



Hornby PLC
Annual Report & Accounts
YEAR ENDED 31 MARCH 2012

Hornby PLC Annual Report & Accounts 2012

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.

Financial Highlights

Revenue

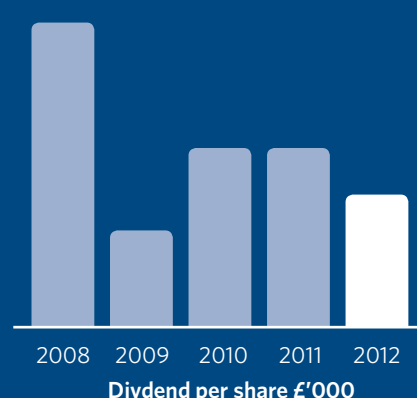
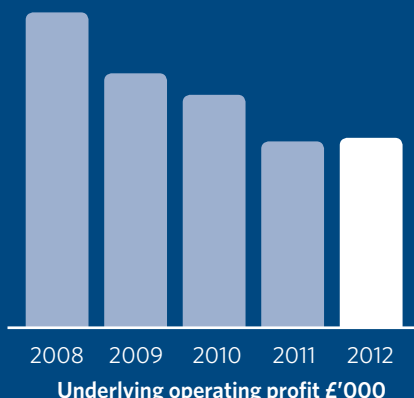
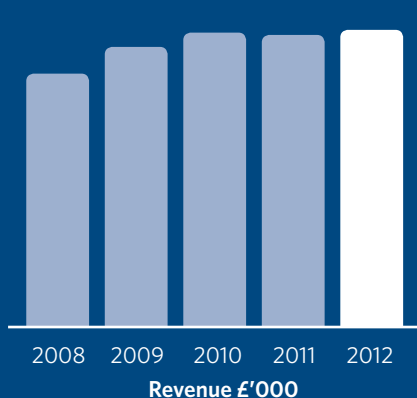
£64.5m +2%
2011: £63.4m

Underlying Operating Profit

£5.3m +2%
2011: £5.2m

Dividend per Share

3.7p (26%)
2011: 5.0p



Contents

Financial Highlights	2	Statement of Directors Responsibilities	26	Group and Company Statement of Changes in Equity	31
Chairman's Statement	4	Independent Auditors' Report to the Members of Hornby PLC	27	Group and Company Cash Flow Statement	32
Chief Executive's Report	5	Group and Company Statement of Comprehensive Income	29	Cash Flow from Operating Activities	33
Directors and Corporate Information	8	Group and Company Balance Sheet	30	Notes to the Financial Statements	34
Directors' Report	9			Notice of Annual General Meeting	68
Corporate Governance Report	12			Five Year Summary	72
Directors' Remuneration Report	20				

Underlying

Profit before taxation

£4.5m +2%
2011: **£4.4m**

Profit after taxation

£3.7m +15%
2011: **£3.2m**

Basic earnings per share

9.5p +14%
2011: **8.3p**

Reported

Profit before taxation

£4.0m (3%)
2011: **£4.1m**

Profit after taxation

£3.2m +11%
2011: **£2.9m**

Basic earnings per share

8.2p +9%
2011: **7.5p**

Frank Martin, Chief Executive of Hornby, commented,

"Despite the backdrop of a challenging market, Hornby is making encouraging progress. Our ability to broaden our product and distribution base will enable us to mitigate to some extent any short term weakness in our traditional hobby sectors. We are pleased that sales of our London 2012 merchandise are gathering momentum. We expect this unique license opportunity to contribute positively to profits in the short term and, through the increased distribution that we gain as a result of our involvement with London 2012, to provide an ongoing legacy benefit in substantially increasing our presence in mass market retail outlets."



Chairman's Statement

Overview

The management team has continued to focus on delivering a long term business strategy for the Group. The aim is to be the most successful model, hobby and collectable toy company in the world. The year under review has not been without its challenges but our strategy to diversify our business both by product sector and geographical market has stood us in good stead. In the UK, challenging market conditions have constrained our sales, whilst in mainland Europe we have seen our sales grow considerably as we consolidate our position as an important supplier to the model railway markets in Continental Europe.

The Group is well positioned to benefit from the incremental sales that will be generated in the UK by the London 2012 Games and also to continue to grow our mainland European businesses.

Corporate Governance

Good corporate governance provides a framework for delivering the objectives of the company and is fundamental to a sound decision making process. It supports executive management in achieving the maximum performance for the business. The Board will continue to focus on strengthening governance and compliance procedures. We welcomed the introduction of the Financial Reporting Council's UK Corporate Governance Code (the Code) and the Corporate Governance Report this year is structured so that we can report our corporate governance arrangements and practice against its five sections. Maintaining good corporate governance is a key priority and I am pleased to introduce our Corporate Governance Report setting out how we complied with the Code during the year.

There have been no changes to the composition of the Board during the year. The annual evaluation of the Board has considered the balance of skills, experience, independence, knowledge of the Company, its diversity, including gender, how the Board

interacts together as a unit, and considers that the present structure and composition of the Board to be effective for the size of the organisation.

All non-executive directors are advised of the likely time commitments at appointment. The ability of individual directors to allocate sufficient time to the discharge of their responsibilities is considered as part of the directors' annual evaluation and development process overseen by the Chairman. The Board has formal and informal procedures to monitor its performance both as individuals and as a Board.

In the current uncertain economic environment, management of risk remains a key focus for the Board. The Board has in place a robust process for identifying the major risks facing the business and for developing appropriate policies to manage those risks. The Board reviews the major risks and any mitigating actions required on a bi-annual basis.

Through the Board and the Audit Committee we retain good visibility of the issues and challenges faced by management and the work to address them. In the year to March 2012, for example, we have completed a thorough review of the Group's policies and procedures to ensure compliance with the 2010 UK Bribery Act.

I was appointed Chairman of Hornby just before Christmas 2000. At that time, we were an overwhelmingly UK focused business, and although we had started to build supplier relationships in China, we still retained manufacturing activities in the UK. Eleven years later, Hornby has become a truly international company, with supplier operations in China and India, and a collection of World and European brands which have substantially broadened the base of our operations and reduced the short-term risks associated with over reliance on a single market. This year, 2012, marks another potentially game-changing development of our brand 'reach' as Hornby products feature

strongly in the 'collectables' ranges of the London 2012 Games.

I have much enjoyed being part of this transformation, particularly working with my Board colleagues and the talented executive team who have actually delivered major success and change. That said, I consider that it is now time to hand-over the Chair to a new pair of eyes and hands capable of consolidating this transformation and steering the business to ever greater success in the future. It is therefore my intention to stand-down from the Board not later than next year's AGM. This will leave sufficient time for us to find a suitable successor and arrange the necessary transitions. In the coming months I will be consulting with major shareholders and, together with my Board colleagues, managing a professional and comprehensive selection process. I will, of course, keep all shareholders informed of any major developments in this process.

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

Neil Johnson
Chairman

8 June 2012

Chief Executive's Report

The Group's principal business is the design, 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 strong brands well known in their respective markets. These brands include Hornby, Scalextric, Electrotren, Lima, Jouef, Rivarossi, Arnold, Airfix, Humbrol and Corgi.

Financial Review

	2012	2011
Revenue	£64.4m	£63.4m
Underlying profit before tax *	£4.5m	£4.4m
Gross profit margin	48.3%	46.2%
Underlying profit before tax margin *	7.0%	7.0%
Reported profit before tax margin	6.2%	6.5%
Underlying basic earnings per share *	9.48p	8.34p
Statutory basic earnings per share	8.19p	7.50p
Net debt	£6.3m	£6.1m

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

Consolidated revenue for the year ended 31 March 2012 was £64.4 million, an increase of 2% compared to the previous year's £63.4 million.

Full year gross profit margin was 48.3% (2011 - 46.2%). The increase in gross profit margin was primarily a result of changes in the product mix of sales in favour of higher margin model railway products. This reflected improvements in the performance of our supply chain. Overheads increased year on year, due primarily to the effect of variable selling costs increasing in our UK concessions and European subsidiaries as a result of higher levels of sales, and with incremental promotional activity associated with the London 2012 Games.

Pre-tax profit before amortisation of intangibles and net foreign exchange

adjustments on intercompany loans (hereafter referred to as underlying pre-tax profits) was £4.5 million (2011 - £4.4 million) (see note 1). Basic earnings per share calculated on underlying pre-tax profit (hereafter referred to as underlying basic earnings per share) were 9.48p (2011 - 8.34p). Statutory pre-tax profit was £4.0 million (2011 - £4.1 million) and statutory basic earnings per share were 8.19p (2011 - 7.50p).

Taxation at £0.8 million (2011 - £1.3 million) was 21% of reported profit before tax (2011 - 31%). This included a prior year deferred tax adjustment of £0.3 million, relating to the provision for unrealised profit in stock. The taxation figure excluding this adjustment was 27%.

Core Group inventories reduced during the year. However, at the year end we were carrying stocks of London 2012 merchandise valued at £3.3 million in order to service the sales to be made in the run-up to and during the Games. This resulted in an overall increase in stocks at the year end. We expect this position to unwind as the London 2012 inventory is sold. Net debt as at 31 March 2012 was £6.3 million (2011 - £6.1 million).

Dividend

This has been another year in which trading has been challenging. Last year the dividend payment was maintained at the level of the previous year, notwithstanding a reduction in earnings per share. The Board recommends that the total dividend for the current year be re-aligned to the Group's

long term policy of paying 50% of earnings. The total dividend has been calculated after excluding the impact of the prior year tax benefit referred to above and results in a recommended dividend of 3.7p per ordinary share (2011 - 5.0p). An interim dividend of 1.7p has already been paid, so the proposed final dividend will be 2.0p. In line with the notification made in last year's Report and Accounts to this effect, payment of the final dividend will be made after the Group's peak working capital requirement for the year has passed. The final dividend will therefore be paid on 21 December 2012 to shareholders on the register at 23 November 2012.

Banking Facilities

The Group has banking facilities of £17.5 million in the UK. These facilities comprise a £7.5 million amortising Term Loan which expires in July 2014 and a £10 million Secured Money Market Loan which expires in August 2015. The Group also has additional facilities of £2.5 million in place in its European subsidiaries. Borrowings in the year ended 31 March 2012 peaked at £15.6 million. The Group remained comfortably within all of its covenants during the year.

Business Overview

This has been a further year of challenging economic conditions. However we have made good progress in a number of key areas. In mainland Europe improved supply chain performance enabled our European business to report increased sales and a satisfactory profit. Trading conditions in our

Chief Executive's Report (continued)

UK home market continued to be difficult. We are now in the run-up to the London 2012 Games and demand for our London 2012 merchandise is growing strongly.

We are expecting good sales performance over the coming months, and the expanded distribution base that we have opened up as a result of London 2012 will stand us in good stead to continue to develop sales beyond the Games. The development of the new Corgi "Toys" range and the launch of a range of products based on the rapidly growing license "Olly the Little White Van" will help to underpin our mass-market distribution beyond 2012.

Hornby sources the majority of its products in China and India, via third-party contract manufacturers. During the year supplies from the Group's largest supplier in China improved considerably and additional sources were brought on stream. 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. The Group retains intellectual property rights in its products and controls all sales of its products.

United Kingdom

The challenging trading conditions in the UK resulted in full-year sales in our UK subsidiary being 4% below the previous year at £45.5 million (2011 – £47.3 million). Against this difficult background, underlying profit before tax fell to £3.4 million compared to £4.5 million the previous year. Reported profit before tax was £3.0 million (2011 – £4.3 million). This result includes export sales to third parties of £6.4 million (2011 – £6.5 million).

Sales via all our channels of distribution were below the previous year, with the exception of our concessions chain and our direct marketing channel. The reduction in sales reflects weak consumer confidence generally and caution on the part of retailers in respect of inventory purchases.

Sales of Hornby model railways were broadly similar to the previous year. However we had some notable successes in terms of new product introductions. In particular our newly tooled Brighton Belle five car set launched to critical acclaim. In addition, our new Flying Scotsman locomotive followed the success in the previous year of the Tornado locomotive. Both these locomotives are built to a high standard of authenticity whilst achieving a competitive price point. We will continue to develop this new market sector which is attuned to the more challenging economic conditions which we face.

Sales of Scalextric were below the previous year as a result of lower consumer demand and cautious buying behaviour amongst our retailers. However, with the launch this year of our Star Wars based Scalextric range and the introduction of a number of products celebrating the 50th anniversary of the James Bond franchise we are confident that we can rebuild our Scalextric volumes.

Sales of Airfix were slightly below the previous year after a number of years of good growth. Our Airfix product development programme continues apace and we expect our recently announced 1:48 scale military range to provide a strong platform for Airfix sales.

Corgi sales benefitted from the London 2012 programme and were ahead of the previous year. In particular, the London 2012 branded bus and taxi ranges were very successful and we expect sales of these and similar items to continue to grow during the current financial year.

Continental Europe

Our subsidiaries in mainland Europe together made good progress, benefitting directly from the improved performance of our supply chain. Sales via our European subsidiaries in total were 21% above the previous year at £16.2 million (2011 – £13.4 million). Our subsidiaries in mainland Europe contributed an underlying profit before tax of £1.1 million compared with an underlying loss before tax of £42,000 in the previous year. Reported profit before tax was £1.0 million (2011 – loss £0.2 million). All our European subsidiaries returned a profit in the year and we are particularly pleased with the progress that has been made in Germany.

Our strong European brands continue to attract increasing support from the model railway communities in each of our key territories. Across Europe in 2011/12 we won no less than ten separate 'model of the year' awards, receiving at least one award in each territory where we have a subsidiary company. This is an important third party endorsement of our strategy to build our presence in these markets.

The current macro economic issues surrounding the euro zone continue to be a cause for concern. Continued weakness in the Euro will have a negative impact on the level of profit of the European business.

America

Sales in Hornby America were higher at \$4.4 million (2011 – \$4.2 million), producing a profit before tax of \$83,000 (2011 – loss \$69,000). Upon translation into Sterling, sales were £2.7 million (2011 – £2.7 million) with a profit before tax of £52,000 (2011 – loss £44,000). In addition Hornby Hobbies in the UK benefitted from a gross margin contribution of £411,000 (2011 – £397,000) generated on sales made to Hornby America, which has the effect of increasing significantly the overall contribution to Group

profit of our US operation. Further good progress was made during the year in Hornby America in reducing working capital and overheads.

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. We were delighted that at the London toy fair in January 2012 we were awarded three separate "Best New Toy" awards, for our Corgi toys range, our Scalextric Star Wars products and our London 2012 Pictogram figurines. No other company received as many awards. In addition to the ongoing development of our traditional hobby-based ranges we are working for the future on a number of technology based initiatives which if successfully executed will broaden further our appeal and market reach.

Outlook

Consumer confidence in all our major markets continues to be weak. We will continue to review our overhead base in order where possible to align costs with the current environment. Our ability to broaden our product and distribution base will enable us to mitigate to some extent any short term weakness in our traditional hobby sectors. The sales of our London 2012 merchandise are gathering momentum and we expect this unique license opportunity to contribute positively to profits in the short term and, through the increased distribution that we gain as a result of our involvement with London 2012, to provide an ongoing legacy benefit in substantially increasing our presence in mass market retail outlets. In order to benefit from this increased presence following London 2012 we have developed a number of new ranges with entry-level price points ranging from £2 to £9.99. The first of these ranges is a series of collectable pin-badges based on the Moshi Monsters license. This development arises directly from our experience of distributing the London 2012 collectable pin badges. By applying this knowledge to the hugely successful Moshi Monsters license we are leveraging our product development expertise and securing

continued mass market distribution. We also have high expectations of success for our range of Corgi "Toys". This range is designed around the everyday vehicles that use the roads of the UK and indeed mainland Europe. There is currently a gap in the market for this type of collectable series and we have received a very positive response from our retail customers. First deliveries of this range will be in-store in September. Other ranges soon to reach the market include "Olly the Little White Van", which is currently the highest rating children's TV series on CITV.

There is no doubt that there will continue to be pressure on consumer confidence for some time to come. However we continue to innovate and to seek new commercial opportunities in order to counter the effects of the macro-economic climate in which we are operating.

Frank Martin

Chief Executive

8 June 2012

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

COMPANY SECRETARY

J W Stansfield

REGISTERED OFFICE

Westwood
Margate
Kent CT9 4JX

COMPANY REGISTERED NUMBER

Registered in England No. 01547390

AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
First Point
Buckingham Gate
Gatwick RH6 0PP

SOLICITORS

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

PRINCIPAL BANKERS

Barclays Bank PLC
9 St George's Street
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 Limited
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Directors' Report

The directors submit their Annual Report together with the audited consolidated financial statements for the year ended 31 March 2012.

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 along with future developments are included in the Chief Executive's Report.

The principal risks and uncertainties facing the Group and the Group's Corporate Governance Statement are set out in the Corporate Governance Report on pages 17 and 18.

RESULTS AND DIVIDENDS

The results for the year ended 31 March 2012 are set out in the Group and Company Statement of Comprehensive Income on page 29. Revenue for the year was £64.4 million compared to £63.4 million last year. The profit for the year attributable to equity holders amounted to £3.2 million (2011 – £2.9 million). The position of the Group is set out in the Group and Company Balance Sheet on page 30.

An interim dividend was declared in the year of 1.7p per ordinary share amounting to £0.7 million (2011 – £0.7 million).

The directors recommend a final dividend of 2.0p (2011 – 3.3p) per ordinary share amounting to £0.8 million (2011 – £1.3 million) payable on 21 December 2012 to those shareholders on the Register at 23 November 2012.

This represents a total dividend paid in respect of the year ended 31 March 2012 of 3.7p per ordinary share (2011 – 5.0p).

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 R&D 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 £14,232 (2011 – £21,250) for charitable purposes to include the Theatre Royal Margate (£10,000). There were no political donations in the year (2011 – £nil).

DIRECTORS

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

Neil A Johnson, aged 63, was originally appointed a non-executive director on 1 July 1998. On 22 December 2000 he assumed the responsibilities of Chairman. He served for five years as a member of a Prime Minister's Advisory Panel and is currently a member of a Ministry of Defence Advisory Board. He sits on a number of private company Boards and Trusts, is Chairman of Motability Operations Group Plc, Umeco Plc and Yule Catto & Co Plc.

Frank Martin, aged 60, was appointed Chief Executive on 3 January 2001. Frank was previously Chief Executive of 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 49, 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 56, was appointed a non-executive director on 1 December 2007. Nigel is currently Rector and Chief Executive of University of the Arts London and a member of the

Directors' Report (continued)

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 53, 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, Barratt Developments Plc and Debenhams 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 23 and 24.

The number of Board meetings held during the year and attendance by the directors is set out on page 12.

DIRECTORS' INDEMNITIES

The Company maintains liability insurance for its directors and officers during the financial year and up to the date of approval of the Annual Report and Accounts. 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 25 May 2012 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	4,027,573	10.28
Electra Quoted Partners	2,995,150	7.65
P J Wood	2,821,500	7.20
New Landfinance Holdings Limited, BVI	1,815,514	4.64
J J Hosking	1,711,434	4.37
Aberdeen Asset Management	1,198,140	3.06

FINANCIAL INSTRUMENTS

The Group's financial instruments, other than derivatives, comprise borrowings, some cash and liquid resources, and various items, such as trade receivables, trade payables, etc. that arise directly from its operations. The Group's financial liabilities comprise borrowings, trade payables, other payables 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 receivables.

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 foreign exchange (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.

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 2012 was 39 days (2011 - 40 days). The Company itself does not trade and therefore has no external trade payables.

SHARE CAPITAL

The share capital of the Company comprises ordinary shares of 1p each, each share carries the right to one vote at general meetings of the Company. The authorised and issued share capital of the Company, together with movements in the Company's issued share capital is shown in note 21.

INDEPENDENT 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 68 to 71.

Resolution 3

A final dividend can only be paid after the shareholders at a general meeting have approved it. A final dividend of 2.0 pence per ordinary share of 1 pence each in the capital in the Company is recommended by the directors for payment to shareholders who are on the register at the close of business on 23 November 2012.

Resolution 10

Under section 551 of the Companies Act 2006 (the "Act"), the directors may allot unissued shares or grant rights over such shares only if authorised to do so by shareholders. This resolution will give the directors authority to allot new ordinary shares in the capital of the Company or grant rights to subscribe for, or convert any security into, shares in the Company, up to an aggregate nominal amount of £130,000, which represents approximately 33% of the Company's issued ordinary capital as at 7 June 2012 (being the latest practicable date prior to the publication of this notice). This authority renews that given at last year's Annual General Meeting and will expire at 11 a.m. on 25 July 2017. 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. However, it is considered prudent to maintain the flexibility that this authority provides.

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 11

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 will be limited to the issue of shares for cash up to an aggregate nominal amount of £19,000 representing approximately 5% of the issued ordinary share capital of the Company as at 7 June 2012 (being the latest practicable date prior to the publication of this 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 12

The Company is seeking authority to purchase up to approximately 10% of the Company's issued ordinary share capital at, or between, the minimum and maximum prices specified in this resolution. As at 7 June 2012 (being the latest practicable date prior to the publication of this notice), the total number of options to subscribe for shares in the Company was 847,500 (approximately 2.2% of the Company's issued ordinary share capital and approximately 2.4% of the Company's issued ordinary share capital if the full authority proposed by resolution 12 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 rather than being cancelled. Treasury shares may be cancelled, resold 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 this resolution is passed and the conclusion of the next annual general meeting of the Company.

Signed on behalf of the Board

A J Morris

Finance Director
Westwood
Margate
Kent CT9 4JX

8 June 2012

Corporate Governance Report

UK Corporate Governance Code

The Company welcomes the introduction of the new UK Corporate Governance Code published in 2010 with this report being structured to report corporate governance arrangements and practices against the requirements of the Code.

Throughout the year ended 31 March 2012, the Company has been in compliance with the Code provisions.

LEADERSHIP

The Board is responsible for the long term success of the Company and is responsible to shareholders for ensuring that the Group is appropriately managed and achieves its objectives. The Board is also responsible for the system of corporate governance, strategy, risk management and financial performance. The Company's governance structure is consistent with the leadership principles set out in the Code.

Neil Johnson has led the Board since December 2000.

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

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

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.

The Board monitors the performance of the Group as a whole by;

- Engaging at Board meetings with, and challenging the CEO and Group Finance Director, as appropriate, on the financial and operating performance of the Group and external issues material to the Group's prospects.
- Evaluating progress towards the achievement of the Group's financial and business objectives and plans.
- Monitoring the significant risks facing the Group.

EFFECTIVENESS

Board composition

The Board contains a range of complementary skills, experience and knowledge that is considered appropriate for the scale of the business. The biographical details of all Board members are provided on pages 9 and 10.

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 B.1.2 requires non FTSE 350 companies to have at least two independent non-executive directors.

N A Johnson has served on the Board for more than thirteen years and has been its Chairman for eleven 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 operate effectively and to execute commitment to the role.

During the year ten Board meetings were held. All directors attended all meetings.

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.

Appointments to the Board

Nominations Committee

There have been no appointments to the Board during the year ended 31 March 2012. 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.

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 terms of reference are available on the Company's website, covering the authority delegated to it by the Board

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.

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 thirteen 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 M E Rolfe and A J Morris 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 M E Rolfe and A J Morris's contribution to the Board and the Chairman can confirm that they continue to be effective directors and to execute commitment to the role.

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. He 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, as required by the Code. 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 terms of reference are available on the Company's website, covering the authority delegated to it by the Board.

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' and for the prevention of bribery.

Activity during the year

During the year, three Audit Committee meetings were held. All members attended all meetings. 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.

Corporate Governance Report (continued)

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 audit fee was £123,000 and the non-audit fee (principally tax services) was £69,000, well within the 1:1 ratio.

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 2012. 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 considered reports from Group financial management on the operation of, and issues arising from the Group's internal control procedures. The Committee monitored the effectiveness of the Group's risk management process, which considered the key risks, both financial and non-financial, facing the Group and the effectiveness of the Group's controls to manage and reduce the impact of those risks.

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. The Group has a code of conduct outlining the business standards to which all Company personnel must adhere which further reinforces existing whistle-blowing policy and procedures.

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.

REMUNERATION

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

The Committee met three 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. The terms of reference are available on the Company's website, covering the authority delegated to it by the Board.

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

ACCOUNTABILITY

The Board is committed to providing shareholders with a clear assessment of the Company's financial position and prospects. This is achieved through the Annual Report and Accounts and through other periodic financial statements and announcements.

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. This process has been in place throughout the year under review and up to the date of approval of the annual report and accounts, and complies fully with the Turnbull guidance.

The Audit Committee considered reports from Group financial management on the operation of, and issues arising from the Group's internal control procedures. The Audit Committee monitored the effectiveness of the Group's risk management process, which considered the key risks, both financial and non-financial, facing the Group and the effectiveness of the Group's controls to manage and reduce the impact of those risks.

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 on-going basis during the year and no significant weaknesses have been identified.

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.

Corporate Governance Report (continued)

BUSINESS MODEL AND STRATEGY

The Group comprises a number of high quality premium brands spread across different product categories within the hobby and collectable toy market. The Group has the opportunity to develop a number of new license properties within the existing brand structure (e.g. 'Olly the Little White Van', Moshi Monsters, 'Star Wars') as well as developing other distribution opportunities (e.g. Breyer horses). We are also continuing to grow the European train brands and to explore opportunities in developing markets. The nature of the model railway business worldwide is that products are largely country-specific. This requires high levels of knowledge and expertise in each individual market. This represents a significant barrier to entry. However, the Group has this infra-structure in place and is therefore in a strong competitive position. Production of model railway items is a labour intensive process. The Group sources all of its model railway products from China. Although labour rates in China are increasing, the Group continues to operate at a cost advantage to competitors producing in higher cost regions such as Europe.

Company Mission and Strategic Objectives

Vision/Mission To be the most successful model, hobby and collectables toy company in the world.

Strategic objectives

- To develop high margin branded product.
- To develop complimentary product categories for organic development.
- To broaden global reach through additional markets and products.
- To add complimentary distribution lines to accelerate growth.

Business Model

Internally developed branded intellectual property

Product categories	Model Trains	Slot car racing	Kits/Paints	Die-cast
Brands	Hornby Electrotren Lima Rivarossi Jouef Arnold	Scalextric Superslot	Airfix Humbrol	Corgi
% share of revenue	48% (2011 - 45%)	26% (2011 - 30%)	14% (2011 - 15%)	12% (2011 - 10%)
Supply source	China	China	India/UK	China
Product development Internal	UK/Spain	UK	UK	UK
Licensing strategy	To utilise appropriate third party licenses to enhance the consumer proposition.			
Distribution	Subsidiaries : UK Spain Italy France Germany USA		3rd party distributors : Rest of the world	
Routes to market	Independent toy/model stores Key accounts/Major retailers 3rd party internet retailers Concession stores (UK only) Direct to consumer			

3rd party branded intellectual property distributed by Hornby

Brands	Breyer (Model Horses)	Territory : UK
	Slot-it (Slot car racing)	Territory : USA
% share of revenue	This currently represents less than 1% of revenue.	

Strategy

The continued diversification of our product categories, the legacy distribution opportunities coming out of the London 2012 games, and the opportunities to continue to grow our international business, provide a strong platform for future growth. In addition, we continue to extend our brand reach into complimentary categories such as the Moshi Monsters pin badge range. Our spread of brands/categories and our wide geographic reach provide a broad and stable base from which to trade during difficult economic times and as the opportunities arise, to continue to grow our business.

IDENTIFICATION OF PRINCIPAL RISKS AND UNCERTAINTIES

The Board has the primary responsibility for identifying the major 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 risks and has reviewed and determined any mitigating actions required as set out below. The risk assessment has been completed in the context of the overall strategic objectives and the business model of the Group which has been set out above.

Principal risks and uncertainties

Risk	Description	Impact/Sensitivity	Mitigation/Comment
UK market dependence	The UK market represents a significant part of Group revenue; 61% in 2012 (2011 - 64%).	The Group is exposed to a downturn in the performance of the brands in the UK as well as to a downturn in the UK economy.	The Board's strategy continues to be to expand overseas sales. The acquisitions of the brands Airfix, Humbrol, Corgi, Electrotren, Rivarossi, Lima, Arnold and Jouef have provided the Group with a significant share of the model railway, model and die-cast markets in continental Europe, with the objective of facilitating further growth.
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, overall consumer and retailer confidence, and the changing retail landscape.	The Group performance is impacted by the global macro-economic environment and changes in the wider retail landscape.	In reviewing the future forecasts for the business the directors consider reasonable changes in macro-economic and associated market conditions recognising the potential for a negative impact on the Group's results. The Group has credit insurance in place to mitigate against any specific retail customer default. The Group formulates its business strategy, including the website and direct to consumer channels, based on the changing retail dynamics.
	The Group has competition in the model railway, slot racing, model kits, die cast and paint markets.	Loss of market share to increased competitor activity would have a negative impact on the Group's results.	In many of our markets the Group enjoys a strong market position due to the continued development of our brands. Brands are extremely important in the model sector with market entry costs being prohibitive.
Exchange rates	The Group purchases goods in Hong Kong dollars and US dollars and sells in £ sterling, Euros and US dollars and is therefore exposed to exchange rate fluctuations.	Significant fluctuations in exchange rates to which the Group is exposed could have a material adverse effect on the Group's future results.	The Group continues to hedge short term exposures 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. Transaction risk on intercompany loans is managed through a foreign exchange collar.

Corporate Governance Report (continued)

Risk	Description	Impact/Sensitivity	Mitigation/Comment
Supply Chain	The Group purchases goods, in the main, from third party Chinese suppliers due to the significant cost advantage when compared to products manufactured in Europe. 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 rail sectors in Europe/US.	The Group does not have exclusive arrangements with its suppliers and there is a risk that competition for manufacturing capacity could lead to delays in introducing new products or servicing existing demand. Input cost escalation in China could reduce or remove the Group's pricing advantage and impact margins.	The Group is continuing to develop and diversify its supplier portfolio, which includes a supplier in India, and closely monitors production through an increased number of 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.	Failure to comply could lead to a product recall resulting in damage to Company and brand reputation along with an adverse impact on the Group's results.	Robust internal processes and procedures, active monitoring of proposed legislation and involvement in policy debate and lobbying of the relevant authorities.
Liquidity	Insufficient financing to meet the needs of the business.	Without the appropriate level of financing it would be increasingly difficult to execute the Group's business plans.	The Group has a fixed term loan agreement expiring in July 2014 (£7.5 million at 31 March 2012) and a revolving credit facility (£10 million expiring August 2015). The Group's policy on liquidity risk is to maintain adequate facilities to meet the future needs of the business.

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 on-going 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.

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

The 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.

Share Capital

Details of our Share Capital structure can be found on page 10 of the Directors report and in Note 21.

Going Concern

A review of Group business activities and future outlook are set out on pages 5 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 17 and 18, whilst the risks arising from the Group's financial instruments are covered on page 10.

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 2012

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 UK Corporate Governance Code (2010). 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 three 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 on the Company website.

In determining the directors' remuneration for the year, the Committee consulted F Martin (Chief Executive) about its proposals. New Bridge Street ('NBS'), a trading name of Aon Corporation, is the Committee's appointed remuneration adviser and continues to provide advice to the Committee. Neither NBS nor Aon Corporation provides any 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. The Committee is sensitive to pay and conditions in the workforce when

determining executive remuneration policy and base salary increases in particular.

The Committee is also aware of the potential risk to the business of executive pay structures and is satisfied that the current policy is compatible with risk policies and systems.

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. At a target level of performance, approximately 40%-45% of the total remuneration package is 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 2011 and 2012 are as follows:

Director	Role	Salary at 1 April 2012	Salary at 1 April 2011
F Martin	Chief Executive	£267,909	£262,656
A J Morris	Finance Director	£176,802	£173,353

Base salary levels were reviewed during the first quarter of 2012 and, consistent with the average increase awarded across the Group, increased by 2.0% from 1 April 2012.

Policies concerning benefits, including the Group's company car policy, are reviewed periodically. Currently, benefits in kind comprise 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. For F Martin the balance of pension in excess of the HMRC Approved limit of £50,000 is paid by way of a salary supplement included in taxable benefits in the emoluments table.

Performance-related annual bonus

Executive directors participate in a performance-related bonus scheme. The maximum bonus continues to be capped 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 those of the Group. The performance conditions are divided 80:20 between Group underlying profit before tax and personal objectives. For the Group underlying 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. This mix of targets is considered to provide a good link to the business strategy.

With effect from 2011, a provision was incorporated into the Annual Bonus Plan to enable the Company to claw back overpayments in the event of financial misstatement or gross misconduct.

In respect of the year ended 31 March 2012 neither of the executive directors were entitled to a bonus.

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.
- Performance conditions are reviewed annually, so as to ensure they remain appropriately pitched in relation to the strategy and business cycle, and provide an optimal alignment between the interests of executives and shareholders.
- For 2012, an award will be subject to a total shareholder return ('TSR') condition and a range of normalised underlying earnings per share ('EPS') growth targets, each of the TSR and EPS elements apply 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 the Company'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+12% 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.
- Similar to the bonus plan, with effect from 2011 awards, a provision was incorporated into the PSP to enable the Company to claw back overpayments in the event of misstatement or gross misconduct.

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.

Directors' Remuneration Report (continued)

for the Year Ended 31 March 2012

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 £95,000 per annum effective 1 April 2012. 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 and fee 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 £40,000 per annum effective 1 April 2012. 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 £40,000 per annum effective 1 April 2012. 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.

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 2012 number	At 31 March 2011 number
N A Johnson	100,000	50,000
F Martin	388,282	354,092
A J Morris	8,404	6,702
N M Carrington	18,000	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 2012 and 8 June 2012.

Aggregate Directors' remuneration

The total amount for directors' remuneration was as follows:

	2012 £'000	2011 £'000
Emoluments	635	675
Money purchase pension contributions	86	86
	721	761

Directors' detailed emoluments

The emoluments of the directors were as follows:

	Salary & Fees £	Bonus ¹ £	Taxable Benefits ² £	Pension Contribution £	2012 Total £	2011 Total ³ £
Chairman:						
N A Johnson	95,000	-	-	-	95,000	90,000
Executive:						
F Martin	262,656	-	14,085	50,000	326,741	365,131
A J Morris	173,353	-	10,030	35,628	219,011	236,235
Non-executive						
N M Carrington	40,000	-	-	-	40,000	35,000
M E Rolfe	40,000	-	-	-	40,000	35,000
	611,009	-	24,115	85,628	720,752	761,366

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 nil% (out of a maximum 100%) for the profit before tax element and nil% (out of a maximum 100%) for the personal objectives element. The Remuneration Committee took the view that profit delivery in 2011/12 did not support the payment of bonuses for personal objectives.

2. Taxable benefits relate to the provision of a company car, health assurance and F Martin pension supplement.

3. The 2011 total column includes pension contributions which were F Martin (£51,250) and A J Morris (£34,691).

Directors' Remuneration Report (continued)

for the Year Ended 31 March 2012

Performance Share Plan

At 31 March 2012, 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 2011	Awarded during year	Lapsed during year	Vested during year	At 31 March 2012
F Martin	July 2008	July 2011	149.6p	167,112	-	(167,112)	-	-
	July 2009	July 2012	136.0p	183,824	-	-	-	183,824
	June 2010	June 2013	139.5p	183,692	-	-	-	183,692
	June 2011	June 2014	136.4p	-	192,591	-	-	192,591
A J Morris	July 2008	July 2011	149.6p	110,924	-	(110,924)	-	-
	July 2009	July 2012	136.0p	121,324	-	-	-	121,324
	June 2010	June 2013	139.5p	121,237	-	-	-	127,237
	June 2011	June 2014	136.4p	-	127,110	-	-	127,110

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+12% p.a. with a sliding scale operating between these points.

Interests in share options

Details of options held by directors at 31 March 2012 are set out below:

Director	Date of Grant	Options held at 1 April 2011	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options held at 31 March 2012	Exercise price	Exercise period
F Martin	28 Mar 2002	600,000	-	(600,000)	-	-	76.8p	28 Mar 2005 – 28 Mar 2012

F Martin exercised 600,000 share options during the year at 76.8p, the market price at the date of exercise was 120.0p, realising a gain of £259,200 (2011 – £324,800 gain).

The market price of the Company's shares at 31 March 2012 was 95.0p and the range during the year ended 31 March 2012 was 94.3p to 145.0p.

Short Term Incentive Plan

At 31 March 2012, 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 2012 £'000	Value of entitlement 31 March 2011 £'000
F Martin	June 2008	June 2012	156.1p	27,191	26	59
A J Morris	June 2008	June 2012	156.1p	1,702	2	4

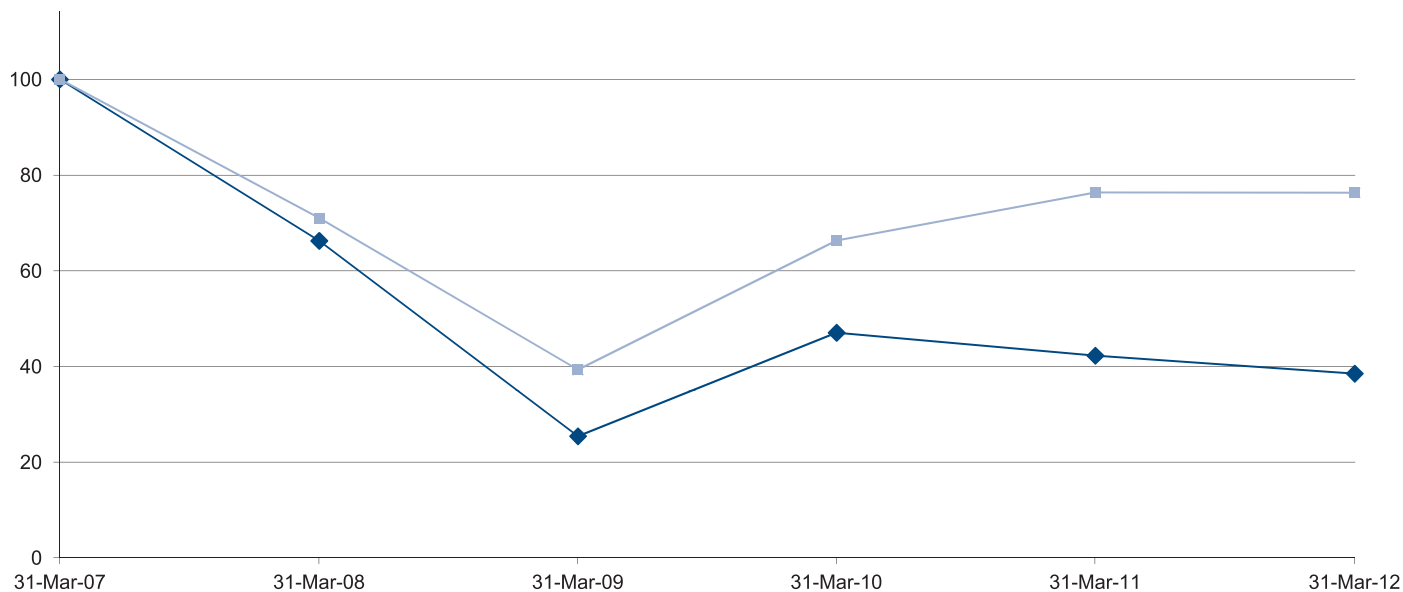
On 17 June 2011, 27,190 shares of the 2008 Award were vested to F Martin. The share price on this date was 136.3p.

On 17 June 2011, 1,702 shares of the 2008 Award were vested to A J Morris. The share price on this date was 136.3p.

Value of entitlement at 31 March 2012 is based on the closing market price of the Company's shares of 95.0p (2011 – 108.0p).

Performance graph (unaudited information)

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 2012. This index has been selected given that the Company is a constituent of the FTSE Small Cap.



This graph shows the value, by 31 March 2012, of £100 invested in Hornby on 31 March 2007 compared with the value of £100 invested in the FTSE Small Cap (excluding investment trusts). The other points plotted are the values at intervening financial year-ends.



N M Carrington

Remuneration Committee Chairman

8 June 2012

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 Group and Company 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 Group and the Company 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 Group and the Company 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 and Company 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 Company; and
- the Chief Executive's Report and Corporate Governance Statement include 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 themselves 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

8 June 2012

Independent Auditors' Report to the Members of Hornby Plc

We have audited the financial statements of Hornby Plc for the year ended 31 March 2012 which comprise the Group and Company Statement of Comprehensive Income, the Group and Company Balance Sheet, the Group and Company Statement of Changes in Equity, the Group and Company Cash Flow Statement, the Group and Company Cash Flow from Operating Activities 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 26, 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 and express an opinion on 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2012 and of the Group and 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;
- 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 12 to 19 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Independent Auditors' Report to the Members of Hornby Plc (continued)

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 19, in relation to going concern;
- the parts of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

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

8 June 2012

Group and Company Statement of Comprehensive Income

for the year ended 31 March 2012

	Note	Group		Company	
		2012 £'000	2011 £'000	2012 £'000	2011 £'000
REVENUE	2	64,447	63,372	1,278	1,251
Cost of sales		(33,290)	(34,095)	-	-
GROSS PROFIT		31,157	29,277	1,278	1,251
Distribution costs		(2,571)	(2,579)	-	-
Selling and marketing costs		(13,761)	(12,882)	-	-
Administrative expenses		(9,029)	(8,406)	(808)	(795)
Other operating expenses		(1,054)	(519)	(144)	(166)
OPERATING PROFIT	2	4,742	4,891	326	290
Income from shares in Group undertakings		-	-	1,932	3,681
Finance income	3	26	64	175	174
Finance costs	3	(779)	(826)	(234)	(228)
PROFIT BEFORE TAXATION	4	3,989	4,129	2,199	3,917
Analysed as:					
Underlying profit before taxation		4,526	4,423	2,199	3,917
Net foreign exchange impact on intercompany loans		(145)	96	-	-
Amortisation of intangibles		(392)	(390)	-	-
PROFIT BEFORE TAXATION		3,989	4,129	2,199	3,917
Taxation	5	(825)	(1,274)	22	(135)
PROFIT FOR THE YEAR AFTER TAXATION		3,164	2,855	2,221	3,782
OTHER COMPREHENSIVE INCOME					
Cash flow hedges, net of tax		300	(655)	-	-
Currency translation differences		(16)	(15)	305	79
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		284	(670)	305	79
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		3,448	2,185	2,526	3,861
EARNINGS PER ORDINARY SHARE					
Basic	7	8.19p	7.50p		
Diluted	7	8.12p	7.43p		

All operations relate to continuing operations.

Group and Company Balance Sheet

at 31 March 2012

	Note	Group		Company	
		2012 £'000	2011 £'000	2012 £'000	2011 £'000
ASSETS					
NON-CURRENT ASSETS					
Goodwill	8	13,059	13,372	-	-
Intangible assets	9	4,350	4,820	-	-
Property, plant and equipment	10	10,022	10,208	1,309	1,344
Investments	11	-	-	36,601	35,172
Deferred tax assets	20	538	109	7	16
		27,969	28,509	37,917	36,532
CURRENT ASSETS					
Inventories	12	17,867	16,213	-	-
Trade and other receivables	13	13,169	13,648	33	38
Derivative financial investments	19	104	93	-	-
Current tax assets	17	61	282	9	130
Cash and cash equivalents	14	1,952	4,952	2	11
		33,153	35,188	44	179
LIABILITIES					
CURRENT LIABILITIES					
Borrowings	18	(3,474)	(3,136)	-	-
Derivative financial instruments	19	(2,155)	(3,193)	-	-
Trade and other payables	15	(9,822)	(11,259)	(88)	(132)
Provisions	16	(324)	(413)	-	-
Current tax liabilities	17	(705)	(564)	(245)	(20)
		(16,480)	(18,565)	(333)	(152)
NET CURRENT ASSETS/(LIABILITIES)		16,673	16,623	(289)	27
NON-CURRENT LIABILITIES					
Borrowings	18	(4,888)	(8,026)	(5,018)	(5,331)
Deferred tax liabilities	20	(573)	(337)	(159)	(177)
		(5,461)	(8,363)	(5,177)	(5,508)
NET ASSETS		39,181	36,769	32,451	31,051
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT					
Share capital	21	392	385	392	385
Share premium		6,180	5,643	6,180	5,643
Capital redemption reserve		55	55	55	55
Translation reserve		(545)	(529)	(985)	(1,290)
Hedging reserve		(187)	(487)	-	-
Other reserves		1,688	1,688	19,145	19,145
Retained earnings		31,598	30,014	7,664	7,113
TOTAL EQUITY		39,181	36,769	32,451	31,051

The financial statements on pages 29 to 33 were approved by the Board of directors on 8 June 2012 and were signed on its behalf by:

F Martin
Director

Group and Company Statement of Changes in Equity

year ended 31 March 2012 and 31 March 2011

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 2010	380	5,340	55	(514)	168	1,688	29,511	36,628
Total comprehensive income for the year	-	-	-	(15)	(655)	-	2,855	2,185
Transactions with owners								
Issue of shares	5	303	-	-	-	-	-	308
Share-based payments	-	-	-	-	-	-	51	51
Shares vested from employee benefit trust	-	-	-	-	-	-	146	146
Dividends	-	-	-	-	-	-	(2,549)	(2,549)
	5	303	-	-	-	-	(2,352)	(2,044)
Balance at 31 March 2011	385	5,643	55	(529)	(487)	1,688	30,014	36,769
Total comprehensive income for the year	-	-	-	(16)	300	-	3,164	3,448
Transactions with owners								
Issue of shares	7	537	-	-	-	-	-	544
Share-based payments	-	-	-	-	-	-	262	262
Shares vested from employee benefit trust	-	-	-	-	-	-	90	90
Dividends	-	-	-	-	-	-	(1,932)	(1,932)
	7	537	-	-	-	-	(1,580)	(1,036)
Balance at 31 March 2012	392	6,180	55	(545)	(187)	1,688	31,598	39,181

Retained earnings includes £621,000 at 31 March 2012 (2011 - £638,000) 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 2010	380	5,340	55	(1,369)	19,145	5,829	29,380
Total comprehensive income for the year	-	-	-	79	-	3,782	3,861
Transactions with owners							
Issue of shares	5	303	-	-	-	-	308
Share-based payments	-	-	-	-	-	51	51
Dividends	-	-	-	-	-	(2,549)	(2,549)
	5	303	-	-	-	(2,498)	(2,190)
Balance at 31 March 2011	385	5,643	55	(1,290)	19,145	7,113	31,051
Total comprehensive income for the year	-	-	-	305	-	2,221	2,526
Transactions with owners							
Issue of shares	7	537	-	-	-	-	544
Share-based payments	-	-	-	-	-	262	262
Dividends	-	-	-	-	-	(1,932)	(1,932)
	7	537	-	-	-	(1,670)	(1,126)
Balance at 31 March 2012	392	6,180	55	(985)	19,145	7,664	32,451

Group and Company Cash Flow Statement

for the year ended 31 March 2012

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash generated from operations	5,856	6,072	466	325
Interest received	26	64	175	174
Interest paid	(779)	(826)	(234)	(228)
Tax (paid)/repaid	(656)	(1,750)	62	(253)
Net cash generated from operating activities	4,447	3,560	469	18
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of property, plant and equipment	1	181	-	-
Purchase of property, plant and equipment	(3,787)	(4,499)	-	-
Dividends received	-	-	1,932	3,681
Net cash (used in)/generated from investing activities	(3,786)	(4,318)	1,932	3,681
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of ordinary shares	544	308	544	308
Repayments of issue of loans	(2,577)	(1,554)	-	-
Finance lease capital payments	(29)	(54)	-	-
Dividends paid to Company's shareholders	(1,932)	(2,549)	(1,932)	(2,549)
Loans to subsidiary undertakings	-	-	(1,014)	(1,529)
Net cash used in financing activities	(3,994)	(3,849)	(2,402)	(3,770)
Effect of exchange rate movements	527	125	(8)	37
Net decrease in cash and cash equivalents	(2,806)	(4,482)	(9)	(34)
Cash, cash equivalents and bank overdrafts at beginning of the year	4,397	8,879	11	45
CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS AT END OF YEAR	1,591	4,397	2	11
CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS CONSIST OF:				
Cash and cash equivalents	1,952	4,952	2	11
Bank overdrafts	(361)	(555)	-	-
CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS AT END OF YEAR	1,591	4,397	2	11

Group and Company Cash Flow from Operating Activities

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Profit before taxation	3,989	4,129	2,199	3,917
Interest payable	779	826	234	228
Interest receivable	(26)	(64)	(175)	(174)
Dividend income	-	-	(1,932)	(3,681)
Amortisation of intangible assets	392	390	-	-
Depreciation	3,914	4,060	35	43
Profit on disposal of property, plant and equipment	-	(2)	-	-
Share-based payments	262	51	144	166
(Gain)/loss on financial derivatives	(18)	75	-	-
(Decrease)/increase in provisions	(89)	22	-	-
Increase in inventories	(1,654)	(3,940)	-	-
Decrease/(increase) in trade and other receivables	479	(349)	5	6
(Decrease)/increase in trade and other payables	(2,172)	874	(44)	(180)
CASH GENERATED FROM OPERATIONS	5,856	6,072	466	325

Notes to the Financial Statements

for the year ended 31 March 2012

1. SIGNIFICANT ACCOUNTING POLICIES

Accounting policies for the year ended 31 March 2012

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 2012 has been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU'), IFRS Interpretations Committee ('IFRIC') interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated and Parent Company financial statements have been prepared on a going concern basis and under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

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

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 April 2011 that would be expected to have a material impact on the Group.

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 2011 but are not relevant to the Group's operations in the current year:

IAS 24 (revised),	'Related party disclosures'
IFRIC 14 amendment	'Prepayments of a minimum funding arrangement'
IFRIC 19	'Extinguishing financial liabilities with equity investments'
Annual Improvements Project 2010	

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 2012 or later periods, but the Group has not early adopted them:

Amendment to IFRS 7 'Financial instruments: Disclosures' the amendment will promote transparency in the reporting of transfer transactions and improve understanding of risk exposures relating to transfers of financial instruments. The Group is yet to assess the IFRS 7 amendment's full impact and intends to adopt the amendment no later than the accounting period beginning on 1 April 2012.

Amendment to IAS 1 'Financial statement presentation' the amendment is a requirement for entities to group items presented in other comprehensive income ('OCI') on the basis of whether they are potentially reclassifiable to profit or loss. The Group is yet to assess the IAS 1 amendment's full impact and intends to adopt the amendment no later than the accounting period beginning on 1 April 2013.

IFRS 9 'Financial Instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on 1 April 2013.

IFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on 1 April 2013.

IFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on 1 April 2013.

IFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The Group is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on 1 April 2012.

IAS 27 'Separate financial statements' (revised) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in IFRS 10. The Group is yet to assess IAS 27 (revised) full impact and intends to adopt IAS 27 (revised) no later than the accounting period beginning on 1 April 2013.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

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

Underlying 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 and amortisation of intangibles which result from historic acquisitions and restructuring.

	Group	
	2012	2011
	£'000	£'000
Profit before taxation	3,989	4,129
Foreign exchange on intercompany loans including impact of foreign exchange collar	145	(96)
Amortisation of intangibles (note 9)	392	390
Underlying profit before taxation	4,526	4,423

Notes to the Financial Statements (continued)

The Statement of Comprehensive Income discloses foreign exchange movements and amortisation of intangibles in other operating expenses.

	Group 2012 £'000	2011 £'000
Reconciliation of net debt:		
Cash	1,952	4,952
Total borrowings excluding finance leases (note 18)	(8,263)	(11,034)
Net debt	(6,311)	(6,082)

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 2012 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 £875,000 (2011 - loss of £127,000), offset by a gain on marking to market the foreign exchange collar of £730,000 (2011 - gain of £223,000).

Beneficial impact of the collar as at 3 October 2012 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 £767,000 at the participation cap rate of 1.3790 €:£ compared to the intercompany loans Sterling valuation at 31 March 2007 (1.4734 €:£).

As at 31 March 2012 the cumulative profit impact is a gain of £730,000. Therefore in the period 1 April 2012 to 30 September 2012 there will be an adjustment to the Statement of Comprehensive Income between a £37,000 profit and £390,000 charge.

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

	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)
31 Mar 2011	1.13	14,606	3,407	(2,552)	106
31 Mar 2012	1.20	13,750	2,551	(1,821)	(125)
Total cumulative gain/(loss) to profit before tax					730

Prior to expiry in October 2012 the Company intends to enter a new one year foreign exchange collar contract that will include the current collar mark to market valuation and have no cash impact.

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. The customer is either a trade customer or the consumer when sold through Hornby concessions in various retail outlets, or via the internet.

(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.

(d) Hornby Visitor Centre

Revenue is generated from the ticket and product sales at our Visitor Centre in Margate.

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, excluding goodwill, arising on a business combination subsequent to 1 April 2004, are separately identified and valued, and subject to amortisation over their estimated economic lives.

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 brand names over their estimated economic life of 15-20 years. Brand names have been valued on a "relief from royalty" basis.

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

(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.

Notes to the Financial Statements (continued)

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 property, plant and equipment 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 its residual value, 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.

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. In previous years dividend income was presented in finance income. This has now been shown separately in the Statement of Comprehensive Income.

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 used 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, 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.

SALES RETURNS PROVISIONS

Provision for sales returns are recognised when the Group has a constructive obligation as a result of a past event. Provision for sales returns are measured at the present value of the expenditure expected to be required to settle the obligation.

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 income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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.

CRITICAL JUDGEMENTS IN APPLYING THE ACCOUNTING POLICIES

The Group makes estimates and assumptions concerning the future, none of which are regarded as critical. 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 for the purpose of the cash flow statement 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 payment plans:

- Share Option Scheme
- Short Term Incentive Plan
- Performance Share Plan

Notes to the Financial Statements (continued)

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.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

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 total 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 current and non-current payables. 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 and subsequently amortised over the life of the facility. 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 (i.e. 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 2012 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 has borrowings comprising a revolving credit facility (£10 million – expiring August 2015) and a fixed-term loan agreement (£7.5 million – expiring July 2014). 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 31 March 2012 was £15.6 million. Those needs are determined by monitoring forecast and actual cash flows. The Group regularly monitors its performance against its banking covenants to ensure compliance.

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.

Notes to the Financial Statements (continued)

(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 other operating expenses.

On consolidation, the 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 Statement of Changes in Equity 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 the 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 29 and its assets and liabilities given in the Company Balance Sheet on page 30. Other Company information is provided in the other notes to the accounts.

Year ended 31 March 2012

	UK £'000	USA £'000	Spain £'000	Italy £'000	Rest of Europe £'000	Total Reportable Segments £'000	Intra Group £'000	Group £'000
Revenue								
– External	45,484	2,729	3,693	4,911	7,630	64,447	-	64,447
– Other segments	3,053	-	6,910	48	-	10,011	(10,011)	-
Operating profit	2,950	58	845	605	284	4,742	-	4,742
Finance cost								
– External	(675)	-	(73)	(6)	(25)	(779)	-	(779)
– Other segments	-	(6)	(234)	(312)	(111)	(663)	663	-
Finance income								
– External	24	-	1	1	-	26	-	26
– Other segments	663	-	-	-	-	663	(663)	-
Profit before taxation	2,962	52	539	288	148	3,989	-	3,989
Analysed as:								
Underlying profit before taxation	3,371	52	539	384	180	4,526	-	4,526
Net foreign exchange impact on intercompany loans	(145)	-	-	-	-	(145)	-	(145)
Amortisation of intangibles	(264)	-	-	(96)	(32)	(392)	-	(392)
Profit before taxation	2,962	52	539	288	148	3,989	-	3,989
Taxation	(468)	-	(428)	(142)	(48)	(1,086)	-	(1,086)
Profit for the year	2,494	52	111	146	100	2,903	-	2,903
Segment assets	53,178	1,318	11,961	10,669	3,771	80,897	(20,374)	60,523
Less intercompany receivables	(17,448)	(1)	(2,464)	(453)	(8)	(20,374)	20,374	-
Add tax assets	538	-	9	17	35	599	-	599
Total assets	36,268	1,317	9,506	10,233	3,798	61,122	-	61,122
Segment liabilities	17,451	1,303	9,530	7,757	4,991	41,032	(20,374)	20,658
Less intercompany payables	(211)	(1,175)	(8,092)	(7,196)	(3,700)	(20,374)	20,374	-
Add tax liabilities	648	-	382	242	11	1,283	-	1,283
Total liabilities	17,888	128	1,820	803	1,302	21,941	-	21,941
Other segment items								
Capital expenditure	2,820	6	977	25	53	3,881	-	3,881
Depreciation	2,846	16	787	237	28	3,914	-	3,914
Net foreign exchange on intercompany loans	145	-	-	-	-	145	-	145
Amortisation of intangible assets	264	-	-	96	32	392	-	392
Share-based payment – charge to Statement of Comprehensive Income (note 22)	262	-	-	-	-	262	-	262

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

Notes to the Financial Statements (continued)

Year ended 31 March 2011

	UK £'000	USA £'000	Spain £'000	Italy £'000	Rest of Europe £'000	Total Reportable Segments £'000	Intra Group £'000	Group £'000
Revenue								
– External	47,273	2,667	3,260	4,628	5,544	63,372	-	63,372
– Other segments	3,526	-	3,823	347	-	7,696	(7,696)	-
Operating profit/(loss)	4,416	(35)	(160)	690	(20)	4,891	-	4,891
Finance cost								
– External	(763)	-	(45)	(2)	(16)	(826)	-	(826)
– Other segments	-	(9)	(221)	(295)	(104)	(629)	629	-
Finance income								
– External	60	-	-	4	-	64	-	64
– Other segments	629	-	-	-	-	629	(629)	-
Profit/(loss) before taxation	4,342	(44)	(426)	397	(140)	4,129	-	4,129
Analysed as:								
Underlying profit before taxation	4,509	(44)	(426)	491	(107)	4,423	-	4,423
Net foreign exchange impact on intercompany loans	96	-	-	-	-	96	-	96
Amortisation of intangibles	(263)	-	-	(94)	(33)	(390)	-	(390)
Profit/(loss) before taxation	4,342	(44)	(426)	397	(140)	4,129	-	4,129
Taxation	(1,062)	-	(134)	(54)	(24)	(1,274)	-	(1,274)
Profit/(loss) for the year	3,280	(44)	(560)	343	(164)	2,855	-	2,855
Segment assets	56,472	1,317	11,014	11,479	3,454	83,736	(20,430)	63,306
Less intercompany receivables	(18,064)	(2)	(1,696)	(658)	(10)	(20,430)	20,430	-
Add tax assets	109	-	130	107	45	391	-	391
Total assets	38,517	1,315	9,448	10,928	3,489	63,697	-	63,697
Segment liabilities	21,685	1,380	10,510	8,379	4,503	46,457	(20,430)	26,027
Less intercompany payables	(100)	(1,259)	(7,873)	(7,669)	(3,529)	(20,430)	20,430	-
Add tax liabilities	813	-	65	23	-	901	-	901
Total liabilities	22,398	121	2,702	733	974	26,928	-	26,928
Other segment items								
Capital expenditure	3,147	7	1,228	110	14	4,506	-	4,506
Depreciation	2,833	15	670	526	16	4,060	-	4,060
Net foreign exchange on intercompany loans	(96)	-	-	-	-	(96)	-	(96)
Amortisation of intangible assets	263	-	-	94	33	390	-	390
Share-based payment – charge to Statement of Comprehensive Income (note 22)	51	-	-	-	-	51	-	51

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

3. FINANCE (COSTS)/INCOME

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Finance costs:				
Interest expense on bank borrowings	(774)	(818)	-	(7)
Interest expense on intercompany borrowings	-	-	(234)	(221)
Interest expense on finance leases	(5)	(8)	-	-
	(779)	(826)	(234)	(228)
Finance income:				
Bank interest	26	64	-	-
Interest income on intercompany loans	-	-	175	174
	26	64	175	174
Net finance (costs)/income	(753)	(762)	(59)	(54)

4. PROFIT BEFORE TAXATION

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
The following items have been included in arriving at profit before taxation:				
Staff costs (note 23)	10,276	9,643	923	928
Inventories:				
– Cost of inventories recognised as an expense (included in cost of sales)	27,704	28,468	-	-
– Write down release/(charge)	25	(102)	-	-
Depreciation of property, plant and equipment:				
– Owned assets	3,889	4,036	35	43
– Under finance leases	25	24	-	-
Profit on disposal of assets	-	(2)	-	-
Other operating lease rentals payable:				
– Plant and machinery	169	183	-	-
– Property	395	362	-	-
Repairs and maintenance expenditure on property, plant and equipment	214	198	-	-
Research and development expenditure	1,635	1,738	-	-
Foreign exchange losses:				
– On trading transactions and ineffective hedges	255	174	-	-
Impairment of trade receivables	187	52	-	-
Other operating expenses/(income):				
– Foreign exchange on trading transactions	273	99	-	-
– Net impact of foreign exchange on intercompany loans	145	(96)	-	-
– Movement on fair value of ineffective hedge	(18)	75	-	-
– Share-based payment charge	262	51	144	166
– Amortisation of intangible assets	392	390	-	-
	1,054	519	144	166

Notes to the Financial Statements (continued)

Services provided by the Company's auditors and network firms

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

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Fees payable to the Company's auditors for the audit of parent company and consolidated accounts	87	90	15	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	36	50	-	-
– Other services pursuant to legislation	39	19	26	19
Services relating to taxation	30	34	5	10
	192	193	46	41

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.

5. TAXATION

Analysis of tax charge in the year

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Current tax				
– UK taxation	643	1,014	36	20
adjustments in respect of prior years	(30)	7	(3)	7
– overseas taxation	491	1	(46)	(52)
adjustments in respect of prior years	-	165	-	165
	1,104	1,187	(13)	140
Deferred tax (note 20)				
– current year	(145)	41	(9)	(5)
– overseas taxation	127	46	-	-
– adjustments in respect of prior years	(261)	-	-	-
	(279)	87	(9)	(5)
Total tax charge to the profit before tax	825	1,274	(22)	135

The tax for the year differs to the standard rate of corporation tax in the UK (26%). Any differences are explained below:

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Profit before taxation	3,989	4,129	2,199	3,917
Profit on ordinary activities multiplied by rate of Corporation tax in UK of 26% (2011 - 28%)	1,037	1,156	572	1,097
Effects of:				
Adjustments to tax in respect of prior years	231	172	(3)	172
Income not taxable	-	-	(502)	(1,031)
Difference on overseas rates of tax	2	20	10	4
Impact of overseas losses not recognised	-	65	-	-
Re-measurement of deferred tax – change in UK tax rate to 24%	(18)	(15)	13	(12)
Other	95	(124)	(112)	(95)
Total taxation	825	1,274	(22)	135

In addition to the change in rates of corporation tax to 26% from 1 April 2011 disclosed above a number of further changes to the UK corporation tax system were announced in the March 2012 UK Budget Statement. Legislation to reduce the main rate of corporation tax from 26% to 24% from 1 April 2012 is expected to be included in the Finance Act 2012. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 22% by 1 April 2014. These further changes have not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

6. DIVIDENDS

	Group and Company	
	2012 £'000	2011 £'000
3.3p final paid per share in relation to year ended 31 March 2011 (2011 - 5.0p paid in relation to year ended 31 March 2010)	1,267	1,897
1.7p interim paid per share in relation to year ended 31 March 2012 (2011 - 1.7p paid in relation to year ended 31 March 2011)	665	652
	1,932	2,549

In addition, the directors are proposing a final dividend in respect of the financial year ended 31 March 2012 of 2.0p per share which will absorb £783,282 of shareholders' funds to be paid on 21 December 2012 to shareholders who are on the register of members on 23 November 2012.

Notes to the Financial Statements (continued)

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 2012.

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

	Earnings £'000	2012 Weighted average number of shares 000's	Per-share amount pence	Earnings £'000	2011 Weighted average number of shares 000's	Per-share amount pence
REPORTED						
Basic EPS						
Earnings attributable to ordinary shareholders	3,164	38,626	8.19	2,855	38,071	7.50
Effect of dilutive securities						
Options	-	328	(0.07)	-	373	(0.07)
Diluted EPS	3,164	38,954	8.12	2,855	38,444	7.43
UNDERLYING						
Earnings attributable to shareholders	3,164	38,626	8.19	2,855	38,071	7.50
Amortisation of intangibles	392	-	1.01	390	-	1.02
Net foreign exchange translation adjustments net of tax	107	-	0.28	(69)	-	(0.18)
Underlying basic EPS	3,663	38,626	9.48	3,176	38,071	8.34
Underlying diluted EPS	3,663	38,954	9.40	3,176	38,444	8.26

8. GOODWILL

GROUP	£'000
COST	
At 1 April 2011	13,372
Exchange adjustments	(313)
At 31 March 2012	13,059
AGGREGATE IMPAIRMENT	
At 1 April 2011 and 31 March 2012	-
Net book amount at 31 March 2012	13,059

GROUP	£'000
COST	
At 1 April 2010	13,416
Exchange adjustments	(44)
At 31 March 2011	13,372
AGGREGATE IMPAIRMENT	
At 1 April 2010 and 31 March 2011	-
Net book amount at 31 March 2011	13,372

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 2012 is as follows:

GROUP	UK £'000	USA £'000	Spain £'000	Italy £'000	Rest of Europe £'000	Total £'000
At 31 March 2012	3,992	8	3,990	4,526	543	13,059
At 31 March 2011	3,992	8	3,990	4,807	575	13,372

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 calculations:

- 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 2013. 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. The cash flows were discounted using a pre-tax discount rate of 11% (2011 - 12%) which management believes is appropriate for all territories. The Italian business is expected to grow strongly in the year March 2013, but if revenue growth were limited to 8% in that year, the recoverable amount would be equal to its carrying amount.

Notes to the Financial Statements (continued)

9. INTANGIBLE ASSETS

GROUP	Brand names £,000	Customer lists £'000	Rent free period £'000	Total £'000
ACQUIRED INTANGIBLE ASSETS				
COST				
At 1 April 2011	5,001	1,452	36	6,489
Exchange adjustments	(102)	(26)	(3)	(131)
Disposals	-	-	(33)	(33)
At 31 March 2012	4,899	1,426	-	6,325
ACCUMULATED AMORTISATION				
At 1 April 2011	1,057	576	36	1,669
Charge for the year	248	144	-	392
Exchange adjustments	(34)	(16)	(3)	(53)
Disposals	-	-	(33)	(33)
At 31 March 2012	1,271	704	-	1,975
Net book amount at 31 March 2012	3,628	722	-	4,350
COST				
At 1 April 2010	5,015	1,455	36	6,506
Exchange adjustments	(14)	(3)	-	(17)
At 31 March 2011	5,001	1,452	36	6,489
ACCUMULATED AMORTISATION				
At 1 April 2010	811	432	36	1,279
Charge for the year	246	144	-	390
Exchange adjustments	-	-	-	-
At 31 March 2011	1,057	576	36	1,669
Net book amount at 31 March 2011	3,944	876	-	4,820
Net book amount at 31 March 2010	4,204	1,023	-	5,227

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

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 2011	3,068	5,518	417	44,122	53,125
Exchange adjustments	(38)	(54)	(4)	(495)	(591)
Additions at cost	-	548	-	3,333	3,881
Disposals	-	(4)	(12)	-	(16)
At 31 March 2012	3,030	6,008	401	46,960	56,399
ACCUMULATED DEPRECIATION					
At 1 April 2011	1,210	3,688	235	37,784	42,917
Exchange adjustments	(7)	(40)	(3)	(389)	(439)
Charge for the year	49	478	50	3,337	3,914
Disposals	-	(3)	(12)	-	(15)
At 31 March 2012	1,252	4,123	270	40,732	46,377
Net book amount at 31 March 2012	1,778	1,885	131	6,228	10,022

GROUP	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Tools and moulds £'000	Total £'000
COST					
At 1 April 2010	3,033	4,925	418	40,602	48,978
Exchange adjustments	(4)	(16)	(1)	(60)	(81)
Additions at cost	39	616	96	3,755	4,506
Disposals	-	(7)	(96)	(175)	(278)
At 31 March 2011	3,068	5,518	417	44,122	53,125
ACCUMULATED DEPRECIATION					
At 1 April 2010	1,152	3,293	251	34,262	38,958
Exchange adjustments	-	(5)	-	3	(2)
Charge for the year	58	407	50	3,545	4,060
Disposals	-	(7)	(66)	(26)	(99)
At 31 March 2011	1,210	3,688	235	37,784	42,917
Net book amount at 31 March 2011	1,858	1,830	182	6,338	10,208

Freehold land amounting to £786,000 (2011 - £786,000) has not been depreciated.

Notes to the Financial Statements (continued)

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

	2012 £'000	2011 £'000
COST	167	167
Aggregate depreciation	(71)	(46)
Net book amount	96	121

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 to IFRS as deemed cost. All other assets are stated at cost.

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

COMPANY	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000
COST			
At 1 April 2011	2,428	4	2,432
Additions	-	-	-
At 31 March 2012	2,428	4	2,432
ACCUMULATED DEPRECIATION			
At 1 April 2011	1,084	4	1,088
Charge for the year	35	-	35
At 31 March 2012	1,119	4	1,123
Net book amount at 31 March 2012	1,309	-	1,309

COMPANY	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000
COST			
At 1 April 2010	2,428	4	2,432
Additions	-	-	-
At 31 March 2011	2,428	4	2,432
ACCUMULATED DEPRECIATION			
At 1 April 2010	1,041	4	1,045
Charge for the year	43	-	43
At 31 March 2011	1,084	4	1,088
Net book amount at 31 March 2011	1,344	-	1,344
Net book amount at 31 March 2010	1,387	-	1,387

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 2011	27,993	7,179	35,172
Capital contribution relating to share-based payment	118	-	118
Net increase in loans to subsidiary undertakings	-	1,311	1,311
At 31 March 2012	28,111	8,490	36,601
At 1 April 2010	28,108	5,650	33,758
Capital contribution relating to share-based payment	(115)	-	(115)
Net increase in loans to subsidiary undertakings	-	1,529	1,529
At 31 March 2011	27,993	7,179	35,172

Interest was charged on loans to subsidiary undertakings at 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 and Hornby España S.A. are engaged in the development, design, sourcing and distribution of models. Hornby America Inc., Hornby Italia s.r.l., 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	United Kingdom	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	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Raw materials	354	270	-	-
Work in progress	39	58	-	-
Finished goods	17,474	15,885	-	-
	17,867	16,213	-	-

Notes to the Financial Statements (continued)

13. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
CURRENT:				
Trade receivables	11,608	11,996	-	-
Less: provision for impairment of receivables	(230)	(195)	-	-
Trade receivables – net	11,378	11,801	-	-
Other receivables	400	511	-	-
Prepayments	1,391	1,336	33	38
	13,169	13,648	33	38

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated and deemed adequate. 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 2012 to the value of £8.9 million (2011 - £9.2 million).

Gross trade receivables can be analysed as follows:

	2012 £'000	2011 £'000
Fully performing	9,252	10,288
Past due	2,078	1,480
Impaired	278	228
Trade receivables	11,608	11,996

As of 31 March 2012, trade receivables of £2,078,000 (2011 - £1,480,000) 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:

	2012 £'000	2011 £'000
1 – 120 days	1,946	1,412
>120 days	132	68
	2,078	1,480

As of 31 March 2012, trade receivables of £278,000 (2011 - £228,000) were impaired and provided for. The amount of provision was £230,000 (2011 - £195,000) as of 31 March 2012.

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

The ageing of these receivables is as follows:

	2012 £'000	2011 £'000
1 – 120 days	37	12
> 120 days	241	216
	278	228

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

	2012 £'000	2011 £'000
At 1 April	195	284
Provision for receivables impairment	187	52
Receivables written off during the year as uncollectible	(145)	(138)
Exchange adjustments	(7)	(3)
At 31 March	230	195

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	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Sterling	7,206	7,875	33	38
Euro	5,174	5,113	-	-
US dollar	570	512	-	-
HK dollar	219	148	-	-
	13,169	13,648	33	38

14. CASH AND EQUIVALENTS

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Cash at bank and in hand	1,952	4,952	2	11

15. TRADE AND OTHER PAYABLES

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
CURRENT:				
Trade payables	5,047	6,590	-	-
Other taxes and social security	1,198	1,018	18	18
Other payables	2,332	2,127	-	-
Accruals	1,245	1,524	70	114
	9,822	11,259	88	132

Notes to the Financial Statements (continued)

16. PROVISIONS

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Sales returns				
At 1 April	413	391	-	-
Charge to Statement of Comprehensive Income	649	933	-	-
Utilised in the year	(738)	(911)	-	-
At 31 March	324	413	-	-

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	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Current tax assets				
Corporation tax recoverable – Overseas	61	282	9	130
Current tax liabilities				
UK Corporation tax liability	324	512	36	20
Overseas Corporation tax liability	381	52	209	-
	705	564	245	20

18. BORROWINGS

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Secured borrowing at amortised cost				
Bank overdrafts	361	555	-	-
Bank loan	7,902	10,479	-	-
Finance leases	99	128	-	-
Loan from subsidiary undertakings	-	-	5,018	5,331
	8,362	11,162	5,018	5,331
Total borrowings				
Amount due for settlement within 12 months	3,474	3,136	-	-
Amount due for settlement after 12 months	4,888	8,026	5,018	5,331
	8,362	11,162	5,018	5,331

The Group complied with all loan covenants during the year. The Company borrowings are denominated in Sterling.

Analysis of borrowings by currency:

Group	Sterling £'000	Euros £'000	Total £'000
31 March 2012			
Bank overdrafts	-	361	361
Bank loan	7,500	402	7,902
Finance leases	99	-	99
	7,599	763	8,362
31 March 2011			
Bank overdrafts	-	555	555
Bank loan	10,000	479	10,479
Finance leases	128	-	128
	10,128	1,034	11,162

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

At 31 March 2012 the Group had a revolving credit facility of £10 million expiring August 2015 and a 5-year fixed term loan agreement of £12 million with repayments scheduled to July 2014 (£7.5 million as at 31 March 2012). The future interest rates of these facilities are Libor + 2.5% for the revolving credit facility and Libor + 3.6% for the fixed term loan.

The average effective interest rate on bank overdrafts approximated to 3.63% (2011 - 3.85%) per annum and is determined based on 1.0% above 3-month Libor.

Undrawn borrowing facilities

At 31 March 2012, the Group had available £10.6 million (2011 - £10.4 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. In addition, European subsidiaries had available £1.6 million (2011 - £1.4 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 detailed in note 1.

Group	Assets		Liabilities	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Carrying values of derivative financial instruments				
Foreign exchange collar	-	-	(1,821)	(2,552)
Forward foreign currency contracts – cash flow hedges	104	93	(120)	(299)
Interest rate swap – cash flow hedge	-	-	(214)	(342)
	104	93	(2,155)	(3,193)

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 2012 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.

Notes to the Financial Statements (continued)

At 31 March 2012 outstanding forward currency contracts were as follows:

	2012 000's	2011 000's
Hong Kong \$	156,776	167,676
US\$	6,732	4,473
Euros	-	908

The notional principal amount of the outstanding interest rate swap contract at 31 March 2012 was £3.0 million (2011 - £4.0 million). At 31 March 2012, the interest rate swap fixes the interest rate on £3.0 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 2012 will be continuously released to the Statement of Comprehensive Income until the maturity of the swap. The £4.5 million (2011 - £6.0 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 £230,000 liability (2011 - £637,000 liability) of which £187,000 liability (2011 - £168,000 liability) has been effectively hedged at 31 March 2012 and therefore charged to reserves in accordance with IAS 39. The liability balance of £43,000 (2011 - £61,000 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.

Fair values of non-derivative financial assets and liabilities

For the Group and the Company, as at 31 March 2012 and 31 March 2011, 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: 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	2012 Total £'000
Between one and two years	3,053	25	3,078
Between two and five years	1,669	12	1,681
More than five years	129	-	129
	4,851	37	4,888

	Bank loan £'000	Finance leases £'000	2011 Total £'000
Between one and two years	3,054	62	3,116
Between two and five years	4,674	37	4,711
More than five years	199	-	199
	7,927	99	8,026

COMPANY	2012 Debt £'000	2011 Debt £'000
More than five years (note 18)	5,018	5,331

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

GROUP	2012 £'000	2011 £'000
Not later than one year	63	34
Later than one year but not more than five	38	101
	101	135
Future finance charges on finance leases	(2)	(7)
Present value of finance lease liabilities	99	128

Notes to the Financial Statements (continued)

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 costs are 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 £106,000 (2011 - £110,000) before tax. A 1% fall in interest rates give the same but opposite effect.

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 Sterling and in accordance with IFRS 7 all other variables remaining constant. A 10% devaluation in the value of Sterling would have the opposite effect.

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

	Income and Equity Sensitivity	
	2012 £'000	2011 £'000
US and HK dollars	815	768
Euros	148	128
	963	896

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue 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.

	2012 £'000	2011 £'000
Total borrowings (note 18)	8,362	11,162
Less:		
Total cash and cash equivalents (note 14)	(1,952)	(4,952)
Net debt	6,410	6,210
Total equity	39,181	36,769
Total Capital	45,591	42,979
Gearing	14%	14%

20. DEFERRED TAX

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 24% (2011 - 26%).

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

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
At 1 April	228	141	161	166
Charge/(credit) to Statement of Comprehensive Income (note 5) – origination and reversal of temporary differences	(279)	87	(9)	(5)
Exchange adjustments	(2)	-	-	-
Utilisation of trading losses against other tax payable	88	-	-	-
At 31 March	35	228	152	161

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 2011	166	135	36	337	166	11	177
(Credit)/charge to Statement of Comprehensive Income	(17)	40	213	236	(17)	(1)	(18)
At 31 March 2012	149	175	249	573	149	10	159
At 1 April 2010	183	84	14	281	183	13	196
(Credit)/charge to Statement of Comprehensive Income	(17)	51	22	56	(17)	(2)	(19)
At 31 March 2011	166	135	36	337	166	11	177

Notes to the Financial Statements (continued)

Of the total deferred tax liability of £573,000, £5,000 was due within one year for the Group (2011 - £5,000) and £5,000 for the Company (2011 - £5,000).

	Group			Total £'000	Company Short-term incentive plan £'000
	Short-term incentive plan £'000	Acquisition intangibles £'000	Other £'000		
Deferred tax assets					
At 1 April 2011	(35)	(74)	-	(109)	(16)
Charge/(credit) to Statement of Comprehensive Income	20	(25)	(424)	(429)	9
At 31 March 2012	(15)	(99)	(424)	(538)	(7)
At 1 April 2010	(68)	(48)	(24)	(140)	(30)
Charge/(credit) to Statement of Comprehensive Income	33	(26)	24	31	14
At 31 March 2011	(35)	(74)	-	(109)	(16)
Net deferred tax liability					
At 31 March 2012				35	152
At 31 March 2011				228	161

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 2012 and 31 March 2011 have been recognised separately.

GROUP	2012		2011	
	Recognised £'000	Not recognised £'000	Recognised £'000	Not recognised £'000
Deferred tax comprises:				
Accelerated capital allowances	175	-	135	-
Other temporary differences	(389)	-	57	-
Overseas taxation	249	-	36	-
Deferred tax liability	35	-	228	-
COMPANY				
Deferred tax comprises:				
Accelerated capital allowances	10	-	11	-
Other timing differences	142	-	150	-
Deferred tax liability	152	-	161	-

21. SHARE CAPITAL

GROUP AND COMPANY

Allotted, issued and fully paid:

Ordinary shares of 1p each	2012		2011	
	Number of shares	£'000	Number of shares	£'000
At 1 April	38,464,100	385	38,064,100	381
Allotted under share option schemes	700,000	7	400,000	4
	39,164,100	392	38,464,100	385

At 31 March 2012 options granted under the Company's share option schemes were outstanding as follows:

Date granted	Number of options		Exercise price	Period of option
	2012	2011		
28 March 2002	-	600,000	76.8p	March 2005 – March 2012
19 June 2002	447,500	547,500	83.4p	June 2005 – June 2012
09 June 2005	400,000	400,000	201.0p	June 2008 – June 2012
	847,500	1,547,500		

The total number of options outstanding as at the date of this document represent approximately 2.2% (2011 - 4.0%) of the issued share capital of the Company.

If Resolution 12 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 2.4% (2011 - 4.5%) 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 2012 and 31 March 2011 was as follows:

	2012		2011	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 April	1,547,500	111.2p	2,176,467	119.7p
Exercised	(700,000)	77.7p	(400,000)	76.8p
Lapsed	-		(228,967)	252.0p
Outstanding at 31 March	847,500	138.9p	1,547,500	111.2p

Notes to the Financial Statements (continued)

Options were exercised on 2 December 2011. The weighted average share price during the year was 125.5p (2011 - 138.5p).

The following table summarises information relating to the number of shares under option (SOS awards) and those which were exercisable at 31 March 2012.

Range of exercise prices	Total shares under option Number	Weighted average remaining contractual life Months	Options exercisable at 31 March 2012 Number	Options exercisable at 31 March 2011 Number	Exercisable weighted average exercise price for options exercisable at 31 March 2012
£0.70 – £0.80	-	-	-	600,000	76.8p
£0.80 – £0.90	447,500	3	447,500	547,500	83.4p
£2.00 – £2.10	400,000	3	400,000	400,000	201.0p
	847,500		847,500	1,547,500	138.9p

Performance Share Plan

All Performance Share Plan (PSP) awards outstanding at 31 March 2012 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 and Company amounted to £262,000 in the year ended 31 March 2012 (2011 - £51,000).

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

	SOS	2012 STIP	PSP*	SOS	2011 STIP	PSP*
Fair value (p)	-	-	102.25p	-	-	102.5p
Options pricing model used	-	-	Stochastic	-	-	Stochastic
Share price at grant date (p)	-	-	136.4p	-	-	139.5p
Exercise price (p)	-	-	n/a	-	-	n/a
Expected volatility (%)	-	-	48.0%	-	-	47.0%
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.

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.

	2012 £'000	2011 £'000
At 1 April	180	326
Shares acquired in Company	-	-
Shares vested	(90)	(146)
At 31 March	90	180

Details of the Short Term Incentive Plan are given in the Directors' Remuneration Report on pages 20 to 25.

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

On 17 June 2011, the second third of the 2008 allocation (57,766 ordinary shares) were vested.

At 31 March 2012, a total of 57,766 (2011 - 115,532) ordinary shares are held by the Trust and allotted to the directors and senior management under the plan with a nominal value of £578 (2011 - £1,155) and a market value of £54,878 (2011 - £124,775). The costs of the plan are borne by Hornby Plc. The Trust has waived its right to dividends.

23. EMPLOYEES AND DIRECTORS

	Group 2012 £'000	2011 £'000	Company 2012 £'000	2011 £'000
Staff costs for the Group during the year:				
Wages and salaries	8,171	7,797	628	613
Share-based payments (note 22)	262	51	144	166
Social security costs	1,081	1,047	93	90
Other pension costs (note 24)	669	723	58	59
Redundancy and compensation for loss of office	93	25	-	-
	10,276	9,643	923	928

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

	Group 2012 Number	2011 Number	Company 2012 Number	2011 Number
Operations	99	104	1	1
Sales, marketing and distribution	107	106	1	1
Administration	40	39	3	3
	246	249	5	5

Notes to the Financial Statements (continued)

Key management compensation:

	Group		Company	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Salaries and short term employee benefits	2,002	1,893	469	488
Share-based payments	261	100	144	166
Post-employment benefits	244	199	58	59
	2,507	2,192	671	713

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 20 to 25 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 Adviser 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 £669,000 (2011 - £723,000) representing the actual contributions payable in the year and certain scheme administration costs. The Company pension cost for the year was £58,000 (2011 - £59,000).

25. FINANCIAL COMMITMENTS

	Group	
	2012	2011
	£'000	£'000
At 31 March capital commitments were:		
Contracted for but not provided for	1,879	1,439

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

The Company does not have any capital commitments.

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.

HMRC are currently performing a review of Hornby Hobbies Limited's previously agreed accelerated capital allowances for product tooling. The review is ongoing, however were HMRC to overturn the previously agreed treatment there would be as at 31 March 2012 be a maximum £1.1 million cash outflow.

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	2012 £'000	2011 £'000
Not later than one year	417	489
Later than one year but not more than five years	794	967
More than five years	-	106
	1,211	1,562

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 Company received management fees from subsidiaries of £1,278,000 (2011 - £1,251,000), interest of £175,000 (2011 - £174,000) and dividends from subsidiaries of £1,932,000 (2011 - £3,681,000) and incurs interest of £234,000 (2011 - £221,000) on intercompany borrowings.

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 thirty first Annual General Meeting of Hornby Plc (the “**Company**”) will be held at the offices of Berwin Leighton Paisner LLP, Adelaide House, London Bridge, London EC4R 9HA on Thursday 26 July 2012 at 11.00 a.m. for the following purposes:

To consider and, if thought fit, to pass the following resolutions, of which numbers 1 to 10 (inclusive) will be proposed as ordinary resolutions and numbers 11 and 12 as special resolutions.

ORDINARY RESOLUTIONS

1. To receive and adopt the Company’s Annual Report and Accounts for the financial year ended 31 March 2012 together with the Report of the Directors and Auditors.
2. To approve the Directors’ Remuneration Report, as set out on pages 20 to 25 of the Company’s Annual Report and Accounts, for the financial year ended 31 March 2012.
3. To declare a final dividend of 2.0 pence per ordinary share of 1 pence each in the capital of the Company (the “**Ordinary Shares**”) payable to holders of Ordinary Shares on the register at the close of business on 23 November 2012.
4. To re-elect N A Johnson as a Director.
5. To re-elect A J Morris, who retires by rotation, as a Director.
6. To re-elect M E Rolfe, who retires by rotation, as a Director.
7. 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.
8. To authorise the Directors to agree the auditors’ remuneration.
9. 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,provided that the aggregate amount of any such donations and expenditure shall not exceed £15,000 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.
10. THAT, in place of the equivalent authority given to the Directors at the last Annual General Meeting (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 £130,000, provided that this authority shall expire on 25 July 2017 but so that the Company may, before the expiry of such period, make an offer or agreement which would or might require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after the expiry of such period and the Directors may allot shares or grant rights to subscribe for or convert securities into shares pursuant to such an offer or agreement as if this authority had not expired.

SPECIAL RESOLUTIONS

11. THAT, subject to and conditional on the passing of resolution 10, 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 10 as if section 561(1) 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 (defined below); and
- (b) otherwise than pursuant to resolution 10 above up to an aggregate nominal amount of £19,000,

and that this authority 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 this 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 10" 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 requirements of any recognised regulatory body or any stock exchange in any territory or any other matter.

12. 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 3,900,000 being an amount equal to approximately 10% of the Ordinary Shares in issue as at 7 June 2012 (being the latest practicable date prior to the publication 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 this resolution, or, if earlier, on the expiry of 18 months from the date of the passing of this resolution (except in relation to the purchase of Ordinary Shares, the contract for which was concluded before the expiry of this authority and which will or may be executed wholly or partly after such expiry).

By order of the Board

John Stansfield

Company Secretary

Dated: 8 June 2012

Registered office: Westwood, Margate, Kent CT9 4JX

Registered in England and Wales with number 01547390

Notice of Annual General Meeting (continued)

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 a different share or shares held by him/her. A form of proxy is enclosed with this Notice and instructions for its completion are set out on the form.
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 and any power of attorney or other authority, if any, under which it is signed or a duly certified copy of such power of attorney must reach the office of the Company's Registrars not less than 48 hours (excluding any part of a day which is not a working day) 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 11 a.m. on 24 July 2012.
5. Return of the form of proxy will not preclude a member from attending the AGM and voting in person. A vote withheld option is provided on the form of proxy to enable you to instruct your proxy to abstain on any particular resolution. However, it should be noted that a "vote withheld" is not a vote in law and will not be counted in the calculation of the proportion of votes "For" and "Against" a resolution. If you select "Discretionary" or fail to select any of the options, your proxy can vote as he or she chooses or can decide not to vote. Your proxy can also do this on any other resolution that is put to the AGM. A shareholder must inform the Company's registrars in writing of any termination of the authority of a proxy.
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**"). The rights of shareholders in relation to the appointment of proxies can only be exercised by registered shareholders of the Company. 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 Uncertificated Securities Regulations 2001, specifies that only those shareholders on the register of members of the Company as at 11 a.m. on 24 July 2012 (or, if the AGM is adjourned, shareholders on the register of members not later than 48 hours (excluding any part of a day which is not a working day) before the time fixed for the adjourned meeting) are entitled to attend and/or vote at the AGM (or any adjournment thereof) in respect of the number of shares registered in their name at that time. Subsequent changes to the register of securities shall be disregarded in determining the rights of any person to attend and vote at the AGM (or any adjournment thereof).
8. 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 on any weekday (Saturdays, Sundays and public holidays excluded) 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.
9. 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.
10. In order to facilitate voting by corporate representatives at the AGM, 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 its 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. You may not use any electronic address provided in this Notice or in any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.
14. 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.
15. As at 7 June 2012 (being the latest practicable date prior to the publication of this Notice), the Company's issued share capital consists of 39,164,100 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 8 June 2012 are 39,164,100.

Five Year Summary

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Turnover	64,447	63,372	63,863	60,803	54,949
Profit on ordinary activities before taxation	3,989	4,129	5,215	6,121	9,017
Taxation	(825)	(1,274)	(1,530)	(1,909)	(2,940)
Profit on ordinary activities after taxation	3,164	2,855	3,685	4,212	6,077
Assets employed:					
Non-current assets	27,969	28,509	28,803	29,903	20,812
Net current assets	16,673	16,623	18,653	9,133	11,037
Non-current borrowings	(4,888)	(8,026)	(10,547)	(7,181)	(41)
Deferred tax liabilities	(573)	(337)	(281)	(301)	(346)
Net assets	39,181	36,769	36,628	31,554	31,462
Total capital employed	39,181	36,769	36,628	31,554	31,462
Earnings per share					
– basic	8.2p	7.5p	9.8p	11.2p	16.2p
– diluted	8.1p	7.4p	9.6p	11.0p	15.6p
Dividend per share (net)	3.7p	5.0p	5.0p	2.7p	8.5p
Net assets per share	100.0p	95.7p	96.2p	83.1p	82.8p

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



HORNBY visitor centre



THE SIR HERBERT DAKELEY COLLECTION
CANTERBURY CATHEDRAL

www.hornby.com/visitorcentre





Hornby PLC

Westwood,
Margate,
Kent

CT9 4JX

www.hornby.com