sufficient cash is available to fund future operations. The peak level of net debt in the year to March 2010 was £16.0 million (2009 – £19.2 million). The Board manages exposure to liquidity risk by maintaining adequate facilities to meet the future needs of the business. Those needs are determined by monitoring forecast and actual cash flows. The Group regularly monitors its performance against its banking covenants to ensure compliance.

Foreign currency risk

The Group purchases substantially all of its products from the Far East in Hong Kong and US Dollars. The Group's policy is to reduce currency exposure arising from its purchases and anticipated orders by using forward foreign exchange contracts of up to 12 months. All sales and other purchases originating in the UK are denominated in Sterling.

The Company has subsidiaries in the USA, Spain, Italy, France and Germany. At present the Company does not consider the balance sheet translation exposure significant enough to warrant matching the net currency assets with currency borrowings but the position will be reviewed annually going forward.

The Group has granted Euro denominated intercompany loans to subsidiary companies that are translated to Sterling at statutory period ends thereby creating exchange gains or losses. In order to mitigate the exchange exposure the Group has entered a foreign exchange collar contract to sell an equal number of Euros in October 2011 that will be revalued by an approximately similar but opposite Sterling value at each period end.

PERSONNEL POLICIES

It is the policy of the Group to follow equal opportunity employment practices and these include the full consideration of employment prospects for the disabled.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees. Arrangements are made, wherever possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes.

The Group places importance on the contributions to be made by all employees to the progress of the Group and aims to keep them informed by the use of formal and informal meetings.

CREDITOR PAYMENT POLICY

The Group has agreed a variety of payment terms with its suppliers. It is and will remain the general policy of the Group that payments to a supplier are made in accordance with the general conditions of purchase agreed with that supplier, providing the supplier complies with all relevant terms and conditions and also that the invoice is presented in a timely fashion.

The average creditor payment period for the main trading subsidiary at 31 March 2010 was 42 days (2009 – 24 days). The Company itself does not trade and therefore has no external trade creditors.

AUDITORS

A resolution to re-appoint the auditors, PricewaterhouseCoopers LLP, will be proposed at the forthcoming Annual General Meeting.

ANNUAL GENERAL MEETING

The notice of Annual General Meeting is important and requires your immediate attention. If you are in any doubt as to what action to take in relation to the Annual General Meeting, you should consult appropriate independent advisers.

The notice of the Annual General Meeting is set out on pages 69 to 71.

Resolution 9
Under section 551 of the Companies Act 2006 (the 'Act'), the directors may allot unissued shares only if authorised to do so. This resolution will give the directors authority to issue new ordinary shares in the capital of the Company up to a nominal value of £125,000, which is equal to approximately 33% of the Company's issued ordinary capital as at the date of the notice. This authority will expire on 28 July 2015. The directors do not have any present intention of exercising the authority granted by this resolution except in connection with the Company's share schemes.

Under the guidelines of the Association of British Insurers on authority to allot shares companies may seek basic authority to allot new shares in an amount of up to one-third of the existing issued share capital and this request will be regarded as routine under guidelines.

Resolution 10
It is proposed to renew the authority to the directors to allot equity securities for cash without first being required to offer such securities to existing members. This will include the sale for cash on a non pre-emptive basis of any shares which the Company holds in treasury. The authority relates to up to £19,000 of nominal capital representing 5% of the issued ordinary share capital of the Company as at the date of the notice. The authority sought at the Annual General Meeting will expire at the conclusion of the next annual general meeting of the Company.

The directors do not intend to issue more than 7.5% of the issued ordinary share capital of the Company in any rolling three year period without prior consultation with the Institutional Investment Committee. Members will note that this resolution also relates to the sale of treasury shares.

Resolution 11
The Company is seeking authority to purchase approximately 10% of the Company's issued ordinary share capital at, or between, the minimum and maximum prices specified in the resolution. As at the date of the notice the total number of options to subscribe for shares in the Company was 2,176,467 (approximately 5.7% of the Company's issued ordinary share capital and approximately 6.4% of the Company's issued ordinary share capital if the full authority proposed by resolution 11 was used and the shares purchased were cancelled). This power would be used only after careful consideration by the directors, having taken into account market conditions prevailing at that time, the investment needs of the Company, its opportunities for expansion and its overall financial position. The directors would exercise the authority to purchase ordinary shares only if they considered it to be in the best interest of the members and they believe that the effect of such purchases will be to increase earnings per share.

The Company (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 came into force on 1 December 2003. These regulations allow shares repurchased by the Company to be held as treasury shares. Treasury shares may be cancelled, sold for cash or used for the purpose of employee share schemes but all rights attaching to them, including voting rights and any right to receive dividends, are suspended whilst they are held in treasury. The authority to be sought by this resolution is intended to apply equally to shares to be held by the Company as treasury shares. The Company currently holds no treasury shares.

The authority sought at the Annual General Meeting will expire at the earlier of the date which falls eighteen months from the date the resolution is passed and the conclusion of the next annual general meeting of the Company.

By order of the Board

A J Morris
Finance Director
Westwood
Margate
Kent CT9 4JX

4 June 2010

Corporate Governance Statement

The Company is committed to the principles of corporate governance contained in the Combined Code of Corporate Governance issued in 2008 by the Financial Reporting Council ('the Code') (which can be found at www.frc.org.uk) for which the Board is accountable to shareholders.

Statement of Compliance with the Combined Code

Throughout the year ended 31 March 2010, the Company has been in compliance with the Code provisions set out in section 1 of the Code.

Statement about applying the principles of the Code

The Company has applied the principles set out in section 1 of the Code, including both the main principles and the supporting principles. Further explanation of how the principles and supporting principles have been applied is set out below.

DIRECTORS

Board effectiveness

The Board has ultimate responsibility and accountability for the Group's operations.

During the year the Board comprised the non-executive Chairman, Chief Executive, Finance Director, and two non-executive directors.

During the year 11 Board meetings were held. All directors attended all meetings during their period of office.

The Board believes its current structure is appropriate for the scale of the business and to enable the Group to be managed efficiently.

The Board has adopted a formal schedule of matters specifically reserved to it for decisions including the determination of the strategy, the approval of business plans, budgets, acquisitions and disposals, major capital purchases, Board appointments, accounting policies and treasury arrangements.

The Board also delegates specific responsibilities to committees as described below. The Board meets monthly and monitors progress against plan at each meeting.

The directors have the authority of the Board to obtain external legal or other independent professional advice in the furtherance of their duties at the Company's expense. All directors have access to the advice and services of the Company Secretary, who is responsible for ensuring Board procedures are followed and applicable rules and regulations are complied with. The executive directors have all received appropriate training for their appointment to the Board of a listed company. The non-executive directors bring a broad expertise to the Board. N A Johnson, N M Carrington and M E Rolfe are all experienced company directors. Biographical details of each director are shown on pages 9 and 10.

The Board has formal and informal procedures to monitor its performance both as individuals at annual appraisals and as a Board.

Chairman and Chief Executive

The roles of Chairman and Chief Executive are separate and there is a clear division of responsibility. The Chairman is responsible for leading the Board and ensuring its effectiveness. The Chairman and the Board are satisfied that effective communication, principally by the Chief Executive and Group Finance Director, is undertaken with the shareholders.

The Chief Executive is responsible for running the business and ensuring that accurate, timely and clear information is presented at monthly Board meetings or when appropriate.

Senior Independent Director

The Board has appointed N M Carrington to the role of Senior Independent Director. This role provides a point of contact to those shareholders who wish to raise issues with the Board, other than through the Chairman.

Board balance and independence

The Board considers the non-executive directors who served during the year to be independent of management and free from any business or other relationship which could interfere with the exercise of their independent judgement. Code provision A.3.2 requires at least half the Board, excluding the Chairman, to be independent non-executive directors and smaller companies are only required to have only two non-executive directors.

N A Johnson has served on the Board for more than eleven years and has been its Chairman for nine years. In line with the Combined Code the Senior Independent Director, N M Carrington, has undertaken a rigorous review of the effectiveness of the performance of the Chairman as well as a review of his contribution to the Board, based on a questionnaire and discussion with other members of the Board, and has concluded that the Chairman continues to be an effective non-executive director and to execute commitment to the role.

Appointments to the Board

Nominations Committee

There have been no appointments to the Board during the year ended 31 March 2010. Appointments to the Board require the Board's authorisation and are conducted by the Nominations Committee. The Nominations Committee comprises the Chairman, executive and non-executive directors. During the year there were no meetings held.

The duties of the Nominations Committee are available from the terms of reference and include regularly reviewing the structure, size and composition required of the Board and making recommendations to the Board with regard to any changes, giving full consideration to succession planning for directors and other senior executives, identifying and nominating candidates to fill board vacancies and evaluating the balance of skills, knowledge and experience on the Board before an appointment is made.

The potential candidates are interviewed by either the Nominations Committee or a panel appointed by that Committee. An appointment requires the final approval of the Board prior to an offer being forwarded.

The Nominations Committee are also required to review annually the time required from non-executive directors to assess whether the non-executive directors are spending enough time to fulfil their duties.

Terms of reference of the Nominations Committee and terms and conditions of appointment for non-executive directors are available on request from the Company Secretary.

Information and professional development

The Chief Executive is responsible for ensuring that directors receive accurate, timely and clear information. Management has an obligation to provide such information but directors should seek clarification or amplification where necessary.

The Chairman is responsible for ensuring that directors continually update their skills and the knowledge and familiarity with the Company required to fulfil their role. Resources are available on request to develop and update the directors' knowledge and capabilities.

Performance Evaluation

During the year a performance evaluation of the Board and its committees has taken place by way of a performance evaluation questionnaire. The results of this questionnaire were summarised in a report which was presented to the Board.

In the year under review the report identified no areas of concern.

Re-election

N A Johnson, having served for more than ten years, will retire and offer himself for re-election at the Annual General Meeting and annually thereafter in accordance with the Combined Code.

The Company's Articles of Association currently require one third of the directors to retire by rotation at each Annual General Meeting. Thereby A J Morris and M E Rolfe offer themselves for re-election at the forthcoming Annual General Meeting. In accordance with the Combined Code, the non-retiring directors have conducted a review of A J Morris and M E Rolfe's contribution to the Board and the Chairman can confirm that they continue to be effective directors and to execute commitment to the role.

Remuneration Committee

The Remuneration Committee comprises N M Carrington and M E Rolfe. N M Carrington is the Chairman of the Remuneration Committee.

The Committee met four times during the year with all members being present. The Committee is responsible for establishing formal and transparent procedures for determining policy on executive remuneration and advising the Board on executive remuneration and in particular for ensuring that executive remuneration packages are sufficient to attract, retain and motivate executive directors of the required quality whilst avoiding paying more than necessary. It also endeavours to establish performance related elements of remuneration which align the interests of the directors with those of the shareholders. No director is involved in deciding his own remuneration and the Board itself determines the remuneration of the non-executive directors.

Further details of directors' remuneration is provided in the Directors' Remuneration Report.

Audit Committee and Auditors

The Audit Committee comprises N M Carrington and M E Rolfe. M E Rolfe became Chairman of the Audit Committee on 28 July 2008. Mark is a Fellow of the Institute of Chartered Accountants in England and Wales and is considered by the Board to have recent and relevant financial experience. N M Carrington has a wide range of business experience, which is evidenced by his biography set out in the Directors' Report.

The Committee meets at least three times a year and the Chairman, Chief Executive, Finance Director, Company Secretary and other managers attend by invitation. The Group's Auditors attend meetings and have direct access to the Committee.

The Audit Committee's terms of reference include all matters indicated by the Combined Code. The terms of reference are considered annually by the Audit Committee and are then referred to the Board for approval.

The main duties of the Committee, set out in its terms of reference, are to:

- Make recommendations on the appointment and remuneration of the external auditors and monitor their performance.
- Review the nature and scope of the work to be performed by the external auditors, the results of their audit work and management's responses.
- Monitor the independence of the external auditors and recommend policy for any non-audit services they provide to ensure that their independence is not compromised.
- Review and advise the Board on the Company's interim and annual financial statements and related announcements, its accounting policies and on the control and mitigation of its financial and business risks.
- Review and advise the Board on the effectiveness of the Company's internal control environment, including its procedures for detecting fraud and 'whistle blowing'.

Activity during the year

During the year, three Audit Committee meetings were held. All members attended all meetings during their period in office. The Committee met privately with the external auditors without executives present, and with the Finance Director.

The Committee reviewed the Company's interim and annual financial statements and related announcements, along with a report from the external auditors setting out the findings from their audit work.

The Committee has adopted a specific policy on auditor independence, setting out restrictions on specific non-audit activities such as bookkeeping, payroll services and advocacy, and procedures and authority levels for audit and non-audit fees. The authority levels beyond which prior approval from the Audit Committee is required are set as 1:1 for the audit / non audit fee ratio. Hornby believes that it receives particular benefit from the external auditors' advice on potential acquisitions and the tax consequences thereof, given its auditors' detailed knowledge of the Group. The Board considers alternative providers if practical and seeks confirmation prior to engaging services that independence will not be compromised.

In the current financial year the level of non audit fees was well within the 1:1 ratio. In the previous financial year the level of non audit fees exceeded the ratio due to due diligence activities, undertaken with the prior approval of the Committee.

To assess the effectiveness of the external auditors, the Committee reviewed their fulfilment of the agreed audit plan; the robustness and perceptiveness of the auditors in their handling of key accounting and audit judgements, the content of their letter to management on control matters and adherence to service standards set out in Hornby's Audit Charter policy. There are no contractual restrictions on the choice of the Committee as to external audit and, having considered the services provided by the current external auditors, PricewaterhouseCoopers LLP, their independence and knowledge of the Group, the Committee has recommended to the Board the reappointment of the auditors at the Annual General Meeting in July 2010. In reaching this decision the Committee has taken into account the tenure of the auditors and considered whether there should be a full tender process. The Committee also had regard to the likelihood of a withdrawal of the auditor from the market.

The Committee considers annually the need for an internal audit function, but currently believes that this is not justified given the size, nature of the Group and a programme of visits to Hornby locations carried out by senior Group financial management.

Arrangements exist for staff of the Group to raise concerns, in confidence, about possible improprieties in matters of financial reporting or other matters. During the year, the Audit Committee has continued to strengthen the policy in this area in recognition of the Group's growing international presence.

Internal Control and Risk Management

The Board is responsible for the operation and effectiveness of the Group's system of internal controls and risk management. There is a continuous process for identifying, evaluating and managing the significant risks the Group faces.

Corporate Governance Statement (continued)

This process has been in place throughout the year and complies fully with the Turnbull guidance.

The Board regularly reviews the effectiveness of the Group's system of internal control. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring.

The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed and by their nature can only provide reasonable but not absolute assurance against misstatement or loss. During the year, the Group continued to take action to enhance these control systems, based upon its own process improvement initiatives and auditors' recommendations.

The Audit Committee reviews and reports to the Board on the effectiveness of the Group's systems of internal control on an ongoing basis during the year and no significant weaknesses have been identified.

Control Environment

The Board has put in place an organisational structure with clearly defined and understood lines of responsibility and delegation of authority. The Board promotes a strong control environment with a strong ethical climate.

RELATIONS WITH SHAREHOLDERS

The Company communicates regularly with its institutional shareholders and encourages communication with private investors through the Annual General Meeting.

N M Carrington is the senior independent non-executive director. The senior independent non-executive director welcomes direct discussion with shareholders.

The executive directors update major shareholders at institutional visits and analyst presentations immediately after the interim and final announcements. The Chairman attends a selection of these meetings. The meetings facilitate open discussion and direct face-to-face contact and the views of shareholders are reported to the Board by the Chairman and Chief Executive.

The Board uses the Annual General Meeting as an occasion for communication with its shareholders. All proxy votes are counted by the Company's registrars and the voting on each resolution is made available to the meeting. Directors of the Company and the UK subsidiary attend the meeting to respond to specific questions.

IDENTIFICATION OF BUSINESS RISKS

The Board has the primary responsibility for identifying the major business risks facing the Group and developing appropriate policies to manage those risks. The Board has completed a risk assessment programme in order to identify the major business risks and has reviewed and determined any mitigating actions required.

BUSINESS RISKS

UK Market Dependence

The UK market represents a significant part of Group revenue; 63% in 2010 (2009 – 62%). In order to reduce the proportional exposure to the UK market the Board's strategy continues to be to expand overseas sales. The acquisitions of the brands Airfix, Humbrol, Corgi, Electrotren, Rivarossi, Lima and Jouef have provided the Group significant market shares of the model railway, model and die cast markets in UK, Spain, Italy, France and Germany to facilitate European expansion.

Market Conditions

The Group's products are sold in the main to its retail customers. The performance of the market is affected by the general economic climate including overall consumer and retailer confidence, interest rates and the level of unemployment. In reviewing the future forecasts for the business the directors consider reasonable changes in macro economic and associated market conditions, albeit any significant downturn could negatively impact Group sales and margins.

Foreign Exchange

The Group purchases goods in Hong Kong and US Dollars and is therefore exposed to exchange rate fluctuations. The Group hedges the short-term exposure by establishing forward currency purchases using fixed rate and participating forward contracts up to twelve months ahead. It is deemed impractical to hedge exchange rate movements beyond that period. Translation risk on intercompany loans is managed through a foreign exchange collar.

Overseas Suppliers

The Group purchases goods, in the main from third party Chinese suppliers. The principal supplier to the Group, Sanda Kan, is owned by Kader Holdings Company Limited a Hong Kong based company with interests in the model train sectors in Europe and the US. The purchase of products from lower-wage economies provides the Group with a significant cost advantage when competing with locally-manufactured products in Europe. However the Group does not have exclusive arrangements with its suppliers and there is a risk that competition for manufacturing capacity can lead to delays in introducing new products or servicing existing demand. Furthermore, there is a risk that input price escalation could reduce or remove the Group's pricing advantage.

The Group seeks to mitigate these risks by continuing to develop and diversify the Group's supplier portfolio, which includes a supplier in India, and through closely monitoring production through locally-based employees (who also ensure the maintenance of quality standards).

Product compliance

The Group's products are subject to compliance with toy safety legislation around the world. The Group manages compliance through active monitoring of legislation, robust internal processes and procedures, and policy debate and lobbying with the relevant authorities.

Competition

The Group has competition in the model railway, slot racing, model kits, die cast and paint market but in many of our markets the group enjoys a strong market position due to the continued development of our brands.

Brands are all important in the models sector. In addition market entry capital cost is prohibitive to new entrants even for individual models but especially as they would need to offer an entire branded system.

Main control procedures

Management establishes control policies and procedures in response to each of the key risks identified. Control procedures operate to ensure the integrity of the Group's financial statements, designed to meet the Group's requirements and risks identified in each area of the business. Control procedures are documented where appropriate and reviewed by management and the Board on an ongoing basis to ensure control weaknesses are mitigated.

The Group operates a comprehensive annual planning and budgeting system. The annual plans and budgets are approved by the Board. The Board reviews the management accounts at its monthly meetings and financial forecasts are updated monthly and quarterly. Performance against budget is monitored and where any significant deviations are identified appropriate action is taken.

Monitoring system used by the Board

The Board as a whole monitors the operation of the system of internal control through management reviews of the effectiveness of the system of internal control each year. The Board has adopted a schedule of matters which are required to be brought to it for decision in order to ensure that it maintains full and effective control over appropriate strategic, financial, organisational and compliance issues, including procedures for seeking and obtaining approval for major transactions and capital purchases.

The Board reviews the effectiveness of the system of internal controls on a continuous basis and considers it appropriate for the size of the Group. The review comprises regular scrutiny of monthly accounts and reports prepared by individual subsidiary companies. The Board also regularly reviews and formalises financial authority limits throughout the Group.

Corporate Social Responsibility

The Board considers the social, environmental and ethical matters pertinent to the Group, and will review items of significance where appropriate. The risk assessment procedures in place are designed to highlight any key areas of concern including health and safety considerations, employee recruitment and retention and environmental issues, with controls put in place as necessary.

The Group is pro-active in working with all suppliers to ensure compliance with the International Council of Toy Industries (ICTI) Code of Business Practices to include child and forced labour, working conditions, hours of work, pay, non-discrimination and health and safety. Compliance is managed through an annual audit process.

Environmental Responsibility

Hornby Group believes that protection of the environment is an integral part of good practice and that it satisfies itself that all of its operations are conducted with reasonable proper regard for the environment. It is committed to maintaining, and wherever possible improving, the quality of this environment both for the people who work in the Group, and for the wider community now and in the future. The Group seeks to make the most effective and efficient use of all resources, encouraging all members of the Group to develop an ecologically sound approach to their work.

Corporate Governance Statement (continued)

Going Concern

A review of Group business activities and future outlook are set out on pages 4 to 7 of the Chief Executive's Report. The financial position of the Group, its cash flows and liquidity position are shown in the balance sheet, cash flow statement and accompanying notes to the financial statements. The principal business risks associated with the business are shown on pages 16 to 17, whilst the risks arising from the Group's financial instruments are covered on pages 10 to 11.

The directors, in their consideration of going concern, have reviewed the Group's future cash flow forecasts and revenue projections, which they believe are based on a realistic assessment of future business performance.

The Group's forecasts and projections, taking account of reasonable possible changes in trading performance, show that the Group should be able to operate within the levels of its agreed facilities. Accordingly the directors believe it appropriate to prepare the financial statements of the Group on a going concern basis.

Takeovers Directive

Pursuant to S992 of the Companies Act 2006, which implements the EU Takeovers Directive, the Company is required to disclose certain additional information. The following gives those disclosures which are not covered elsewhere in this Annual Report.

The Company's Articles of Association (the 'Articles') give the Board power to appoint directors, but also require directors to retire and submit themselves for election at the first Annual General Meeting following their appointment. A director who retires in this way is eligible for election but is not taken into account when deciding how many directors should retire by rotation at the Annual General Meeting. The Articles themselves may be amended by special resolution of the shareholders.

Pursuant to the Articles, at every Annual General Meeting, one third of the current directors must retire by rotation.

The Board of Directors is responsible for the management of the business of the Company and may exercise all the powers of the Company subject to the provisions of the Company's Memorandum of Association and the Articles.

The Articles contain specific provisions and restrictions regarding the Company's power to borrow money. Powers relating to the issuing and buying back of shares are also included in the Articles and shareholders are asked to renew such authorities each year at the AGM. A copy of the Articles is available on request from the Company Secretary.

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company following a takeover, such as commercial contracts, bank agreements, property lease arrangements and employees' share plans. None of these are deemed to be significant in terms of their potential impact on the business of the Group as a whole.

Directors' Remuneration Report

For the year ended 31 March 2010

Introduction

This report has been prepared in accordance with the Companies Act 2006 and Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to directors' remuneration in the Combined Code. A resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

The report has been divided into separate sections for audited and unaudited information.

UNAUDITED INFORMATION

Remuneration Committee

The Company has established a Remuneration Committee (the 'Committee') which is constituted in accordance with the recommendations of the Combined Code. The Committee is comprised of independent non-executive directors. The current members of the Committee are N M Carrington (Committee Chairman) and M E Rolfe, both of whom served throughout the financial year.

The Committee meets regularly but more frequently if required. During the year four Remuneration Committee meetings were held, with both members present at each meeting.

Neither of the Committee members has any personal financial interest (other than as shareholders), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. The Committee makes recommendations to the Board. No director plays a part in any discussion about their remuneration. The terms of reference of the Committee are available from the Company Secretary on request.

In determining the directors' remuneration for the year, the Committee consulted F Martin (Chief Executive) about its proposals. Hewitt New Bridge Street ('HNBS'), the Committee's appointed remuneration adviser, continues to provide advice to the Committee. HNBS provides no other services to the Company.

Remuneration policy for the Executive Directors

General policy

Executive remuneration packages are designed to attract, motivate and retain directors of the high calibre needed to maintain the Group's position as a market leader and to reward them for enhancing value to shareholders. The performance measurement of the executive directors is undertaken by the Committee.

There are five main elements of the remuneration package for executive directors and senior management:

- Base salary
- Benefits-in-kind
- Pension arrangements
- Performance-related annual bonus
- Performance Share Plan

The Company's policy is that a substantial proportion of the remuneration of the executive directors should be performance related.

Salary and benefits

Executive directors' base salaries are reviewed annually by the Committee taking into account the responsibilities, skills and experience of each individual, pay and employment conditions within the Company and salary levels within listed companies of a similar size. Base salary levels as at 1 April 2009 and 2010 are as follows:

Director	Role	Salary at 1 April 2010	Salary at 1 April 2009
F Martin	Chief Executive	£256,250	£250,000
A J Morris	Finance Director	£169,125	£165,000

Base salary levels were reviewed during the first quarter of 2010 and, consistent with the average increase awarded across the Group, increased by 2.5% from 1 April 2010.

Policies concerning benefits, including the Group's company car policy, are reviewed periodically. Currently, benefits in kind comprise of motor cars and private health cover.

Pension

The executive directors and senior managers are members of defined contribution pension schemes and annual contributions are calculated by reference to base salaries, with neither annual bonuses nor awards under the share incentive schemes taken into account in calculating the amounts due. The contribution level continues to be 20% of base salary for executive directors.

Performance-related annual bonus

Executive directors participate in a performance-related bonus scheme. The maximum bonus continues to be capped

Directors' Remuneration Report (continued)

at 100% of base salary for the Chief Executive and 75% of salary for the Finance Director.

Performance targets are designed both to stretch and encourage individuals whilst aligning their interests with that of the Group. The performance conditions are divided 80:20 between Group profit before tax and personal objectives. For the Group profit before tax condition, a sliding scale range is set around a target level (designed to be stretching but realistically achievable). The personal objectives are set at the start of the year and are designed to be as objective and measurable as possible.

In respect of the year ended 31 March 2010 both of the executive directors were entitled to a bonus, details of which appear in the table of directors' emoluments.

Performance Share Plan

The Performance Share Plan ('PSP'), which was approved by shareholders at the 2008 AGM, was introduced as the Company's primary long-term incentive plan to replace the short-term incentive plan ('STIP'). No further awards will be made under the STIP although legacy awards continue to vest on their original terms.

Under the PSP, awards are made to executive directors and selected other executives on the following basis:

- The maximum award level is 150% of base salary per annum although awards up to 200% of base salary may be granted to an individual in exceptional circumstances (e.g. recruitment or retention). The current policy is to grant awards over shares worth 100% of salary.
- An award is subject to a total shareholder return ('TSR') condition and a range of normalised underlying earnings per share growth targets, each applying to a separate 50% of an award and measured over a period of three financial years.
- The TSR condition is based on the Company's underlying performance against the constituents of the FTSE Small Cap (excluding investment trusts) as at the date of grant. 25% of this part of the award will vest if Hornby's TSR is equal to the TSR of the median company, with full vesting for top quartile performance. A sliding scale operates between these points.
- For the EPS part of the award, 25% vests for average annual underlying EPS growth of RPI+3% p.a., with full vesting for average annual EPS growth of RPI+10% p.a. A sliding scale operates between these points.
- The Committee is comfortable that the blend of TSR and EPS targets continues to provide a good balance between incentivising and rewarding strong financial performance on the one hand whilst, on the other hand, providing a strong and direct alignment with the interests of institutional shareholders by rewarding stock market outperformance.
- Performance conditions are calculated by independent advisers and verified by the Committee.
- Executives benefit, in the form of additional cash or shares, from the value of dividends paid over the vesting period, to the extent that awards vest.
- It is currently intended that market purchased shares are used to satisfy awards although there is flexibility to use new issue and treasury shares within institutional shareholder dilution limits.

Shareholding guidelines

A policy for share ownership guidelines is operated for the executive directors and senior executives. For the executive directors, the required threshold of share ownership is 100% of base salary. Until such time as this level of shareholding is achieved, 50% of the net of tax value of awards which vest under the PSP are required to be retained.

Executive Directors' Service Contracts

The executive directors do not have fixed period contracts.

Frank Martin's service contract dated 26 February 2001 includes a notice period of one year to be given by the Company and of six months to be given by F Martin. In lieu of giving notice the Company may terminate the agreement on payment of a lump sum (subject to tax and national insurance) equal to the salary and other benefits to which he is entitled under this agreement.

Andrew J Morris's service contract dated 23 November 2007 includes a notice period of one year to be given by the Company and of six months to be given by A J Morris. In lieu of giving notice the Company may terminate the agreement on payment of a lump sum (subject to tax and national insurance) equal to the salary and other benefits to which he is entitled under this agreement.

Non-Executive Directors' Contracts

The remuneration of the non-executive directors is determined by the Board (except the Company Chairman's fee, which is set and reviewed by the Remuneration Committee) based on the level of fees paid to non-executive directors of similar companies and by considering independent external advice.

Neil A Johnson was appointed non-executive Chairman on 22 December 2000 having initially joined the Board on 1 July 1998 and receives salary and fees for his services to the Company of £90,000 per annum effective 1 April 2007. 80% is paid to a third-party consultancy company and 20% treated as earnings. N A Johnson's service contract dated 13 February 2006, amended March 2007, is subject to termination on six months notice to be given by either the Company or N A Johnson. In lieu of giving notice the Company may terminate the agreement on payment of a lump sum (subject to tax and national insurance) equal to the salary to which he is entitled under this agreement.

Nigel M Carrington, non-executive director, was appointed to the Board on 1 December 2007, and receives fees for his services to the Company of £35,000 per annum effective 1 December 2007. N M Carrington's service contract dated 3 November 2007 is subject to termination on six months notice to be given by either the Company or N M Carrington. In lieu of giving notice the Company may terminate the agreement on payment of a lump sum (subject to tax and national insurance) equal to the fee to which he is entitled under this agreement.

Mark E Rolfe, non-executive director, was appointed to the Board on 1 January 2008, and receives fees for his services to the Company of £35,000 per annum effective 1 January 2008. M E Rolfe's service contract dated 22 November 2007 is subject to termination on six months notice to be given by either the Company or M E Rolfe. In lieu of giving notice the Company may terminate the agreement on payment of a lump sum (subject to tax and national insurance) equal to the fee to which he is entitled under this agreement.

None of the non-executive directors receives any pension or performance-related pay from the Company.

Directors' Remuneration Report (continued)

AUDITED INFORMATION

Directors' Interests

Interests in shares

The interests of the directors in the shares of the Company in the year were:

	At 31 March 2010 number	At 31 March 2009 number
N A Johnson	**50,000**	50,000
F Martin	**236,151**	236,151
A J Morris	**5,000**	–
N M Carrington	**10,000**	10,000
M E Rolfe	**10,000**	10,000

All the interests detailed above are beneficial. Apart from the interests disclosed above no directors were interested at any time in the year in the share capital of any other group company.

There have been no other changes in the interests set out above between 31 March 2010 and 4 June 2010.

Aggregate Directors' remuneration

The total amount for directors' remuneration was as follows:

	2010 £'000	2009 £'000
Emoluments	**809**	666
Money purchase pension contributions	**84**	84
	893	750

Directors' detailed emoluments

The emoluments of the directors were as follows:

	Salary & Fees £	Bonus[1] £	Taxable Benefits[2] £	Pension Contri-bution £	2010 Total £	2009 Total[3] £
Chairman:						
N A Johnson	90,000	–	–	–	**90,000**	90,000
Executive:						
F Martin	250,000	141,500	13,090	50,000	**454,590**	349,563
A J Morris	165,000	70,043	9,382	33,845	**278,270**	226,803
Non-executive:						
N M Carrington	35,000	–	–	–	**35,000**	35,000
M E Rolfe	35,000	–	–	–	**35,000**	35,000
Former director:						
N J Cosh	–	–	–	–	**–**	13,333
	575,000	211,543	22,472	83,845	**892,860**	749,699

1. The Directors bonus award is based on performance targets. The targets are based on Group underlying profit before tax (80%) and personal objectives (20%). Both executive directors achieved 47% (out of a maximum 100%) for the profit before tax element and 95% (out of a maximum 100%) for the personal objectives element.
2. Taxable benefits relate to the provision of a company car and health assurance.
3. The 2009 total column includes pension contributions which were F Martin (£50,000) and A J Morris (£33,845).

No directors waived emoluments in respect of the year ended 31 March 2010 (2009 – nil).

Performance Share Plan

At 31 March 2010, outstanding awards to directors under the Performance Share Plan were as follows:

Director	Award date	Vesting date	Market price at Award date	At 1 April 2009	Awarded during year	Lapsed during year	Vested during year	At 31 March 2010
F Martin	July 2008	July 2011	149.6p	167,112	–	–	–	**167,112**
	July 2009	July 2012	136.0p	–	183,824	–	–	**183,824**
A J Morris	July 2008	July 2011	149.6p	110,924	–	–	–	**110,924**
	July 2009	July 2012	136.0p	–	121,324	–	–	**121,324**

For the awards granted to date, 50% of an award is subject to a TSR condition and 50% is subject to an EPS performance condition, both of which are measured over a period of three financial years. For the TSR condition, 25% of this part of the award will vest if Hornby's TSR is equal to the TSR of the median company of the constituents of the FTSE Small Cap (struck at the date of grant), with full vesting for top quartile performance, with a sliding scale operating between these points. For the EPS part of the award, 25% vests for average annual underlying EPS growth of RPI+3% p.a., with full vesting for average annual EPS growth of RPI+10% p.a. with a sliding scale operating between these points.

Interests in share options

Details of options held by directors at 31 March 2010 are set out below:

Director	Date of Grant	Options held at 1 April 2009	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options held at 31 March 2010	Exercise price	Exercise period
F Martin	28 Mar 2002	1,000,000	–	–	–	**1,000,000**	76.8p	28/03/2005 -28/03/2012
A J Morris	3 Dec 2007	118,110	–	–	(118,110)	**–**	254.0p	3/12/2010 -3/12/2017

F Martin's options granted March 2002 were subject to performance criteria requiring profit before interest and tax to exceed £4.0 million in the year ended 31 March 2003. This condition has been satisfied.

Performance criteria for options granted to A J Morris required aggregated profit before tax for years ending 31 March 2008 to 2010 to exceed £32.7 million. This condition has not been satisfied.

The directors above did not exercise any share options during the year and thus no gains were realised (2009 – no gains realised).

The market price of the Company's shares at 31 March 2010 was 126.25p and the range during the year ended 31 March 2010 was 67.5p to 170.0p.

Directors' Remuneration Report (continued)

Short Term Incentive Plan

At 31 March 2010, outstanding awards to directors under the Short Term Incentive Plan were as follows:

Director	Award date	Vesting dates	Market price at Award date	Number of shares	Value of entitlement 31 March 2010 £'000	Value of entitlement 31 March 2009 £'000
F Martin	June 2005	June 2009	221.0p	–	**–**	14
	June 2006	June 2009/10	266.0p	9,424	**12**	13
	June 2008	June 2010/1/2	156.1p	81,572	**103**	56
					115	83
A J Morris	June 2008	June 2010/1/2	156.1p	5,106	**6**	3

On 22 June 2009, 20,812 shares of the 2005 Award and 9,423 shares of the 2006 Award were vested to F Martin. The share price on this date was 102.1p.

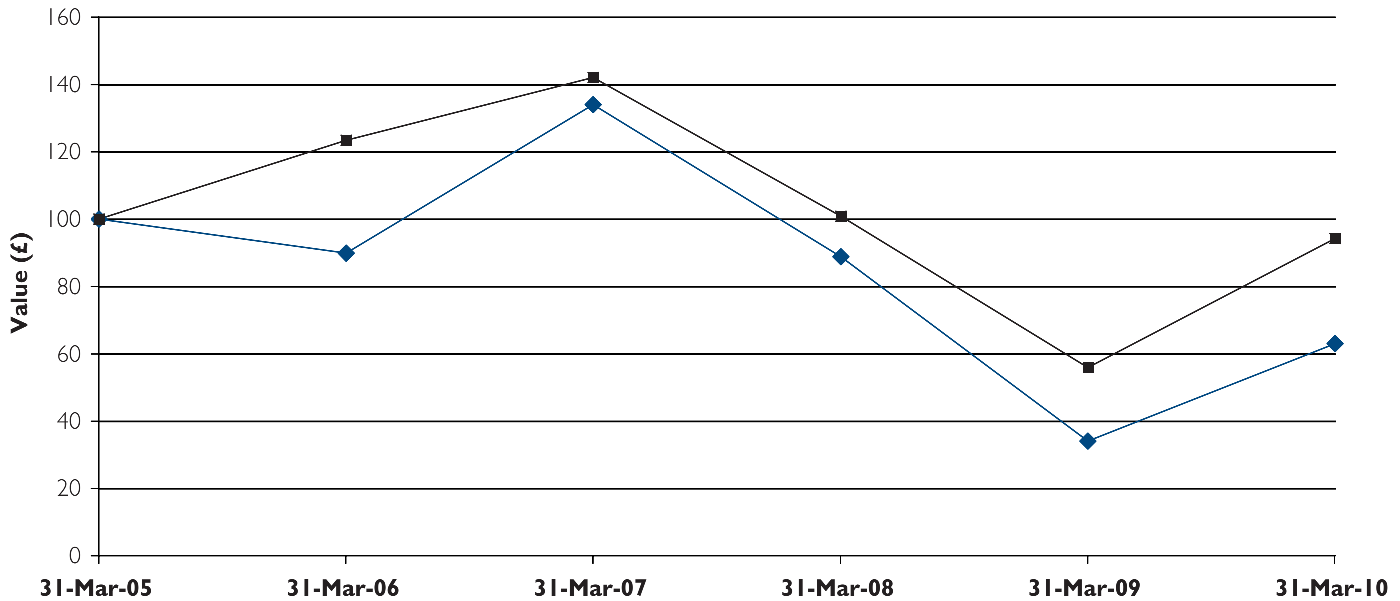
Value of entitlement at 31 March 2010 is based on the closing market price of the Company's shares of 126.25p (2009 – 68.25p).

Performance graph

The following graph shows the Company's total shareholder return compared to the TSR of the FTSE Small Cap (excluding investment trusts) over the five year period to 31 March 2010. This index has been selected given that the Company is a constituent of the FTSE Small Cap.

Total shareholder return

Source: Datastream



This graph shows the value, by 31 March 2010, of £100 invested in Hornby on 31 March 2005 compared with the value of £100 invested in the FTSE SmallCap (excluding investment trusts). The other points plotted are the values at intervening financial year-ends.

N M Carrington

Remuneration Committee Chairman

4 June 2010

Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Company and Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are listed in the Directors and Corporate Information section, confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Chief Executive's Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

So far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director in order to make themself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

J W Stansfield
Company Secretary

4 June 2010

Independent Auditors' Report to the Members of Hornby Plc

We have audited the financial statements of Hornby Plc for the year ended 31 March 2010 which comprise the Group and Company Statement of Comprehensive Income, the Group and Company Balance Sheet, the Statement of Changes in Equity, the Group and Company Cash Flow Statement, the Notes to the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 25, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2010 and of the Group's and the Parent Company's profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 13 to 18 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the Parent Company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 18, in relation to going concern; and
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Graham Lambert (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick

4 June 2010

Group and Company Statement of Comprehensive Income

for the year ended 31 March 2010

	Note	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Revenue	2	**64,736**	61,569	**1,361**	1,540
Cost of sales		**(32,636)**	(32,168)	**–**	–
Gross profit		**32,100**	29,401	**1,361**	1,540
Distribution costs		**(2,702)**	(2,454)	**–**	–
Selling and marketing costs		**(13,602)**	(13,641)	**–**	–
Administrative expenses		**(8,243)**	(7,976)	**(892)**	(1,147)
Other operating (expenses)/income	4	**(1,549)**	1,569	**(112)**	(60)
Operating profit	2	**6,004**	6,899	**357**	333
Finance income	3	**20**	27	**228**	5,930
Finance costs	3	**(809)**	(805)	**(201)**	(280)
Profit before taxation	4	**5,215**	6,121	**384**	5,983
Analysed as:					
Underlying profit before taxation		**5,708**	6,331	**384**	6,240
Net foreign exchange impact on intercompany loans		**(98)**	535	**–**	–
Amortisation of intangibles		**(395)**	(370)	**–**	–
Restructuring and abortive due diligence costs		**–**	(375)	**–**	(257)
Profit before taxation		**5,215**	6,121	**384**	5,983
Taxation	5	**(1,530)**	(1,909)	**(102)**	(118)
Profit for the year after taxation		**3,685**	4,212	**282**	5,865
Other comprehensive income					
Cash flow hedges, net of tax		**848**	(813)	**–**	–
Currency translation differences		**19**	(336)	**221**	(835)
Other comprehensive income for the year, net of tax		**867**	(1,149)	**221**	(835)
Total comprehensive income for the year		**4,552**	3,063	**503**	5,030
Earnings per ordinary share					
Basic	7	**9.76p**	11.17p		
Diluted	7	**9.60p**	10.98p		

All of the activities of the Group are continuing.

Group and Company Balance Sheet

at 31 March 2010

		Group		Company	
	Note	**2010 £'000**	2009 £'000	**2010 £'000**	2009 £'000
Assets					
Non-current assets					
Goodwill	8	**13,416**	13,624	**–**	–
Intangible assets	9	**5,227**	5,689	**–**	–
Property, plant and equipment	10	**10,020**	10,523	**1,387**	1,433
Investments	11	**–**	–	**33,758**	32,989
Deferred tax assets	20	**140**	67	**30**	18
		28,803	29,903	**35,175**	34,440
Current assets					
Inventories	12	**12,273**	14,368	**–**	–
Trade and other receivables	13	**13,291**	13,119	**40**	8
Derivative financial investments	19	**750**	–	**–**	–
Current tax assets	17	**175**	124	**141**	9
Cash and cash equivalents	14	**8,998**	427	**45**	8
		35,487	28,038	**226**	25
Liabilities					
Current liabilities					
Borrowings	18	**(1,718)**	(5,138)	**–**	–
Derivative financial instruments	19	**(3,342)**	(3,960)	**–**	–
Trade and other payables	15	**(10,363)**	(8,270)	**(308)**	(158)
Provisions	16	**(391)**	(538)	**–**	–
Current tax liabilities	17	**(1,020)**	(999)	**(144)**	–
		(16,834)	(18,905)	**(452)**	(158)
Net current assets/(liabilities)		**18,653**	9,133	**(226)**	(133)
Non-current liabilities					
Borrowings	18	**(10,547)**	(7,181)	**(5,373)**	(5,580)
Deferred tax liabilities	20	**(281)**	(301)	**(196)**	(201)
		(10,828)	(7,482)	**(5,569)**	(5,781)
Net assets		**36,628**	31,554	**29,380**	28,526
Equity attributable to owners of the parent					
Share capital	21	**380**	380	**380**	380
Share premium		**5,340**	5,278	**5,340**	5,278
Capital redemption reserve		**55**	55	**55**	55
Translation reserve		**(514)**	(533)	**(1,369)**	(1,590)
Hedging reserve		**168**	(680)	**–**	–
Other reserves		**1,688**	1,688	**19,145**	19,145
Retained earnings		**29,511**	25,366	**5,829**	5,258
Total equity		**36,628**	31,554	**29,380**	28,526

The financial statements on pages 28 to 32 were approved by the Board of directors on 4 June 2010 and were signed on its behalf by:

F Martin
Director

Statement of Changes in Equity

Years ended 31 March 2010 and 31 March 2009

Group	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Translation reserve £'000	Hedging reserve £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
Balance at 1 April 2008	**380**	**5,278**	**55**	**(197)**	**133**	**1,688**	**24,125**	**31,462**
Total comprehensive income for the year	–	–	–	(336)	(813)	–	4,212	3,063
Share-based payments	–	–	–	–	–	–	224	224
Purchase of own shares for employee benefit trust	–	–	–	–	–	–	(284)	(284)
Shares vested from employee benefit trust	–	–	–	–	–	–	294	294
Dividends	–	–	–	–	–	–	(3,205)	(3,205)
	–	–	–	–	–	–	(2,971)	(2,971)
Balance at 31 March 2009	**380**	**5,278**	**55**	**(533)**	**(680)**	**1,688**	**25,366**	**31,554**
Total comprehensive income for the year	–	–	–	19	848	–	3,685	4,552
Issue of shares	–	62	–	–	–	–	–	62
Share-based payments	–	–	–	–	–	–	289	289
Shares vested from employee benefit trust	–	–	–	–	–	–	171	171
	–	62	–	–	–	–	460	522
Balance at 31 March 2010	**380**	**5,340**	**55**	**(514)**	**168**	**1,688**	**29,511**	**36,628**

Retained earnings includes £655,000 at 31 March 2010 (2009 – £672,000) which is not distributable and relates to a 1986 revaluation of land and buildings.

Company	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Translation reserve £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
Balance at 1 April 2008	**380**	**5,278**	**55**	**(755)**	**19,145**	**2,374**	**26,477**
Total comprehensive income for the year	–	–	–	(835)	–	5,865	5,030
Share-based payments	–	–	–	–	–	224	224
Dividends	–	–	–	–	–	(3,205)	(3,205)
	–	–	–	–	–	(2,981)	(2,981)
Balance at 31 March 2009	**380**	**5,278**	**55**	**(1,590)**	**19,145**	**5,258**	**28,526**
Total comprehensive income for the year	–	–	–	221	–	282	503
Issue of shares	–	62	–	–	–	–	62
Share-based payments	–	–	–	–	–	289	289
	–	62	–	–	–	289	351
Balance at 31 March 2010	**380**	**5,340**	**55**	**(1,369)**	**19,145**	**5,829**	**29,380**

Group and Company Cash Flow Statement

for the Year Ended 31 March 2010

	Group		Company	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000
Cash flows from operating activities				
Cash generated from operations	**14,385**	11,377	**633**	350
Interest received	**20**	27	**228**	190
Interest paid	**(809)**	(805)	**(201)**	(280)
Tax (paid)/received	**(1,653)**	(2,594)	**(107)**	49
Net cash generated from operating activities	**11,943**	8,005	**553**	309
Cash flows from investing activities				
Purchase of trade assets and related costs	**–**	(8,495)	**–**	–
Proceeds from sale of property, plant and equipment	**2**	2	**–**	–
Purchase of property, plant and equipment	**(3,827)**	(4,763)	**–**	(51)
Dividends received	**–**	–	**–**	5,740
Net cash (used in)/generated from investing activities	**(3,825)**	(13,256)	**–**	5,689
Cash flows from financing activities				
Proceeds from issuance of ordinary shares	**62**	–	**62**	–
Proceeds from issue of loans	**3,333**	8,684	**–**	–
Purchase of own shares by Short Term Incentive Plan	**–**	(284)	**–**	–
Finance lease capital payments	**(19)**	(19)	**–**	–
Dividends paid to Company's shareholders	**–**	(3,205)	**–**	(3,205)
Loans to subsidiary undertakings	**–**	–	**(592)**	(2,737)
Net cash generated from/(used in) financing activities	**3,376**	5,176	**(530)**	(5,942)
Effect of exchange rate movements	**445**	(1,717)	**14**	(56)
Net increase/(decrease) in cash and cash equivalents	**11,939**	(1,792)	**37**	–
Cash, cash equivalents and bank overdrafts at beginning of the year	**(3,060)**	(1,268)	**8**	8
Cash, cash equivalents and bank overdrafts at end of year	**8,879**	(3,060)	**45**	8
Cash, cash equivalents and bank overdrafts consist of:				
Cash and cash equivalents	**8,998**	427	**45**	8
Bank overdrafts	**(119)**	(3,487)	**–**	–
Cash, cash equivalents and bank overdrafts at end of year	**8,879**	(3,060)	**45**	8

Notes to the Cash Flow Statement

Cash flow from operating activities

	Group		Company	
	2010 **£'000**	**2009** **£'000**	**2010** **£'000**	**2009** **£'000**
Profit before taxation	**5,215**	6,121	**384**	5,983
Interest payable	**809**	805	**201**	280
Interest receivable	**(20)**	(27)	**(228)**	(190)
Dividends receivable	**–**	–	**–**	(5,740)
Amortisation of intangible assets	**395**	370	**–**	–
Depreciation	**4,376**	4,315	**46**	44
(Profit)/loss on disposal of property, plant and equipment	**(1)**	25	**–**	–
Share-based payments	**289**	224	**112**	60
(Gain)/loss on financial derivatives	**(24)**	6	**–**	–
(Decrease)/increase in provisions	**(147)**	38	**–**	–
Decrease/(increase) in inventories	**2,095**	(1,735)	**–**	–
(Increase)/decrease in trade and other receivables	**(167)**	(2,535)	**(29)**	21
Increase/(decrease) in trade and other payables	**1,565**	3,770	**147**	(108)
Cash generated from operations	**14,385**	11,377	**633**	350

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

Accounting policies for the year ended 31 March 2010

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

BASIS OF PREPARATION

The financial information for the year ended 31 March 2010 has been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU'), International Financial Reporting Interpretations Committee ('IFRIC') interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial liabilities (including derivative instruments) at fair value.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

BASIS OF CONSOLIDATION

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

ADOPTION OF NEW AND REVISED STANDARDS

Interpretations effective in the current year

IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement.

Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

The Group has elected to present one statement: a statement of comprehensive income.

IFRS 8, 'Operating segments'. IFRS 8 replaces IAS 14, 'Segment reporting'. It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented, as the previously reported rest of Europe segment has been split into Spain, Italy and rest of Europe segments.

Other segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board that makes strategic decisions.

IFRS 2 (amendment) 'Share-based payment'. This revision of an existing standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions.

Amendment to IFRS 7, 'Financial instruments: Disclosures' – The amendment increases the disclosure requirements about fair value measurement and reinforces existing principles for disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosure and requires some specific quantitative disclosures for financial instruments in the lowest level of the hierarchy. In addition, the amendment clarifies and enhances existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities.

Amendment to IAS 23 'Borrowing costs' – The amendment requires that borrowing costs incurred in the construction of qualifying assets commenced after 1 April 2009 are capitalised.

Interpretations effective in the current year but not relevant
The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 April 2009 but are not relevant to the Group's operations:

IFRIC 13 'Customer loyalty programmes'

IFRIC 15 'Agreements for the construction of real estate'

Amendment to IAS 32 'Financial Instruments' and IAS 1 'Presentation of financial statements'

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group
The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 April 2010 or later periods, but the Group has not early adopted them:

IFRS 3 Revised (Business combinations)

IAS 39 Amendment (Financial instruments: Recognition and measurement on 'Eligible hedged items')

IAS 38 Amendment (Intangible assets)

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

RECONCILIATION OF STATUTORY TO NON STATUTORY INFORMATION IN THE CHAIRMAN'S STATEMENT AND CHIEF EXECUTIVE'S REPORT

Underlying/adjusted profit before taxation is shown to present a clearer view of the trading performance of the business. Management has identified the following non-trivial adjustments, whose inclusion in earnings could distort underlying trading performance: net foreign exchange gains/losses on intercompany loans which are dependent on exchange rates from time to time and can be volatile, amortisation of intangibles which result from historic acquisitions and restructuring and in 2009 abortive due diligence costs which are not expected to recur.

	Group	
	2010 £'000	**2009 £'000**
Profit before taxation	**5,215**	6,121
Foreign exchange on intercompany loans		
including impact of foreign exchange collar*	**98**	(535)
Amortisation of intangibles (note 9)	**395**	370
Restructuring costs	**–**	154
Abortive due diligence costs	**–**	221
Underlying/adjusted profit before taxation	**5,708**	6,331

The Statement of Comprehensive Income discloses foreign exchange movements and amortisation of intangibles in other operating income/(expenses). Restructuring and abortive due diligence costs were disclosed in administrative expenses.

Reconciliation of net debt:

Cash	**8,998**	427
Total borrowings (note 18)	**(12,152)**	(12,187)
Net debt	**(3,154)**	(11,760)

Hornby Hobbies Limited, the Group's UK trading subsidiary, has granted Euro denominated intercompany loans to sister subsidiary companies that are translated into Sterling at statutory period ends thereby creating exchange gains or losses. In order to mitigate the exchange exposure Hornby Hobbies Limited has entered a foreign exchange collar contract to sell an equal number of Euros in October 2011 that will be revalued by an approximately similar but opposite Sterling value at each period end.

* The foreign exchange collar is for a principal amount of Euro 16.5 million and is in place to minimise exposure to Euro denominated intercompany loans.

The amount shown above comprises losses on translation of intercompany loans of £593,000 (2009 – gain of £2,459,000), offset by a gain on marking to market the foreign exchange collar of £495,000 (2009 – loss of £1,924,000).

Beneficial impact of the collar as at 3 October 2011 is expected to be a minimum of £340,000 if the exchange rate exceeds the strike rate of €1.4300:£, increasing to a maximum of £823,000 at the participation cap rate of €1.3725:£ compared to the intercompany loans Sterling valuation at 31 March 2007 (€1.4734:£).

As at 31 March 2010 the profit impact is a gain of £749,000. Therefore in the period 1 April 2010 to 30 September 2011 there will be an adjustment to the Statement of Comprehensive Income between a £74,000 profit and £409,000 charge. The derivative will become an increasingly efficient hedge as the contract approaches maturity.

The fluctuation of foreign exchange and resultant impact on intercompany loans and foreign exchange collar is set out below:

Date		**Foreign Exchange Rate € : £**	**€16.5 million intercompany loan in Sterling £'000**	**Gain/(loss) on loan £'000**	**Fair value collar £'000**	**Net gain/(loss) in Profit before tax £'000**
06 Aug 2007	Transaction	1.47	11,199	–	–	–
31 Mar 2008		1.25	13,156	1,957	(1,346)	611
31 Mar 2009		1.08	15,288	4,089	(3,270)	208
31 Mar 2010		1.12	14,722	3,523	(2,774)	(70)
Total gain/(loss) to profit before tax						**749**

REVENUE RECOGNITION

Revenue comprises the fair value of the sale of goods net of value added tax, rebates and discounts, royalty income and after eliminating sales within the Group.

Revenue is recognised as follows:

(a) Sales of goods

Sales of goods are recognised when a Group entity has despatched products to the customer.

(b) Royalty income

Royalty income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

(c) Sales returns

The Group establishes a sales returns provision at the period end that reduces income in anticipation of customer returns of goods sold in the period.

Dividend income in the Company is recognised upon receipt.

Management fees are recognised in the Company on an accruals basis in relation to costs incurred on behalf of subsidiary companies.

OPERATING SEGMENTS

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of the Group that makes strategic decisions.

Operating profit of each reporting segment includes revenue and expenses directly attributable to or able to be allocated on a reasonable basis. Segment assets and liabilities are those operating assets and liabilities directly attributable to or that can be allocated on a reasonable basis.

BUSINESS COMBINATIONS

Goodwill arising on a business combination before 1 April 2004, the date of transition to IFRS, is not subject to amortisation but tested for impairment on an annual basis. Intangible assets arising on a business combination subsequent to 1 April 2004, are separately identified and valued, and subject to amortisation over their estimated economic lives. The carrying value of goodwill is reduced by any impairment amount recorded.

GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

INTANGIBLES

(a) Brand names

Brand names are capitalised at fair value as at the date of acquisition. They are carried at their fair value less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the fair value of trade names over their estimated economic life of 15-20 years.

(b) Customer lists

Customer lists are capitalised at fair value as at the date of acquisition. They are carried at their fair value less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the fair value of customer relationships over their estimated economic life of 10 years.

(c) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new products) are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognised as an expense as incurred.

The following useful lives have been determined for the intangible assets acquired:

Brand names	15-20 years
Customer lists	10 years
Rent free period	0.5 years

Brand names have been valued on a "relief from royalty" basis.

Customer lists have been valued according to discounted incremental operating profit expected to be generated from each of them over their useful lives.

Rent free period has been valued over the outstanding rental period.

PROPERTY, PLANT AND EQUIPMENT

Land and buildings are shown at cost less accumulated depreciation. Assets revalued prior to the transition to IFRS use this valuation as deemed cost at this date. Other fixed assets are shown at historical cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is provided at rates calculated to write off the cost or valuation of each asset, on a straight-line basis (with the exception of tools and moulds) over its expected useful life to their residual values, as follows:

Freehold buildings	–	30 to 50 years
Plant and equipment	–	5 to 10 years
Motor vehicles	–	4 years

Freehold land is not depreciated.

Tools and moulds are depreciated at varying rates in line with the related estimated product sales on an item-by-item basis up to a maximum of 4 years.

Notes to the Financial Statements (continued)

IMPAIRMENT OF NON-CURRENT ASSETS
Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount, which is considered to be the higher of its value in use and fair value less costs to sell. In order to assess impairment, assets are grouped into the lowest levels for which there are separately identifiable cash flows (cash-generating units). Cash flows used to assess impairment are discounted using appropriate rates taking into account the cost of equity and any risks relevant to those assets.

INVESTMENTS
In the Company's financial statements, investments in subsidiary undertakings are stated at cost less any impairment. Investments revalued using the equity method of valuation prior to the transition to IFRS use this valuation as deemed cost at this date.

INVENTORIES
Inventories are stated at the lower of cost and net realisable value. Cost is predominantly determined using the first-in, first-out (FIFO) method. Alternative methods may be authorised when proven to generate no material difference. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).

Net realisable value is based on anticipated selling price less further costs expected to be incurred to completion and disposal. Provisions are made against those stocks considered to be obsolete or excess to requirements on an item-by-item basis.

The replacement cost, being based upon latest invoice prices before the balance sheet date, is considered to be higher than the balance sheet value of inventories at the year end due to price rises and exchange fluctuations. It is not considered practicable to provide an accurate estimate of the difference at the year end date.

FINANCIAL INSTRUMENTS
Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

FINANCIAL LIABILITIES AND EQUITY
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

TRADE RECEIVABLES
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the Statement of Comprehensive Income.

TRADE PAYABLES
Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

TAXATION INCLUDING DEFERRED TAX
Corporation tax, where payable, is provided on taxable profits at the current rate.

The taxation liabilities of certain Group undertakings are reduced wholly or in part by the surrender of losses by fellow Group undertakings.

Deferred tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Tax relating to items recognised directly in equity is recognised in equity and not in the Statement of Comprehensive Income.

Deferred tax assets and liabilities have not been discounted.

KEY AREAS OF JUDGEMENT

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have an element of risk causing an adjustment to the carrying amounts of assets and liabilities within the next financial year include provisions for stock obsolescence, customer returns, doubtful debts, impairment reviews, fair values of share-based payments, fair values of derivatives and recoverability of deferred tax assets. All of the above are estimated with reference to historical data, expectation of future events and reviewed regularly.

Further details in relation to impairment reviews are in note 8 and in relation to share-based payments in note 22.

Liabilities and provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. The expense relating to any liability or provision is presented in the Statement of Comprehensive Income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. If material, provisions are determined by discounting the expected future cash flows of the Group at rates that reflect current market assessments of the time value of money.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash in hand, deposits at all banks, other liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts or loans where there is no right of set off are shown within borrowings in current or non-current liabilities on the balance sheet as appropriate.

SHARE-BASED PAYMENT

Hornby Plc operates three share-based plans:

– Share Option Scheme

– Short Term Incentive Plan

– Performance Share Plan

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Share Option Scheme

Fair value is measured by use of the Black Scholes model. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Short Term Incentive Plan

The Short Term Incentive Plan (STIP) investment is carried at the cost of the shares held. This investment in own shares is presented as a deduction from shareholders' funds.

The matched element of the STIP which has a condition of employment attached to it is recorded at fair value and spread over the vesting period of the shares and recognised in the Statement of Comprehensive Income over this period.

Performance Share Plan

Awards are granted to executive directors in shares worth 100% of salary, with lower levels of grant for less senior executives.

The Performance Share Plan (PSP) incorporates two 3-year performance conditions

– Total Shareholder Return (TSR)

– Earnings per share (EPS) growth targets

each applying to a separate 50% of the award and vest on the 3rd anniversary of grant as appropriate.

The TSR fair value and the projected EPS award fair value are spread over the vesting period of the shares and recognised in the Statement of Comprehensive Income in the appropriate year.

EMPLOYEE BENEFIT COSTS

During the year the Group operated a defined contribution money purchase pension scheme under which it pays contributions based upon a percentage of the members' basic salary. The scheme is administered by trustees either appointed by the Company or elected by the members (to constitute one third minimum).

Contributions to defined contribution pension schemes are charged to the Statement of Comprehensive Income according to the year in which they are payable.

Further information on pension costs and the scheme arrangements is provided in note 24.

SHARE CAPITAL AND SHARE PREMIUM

Ordinary shares issued are shown as share capital at nominal value. The premium received on the sale of shares in excess of the nominal value is shown as share premium within shareholders' equity.

LEASES

The Group enters into operating and finance leases.

Assets held under finance leases are initially reported at the fair value of the asset with an equivalent liability categorised as appropriate under creditors due within or after one year. The assets are depreciated over the shorter of the lease term and their useful economic lives. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of return on the outstanding balance. Rentals are apportioned between finance charges and the reduction of the liability, and allocated to net interest.

Assets under operating leases are charged on a straight-line basis to the Statement of Comprehensive Income over the lease term.

BORROWING COSTS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's operations expose it to a variety of financial risks that include the effects of changes in foreign currency exchange rates, market interest rates, credit risk and its liquidity position. The Group has in place a risk management programme that seeks to limit adverse effects on the financial performance of the Group by using foreign currency financial instruments. In addition other instruments are used to manage the Group's interest rate exposure.

(a) Foreign exchange risk

The Group is exposed to foreign exchange risks against Sterling primarily on transactions in Hong Kong Dollars and US Dollars. It enters into forward currency contracts to hedge the cash flows of its product sourcing operation (ie it buys HK Dollars forward in exchange for Sterling) and looks forward 6-12 months on a rolling basis at forecasted purchase volumes. The policy framework requires hedging between 80 per cent and 100 per cent of anticipated import purchases that are denominated in HK Dollars.

The Group has granted Euro denominated intercompany loans to subsidiary companies that are translated to Sterling at statutory period ends thereby creating exchange gains or losses. In order to mitigate the exchange exposure the Group has entered a foreign exchange collar contract to sell an equal number of Euros in October 2011 that will be revalued by an approximately similar but opposite Sterling value at each period end.

(b) Interest rate risk

The Group finances its operations through a mixture of retained profits and bank borrowings. The Group borrows, principally in Sterling, at floating rates of interest to meet short term funding requirements. At the year end the Group's only borrowings were finance leases, a revolving credit facility, bank overdrafts and a fixed term loan agreement. An interest rate hedge is in place to protect the Group against future interest rate rises.

(c) Credit risk

The Group manages its credit risk through a combination of internal credit management policies and procedures and external credit insurance.

(d) Liquidity risk

The Group re-arranged its borrowings into a revolving credit facility (£10 million – expiring July 2012) and a fixed-term loan agreement (£12 million – expiring July 2014). Previously the Group had a fixed term loan (£10 million) and an overdraft facility (£12 million). The Group's policy on liquidity risk is to ensure that sufficient cash is available to fund future operations. The peak level of net debt in the year to March 2010 was £16 million. The Board manages exposure to liquidity risk by maintaining adequate facilities to meet the future needs of the business. Those needs are determined by monitoring forecast and actual cash flows. The Group regularly monitors its performance against its banking covenants to ensure compliance.

Notes to the Financial Statements (continued)

DERIVATIVE FINANCIAL INSTRUMENTS

To manage exposure to foreign currency risk, the Group uses foreign currency forward contracts and a foreign exchange collar, and to manage interest rate risk, the Group uses an interest rate swap, also known as derivative financial instruments.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of the hedged items.

(a) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Statement of Comprehensive Income within operating expenses.

Amounts accumulated in equity are recycled in the Statement of Comprehensive Income in the periods when the hedged item affects profit or loss (for instance when the forecast purchase that is hedged takes place). The gain or loss relating to the effective portion of forward foreign exchange contracts hedging import purchases is recognised in the Statement of Comprehensive Income within 'cost of sales'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Statement of Comprehensive Income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Statement of Comprehensive Income.

(b) Derivatives that do not qualify for hedge accounting

Certain derivative instruments including the foreign exchange collar are not considered effective and do not qualify for hedge accounting. Such derivatives are classified as at fair value through the Statement of Comprehensive Income, and changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognised immediately in the Statement of Comprehensive Income.

FAIR VALUE ESTIMATION

The fair values of short-term deposits, loans and overdrafts with a maturity of less than one year are assumed to be approximate to their book values.

The fair values of the derivative financial instruments used for hedging purposes are disclosed in note 19.

FOREIGN CURRENCY

Transactions denominated in foreign currencies are recorded in Sterling at the exchange rates ruling at the date of the transaction. Foreign exchange gains and losses resulting from such transactions are recognised in the Statement of Comprehensive Income, except when deferred in equity as qualifying cash flow hedges. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date and any exchange differences are taken to the Statement of Comprehensive Income.

Foreign exchange gains/losses relating to foreign currency loans and other foreign exchange adjustments are included within operating profit and shown separately as part of operating income/expenses.

On consolidation, Statement of Comprehensive Income and cash flows of foreign subsidiaries are translated into Sterling using average rates that existed during the accounting period. The balance sheets of foreign subsidiaries are translated into Sterling at the rates of exchange ruling at the balance sheet date. Gains or losses arising on the translation of opening and closing net assets are recognised in the Statement of Changes in Equity.

DIVIDEND DISTRIBUTION

Final dividends are recorded in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recorded in the period in which they are approved and paid.

2. SEGMENTAL REPORTING

Management has determined the operating segments based on the reports reviewed by the Board (chief operating decision-maker) that are used to make strategic decisions.

The Board considers the business from a geographic perspective. Geographically, management considers the performance in the UK, US, Spain, Italy and rest of Europe.

Although the US segment does not meet the quantitative thresholds required by IFRS 8, management has concluded that this segment should be reported, as it is closely monitored by the Board as it is outside Europe.

The Company is a holding company operating in the UK with its results given in the Company Statement of Comprehensive Income on page 28 and its assets and liabilities given in the Company Balance Sheet on page 29. Other Company information is provided in the other notes to the accounts.

Notes to the Financial Statements (continued)

Year ended 31 March 2010

		UK £'000	USA £'000	Spain £'000	Italy £'000	Rest of Europe £'000	Total Reportable Segments £'000	Intra Group £'000	Group £'000
Revenue	– External	46,451	2,763	3,559	5,520	6,443	64,736	–	64,736
	– Other segments	2,972	–	914	2,592	–	6,478	(6,478)	–
Operating profit/(loss)		**4,574**	**(47)**	**440**	**902**	**135**	**6,004**	**–**	**6,004**
Finance cost	– External	(768)	–	(19)	(6)	(16)	(809)	–	(809)
	– Other Segments	(230)	(10)	(201)	(268)	(95)	(804)	804	–
Finance income	– External	17	–	2	1	–	20	–	20
	– Other segments	804	–	–	–	–	804	(804)	–
Profit/(loss) before taxation		4,397	(57)	222	629	24	5,215	–	5,215
Analysed as:									
Underlying profit before taxation		4,758	(57)	222	727	58	5,708	–	5,708
Net foreign exchange impact on intercompany loans		(98)	–	–	–	–	(98)	–	(98)
Amortisation of intangibles		(263)	–	–	(98)	(34)	(395)	–	(395)
Profit before taxation		4,397	(57)	222	629	24	5,215	–	5,215
Taxation		(1,115)	1	(71)	(285)	(60)	(1,530)	–	(1,530)
Profit/(loss) for the year		3,282	(56)	151	344	(36)	3,685	–	3,685
Segment assets		57,175	1,755	10,194	12,274	3,353	84,751	(20,776)	63,975
Less intercompany receivables		(18,645)	–	(1,314)	(802)	(15)	(20,776)	20,776	–
Add tax assets		116	–	141	24	34	315	–	315
Total assets		**38,646**	**1,755**	**9,021**	**11,496**	**3,372**	**64,290**	**–**	**64,290**
Segment liabilities		23,653	1,819	8,536	8,703	4,426	47,137	(20,776)	26,361
Less intercompany payables		(788)	(1,742)	(7,085)	(7,569)	(3,592)	(20,776)	20,776	–
Add tax liabilities		960	–	96	241	4	1,301	–	1,301
Total liabilities		**23,825**	**77**	**1,547**	**1,375**	**838**	**27,662**	**–**	**27,662**
Other segment items									
Capital expenditure		2,816	16	798	384	11	4,025	–	4,025
Depreciation		2,984	15	572	788	17	4,376	–	4,376
Net foreign exchange on intercompany loans		98	–	–	–	–	98	–	98
Amortisation of intangible assets		263	–	–	98	34	395	–	395
Share-based payment – charge to Statement of Comprehensive Income (note 22)		289	–	–	–	–	289	–	289

All transactions between Group companies are on normal commercial terms and an arm's length basis.

Year ended 31 March 2009

		UK £'000	USA £'000	Spain £'000	Italy £'000	Rest of Europe £'000	Total Reportable Segments £'000	Intra Group £'000	Group £'000
Revenue	– External	43,497	3,253	3,929	4,434	6,456	61,569	–	61,569
	– Other segments	3,582	–	776	2,553	–	6,911	(6,911)	–
Operating profit		**5,773**	**21**	**668**	**327**	**110**	**6,899**	**–**	**6,899**
Finance cost	– External	(749)	–	(12)	(14)	(30)	(805)	–	(805)
	– Other Segments	(230)	(16)	(280)	(386)	(130)	(1,042)	1,042	–
Finance income	– External	22	3	–	2	–	27	–	27
	– Other segments	1,042	–	–	–	–	1,042	(1,042)	–
Profit/(loss) before taxation		5,858	8	376	(71)	(50)	6,121	–	6,121
Analysed as:									
Underlying profit before taxation		5,909	8	412	21	(19)	6,331	–	6,331
Net foreign exchange impact on intercompany loans		535	–	–	–	–	535	–	535
Amortisation of intangibles		(247)	–	–	(92)	(31)	(370)	–	(370)
Restructuring and abortive due diligence costs		(339)	–	(36)	–	–	(375)	–	(375)
Profit before taxation		5,858	8	376	(71)	(50)	6,121	–	6,121
Taxation		(1,694)	(4)	(120)	(16)	(75)	(1,909)	–	(1,909)
Profit/(loss) for the year		**4,164**	**4**	**256**	**(87)**	**(125)**	**4,212**	**–**	**4,212**
Segment assets		52,209	2,065	9,699	12,967	3,655	80,595	(22,845)	57,750
Less intercompany receivables		(21,045)	(2)	(739)	(1,024)	(35)	(22,845)	22,845	–
Add tax assets		67	–	9	83	32	191	–	191
Total assets		**31,231**	**2,063**	**8,969**	**12,026**	**3,652**	**57,941**	**–**	**57,941**
Segment liabilities		22,591	2,252	8,491	9,997	4,601	47,932	(22,845)	25,087
Less intercompany payables		(367)	(2,198)	(7,887)	(8,686)	(3,707)	(22,845)	22,845	–
Add tax liabilities		1,189	1	74	22	14	1,300	–	1,300
Total liabilities		**23,413**	**55**	**678**	**1,333**	**908**	**26,387**	**–**	**26,387**
Other segment items									
Capital expenditure (including acquisitions)		4,422	23	492	1,200	21	6,158	–	6,158
Depreciation		2,839	11	448	989	28	4,315	–	4,315
Net foreign exchange on intercompany loans		(535)	–	–	–	–	(535)	–	(535)
Amortisation of intangible assets		247	–	–	92	31	370	–	370
Share-based payment – charge to Statement of Comprehensive Income (note 22)		224	–	–	–	–	224	–	224

All transactions between Group companies are on normal commercial terms and an arm's length basis.

Notes to the Financial Statements (continued)

3. FINANCE (COSTS)/INCOME

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Finance costs:				
Interest paid on bank borrowings	**(798)**	(793)	**–**	–
Interest paid on intercompany borrowings	**–**	–	**(201)**	(280)
Interest paid on finance leases	**(11)**	(12)	**–**	–
	(809)	(805)	**(201)**	(280)
Finance income:				
Bank interest	**20**	27	**–**	–
Interest received on intercompany loans	**–**	–	**228**	190
Dividend received	**–**	–	**–**	5,740
	20	27	**228**	5,930
Net finance (costs)/income	**(789)**	(778)	**27**	5,650

4. OTHER OPERATING (INCOME)/EXPENSE

	Group		Company	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000
The following items have been included in arriving at profit before taxation:				
Staff costs (note 23)	**9,875**	9,059	**947**	834
Inventories:				
– Cost of inventories recognised as an expense (included in cost of sales)	**33,814**	32,490	**–**	–
– Write down (release)/charge	**(34)**	502	**–**	–
Depreciation of property, plant and equipment:				
– Owned assets	**4,356**	4,293	**46**	44
– Under finance leases	**20**	22	**–**	–
(Profit)/loss on disposal of assets	**(1)**	25	**–**	–
Other operating lease rentals payable:				
– Plant and machinery	**175**	175	**–**	–
– Property	**411**	417	**–**	–
Repairs and maintenance expenditure on property, plant and equipment	**236**	208	**–**	–
Research and development expenditure	**1,220**	1,429	**–**	–
Foreign exchange losses/(gains):				
– On trading transactions	**767**	(1,634)	**–**	–
– Net impact on intercompany loans	**98**	(535)	**–**	–
Impairment of trade receivables	**95**	202	**–**	–
Other operating expenses/(income):				
– Foreign exchange on trading transactions	**791**	(1,634)	**–**	–
– Net impact of foreign exchange on intercompany loans	**98**	(535)	**–**	–
– Movement on fair value of ineffective hedge	**(24)**	6	**–**	–
– Share-based payment charge	**289**	224	**112**	60
– Amortisation of intangible assets	**395**	370	**–**	–
	1,549	(1,569)	**112**	60

Services provided by the Group's auditor and network firms

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditors and network firms as detailed below:

	Group		Company	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000
Fees payable to the Company's auditors for the audit of parent company and consolidated accounts	**87**	88	**12**	12
Fees payable to the Company's auditors and its associates for other services:				
– The auditing of accounts of subsidiaries of the Company pursuant to legislation	**58**	68	**–**	–
– Other services pursuant to legislation	**19**	20	**19**	20
– Services relating to corporate finance transactions	**–**	173	**–**	147
– Services relating to taxation	**29**	38	**10**	16
	193	387	**41**	195

In the current financial year the level of non audit fees was well within the 1:1 ratio to audit fees as per Audit committee policy. In the previous financial year the level of non audit fees exceeded the ratio due to due diligence activities, undertaken with the prior approval of the Committee.

Notes to the Financial Statements (continued)

5. TAXATION

Analysis of tax charge in the year

	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Current tax				
– UK taxation	**1,203**	1,671	**144**	104
adjustments in respect of prior years	**(27)**	1	**(29)**	(2)
– overseas taxation	**436**	228	**(5)**	(8)
adjustment in respect of prior years	**9**	–	**9**	–
	1,621	1,900	**119**	94
Deferred tax (note 20)				
– current year	**(61)**	22	**(17)**	24
– overseas taxation	**(30)**	(13)	**–**	–
	(91)	9	**(17)**	24
Total tax charge to the Statement of Comprehensive Income	**1,530**	1,909	**102**	118

The tax for the year differs to the standard rate of corporation tax in the UK (28%). Any differences are explained below:

	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Profit before taxation	**5,215**	6,121	**384**	5,983
Profit on ordinary activities multiplied by rate of corporation tax in UK of 28% (2009 – 28%)	**1,460**	1,714	**108**	1,675
Effects of:				
Adjustment to tax in respect of prior years	**(18)**	1	**(20)**	(2)
Income not taxable	**–**	–	**–**	(1,607)
Difference on overseas rates of tax	**76**	24	**–**	–
Impact of overseas losses not recognised	**42**	118	**–**	–
Other	**(30)**	52	**14**	52
Total taxation	**1,530**	1,909	**102**	118

6. DIVIDENDS

	Group and Company 2010 £'000	Group and Company 2009 £'000
No final paid per share in relation to year ended 31 March 2009 (2009 – paid 5.8p per share in relation to year ended 31 March 2008)	**–**	2,187
No interim paid per share in relation to year ended 31 March 2010 (2009 – paid 2.7p per share in relation to year ended 31 March 2009)	**–**	1,018
	–	3,205

In addition, the directors are proposing a final dividend in respect of the financial year ended 31 March 2010 of 5.0p per share which will absorb £1,903,205 of shareholders' funds to be paid on 20 August 2010 to shareholders who are on the register of members on 16 July 2010.

7. 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 outstanding during the year, excluding those held in the employee share trust (note 22) which are treated as cancelled.

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 that have satisfied the appropriate performance criteria at 31 March 2010.

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

Reported	2010 Earnings £'000	2010 Weighted average number of shares 000's	2010 Per-share amount pence	2009 Earnings £'000	2009 Weighted average number of shares 000's	2009 Per-share amount pence
Basic EPS						
Earnings attributable to ordinary shareholders	**3,685**	**37,772**	**9.76**	4,212	37,724	11.17
Effect of dilutive securities						
Options		**602**	**(0.16)**		627	(0.19)
Diluted EPS	**3,685**	**38,374**	**9.60**	4,212	38,351	10.98
Underlying						
Earnings attributable to shareholders	**3,685**	**37,772**	**9.76**	4,212	37,724	11.17
Amortisation of intangibles	**395**		**1.04**	370		0.98
Net foreign exchange translation adjustments net of tax	**71**		**0.19**	(385)		(1.02)
Restructuring and abortive due diligence costs	**–**		**–**	301		0.79
Underlying basic EPS	**4,151**	**37,772**	**10.99**	4,498	37,724	11.92
Underlying diluted EPS	**4,151**	**38,374**	**10.82**	4,498	38,351	11.73

8. GOODWILL

GROUP	£'000
COST	
At 1 April 2009	13,624
Exchange adjustments	(208)
At 31 March 2010	13,416
AGGREGATE IMPAIRMENT	
At 1 April 2009 and 31 March 2010	–
Net book amount at 31 March 2010	13,416

GROUP	£'000
COST	
At 1 April 2008	9,925
Additions	2,915
Exchange adjustments	784
At 31 March 2009	13,624
AGGREGATE IMPAIRMENT	
At 1 April 2008 and 31 March 2009	–
Net book amount at 31 March 2009	13,624

Annual impairment reviews performed have not identified any impairment of goodwill.

The goodwill has been allocated to cash-generating units and a summary of carrying amounts of goodwill by geographical segments (representing cash-generating units) at 31 March 2010 is as follows:

GROUP	UK £'000	USA £'000	Spain £'000	Italy £'000	Rest of Europe £'000	Total £'000
At 31 March 2010	3,992	8	3,990	4,846	580	13,416
At 31 March 2009	3,992	10	3,990	5,032	600	13,624

Goodwill allocated to the above cash-generating units of the Group has been measured based on synergies each geographical segment is expected to gain from the business combination.

The key assumptions in the value in use calculation:

- Budgeted revenue growth was based on expected levels of activity given results to date, together with growth based upon internal improvements, marketing initiatives, and expected economic and market conditions.
- Budgeted operating profit was calculated based upon management's expectation of operating costs appropriate to the growing business.
- The relative risk adjusted (or 'beta') discount rates applied to reflect the risk inherent in hobby based product companies. In determining the risk adjusted discount rate, management has applied an adjustment for risk of such companies in the industry on average determined using the betas of comparable hobby based product companies.

The forecasts are based on approved budgets for the year ending 31 March 2011. Subsequent cash flows have been increased in line with historic local territory gross domestic product. For cash flows after 5 years, growth is no higher than long-term growth rate for each country. No reasonable probable change in assumptions would give rise to any impairment. The cash flows were discounted using a pre-tax discount rate of around 12% which management believes is appropriate for all territories due to a similar risk profile.

9. INTANGIBLE ASSETS

GROUP	Brand names £'000	Customer lists £'000	Rent free period £'000	Total £'000
ACQUIRED INTANGIBLE ASSETS				
COST				
At 1 April 2009	5,083	1,473	37	6,593
Exchange adjustments	(68)	(18)	(1)	(87)
At 31 March 2010	5,015	1,455	36	6,506
ACCUMULATED AMORTISATION				
At 1 April 2009	574	293	37	904
Charge for the year	250	145	–	395
Exchange adjustments	(13)	(6)	(1)	(20)
At 31 March 2010	811	432	36	1,279
Net book amount at 31 March 2010	4,204	1,023	–	5,227
COST				
At 1 April 2008	2,151	679	32	2,862
Acquisitions	2,676	729	–	3,405
Exchange adjustments	256	65	5	326
At 31 March 2009	5,083	1,473	37	6,593
ACCUMULATED AMORTISATION				
At 1 April 2008	290	136	32	458
Charge for the year	234	136	–	370
Exchange adjustments	50	21	5	76
At 31 March 2009	574	293	37	904
Net book amount at 31 March 2009	4,509	1,180	–	5,689
Net book amount at 31 March 2008	1,861	543	–	2,404

All amortisation charges in the year have been charged through other operating expenses.

Notes to the Financial Statements (continued)

10. PROPERTY, PLANT AND EQUIPMENT

GROUP	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Tools and moulds £'000	Total £'000
COST					
At 1 April 2009	3,057	4,681	382	37,332	45,452
Exchange adjustments	(24)	(38)	(2)	(254)	(318)
Additions at cost	–	294	45	3,686	4,025
Disposals	–	(12)	(7)	(162)	(181)
At 31 March 2010	3,033	4,925	418	40,602	48,978
ACCUMULATED DEPRECIATION					
At 1 April 2009	1,100	2,945	223	30,661	34,929
Exchange adjustments	(4)	(21)	(1)	(141)	(167)
Charge for the year	56	380	36	3,904	4,376
Disposals	–	(11)	(7)	(162)	(180)
At 31 March 2010	1,152	3,293	251	34,262	38,958
Net book amount at 31 March 2010	1,881	1,632	167	6,340	10,020

GROUP	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Tools and moulds £'000	Total £'000
COST					
At 1 April 2008	2,919	5,137	268	31,176	39,500
Exchange adjustments	87	130	8	739	964
Additions at cost	51	549	114	4,012	4,726
Acquisitions	–	–	–	1,432	1,432
Disposals	–	(1,135)	(8)	(27)	(1,170)
At 31 March 2009	3,057	4,681	382	37,332	45,452
ACCUMULATED DEPRECIATION					
At 1 April 2008	1,032	3,643	194	26,271	31,140
Exchange adjustments	14	84	2	517	617
Charge for the year	54	353	35	3,873	4,315
Disposals	–	(1,135)	(8)	–	(1,143)
At 31 March 2009	1,100	2,945	223	30,661	34,929
Net book amount at 31 March 2009	1,957	1,736	159	6,671	10,523
At 31 March 2008	1,887	1,494	74	4,905	8,360

Freehold land amounting to £786,000 (2009 – £786,000) has not been depreciated.

Assets held by the Group under finance leases have the following net book amount:

	2010 £'000	2009 £'000
Cost	**167**	167
Aggregate depreciation	**(61)**	(41)
Net book amount	**106**	126

Assets held by the Group under finance leases are motor vehicles.

The Group has taken advantage of the exemption under IFRS 1 to use the valuation of certain land and buildings at the date of transition as deemed cost. All other assets are stated at cost.

COMPANY	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000
COST			
At 1 April 2009	2,428	4	2,432
Additions	–	–	–
At 31 March 2010	2,428	4	2,432
ACCUMULATED DEPRECIATION			
At 1 April 2009	996	3	999
Charge for the year	45	1	46
At 31 March 2010	1,041	4	1,045
Net book amount at 31 March 2010	1,387	–	1,387

COMPANY	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000
COST			
At 1 April 2008	2,377	4	2,381
Additions	51	–	51
At 31 March 2009	2,428	4	2,432
ACCUMULATED DEPRECIATION			
At 1 April 2008	952	3	955
Charge for the year	44	–	44
At 31 March 2009	996	3	999
Net book amount at 31 March 2009	1,432	1	1,433
At 31 March 2008	1,425	1	1,426

The Company does not hold any assets under finance leases.

11. INVESTMENTS

COMPANY

The movements in the net book value of interests in subsidiary undertakings are as follows:

	Interests in subsidiary undertakings at valuation £'000	Loans to subsidiary undertakings at cost £'000	Total £'000
At 1 April 2009	27,931	5,058	32,989
Capital contribution relating to share-based payment	177	–	177
Net increase in loans to subsidiary undertakings	–	592	592
At 31 March 2010	28,108	5,650	33,758
At 1 April 2008	25,985	4,103	30,088
Capitalisation of subsidiary	1,782	–	1,782
Capital contribution relating to share-based payment	164	–	164
Net increase in loans to subsidiary undertakings	–	955	955
At 31 March 2009	27,931	5,058	32,989

Interest was charged on loans to subsidiary undertakings at Euribor + 2% pa, subsequently increased to Sterling 3-month Libor + 3.6%.

Loans are unsecured and exceed five years maturity.

PRINCIPAL GROUP SUBSIDIARY UNDERTAKINGS

Details of the principal subsidiary undertakings of the Company, which are included in the consolidated financial statements, are set out below. Hornby Hobbies Limited, Hornby España S.A. and Hornby Italia s.r.l. are engaged in the development, design, sourcing and distribution of models. Hornby America Inc., Hornby France S.A.S. and Hornby Deutschland GmbH are distributors of models.

	Country of incorporation	Description of shares held	Proportion of nominal value of issued shares held Group %	Company %
Hornby Hobbies Limited	Great Britain	Ordinary shares	100	100
Hornby America Inc.	USA	Ordinary shares	100	100
Hornby España S.A	Spain	Ordinary shares	100	100
Hornby Italia s.r.l.	Italy	Ordinary shares	100	100
Hornby France S.A.S.	France	Ordinary shares	100	100
Hornby Deutschland GmbH	Germany	Ordinary shares	100	100

12. INVENTORIES

	Group		Company	
	2010 £'000	**2009 £'000**	**2010 £'000**	**2009 £'000**
Raw materials	**287**	534	**–**	–
Work in progress	**38**	103	**–**	–
Finished goods	**11,948**	13,731	**–**	–
	12,273	14,368	**–**	–

13. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2010 £'000	**2009 £'000**	**2010 £'000**	**2009 £'000**
CURRENT:				
Trade receivables	**11,859**	12,370	**–**	–
Less: provision for impairment of receivables	**(284)**	(338)	**–**	–
Trade receivables – net	**11,575**	12,032	**–**	–
Other receivables	**343**	171	**–**	–
Prepayments	**1,373**	916	**40**	8
	13,291	13,119	**40**	8

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated. Due to this, management believes there is no further credit risk provision required in excess of the normal provision for doubtful receivables. Credit insurance policies are in place in Hornby Hobbies Limited, Hornby America Inc., Hornby España S.A., Hornby Italia s.r.l., Hornby France S.A.S. and Hornby Deutschland GmbH covering trade receivables at 31 March 2010 to the value of £9.5 million (2009 – £10.4 million).

Gross trade receivables can be analysed as follows:

	2010 £'000	**2009 £'000**
Fully performing	**10,250**	10,199
Past due	**1,263**	1,701
Impaired	**346**	470
Trade receivables	**11,859**	**12,370**

Notes to the Financial Statements (continued)

As of 31 March 2010, trade receivables of £1,263,000 (2009 – £1,701,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2010 £'000	2009 £'000
1 – 120 days	**1,135**	1,549
> 120 days	**128**	152
	1,263	1,701

As of 31 March 2010, trade receivables of £346,000 (2009 – £470,000) were impaired and provided for. The amount of provision was £284,000 (2009 – £338,000) as of 31 March 2010.

Significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy or financial reorganisation are considered indications that the trade receivable is impaired.

The ageing of these receivables is as follows:

	2010 £'000	2009 £'000
1 – 120 days	**90**	190
> 120 days	**256**	280
	346	470

Movements on the Group provision for impairment of trade receivables are as follows:

	2010 £'000	2009 £'000
At 1 April	**338**	203
Provision for receivables impairment	**95**	202
Receivables written off during the year as uncollectible	**(139)**	(107)
Exchange adjustments	**(10)**	40
At 31 March	**284**	338

The charge relating to the increase in provision has been included in 'administrative expenses' in the Statement of Comprehensive Income.

The carrying amounts of the Group and Company trade and other receivables are denominated in the following currencies:

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Sterling	**7,862**	6,638	**40**	7
Euro	**4,780**	5,791	**–**	1
US dollar	**536**	457	**–**	–
HK dollar	**113**	233	**–**	–
	13,291	13,119	**40**	8

14. CASH AND CASH EQUIVALENTS

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Cash at bank and in hand	**8,998**	427	**45**	8

15. TRADE AND OTHER PAYABLES

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
CURRENT:				
Trade payables	**5,246**	3,935	**–**	–
Other taxes and social security	**1,359**	1,024	**10**	15
Other payables	**1,940**	1,955	**–**	–
Accruals	**1,818**	1,356	**298**	143
	10,363	8,270	**308**	158

16. PROVISIONS

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Sales returns				
At 1 April	**538**	500	**–**	–
Charged to Statement of Comprehensive Income revenue	**927**	1,050	**–**	–
Utilised in year	**(1,074)**	(1,012)	**–**	–
At 31 March	**391**	538	**–**	–

Provision is made for future sales returns based on historical trends. The provision is expected to be utilised within one year from the balance sheet date.

17. CURRENT TAX ASSETS & LIABILITIES

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Current tax assets				
Corporation tax recoverable – overseas	**175**	124	**141**	9
Current tax liabilities				
UK Corporation tax liability	**693**	910	**–**	–
Overseas Corporation tax liability	**327**	89	**144**	–
	1,020	999	**144**	–

18. BORROWINGS

	Group		Company	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000
Secured borrowing at amortised cost				
Bank overdrafts	**119**	3,487	**–**	–
Bank loan	**12,033**	8,700	**–**	–
Finance leases	**113**	132	**–**	–
Loan from subsidiary undertakings	**–**	–	**5,373**	5,580
	12,265	12,319	**5,373**	5,580
Total borrowings				
Amount due for settlement within 12 months	**1,718**	5,138	**–**	–
Amount due for settlement after 12 months	**10,547**	7,181	**5,373**	5,580
	12,265	12,319	**5,373**	5,580

The Group complied with all loan covenants during the year.

Analysis of borrowings by currency:

Group	Sterling £'000	Euros £'000	Total £'000
31 March 2010			
Bank overdrafts	–	119	119
Bank loan	11,500	533	12,033
Finance leases	113	–	113
	11,613	652	12,265
31 March 2009			
Bank overdrafts	3,432	55	3,487
Bank loan	8,700	–	8,700
Finance leases	132	–	132
	12,264	55	12,319

The other principal features of the Group's borrowings are as follows:

At 31 March 2010 the Group had a revolving credit facility of £10 million expiring July 2012 and a 5-year fixed term loan agreement of £12 million with repayments scheduled to July 2014. The future interest rates of these facilities are Libor + 2.85% for the revolving credit facility and Libor + 3.6% for the fixed term loan.

The average effective interest rate on bank overdrafts approximated to 2.35% (2009 – 4.52%) per annum and is determined based on 1.0% above 3-month Libor.

The weighted average interest rates paid during the year were as follows:

	2010 %	2009 %
Bank overdrafts	**2.35**	4.52

Undrawn borrowing facilities

At 31 March 2010, the Group had available £10.3 million (2009 – £4.1 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. In addition, European subsidiaries had available £3.7 million (2009 – £3.1 million) of undrawn import credit line facilities that could be obtained with security being given against trade receivables.

19. FINANCIAL INSTRUMENTS

The Group's policies and strategies in relation to risk and financial instruments are explained in the Directors' Report. Accounting policies used to account for financial instruments are detailed in note 1.

	Assets		Liabilities	
Group	**2010 £'000**	**2009 £'000**	**2010 £'000**	**2009 £'000**
Carrying values of derivative financial instruments				
Foreign exchange collar	**–**	–	**(2,774)**	(3,270)
Forward foreign currency contracts – cash flow hedges	**750**	–	**(51)**	(259)
Interest rate swap – cash flow hedge	**–**	–	**(517)**	(431)
	750	–	**(3,342)**	(3,960)

The hedged forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months. Gains and losses recognised in reserves on forward foreign exchange contracts as of 31 March 2010 are recognised in the Statement of Changes in Equity in the period or periods during which the hedged forecast transaction affects the Statement of Comprehensive Income, which is within 12 months from the balance sheet date.

At 31 March 2010 outstanding forward currency contracts were as follows:

	2010 000's	**2009 000's**
Hong Kong $	**145,986**	125,000
US$	**5,190**	116
Euros	**871**	445

The notional principal amount of the outstanding interest rate swap contract at 31 March 2010 was £4.6 million (2009 – £8.7 million). At 31 March 2010, the interest rate swap fixes the interest rate on £4.6 million of the bank loan disclosed in note 18 to 6.22%. The loss recognised in the interest rate swap included in the hedging reserve as of 31 March 2010 will be continuously released to the Statement of Comprehensive Income until the maturity of the swap. The £6.9 million remainder of the bank loan disclosed in note 18 incurs interest based on 3-month Libor established quarterly in advance.

The total fair value above for forward foreign currency contracts and the interest rate swap comprises £182,000 asset (2009 – £690,000 liability), £168,000 asset (2009 – £680,000 liability) has been effectively hedged at 31 March 2010 and therefore charged to reserves in accordance with IAS 39. The asset balance of £14,000 (2009 – £10,000 liability) was the ineffective hedged portion and was included within operating expenses.

In accordance with IAS 39, the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. No embedded derivatives have been identified.

All derivative financial investments are Level 2 in the Fair Value Hierarchy.

Notes to the Financial Statements (continued)

Fair values of non-derivative financial assets and liabilities

For the Group and the Company, as at 31 March 2010 and 31 March 2009, there is no difference between the carrying amount and fair value of each of the following classes of financial assets and liabilities, principally due to their short maturity: investments, trade and other receivables, cash at bank and in hand, trade and other payables and current borrowings. Bank deposits attract interest within 0.5% of the ruling market rate. There is no significant difference between the fair value and carrying amount of non-current borrowings as the impact of discounting is not significant.

The Company has no derivative financial instruments.

Maturity of non-current financial liabilities

GROUP	Bank loan £'000	Finance leases £'000	2010 Total £'000
Between one and two years (note 18)	2,724	18	**2,742**
Between two and five years (note 18)	7,757	48	**7,805**
	10,481	66	**10,547**

	Bank loan £'000	Finance leases £'000	2009 Total £'000
Between one and two years (note 18)	2,176	47	2,223
Between two and five years (note 18)	4,892	66	4,958
	7,068	113	7,181

COMPANY	2010 Debt £'000	2009 Debt £'000
More than five years (note 18)	**5,373**	5,580

The minimum lease payments under finance leases fall due as follows:

GROUP	2010 £'000	2009 £'000
Not later than one year	**52**	30
Later than one year but not more than five	**68**	120
	120	150
Future finance charges on finance leases	**(7)**	(18)
Present value of finance lease liabilities	**113**	132

Financial Instruments

Interest rate sensitivity

The Group is exposed to interest rate risk as the Group borrows funds at both fixed and floating interest rates. The exposure to these borrowings varies during the year due to the seasonal nature of cash flows relating to sales.

In order to measure risk, floating rate borrowings and the expected interest cost is forecast on a monthly basis and compared to budget using management's expectations of a reasonably possible change in interest rates.

The effect on both income and equity based on exposure to borrowings at the balance sheet date for a 1% increase in interest rates is £117,000 (2009 – £132,000), before tax. A 1% fall in interest rates give the same but opposite effect.

1% increase in interest rates	Income and Equity Sensitivity	
	2010 £'000	2009 £'000
Borrowings	**117**	132

Foreign currency sensitivity

The Group is primarily exposed to US Dollars, Hong Kong Dollars and the Euro. The following table details how the Group's income and equity would increase on a before tax basis, given a 10% revaluation in the respective currencies against £ and in accordance with IFRS 7 all other variables remaining constant. A 10% devaluation in the value of £ would have the opposite effect.

The 10% change represents a reasonably possible change in the specified foreign exchange rates in relation to £.

	Income and Equity Sensitivity	
	2010 £'000	2009 £'000
US and HK dollars	**911**	1,131
Euros	**343**	215
	1,254	1,346

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings as shown in the consolidated balance sheet less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

	2010 £'000	2009 £'000
Total borrowings (note 18)	**12,265**	12,319
Less:		
Total cash and cash equivalents (note 14)	**(8,998)**	(427)
Net Debt	**3,267**	11,892
Total Equity	**36,628**	31,554
Total Capital	**39,895**	43,446
Gearing	**8%**	27%

Notes to the Financial Statements (continued)

20. DEFERRED TAX

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (2009 – 28%).

The movement on the deferred tax account is as shown below:

	Group		Company	
	2010 £'000	**2009 £'000**	**2010 £'000**	**2009 £'000**
At 1 April	**234**	223	**183**	159
Charge to Statement of Comprehensive Income (note 5)				
– origination and reversal of temporary differences	**(91)**	9	**(19)**	24
Exchange adjustments	**(2)**	2	**2**	–
At 31 March	**141**	234	**166**	183

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets because it is probable that those assets will be recovered.

No deferred tax is provided for tax liabilities which would arise on the distribution of profits retained by overseas subsidiaries because there is currently no intention that such profits will be remitted.

The movements in deferred tax assets and liabilities during the year are shown below.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset.

Deferred tax liabilities	Group				Company		
	Revaluation £'000	**Accelerated capital allowances £'000**	**Other £'000**	**Total £'000**	**Revaluation £'000**	**Accelerated capital allowances £'000**	**Total £'000**
At 1 April 2009	188	91	22	301	188	13	201
Credit to Statement of Comprehensive Income	(5)	(7)	(8)	(20)	(5)	–	(5)
At 31 March 2010	183	84	14	281	183	13	196
At 1 April 2008	193	120	33	346	193	13	206
Credit to Statement of Comprehensive Income	(5)	(29)	(11)	(45)	(5)	–	(5)
At 31 March 2009	188	91	22	301	188	13	201

Of the total deferred tax liability of £281,000, £5,000 was due within one year for the Group (2009 – £5,000) and £5,000 for the Company (2009 – £5,000).

Deferred tax assets

	Group Short-term incentive plan £'000	Group Aquisition intangibles £'000	Group Other £'000	Group Total £'000	Company Short-term incentive plan £'000
GROUP					
At 1 April 2009	(45)	–	(22)	(67)	(18)
Credit to Statement of Comprehensive Income	(23)	(48)	(2)	(73)	(12)
At 31 March 2010	(68)	(48)	(24)	(140)	(30)
At 1 April 2008	(122)	–	(1)	(123)	(47)
Charge/(credit) to Statement of Comprehensive Income	77	–	(21)	56	29
At 31 March 2009	(45)	–	(22)	(67)	(18)
Net deferred tax liability					
At 31 March 2010				141	166
At 31 March 2009				234	183

The deferred tax liability arising on the revaluation of freehold land and buildings in 1986 cannot be offset against deferred tax assets. Therefore, the deferred tax asset and deferred tax liability at 31 March 2010 and 31 March 2009 have been recognised separately.

GROUP	2010 Recognised £'000	2010 Not recognised £'000	2009 Recognised £'000	2009 Not recognised £'000
Deferred tax comprises:				
Accelerated capital allowances	**84**	**–**	91	–
Other temporary differences	**67**	**–**	121	–
Overseas taxation	**(10)**	**–**	22	–
Deferred tax liability	**141**	**–**	234	–

COMPANY	2010 Recognised £'000	2010 Not recognised £'000	2009 Recognised £'000	2009 Not recognised £'000
Deferred tax comprises:				
Accelerated capital allowances	**13**	**–**	13	–
Other timing differences	**153**	**–**	170	–
Deferred tax liability	**166**	**–**	183	–

21. SHARE CAPITAL

GROUP AND COMPANY	2010 £'000	2009 £'000
Authorised:		
50,000,000 (2009 – 50,000,000) ordinary shares of 1p each	**500**	500

Allotted and fully paid:

Ordinary shares of 1p each	2010 Number of shares	2010 £'000	2009 Number of shares	2009 £'000
At 1 April	**37,989,100**	**380**	37,989,100	380
Allotted under share option schemes	**75,000**	**–**	–	–
At 31 March	**38,064,100**	**380**	37,989,100	380

At 31 March 2010 options granted under the Company's share option schemes were outstanding as follows:

Date granted	Number of options 2010	2009	Exercise price	Period of option
28 March 2002	**1,000,000**	1,000,000	76.8p	March 2005 – March 2012
19 June 2002	**547,500**	622,500	83.4p	June 2005 – June 2012
09 June 2005	**400,000**	550,000	201.0p	June 2008 – June 2012
14 September 2007	**228,967**	300,395	252.0p	Sept 2010 – Sept 2017
03 December 2007	**–**	118,110	254.0p	Dec 2010 – Dec 2017
	2,176,467	2,591,005		

The total number of options outstanding as at the date of this document represent approximately 5.7% (2009 – 6.8%) of the issued share capital of the Company.

If Resolution 11 is passed at the Annual General Meeting and the Company were to exercise the full authority to buy–back approximately 10% of the issued ordinary shares of the Company, such options would represent 6.4% (2009 – 7.6%) of the issued share capital of the Company.

22. SHARE-BASED PAYMENTS

Hornby Plc operates three share-based plans – Share Option Scheme ('SOS'), Short Term Incentive Plan ('STIP') and Performance Share Plan ('PSP').

SOS awards

The SOS awards are a reward of share options to executive directors and senior management that vest after 3 years and must be exercised in a 4 or 7 year exercise window.

The awards are subject to a performance measure of Profits before Interest and Tax ('PBIT') or Profit before Tax ('PBT') as disclosed by the Group's accounts for any of the years ended 31 March 2006, 31 March 2007, 31 March 2008, 31 March 2009 or 31 March 2010 excluding (i) any profit or loss in relation to property transactions, (ii) any restructuring and abortive due diligence costs and (iii) any profits or losses arising from businesses acquired by the Group after the date of grant of the Option. Some awards are subject to achieving a PBIT that is equal to or greater than £8 million, or to PBT being equal to or greater than £9 million or aggregate PBT for 3 years ending 31 March 2008, 2009 and 2010 being equal to or greater than £32.7 million. The awards are equity settled.

Activity relating to share options for the year ended 31 March 2010 and 31 March 2009 was as follows:

	2010		2009	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 April	**2,591,005**	**133.1p**	2,591,005	133.1p
Exercised	**(75,000)**	**83.4p**	–	–
Lapsed	**(339,538)**	**230.2p**	–	–
Outstanding at 31 March	**2,176,467**	**119.7p**	2,591,005	133.1p

Options were exercised on 4 August 2009. The weighted average share price during the year was 128.3p (2009 - 129.3p).

The following table summarises information relating to the number of shares under option (SOS awards) and those which were exercisable at 31 March 2010.

Range of exercise prices	Total shares under option Number	Weighted average remaining contractual life Months	Options exercisable at 31 March 2010 Number	Options exercisable at 31 March 2009 Number	Exercisable weighted average exercise price for options exercisable at 31 March 2010
£0.70 – £0.80	1,000,000	24	**1,000,000**	1,000,000	**76.8p**
£0.80 – £0.90	547,500	27	**547,500**	622,500	**83.4p**
£2.00 – £2.10	400,000	27	**400,000**	550,000	**201.0p**
£2.50 – £2.60	228,967	88	**–**	–	
	2,176,467		**1,947,500**	2,172,500	**104.2p**

STIP awards

The STIP is a reward of shares to executive directors and senior management.

Vesting of the awards occurs in equal amounts on the second, third and fourth anniversaries of the award date provided that the participant remains employed by the Group. These awards are not subject to any performance conditions. The awards are equity settled.

Performance Share Plan

All Performance Share Plan (PSP) awards outstanding at 31 March 2010 vest only if performance conditions are met. Awards granted under the PSP must be exercised within one year of the relevant award vesting date.

The Group operates the PSP for executive directors and senior executives. Awards under the scheme are granted in the form of a nil-priced option, and are satisfied using market-purchased shares. The awards vest in full or in part dependent on the satisfaction of specified performance targets. 50% of the award vests dependent on TSR performance over a three year performance period, relative to the constituents of the FTSE Small Cap Index (excluding investment trusts) from the time of grant, and the remaining 50% vests dependent on performance against earnings per share targets.

All plans are subject to continued employment. To the extent that such shares in the above plans are awarded to employees below fair value, a charge calculated in accordance with IFRS 2 'Share-based payment' is included within other operating expenses in the Statement of Comprehensive Income. This charge for the Group amounted to £289,000 in the year ended 31 March 2010 (2009 – £224,000) and the Company £112,000 in the year ended 31 March 2010 (2009 – £60,000).

The following table summarises the key assumptions used for grants during the year:

		2010			2009	
	SOS	**STIP**	**PSP***	**SOS**	**STIP**	**PSP***
Fair value (p)	–	–	110.1p	–	–	81.5p
Options pricing model used	–	–	Stochastic	–	–	Stochastic
Share price at grant date (p)	–	–	136.3p	–	–	150.0p
Exercise price (p)	–	–	n/a	–	–	n/a
Expected volatility (%)	–	–	44.0%	–	–	33.0%
Risk-free rate (%)	–	–	n/a	–	–	n/a
Expected option term (years)	–	–	3	–	–	3
Expected dividends (per year, %)	–	–	0%	–	–	0%

* Assumptions for TSR component only.

Assumptions on expected volatility and expected option term have been made on the basis of historical data, wherever available, for the period corresponding with the vesting period of the option. Best estimates have been used where historical data is not available in this respect.

The Group reported a provision for National Insurance and other social security taxes of £4,087 (2009 – £5,324) in respect of liabilities arising from the above share-based payment transactions.

GROUP – SHORT TERM INCENTIVE PLAN

	2010 £'000	2009 £'000
At 1 April	**497**	507
Shares acquired in Company	**–**	284
Shares vested	**(171)**	(294)
At 31 March	**326**	497

Details of the Short Term Incentive Plan are given in the Directors' Remuneration Report on pages 19 to 24.

The Employee Benefit Trust acquired no ordinary shares in the year.

On 22 June 2009, the final third of the 2005 allocation (52,346 ordinary shares) and the second third of the 2006 allocation (20,833 ordinary shares) were vested.

At 31 March 2010, a total of 194,131 (2009 – 267,310) ordinary shares are held by the Trust and allotted to the directors and senior management under the plan with a nominal value of £1,941 (2009 – £2,673) and a market value of £245,090 (2009 – £182,439). The costs of the plan are borne by Hornby Plc. The Trust has waived its right to dividends.

23. EMPLOYEES AND DIRECTORS

	Group		Company	
	2010 £'000	**2009 £'000**	**2010 £'000**	**2009 £'000**
Staff costs for the Group during the year:				
Wages and salaries	**7,735**	7,360	**674**	611
Share-based payments (note 23)	**289**	224	**112**	60
Social security costs	**1,135**	781	**103**	69
Other pension costs (note 24)	**682**	540	**58**	58
Redundancy and compensation for loss of office	**34**	154	**–**	36
	9,875	9,059	**947**	834

Average monthly number of people (including executive directors) employed by the Group:

	Group		Company	
	2010 Number	**2009 Number**	**2010 Number**	**2009 Number**
Operations	**99**	94	**–**	–
Sales, marketing and distribution	**103**	99	**1**	1
Administration	**37**	47	**3**	4
	239	240	**4**	5

Key management compensation:

	Group		Company	
	2010 £'000	**2009 £'000**	**2010 £'000**	**2009 £'000**
Salaries and short-term benefits	**2,091**	2,071	**600**	492
Share-based payments	**276**	206	**112**	60
Post-employment benefits	**192**	185	**58**	51
	2,559	2,462	**770**	603

Key management comprise the individuals involved in major strategic decision making and includes all Group and subsidiary directors.

A detailed numerical analysis of directors' remuneration and share options showing the highest paid director, number of directors accruing benefit under money purchase pension schemes and gains realised on the exercise of share options, is included in the Directors' Remuneration Report on pages 19 to 24 and forms part of these financial statements.

24. PENSION COMMITMENTS

The Group operates a defined contribution pension scheme by way of a Stakeholder Group Personal Pension Plan set up through the Friends Provident Insurance Group.

Alexander Forbes Financial Services Limited is appointed as Independent Financial Advisers to work in liaison with the Company.

The level of contributions to the Group Personal Pension Plan for current members is fixed by the Company.

The Group pension cost for the year was £682,000 (2009 – £540,000) representing the actual contributions payable in the year and certain scheme administration costs. The Company pension cost for the year was £58,000 (2009 – £58,000).

25. FINANCIAL COMMITMENTS

CAPITAL COMMITMENTS

	Group	
	2010 £'000	**2009 £'000**
At 31 March commitments were:		
Contracted for but not provided for	**1,245**	1,292

The Company does not have any capital commitments.

The commitments relate to the acquisition of property, plant and equipment.

CONTINGENT LIABILITIES

The Company and its subsidiary undertakings are, from time to time, parties to legal proceedings and claims, which arise in the ordinary course of business. The directors do not anticipate that the outcome of these proceedings and claims, either individually or in aggregate, will have a material adverse effect upon the Group's financial position.

26. OPERATING LEASE COMMITMENTS

The total of future minimum lease payments in respect of non-cancellable plant and motor vehicle operating leases falling due are as follows:

GROUP	2010 £'000	2009 £'000
Not later than one year	**505**	472
Later than one year but not more than five years	**639**	1,115
More than five years	**–**	64
	1,144	1,651

27. RELATED PARTY DISCLOSURES

There were no contracts with the Company or any of its subsidiaries existing during or at the end of the financial year in which a director of the Company was materially interested. The Group has taken advantage of the exemption available under IAS 24 'Related party disclosures' not to disclose transactions and balances between Group entities that have been eliminated on consolidation.

The Company received management fees from subsidiaries of £1,361,000 (2009 – £1,540,000), interest of £228,000 (2009 – £190,000) and dividends from subsidiaries of £nil (2009 – £5,740,000).

Notice of Annual General Meeting

If you have sold or otherwise transferred all of your Ordinary Shares in Hornby Plc, please forward this document as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through or to whom the sale or transfer was effected for transmission to the purchaser or transferee of your Ordinary Shares.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the twenty-ninth Annual General Meeting of Hornby Plc (the "Company") will be held at Hornby Plc, Ramsgate Road, Westwood, Margate, Kent CT9 4JX on Thursday 29 July 2010 at 11.00am for the following purposes:

To consider and if thought fit, to pass the following resolutions, of which numbers 1 to 9 will be proposed as ordinary resolutions and numbers 10 and 11 as special resolutions.

ORDINARY RESOLUTIONS

1. To receive and adopt the Annual Report and Accounts for the financial year ended 31 March 2010 together with the Report of the Directors and Auditors.
2. To approve the Directors' Remuneration Report, as set out on pages 19 to 24 of the Company's Annual Report and Accounts, for the financial year ended 31 March 2010.
3. To re-elect N A Johnson as a Director.
4. To re-elect A J Morris, who retires by rotation, as a Director.
5. To re-elect M E Rolfe, who retires by rotation, as a Director.
6. To re-appoint PricewaterhouseCoopers LLP, the retiring auditors, as auditors of the Company to hold office from conclusion of the Annual General Meeting to the conclusion of the next meeting at which accounts are laid before the Company.
7. To authorise the Directors to agree the auditors' remuneration.
8. That, in accordance with section 366 of the Companies Act 2006 (the "Act"), the Company and all companies that are its subsidiaries at any time during the period for which this resolution has effect be authorised to:

   (a) make political donations to political parties and/or independent election candidates, not exceeding £10,000 in total;

   (b) make political donations to political organisations, other than political parties, not exceeding £10,000 in total; and

   (c) incur political expenditure, not exceeding £10,000 in total,

   during the period beginning with the date of the passing of this resolution and ending on the date of the Company's next Annual General Meeting.

   For the purpose of this resolution, the terms 'political donations', 'political expenditure', 'independent election candidates', 'political parties' and 'political organisations' shall have the meaning given to them by Part 14 of the Act.
9. THAT, in place of the equivalent authority given to the Directors at the last AGM (but without prejudice to the continuing authority of the Directors to allot shares pursuant to an offer or agreement made by the Company before the expiry of the authority pursuant to which such offer or agreement was made), the Directors be generally and unconditionally authorised in accordance with section 551 of the Act to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company up to a maximum aggregate nominal amount of £125,000, such authority shall expire on 28 July 2015 but so that the Company may, before the expiry of such period, make an offer or agreement which would or might require relevant securities to be allotted after the expiry of such period and the Directors may allot relevant securities pursuant to such an offer or agreement as if the authority had not expired.

Notice of Annual General Meeting (continued)

SPECIAL RESOLUTIONS

10. THAT, subject to and conditional on the passing of resolution 9, the Directors be empowered, pursuant to section 570 of the Act, to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority conferred by resolution 9 as if section 561 of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

    (a) in connection with an offer of such securities by way of rights issue; and

    (b) otherwise than pursuant to sub-paragraph 10(a) above up to an aggregate nominal amount of £19,000,

    and shall expire at the conclusion of the Company's next Annual General Meeting following the date of the passing of the resolution, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power had not expired.

    This power applies in relation to a sale of treasury shares as if all references in this resolution to an allotment included any such sale and in the first paragraph of the resolution the words 'pursuant to the authority conferred by resolution 9' were omitted in relation to such sale.

    In this resolution, 'rights issue' means an offer of equity securities open for acceptance for a period fixed by the Directors to holders of Ordinary Shares in the capital of the Company on the register on a record date fixed by the Directors in proportion as nearly as may be to the respective numbers of Ordinary Shares held by them, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with any treasury shares, fractional entitlements or legal or practical issues arising under the laws of, or the requirement of any recognised regulatory body or any stock exchange in any territory or any other matter.

11. THAT, subject to and in accordance with Article 9 of the Company's articles of association, the Company be generally and unconditionally authorised to make market purchases (within the meaning of section 693(4) of the Act) of Ordinary Shares on such terms as the Directors think fit and where such shares are held as treasury shares, the Company may use them for the purposes set out in Section 727 of the Act, including for the purpose of its employee share schemes, provided that:

    (a) the maximum number of Ordinary Shares hereby authorised to be purchased is 3,800,000 being an amount equal to 10% of the Ordinary Shares in issue at the date of this Notice;

    (b) the minimum price, exclusive of any expenses, which may be paid for an Ordinary Share is 1 pence;

    (c) the maximum price, exclusive of any expenses, which may be paid for each Ordinary Share is an amount equal to the higher of:

        (i) 105 per cent of the average of the middle market quotations for an Ordinary Share as derived from the London Stock Exchange Daily Official List, for the five business days immediately preceding the day on which the Ordinary Share is contracted to be purchased; and

        (ii) the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003; and

    (d) the authority hereby conferred shall, unless previously revoked or varied, expire at the conclusion of the Company's next Annual General Meeting following the date of the passing of the resolution, or, if earlier, on the expiry of 18 months from the date of the passing of the resolution, (except in relation to the purchase of Ordinary Shares, the contract for which was concluded before the expiry of the authority and which will or may be executed wholly or partly after that expiry).

By order of the Board

John Stansfield
Company Secretary
Dated: 4 June 2010
Registered office; Westwood, Margate, Kent CT9 4JX
Registered in England and Wales with number 01547390

NOTES

1. This notice is being sent to all members and to any person nominated by a member of the Company under section 146 of the Companies Act 2006 to enjoy information rights.
2. Only holders of Ordinary Shares, or their duly appointed representatives, are entitled to attend, vote and speak at the AGM. A member so entitled may appoint (a) proxy/(ies), who need not be (a) member(s), to attend, speak and vote on his/her behalf. A member may appoint more than one proxy, provided that each proxy is appointed to exercise the rights attached to different shares. A Proxy Form is enclosed with this Notice.
3. Proxies may only be appointed by completing and returning the form of proxy enclosed with this Notice to the Company's Registrars, Capita Registrars Limited PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU.
4. To be valid a proxy appointment must reach the office of the Company's Registrars not less than 48 hours before the time fixed for the AGM or any adjournment thereof. Therefore, the form of proxy must be received by the Company's Registrars by 11am on 27 July 2010.
5. Return of the form of proxy will not preclude a member from attending the meeting and voting in person. You may not use any electronic address provided in the Notice of this meeting to communicate with the Company for any purposes other than those expressly stated.
6. The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with section 146 of the Companies Act 2006 ('nominated persons'). Nominated persons may have a right under an agreement with the registered shareholder who hold shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.
7. The Company, pursuant to Regulation 41 of the Uncertified Securities Regulations 2001, specifies that only those Shareholders on the register of members of the Company as at 11am on 27 July 2010 (or, if the AGM is adjourned, Shareholders on the register of members not later than 48 hours before the time fixed for the adjourned meeting) are entitled to attend and vote at the AGM in respect of the shares registered in their names at that time. Subsequent changes to the register shall be disregarded in determining the rights of any person to attend and vote at the AGM.
8. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
9. Copies of contracts of service and letters of appointment between the Directors and the Company will be available for inspection at the registered offices of the Company and the offices of Berwin Leighton Paisner LLP at Adelaide House, London Bridge, EC4R 9HA during normal business hours from the date of this Notice, until the conclusion of the AGM, and at the place of the AGM for at least 15 minutes prior to the AGM until its conclusion.
10. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate member has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that member at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate member attends the meeting but the corporate member has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate members are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives - http://www.icsa.org.uk/ - for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.
11. Under section 527 Companies Act 2006 members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or (ii) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 Companies Act 2006. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 Companies Act 2006. Where the Company is required to place a statement on a website under section 527 Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under section 527 Companies Act 2006 to publish on a website.
12. A copy of this Notice, and other information regarding the meeting, as required by section 311A Companies Act 2006, is available from www.hornby.com
13. Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
14. As at 3 June 2010 (being the latest practicable date prior to the publication of this Notice), the Company's issued share capital consists of 38,064,100 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 4 June 2010 are 38,064,100.

Five Year Summary

	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Turnover	**64,736**	61,569	55,692	46,849	44,113
Profit on ordinary activities before taxation	**5,215**	6,121	9,017	7,662	8,164
Taxation	**(1,530)**	(1,909)	(2,940)	(2,149)	(2,306)
Profit on ordinary activities after taxation	**3,685**	4,212	6,077	5,513	5,858
Assets employed:					
Non-current assets	**28,803**	29,903	20,812	19,406	15,632
Net current assets	**18,653**	9,133	11,037	8,850	9,501
Non-current borrowings	**(10,547)**	(7,181)	(41)	(53)	(39)
Deferred tax liabilities	**(281)**	(301)	(346)	(358)	(231)
Net assets	**36,628**	31,554	31,462	27,845	24,863
Total capital employed	**36,628**	31,554	31,462	27,845	24,863
Earnings per share					
– basic	**9.8p**	11.2p	16.2p	14.6p	15.6p
– diluted	**9.6p**	11.0p	15.6p	14.1p	15.1p
Dividend per share (net)	**5.0p**	2.7p	8.5p	8.1p	7.7p
Net assets per share	**96.2p**	83.1p	82.8p	73.6p	66.2p

SHAREHOLDERS' INFORMATION SERVICE

HORNBY WELCOMES CONTACT
WITH ITS SHAREHOLDERS.
IF YOU HAVE QUESTIONS OR
ENQUIRIES ABOUT THE GROUP OR
ITS PRODUCTS, PLEASE CONTACT:

A J MORRIS, FINANCE DIRECTOR
HORNBY PLC
WESTWOOD
MARGATE
KENT CT9 4JX

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