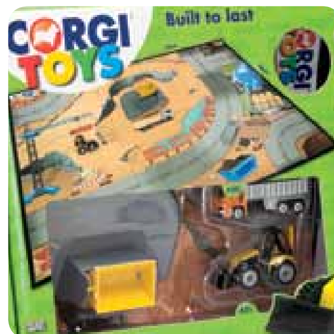
Hornby PLC

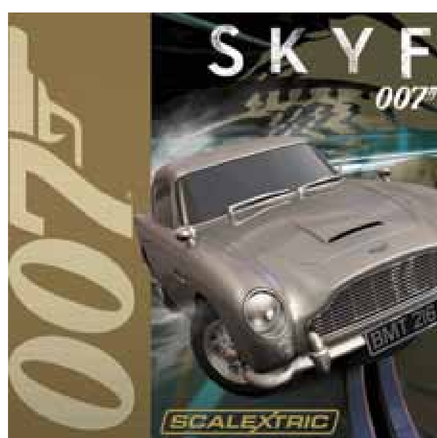
Annual Report and Accounts 2013



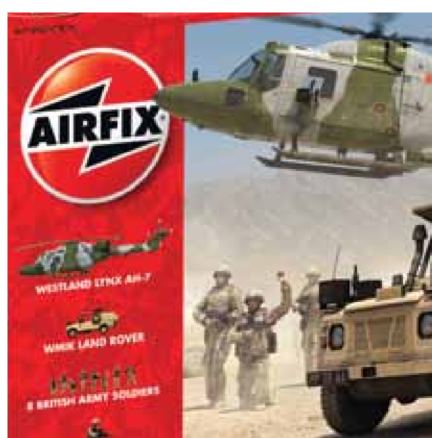
Hornby PLC

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.

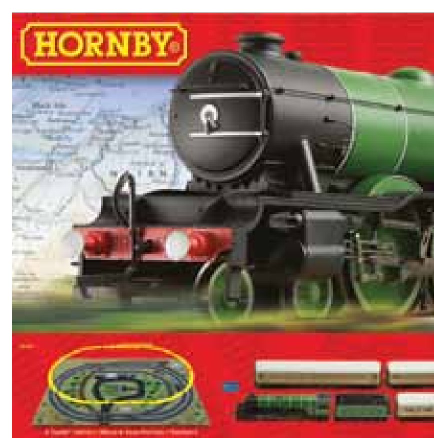
Corgi Toys Die-cast Scania Fire Engine.



Scalextric James Bond 007 Skyfall Set.



Airfix Operation Herrick Afghanistan British Forces – Helicopter Support Gift Set.



Hornby The Flying Scotsman Train Set.

Rivarossi Diesel Railcar.

Overview

01 Financial Highlights
02 Hornby – Group at a glance
04 Chairman's Statement
06 Operating and Financial Review

Governance

10 Directors and Corporate Information
11 Directors' Report
14 Corporate Governance Statement
21 Directors' Remuneration Report
26 Statement of Directors' Responsibilities
27 Independent Auditors' Report to the Members of Hornby Plc

Financials

28 Group and Company Statement of Comprehensive Income
29 Group and Company Balance Sheet
30 Group and Company Statement of Changes in Equity
31 Group and Company Cash Flow Statement
32 Notes to the Cash Flow Statement
33 Notes to the Financial Statements
64 Notice of Annual General Meeting (unaudited)
68 Five Year Summary (unaudited)
68 Shareholder's information service (unaudited)

Financial Highlights

£57.4m
Revenue
(2012 – £64.5m)

£0.7m
Underlying* operating profit
(2012 – £5.3m)

0p
Total dividend per share
(2012 – 3.7p)

£0.15m
Underlying* profit before taxation
(2012 – £4.5m)

£1m
Underlying* profit after taxation
(2012 – £3.7m)

0.5p
Underlying* basic earnings per share (2012 – 9.5p)

(£3.4)m
Reported (loss)/profit before taxation
(2012 – £4.0m)

(£2.5)m
Reported (loss)/profit after taxation
(2012 – £3.2m)

(6.4)p
Reported basic (loss) per share (2012 – 8.2p earnings per share)

* Underlying figures are before amortisation of intangibles and net foreign exchange adjustments on intercompany loans, re-structuring costs and impairment of goodwill.

"We continue to work hard on managing our supply chain. I am encouraged with the progress we have made, and we have continued to broaden the range of suppliers that we work with. Production for our new Airfix Quickbuild product range will be UK-based and we are moving some manufacturing from China to India. Our aim is to use this time of transition as a major opportunity for the business to build a robust platform for future growth."

OVERVIEW

Hornby – Group at a glance

The Group comprises a number of high quality premium brands spread across different product categories within the hobby and collectable toy market.

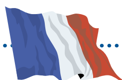
The quality and heritage of the brands allows us to re-introduce product lines to the market that we have done over the last few years with Airfix and now Pocher. We are also continuing to grow the European train brands and to explore opportunities in developing markets. The Group has the opportunity to develop a number of new license properties within the existing brand structure as well as developing other distribution opportunities. 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. Some other product lines are developed outside China where cost effective such as Airfix in India and we will continue to seek other opportunities to diversify production capacity including bringing it back to the UK.

£57.395m

Total revenue

- £43.195m UK
- £2.696m USA
- £2.655m Spain
- £3.234m Italy
- £5.615m Rest of Europe

Hornby RailMaster.



Corgi Lotus F1 Team, E20 Romain Grosjean, 2012 Race Car.

OVERVIEW

Chairman's Statement Roger Canham

"In this my first results statement as Chairman, I am pleased to report that Hornby is in a strong position to face the future. Despite the tough economic and consumer environment, we are broadening our distribution base and have made good progress towards developing our range of exciting new products."

Overview

I am delighted to be making my first statement as Chairman of Hornby. Having joined the Board in November and assumed the Chair in February, I spent much of these first few months acquainting myself with Hornby's business and its people.

Historically supply shortages have affected some parts of the Group more than others and our current focus is to ensure that the supply risk across product groups and market geographies is much more balanced. In January I took the opportunity to meet our colleagues in the Hong Kong office and to visit our current and potential vendors in China. The economics of sourcing our products from China continue to be affected by reducing availability of labour and increasing costs. The production of model railway items is both a complex and skilled process and consequently migrating to new vendors requires a patient approach. I am pleased to report that our plans to protect our margins and reduce our dependence on one or two key suppliers are well under way. Hornby's procurement team is also helping to develop manufacturing expertise in India and this year brought some of our Humbrol paint production back to the UK. Indeed, we are planning that one of our award winning new products for 2013, Airfix Quickbuild, will be manufactured in Sussex. Whilst the performance of existing and new vendors remains the single largest risk for the business, I am satisfied that as we move forwards through this year that risk will begin to decline.

The shape of the High Street is changing rapidly, our traditional wholesale customers are changing their retailing models, and we in turn are seeing the routes through which consumers purchase our products become increasingly digital and multichannel. Authenticity is a unique feature of our products and digital media presents an excellent opportunity for Hornby to engage with our consumers and share the huge amount of work that our product development team do when researching products. The Board is determined that the consumer will be at the heart of our business and responding to their demands will be the core of our business culture.

There is a huge depth of talent and knowledge at Hornby and incredible loyalty amongst our employees. Nick Stone joined the business in January this year as Group Finance Director and is a terrific addition to the team. Frank Martin, Chief Executive since 2001, decided to step down from this role in March, but will stay with the Group as Deputy Chairman prior to retiring on or before 30 June 2014. I am delighted that Frank has agreed to remain with the business for the short term so that we are able to benefit from his huge experience and knowledge. I moved to an Executive role with effect from 1 April 2013 whilst we recruit a new Chief Executive. Neil Johnson, our previous Chairman, left us in February, and we have taken the opportunity to reshape the senior management team at this time of transition, details of which are set out in the business review. I am grateful to those leaving for their many years of dedicated service.

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 continues this year to be 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 say that we were compliant with the Code throughout the year.

Our Vision and Strategy

Our Vision

To be the most successful model, hobby and collectables toy company in the world

'Success through our people'
'Success through focused execution'
'Success through passion for our brands'

Our Strategy

- To develop high quality consumer led branded product
- To develop complementary product categories for organic development
- To broaden global reach through additional markets and products
- To add complementary distribution lines to accelerate growth

As a result of the management changes that are underway my role is now one of Executive Chairman while we are seeking a new Chief Executive. Although this is not in compliance with the Code the Board believes this will be the most effective way of managing the Group on a temporary basis until the search process is complete and when we will then be back in compliance.

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.

Shareholder Engagement

I am delighted that once again this year, we will be hosting our Annual General Meeting at the Hornby headquarters in Margate on 25 July 2013. This will be an excellent opportunity for shareholders to see the new products for themselves and to understand the progress that the Company is making. Personally I am looking forward to welcoming as many shareholders as possible that are able to attend.

Outlook

Consumer confidence in all our major markets continues to be weak. We have reviewed our overhead base in order where possible to align costs with the current environment and as a result we have incurred one-off re-structuring costs of £0.7 million. We have also had to take a goodwill write-down of £2.4 million in our Italian business which has been particularly affected by supply issues and the economic downturn. 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.

Over the coming months our priority will be to focus on improving the execution of our core business, so that over time we can demonstrate high-quality and sustainable long-term revenue and earnings growth, combined with a disciplined approach to capital allocation. We have a broad portfolio of strong brands and we are optimistic that with a more reliable supply chain, we will see a return to growth.

Hornby has managed to weather the current economic uncertainty not least because of the commitment and loyalty of its people. On behalf of the Board I would like to thank them all for their contribution. The transition from a traditionally manufacturing business to one that is brand and consumer focused will not be quick and easy. However by engaging with our consumers, embracing digital technology and making our processes more efficient it can be done and will show significant benefit. I look forward to the challenges ahead with increasing optimism.

Roger Canham
Chairman
7 June 2013

OVERVIEW

Operating and Financial Review
Nick Stone

"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'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. The Company's vision is to be the most successful model, hobby, and collectable toy company in the world.

Financial Review

	2013	2012
Revenue	**£57.4m**	£64.4m
Underlying profit before tax*	**£0.15m**	£4.5m
Gross profit margin	**42.6%**	48.3%
Underlying profit before tax margin*	**0.26%**	7.0%
Reported (loss)/profit before tax margin	**(5.9%)**	6.2%
Underlying basic earnings per share*	**0.47p**	9.48p
Statutory basic (loss)/earnings per share	**(6.39)p**	8.19p
Net debt	**£2.1m**	£6.3m

* Stated before amortisation of intangibles, net foreign exchange adjustments on intercompany loans, re-structuring costs and impairment of goodwill.

Consolidated revenue for the year ended 31 March 2013 was £57.4 million, a decrease of 11% compared to the previous year's £64.4 million.

Full year gross profit margin was 43% (2012 – 48%). The decrease in gross profit margin was primarily a result of heavy discounting on London 2012 stock and the reduction in availability of supply on high end products and new releases due to the supply chain issues discussed below. Overheads decreased year on year, due primarily to the effect of the fall in variable selling costs due to reduced sales levels.

Pre-tax profit before net foreign exchange adjustments on intercompany loans, amortisation of intangibles, re-structuring costs and impairment of goodwill (hereafter referred to as underlying pre-tax profit) was £0.15 million (2012 – £4.5 million) (see reconciliation in note 4). Basic earnings per share calculated on underlying pre-tax profit (hereafter referred to as underlying basic earnings per share) were 0.47p (2012 – 9.48p). Statutory pre-tax loss was £3.4 million (2012 – £4.0 million profit) and statutory basic loss per share was 6.39p (2012 – 8.19p earnings per share). Taxation at £0.9 million credit (2012 – £0.8 million charge) was 26% of reported (loss)/profit before tax (2012 – 21%).

Core Group inventories reduced during the year by 24% from £17.9 million to £13.6 million, largely as a result of the effort made throughout the second half of the financial year to reduce the holding of London 2012 merchandise. Trade and other receivables also reduced from £13.2 million at the last year end to £9.6 million at 31 March 2013. The combined impact of both of these movements led to strong cash generation from operations. Investment in new tooling and other capital expenditure was £3.5m (2012 – £3.3m). As a result the working capital requirement fell and net debt at 31 March 2013 was £2.1 million, down from £6.3 million in 2012.

Dividend

This has been another year in which trading has been challenging and therefore the decision has been taken not to pay a dividend (2012 – 3.7p). It is the Board's intention to return to the long-term policy of paying 50% of earnings to shareholders once earnings and cash flows return to sustainable levels.

Scalextric Demolition Derby Quick Build Set.

Hornby Railroad Evening Star.

Airfix Quick Build Range.

Re-structuring

Following a review of the wider internal management structure, a re-structuring of the senior team below the Board level was announced at the end of the year. This will create a simpler, more streamlined reporting structure that more closely reflects the current shape of the business and implementation started immediately. A one-off re-structuring charge of around £0.7 million has been recorded this year, £0.4 million of which is expected to be offset by cost savings in the year to 31 March 2014. The changes will allow a stronger focus on our brands and their development as well as being more streamlined and a reduction in overhead costs.

Banking Facilities

The Group has banking facilities of £14.5 million in the UK. At 31 March 2013 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 (£4.5 million is to be repaid between 31 March 2013 and July 2014). The Group also has additional facilities of £3.5 million in place in its European subsidiaries. Borrowings in the year ended 31 March 2013 peaked at £9.9 million.

During the year, to ensure the Group remained comfortably within its banking covenants for the duration of the current facilities, the terms were successfully renegotiated with its principal banker Barclays Plc with effect from December 2012.

Business Overview

This year was one of challenging economic conditions in all of our major markets that were exacerbated by continuing disruptions to the model railway supply chain and the distractions of what was a disappointing venture into London 2012 branded products. We estimate that across the Group, more than 10% of product ordered was not delivered during the year with our European subsidiaries faring worse than the UK business. The UK business was also impacted by the sales of London 2012 product, which although totalling just short of £5 million produced an overall loss of £1.3 million. The combined impact of these factors has been a sharp decline in revenue and profits. The Board has undertaken a re-structuring of the management team and will continue to work on improving the business processes throughout the coming year with an increased focus on empowering our people, efficient execution and the strength of our brands.

Hornby sources the majority of its products in China and India, via third-party contract manufacturers. During the year model railway supplies from the Group's largest supplier in China, reduced considerably after their decision to close down the main factory supplying Hornby and transfer activity to another that didn't have the experience of producing our products. We have mitigated this risk by diversifying production to new suppliers whilst continuing to work with existing suppliers to help strengthen these existing relationships. This supplier is now expected to contribute less than 15% of total production in 2013. This is from a historical peak of 75% and 35% earlier in 2012.

OVERVIEW

Operating and Financial Review
continued

All purchases from our Chinese suppliers are either in Hong Kong or US 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 supply disruption and London 2012 shortfall reduced our Dollar requirement and resulted in 36 million Hong Kong Dollar purchases that were not required in the year and will be carried forward into the next financial year. The Group retains intellectual property rights in its products and controls all sales of its products.

United Kingdom
Trading conditions in our UK home market continued to be difficult and the shortfall in new products that had been expected during the year made matters worse. Disappointing sales from London 2012 were not only loss making but were also a distraction from the core business for both our consumers and management. The result was a decline in full-year sales in our UK subsidiary of 5% from the previous year to £43.2 million (2012 – £45.5 million). Against this difficult background, underlying profit before tax fell to £1.4 million compared to £3.4 million the previous year. Reported profit before tax was £0.46 million (2012 – £3.0 million). This result includes export sales to third parties of £6.1 million (2012 – £6.4 million). If the London 2012 merchandise were excluded from these numbers then the results would show sales of £38.5 million and underlying profit before tax of £1.7 million.

Sales of Hornby model railways declined by around 26% in the year, largely due to the supply chain disruption and the consequent delays to the launch of new locomotives. This in turn had a knock-on effect on sales of other items in the range. However we did have success with the majority of our new product introductions that were not affected by the supply chain disruption. These included a refurbished Flying Scotsman, a Diamond Jubilee celebratory set and a more modern '2-bil', which sold out quickly after launch. Despite the disappointments of the results in the year, appetite for the Hornby products is still strong and the gross margins can be sustained at a healthy level if we can improve the supply chain reliability. Sales through our concessions and our online direct sales have held up well against this backdrop, albeit with a larger than average decline in sales through our independent retailers. This reduction reflects weak consumer confidence generally and caution on the part of these retailers in respect of inventory purchases.

Sales of Scalextric overall were down by around 8% with the decline all coming in the 1:32 scale sets and cars. One exception to this was the sales of top of the range 'Digital Platinum' sets that increased. The 'Micro' range in 1:64 scale showed some growth although some of it came from London 2012 subject matter. Across both scales the James Bond Skyfall sets sold well. The decline was spread across all of our retailer channels with the exception of our own concessions further illustrating the cautious buying behaviour amongst our retailers.

Sales of Airfix showed a small increase on the previous year with some growth in both our classic kits, new ranges and gift sets from a reliable supply source in India. Amongst this was the successful launch of a 1:48 scale 'Afghan' military range and strong sales of a much requested Bentley kit. Our strategic repositioning of Humbrol as a support brand to our range of hobbies bore fruit with growth of over 20% across paints, glues and brushes.

Corgi sales grew by close to 40% overall but included the great majority of the London 2012 merchandise which was loss making. Comparing performance on a like for like basis excluding London 2012 merchandise sales grew by over 20% with success across premium products, the aviation archive items and toy ranges. This growth was supported by a strong supplier in China with capacity for growth, and we saw support in all retail channels.

Continental Europe
Our subsidiaries in mainland Europe bore the brunt of the supply chain difficulties with a shortfall in product orders of more than 30%. This is because most of the difficulties were in the model railway brands which make up the majority of the European sales. Revenue from our European subsidiaries in total was 29% below the previous year at £11.5 million (2012 – £16.2 million). Our subsidiaries in mainland Europe contributed an underlying loss before tax of £1.2 million compared with an underlying profit before tax of £1.1 million in the previous year. Reported loss before tax was £3.9 million (2012 – profit £1.0 million) including the goodwill impairment charge (see below).

The current macro-economic issues surrounding the Eurozone continue to be a cause for concern, especially in Italy and Spain but also affecting business in France and Germany to a lesser extent. Our strong European brands continue to attract increasing support from the model railway communities in each of our key territories and where new product has been available the response has been encouraging.

Goodwill Impairment
The previously mentioned supply chain issues and general economic weakness have impacted Italy disproportionally, depressing short-term cash flow and earnings and resulting in an impairment charge in the year of £2.4 million to goodwill (see note 8), which arose on the acquisition of assets within the Italian subsidiary in 2004. This non-cash exceptional charge has been made to the statement of comprehensive income through other operating expenses.

America
Sales in Hornby America were least impacted by the supply chain issues and were only marginally lower at $4.3 million (2012 – $4.4 million), producing a profit before tax of $15,000 (2012 – profit $83,000). Upon translation into Sterling, sales were £2.7 million (2012 – £2.7 million) with a profit before tax of £10,000 (2012 – profit £52,000). In addition Hornby Hobbies in the UK benefited from a gross margin contribution of £470,000 (2012 – £411,000) generated on sales made to Hornby America, which has the effect of increasing significantly the overall contribution to Group profit of our US operation.

Product Development

Our product development programme continues to be a key driver of our business and will give us a competitive advantage in the future when the supply chain issues are totally behind us. The ranges for each product type are designed to have a balance between recruitment, re-invigoration and retention of our consumers. The recruitment of young consumers through our toy ranges, starter sets and those items with lower price points is essential for the future of the brands. Inevitably many of those young consumers will not be retained as they grow older but there will be opportunities to re-invigorate their interest later in life when they perhaps have their own children or turn back to pastimes of their youth through our mid-price range items such as the Hornby Railroad products and Airfix. The core of our business currently is the typically older consumer with more time and disposable income who has become an enthusiast and is retained by the production of new material in the high end Hornby locomotives, the Corgi premium ranges and the Airfix higher scale ranges.

We were delighted at the response from the London Toy Fair where the complete Quickbuild range won Best New Toy this year in the hobby category, awarded by the British Toy and Hobby Association. The new Scalextric Demolition Derby set also topped the Toy Fair's inaugural Editors' Choice Awards as voted by over 300 journalists. Additionally this April, Airfix won the award for the Best Cause-Related Marketing Activity at the RAF Benevolent Fund's Award Ceremony. The planned re-launch of the Pocher model car range by our Spanish subsidiary later this year has received a very positive response across the world. Other notable developments in the year include Hornby E-Link and the launch of a Railmaster app both aimed at allowing control of a railway layout via home computers and other mobile devices. The year has also seen the launch of a new range of collectable Corgi cars based on the Lotus and McLaren Formula 1 teams and the Corgi toys range has been extended to include pocket money collectables.

Nick Stone
Group Finance Director
7 June 2013

GOVERNANCE

Directors and Corporate Information

Directors
R T Canham
Executive Chairman

F Martin
Deputy Chairman

N P Stone
Group Finance Director

N M Carrington
Non-Executive Director

M E Rolfe
Non-Executive Director

Company Secretary
N P Stone

Registered office
Westwood
Margate
Kent CT9 4JX

Company Registered Number
Registered in England Number: 01547390

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

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

Directors' Report

The directors submit their Annual Report together with the audited consolidated financial statements for the year ended 31 March 2013.

The Corporate Governance Report on pages 14 to 20 forms part of the Directors' Report.

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 with a branch in Hong Kong, 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 which is listed on the London Stock Exchange, and incorporated and operating in the United Kingdom. Its registered office is set out on page 10.

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 Operating and Financial review.

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

Results and dividends

The results for the year ended 31 March 2013 are set out in the Group Statement of Comprehensive Income on page 28. Revenue for the year was £57.4 million compared to £64.4 million last year. The loss for the year attributable to equity holders amounted to £2.5 million (2012 – £3.2 million profit). The position of the Group and Company is set out in the Group and Company Balance Sheets on page 29.

No interim dividend was declared in the year (2012 – £0.7 million) and the directors do not recommend a final dividend.

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. In light of the work currently being performed on the supply chain and distribution channels, management are currently constructing additional KPIs to monitor progress on these key measures which are considered fundamental to performance going forward. 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 and 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 £3,140 (2012 – £14,232) for charitable purposes. No donations to individual charities exceeded £2,000 for the year. There were no political donations in the year (2012 – £nil).

Directors

The persons who were directors during the year and up to the date of signing the financial statements are listed below:

Roger Canham, aged 49, was appointed to the Board on 7 November 2012 and became Chairman on 1 February 2013. Roger has been Chairman of Phoenix Asset Management Partners Limited ("Phoenix") since 2009 and also owns and manages a number of property development companies. Prior to that, he was a Non-executive Director of Goshawk Insurance Holdings PLC from 2007 until the business was acquired in 2008, and a director of Brake Bros Limited, for a year following its acquisition of W. Pauley & Co Limited in 2002. Mr Canham joined W. Pauley & Co Limited in 1990 and became Managing Director in 1996.

Frank Martin, aged 61, was appointed Chief Executive on 3 January 2001 and Deputy Chairman on 1 April 2013. 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 contract of employment is for a fixed term expiring on 30 June 2014.

Nick P Stone, aged 49, joined the Group on 14 January 2013 and was appointed Group Finance Director on 1 February 2013. Nick was previously the Operations and Finance Director at KBC Advanced Technologies PLC and earlier in his career was interim Finance Director at Accidentcare Group PLC, Finance Director at Lambert Fenchurch Limited and held positions at Mobil Oil Corporation. His conditions of employment include a notice period of six months to be given by the Company which will increase to one year after six months service and of six months to be given by him.

GOVERNANCE

Directors' Report continued

Nigel M Carrington, aged 57, was appointed a non-executive director on 1 December 2007. Nigel is currently Vice-Chancellor and Chief Executive of University of the Arts London and a member of the board of a number of charities. He was formerly a corporate lawyer and Managing Partner at Baker & McKenzie and Managing Director and Deputy Chairman of McLaren Group Limited.

Mark E Rolfe, aged 54, 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.

Neil A Johnson, aged 64, was originally appointed a non-executive director on 1 July 1998 and he assumed the responsibilities of Chairman on 22 December 2000. He resigned from the Board on 1 February 2013.

Andrew J Morris, aged 50, was appointed Group Finance Director on 26 November 2007. Andrew resigned from the Group on 15 February 2013.

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 21 to 25.

The number of Board meetings held during the year and attendance by the directors is set out on page 14.

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 24 May 2013 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
New Pistoia Income Limited	6,215,401	15.87
Phoenix Asset Management Partners Limited	5,432,573	13.87
Electra Quoted Partners	2,995,150	7.65
P J Wood	2,821,500	7.20
J J Hosking	1,597,234	4.08

Financial instruments

The Group's financial instruments, other than derivatives, comprise borrowings, 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 the Group's borrowings is to raise finance for the Group's operations. The Group also has financial assets comprising cash and 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 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. One of the Company's incentive schemes includes share scheme options for directors and senior management further detail of which is covered within the Directors' Remuneration Report on pages 21 to 25.

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 2013 was 40 days (2012 – 39 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 64 to 67.

Resolution 9

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 6 June 2013 (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 12 noon on 24 July 2018. 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 10

It is proposed to renew the authority to the directors to allot equity securities for cash without first being required to offer such securities to existing members. This will include the sale for cash on a non-pre-emptive basis of any shares which the Company holds in treasury. The authority 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 6 June 2013 (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 11

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 6 June 2013 (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 365,809 (approximately 0.9% 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 11 was used and the shares purchased were cancelled). This power would be used only after careful consideration by the directors, having taken into account market conditions prevailing at that time, the investment needs of the Company, its opportunities for expansion and its overall financial position. The directors would exercise the authority to purchase ordinary shares only if they considered it to be in the best interest of the members and they believe that the effect of such purchases will be to increase earnings per share.

The Company (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 came into force on 1 December 2003. These regulations allow shares repurchased by the Company to be held as treasury shares 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

N P Stone
Group Finance Director
Westwood
Margate
Kent CT9 4JX

7 June 2013

GOVERNANCE

Corporate Governance Statement

UK Corporate Governance Code
The Company recognises the importance of maintaining high standards of corporate governance. This report has been structured to report corporate governance arrangements and practices against the requirements of the UK Corporate Governance Code published in 2010.

Throughout the year ended 31 March 2013, the Company has been in compliance with the Code provisions. However on 1 April 2013 Frank Martin stood down as Chief Executive and took the role of Deputy Chairman. The search for a new Chief Executive was started immediately and for the interim period Roger Canham became Executive Chairman. He will revert to a non-executive Chairman role once a new Chief Executive is appointed.

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 led the Board from December 2000 until standing down on 1 February 2013 when he was replaced by Roger Canham. Roger's recruitment process was managed by a professional search and selection firm and major shareholders were consulted during the process.

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 or three non-executive directors. The third non-executive director was a temporary situation from 7 November 2012 until 1 February 2013 as part of the transition of the Chairman role from Neil Johnson to Roger Canham.

Chairman and Chief Executive
In the year to 31 March 2013, the roles of Chairman and Chief Executive were separate, with a clear division of responsibility. With effect from 1 April 2013 and for a temporary interim period as explained above whilst a new Chief Executive is recruited, the two roles will be combined and Roger Canham will be Executive Chairman.

Senior Independent Director
The Board has appointed Nigel 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 Chief Executive 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 11 and 12.

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.

Neil Johnson served on the Board for more than thirteen years and was its Chairman for twelve years. In line with the UK Corporate Governance Code the Senior Independent Director, Nigel Carrington, undertook 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 discussions with other members of the Board, and has concluded that the Chairman operated effectively and executed 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. Roger Canham, Nigel Carrington and Mark Rolfe are all experienced company directors.

Appointments to the Board
Nominations Committee
The Nominations Committee comprises the Chairman, executive and non-executive directors. There were two appointments to the Board during the year ended 31 March 2013, Roger Canham in November 2012 and Nick Stone in February 2013, both to replace existing directors who were standing down. Appointments to the Board require the Board's authorisation and are conducted by the Nominations Committee.

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 formal discussions. In the year under review the discussions held identified no areas of concern.

Re-election

The Company's Articles of Association currently require newly appointed directors to offer themselves for election and one third of the directors to retire by rotation at each Annual General Meeting. Therefore, Roger Canham, Nick Stone and Frank Martin offer themselves for election and re-election at the forthcoming Annual General Meeting. In accordance with the UK Corporate Governance Code, the non-retiring directors have conducted a review of their contribution to the Board and can confirm that they continue to be effective directors and to execute commitment to the role.

Audit Committee and Auditors

The Audit Committee comprises Nigel Carrington and Mark Rolfe. Mark 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. Nigel 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 UK Corporate Governance 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 'whistleblowing' 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.

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 £130,000 and the non-audit fee (principally tax services) was £61,000, 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 2013. 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.

GOVERNANCE

Corporate Governance Statement continued

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 whistleblowing 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 Nigel Carrington and Mark Rolfe. Nigel Carrington is the Chairman of the Remuneration Committee.

The Committee met 3 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 key 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 Audit Committee reviews and discusses with management and the external auditor the half-year and annual financial statements focusing on, amongst other matters; the quality and acceptability of accounting policies and practices, the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements; and material areas in which significant judgements have been applied.

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

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

RELATIONS WITH SHAREHOLDERS

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

Nigel 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 and following Roger Canham's appointment he visited most of the major shareholders between November 2012 and February 2013. 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.

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 quality and heritage of the brands allows us to re-introduce product lines to the market that we have done over the last few years with Airfix and now Pocher. We are also continuing to grow the European train brands and to explore opportunities in developing markets. The Group has the opportunity to develop a number of new license properties within the existing brand structure as well as developing other distribution opportunities. 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. Some other product lines are developed outside China where cost effective such as Airfix in India and we will continue to seek other opportunities to diversify production capacity including bringing it back to the UK.

	Company Mission and Strategic Objectives
Vision/Mission	To be the most successful model, hobby and collectables toy company in the world. 'Success through our people' 'Success through focused execution' 'Success through passion for our brands'
Strategic objectives	• To develop high quality consumer led branded product. • To develop complementary product categories for organic development. • To broaden global reach through additional markets and products. • To add complementary distribution channels 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 Pocher
% share of revenue	39% (2012 – 48%)	27% (2012 – 26%)	16% (2012 – 14%)	18% (2012 – 12%)
Supply source	China	China	India/UK	China
Internal Product development	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 Internet/ online			
	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 2% of revenue.			

GOVERNANCE

Corporate Governance Statement continued

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; 65% in 2013 (2012 – 61%).	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.
Distribution channels	The retail landscape is changing with the Group's traditional high street independent distribution network under significant commercial pressure from online retailers and discounters.	High street failures will reduce traditional customer base sales levels and increase credit risk.	The Group formulates its business strategy, including the website and direct to consumer channels, based on the changing retail dynamics. An increased focus on direct web based selling, selling directly at exhibitions and other events and expanding own retail concession network are all being developed to protect the brand position.
Competing brands	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.

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 suppliers to the Group are Refined, Kader, CLT, Zindart and Micro Plastics (India), who between them are expected to contribute 88% in 2013.	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 more recently in the UK, and closely monitors production through an increased number of locally based employees (who also ensure the maintenance of quality standards).
Capital Allocation	The Group now holds over 5,000 product lines across its own brand range.	Producing smaller quantities of more products puts pressure on gross margins and can lead to increased stock levels.	An improved capital allocation process is being developed to deliver a more focused product range in line with consumer demand with robust gross margins.
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 of £4.5 million as at 31 March 2013 (£7.5 million at 31 March 2012) and a revolving credit facility of £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, and are designed to meet the Group's requirements and both financial and operational risks identified in each area of the business. Control procedures are documented where appropriate and reviewed by management and the Board on an ongoing basis to ensure control weaknesses are mitigated.

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

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 proactive 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 should satisfy 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.

GOVERNANCE

Corporate Governance Statement continued

Share Capital

Details of our Share Capital structure can be found on page 12 of the Director's report and in Note 21.

Going Concern

A review of Group business activities and future outlook are set out on pages 4 to 5 of the Chairman's Statement. 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 18 to 19, whilst the risks arising from the Group's financial instruments are covered on page 12.

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 2013

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 UK Corporate Governance 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 (Deputy Chairman) 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 2012 and 2013 are as follows:

Director	Role	**Salary at 1 April 2013**	Salary at 1 April 2012
R T Canham	Executive Chairman(i)	**£300,000**	–
F Martin	Deputy Chairman(ii)	**£100,000**	£267,909
A J Morris	Finance Director(iii)	**–**	£176,802
N P Stone	Finance Director(iii)	**£180,000**	–

(i) Roger Canham became Executive Chairman on 1 April 2013.
(ii) Frank Martin stepped down as Chief Executive on 1 April 2013 and became Deputy Chairman on that date.
(iii) Andrew Morris left the Group on 15 February 2013 and Nick Stone was appointed on 1 February 2013.

Policies concerning benefits, including the Group's company car policy, are reviewed periodically. Currently, benefits in kind comprise motor cars and private health cover. For the year ending 31 March 2013 100% of pay and benefits were non-performance related.

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 save that Mr Canham is not a member of the pension scheme and receives no benefits or contributions in respect of pensions. Mr Martin will continue to receive a pension contribution until the expiry of his service contract on 30 June 2014. For Mr Martin the balance of £3,582 pension in excess of the HMRC approved limit was paid by way of a salary supplement included in taxable benefits in the emoluments table.

GOVERNANCE

Directors' Remuneration Report continued

Performance-related annual bonus

Mr Stone participates in a performance-related bonus scheme which is capped at 75% of salary. Neither Mr Canham nor Mr Martin is entitled to a performance-related bonus.

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 2013 none of the executive directors who served during the year 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 maximum 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 2013, 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.
- In the case of all awards made to date, 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.
- It is intended that any awards granted during the year to 31 March 2014 will have EPS targets based upon underlying profit before tax of £4m for 25% vesting and will increase straight-line to full vesting at £5m. The Committee has set these targets appropriate to the economic outlook prevailing at the time and retains the discretion to adjust the targets if circumstances make a consideration of this necessary. The TSR condition will be unchanged.
- 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 in shares.

Executive directors' service contracts

The executive directors do not have fixed period contracts.

Frank Martin's service contract dated 26 February 2001 included a notice period of one year to be given by the Company and of six months to be given by him. On 28 March 2013 he stepped down as Chief Executive and became Deputy Chairman on a fixed term contract that will expire on 30 June 2014. 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 between the actual termination date and 30 June 2014.

Nick Stone's service contract dated 1 February 2013 includes a notice period of six months to be given by the Company which is extended to one year after six months service and of six months to be given by him. 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' service contract dated 23 November 2007 included a notice period of one year to be given by the Company and of six months to be given by him. In lieu of giving notice the Company could 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 was entitled under this agreement.

Non-executive directors' contracts

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

Roger Canham was appointed non-executive Chairman with effect from 1 February 2013 under a contract dated 7 November 2012 for an initial term of three years subject to termination on three months notice, to be given by either the Company or himself at a fee of £100,000 per annum In lieu of giving notice the Company may terminate the agreement on payment of a lump sum (subject to tax and national insurance) equal to the salary to which he is entitled under the agreement. He was appointed Executive Chairman on 1 April 2013. Upon becoming Executive Chairman, his fees were increased to £300,000 per annum until such a time as a new Chief Executive is appointed and he reverts to Chairman.

Neil Johnson was appointed non-executive Chairman on 22 December 2000 having initially joined the Board on 1 July 1998 and received salary and fees for his services to the Company of £95,000 per annum effective 1 April 2012. 80% was paid to a third-party consultancy company and 20% treated as earnings. His service contract dated 13 February 2006, amended March 2007, was subject to termination on six months notice to be given by either the Company or himself. In lieu of giving notice the Company could terminate the agreement on payment of a lump sum (subject to tax and national insurance) equal to the salary and fee to which he was entitled under this agreement. Neil resigned from the Board with effect from 1 February 2013.

Nigel 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. Nigel's service contract dated 3 November 2007 is subject to termination on six months notice to be given by either the Company or himself. 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 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. Mark's service contract dated 22 November 2007 is subject to termination on six months notice to be given by either the Company or himself. 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.

GOVERNANCE

Directors' Remuneration Report continued

AUDITED INFORMATION

Directors' interests

Interests in shares

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

	At 31 March 2013 number	At 31 March 2012 number
R Canham	**40,000**	–
F Martin	**401,602**	388,282
N P Stone	**10,000**	–
N M Carrington	**18,000**	18,000
M E Rolfe	**10,000**	10,000

All the interests detailed above are beneficial. At 31 March 2012 Neil Johnson had a shareholding of 100,000 shares and Andrew Morris 8,404 shares. 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.

On 3 April 2013 Frank Martin sold 400,000 shares at 0.82p per share.

There have been no other changes in the interests set out above between 31 March 2013 and 7 June 2013.

Aggregate Directors' remuneration

The total amount for directors' remuneration was as follows:

	2013 £'000	2012 £'000
Emoluments	**674**	635
Money purchase pension contributions	**90**	86
	764	721

Directors' detailed emoluments

The emoluments of the directors were as follows:

	Salary & Fees £	Bonus[1] £	Taxable Benefits[2] £	Pension Contribution £	2013 Total £	2012 Total[3] £
Executive Chairman:						
R T Canham	26,103	–	–	–	**26,103**	–
Chairman:						
N A Johnson	79,167	–	–	–	**79,167**	95,000
Executive:						
F Martin	267,909	–	15,329	50,000	**333,238**	326,741
N P Stone	39,286	–	1,067	7,857	**48,210**	–
A J Morris	155,554	–	9,256	31,821	**196,631**	219,011
Non-executive						
N M Carrington	40,000	–	–	–	**40,000**	40,000
M E Rolfe	40,000	–	–	–	**40,000**	40,000
	648,019	–	25,652	89,678	**763,349**	720,752

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%). 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 2012/13 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 2012 total column includes pension contributions which were F Martin (£50,000) and A J Morris (£35,628).

Performance Share Plan

At 31 March 2013, 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 2012	Awarded during year	Lapsed during year	Vested during year	**At 31 March 2013**
F Martin	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**
	June 2012	June 2015	81.0p	–	330,752	–	–	**330,752**
A J Morris	July 2009	July 2012	136.0p	121,324	–	(121,324)	–	**–**
	June 2010	June 2013	139.5p	121,237	–	(121,237)	–	**–**
	June 2011	June 2014	136.4p	127,110	–	(127,110)	–	**–**
	June 2012	June 2015	81.0p	–	218,274	(218,274)	–	**–**

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. The awards issued in July 2009 lapsed during the year because the performance criteria were not satisfied and the remaining awards made to Andrew Morris lapsed upon his resignation and departure from the Group.

Interests in share options

At 31 March 2013, there were no outstanding share options held by directors.

During the year to 31 March 2012, F Martin exercised 600,000 share options and the market price at the date of exercise was 120.0p, realising a gain of £259,200.

Short Term Incentive Plan

At 31 March 2013, there were no outstanding awards to directors under the Short Term Incentive Plan.

On 20 June 2012, 27,191 shares of the 2008 Award were vested to F Martin. The share price on this date was 78.5p.

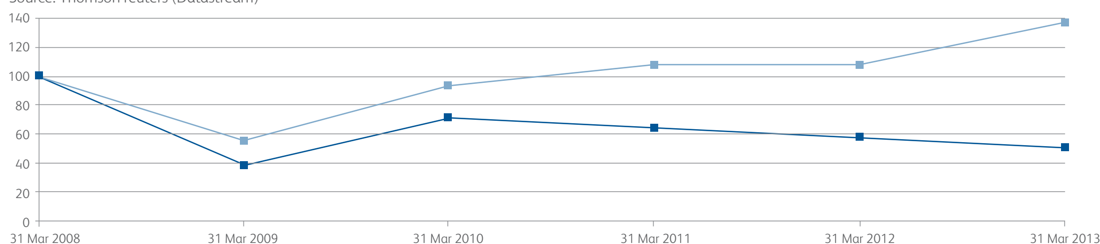
On 20 June 2012, 1,702 shares of the 2008 Award were vested to A J Morris. The share price on this date was 78.5p.

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 2013. This index has been selected given that the Company is a constituent of the FTSE Small Cap.

Total shareholder return

Source: Thomson reuters (Datastream)



This graph shows the value, by 31 March 2013, of £100 invested in Hornby plc on 31 March 2008 compared with the value of £100 invested in the FTSE Small Cap Index (excluding investment trusts). The other points plotted are:

Hornby plc — FTSE Small Cap Index (excluding investment trusts)

N M Carrington
Remuneration Committee Chairman

7 June 2013

GOVERNANCE

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 loss of the Group and profit of the Company; and
- the Operating and Financial Review 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

N P Stone
Company Secretary

7 June 2013

Independent Auditors' Report
to the Members of Hornby plc

We have audited the financial statements of Hornby plc for the year ended 31 March 2013 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 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 Statement of Directors' Responsibilities 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 2013 and of the Group's loss and the Parent Company's profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union;
- 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 14 to 20 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 20, 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

7 June 2013

FINANCIALS

Group and Company Statement of Comprehensive Income
for the Year Ended 31 March 2013

	Note	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Revenue	2	**57,395**	64,447	**1,316**	1,278
Cost of sales		**(32,917)**	(33,290)	**–**	–
Gross profit		**24,478**	31,157	**1,316**	1,278
Distribution costs		**(2,408)**	(2,571)	**–**	–
Selling and marketing costs		**(12,768)**	(13,761)	**–**	–
Administrative expenses		**(9,415)**	(9,029)	**(859)**	(808)
Other operating expenses		**(2,726)**	(1,054)	**(34)**	(144)
Operating (loss)/profit	2	**(2,839)**	4,742	**423**	326
Income from shares in Group undertakings		**–**	–	**783**	1,932
Finance income	3	**13**	26	**174**	175
Finance costs	3	**(561)**	(779)	**(213)**	(234)
(Loss)/profit before taxation	4	**(3,387)**	3,989	**1,167**	2,199
Analysed as:					
Underlying profit before taxation	1	**147**	4,526	**1,216**	2,199
Net foreign exchange impact on intercompany loans		**20**	(145)	**–**	–
Amortisation of intangibles		**(385)**	(392)	**–**	–
Exceptional items:					
Re-structuring costs		**(723)**	–	**(49)**	–
Impairment of goodwill		**(2,446)**	–	**–**	–
(Loss)/profit before taxation		**(3,387)**	3,989	**1,167**	2,199
Taxation	5	**886**	(825)	**390**	22
(Loss)/profit for the year after taxation		**(2,501)**	3,164	**1,557**	2,221
Other comprehensive income					
Cash flow hedges, net of tax		**461**	300	**–**	–
Currency translation differences		**(67)**	(16)	**(74)**	305
Other comprehensive income/(loss) for the year, net of tax		**394**	284	**(74)**	305
Total comprehensive (loss)/income for the year		**(2,107)**	3,448	**1,483**	2,526
(Loss)/earnings per ordinary share					
Basic	7	**(6.39)p**	8.19p		
Diluted	7	**(6.39)p**	8.12p		

All results relate to continuing operations.

The notes on pages 33 to 63 form part of these accounts.

Group and Company Balance Sheet
at 31 March 2013

	Note	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
ASSETS					
Non-current assets					
Goodwill	8	**10,598**	13,059	**–**	–
Intangible assets	9	**3,978**	4,350	**–**	–
Property, plant and equipment	10	**10,048**	10,022	**1,275**	1,309
Investments	11	**–**	–	**37,165**	36,601
Deferred tax assets	20	**1,714**	538	**–**	7
		26,338	27,969	**38,440**	37,917
Current assets					
Inventories	12	**13,637**	17,867	**–**	–
Trade and other receivables	13	**9,603**	13,169	**33**	33
Derivative financial investments	19	**367**	104	**–**	–
Current tax assets	17	**512**	61	**110**	9
Cash and cash equivalents	14	**3,554**	1,952	**2**	2
		27,673	33,153	**145**	44
LIABILITIES					
Current liabilities					
Borrowings	18	**(3,907)**	(3,474)	**–**	–
Derivative financial instruments	19	**(2,194)**	(2,155)	**–**	–
Trade and other payables	15	**(8,834)**	(9,822)	**(68)**	(88)
Provisions	16	**(235)**	(324)	**–**	–
Current tax liabilities	17	**(466)**	(705)	**(105)**	(245)
		(15,636)	(16,480)	**(173)**	(333)
Net current assets/(liabilities)		**12,037**	16,673	**(28)**	(289)
Non-current liabilities					
Borrowings	18	**(1,815)**	(4,888)	**(5,093)**	(5,018)
Deferred tax liabilities	20	**(159)**	(573)	**(148)**	(159)
		(1,974)	(5,461)	**(5,241)**	(5,177)
Net assets		**36,401**	39,181	**33,171**	32,451
Equity attributable to owners of the parent					
Share capital	21	**392**	392	**392**	392
Share premium		**6,180**	6,180	**6,180**	6,180
Capital redemption reserve		**55**	55	**55**	55
Translation reserve		**(612)**	(545)	**(1,059)**	(985)
Hedging reserve		**274**	(187)	**–**	–
Other reserves		**1,688**	1,688	**19,145**	19,145
Retained earnings		**28,424**	31,598	**8,458**	7,664
Total equity		**36,401**	39,181	**33,171**	32,451

The notes on pages 33 to 63 form part of these accounts.

The financial statements on pages 28 to 31 were approved by the Board of directors on 7 June 2013 and were signed on its behalf by:

N P Stone
Group Finance Director
Registered Company Number: 01547390

FINANCIALS

Group and Company Statement of Changes in Equity

Year ended 31 March 2013 and 31 March 2012

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 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**
Total comprehensive income for the year	–	–	–	(67)	461	–	(2,501)	(2,107)
Transactions with owners								
Share-based payments	–	–	–	–	–	–	20	20
Shares vested from employee benefit trust	–	–	–	–	–	–	90	90
Dividends	–	–	–	–	–	–	(783)	(783)
	–	–	–	–	–	–	(673)	(673)
Balance at 31 March 2013	**392**	**6,180**	**55**	**(612)**	**274**	**1,688**	**28,424**	**36,401**

Retained earnings includes £604,000 at 31 March 2013 (2012 – £621,000) 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 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**
Total comprehensive income for the year	–	–	–	(74)	–	1,557	1,483
Transactions with owner							
Share-based payments	–	–	–	–	–	20	20
Dividends	–	–	–	–	–	(783)	(783)
	–	–	–	(74)	–	794	720
Balance at 31 March 2013	**392**	**6,180**	**55**	**(1,059)**	**19,145**	**8,458**	**33,171**

The notes on pages 33 to 63 form part of these accounts.

Group and Company Cash Flow Statement
for the Year Ended 31 March 2013

	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Cash flows from operating activities				
Cash generated from operations	**10,407**	5,856	**918**	466
Interest paid	**(561)**	(779)	**(213)**	(234)
Tax (paid)/repaid	**(1,394)**	(656)	**(302)**	62
Net cash generated from operating activities	**8,452**	4,421	**403**	294
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment	**97**	1	**–**	–
Purchase of property, plant and equipment	**(3,457)**	(3,787)	**–**	–
Interest received	**13**	26	**174**	175
Dividends received	**–**	–	**783**	1,932
Net cash (used in)/generated from investing activities	**(3,347)**	(3,760)	**957**	2,107
Cash flows from financing activities				
Proceeds from issuance of ordinary shares	**–**	544	**–**	544
Repayments of loans	**(3,046)**	(2,577)	**–**	–
Finance lease capital payments	**(62)**	(29)	**–**	–
Dividends paid to Company's shareholders	**(783)**	(1,932)	**(783)**	(1,932)
Loans to subsidiary undertakings	**–**	–	**(578)**	(1,014)
Net cash used in financing activities	**(3,891)**	(3,994)	**(1,361)**	(2,402)
Net increase/(decrease) in cash and cash equivalents	**1,214**	(3,333)	**(1)**	17
Cash, cash equivalents and bank overdrafts at beginning of the year	**1,591**	4,397	**2**	11
Effect of exchange rate movements	**(80)**	527	**1**	(8)
Cash, cash equivalents and bank overdrafts at end of year	**2,725**	1,591	**2**	2
Cash, cash equivalents and bank overdrafts consist of:				
Cash and cash equivalents	**3,554**	1,952	**2**	2
Bank overdrafts	**(829)**	(361)	**–**	–
Cash, cash equivalents and bank overdrafts at end of year	**2,725**	1,591	**2**	2

The notes on pages 33 to 63 form part of these accounts.

FINANCIALS

Notes to the Cash Flow Statement

Group and Company Cash Flows from Operating Activities

	Group		Company	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
(Loss)/profit before taxation	**(3,387)**	3,989	**1,167**	2,199
Interest payable	**561**	779	**213**	234
Interest receivable	**(13)**	(26)	**(174)**	(175)
Dividend income	**–**	–	**(783)**	(1,932)
Amortisation of intangible assets	**385**	392	**–**	–
Impairment of Goodwill	**2,446**	–	**–**	–
Depreciation	**3,664**	3,914	**34**	35
Loss on disposal of property, plant and equipment	**8**	–	**–**	–
Share-based payments	**20**	262	**34**	144
Loss/(gain) on financial derivatives	**58**	(18)	**–**	–
Decrease in provisions	**(89)**	(89)	**–**	–
Decrease/(increase) in inventories	**4,230**	(1,654)	**–**	–
Decrease in trade and other receivables	**3,566**	479	**–**	5
(Decrease)/increase in trade and other payables	**(1,042)**	(2,172)	**427**	(44)
Cash generated from operations	**10,407**	5,856	**918**	466

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2013

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 2013 has been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU'), IFRS Interpretations Committee ('IFRS-IC') interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated Group 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 if incurred prior to the adoption of IFRS. 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 IFRS-IC interpretations that are effective for the first time for the financial year beginning on 1 April 2012 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 2012 but are not relevant to the Group's operations in the current year:

Amendment to IAS 12	'Income taxes', on deferred tax, subject to endorsement by the EU
Amendment to IFRS 7	'Financial instruments: Disclosures'

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 2013 or later periods, but the Group has not early adopted them:

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income, the main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially re-classifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. 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 7 'Financial instruments: Assets and liability offsetting' issued in December 2011, amended the required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The Group is yet to assess IFRS 7's full impact and intends to adopt the amendment no later than the accounting period beginning on 1 April 2013.

FINANCIALS

Notes to the Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES continued

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 or after 1 April 2015, subject to endorsement by the EU. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

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 2013.

Annual Improvements Project 2011; these annual improvements, address six issues in the 2009–2011 reporting cycle, it includes changes to IFRS 1, First time adoption', IAS 1, 'Financial statement presentation', IAS 16, 'Property, plant and Equipment', IAS 32, 'Financial instruments; Presentation' and IAS 34, 'Interim financial reporting'. The Group is yet to assess the full impact of these annual improvements and intends to adopt them no later than the accounting period beginning on 1 April 2013.

There are no other IFRSs or IFRS-IC 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 OPERATING AND FINANCIAL REVIEW

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 re-structuring. Additionally exceptional items, re-structuring costs and impairments to goodwill, add volatility as these are considered to be one-off items and therefore have also been added back in calculating underlying profit before taxation.

	Group	
	2013 £'000	2012 £'000
(Loss)/profit before taxation	**(3,387)**	3,989
Foreign exchange on intercompany loans including impact of foreign exchange collar	**(20)**	145
Amortisation of intangibles (note 9)	**385**	392
Impairment of goodwill (note 8)	**2,446**	–
Re-structuring costs	**723**	–
Underlying profit before taxation	**147**	4,526

The Statement of Comprehensive Income discloses foreign exchange movements, amortisation of intangibles and impairment of goodwill within other operating expenses. Re-structuring costs are disclosed within administrative expenses.

The amount shown above comprises gains on translation of intercompany loans of £199,000 (2012 – loss of £875,000), offset by a loss on marking to market the foreign exchange collar of £179,000 (2012 – gain of £730,000).

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 2013 that will be re-valued by an approximately similar but opposite Sterling value at each period end.

The foreign exchange collar is for a principal amount of Euro 16 million (2012 – Euro 16.5 million) and is in place to minimise exposure to Euro denominated intercompany loans.

Beneficial impact of the collar as at 3 October 2013 is expected to be a minimum of £330,000 if the exchange rate exceeds the strike rate of 1.4300 €:£, increasing to a maximum of £676,000 at the participation cap rate of 1.3870 €:£ compared to the intercompany loans Sterling valuation at 31 March 2007 (1.4734 €:£).

As at 31 March 2013 the cumulative profit impact is a gain of £671,000. Therefore in the period 1 April 2013 to 30 September 2013 there will be an adjustment to the Statement of Comprehensive Income between a £5,000 profit and £341,000 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)
31 Mar 2013	1.18	13,531	2,671	(2,000)	(59)
Total cumulative gain to profit before tax					**671**

Prior to expiry in October 2013 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.

Reconciliation of net debt:

	Group	
	2013 £'000	2012 £'000
Cash	**3,554**	1,952
Total borrowings excluding finance leases (note 18)	**(5,685)**	(8,263)
Net debt	**(2,131)**	(6,311)

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 and recognised at the point of sale.

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.

FINANCIALS

Notes to the Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES continued

EXCEPTIONAL ITEMS

Where items of income and expense included in the income statement are considered to be material and exceptional in nature, separate disclosure of their nature and amount is provided in the financial statements. These items are classified as exceptional items. The Group considers the size and nature of an item both individually and when aggregated with similar items when considering whether it is material, for example impairment of intangible assets or re-structuring costs.

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 and after 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.

PROPERTY, PLANT AND EQUIPMENT

Land and buildings are shown at cost less accumulated depreciation. Assets re-valued 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 re-valued using the equity method of valuation prior to the transition to IFRS use this valuation as deemed cost at this date. Prior to the year ended 31 March 2012 dividend income was presented in finance income. This has 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.

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.

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.

Notes to the Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES continued

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. 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.

Whenever there is a substantiated risk that an item of stock's sellable value may be lower than its actual stock value, a provision for the difference between the two values should be made. Management review the stock holdings on a regular basis and consider where a provision for excess or obsolete stock should be made based on expected demand for the stock and its condition.

The provision for sales returns are based on historic returns data applied to sales for the current year and this provision is reviewed by management on an on-going basis.

Specific debtors are provided for when there is significant doubt that a repayment of debt will be fulfilled considering specific knowledge of the customer and sales terms of the debt outstanding.

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 but only if reimbursement is virtually certain and will be settled simultaneously.

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 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

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. The Share Option Scheme is now dormant as at 31 March 2013.

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. The STIP scheme is now dormant as at 31 March 2013.

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 depreciated on a straight-line basis to the Statement of Comprehensive Income over the lease term.

FINANCIALS

Notes to the Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES continued

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 Hong Kong 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% and 100% of anticipated import purchases that are denominated in Hong Kong 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 2013 that will be re-valued to 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 borrowings comprised 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 (£4.5 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 2013 was £9.9 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 on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of the hedged items.

(a) Cash flow hedge

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

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

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

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

FAIR VALUE ESTIMATION

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

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

FOREIGN CURRENCY

Transactions denominated in foreign currencies are recorded in the relevant functional currency 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 Statements 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 USA segment does not meet the quantitative thresholds required by IFRS 8, management has concluded that this segment should be reported, as it is closely monitored by the Board as it is outside Europe.

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

FINANCIALS

Notes to the Financial Statements continued

2. SEGMENTAL REPORTING continued

Year ended 31 March 2013

		UK £'000	USA £'000	Spain £'000	Italy £'000	Rest of Europe £'000	Total Reportable Segments £'000	Intra Group £'000	Group £'000
Revenue	– External	43,195	2,696	2,655	3,234	5,615	57,395	–	57,395
	– Other segments	2,936	–	3,617	99	–	6,652	(6,652)	–
Operating (loss)/profit		**337**	**12**	**(132)**	**(2,754)**	**(302)**	**(2,839)**	**–**	**(2,839)**
Finance cost	– External	(478)	–	(50)	(1)	(32)	(561)	–	(561)
	– Other segments	–	(2)	(213)	(271)	(100)	(586)	586	–
Finance income	– External	11	–	–	2	–	13	–	13
	– Other segments	586	–	–	–	–	586	(586)	–
(Loss)/profit before taxation		456	10	(395)	(3,024)	(434)	(3,387)	–	(3,387)

	UK £'000	USA £'000	Spain £'000	Italy £'000	Rest of Europe £'000	Total Reportable Segments £'000	Intra Group £'000	Group £'000
Analysed as:								
Underlying profit/(loss) before taxation	1,370	10	(395)	(435)	(403)	147	–	147
Net foreign exchange impact on intercompany loans	20	–	–	–	–	20	–	20
Amortisation of intangibles	(264)	–	–	(90)	(31)	(385)	–	(385)
Reorganisation costs	(670)	–	–	(53)	–	(723)	–	(723)
Impairment of goodwill	–	–	–	(2,446)	–	(2,446)	–	(2,446)
(Loss)/profit before taxation	456	10	(395)	(3,024)	(434)	(3,387)	–	(3,387)

	UK £'000	USA £'000	Spain £'000	Italy £'000	Rest of Europe £'000	Total Reportable Segments £'000	Intra Group £'000	Group £'000
Taxation	(284)	–	148	936	86	886	–	886
(Loss)/profit for the year	**172**	**10**	**(247)**	**(2,088)**	**(348)**	**(2,501)**	**–**	**(2,501)**
Segment assets	48,938	1,482	10,459	6,829	3,069	70,777	(18,992)	51,785
Less intercompany receivables	(17,530)	–	(1,273)	(189)	–	(18,992)	18,992	–
Add tax assets	1,315	–	129	637	145	2,226	–	2,226
Total assets	**32,723**	**1,482**	**9,315**	**7,277**	**3,214**	**54,011**	**–**	**54,011**
Segment liabilities	13,571	1,449	9,439	6,823	4,695	35,977	(18,992)	16,985
Less intercompany payables	–	(1,286)	(7,806)	(6,236)	(3,664)	(18,992)	18,992	–
Add tax liabilities	539	–	86	–	–	625	–	625
Total liabilities	**14,110**	**163**	**1,719**	**587**	**1,031**	**17,610**	**–**	**17,610**
Other segment items								
Capital expenditure	2,337	26	1,377	31	9	3,780	–	3,780
Depreciation	2,774	20	713	126	31	3,664	–	3,664
Net foreign exchange on intercompany loans	(20)	–	–	–	–	(20)	–	(20)
Amortisation of intangible assets	264	–	–	90	31	385	–	385
Impairment of goodwill	–	–	–	2,446	–	2,446	–	2,446
Share-based payment	20	–	–	–	–	20	–	20

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

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		(207)	–	(428)	(142)	(48)	(825)	–	(825)
Profit for the year		**2,755**	**52**	**111**	**146**	**100**	**3,164**	**–**	**3,164**
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		262	–	–	–	–	262	–	262

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

FINANCIALS

Notes to the Financial Statements continued

3. FINANCE COSTS

	Group 2013 £'000	2012 £'000	Company 2013 £'000	2012 £'000
Finance costs:				
Interest expense on bank borrowings	**(558)**	(774)	**–**	–
Interest expense on intercompany borrowings	**–**	–	**(213)**	(234)
Interest expense on finance leases	**(3)**	(5)	**–**	–
	(561)	(779)	**(213)**	(234)
Finance income:				
Bank interest	**13**	26	**–**	–
Interest income on intercompany loans	**–**	–	**174**	175
	13	26	**174**	175
Net finance costs	**(548)**	(753)	**(39)**	(59)

4. (LOSS)/PROFIT BEFORE TAXATION

	Group 2013 £'000	2012 £'000	Company 2013 £'000	2012 £'000
The following items have been included in arriving at profit before taxation:				
Staff costs (note 23)	**10,274**	10,276	**737**	923
Inventories:				
– Cost of inventories recognised as an expense (included in cost of sales)	**26,793**	27,704	**–**	–
– Stock provision	**762**	25	**–**	–
Depreciation of property, plant and equipment:				
– Owned assets	**3,649**	3,889	**34**	35
– Under finance leases	**15**	25	**–**	–
Loss on disposal of assets	**8**	–	**–**	–
Other operating lease rentals payable:				
– Plant and machinery	**172**	169	**–**	–
– Property	**444**	395	**–**	–
Repairs and maintenance expenditure on property, plant and equipment	**170**	214	**–**	–
Research and development expenditure	**1,507**	1,635	**–**	–
Foreign exchange losses:				
– On trading transactions and ineffective hedges	**(105)**	255	**–**	–
Impairment of trade receivables	**260**	187	**–**	–
Re-structuring costs	**723**	–	**49**	–
Other operating expenses:				
– Foreign exchange on trading transactions	**(163)**	273	**–**	–
– Net impact of foreign exchange on intercompany loans	**(20)**	145	**–**	–
– Movement on fair value of ineffective hedge	**58**	(18)	**–**	–
– Share-based payment charge	**20**	262	**34**	144
– Amortisation of intangible assets	**385**	392	**–**	–
– Impairment of goodwill assets	**2,446**	–	**–**	–
	2,726	1,054	**34**	144

Re-structuring costs of £723,000 relate to redundancies and compensation for loss of office as well as the associated legal costs, a full accrual for these costs is made from the point at which employees have been notified. These costs are considered to be exceptional in nature. Additionally the goodwill impairment charge of £2,446,000 is also classed as an exceptional item further analysis of which can be found in Note 8 of these financial statements.

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 2013 £'000	2012 £'000	Company 2013 £'000	2012 £'000
Fees payable to the Company's and fees for the audit of parent company and consolidated accounts	**92**	87	**15**	15
Fees payable to the Company's auditors and its associates for other services:				
– The auditing of accounts of the Company's subsidiaries	**38**	36	**–**	–
– Audit-related assurance services	**32**	39	**24**	26
– Tax advisory services	**17**	12	**8**	–
– Tax compliance services	**12**	18	**5**	5
	191	192	**52**	46

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 2013 £'000	2012 £'000	Company 2013 £'000	2012 £'000
Current tax				
– UK taxation	**286**	643	**106**	36
adjustments in respect of prior years	**951**	(30)	**–**	(3)
– overseas taxation	**(440)**	491	**(45)**	(46)
adjustments in respect of prior years	**–**	–	**(447)**	–
	797	1,104	**(386)**	(13)
Deferred tax (note 20)				
– current year	**(15)**	(145)	**(4)**	(9)
– overseas taxation	**(730)**	127	**–**	–
– adjustments in respect of prior years	**(938)**	(261)	**–**	–
	(1,683)	(279)	**(4)**	(9)
Total tax (credit)/charge to the profit before tax	**(886)**	825	**(390)**	(22)

The tax for the year differs to the standard rate of corporation tax in the UK (24%). Any differences are explained below:

	Group 2013 £'000	2012 £'000	Company 2013 £'000	2012 £'000
(Loss)/profit before taxation	**(3,387)**	3,989	**1,167**	2,199
(Loss)/profit on ordinary activities multiplied by rate of Corporation tax in UK of 24% (2012 – 26%)	**(813)**	1,037	**280**	572
Effects of:				
Adjustments to tax in respect of prior years	**13**	(30)	**(447)**	(3)
Income not taxable	**–**	–	**(188)**	(502)
Difference on overseas rates of tax	**(198)**	2	**5**	10
Impact of overseas losses not recognised	**21**	–	**–**	–
Re-measurement of deferred tax – change in UK tax rate to 24%	**(51)**	(18)	**6**	13
Other	**142**	(166)	**(46)**	(112)
Total taxation	**(886)**	825	**(390)**	(22)

FINANCIALS

Notes to the Financial Statements continued

5. TAXATION continued

During the year, the UK main corporation tax rate was reduced from 26% to 24%. This was substantially enacted on 26 March 2012 and became effective from 1 April 2012. As a result of this, an effective rate of 24% has been used to calculate tax payable on taxable income in the year.

At the balance sheet date, the Finance Act 2012 had been substantively enacted confirming that the main UK corporation tax rate will be 23% from 1 April 2013. Therefore, at 31 March 2013, deferred tax assets and liabilities have been calculated based on a rate of 23% where the timing difference is expected to reverse after 1 April 2013.

The proposed reduction of the rate to 21%, expected to apply from 1 April 2014, was not substantially enacted at the balance sheet date and is therefore not included in these financial statements. In addition, a further reduction of this rate to 20% as of 1 April 2015 was announced in the 2013 UK Budget Statement, but this has also not been substantially enacted and is therefore not included in these financial statements.

6. DIVIDENDS

	Group and Company	
	2013 £'000	2012 £'000
2.0p final paid per share in relation to year ended 31 March 2012 (2012 – 3.3p paid in relation to year ended 31 March 2011)	**783**	1,267
No interim paid per share in relation to year ended 31 March 2013 (2012 – 1.7p paid in relation to year ended 31 March 2012)	**–**	665
	783	1,932

The directors are not proposing a final dividend in respect of the financial year ended 31 March 2013.

7. (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share is calculated by dividing the (loss)/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 (loss)/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 2013. For the year ended 31 March 2013, there was no difference in the weighted average number of shares used for basic and diluted net loss per ordinary share as the effect of all potentially dilutive ordinary shares was anti-dilutive.

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

	Earnings £'000	**2013 Weighted average number of shares 000s**	**Per-share amount pence**	Earnings £'000	2012 Weighted average number of shares 000s	Per-share amount pence
REPORTED						
Basic (loss)/earnings per share						
(Loss)/earnings attributable to ordinary shareholders	**(2,501)**	**39,152**	**(6.39)**	3,164	38,626	8.19
Effect of dilutive securities						
Options	**–**	**–**	**–**	–	328	(0.07)
Diluted (loss)/EPS	**(2,501)**	**39,152**	**(6.39)**	3,164	38,954	8.12
UNDERLYING						
Earnings attributable to ordinary shareholders	**(2,501)**	**39,152**	**(6.39)**	3,164	38,626	8.19
Amortisation of intangibles	**293**	**–**	**0.75**	392	–	1.01
Impairment of goodwill	**1,859**	**–**	**4.75**	–	–	–
Re-structuring costs	**549**	**–**	**1.40**	–	–	–
Net foreign exchange translation adjustments	**(15)**	**–**	**(0.04)**	107	–	0.28
Underlying basic EPS	**185**	**39,152**	**0.47**	3,663	38,626	9.48
Underlying diluted EPS	**185**	**39,152**	**0.47**	3,663	38,954	9.40

8. GOODWILL

GROUP	£'000
COST	
At 1 April 2012	13,059
Exchange adjustments	76
At 31 March 2013	**13,135**
AGGREGATE IMPAIRMENT	
At 1 April 2012	–
Charge for the year	2,446
Exchange adjustments	91
At 31 March 2013	**2,537**
Net book amount at 31 March 2013	**10,598**
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

The Company had no 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 2013 is as follows:

GROUP	UK £'000	USA £'000	Spain £'000	Italy £'000	Rest of Europe £'000	**Total £'000**
At 31 March 2013	3,992	8	3,990	2,056	552	**10,598**
At 31 March 2012	3,992	8	3,990	4,526	543	**13,059**

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.

Impairment tests for goodwill

Management reviews the business performance based on geography. 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 rate applied reflects the risk inherent in hobby based product companies. In determining this 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 2014. Subsequent cash flows for the following 4 years have been increased in line with expectation. Cash beyond the five-year period are extrapolated using the estimated growth rates stated below. The cash flows were discounted using a pre-tax discount rate of 10.8% (2012 – 11%) which management believes is appropriate for all territories.

FINANCIALS

Notes to the Financial Statements continued

8. GOODWILL continued

The key assumptions used for value-in use calculations for the year ending 31 March 2013 are as follows:

GROUP	UK (Corgi)	UK (Humbrol)	France	Spain	Italy	Germany
Gross Margin(i)	31.1%	43.1%	38.6%	33.9%	32.6%	32.6%
Growth rate to perpetuity(ii)	3.0%	3.0%	3.0%	2.0%	1.7%	3.0%

The key assumptions used for value-in use calculations for the year ending 31 March 2012 are as follows:

GROUP	UK (Corgi)	UK (Humbrol)	France	Spain	Italy	Germany
Gross Margin(i)	36.1%	41.8%	39.4%	37.7%	34.1%	34.0%
Growth rate to perpetuity(ii)	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

(i) Budgeted gross margin
(ii) Weighted average growth rate used to extrapolate cash flows beyond the budget period

These assumptions have been used for the analysis of each CGU within the operating segments.

The carrying value of Hornby Italy has been reduced through the recognition of an impairment loss against goodwill of £2,446,000. This charge has been included within exceptional items in the Statement of Comprehensive Income. During 2012 Hornby Italy experienced a difficult year of trading with results falling short of management's expectations, primarily due to the restriction in supply from the Far East and local economic conditions, and as a consequence forecasts have been revised resulting in an impairment charge arising.

Following this decision, the Group reassessed the depreciation policies of its property, plant and equipment in Italy and estimated that their useful lives would not be affected. No class of asset other than goodwill was impaired. In Germany, the recoverable amount calculated based on value in use exceeded carrying value by £75,000. A reduction in gross margin of 7%, or a rise in discount rate to 24% would remove the remaining headroom. In Italy a reduction in the gross margin of 1% would result in a further impairment charge of £340,000, or a rise in the discount rate by 1% would result in a further impairment of £783,000. A reduction in the growth rate would result in a further charge of £552,000.

9. INTANGIBLE ASSETS

GROUP	Brand names £'000	Customer lists £'000	Rent free period £'000	**Total £'000**
ACQUIRED INTANGIBLE ASSETS COST				
At 1 April 2012	4,899	1,426	–	6,325
Exchange adjustments	24	6	–	30
At 31 March 2013	4,923	1,432	–	6,355
ACCUMULATED AMORTISATION				
At 1 April 2012	1,271	704	–	1,975
Charge for the year	243	142	–	385
Exchange adjustments	12	5	–	17
At 31 March 2013	1,526	851	–	2,377
Net book amount at 31 March 2013	**3,397**	**581**	**–**	**3,978**

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

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

The Company held no intangible assets.

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 2012	3,030	6,008	401	46,960	56,399
Exchange adjustments	9	23	2	132	166
Additions at cost	–	202	–	3,578	3,780
Disposals	–	(325)	(98)	(912)	(1,335)
At 31 March 2013	3,039	5,908	305	49,758	59,010
ACCUMULATED DEPRECIATION					
At 1 April 2012	1,252	4,123	270	40,732	46,377
Exchange adjustments	2	21	1	127	151
Charge for the year	47	508	37	3,072	3,664
Disposals	–	(325)	(53)	(852)	(1,230)
At 31 March 2013	1,301	4,327	255	43,079	48,962
Net book amount at 31 March 2013	**1,738**	**1,581**	**50**	**6,679**	**10,048**

FINANCIALS

Notes to the Financial Statements continued

10. PROPERTY, PLANT AND EQUIPMENT continued

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

Freehold land amounting to £786,000 (2012 – £786,000) has not been depreciated.
Assets held by the Group under finance leases have the following net book amount:

	2013 £'000	2012 £'000
Cost	**69**	167
Aggregate depreciation	**(33)**	(71)
Net book amount	**36**	96

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.

COMPANY	Freehold land and buildings £'000	Plant and equipment £'000	**Total £'000**
COST			
At 1 April 2012 and at 31 March 2013	2,428	4	2,432
ACCUMULATED DEPRECIATION			
At 1 April 2012	1,119	4	1,123
Charge for the year	34	–	34
At 31 March 2013	1,153	4	1,157
Net book amount at 31 March 2013	**1,275**	**–**	**1,275**

COMPANY	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000
COST			
At 1 April 2011 and 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

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 2012	28,111	8,490	36,601
Capital reduction relating to share-based payment	(14)	–	(14)
Net increase in loans to subsidiary undertakings	–	578	578
At 31 March 2013	**28,097**	**9,068**	**37,165**
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

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

FINANCIALS

Notes to the Financial Statements continued

12. INVENTORIES

	Group 2013 £'000	2012 £'000	Company 2013 £'000	2012 £'000
Raw materials	**299**	354	**–**	–
Work in progress	**35**	39	**–**	–
Finished goods	**13,303**	17,474	**–**	–
	13,637	17,867	**–**	–

13. TRADE AND OTHER RECEIVABLES

	Group 2013 £'000	2012 £'000	Company 2013 £'000	2012 £'000
CURRENT:				
Trade receivables	**8,518**	11,608	**–**	–
Less: provision for impairment of receivables	**(401)**	(230)	**–**	–
Trade receivables – net	**8,117**	11,378	**–**	–
Other receivables	**262**	400	**–**	–
Prepayments	**1,224**	1,391	**33**	33
	9,603	13,169	**33**	33

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated and therefore the provision for receivables impairments are 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 2013 to the value of £6.3 million (2012 – £8.9 million).

Gross trade receivables can be analysed as follows:

	2013 £'000	2012 £'000
Fully performing	**6,341**	9,252
Past due	**1,727**	2,078
Impaired	**450**	278
Trade receivables	**8,518**	11,608

As of 31 March 2013, trade receivables of £1,727,000 (2012 – £2,078,000) 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:

	2013 £'000	2012 £'000
1 – 120 days	**1,583**	1,946
>120 days	**144**	132
	1,727	2,078

As of 31 March 2013, trade receivables of £450,000 (2012 – £278,000) were impaired and provided for. The amount of provision was £401,000 (2012 – £230,000) as of 31 March 2013.

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:

	2013 £'000	2012 £'000
1 – 120 days	**56**	37
>120 days	**394**	241
	450	278

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

	2013 £'000	2012 £'000
At 1 April	**230**	195
Provision for receivables impairment	**260**	187
Receivables written off during the year as uncollectible	**(101)**	(145)
Exchange adjustments	**12**	(7)
At 31 March	**401**	230

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 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Sterling	**5,503**	7,206	**33**	33
Euro	**3,440**	5,174	**–**	–
US Dollar	**530**	570	**–**	–
HK Dollar	**130**	219	**–**	–
	9,603	13,169	**33**	33

14. CASH AND EQUIVALENTS

	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Cash at bank and in hand	**3,554**	1,952	**2**	2

15. TRADE AND OTHER PAYABLES

	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
CURRENT:				
Trade payables	**4,098**	5,047	**1**	–
Other taxes and social security	**854**	1,198	**15**	18
Other payables	**2,159**	2,332	**–**	–
Accruals	**1,723**	1,245	**52**	70
	8,834	9,822	**68**	88

FINANCIALS

Notes to the Financial Statements continued

16. PROVISIONS

	Group		Company	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Sales returns				
At 1 April	**324**	413	**–**	–
Charge to Statement of Comprehensive Income	**580**	649	**–**	–
Utilised in the year	**(669)**	(738)	**–**	–
At 31 March	**235**	324	**–**	–

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 AND LIABILITIES

	Group		Company	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Current tax assets				
Overseas Corporation tax recoverable	**512**	61	**110**	9
Current tax liabilities				
UK Corporation tax liability	**391**	324	**105**	36
Overseas Corporation tax liability	**75**	381	**–**	209
	466	705	**105**	245

18. BORROWINGS

	Group		Company	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Secured borrowing at amortised cost				
Bank overdrafts	**829**	361	**–**	–
Bank loan	**4,856**	7,902	**–**	–
Finance leases	**37**	99	**–**	–
Loan from subsidiary undertakings	**–**	–	**5,093**	5,018
	5,722	8,362	**5,093**	5,018
Total borrowings				
Amount due for settlement within 12 months	**3,907**	3,474	**–**	–
Amount due for settlement after 12 months	**1,815**	4,888	**5,093**	5,018
	5,722	8,362	**5,093**	5,018

The Group complied with all loan covenants during the year. The Company borrowings are denominated in Sterling. All intercompany borrowings are secured by way of formal loan agreements. The loans can be repaid at any time however the Company has received confirmation from its subsidiary that they will not require payment within the next 12 months.

Analysis of borrowings by currency:

Group	Sterling £'000	Euros £'000	Total £'000
31 March 2013			
Bank overdrafts	–	829	**829**
Bank loan	4,500	356	**4,856**
Finance leases	37	–	**37**
	4,537	1,185	**5,722**
31 March 2012			
Bank overdrafts	–	361	361
Bank loan	7,500	402	7,902
Finance leases	99	–	99
	7,599	763	8,362

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

At 31 March 2013 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 (£4.5 million as at 31 March 2013). The future interest rates of these facilities are Libor + 3.6% for the revolving credit facility and Libor + 3.6% for the fixed-term loan.

A reduction of 0.5% was applied to these rates in the year in accordance with the loan agreements as covenants were not breached in the financial year.

The average effective interest rate on bank overdrafts approximated to 3.34% (2012 – 3.63%) per annum and is determined based on 3.6% above 3-month Libor from December 2012.

Undrawn borrowing facilities

At 31 March 2013, the Group had available £10.8 million (2012 – £10.6 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. In addition, European subsidiaries had available £1.7 million (2012 – £1.6 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 2013 £'000	Assets 2012 £'000	Liabilities 2013 £'000	Liabilities 2012 £'000
Carrying values of derivative financial instruments				
Foreign exchange collar	**–**	–	**(2,000)**	(1,821)
Forward foreign currency contracts – cash flow hedges	**367**	104	**(89)**	(120)
Interest rate swap – cash flow hedge	**–**	–	**(105)**	(214)
	367	104	**(2,194)**	(2,155)

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 2013 are recognised in Other Comprehensive Income in the period or periods during which the hedged forecast transaction affects the Statement of Comprehensive Income, which is within 12 months from the balance sheet date.

At 31 March 2013 outstanding forward currency contracts were as follows:

	2013 000's	2012 000's
Hong Kong Dollar	**125,926**	156,776
US Dollar	**7,918**	6,732
Euro	**897**	–

FINANCIALS

Notes to the Financial Statements continued

19. FINANCIAL INSTRUMENTS continued

The notional principal amount of the outstanding interest rate swap contract at 31 March 2013 was £1.8 million (2012 – £3.0 million). At 31 March 2013, the interest rate swap fixes the interest rate on £1.8 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 2013 will be continuously released to the Statement of Comprehensive Income until the maturity of the swap. The £2.7 million (2012 – £4.5 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 £173,000 asset (2012 – £230,000 liability) of which £274,000 asset (2012 – £187,000 liability) has been effectively hedged at 31 March 2013 and therefore charged to reserves in accordance with IAS 39. The liability balance of £105,000 (2012 – £43,000 liability) was the unhedged 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 2013 and 31 March 2012, 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 1.0% 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	**2013 Total £'000**
Between one and two years	1,556	12	**1,568**
Between two and five years	178	–	**178**
More than five years	69	–	**69**
	1,803	12	**1,815**

	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

COMPANY	**2013 Debt £'000**	2012 Debt £'000
More than five years (note 18)	**5,093**	5,018

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

GROUP	**2013 £'000**	2012 £'000
Not later than one year	**26**	63
Later than one year but not more than five	**12**	38
	38	101
Future finance charges on finance leases	**(1)**	(2)
Present value of finance lease liabilities	**37**	99

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 1.0% increase in interest rates is £63,000 (2012 – £106,000) before tax. A 1% fall in interest rates gives 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	
	2013 £'000	2012 £'000
US and Hong Kong Dollars	**109**	815
Euros	**145**	148
	254	963

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.

	2013 £'000	2012 £'000
Total borrowings (note 18)	**5,722**	8,362
Less:		
Total cash and cash equivalents (note 14)	**(3,554)**	(1,952)
Net debt	**2,168**	6,410
Total equity	**36,401**	39,181
Total capital	**38,569**	45,591
Gearing	**6%**	14%

Notes to the Financial Statements continued

20. DEFERRED TAX

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 23% (2012 – 24%).

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

	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
At 1 April	**35**	228	**152**	161
Credit to Statement of Comprehensive Income (note 5) – origination and reversal of temporary differences	**(1,683)**	(279)	**(4)**	(9)
Exchange adjustments	**(23)**	(2)	**–**	–
Utilisation of trading losses against other tax payable	**116**	88	**–**	–
At 31 March	**(1,555)**	35	**148**	152

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 Revaluation £'000	Group Accelerated capital allowances £'000	Group Other £'000	Group Total £'000	Company Revaluation £'000	Company Accelerated capital allowances £'000	Company Total £'000
At 1 April 2012	149	175	249	**573**	149	10	**159**
(Credit)/charge to Statement of Comprehensive Income	(10)	(166)	(235)	**(411)**	(10)	(1)	**(11)**
Foreign exchange	–	–	(3)	**(3)**	–	–	**–**
At 31 March 2013	**139**	**9**	**11**	**159**	**139**	**9**	**148**
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**

Of the total deferred tax liability of £159,000, £5,000 was due within one year for the Group (2012 – £5,000) and £5,000 for the Company (2012 – £5,000).

Deferred tax assets	Group Short-term incentive plan £'000	Acquisition intangibles £'000	Other £'000	Total £'000	Company Short-term incentive plan £'000
At 1 April 2012	(15)	(99)	(424)	**(538)**	(7)
Charge/(credit) to Statement of Comprehensive Income	15	(22)	(1,265)	**(1,272)**	7
Foreign exchange	–	–	(20)	**(20)**	–
Deferred tax losses utilised	–	–	116	**116**	–
At 31 March 2013	**–**	**(121)**	**(1,593)**	**(1,714)**	**–**
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)
Net deferred tax (Asset)/liability					
At 31 March 2013				**(1,555)**	**148**
At 31 March 2012				**35**	152

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 of £1,714,000 (2012 – £538,000) and deferred tax liability of £159,000 (2012 – £573,000) at 31 March 2013 and 31 March 2012 have been recognised separately.

GROUP	2013 Recognised £'000	2013 Not recognised £'000	2012 Recognised £'000	2012 Not recognised £'000
Deferred tax comprises:				
(Depreciation in excess of capital allowances)/accelerated capital allowances	(824)	–	175	–
Other temporary differences – UK	(343)	–	(389)	–
Other temporary differences – overseas	(388)	(21)	249	–
Deferred tax (asset)/liability	**(1,555)**	**(21)**	35	–

COMPANY	2013 Recognised £'000	2013 Not recognised £'000	2012 Recognised £'000	2012 Not recognised £'000
Deferred tax comprises:				
Accelerated capital allowances	9	–	10	–
Other timing differences	139	–	142	–
Deferred tax liability	**148**	**–**	152	–

21. SHARE CAPITAL

GROUP AND COMPANY

Allotted, issued and fully paid:

Ordinary shares of 1p each	2013 Number of shares	2013 £'000	2012 Number of shares	2012 £'000
At 1 April	**39,164,100**	**392**	38,464,100	385
Allotted under share option schemes	**–**	**–**	700,000	7
	39,164,100	**392**	39,164,100	392

FINANCIALS

Notes to the Financial Statements continued

21. SHARE CAPITAL continued

At 31 March 2013 options granted under the Company's share option schemes were outstanding as follows:

Date granted	Number of options 2013	2012	Exercise price	Period of option
19 June 2002	–	447,500	83.4p	June 2005 – June 2012
09 June 2005	365,809	400,000	201.0p	June 2008 – June 2015
	365,809	847,500		

The total number of options outstanding as at the date of this document represent approximately 0.9% (2012 – 2.2%) of the issued share capital of the Company.

If Resolution 11 is passed at the Annual General Meeting and the Company were to exercise the full authority to buy-back approximately 10% of the issued ordinary shares of the Company. The above options would represent 1.0% (2012 – 2.4%) of the issued share capital of the Company.

22. SHARE-BASED PAYMENTS

Hornby Plc operates three share-based payment 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 re-structuring 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 2013 and 31 March 2012 was as follows:

	2013 Number	2013 Weighted average exercise price	2012 Number	2012 Weighted average exercise price
Outstanding at 1 April	847,500	138.9p	1,547,500	111.2p
Exercised	–	–	(700,000)	77.7p
Lapsed	(481,691)	91.7p	–	–
Outstanding at 31 March	365,809	201.0p	847,500	138.9p

No Options were exercised within the financial year. (2012 – 700,000 Options exercised at 125.5p weighted average share price).

The following table summarises information relating to the number of shares under option (SOS awards) and those which were exercisable at 31 March 2013.

Range of exercise prices	Total shares under option Number	Weighted average remaining contractual life Months	Options exercisable at 31 March 2013 Number	Options exercisable at 31 March 2012 Number	Exercisable weighted average exercise price for options exercisable at 31 March 2013
£0.80 – £0.90				447,500	
£2.00 – £2.10	365,809	27	365,809	400,000	201.0p
	365,809		365,809	847,500	201.0p

Performance Share Plan

All Performance Share Plan (PSP) awards outstanding at 31 March 2013 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 £20,000 in the year ended 31 March 2013 (2012 – £262,000).

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

		2013			2012	
	SOS	**STIP**	**PSP***	SOS	STIP	PSP*
Fair value (p)	**–**	**–**	**36.68p**	–	–	102.25p
Options pricing model used	**–**	**–**	**Stochastic**	–	–	Stochastic
Share price at grant date (p)	**–**	**–**	**81.0p**	–	–	136.4p
Exercise price (p)	**–**	**–**	**n/a**	–	–	n/a
Expected volatility (%)	**–**	**–**	**36.0%**	–	–	48.0%
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.

	2013 £'000	2012 £'000
At 1 April	**90**	180
Shares vested	**(90)**	(90)
At 31 March	**–**	90

Details of the Short Term Incentive Plan are given in the Directors' Remuneration Report on pages 21 to 25.

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

On 20 June 2012, the final third of the 2008 allocation (57,766 ordinary shares) were vested.

At 31 March 2013, a total of nil (2012 – 57,766) ordinary shares are held by the Trust and allotted to the directors and senior management under the plan with a nominal value of £nil (2012 – £578) and a market value of £nil (2012 – £54,878). The costs of the plan are borne by Hornby plc. The Trust has waived its right to dividends.

FINANCIALS

Notes to the Financial Statements continued

23. EMPLOYEES AND DIRECTORS

	Group		Company	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Staff costs for the Group during the year:				
Wages and salaries	**7,828**	8,171	**552**	628
Share-based payments (note 22)	**20**	262	**34**	144
Social security costs	**1,032**	1,081	**86**	93
Other pension costs (note 24)	**668**	669	**65**	58
Redundancy and compensation for loss of office	**726**	93	**–**	–
	10,274	10,276	**737**	923

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

	Group		Company	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Operations	**101**	99	**1**	1
Sales, marketing and distribution	**107**	107	**1**	1
Administration	**40**	40	**3**	3
	248	246	**5**	5

Key management compensation:

	Group		Company	
	2013 Number	2012 Number	**2013 Number**	2012 Number
Salaries and short-term employee benefits	**1,977**	2,002	**421**	469
Share-based payments	**20**	261	**34**	144
Post-employment benefits	**249**	244	**65**	58
Redundancy and compensation for loss of office	**517**	–	**–**	–
	2,763	2,507	**520**	671

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 21 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 £668,000 (2012 – £669,000) representing the actual contributions payable in the year and certain scheme administration costs. The Company pension cost for the year was £65,000 (2012 – £58,000).

25. FINANCIAL COMMITMENTS

	Group 2013 £'000	2012 £'000
At 31 March capital commitments were:		
Contracted for but not provided	**2,100**	1,879

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.

26. OPERATING LEASE COMMITMENTS

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

GROUP	2013 £'000	2012 £'000
Not later than one year	**499**	417
Later than one year but not more than five years	**873**	794
More than five years	**–**	–
	1,372	1,211

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 £1,316,000 (2012 – £1,278,000), interest of £174,000 (2012 – £175,000) and dividends from subsidiaries of £783,000 (2012 – £1,932,000) and incurs interest of £213,000 (2012 – £234,000) on intercompany borrowings.

FINANCIALS

Notice of Annual General Meeting (unaudited)

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 second Annual General Meeting of Hornby Plc (the "Company") will be held at the offices of Hornby Plc, Ramsgate Road, Westwood, Margate Kent, CT9 4JX on Thursday 25 July 2013 at 12 noon for the following purposes:

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

ORDINARY RESOLUTIONS

1. To receive and adopt the Company's Annual Report and Accounts for the financial year ended 31 March 2013 together with the Report of the Directors and Auditors.

2. To approve the Directors' Remuneration Report, as set out on pages 21 to 25 of the Company's Annual Report and Accounts, for the financial year ended 31 March 2013.

3. To re-elect R T Canham, as a Director.

4. To re-elect F Martin, who retires by rotation, as a Director.

5. To re-elect N P Stone, as a Director.

6. To re-appoint PricewaterhouseCoopers LLP, the retiring auditors, as auditors of the Company to hold office from conclusion of the Annual General Meeting to the conclusion of the next meeting at which accounts are laid before the Company.

7. To authorise the Directors to agree the auditors' remuneration.

8. That, in accordance with section 366 of the Companies Act 2006 (the "**Act**"), the Company and all companies that are its subsidiaries at any time during the period for which this resolution has effect be authorised to:

   (a) make political donations to political parties and/or independent election candidates, not exceeding £10,000 in total;
   (b) make political donations to political organisations, other than political parties, not exceeding £10,000 in total; and
   (c) incur political expenditure, not exceeding £10,000 in total,

   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.

9. 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 24 July 2018 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

10. THAT, subject to and conditional on the passing of resolution 9, the Directors be empowered, pursuant to section 570 of the Act, to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority conferred by resolution 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 9" were omitted in relation to such sale.

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

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

    (a) the maximum number of Ordinary Shares hereby authorised to be purchased is 3,900,000 being an amount equal to approximately 10% of the Ordinary Shares in issue as at 6 June 2013 (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

N P Stone
Company Secretary
Dated: 7 June 2013
Registered office: Westwood, Margate, Kent CT9 4JX
Registered in England and Wales with number 01547390

Notice of Annual General Meeting (unaudited) continued

NOTES (UNAUDITED)

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 12 noon on 23 July 2013.

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 12 noon on 23 July 2013 (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 6 June 2013 (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 7 June 2013 are 39,164,100.

FINANCIALS

Five Year Summary (unaudited)

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Revenue	**57,395**	64,447	63,372	63,863	60,803
(Loss)/Profit on ordinary activities before taxation	**(3,387)**	3,989	4,129	5,215	6,121
Taxation	**886**	(825)	(1,274)	(1,530)	(1,909)
(Loss)/Profit on ordinary activities after taxation	**(2,501)**	3,164	2,855	3,685	4,212
Assets employed:					
Non-current assets	**26,338**	27,969	28,509	28,803	29,903
Net current assets	**12,037**	16,673	16,623	18,653	9,133
Non-current borrowings	**(1,815)**	(4,888)	(8,026)	(10,547)	(7,181)
Deferred tax liabilities	**(159)**	(573)	(337)	(281)	(301)
Net assets	**36,401**	39,181	36,769	36,628	31,554
Total capital employed	**36,401**	39,181	36,769	36,628	31,554
Earnings per share					
– basic	**(6.4)p**	8.2p	7.5p	9.8p	11.2p
– diluted	**(6.4)p**	8.1p	7.4p	9.6p	11.0p
Dividend per share (net)	**–**	3.7p	5.0p	5.0p	2.7p
Net assets per share	**92.9p**	100.0p	95.7p	96.2p	83.1p

Shareholders' information service

Hornby welcomes contact with its shareholders.

If you have questions or enquiries about the Group or its products, please contact:

N P Stone,
Group Finance Director
Hornby Plc
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