

1547390

A copy of this document, which comprises an Exempt Listing Document relating to Hornby Group Plc (the "Company") prepared in accordance with the Listing Rules made under Section 142 of the Financial Services Act 1986, has been delivered to the Registrar of Companies in England and Wales for registration.

The Directors of the Company, whose names are set out on page 3 of this document, accept responsibility for the information contained in this document and the appended documents. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

Application has been made to the London Stock Exchange Limited for the whole of the ordinary share capital of Hornby Group Plc issued and currently traded on the Unlisted Securities Market to be admitted to the Official List of the London Stock Exchange (the "Official List"). It is expected that admission to listing will become effective and dealings in the ordinary shares of 5p each of the Company will commence on Friday, 2 August 1996.

HORNBYS GROUP Plc ✓

(Incorporated and registered in England and Wales with registered number 1547390) ✓

Introduction to the Official List

by

SBC Warburg

A DIVISION OF SWISS BANK CORPORATION

of

the whole of the issued ordinary share capital
of Hornby Group Plc

SHARE CAPITAL

<i>Authorised</i>		<i>Issued and fully paid</i>	
<i>Number</i>	<i>Nominal Amount</i>	<i>Number</i>	<i>Nominal Amount</i>
10,000,000	£500,000	8,357,320	£417,866
	ordinary shares of 5p each		

SBC Warburg is acting as financial adviser to the Company and to no other person in relation to the arrangements proposed in this document and will not be responsible to any other person for providing the protections afforded to customers of SBC Warburg, or for advising any other person on the arrangements proposed in this document.



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DEFINITIONS

The following definitions apply in this document unless the context requires otherwise:-

"Company" or "Hornby"	Hornby Group Plc
"Directors"	the board of directors of the Company
"Group"	the Company and its subsidiary undertaking
"London Stock Exchange"	the London Stock Exchange Limited
"Official List"	the Official List of the London Stock Exchange
"Ordinary shares"	ordinary shares of 5p each in the capital of the Company

GENERAL INFORMATION

1 Directors

Peter Newey, Executive Chairman
Malcolm Campbell Thomas, Deputy Chairman *
Alan Robert Cox, Finance Director
Gordon Victor Hill *

* non-executive

2 Summary of rights attaching to shares

The following is a summary of the rights of the Ordinary shares as derived from the Articles of Association of the Company:

2.1 Voting rights of members

Subject to the restrictions referred to in paragraph 2.2 below, upon a show of hands every member present in person shall have one vote, and upon a poll every member present in person or by proxy shall have one vote for every Ordinary share held by him.

A corporate member may, by resolution of its Directors or other governing body, authorise a person to act as its representative at general meetings and such person shall be entitled to exercise such powers as the corporate member could exercise if it were an individual member of the Company.

2.2 Restrictions on voting

No member shall be entitled to vote at any general meeting unless all calls or other sums presently payable by him in respect of the Ordinary shares held by him have been paid.

No member shall, unless the Directors otherwise determine, be entitled in respect of Ordinary shares held by him to vote at a general meeting either personally or by proxy or to exercise any other right conferred by membership in relation to meetings of the Company if he or any person appearing to be interested in such Ordinary shares has been duly served with a notice under Section 212 of the Companies Act 1985 and is in default in supplying to the Company the information required within the period of 28 days from the date of such notice. A notice served under section 212 of the Companies Act 1985 shall be deemed to have been withdrawn on the earlier of:

- (a) the day on which such notice has been complied with in respect of all the Ordinary shares to which such notice relates; and
- (b) the day on which a transfer in respect of any Ordinary shares to which such notice relates is registered.

2.3 Dividends

Members shall be entitled to all dividends declared and paid out of profits available for distribution in proportion to the amounts paid up on the Ordinary shares held by them provided that such dividend shall not exceed the amount recommended by the Directors. No amount paid on an Ordinary share in advance of calls shall be treated for the purposes of this Article as paid on the Ordinary share. All dividends shall, subject as aforesaid, be apportioned and paid proportionally to the amounts paid up on the Ordinary shares during any portion or portions of the period in respect of which the dividend is paid: but if any Ordinary share is issued on terms providing that it shall rank for dividend from a particular date or *pari passu* as to dividends with an Ordinary share already issued it shall rank accordingly. No dividend in respect of an Ordinary share shall bear interest.

The Directors may from time to time pay to the members, or any class of members, such interim dividends as appear to the Directors to be justified by the distributable profits of the Company.

The Directors may, in respect of all or part of a dividend, with the prior sanction of an ordinary resolution of the Company, either offer members the right to elect to receive further Ordinary shares credited as fully paid, or pay up any amounts for the time being unpaid on any Ordinary shares held by such members.

Payment by the Directors of any unclaimed dividend or other monies payable on or in respect of an Ordinary share into a separate account shall not constitute the Company a trustee in respect thereof and any dividend unclaimed after a period of twelve years from the date of declaration of such dividend shall be forfeited and shall revert to the Company.

2.4 Distribution of assets in winding up

If the Company shall be wound up the assets remaining after the payment of the debts and liabilities of the Company and the costs of the liquidation shall be applied first, in repaying to the members the amounts paid up on the Ordinary shares held by them, and the balance (if any) shall be distributed among the members in proportion to the number of Ordinary shares held by them, provided always that these provisions shall be subject to the rights of the holders of Ordinary shares (if any) issued upon special conditions.

In a winding up the liquidator may with the sanction of an extraordinary resolution of the Company, divide among the members of the Company in specie the whole or any part of the assets of the Company, or may, with the like sanction, vest any part of the assets in trustees for the benefit of such members, and the liquidation of the Company may be closed and the Company dissolved but so that no member shall be compelled to accept any Ordinary shares on which there is any liability.

2.5 Transfer of shares

All transfers of Ordinary shares shall be in writing in the usual common form or in any other form approved by the Directors. The instrument of transfer shall be signed by or on behalf of the transferor and, if the Ordinary shares transferred are not fully paid, by or on behalf of the transferee. The transferor shall be deemed to remain the holder of such Ordinary shares until the name of the transferee is entered in the Register in respect of such shares.

The Directors may in their absolute discretion and without assigning any reason refuse to register any transfer of Ordinary shares (not being a fully paid share) to a person of whom they do not approve, and also may decline to register any transfer of Ordinary shares on which the Company has a lien.

The Directors may also decline to recognise any instrument of transfer, unless the instrument of transfer is:

- (a) duly stamped and deposited at the office or such other place as the Directors may appoint, accompanied by the certificate for the Ordinary shares to which it relates, and such other evidence as the Directors may reasonably require to show the rights of the transferor to make the transfer;
- (b) in respect of only one class of share; and
- (c) in favour of not more than four transferees except in the case of executors or trustees of the deceased member.

The Register may be closed at such times and for such period as the Directors may from time to time determine, provided that it shall not be closed for more than thirty days in any year.

No fee shall be charged in respect of the registration of any transfer, probate, letters of administration, certificate of marriage or death, power of attorney or other document relating to or affecting the title to any Ordinary shares.

2.6 Proposed changes to the Articles of Association

In anticipation of the admission of the Company's issued ordinary share capital to the Official List, the Directors have recommended to shareholders that new Articles of Association be adopted at the forthcoming Extraordinary General Meeting to be held on Thursday, 8 August 1996. Full details of the appropriate resolution and the terms of the principal changes to the present Articles of Association are contained in the circular to shareholders accompanying the Notice of Extraordinary General Meeting sent to shareholders on 16 July 1996 contained in Appendix 2 to this document. The Directors have also proposed that the Company changes its name to Hornby Plc at that meeting.

3 Significant changes

There has been no significant change in the financial or trading position of the Group since 31 March 1996, the date to which the latest published consolidated audited accounts of the Group were prepared.

4 Documents for inspection

Copies of the following documents will be available for inspection at the registered office of the Company at Westwood, Margate, Kent, CT9 4JX, the offices of SBC Warburg at 1 Finsbury Avenue, London, EC2M 2PP and at the offices of Berwin Leighton, Adelaide House, London Bridge, London, EC4R 9HA during normal business hours on any weekday (except Saturdays and public holidays) for the period of fourteen days from the date of this document:

- i) - the Memorandum and Articles of Association of the Company; and
- ii) the audited consolidated statutory accounts for the two years ended 31 December 1993 and 1994 and the fifteen months ended 31 March 1996.

26 July 1996

Appendix 1

**The consolidated audited accounts of the Group for
the two years ended 31 December 1993 and 1994 and
the 15 months ended 31 March 1996**

HORNBY GROUP PLC

HORNBY GROUP

ANNUAL

REPORT

& ACCOUNTS

1993

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**FINANCIAL
HIGHLIGHTS**

	1993	1992
	£'000	£'000
TURNOVER	28,238	31,323
OPERATING PROFIT	1,721	1,864
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1,501	1,455
SHAREHOLDERS' FUNDS	14,394	14,235
EARNINGS PER ORDINARY SHARE	10.9p	11.5p
DIVIDENDS PER ORDINARY SHARE	9.0p	9.0p
NET ASSETS PER ORDINARY SHARE (AFTER ADDING BACK GOODWILL WRITTEN OFF)	190.3p	188.4p

CHAIRMAN'S STATEMENT

In my first year as Chairman I am delighted to report that the Group was able to maintain both its pre-tax profits and the level of dividend in a year in which trading conditions continued to be difficult in all our major markets.

Hornby is largely dependent on the domestic UK market and the absence of a recovery in the retail sector continued to affect the demand for the Group's core products.

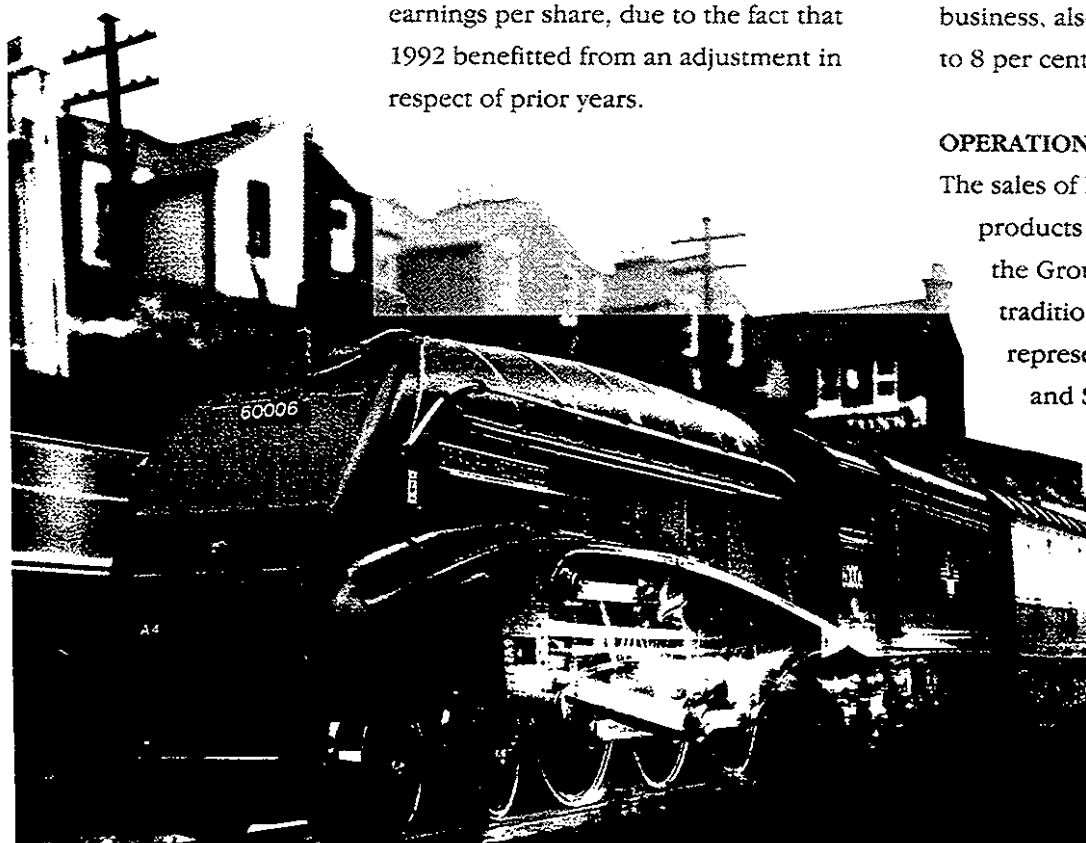
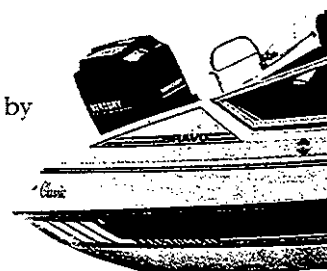
Turnover in the year was £28.2 million (1992 – £31.3 million) representing a reduction of ten per cent. The profit before taxation was maintained at £1.5 million. The profit after taxation was also maintained at £0.9 million and resulted in earnings per share of 10.9 pence (1992 – 11.5 pence). The Group tax charge is relatively high at 39.8 per cent primarily due to timing differences between depreciation and capital allowances. The effective tax rate increased in 1993, which reduced earnings per share, due to the fact that 1992 benefitted from an adjustment in respect of prior years.

During the year, the Group focussed on reducing operating expenses where possible and conserving cash. As a result, operating costs were reduced from £8.7 million to £7.3 million although this was offset by the effect of the weakness of sterling during the year which increased the costs of our imported toy products and affected the Group's earnings by approximately £0.9 million compared with the previous year.

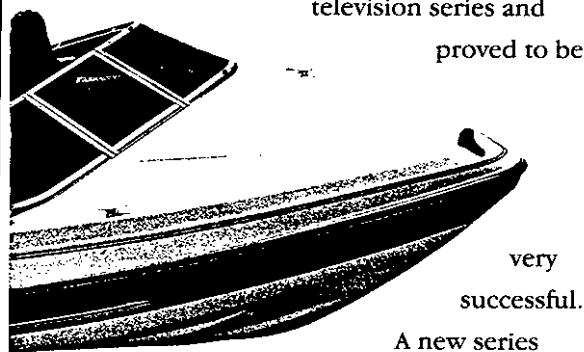
Capital expenditure in the year was restricted and was £1.1 million lower than the previous year. This contributed to an improvement in the year end cash position which increased by £1.2 million to £4.3 million. (1992 – £3.1 million). The Group's average borrowings, which arise due to the seasonal nature of our business, also improved from 19 per cent to 8 per cent of shareholders' funds.

OPERATIONAL REVIEW

The sales of Hornby toy and model products represented 88 per cent of the Group's turnover. Of this, our traditional core products represented by Hornby Railways and Scalextric slot-car racing accounted for approximately 60 per cent of sales. Despite the continuing effect of the recession on the retail sector the sales of these traditional products held



up well. Our major new toy product was an in-house development based upon the popular Gladiator television series. This product was launched in the second half of the year to coincide with the television series and proved to be



very successful.
A new series

will be televised during 1994 and we expect sales of this product range to continue to perform well.

The Fletcher sports boat business also faced continuing difficult market conditions during 1993. Despite these tough conditions, Fletcher continued to improve its trading performance and achieved a small profit at the operating level. This was achieved on nominally higher sales by a combination of improved gross margins and further reductions in operating costs. The European dealer network has been extended and the Fletcher product is now represented by approximately 65 dealer points throughout Europe. Fletcher has also recently successfully exhibited at the Japanese boat show.

Dividends

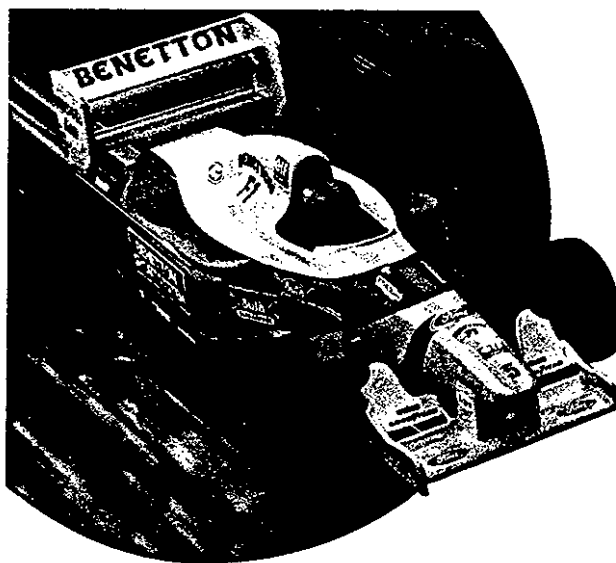
The Group's balance sheet shows an increase in net cash and a reduction in average borrowings. Taking these factors into account, the directors are pleased to recommend that the Group maintains the dividend at the 1992 level of 9.0 pence

per share. This dividend would be covered 1.2 times by earnings compared with 1.3 times in 1992.

Future Prospects

The Group enters 1994 with both a strong product range and a sound balance sheet. Several new product ranges were introduced at the 1994 International Toy Fair and these were received favourably. To add to the ongoing range we have launched a small scale Scalextric system which will compete in the lower end of the slot-car racing market and the initial response to this has been very positive. The new toy products included a boys action figure range and two collectible concepts for girls. An innovative toy oven, developed internally, attracted much interest at the Toy Fair. This toy oven can be used by a child to cook real cakes by using mixes developed by McDougalls.

The level of orders received to date is ahead of the same period last year



CHAIRMAN'S STATEMENT

CONTINUED

CHAIRMAN'S STATEMENT

CONTINUED

although there is little evidence in the retail trade that the recessionary pressures are easing. We believe that it is unlikely that there will be a marked recovery in retail sales in the UK during the current year and we anticipate that trading conditions will continue to be difficult.

The Fletcher business has considerable potential but the market will continue to be tough. Fletcher is now positioned as the leading manufacturer of quality sports boats in Europe and, following the actions that are being taken to develop new markets for our products, Fletcher is expected to perform strongly when economic conditions improve.

We will also add other established toy or model brands to the Group's stable core products of Hornby Railways and Scalextric.

The directors believe that the Group is in a relatively strong position and will benefit from an improvement in trading conditions as the domestic economy and the level of consumer spending recovers.

Board of Directors

During the year Jack Strowger stepped down as Chairman but continued as a non-executive director and I took over as Chairman.

I am very pleased to welcome Peter Newey to the board as a non-executive director. Peter was previously an executive director of Lazard Brothers & Co Ltd and is currently Chairman and Chief

Executive of Owen Owen plc.

During the year Jacques Margry resigned as a director.

I also have to inform you that Jack Strowger has decided to retire for personal reasons and left the Board on 31st March 1994. Jack has been a director of the Company since July 1981 shortly after the Hornby business was acquired by way of a management buy-out. Jack guided the Group through very challenging times and his presence on the Board will be greatly missed. On behalf of the Board, I would like to wish Jack a happy and well-deserved retirement.

Finally, on behalf of the Board, I would like to thank all employees of the Group for their commitment and tenacity during another difficult year.

M. C. Thomas

Malcolm C. Thomas
Chairman

15th April 1994



CORPORATE GOVERNANCE

In the latter part of 1992 the final report of the Cadbury Committee on the Financial Aspects of Corporate Governance was published which included a Code of Best Practice. The Board fully supports the recommendations of the Committee and the Company intends to comply with all provisions of the Code except those for which guidelines are still awaited.

Set out below is the statement of compliance with the Code which identifies any areas of non-compliance with the Code. The Auditors have reported separately on the Company's compliance with the Code of Best Practice and their report is shown on page 6.

STATEMENT OF COMPLIANCE WITH THE CODE OF BEST PRACTICE

Hornby Group Plc complies with the Code of Best Practice issued by the Cadbury Committee with the following variations and exceptions:

THE BOARD OF DIRECTORS

The Board, which consisted of two executive and three non-executive directors, meets regularly throughout the year. Although the Board has not yet adopted a formal schedule of matters specifically reserved for Board decision, it determines overall Group strategy, approves major acquisitions and disposals, reviews annual budgets of the Group and monitors progress against those budgets at each meeting. A formal schedule of matters specifically reserved to the Board for decision will be adopted during the coming year.

The directors are able to take independent professional advice in the furtherance of their duties at the Company's expense and a formal procedure for this will be adopted during the coming year.

The Remuneration Committee of the Board, which consists of all the non-executive directors and is chaired by Mr M. Thomas, determines the terms of service and remuneration of all members of the Board including the granting of options under the Company's executive share option scheme. Formal terms of reference for this committee will be adopted shortly. The selection of non-executive directors has been a matter for the Board as a whole although a formal process will be introduced in the coming year.

REPORTING AND CONTROLS

The Company's Audit Committee comprises all the Board members who attend a meeting with the Auditors at least once a year, normally following the completion of the audit process and prior to the directors approving the relevant accounts. This Committee reviews the effectiveness of the external audit, considers any major accounting issues, and reviews the annual report and accounts prior to the accounts being approved by the directors. There are currently no written terms of reference for the Audit Committee although this will be formalised in the coming year.

Until guidance for directors is finalised on statements relating to the effectiveness of internal controls and the Group's status as a going concern, the directors are not in a position to report in relation to paragraphs 4.5 and 4.6 of the Code.

CORPORATE GOVERNANCE

CONTINUED

REPORT OF THE AUDITORS TO HORNBY GROUP PLC ON THE STATEMENT OF COMPLIANCE WITH THE CODE OF BEST PRACTICE

We have reviewed the directors' statement on page 5 concerning the Company's compliance with the Code of Best Practice, insofar as it relates to the paragraphs of the Code which the London Stock Exchange has specified for our review. We carried out our review having regard to the Bulletin "Disclosures relating to corporate governance" issued by the Auditing Practices Board.

The purpose of the directors' statements is to give readers information which assists them in forming their own views regarding the governance of the Company. In respect of the paragraphs of the Code specified for our consideration, we are required to draw attention to any aspects of the Company's non-compliance with the Code which the directors have not properly disclosed. We are not required to review, and have not reviewed, the effectiveness of the Company's governance procedures.

Through enquiry of certain directors and officers of the Company, and examination of relevant documents, we have satisfied ourselves that the directors' statement appropriately reflects the Company's compliance with the specified paragraphs of the Code.

Arthur Andersen
Chartered Accountants and Registered Auditors
1 Surrey Street
London WC2R 2PS
15th April 1994

DIRECTORS & CORPORATE INFORMATION

DIRECTORS

M. C. Thomas
Chairman

K. L. Ness
Managing Director & Chief Executive

A. R. Cox BA ACMA
Finance Director

P. Newey
Non-Executive

SECRETARY
A. R. Cox BA ACMA

REGISTERED OFFICE
Westwood, Margate
Kent CT9 4JX

COMPANY REGISTERED NUMBER
Incorporated in England No. 1547390

AUDITORS
Arthur Andersen
1 Surrey Street
London WC2R 2PS

SOLICITORS

Berwin Leighton
Adelaide House, London Bridge
London EC4R 9HA

PRINCIPAL BANKERS

Barclays Bank PLC
9 St. George's Street, Canterbury
Kent CT1 2JX

STOCKBROKERS

S. G. Warburg Securities Ltd.
1 Finsbury Avenue
London EC2M 2PA

REGISTRARS AND TRANSFER AGENTS

Independent Registrars Group
Broseley House, Newlands Drive
Witham
Essex CM8 2UL

The directors submit their annual report together with the audited financial statements for the year ended 31st December 1993.

REPORT OF THE DIRECTORS

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company is a holding company.

The Group is principally engaged in the development, manufacture and distribution of a wide range of toy and model products. The Group is also engaged in the design and manufacture of sports boats and accessories.

The Group's business review is included in the Chairman's statement.

The Board considers that research and development continues to play a vital role in the Group's success. Details are given in Note 3 to the financial statements.

RESULTS AND DIVIDENDS

The results for the year ended 31st December 1993 are set out in the Consolidated Profit & Loss Account on page 10. Turnover for the year was £28.2m against £31.3m last year. The profit on ordinary activities after taxation for the year amounted to £0.9m (1992 - £0.9m).

The directors recommend a final dividend of 9.0p per ordinary share payable on 18th May 1994 to those shareholders on the register at 15th April 1994. The dividend is covered 1.2 times by earnings (1992 - 1.3 times).

The retained profit of £0.2m (1992 - £0.2m) was transferred to Reserves, (see Note 17).

FIXED ASSETS

The changes in tangible fixed assets in the year are detailed in Note 10 to the financial statements.

In the opinion of the directors, there is no significant difference between the book value and the current value of interests in land and buildings.

CHARITABLE DONATIONS

During the year the Group made donations of £275 (1992 - £2,412) for charitable purposes.

DIRECTORS AND THEIR INTERESTS

The directors and their interests, including family holdings, in the fully paid ordinary shares of the Company (all of which are beneficially held) and in options granted over such shares under the Company's executive share option scheme were as follows:

	Number of 5p Ordinary shares at 31st December		Share options held at 31st December	
	1993	1992	1993	1992
M. C. Thomas	5,000	5,000	-	-
K. L. Ness	73,000	73,000	117,100	117,100
A. R. Cox	28,600	28,600	18,000	18,000
G. J. Strowger	25,000	25,000	-	-

REPORT OF THE DIRECTORS

CONTINUED

No changes took place in the interests of directors in the Group's shares between 31st December 1993 and 15th April 1994.

No directors were beneficially interested in contracts with the Group throughout the year ending 31st December 1993.

Mr J.G. Margry resigned as a director on 20th May 1993 and Mr P. Newey was appointed as a non-executive director on the same date.

The directors retiring by rotation under Article 93 of the Articles of Association and offering themselves for re-election are as follows:

Mr K.L. Ness (Chief Executive), first appointed to the Board on 28th June 1982.

Mr P. Newey (Non-Executive), appointed to the Board on 20th May 1993.

The following directors served in a Non-Executive capacity:

Mr M.C. Thomas – (Chairman) – British, aged 64, appointed to the Board on 17th August 1987, previously a director of Reed International PLC and is currently President of Smurfit (UK) Limited. He is also Chairman of Minipak Systems Limited and a director of Holmes and Marchant Group PLC. Mr Thomas succeeded Mr Strowger as Chairman on 14th May 1993.

Mr G.J. Strowger – British, aged 78, appointed to the Board in July 1981. He served with the Thorn-EMI Group for over thirty-eight years and was group managing director from 1970 to 1979. Mr Strowger resigned as a director on 31st March 1994.

Mr P. Newey – British, aged 46, appointed to the Board on 20th May 1993. He was previously an executive director of Lazard Brothers & Co Ltd. and is currently Chairman and Chief Executive of Owen Owen PLC and a director of Holmes & Marchant Group PLC, and Buckland Corporate Finance Limited.

LIABILITY INSURANCE FOR COMPANY OFFICERS

As permitted by the Companies Act 1985 (as amended), the Company has purchased insurance cover for the directors against liabilities in relation to the Company.

POST BALANCE SHEET EVENTS

The Company acquired ten per cent of the issued share capital of The Original San Francisco Toymakers Inc. on 6th January 1994 for a consideration of £673,000. The Original San Francisco Toymakers Inc. are engaged in the design and development of new toy products.

SUBSTANTIAL SHAREHOLDINGS

The Company has been notified that on 31st March 1994 the following parties were interested in 3 per cent or more of the Company's ordinary share capital:

Shareholder	Number of Ordinary shares	Percentage held
Electra Investment Trust PLC	819,030	9.91
Fidelity International Ltd	710,000	8.59
Scottish Amicable Investment Managers Ltd	496,043	6.00
B.T. Pension Scheme	436,080	5.28
Post Office Staff Superannuation Scheme	290,720	3.52

CLOSE COMPANY STATUS

The Company is not a close company within the terms of the Income and Corporation Taxes Act 1988.

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.

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 at the individual company level.

The Group encourages employees to be shareholders of the Company.

AUTHORITY TO ISSUE SHARES

At the Annual General Meeting shareholders will be asked to renew the authority given to the directors to disapply pre-emption rights in certain circumstances in accordance with Section 95 of the Companies Act 1985. The special resolution is set out in the Notice of Annual General Meeting on page 28 of this document.

DIRECTORS' RESPONSIBILITIES

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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

The directors will place a resolution before the Annual General Meeting to re-appoint Arthur Andersen as auditors for the ensuing year and to authorise the directors to determine their remuneration.

By order of the Board,

A.R. Cox

Secretary

Westwood, Margate

Kent CT9 4JX

15th April 1994

REPORT OF THE DIRECTORS

CONTINUED

**CONSOLIDATED
PROFIT & LOSS
ACCOUNT**

FOR THE YEAR ENDED 31ST DECEMBER 1993

		1993	1992
	Notes	£'000	£'000
TURNOVER	2	28,238	31,323
Cost of sales		19,257	20,710
		<hr/>	<hr/>
GROSS PROFIT		8,981	10,613
Other operating expenses	3	7,260	8,749
		<hr/>	<hr/>
OPERATING PROFIT		1,721	1,864
Net interest payable	4	(220)	(409)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	1,501	1,455
Taxation on profits on ordinary activities	7	(598)	(504)
		<hr/>	<hr/>
PROFIT FOR THE FINANCIAL YEAR		903	951
Dividends proposed	8	(744)	(744)
		<hr/>	<hr/>
RETAINED PROFIT FOR THE YEAR		159	207
		<hr/>	<hr/>
ATTRIBUTABLE TO:			
The Company		3	—
Subsidiary undertakings		156	207
		<hr/>	<hr/>
		159	207
		<hr/>	<hr/>
EARNINGS PER SHARE	9	10.9p	11.5p

Details of movements on reserves are given in Note 17.

FOR THE YEAR ENDED 31ST DECEMBER 1993

	1993	1992
	£'000	£'000
PROFIT FOR THE FINANCIAL YEAR	903	951
Currency translation difference on foreign currency investments	—	4
TOTAL GAINS RECOGNISED FOR THE PERIOD	903	955

**STATEMENT
OF TOTAL
RECOGNISED
GAINS
AND LOSSES**

FOR THE YEAR ENDED 31ST DECEMBER 1993

	1993	1992
	£'000	£'000
REPORTED PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1,501	1,455
Difference between the historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	17	17
Historical cost profit on ordinary activities	1,518	1,472
HISTORICAL COST PROFIT FOR THE YEAR RETAINED AFTER TAXATION AND DIVIDENDS	176	224

**NOTE
OF HISTORICAL
COST PROFITS
AND LOSSES**

**BALANCE
SHEETS**

AT 31ST DECEMBER 1993

AT 31ST DECEMBER 1993		Group		Company	
		1993	1992	1993	1992
	Notes	£'000	£'000	£'000	£'000
FIXED ASSETS					
Tangible assets	10	6,458	7,282	-	-
Investments	11	-	-	16,148	15,693
		<u>6,458</u>	<u>7,282</u>	<u>16,148</u>	<u>15,693</u>
CURRENT ASSETS					
Stocks	12	4,303	5,379	-	-
Debtors	13	6,642	6,013	36	335
Cash at bank and in hand	19	4,337	4,676	7	8
		<u>15,282</u>	<u>16,068</u>	<u>43</u>	<u>343</u>
CREDITORS - Amounts falling due within one year	14	(6,962)	(8,648)	(766)	(770)
NET CURRENT ASSETS/(LIABILITIES)		<u>8,320</u>	<u>7,420</u>	<u>(723)</u>	<u>(427)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>14,778</u>	<u>14,702</u>	<u>15,425</u>	<u>15,266</u>
CREDITORS - Amounts falling due after more than one year	14	(321)	(415)	-	-
PROVISIONS FOR LIABILITIES AND CHARGES	15	(63)	(52)	-	-
NET ASSETS		<u>14,394</u>	<u>14,235</u>	<u>15,425</u>	<u>15,266</u>
CAPITAL & RESERVES					
Called-up share capital	16	413	413	413	413
Share premium account	17	4,498	4,498	4,498	4,498
Revaluation reserve	17	931	948	-	-
Other reserves	17	377	377	14,057	13,901
Profit and loss account	17	8,175	7,999	(3,543)	(3,546)
TOTAL CAPITAL EMPLOYED		<u>14,394</u>	<u>14,235</u>	<u>15,425</u>	<u>15,266</u>

Signed on behalf of the Board

K.L. Ness - Director

15th April 1994

FOR THE YEAR ENDED 31ST DECEMBER 1993

	Notes	1993 £'000	1993 £'000	1992 £'000	1992 £'000	CASH FLOW STATEMENT
NET CASH INFLOW FROM OPERATING ACTIVITIES	19		3,554		3,194	
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE:						
Interest received		58		80		
Interest paid		(192)		(444)		
Interest element – finance leases		(86)		(45)		
Dividends paid		(744)		(744)		
NET CASH OUTFLOW FROM INVESTMENTS AND SERVICING OF FINANCE			(964)		(1,153)	
TAXATION:						
Corporation tax paid		(424)		(642)		
Corporation tax received		32		82		
NET TAXATION PAID			(392)		(560)	
INVESTING ACTIVITIES:						
Payments to acquire tangible fixed assets		(818)		(1,450)		
Receipts from sales of tangible fixed assets		–		3		
NET CASH OUTFLOW FROM INVESTING ACTIVITIES			(818)		(1,447)	
NET CASH INFLOW BEFORE FINANCING			1,380		34	
FINANCING:						
Issue of ordinary share capital		–		1		
Capital element of finance lease rental payments		(154)		(217)		
NET CASH OUTFLOW FROM FINANCING			(154)		(216)	
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	19		1,226		(182)	

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

A summary of the principal Group accounting policies, all of which have been applied consistently throughout the year and with the preceding year, is set out below.

BASIS OF ACCOUNTING

The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and have been prepared in accordance with applicable accounting standards.

BASIS OF CONSOLIDATION

The Group financial statements consolidate the financial statements of the Company and all its subsidiaries made up to 31st December 1993. The results of subsidiary undertakings acquired in the year are included in the consolidated profit & loss account from the date of acquisition. Goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired, having made appropriate provisions for any reorganisation costs) is written off against other reserves on acquisition.

The Company has taken advantage of the exemption provided by S.230 of the Companies Act 1985 not to present its own profit & loss account.

RESEARCH AND DEVELOPMENT

Expenditure on research and development is written off in the year in which the expenditure is incurred.

TANGIBLE FIXED ASSETS

Land and buildings are shown at cost or valuation less accumulated depreciation. Other fixed assets are shown at cost less accumulated depreciation.

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

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

Residual value is calculated on prices prevailing at the date of acquisition or revaluation where this has taken place. Profits or losses on the disposal of plant and equipment are included in the calculation of operating profit.

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.

FIXED ASSET INVESTMENTS

In the Company's financial statements investments in subsidiary undertakings are stated using the equity method of valuation. Accordingly, subsequent increases and reductions in the value of these investments are set against other reserves in the financial statements of the Company. The directors consider that this policy more fairly represents the Company's investments than carrying them at cost.

STOCKS

Stocks are stated at the lower of cost and net realisable value.

Cost incurred in bringing each product to its present location and condition is based on:

Raw materials	-	actual purchase cost on a first in, first out basis including freight and duty where applicable
Work in progress and finished goods	-	cost of actual direct materials and labour plus a proportion of manufacturing overheads based on the normal level of activity.

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.

There are no significant differences between balance sheet and replacement cost values. For these purposes replacement cost is based on latest invoice prices before the balance sheet date.

REVALUATION RESERVE

The surplus arising on the revaluation of freehold land and buildings is credited to the revaluation reserve, which is not distributable. Where depreciation charges are increased following a revaluation, an amount equal to such increase is transferred annually from this reserve to the profit and loss account.

TAXATION

Corporation tax, where payable, is provided on taxable profits at the current rate.

Advance corporation tax payable on dividends paid or provided for in the year is written off, except when recoverability against corporation tax payable is considered to be reasonably assured. Credit is taken for advance corporation tax written off in previous years when it is recovered against corporation tax liabilities.

The taxation liabilities of certain Group undertakings are reduced wholly or in part by the surrender of losses by fellow group undertakings. The tax benefits arising from group relief are recognised in the financial statements of the surrendering and recipient undertakings.

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the financial statements and by the tax authorities) has been calculated on the liability method. Deferred tax is provided on timing differences which will probably reverse at the rates of tax likely to be in force at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

PENSION 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 appointed by the Company.

The amount charged to the profit and loss account in respect of the scheme is the contribution payable in the year.

Further information on pension costs is provided in note 20.

FOREIGN CURRENCY

Transactions denominated in foreign currencies are recorded in sterling at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rate of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is reported in the profit and loss account as an exchange gain or loss.

TURNOVER

Group turnover is recorded at the date of despatch and comprises the value of sales (excluding VAT and trade discounts) of goods and services in the normal course of business, and royalties receivable.

LEASES

The Group enters into operating and finance leases.

Assets held under finance leases are initially reported at the fair value of the asset with an equivalent liability categorised as appropriate under creditors due within or after one year. The assets are depreciated over the shorter of the lease term and their useful economic life. 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 reduction of the liability, and allocated to cost of sales and other operating expenses as appropriate.

Rentals under operating leases are charged on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

2 SEGMENT INFORMATION

The analysis of Group turnover, profit on ordinary activities before taxation and net assets by business and geographical segment is as follows:

BUSINESS SEGMENTS		Toys & Models		Sports Boats		Group	
	1993 £'000	1992 £'000	1993 £'000	1992 £'000	1993 £'000	1992 £'000	
TURNOVER							
Sales to third parties	24,958	28,296	3,280	3,027	28,238	31,323	
SEGMENT PROFIT (LOSS)							
	1,886	2,290	35	(267)	1,921	2,023	
Common costs					(200)	(159)	
Operating profit					1,721	1,864	
Net interest payable					(220)	(409)	
Profit on ordinary activities before taxation					1,501	1,455	
NET ASSETS							
Segment net assets	14,232	13,979	1,101	1,151	15,333	15,130	
Unallocated liabilities					(939)	(895)	
TOTAL NET ASSETS					14,394	14,235	
GEOGRAPHICAL SEGMENTS							
	United Kingdom		Europe		Other		Group
	1993 £'000	1992 £'000	1993 £'000	1992 £'000	1993 £'000	1992 £'000	1993 £'000 1992 £'000
TURNOVER BY DESTINATION							
Sales to third parties	24,616	28,127	2,738	2,568	884	628	28,238 31,323

All turnover, profit and net assets can be considered to originate in the United Kingdom and relate to continuing operations.

3 OTHER OPERATING EXPENSES

	1993 £'000	1992 £'000
Distribution costs	489	569
Selling and marketing costs	4,392	5,818
Research and development costs	393	376
Administrative expenses	1,986	1,986
	<u>7,260</u>	<u>8,749</u>

**NOTES TO THE
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STATEMENTS**

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4 NET INTEREST PAYABLE	1993 £'000	1992 £'000
Interest receivable and similar income:		
– bank interest receivable	(58)	(80)
Interest payable and similar charges:		
– on bank loans and overdrafts		
repayable within five years not by instalments	192	444
Interest element of finance leases	86	45
	<u>220</u>	<u>409</u>
5 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1993 £'000	1992 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation of tangible fixed assets		
– owned	1,479	1,495
– held under finance leases	165	112
Operating lease rentals	22	63
Hire of plant and machinery	10	110
Auditors' remuneration – audit fees	58	58
– non-audit fees	78	47
Surplus provisions and other accruals	(200)	(197)
Staff costs (see note 6)	<u>6,909</u>	<u>7,471</u>
6 DIRECTORS AND EMPLOYEES	1993 £'000	1992 £'000
STAFF COSTS		
Wages and salaries	6,186	6,694
Social security costs	515	560
Other pension costs	208	217
	<u>6,909</u>	<u>7,471</u>
AVERAGE NUMBER OF EMPLOYEES		
The average number of employees in the Group during the year was:	1993 Number	1992 Number
Manufacturing	508	576
Sales, marketing and distribution	87	91
Administration	31	32
	<u>626</u>	<u>699</u>

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

6 DIRECTORS AND EMPLOYEES CONTINUED

DIRECTORS' REMUNERATION

Directors' remuneration in respect of the Company was as follows:

	1993 £'000	1992 £'000
Fees as directors	33	20
Salaries as directors	207	220
Other emoluments (including pension contributions)	166	163

The directors' remuneration shown above
(excluding pension contributions) includes:

	1993 £'000	1992 £'000
Chairmen:		
Mr. G. J. Strowger (1993 - 5 months)	13	45
Mr. M. C. Thomas (1993 - 7 months)	16	-
Highest paid director:	1993	1992
Salary	£'000	£'000
Incentive compensation	110	110
Other	100	100
	19	18
	229	228

Mr K.L. Ness, the Group Chief Executive, receives a profit-related incentive bonus based upon varying percentages of the Group profit achieved in the year, subject to a minimum bonus of £150,000. In the year ended 31st December 1993 Mr. Ness waived £50,000 of this contractual bonus (1992 - £50,000). Mr Ness also received pension contributions during the year of £14,304 (1992 - £10,555). The Chairmen received no pension contributions.

The directors received emoluments (excluding pension contributions) in the following ranges:

	1993	1992
£nil-£5,000	1	-
£5,001-£10,000	1	1
£10,001-£15,000	-	1
£20,001-£25,000	1	-
£30,001-£35,000	1	-
£40,001-£45,000	-	1
£90,001-£95,000	1	1
£225,001-£230,000	1	1

7 TAXATION ON PROFITS ON ORDINARY ACTIVITIES

The tax charge is based on the profit for the year and comprises:

	1993 £'000	1992 £'000
Corporation tax at 33% (1992 - 33%)	590	551
Deferred taxation arising from:		
- capital allowances	7	(2)
- other timing differences	4	-
	601	549
Adjustment of taxation in respect of prior years - current taxation	(3)	(45)
	598	504

Had the Group recognised the full amount of potential deferred tax, the charge for the year would have been reduced by approximately £63,000 (1992 - £79,000) (See note 15).

8 DIVIDENDS PROPOSED

	1993 £'000	1992 £'000
Ordinary:		
- final proposed of 9.0p per share	744	744
(1992 - 9.0p per share)		

**NOTES TO THE
FINANCIAL
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CONTINUED

9 EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the financial year after taxation of £903,000 (1992 - £951,000) and the weighted average number of ordinary shares in issue during the year of 8,263,220 (1992 - 8,262,475). Earnings per share calculated on a fully diluted basis are not materially different from the figures shown above.

10 TANGIBLE FIXED ASSETS - GROUP

	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Tools and moulds £'000	Total £'000
COST OR VALUATION					
Beginning of year	3,846	5,726	565	8,431	18,568
Additions	-	80	68	718	866
Disposals	-	(13)	(143)	-	(156)
End of year	3,846	5,793	490	9,149	19,278
DEPRECIATION					
Beginning of year	306	3,376	210	7,394	11,286
Charge	66	523	109	946	1,644
Disposals	-	(13)	(97)	-	(110)
End of year	372	3,886	222	8,340	12,820
NET BOOK VALUE					
At 31st December 1993	3,474	1,907	268	809	6,458
At 31st December 1992	3,540	2,350	355	1,037	7,282

Freehold land amounting to £1,116,000 (1992 - £1,116,000) has not been depreciated.

	1993 £'000	1992 £'000
Included in the tangible fixed assets are the following capitalised values and related accumulated depreciation of motor vehicles and computer equipment acquired under finance leases:		
	818	864
Capitalised value	(359)	(261)
Accumulated depreciation	459	603
NET BOOK VALUE		

NOTES TO THE 10 TANGIBLE FIXED ASSETS CONTINUED**FINANCIAL
STATEMENTS**

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The cost or valuation of freehold land and buildings is represented by:

	Freehold land and buildings	
	1993	1992
	£'000	£'000
Valuation in 1986	2,360	2,360
Cost	1,486	1,486
	<u>3,846</u>	<u>3,846</u>

Other tangible fixed assets are stated at cost.

The original cost and aggregate depreciation, based on cost of land and buildings included at valuation, are as follows:

	Freehold land and buildings	
	1993	1992
	£'000	£'000
Original cost	412	412
Depreciation based on cost	(95)	(87)
	<u>317</u>	<u>325</u>

11 FIXED ASSET INVESTMENTS – COMPANY

The following are included in the net book value of fixed asset investments:

	Company	
	1993	1992
	£'000	£'000
Subsidiary undertakings	15,636	15,480
Loans to subsidiary undertakings	512	213
	<u>16,148</u>	<u>15,693</u>

The movements in the values of the subsidiary undertakings are as follows:

	Company	
	1993	1992
	£'000	£'000
Shares at cost less amounts written off	5,356	5,356
Excess of assets purchased over cost	2,438	2,438
	<u>7,794</u>	<u>7,794</u>
Movement in underlying net assets since acquisition:		
Beginning of year	7,686	7,476
Retained profits of subsidiary undertakings	156	210
End of year	<u>7,842</u>	<u>7,686</u>
	<u>15,636</u>	<u>15,480</u>

Amounts due to subsidiary undertakings previously disclosed as creditors falling due within one year have been reclassified to Fixed Asset Investments as they are considered to be part of the investment in subsidiary undertakings.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

11 FIXED ASSET INVESTMENTS CONTINUED

PRINCIPAL GROUP SUBSIDIARY UNDERTAKINGS

Details of the principal subsidiary undertakings of the Company, which are all included in the consolidated financial statements are set out below. All subsidiary undertakings are wholly-owned private companies.

	Principal activity	Country of incorporation and operation
Hornby Hobbies Limited	Toy manufacture	England
Norman Fletcher (Sales & Developments) Limited	Holding Company	England
Fletcher International Sports Boats Limited	Manufacture of sports boats	England
Fletcher France SARL	Distributor of sports boats	France

Fletcher France SARL did not trade during the year.

12 STOCKS

	Group	
	1993 £'000	1992 £'000
Raw materials and consumables	833	1,174
Work in progress	1,538	1,794
Finished goods and goods for resale	1,932	2,411
	<u>4,303</u>	<u>5,379</u>

13 DEBTORS

	Group		Company	
	1993 £'000	1992 £'000	1993 £'000	1992 £'000
AMOUNTS FALLING DUE WITHIN ONE YEAR				
Trade debtors	5,548	4,899	-	-
Dividends receivable from subsidiary undertakings	-	-	-	331
Prepayments	857	866	36	4
Other debtors	237	138	-	-
	<u>6,642</u>	<u>5,903</u>	<u>36</u>	<u>335</u>
AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR				
ACT recoverable	-	110	-	-
	<u>-</u>	<u>110</u>	<u>-</u>	<u>-</u>
TOTAL DEBTORS	<u>6,642</u>	<u>6,013</u>	<u>36</u>	<u>335</u>

NOTES TO THE 14 CREDITORS

FINANCIAL STATEMENTS

CONTINUED

	Group		Company	
	1993 £'000	1992 £'000	1993 £'000	1992 £'000
AMOUNTS FALLING DUE WITHIN ONE YEAR				
Finance lease obligations				
Bank overdraft	178	197	-	-
Trade creditors	-	1,565	-	-
UK Corporation tax payable	2,432	2,397	-	-
ACT payable	563	475	3	3
VAT	216	248	-	-
PAYE and Social Security	792	796	-	-
Dividends proposed	178	177	-	-
Accruals	744	744	744	744
Other	949	1,272	19	23
	<u>910</u>	<u>777</u>	<u>-</u>	<u>-</u>
	6,962	8,648	766	770
AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR				
Finance lease obligations	321	415	-	-
TOTAL CREDITORS	<u>7,283</u>	<u>9,063</u>	<u>766</u>	<u>770</u>
Finance leases are repayable as follows (excluding finance charges):				
Within 1 - 2 years	131	152	-	-
Within 2 - 5 years	190	263	-	-
	<u>321</u>	<u>415</u>	<u>-</u>	<u>-</u>

The Group has provided a debenture on its total assets excluding freehold land and buildings to secure bank overdrafts of £nil (1992 - £1,565,000).

Aggregate finance lease obligations exclude future finance charges amounting to £89,000 (1992 - £154,000).

15 PROVISIONS FOR LIABILITIES AND CHARGES

	Group	
	1993 £'000	1992 £'000
Deferred taxation:		
- excess of tax allowances over book depreciation of fixed assets	59	52
- other timing differences related to current assets and liabilities	4	-
	<u>63</u>	<u>52</u>

15 PROVISIONS FOR LIABILITIES AND CHARGES CONTINUED

Deferred tax has been provided to the extent that the directors have concluded, on the basis of reasonable assumptions and the intentions of management, that it is probable that part of the liability will crystallise. No deferred tax has been provided in respect of timing differences relating to the revaluation of certain land and buildings, nor on the disposal of the Fletcher premises which, in the opinion of the directors, are unlikely to crystallise in the foreseeable future. The amount of deferred taxation not provided in respect of these items approximates £527,000 (1992 - £527,000).

Certain fixed asset categories, notably tools and moulds, are depreciated over shorter periods in the financial statements than may be available for tax purposes. These originating timing differences give rise to a net potential deferred tax asset which has not been recognised in these financial statements. The deferred tax assets not recognised are detailed below:

	1993 £'000	1992 £'000
Fixed assets	357	288
Other current items	135	141
	<u>492</u>	<u>429</u>

The movement on deferred taxation comprises:

	Group	
	1993 £'000	1992 £'000
Beginning of year	52	54
Charged/(credited) to profit and loss, in respect of capital allowances and other timing differences	11	(2)
End of year	<u>63</u>	<u>52</u>

16 CALLED UP SHARE CAPITAL

Authorised:

10,000,000 (1992 - 10,000,000) Ordinary shares of 5p each

1993 £'000	1992 £'000
---------------	---------------

500	500
-----	-----

Issued and fully paid:

8,263,220 (1992 - 8,263,220) Ordinary shares of 5p each

413	413
-----	-----

At 31st December 1993 options granted under the Company's share option scheme were outstanding as follows:

Date	Number of options	Option price	Period of option
Granted			
1st May 1986	97,468	33.3p	March 1989 - April 1996
16th March 1990	106,000	235.0p	March 1993 - February 2000

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

NOTES TO THE 17 RESERVES

FINANCIAL
STATEMENTS

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RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

GROUP	1993 £'000	1992 £'000
Profit for the financial year		
Dividends proposed	903	951
New share capital subscribed	(744)	(744)
Goodwill written off	-	1
Currency translation differences	-	-
Net additions to shareholders' funds	-	4
Opening shareholders' funds	159	212
Closing shareholders' funds	14,235	14,023
	14,394	14,235

MOVEMENTS IN RESERVES

GROUP	Share premium account £'000	Revaluation reserve £'000	Other reserves £'000	Profit and loss account £'000
Beginning of year				
Retained profit for year	4,498	948	377	7,999
Amortisation of revaluation surplus	-	-	-	159
End of year	-	(17)	-	17
	4,498	931	377	8,175

The cumulative goodwill resulting from acquisitions which has been written off is £1,329,000 (1992 - £1,329,000)

COMPANY

	Share premium account £'000	Other reserves £'000	Profit and loss account £'000
Beginning of year			
Increase in underlying net assets of subsidiary undertakings	4,498	13,901	(3,546)
Retained profit for the year	-	156	-
End of year	-	-	3
	4,498	14,057	(3,543)

The net deficit carried forward on the profit and loss account arises as a result of a provision for the diminution in the value of the investment in Hornby Industries Limited. Relying on S.275(1) of the Companies Act 1985, the provision for diminution in value of the investment in Hornby Industries Limited is not treated for distribution purposes as a realised loss. In the directors' opinion therefore, at the end of the year £236,000 (1992 - £233,000) may be considered to be distributable.

18 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

CAPITAL COMMITMENTS

At the end of the year capital commitments were:

	Group	
	1993 £'000	1992 £'000
Contracted for but not provided for	280	118
Authorised but not contracted for	193	118
	<u>473</u>	<u>236</u>

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

CONTINGENT LIABILITIES

The Company and various of 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.

19 NOTES TO THE CASH FLOW STATEMENT

RECONCILIATION OF OPERATING PROFIT

	1993 £'000	1992 £'000
Operating profit	1,721	1,864
Depreciation	1,644	1,607
Profit on sale of tangible fixed assets	—	(3)
Decrease/(increase) in stocks	1,076	(455)
(Increase)/decrease in debtors	(768)	449
Decrease in creditors due within one year	(119)	(218)
Reorganisation costs incurred	—	(50)
Net cash inflow from operating activities	<u>3,554</u>	<u>3,194</u>

ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE BALANCE SHEET

	Cash at bank and in hand £'000	Bank Overdrafts £'000	Total £'000
Balance at 1st January 1992	3,800	(511)	3,289
Net cash inflow/(outflow) before foreign exchange rate changes	872	(1,054)	(182)
Effect of foreign exchange rate changes	4	—	4
Balance at 1st January 1993	4,676	(1,565)	3,111
Net cash (outflow)/inflow	(339)	1,565	1,226
Balance at 31st December 1993	<u>4,337</u>	<u>—</u>	<u>4,337</u>

**NOTES TO THE
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CONTINUED

19 NOTES TO THE CASH FLOW STATEMENT CONTINUED

ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share Capital (including premium) £'000	Loans and finance lease obligations £'000
Balance at 1st January 1992	4,910	311
Cash inflow(outflow) from financing	1	(217)
Inception of finance lease contracts	-	518
Balance at 1st January 1993	4,911	612
Cash outflow from financing	-	(154)
Inception of finance lease contracts	-	68
Disposal of finance lease contracts	-	(27)
Balance at 31st December 1993	4,911	499

MAJOR NON-CASH TRANSACTIONS

During the year the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £68,000 (1992 - £518,000).

20 PENSION ARRANGEMENTS

On 1st January 1992 the Group defined benefit pension scheme was converted to a Group defined contribution contracted-out money purchase scheme. The scheme is open to all permanent salaried employees aged twenty years or over. The assets of the previous final salary scheme were converted into cash and the total proceeds were allocated to individual members by the scheme's actuaries on the basis of the value of the members' accrued benefits under the previous scheme. The amounts allocated to the individual members were invested in either a managed fund investment, an insured with profits insurance contract or in a building society deposit account, according to the wishes of individual members. The level of contributions to the money purchase scheme for current members is fixed by the Trustees according to the age of the member.

The pension cost for the year was £208,000 (1992 - £217,000) representing the actual contributions payable in the year and certain scheme administration costs.

TO THE MEMBERS OF HORNBY GROUP PLC:

THE REPORT OF THE AUDITORS

We have audited the financial statements on pages 10 to 26 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 14 and 15.

Respective responsibilities of directors and auditors

As described on page 9 the Company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group at 31 December 1993 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen
Chartered Accountants and Registered Auditors
1 Surrey Street
London WC2R 2PS

15th April 1994

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the thirteenth Annual General Meeting of Hornby Group Plc will be held at The Great Danes Hotel, Hollingbourne, Maidstone, Kent ME17 1RT on Friday 13th May 1994 at 11.00 am for the following purposes:

ORDINARY BUSINESS

1. To receive the report of the directors and the audited financial statements for the year ended 31st December 1993 and to declare a dividend.
2. To re-elect Mr K.L. Ness a director of the Company.
3. To re-elect Mr P. Newey a director of the Company.
4. To re-appoint Arthur Andersen, the retiring auditors, and to authorise the directors to determine their remuneration.

SPECIAL BUSINESS

To consider and if thought fit to pass the following resolution which will be proposed as a special resolution:

THAT the directors be empowered for a period expiring at the conclusion of the Annual General Meeting of the Company next following the date of the passing of this Resolution to allot equity securities of the Company as if Section 89(1) of the Companies Act 1985 did not apply to any such allotment provided that such power shall be limited to the allotment of the equity securities:-

- (a) in connection with an offer of securities, open for acceptance for a period fixed by the directors, by way of rights to holders of shares in proportion (as nearly as may be) to their holdings on a record date fixed by the directors or (where applicable) in accordance with the rights for the time being attached to such shares (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with problems under the laws of any territory or the requirements of any regulatory body or any stock exchange in any territory or in connection with fractional entitlements or otherwise howsoever);
- (b) pursuant to the terms of the Company's existing executive share option scheme;
- (c) (otherwise than under paragraphs (a) and (b) of the Resolution) up to an aggregate nominal value of £20,000; and
- (d) such power shall permit and enable the directors to make an offer or agreement, before the expiry of such power, which would or might require equity securities to be allotted after such expiry.

Words and expressions defined in or for the purposes of Sections 89-96 of the Companies Act 1985 shall bear the same meaning in this Resolution.

By order of the Board

A.R. Cox
Secretary
15th April 1994

NOTES

1. A Member is entitled to appoint a Proxy, who need not be a Member of the Company, to attend and vote instead of him. A form of proxy is enclosed. Completion of a form of proxy will not preclude a member from attending and voting at the meeting in person.
2. There will be available for inspection at the Registered Office of the Company during usual business hours (Saturday excepted), from the date of this Notice, until the date of the Annual General Meeting, a copy of each Contract of Service open to inspection under S.318 of the Companies Act 1985, whereunder the directors are employed. These documents will also be available for inspection at the Annual General Meeting and for fifteen minutes prior thereto.

TEN YEAR SUMMARY

	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Turnover	28,238	31,323	32,036	39,467	31,996	23,424	20,096	14,237	12,169	7,608
Profit (loss) before exceptional items	1,501	1,455	2,088	3,821	3,467	2,404	1,828	608	271	(222)
Exceptional items	-	-	-	616	-	-	-	-	-	-
Profit on ordinary activities before taxation	1,501	1,455	2,088	4,437	3,467	2,404	1,828	608	271	(222)
Taxation	(598)	(504)	(818)	(1,365)	(1,174)	(947)	(720)	(215)	-	-
Profit (loss) on ordinary activities after taxation	903	951	1,270	3,072	2,293	1,457	1,108	393	271	(222)
Assets employed:										
Fixed assets	6,458	7,282	7,020	7,246	5,378	4,551	3,365	3,315	2,313	2,445
Net current assets	8,320	7,420	7,228	6,862	6,346	5,565	5,722	4,279	2,421	2,620
Creditors due after more than one year	(321)	(415)	(121)	(294)	(239)	(73)	(90)	(104)	(3,010)	(3,612)
Provision for liabilities and charges	(65)	(52)	(104)	(49)	(51)	(2,585)	(1,684)	(964)	(750)	-
Net assets	14,394	14,235	14,023	13,765	11,434	7,458	7,313	6,526	974	1,453
Total capital employed	14,394	14,235	14,023	13,765	11,434	7,458	7,313	6,526	974	1,453
Earnings (loss) per share	10.9p	11.5p	15.4p	37.7p	28.3p	18.2p	13.8p	10.4p	7.7p	(6.3p)
Dividend per share (net)	9.0p	9.0p	9.0p	9.0p	7.5p	5.25p	4.0p	-	-	-
Net assets per share (after adding back goodwill written off)	190.3p	188.4p	185.9p	181.0p	153.6p	106.4p	91.1p	81.3p	27.7p	41.4p

HORNBY GROUP PLC

HORNBY GROUP

ANNUAL

REPORT

& ACCOUNTS

1994

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TEN YEAR SUMMARY

INSIDE BACK COVER

FINANCIAL HIGHLIGHTS

	1994 £'000	1993 £'000
TURNOVER	31,323	28,238
OPERATING PROFIT	950	1,721
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	611	1,501
EQUITY SHAREHOLDERS' FUNDS	14,762	14,394
EARNINGS PER ORDINARY SHARE	9.5p	10.9p
DIVIDENDS PER ORDINARY SHARE	5.0p	9.0p
NET ASSETS PER ORDINARY SHARE (AFTER ADDING BACK GOODWILL WRITTEN OFF)	194.7p	190.3p

DIRECTORS
M. C. Thomas
Chairman
K. L. Ness
Managing Director & Chief Executive
A. R. Cox BA ACMA
Finance Director
P. Newey
Non-Executive Director
SECRETARY
A. R. Cox BA ACMA
REGISTERED OFFICE
Westwood, Margate
Kent CT9 4JX
COMPANY REGISTERED NUMBER
Registered in England No. 1547390
AUDITORS
Coopers & Lybrand
Orchard House, 10 Albion Place
Maidstone, Kent, ME14 5DZ

SOLICITORS
Berwin Leighton
Adelaide House, London Bridge
London EC4R 9HA

PRINCIPAL BANKERS
Barclays Bank PLC
9 St. George's Street, Canterbury
Kent CT1 2JX

STOCKBROKERS
S. G. Warburg Securities Ltd.
1 Finsbury Avenue
London EC2M 2PA

REGISTRARS AND TRANSFER AGENTS
Independent Registrars Group
Broseley House, Newlands Drive
Witham
Essex CM8 2UL

DIRECTORS & CORPORATE INFORMATION

CHAIRMAN'S STATEMENT

I predicted in my interim report that trading conditions would continue to be difficult during 1994 and this is reflected in the results for the year. However, I am pleased to be able to report that significant progress was achieved which will add considerable strength to our future business.

Turnover in the year rose to £31.3 million (1993 - £28.2 million) representing an increase of eleven per cent reflecting a strong performance in the sales of our core brands, the launch of the small scale Scalextric system, the addition of the NIKKO radio control toy vehicles and success achieved in export markets.

The profit before taxation was £0.6 million compared with £1.5 million in the previous year. The effect of the increase in sales was offset by the impact of an aggressive pricing strategy in export markets to build market share together with an increase in operating expenses to establish both our new products and Hornby's position in new markets.

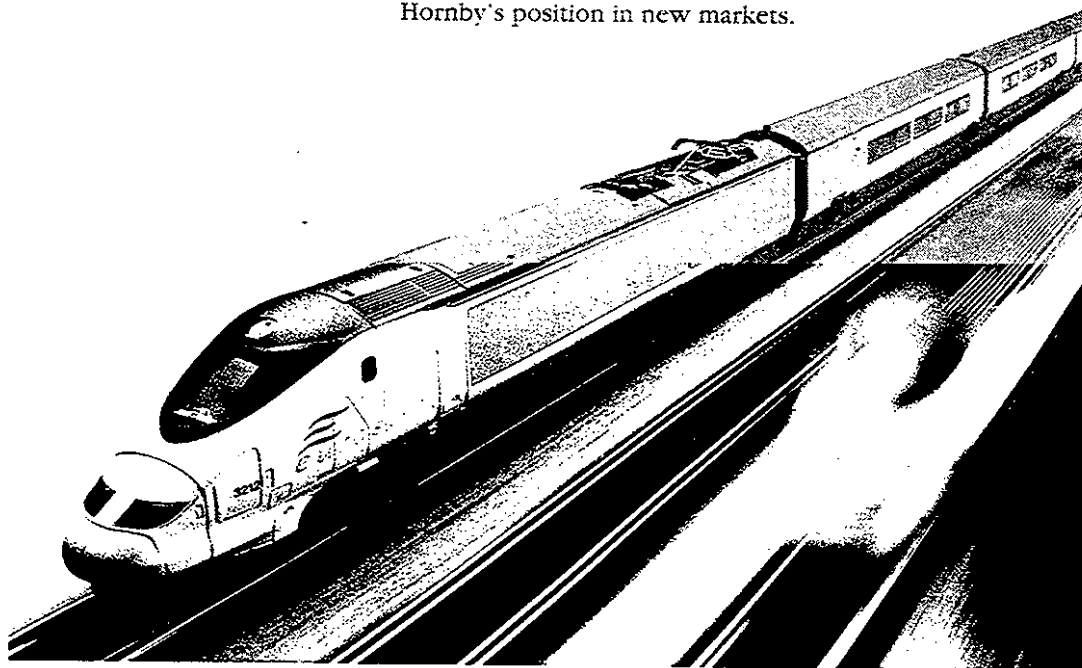
Manufacturing costs were higher as a result of pressures on production in the second half of the year. These additional costs are not, in the main, expected to be incurred in the current year.

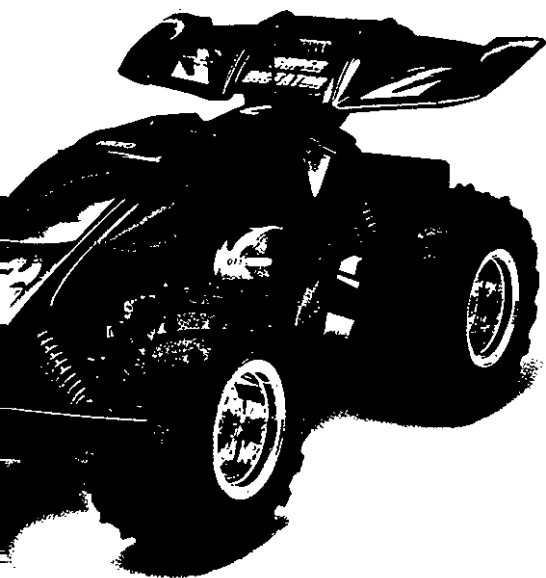
The profit after taxation was £781,000 (1993 - £903,000) which represents earnings per share of 9.5 pence (1993 - 10.9 pence). During the year, we were able to obtain the agreement of the Inland Revenue to treat tooling expenditure as short life assets for capital allowance purposes. This resulted in a net tax credit in the year of £170,000 and a lower effective tax rate in future years.

Net cash was reduced by £4.2 million compared with 1993 due to the acquisition of the stock of the NIKKO brand and also because a greater proportion of sales occurred in November and December thereby increasing working capital at the year end. Again, with the action that has been taken this will not, in

the main, recur in 1995. Capital expenditure in the year amounted to £1.7 million (1993 - £0.9 million) of which £1.1 million related to new product tooling.

Hornby's strategy is now focused on developing our stable core model business under the Hornby, Scalextric and NIKKO brands both in our home and export markets although we will continue to identify selective





opportunities in the toy sector. This product strategy is reflected in the reduction of the number of new toy categories planned for introduction in 1995. We have also initiated an overhead reduction programme to reduce the costs in the longer term.

During 1994 we introduced our new small scale Scalextric slot car racing system which achieved considerable success in its first year. We are now planning to launch this product in export markets during 1995.

In the year we acquired the distribution rights to NIKKO radio control models which is one of the leading brands in this sector. NIKKO is a valuable addition to our core brands of Hornby Railways and Scalextric and we are now looking forward to achieving increased sales in this category in 1995.

We also succeeded in launching Scalextric in Canada in a joint market launch with a major Canadian toy company and we also supported a joint advertising campaign in Spain in

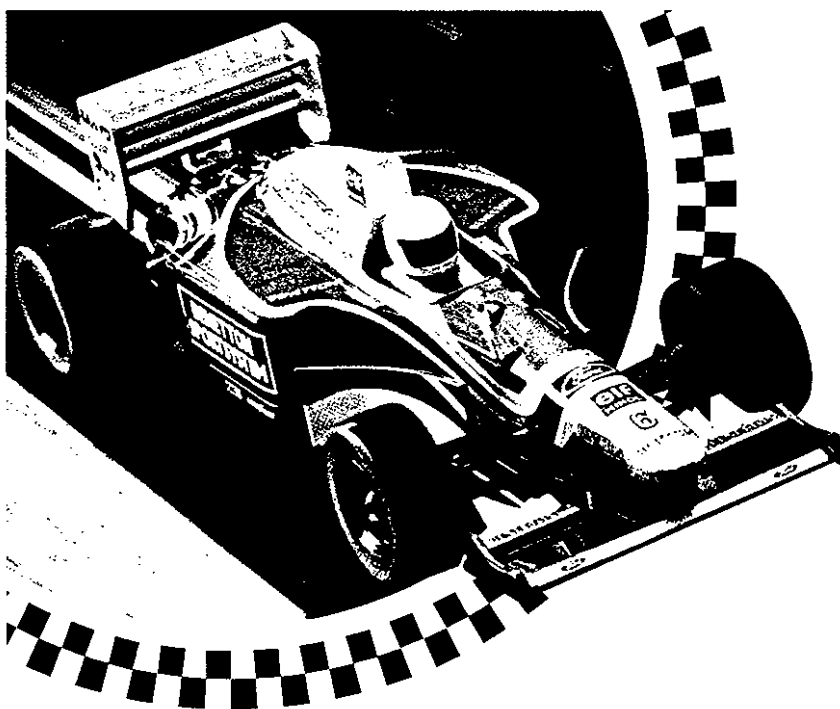
conjunction with our Spanish distributor. This resulted in increased market share placing our product in a strong position in Spain for the future.

In January 1994, we acquired ten per cent of the equity of The Original San Francisco Toymakers Inc. for a consideration of £694,000. This investment gave Hornby the rights for the UK to all new products of this company for a ten year period together with the opportunity to benefit from its innovative product development expertise.

Against this background of significant progress it is somewhat disappointing to report a reduction in profits compared with the previous year. As explained above, this reduction was due to a number of factors, many of which represent costs incurred in order to develop the business for the future.

CHAIRMAN'S STATEMENT

CONTINUED



CHAIRMAN'S STATEMENT

CONTINUED

The Fletcher sports boat business maintained turnover in 1994 increasing its export business. Fletcher incurred a small loss for the year.

Dividends

The Board recognises the importance of the dividend to our shareholders. Although Hornby has maintained its dividend during the tough recession we believe that it is equally important to retain sufficient liquidity in order to capitalise on the successes of the past year. The directors have decided, therefore, to recommend a dividend of 5 pence per share (1993 - 9 pence) which is covered 1.9 times (1993 - 1.2 times) by earnings.

Current Trading

I am pleased to be able to report that the current year has started well with both orders received and sales despatched being well up on the corresponding period last year. Our strategy of concentrating on our core model products is proving to be beneficial and the level of demand for these products is encouraging.

Prospects

Our current strategy allows us to concentrate on our relatively stable model business and also reduces our exposure to the more fashionable unpredictable toy areas. We now intend to build on the successes achieved during the last year.

We sense, for the first time, increasing confidence in the retail sector which is confirmed by our current order position. We are confident that the

difficulties of last year are behind us and we are now looking forward to the future with renewed vigour. With the actions that we have taken together with the development of our strategic objectives in both our home and export markets we are confident that this will yield positive benefits for the future.

Auditors

The directors have reviewed the Group's audit arrangements and, as a result, have appointed Coopers & Lybrand as auditors on 19th December 1994. The Board would like to express its appreciation to Arthur Andersen for the excellent service provided to the Group during their period as auditors.

Year end date

Due to the seasonality of the Group's business the directors believe that it would be advantageous to change the Group's year end date to 31st March. In the event of this being implemented the Company would prepare financial statements for the fifteen months ending 31st March 1996.

Finally, I would like to express the Board's appreciation to all employees for their hard work and commitment to the Group during a challenging year.



Malcolm C. Thomas
Chairman

18th April 1995

The directors submit their annual report together with the audited financial statements for the year ended 31st December 1994.

REPORT OF THE DIRECTORS

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company is a holding company.

The Group is principally engaged in the development, manufacture and distribution of a wide range of toy and model products. The Group is also engaged in the design and manufacture of sports boats and accessories.

The Group's business review and future developments are included in the Chairman's Statement.

The Board considers that research and development continues to play a vital role in the Group's success. Details are given in note 3 to the financial statements.

RESULTS AND DIVIDENDS

The results for the year ended 31st December 1994 are set out in the Consolidated Profit and Loss Account on page 11. Turnover for the year was £31.3m against £28.2m last year. The profit on ordinary activities after taxation for the year amounted to £0.8m (1993 - £0.9m).

The directors recommend a final dividend of 5.0p per ordinary share payable on 17th May 1994 to those shareholders on the register at 24th April 1995. The dividend is covered 1.9 times by earnings (1993 - 1.2 times).

The retained profit of £0.4m (1993 - £0.2m) will be transferred to Reserves (see note 17).

FIXED ASSETS

The changes in tangible fixed assets in the year are detailed in Note 10 to the financial statements.

In the opinion of the directors, there is no significant difference between the book value and the current value of interests in land and buildings.

CHARITABLE DONATIONS

During the year the Group made donations of £668 (1993 - £275) for charitable purposes.

DIRECTORS AND THEIR INTERESTS

The directors and their interests in the fully paid ordinary shares of the Company (all of which are beneficially held) and in options granted over such shares under the Company's executive share option scheme were as follows:

	Number of 5p Ordinary shares at 31st December	
	1994	1993
M. C. Thomas	5,000	5,000
K. L. Ness	73,000	73,000
A. R. Cox	28,600	28,600
P. Newey	-	-

Details of the interests of the directors in share options at 31st December 1994 were:

	Number of options		Exercise price	Date from which exercisable	Expiry date
	1st January	31st December			
K.L.Ness	94,100	94,100	33.3p	01/5/1989	01/5/1996
	23,000	23,000	235.0p	16/3/1993	16/3/2000
A.R. Cox	18,000	18,000	235.0p	16/3/1993	16/3/2000

No options were exercised during the year and no options lapsed during the year.

REPORT OF THE DIRECTORS

CONTINUED

Mr K. L. Ness purchased 20,000 ordinary shares on 24th March 1995 and a further 10,000 ordinary shares on 29th March 1995. Mr P. Newey purchased 10,000 ordinary shares on 27th March 1995 and a further 10,000 ordinary shares on 29th March 1995.

Apart from the purchases disclosed above there has been no other change in the interests of directors between 31st December 1994 and 18th April 1995.

No directors were beneficially interested in contracts with the Group throughout the year ended 31st December 1994.

Mr G.J. Strowger resigned as a director on 31st March 1994.

The directors retiring by rotation under Article 93 of the Articles of Association and offering themselves for re-election are as follows:

Mr M.C. Thomas (Chairman), first appointed to the Board on 27th August 1987.

Mr A.R. Cox, appointed to the Board on 17th June 1986.

The following directors served in a Non-Executive capacity:

Mr M.C. Thomas - (Chairman) - British, aged 64, appointed to the Board on 17th August 1987, previously a director of Reed International PLC and is currently President of Smurfit (UK) Limited. He is currently a director of Holmes & Marchant Group PLC. Mr Thomas succeeded Mr Strowger as Chairman on 14th May 1993.

Mr P. Newey - British, aged 47, appointed to the Board on 20th May 1993. He was previously an executive director of Lazard Brothers & Co Limited and is currently a director of Holmes & Marchant Group PLC.

LIABILITY INSURANCE FOR COMPANY OFFICERS

The Group maintains insurance for Hornby Group Plc's directors in respect of their duties as directors.

SUBSTANTIAL SHAREHOLDINGS

The Company has been notified that on 30th March 1995 the following parties were interested in 3 per cent or more of the Company's ordinary share capital:

Shareholder	Number of Ordinary shares	Percentage held
Morgan Stanley Asset Management Limited	847,000	10.25
M&G Investment Management Limited	828,594	10.03
Electra Investment Trust PLC	819,030	9.91
BT Pension Scheme	427,689	5.17
Strathclyde Regional Council Superannuation Fund	370,000	4.48
Fidelity International Limited	357,000	4.32
Eagle Star Life Assurance Company Limited	300,000	3.63
Post Office Staff Superannuation Scheme	290,720	3.52

CLOSE COMPANY STATUS

The Company is not a close company within the meaning of the Income and Corporation Taxes Act 1988 and this position has not changed since the end of the financial year.

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.

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 at the individual company level.

The Group encourages employees to be shareholders of the Company.

AUTHORITY TO ISSUE SHARES

At the Annual General Meeting shareholders will be asked to renew the authority given to the directors to disapply pre-emption rights in certain circumstances in accordance with Section 95 of the Companies Act 1985. The special resolution is set out in the Notice of Annual General Meeting on page 28 of this document.

DIRECTORS' RESPONSIBILITIES

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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

Arthur Andersen resigned as auditors to the Company and the Group on 19th December 1994. Coopers & Lybrand were appointed as auditors from this date.

The directors will place a resolution before the Annual General Meeting to re-appoint Coopers & Lybrand as auditors for the ensuing year and to authorise the directors to determine their remuneration.

By order of the Board,

A.R. Cox

Secretary

Westwood, Margate

Kent CT9 4JX

18th April 1995

REPORT OF THE DIRECTORS

CONTINUED

CORPORATE GOVERNANCE

STATEMENT OF COMPLIANCE WITH THE CODE OF BEST PRACTICE

The directors confirm that Hornby Group Plc fully supports the recommendations of the Committee on the Financial Aspects of Corporate Governance (the Cadbury Committee) and has complied throughout the period with its Code of Best Practice with the following variations and exceptions.

THE BOARD OF DIRECTORS

The Board, which consisted of two executive and two non-executive directors, meets regularly throughout the year. The Board regards the current number of non-executive directors as being appropriate for the size of the Company at the present time. The Cadbury Code recommends the minimum of three non-executive directors. The Report of the City Group for Small Companies acknowledged that two non-executive directors may be more appropriate for smaller listed companies. Our non-executive directors are both independent of the Group and have a breadth of professional experience.

The Board determines overall Group strategy, approves major acquisitions and disposals, reviews annual budgets of the Group and monitors progress against those budgets at each meeting.

The Board is in the process of drafting a formal schedule of matters reserved for the Board and an agreed procedure for directors, in the furtherance of their duties, to take independent advice, if necessary, at the Company's expense, both of which are recommendations of the Cadbury Committee. These will be formally adopted in the coming year.

BOARD COMMITTEES

The Remuneration Committee of the Board, which consists of the non-executive directors and is chaired by Mr M.C. Thomas, determines the terms of service and remuneration of all members of the Board including the granting of options under the Company's executive share option scheme. The selection of non-executive directors has been a matter for the Board as a whole.

The Audit Committee of the Board, which consists of all directors, meets with the auditors at least once a year, normally following the completion of the audit process and prior to the directors approving the relevant accounts.

GOING CONCERN

After making appropriate enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the Group's financial statements.

REPORTING AND CONTROLS

The directors have not reported on the effectiveness of the Group's system of internal control because the related guidance for directors to report is not yet effective.

REPORT OF THE AUDITORS TO HORNBY GROUP PLC ON CORPORATE GOVERNANCE MATTERS

**CORPORATE
GOVERNANCE**

CONTINUED

In addition to our audit of the financial statements, we have reviewed the directors' statement on page 8 on the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with the paragraphs of the Code which is not disclosed.

Basis of opinion

We carried out our review in accordance with Bulletin 1994/1 "Disclosures relating to corporate governance" issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of the Group's corporate governance procedures, nor on the ability of the Group to continue in operational existence.

Opinion

With respect to the directors' statement on going concern on page 8, in our opinion the directors have provided the disclosures required by paragraph 4.6 of the Code (as supplemented by the related guidance for directors) and their statement is not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on the enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statements on page 8 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review.

Coopers & Lybrand
Chartered Accountants
Maidstone, Kent

18th April 1995

THE REPORT OF THE AUDITORS

TO THE MEMBERS OF HORNBY GROUP PLC:

We have audited the financial statements on pages 11 to 27.

Respective responsibilities of directors and auditors

As described on page 7 the Company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31st December 1994 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand
Chartered Accountants and Registered Auditors
Maidstone, Kent

18th April 1995

FOR THE YEAR ENDED 31ST DECEMBER 1994

	Notes	1994 £'000	1993 £'000	CONSOLIDATED PROFIT AND LOSS ACCOUNT
TURNOVER	2	31,323	28,238	
Cost of sales		(21,997)	(19,257)	
GROSS PROFIT		9,326	8,981	
Other operating expenses	3	(8,376)	(7,260)	
OPERATING PROFIT		950	1,721	
Net interest payable	4	(339)	(220)	
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	611	1,501	
Tax on profit on ordinary activities	7	170	(598)	
PROFIT FOR THE FINANCIAL YEAR		781	903	
Dividends proposed	8	(413)	(744)	
RETAINED PROFIT FOR THE YEAR		368	159	
ATTRIBUTABLE TO:				
The Company		2	3	
Subsidiary undertakings		366	156	
		368	159	
EARNINGS PER ORDINARY SHARE	9	9.45p	10.93p	

Details of movements on reserves are given in Note 17.

The Group has no recognised gains or losses other than the profits above and therefore no separate statement of total recognised gains and losses has been presented.

All the profit and loss account figures stated above relate to continuing operations.

**NOTE
OF HISTORICAL
COST PROFITS
AND LOSSES**

FOR THE YEAR ENDED 31ST DECEMBER 1994

	1994	1993
	£'000	£'000
REPORTED PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	611	1,501
Difference between the historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	17	17
Historical cost profit on ordinary activities	628	1,518
HISTORICAL COST PROFIT FOR THE YEAR RETAINED AFTER TAXATION AND DIVIDENDS	385	176

AT 31ST DECEMBER 1994

Group

Company

**BALANCE
SHEETS**

		1994	1993	1994	1993
	Notes	£'000	£'000	£'000	£'000
FIXED ASSETS					
Tangible assets	10	6,547	6,458	—	—
Investments	11	694	—	15,791	16,148
		<u>7,241</u>	<u>6,458</u>	<u>15,791</u>	<u>16,148</u>
CURRENT ASSETS					
Stocks	12	5,835	4,303	—	—
Debtors	13	8,402	6,642	430	36
Cash at bank and in hand	19	619	4,337	7	7
		<u>14,856</u>	<u>15,282</u>	<u>437</u>	<u>43</u>
CREDITORS - Amounts falling due within one year	14	(6,896)	(6,962)	(435)	(766)
NET CURRENT ASSETS/(LIABILITIES)		<u>7,960</u>	<u>8,320</u>	<u>2</u>	<u>(723)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>15,201</u>	<u>14,778</u>	<u>15,793</u>	<u>15,425</u>
CREDITORS - Amounts falling due after more than one year	14	(376)	(321)	—	—
PROVISIONS FOR LIABILITIES AND CHARGES	15	(63)	(63)	—	—
NET ASSETS		<u>14,762</u>	<u>14,394</u>	<u>15,793</u>	<u>15,425</u>
CAPITAL AND RESERVES					
Called up share capital	16	413	413	413	413
Share premium account	17	4,498	4,498	4,498	4,498
Revaluation reserve	17	914	931	—	—
Other reserves	17	377	377	14,423	14,057
Profit and loss account	17	8,560	8,175	(3,541)	(3,543)
EQUITY SHAREHOLDERS' FUNDS		<u>14,762</u>	<u>14,394</u>	<u>15,793</u>	<u>15,425</u>

The financial statements on pages 11 to 27 were approved by the Board of directors on 18th April 1995 and were signed on its behalf by:

K.L. Ness - Director

**CONSOLIDATED
CASH FLOW
STATEMENT**

FOR THE YEAR ENDED 31ST DECEMBER 1994

	Notes	1994 £'000	1994 £'000	1993 £'000	1993 £'000
OPERATING PROFIT		950		1,721	
Depreciation		1,533		1,644	
Profit on sale of tangible fixed assets		(16)		-	
(Increase)/decrease in stocks		(1,532)		1,076	
Increase in debtors		(1,652)		(768)	
Increase/(decrease) in creditors due within one year		250		(119)	
NET CASH (OUTFLOW)/INFLOW FROM CONTINUING OPERATING ACTIVITIES			(467)		3,554
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE:					
Interest received		49		58	
Interest paid		(319)		(192)	
Interest paid on finance leases		(69)		(86)	
Dividends paid		(744)		(744)	
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			(1,083)		(964)
TAXATION:					
Corporation tax paid		(436)		(424)	
Corporation tax received		-		32	
NET TAXATION PAID			(436)		(392)
INVESTING ACTIVITIES:					
Purchase of owned tangible fixed assets		(1,446)		(818)	
Purchase of fixed asset investment		(694)		-	
Sale of tangible fixed assets		23		-	
NET CASH OUTFLOW FROM INVESTING ACTIVITIES			(2,117)		(818)
NET CASH (OUTFLOW)/INFLOW BEFORE FINANCING			(4,103)		1,380
FINANCING:					
Capital element of finance lease rental payments		(129)		(154)	
NET CASH OUTFLOW FROM FINANCING			(129)		(154)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	19		(4,232)		1,226

ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the principal Group accounting policies, all of which have been applied consistently throughout the year and with the preceding year, is set out below.

BASIS OF ACCOUNTING

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets.

BASIS OF CONSOLIDATION

The Group financial statements consolidate the financial statements of the Company and all its subsidiaries made up to 31st December 1994. The results of subsidiary undertakings acquired in the year are included in the consolidated profit and loss account from the date of acquisition. Goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is written off against other reserves on acquisition.

The Company has taken advantage of the exemption provided by Section 230 of the Companies Act 1985 not to present its own profit and loss account.

RESEARCH AND DEVELOPMENT

Expenditure on research and development is written off in the year in which the expenditure is incurred.

TANGIBLE FIXED ASSETS

Land and buildings are shown at cost or valuation less accumulated depreciation. Other fixed assets are shown at cost less accumulated depreciation.

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

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

Residual value is calculated on prices prevailing at the date of acquisition or revaluation where this has taken place. Profits or losses on the disposal of plant and equipment are included in the calculation of operating profit.

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.

FIXED ASSET INVESTMENTS

In the Company's financial statements investments in subsidiary undertakings are stated using the equity method of valuation. Accordingly, subsequent increases and reductions in the value of these investments are set against other reserves in the financial statements of the Company. The directors consider that this policy more fairly represents the Company's investments than carrying them at cost.

STOCKS

Stocks are stated at the lower of cost and net realisable value.

Cost incurred in bringing each product to its present location and condition is based on:

Raw materials	-	actual purchase cost on a first in, first out basis including freight and duty where applicable
Work in progress and finished goods	-	cost of actual direct materials and labour plus a proportion of manufacturing overheads based on the normal level of activity.

**NOTES TO THE
FINANCIAL
STATEMENTS**

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

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.

There are no significant differences between balance sheet and replacement cost values. For these purposes replacement cost is based on latest invoice prices before the balance sheet date.

REVALUATION RESERVE

The surplus arising on the revaluation of freehold land and buildings is credited to the revaluation reserve, which is not distributable. Where depreciation charges are increased following a revaluation, an amount equal to such increase is transferred annually from this reserve to the profit and loss account.

TAXATION

Corporation tax, where payable, is provided on taxable profits at the current rate.

Advance corporation tax payable on dividends paid or provided for in the year is written off, except when recoverability against corporation tax payable is considered to be reasonably assured. Credit is taken for advance corporation tax written off in previous years when it is recovered against corporation tax liabilities.

The taxation liabilities of certain Group undertakings are reduced wholly or in part by the surrender of losses by fellow Group undertakings. The tax benefits arising from group relief are recognised in the financial statements of the surrendering and recipient undertakings.

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

PENSION 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 appointed by the Company.

The amount charged to the profit and loss account in respect of the scheme is the contribution payable in the year.

Further information on pension costs is provided in note 20.

FOREIGN CURRENCY

Transactions and investments denominated in foreign currencies are recorded in sterling at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rate of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is reported in the profit and loss account as an exchange gain or loss.

TURNOVER

Group turnover is recorded at the date of despatch and comprises the value of sales (excluding VAT and trade discounts) of goods and services in the normal course of business, and royalties receivable.

LEASES

The Group enters into operating and finance leases.

Assets held under finance leases are initially reported at the fair value of the asset with an equivalent liability categorised as appropriate under creditors due within or after one year. The assets are depreciated over the shorter of the lease term and their useful economic life. 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 reduction of the liability, and allocated to cost of sales and other operating expenses as appropriate.

Rentals under operating leases are charged on a straight-line basis over the lease term.

2 SEGMENT INFORMATION

The analysis of Group turnover, profit on ordinary activities before taxation and net assets by business and geographical segment is as follows:

**NOTES TO THE
FINANCIAL
STATEMENTS**

CONTINUED

BUSINESS SEGMENTS	Toys & Models		Sports Boats		Group	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000	1994 £'000	1993 £'000
TURNOVER						
Sales to third parties	28,352	24,958	2,971	3,280	31,323	28,238
SEGMENT PROFIT/(LOSS)	1,146	1,886	(37)	35	1,109	1,921
Common costs					(159)	(200)
OPERATING PROFIT					950	1,721
Net interest payable					(339)	(220)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION					611	1,501
NET ASSETS						
Segment net assets	14,153	14,232	1,019	1,101	15,172	15,333
Unallocated liabilities					(410)	(939)
TOTAL NET ASSETS					14,762	14,394

GEOGRAPHICAL SEGMENTS	United Kingdom		Rest of Europe		Other		Group	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000	1994 £'000	1993 £'000	1994 £'000	1993 £'000
TURNOVER BY DESTINATION								
Sales to third parties	25,965	24,616	4,182	2,738	1,176	884	31,323	28,238

All turnover, profit and net assets can be considered to originate in the United Kingdom and relate to continuing operations.

3 OTHER OPERATING EXPENSES

	1994 £'000	1993 £'000
Distribution costs	618	489
Selling and marketing costs	5,660	4,392
Research and development costs	335	393
Administrative expenses	1,763	1,986
	8,376	7,260

**NOTES TO THE
FINANCIAL
STATEMENTS**

CONTINUED

4 NET INTEREST PAYABLE

	1994 £'000	1993 £'000
Interest receivable and similar income:		
- bank interest receivable	(49)	(58)
Interest payable and similar charges:		
- on bank loans and overdrafts		
repayable within five years not by instalments	319	192
Interest payable on finance leases	69	86
	<u>339</u>	<u>220</u>

5 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	1994 £'000	1993 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation of tangible fixed assets		
- owned	1,394	1,479
- held under finance leases	139	165
Operating lease rentals	44	22
Hire of plant and machinery	15	10
Auditors' remuneration - audit fees	41	58
- non-audit fees	10	78
Surplus provisions and other accruals	-	(200)
Staff costs (see note 6)	<u>7,702</u>	<u>6,909</u>

6 DIRECTORS AND EMPLOYEES

	1994 £'000	1993 £'000
STAFF COSTS		
Wages and salaries	6,888	6,186
Social security costs	591	515
Other pension costs	223	208
	<u>7,702</u>	<u>6,909</u>

AVERAGE NUMBER OF EMPLOYEES

The average number of employees in the Group during the year was:

	1994 Number	1993 Number
Manufacturing	580	508
Sales, marketing and distribution	92	87
Administration	34	31
	<u>706</u>	<u>626</u>

DIRECTORS AND EMPLOYEES CONTINUED**DIRECTORS' EMOLUMENTS**

	1994 £'000	1993 £'000
Directors' emoluments in respect of the Company were as follows:		
Fees as directors	40	33
Salaries as directors	198	207
Incentive payments	—	106
Other emoluments (including pension contributions)	43	60
	281	406

The directors' emoluments shown above
(excluding pension contributions) include:

	1994 £'000	1993 £'000
Chairman:		
Mr. G.J. Strowger (1993 - 5 months)	—	13
Mr. M.C. Thomas (1993 - 7 months)	25	16
	25	29

	1994 £'000	1993 £'000
Highest paid director:		
Salary	113	110
Incentive payments	—	100
Other	12	19
	125	229

**NOTES TO THE
FINANCIAL
STATEMENTS**

CONTINUED

Mr K.L. Ness, the Group Chief Executive, receives a profit-related incentive bonus based upon varying percentages of the Group profit achieved in the year, subject to a minimum bonus of £150,000. In the year ended 31st December 1994, Mr. Ness waived £150,000 of this contractual bonus (1993 - £50,000). The Chairman received no pension contributions.

Mr G.J. Strowger received an ex gratia payment of £3,000 on his retirement as a director in recognition of his services to the Group.

The directors received emoluments (excluding pension contributions)
in the following ranges:

	1994 Number	1993 Number
£nil-£5,000	—	1
£5,001-£10,000	1	1
£15,001-£20,000	1	—
£20,001-£25,000	1	1
£30,001-£35,000	—	1
£85,001-£90,000	1	—
£90,001-£95,000	—	1
£125,001-£130,000	1	—
£225,001-£230,000	—	1

TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax (credit)/charge is based on the profit for the year and comprises:

	1994 £'000	1993 £'000
Corporation tax at 33% (1993 - 33%)	176	590
Deferred taxation arising from:		
- capital allowances	—	7
- other timing differences	—	4
	176	601
Adjustment of taxation in respect of prior years - current taxation	(346)	(3)
	(170)	598

The effective rate of tax is lower than the standard rate of 33% principally due to the tax treatment of tools and moulds as short life assets. Had the Group recognised the full amount of potential deferred tax the charge for the year would have been increased by approximately £305,000 (1993 - reduced by £63,000) (See note 15).

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

8 DIVIDENDS PROPOSED

Ordinary:

- final proposed of 5.0p per share
(1993 - 9.0p per share)

1994	1993
£'000	£'000
<u>413</u>	<u>744</u>

9 EARNINGS PER ORDINARY SHARE

The calculation of earnings per ordinary share is based on the profit for the financial year after taxation of £781,000 (1993 - £903,000) and the weighted average number of ordinary shares in issue during the year of 8,263,220 (1993 - 8,263,220). Earnings per share calculated on a fully diluted basis are not materially different from the figures shown above.

10 TANGIBLE FIXED ASSETS - GROUP

	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Tools and moulds £'000	Total £'000
COST OR VALUATION					
At 1st January 1994	3,846	5,793	490	9,149	19,278
Additions	-	417	216	1,054	1,687
Disposals	-	(49)	(213)	(12)	(274)
At 31st December 1994	<u>3,846</u>	<u>6,161</u>	<u>493</u>	<u>10,191</u>	<u>20,691</u>
DEPRECIATION					
At 1st January 1994	372	3,886	222	8,340	12,820
Charge	66	506	87	874	1,533
Disposals	-	(49)	(148)	(12)	(209)
At 31st December 1994	<u>438</u>	<u>4,343</u>	<u>161</u>	<u>9,202</u>	<u>14,144</u>
NET BOOK VALUE					
At 31st December 1994	<u>3,408</u>	<u>1,818</u>	<u>332</u>	<u>989</u>	<u>6,547</u>
At 31st December 1993	<u>3,474</u>	<u>1,907</u>	<u>268</u>	<u>809</u>	<u>6,458</u>

Freehold land amounting to £1,116,000 (1993 - £1,116,000) has not been depreciated.

Included in the tangible fixed assets are the following capitalised values and related accumulated depreciation of motor vehicles and computer equipment acquired under finance leases:

	1994	1993
	£'000	£'000
Capitalised value	997	818
Accumulated depreciation	<u>(498)</u>	<u>(359)</u>
NET BOOK VALUE	<u>499</u>	<u>459</u>

TANGIBLE FIXED ASSETS CONTINUED

The cost or valuation of freehold land and buildings is represented by:

	Freehold land and buildings	
	1994	1993
	£'000	£'000
Valuation in 1986	2,360	2,360
Cost	1,486	1,486
	<u>3,846</u>	<u>3,846</u>

Other tangible fixed assets are stated at cost.

The original cost and aggregate depreciation, based on cost of land and buildings included at valuation, are as follows:

	Freehold land and buildings	
	1994	1993
	£'000	£'000
Original cost	412	412
Depreciation based on cost	(103)	(95)
	<u>309</u>	<u>317</u>

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

FIXED ASSET INVESTMENTS

The following are included in the net book value of fixed asset investments:

GROUP		Investments	
		£'000	
Cost			
At 1st January 1994		-	
Additions		694	
At 31st December 1994		<u>694</u>	
COMPANY		Investments	Total
		£'000	£'000
At 1st January 1994		-	16,148
Additions		694	694
Other movements		-	(1,051)
At 31st December 1994		<u>694</u>	<u>15,791</u>

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

	Interests in subsidiary undertakings	Loans to/(from) subsidiary undertakings	Total
	£'000	£'000	£'000
At 1st January 1994	15,636	512	16,148
Retained profit for the year	366	-	366
Other movements	-	(1,417)	(1,417)
At 31st December 1994	<u>16,002</u>	<u>(905)</u>	<u>15,097</u>

NOTES TO THE 11 FIXED ASSET INVESTMENTS CONTINUED**FINANCIAL
STATEMENTS**

CONTINUED

PRINCIPAL GROUP SUBSIDIARY UNDERTAKINGS

Details of the principal subsidiary undertakings of the Company, which are all included in the consolidated financial statements, are set out below. All subsidiary undertakings are wholly-owned private companies.

	Country of incorporation or registration	Description of shares held	Proportion of nominal value of issued shares held:	
			Group %	Company %
Hornby Hobbies Limited	England	Ordinary £1 shares	100	100
Norman Fletcher (Sales & Developments) Limited	England	Ordinary £1 shares Ordinary 10p shares	100 100	100 100
Fletcher International Sports Boats Limited	England	Ordinary £1 shares	100	-
Fletcher France SARL	France	Ordinary	100	-

Fletcher France SARL did not trade during the year.

FIXED ASSET INVESTMENT

The investment represents a ten percent shareholding in the common stock of The Original San Francisco Toymakers Inc ('Toymakers'). In addition, the investment allows the Company to be the exclusive distributor for the United Kingdom and Republic of Ireland for all Toymakers' present and future products for a ten-year period.

12 STOCKS

	Group	
	1994 £'000	1993 £'000
Raw materials and consumables	1,203	833
Work in progress	1,534	1,538
Finished goods and goods for resale	3,098	1,932
	<u>5,835</u>	<u>4,303</u>

13 DEBTORS

	Group		Company	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
AMOUNTS FALLING DUE WITHIN ONE YEAR				
Trade debtors	7,203	5,548	-	-
Dividends receivable from subsidiary undertakings	-	-	413	-
Prepayments	1,015	857	17	36
Other debtors	81	237	-	-
	<u>8,299</u>	<u>6,642</u>	<u>430</u>	<u>36</u>
AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR				
ACT recoverable	103	-	-	-
	<u>8,402</u>	<u>6,642</u>	<u>430</u>	<u>36</u>
TOTAL DEBTORS	<u>8,402</u>	<u>6,642</u>	<u>430</u>	<u>36</u>

14 CREDITORS

	Group		Company	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
AMOUNTS FALLING DUE WITHIN ONE YEAR				
Bank overdraft	514	-	-	-
Finance lease obligations	173	178	-	-
Trade creditors	2,486	2,432	-	-
UK Corporation tax payable	173	563	-	3
ACT payable	103	216	-	-
VAT	734	792	-	-
PAYE and Social Security	185	178	-	-
Dividends proposed	413	744	413	744
Accruals	664	949	22	19
Other	1,451	910	-	-
	<u>6,896</u>	<u>6,962</u>	<u>435</u>	<u>766</u>
AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR				
Finance lease obligations	376	321	-	-
TOTAL CREDITORS	<u>7,272</u>	<u>7,283</u>	<u>435</u>	<u>766</u>
Finance leases are repayable as follows (excluding finance charges):				
Within 1 - 2 years	173	131	-	-
Within 2 - 5 years	203	190	-	-
	<u>376</u>	<u>321</u>	<u>-</u>	<u>-</u>

The Group has provided a debenture on its total assets, excluding freehold land and buildings, to secure bank overdrafts of £514,000 (1993 - £nil).

Aggregate finance lease obligations exclude future finance charges amounting to £91,000 (1993 - £89,000).

15 PROVISIONS FOR LIABILITIES AND CHARGES

	Group	
	1994 £'000	1993 £'000
Deferred taxation:		
- excess of tax allowances over book depreciation of fixed assets	79	59
- other timing differences related to current assets and liabilities	(16)	4
	<u>63</u>	<u>63</u>

NOTES TO THE
FINANCIAL
STATEMENTS

CONTINUED

15 PROVISIONS FOR LIABILITIES AND CHARGES CONTINUED

Deferred tax has been provided to the extent that the directors have concluded, on the basis of reasonable assumptions and the intentions of management, that it is probable that part of the liability will crystallise. No deferred tax has been provided in respect of timing differences relating to the revaluation of certain land and buildings, nor on the disposal of the Fletcher premises which, in the opinion of the directors, are unlikely to occur in the foreseeable future.

The amount of deferred taxation not provided in respect of these items approximates to £527,000 (1993 - £527,000).

The net potential deferred tax asset not recognised in the financial statements has reduced as a result of the acceleration of capital allowances on expenditure on tools and moulds following agreement with the Inland Revenue to treat these assets as short life assets. The deferred tax assets not recognised are detailed below:

	1994 £'000	1993 £'000
Fixed assets	25	35
Other current items	162	13
	<u>187</u>	<u>49</u>

The movement on deferred taxation comprises:

	Group 1994 £'000	Group 1993 £'000
Beginning of year	63	52
Charged to the profit and loss account, in respect of capital allowances and other timing differences	-	11
End of year	<u>63</u>	<u>63</u>

16 CALLED UP SHARE CAPITAL

Authorised:

10,000,000 (1993 - 10,000,000) ordinary shares of 5p each

Allotted, called up and fully paid:

8,263,220 (1993 - 8,263,220) ordinary shares of 5p each

At 31st December 1994 options granted under the Company's share option scheme were outstanding as follows:

Date Granted	Number of options	Option price	Period of option
1st May 1986	97,468	33.3p	May 1989 - May 1996
16th March 1990	106,000	235.0p	March 1993 - March 2000

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

7 RESERVES

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1994 £'000	1993 £'000
GROUP	781	903
Profit for the financial year	(413)	(744)
Dividends proposed	368	159
Net additions to shareholders' funds	14,394	14,235
Opening shareholders' funds	14,762	14,394
Closing shareholders' funds		

MOVEMENTS IN RESERVES

GROUP	Share premium account £'000	Revaluation reserve £'000	Other reserves £'000	Profit and loss account £'000
Beginning of year	4,498	931	377	8,175
Retained profit for year	-	-	-	368
Amortisation of revaluation surplus	-	(17)	-	17
End of year	4,498	914	377	8,560

The cumulative goodwill resulting from acquisitions which has been written off is £1,329,000
(1993 - £1,329,000)

COMPANY

	Share premium account £'000	Other reserves £'000	Profit and loss account £'000
Beginning of year	4,498	14,057	(3,543)
Increase in underlying net assets of subsidiary undertakings	-	366	-
Retained profit for the year	-	-	2
End of year	4,498	14,423	(3,541)

The net deficit carried forward on the Company's profit and loss account arises as a result of a provision for the diminution in the value of the investment in Hornby Industries Limited. Relying on Section 275(1) of the Companies Act 1985, the provision for diminution in value of the investment in Hornby Industries Limited is not treated for distribution purposes as a realised loss. In the directors' opinion therefore, at the end of the year £238,000 (1993 - £236,000) may be considered to be distributable.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

18 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

CAPITAL COMMITMENTS

At the end of the year capital commitments were:

	Group	
	1994 £'000	1993 £'000
Contracted for but not provided for	187	280
Authorised but not contracted for	172	193
	<u>359</u>	<u>473</u>

CONTINGENT LIABILITIES

The Company and various of 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.

19 ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE BALANCE SHEET

	1994 £'000	Change in year £'000	1993 £'000	Change in year £'000	1992 £'000
Analysis of balances:					
Cash at bank and in hand	619	(3,718)	4,337	(339)	4,676
Bank overdrafts	(514)	(514)	-	1,565	(1,565)
At 31st December	<u>105</u>	<u>(4,232)</u>	<u>4,337</u>	<u>1,226</u>	<u>3,111</u>

ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	1994		1993	
	Share Capital (including premium) £'000	Loans and finance lease obligations £'000	Share Capital (including premium) £'000	Loans and finance lease obligations £'000
At 1st January	4,911	499	4,911	612
Cash outflow from financing	-	(129)	-	(154)
Inception of finance lease contracts	-	237	-	68
Disposal of finance lease contracts	-	(58)	-	(27)
At 31st December	<u>4,911</u>	<u>549</u>	<u>4,911</u>	<u>499</u>

MAJOR NON-CASH TRANSACTIONS

During the year the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £237,000 (1993 - £68,000).

40 PENSION ARRANGEMENTS

On 1st January 1993 the Group's defined benefit pension scheme was converted to a Group defined contribution contracted-out money purchase scheme. The scheme is open to all permanent salaried employees aged twenty years or over. The assets of the previous final salary scheme were converted into cash and the total proceeds were allocated to individual members by the scheme's actuaries on the basis of the value of the members' accrued benefits under the previous scheme. The amounts allocated to the individual members were invested in either a managed fund investment, an insured with profits insurance contract or in a building society deposit account, according to the wishes of individual members. The level of contributions to the money purchase scheme for current members is fixed by the trustees according to the age of the member.

The pension cost for the year was £223,000 (1992 - £208,000) representing the actual contributions payable in the year and certain scheme administration costs.

**NOTES TO THE
FINANCIAL
STATEMENTS**

CONTINUED

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the fourteenth Annual General Meeting of Hornby Group Plc will be held at The Great Danes Hotel, Hollingbourne, Maidstone, Kent ME17 1RT on Friday 12th May 1995 at 11.30 am for the following purposes:

ORDINARY BUSINESS

1. To receive the report of the directors and the audited financial statements for the year ended 31st December 1994 and to declare a dividend.
2. To re-elect Mr M.C. Thomas a director of the Company.
3. To re-elect Mr A.R. Cox a director of the Company.
4. To re-appoint Coopers & Lybrand, the retiring auditors, and to authorise the directors to determine their remuneration.

SPECIAL BUSINESS

To consider and if thought fit to pass the following resolution which will be proposed as a special resolution:

THAT the directors be empowered for a period expiring at the conclusion of the Annual General Meeting of the Company next following the date of the passing of this Resolution to allot equity securities of the Company as if Section 89(1) of the Companies Act 1985 did not apply to any such allotment provided that such power shall be limited to the allotment of the equity securities:-

(a) in connection with an offer of securities, open for acceptance for a period fixed by the directors, by way of rights to holders of shares in proportion (as nearly as may be) to their holdings on a record date fixed by the directors or (where applicable) in accordance with the rights for the time being attached to such shares (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with problems under the laws of any territory or the requirements of any regulatory body or any stock exchange in any territory or in connection with fractional entitlements or otherwise howsoever);

(b) pursuant to the terms of the Company's existing executive share option scheme;

(c) (otherwise than under paragraphs (a) and (b) of the Resolution) up to an aggregate nominal value of £20,000; and

(d) such power shall permit and enable the directors to make an offer or agreement, before the expiry of such power, which would or might require equity securities to be allotted after such expiry.

Words and expressions defined in or for the purposes of Sections 89 to 96 of the Companies Act 1985 shall bear the same meaning in this Resolution.

By order of the Board

A.R. Cox
Secretary
18th April 1995

NOTES

1. A Member is entitled to appoint a Proxy, who need not be a Member of the Company, to attend and vote instead of him. A form of proxy is enclosed. Completion of a form of proxy will not preclude a member from attending and voting at the meeting in person.
2. There will be available for inspection at the Registered Office of the Company during usual business hours (Saturday excepted), from the date of this Notice, until the date of the Annual General Meeting, a copy of each Contract of Service open to inspection under Section 318 of the Companies Act 1985, whereunder the directors are employed. These documents will also be available for inspection at the Annual General Meeting and for fifteen minutes prior thereto.

TEN YEAR SUMMARY

	1994	1993	1992	1991	1990	1989	1988	1987	1986	1985
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Turnover	31,323	28,238	31,323	32,036	39,467	31,996	23,424	20,096	14,237	12,169
Profit (loss) before exceptional items	611	1,501	1,455	2,088	3,821	3,467	2,404	1,828	608	271
Exceptional items	-	-	-	-	616	-	-	-	-	-
Profit on ordinary activities before taxation	611	1,501	1,455	2,088	4,437	3,467	2,404	1,828	608	271
Taxation	170	(598)	(504)	(818)	(1,365)	(1,174)	(947)	(720)	(215)	-
Profit (loss) on ordinary activities after taxation	781	903	951	1,270	3,072	2,293	1,457	1,108	393	271
Assets employed:										
Fixed assets	6,547	6,458	7,282	7,020	7,246	5,378	4,551	3,365	3,315	2,313
Investments	694	-	-	-	-	-	-	-	-	-
Net current assets	7,960	8,320	7,420	7,228	6,862	6,346	5,565	5,722	4,279	2,421
Creditors due after more than one year	(376)	(321)	(415)	(121)	(294)	(239)	(73)	(90)	(104)	(3,010)
Provision for liabilities and charges	(63)	(63)	(52)	(104)	(49)	(51)	(2,585)	(1,684)	(964)	(750)
Net assets	14,762	14,394	14,235	14,023	13,765	11,434	7,458	7,313	6,526	974
Total capital employed	14,762	14,394	14,235	14,023	13,765	11,434	7,458	7,313	6,526	974
Earnings per share	9.5p	10.9p	11.5p	15.4p	37.7p	28.3p	18.2p	13.8p	10.4p	7.7p
Dividend per share (net)	5.0p	9.0p	9.0p	9.0p	9.0p	7.5p	5.25p	4.0p	-	-
Net assets per share (after adding back goodwill written off)	194.7p	190.3p	188.4p	185.9p	181.0p	153.6p	106.4p	91.1p	81.3p	27.7p

HORNBY GROUP PLC

HORNBY GROUP ANNUAL REPORT & ACCOUNTS

15 MONTHS ENDED
31ST MARCH 1996

HORNBY GROUP PLC

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DIRECTORS AND CORPORATE INFORMATION

DIRECTORS

P Newey
Executive Chairman

M C Thomas
Deputy Chairman

A R Cox
Finance Director

G V Hill
Non-Executive Director

SECRETARY

A R Cox

REGISTERED OFFICE

Westwood
Margate
Kent CT9 4JX

COMPANY REGISTERED NUMBER

Registered in England No. 1547390

AUDITORS

Coopers & Lybrand
Orchard House
10 Albion Place
Maidstone
Kent ME14 5DZ

SOLICITORS

Berwin Leighton
Adelaide House
London Bridge
London EC4R 9HA

PRINCIPAL BANKERS

Barclays Bank PLC
9 St George's Street
Canterbury
Kent CT1 2JX

FINANCIAL ADVISERS

SBC Warburg
1 Finsbury Avenue
London EC2M 2PP

REGISTRARS AND TRANSFER AGENTS

Independent Registrars Group Ltd
Balfour House
390/398 High Road
Ilford
Essex IG1 1NQ

FINANCIAL HIGHLIGHTS

	15 months ended 31st March 1996 (audited) £'000	12 months ended 31st December 1995 (unaudited) £'000	12 months ended 31st December 1994 (audited) £'000
TURNOVER	<u>38,614</u>	<u>33,648</u>	<u>31,323</u>
OPERATING PROFIT/(LOSS) EXCLUDING EXCEPTIONAL ITEMS:			
Continuing operations	1,542	1,612	1,062
Discontinued operations	<u>(446)</u>	<u>(379)</u>	<u>(112)</u>
TOTAL	<u>1,096</u>	<u>1,233</u>	<u>950</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	(5,164)	(4,303)	611
EQUITY SHAREHOLDERS' FUNDS	10,424	11,676	14,762
NET CASH	890	1,645	105
EARNINGS PER ORDINARY SHARE:			
Basic excluding exceptional items	3.83 p	5.96 p	9.45 p
Basic	(62.92)p	(53.70)p	9.45 p
DIVIDENDS PER ORDINARY SHARE	5.5p	-	5.0 p
NET ASSETS PER ORDINARY SHARE (after adding back goodwill written off)	124.7p	139.7p	194.7p

CHAIRMAN'S REVIEW

As I have previously reported, Hornby has changed its year end from 31st December to 31st March. Accordingly, this review covers the fifteen month period ended 31st March 1996.

Results for the period

We reported in March that turnover for the twelve months to the 31st December 1995 was 7 per cent ahead of the twelve months to 31st December 1994. This was due to increased sales of the core products. Over the same period the sales of toys and Fletcher boats fell. Operating profit before exceptional items for continuing operations was ahead by 52 per cent at £1.6m.

This trend continued in the first quarter of 1996. Sales of the core products were considerably ahead of the first quarter in 1995. Though most of the toys have been discontinued, sales overall (excluding Fletcher) increased by 4 per cent. In the first quarter of 1996 due to these better sales and a lower cost base, the Company achieved a substantially improved operating profit before exceptional items.

Turnover for the fifteen months to 31st March 1996 for the continuing operations at £35.3m was 6 per cent ahead of a corresponding period to 31st March 1995. The operating profit before exceptional items for the fifteen months ended 31st March 1996 for continuing operations was £1.5m compared to £628,000 for the previous corresponding period.

Although the change of the year end makes a direct comparison difficult, these figures

indicate that the decision to discontinue toys and to sell Fletcher was correct and is beginning to produce improved financial results.

The very significant sales increase of the core products in the first quarter of 1996 over 1995 was mainly due to the product selling through well prior to Christmas with the retailers re-stocking in the new year.

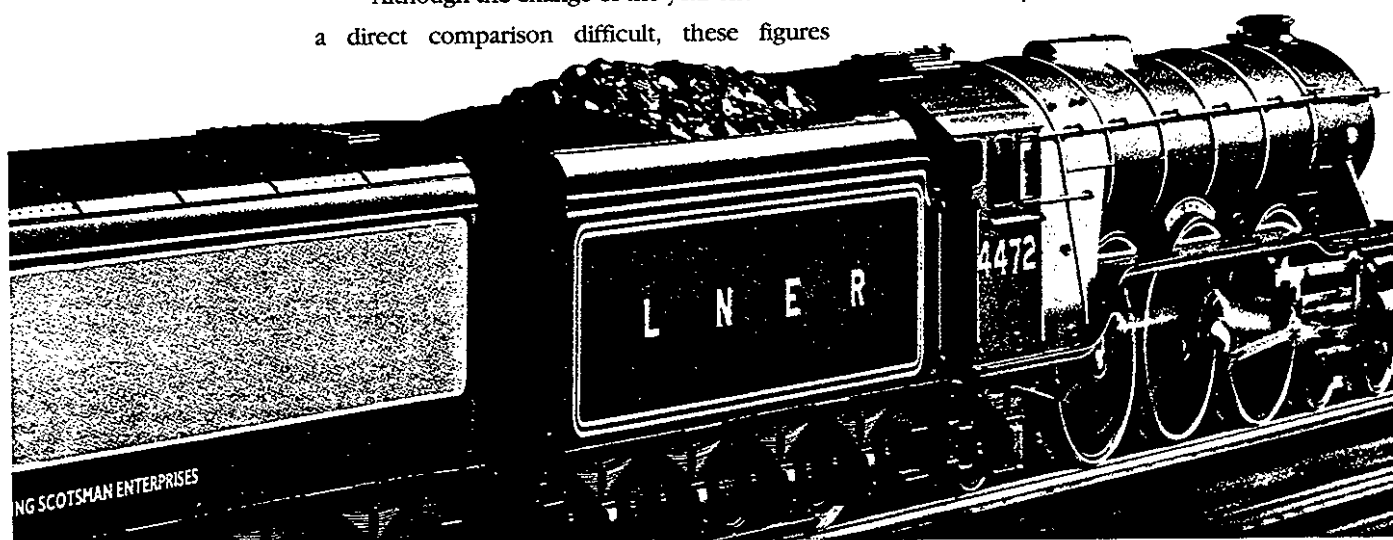
However, it was also partly due to the ability of the sales force to concentrate on selling the core products (in particular individual locomotives, cars and accessories) rather than clearing imported toys which had been overbought in the previous year.

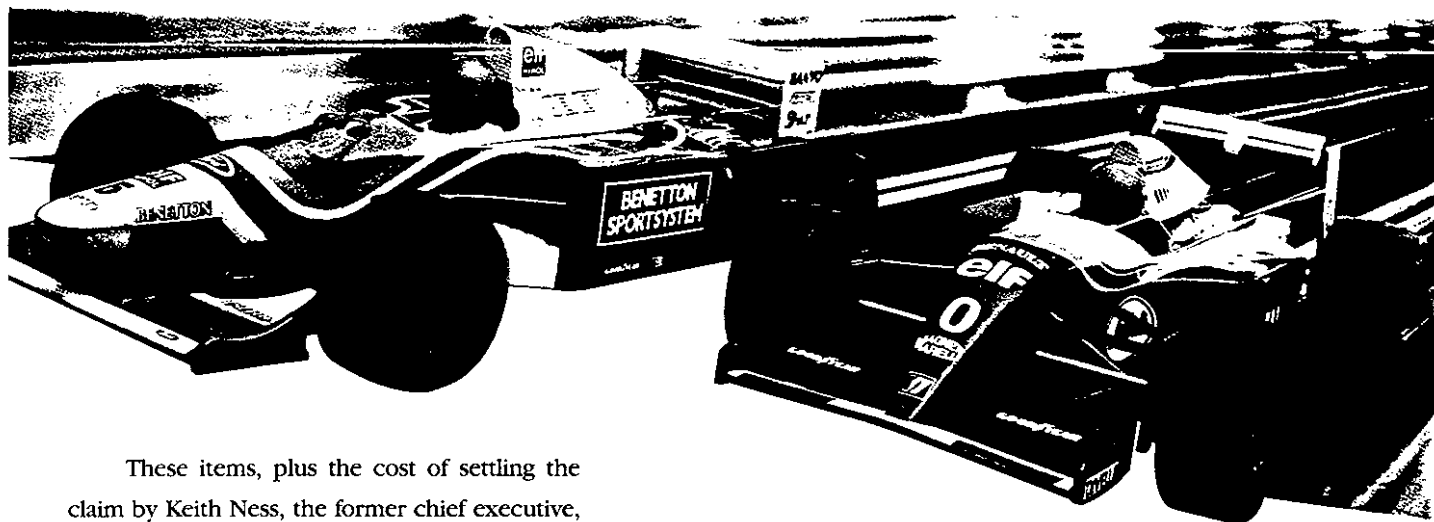
The loss-making Fletcher boat business was sold on the 14th February of this year. Prior to its disposal, Fletcher incurred a loss at the operating level of £379,000 in the twelve months ended 31st December 1995 which had increased to £446,000 when it was sold.

The disposal of Fletcher resulted in an exceptional loss on disposal of £4.0m which included £1.3m of goodwill previously written off to reserves. In addition, various other exceptional costs have been incurred.

Following the discontinuation of most of the toy products a number of redundancies were made and this, together with the rationalisation of other functions, incurred redundancy costs of £288,000.

The write-off of the investment in San Francisco Toymakers Inc amounted to £694,000.





These items, plus the cost of settling the claim by Keith Ness, the former chief executive, of £720,000 resulted in a net loss before taxation of £5.2m for the fifteen month period ended 31st March 1996.

The exceptional items have not significantly affected the cash position which was ahead of expectations at the end of the first quarter. At 31st March 1996 the net cash was £890,000 compared with an overdraft of £2.1m at the corresponding date in 1995.

Operational review

There has been considerable change in the Company since October last year when the previous Chief Executive left.

Action had to be taken to improve the financial performance of the Company and critical issues had to be addressed.

The decision was immediately taken to concentrate on the model business as Hornby Railways and Scalextric Racing Cars had been the consistent profit earners over the years.

The Company was, therefore, able to discontinue the range of toy products and other activities either manufactured by Hornby or imported that were incompatible with the core brands and its market position as a model company. These toy products had also required significant financial investment and management resources and had failed to achieve a satisfactory return.

These changes also had considerable operational benefits. In particular, the sales force have been able to concentrate their selling effort on the core products, leased warehousing has been closed, off-site activities brought on-site,

manufacturing and quality control reorganised, and a number of engineering departments merged.

Production efficiency is targeted to increase significantly by the end of this year. Product availability targets have been set for individual product categories and overall availability has increased considerably over last year.

There have also been two redundancy programmes; in November for the central management and in January for the factory and warehouse. The number of employees in 1996 will in total be some twenty per cent lower than in 1995.

There is still a great deal to achieve. Greater effort is being put into export, where there is an opportunity to increase sales. A long term product development programme has been prepared to improve the quality, range and competitiveness of the Hornby Railway and Scalextric products. Expenditure on product development is some sixty per cent up on last year and these funds are now concentrated on the core brands. A review is being conducted to determine the role of manufacturing within the Company in order to identify the key areas for investment and the size and structure of the manufacturing operation over the next five years.

Current trading

The benefits of this programme have begun to show through. In the second quarter of 1996, orders, sales, despatches and production were above expectations. Stock, although lower than at the same time last year, contains a much higher

CHAIRMAN'S REVIEW

CONTINUED

level of core products, thereby improving product availability and customer service.

However, it must be pointed out that the October to December period accounts for nearly half of the Company's annual sales and that, although the outlook appears positive, any interpretation of the figures should be treated with caution until the new pattern of trade, with only the core products, has been established.

The market remains competitive with pressure from retailers to hold prices down and improve their margins whilst our competitors are looking to increase their market share.

Outlook

Hornby and Scalextric are brand leaders with strong market positions. The development programme is aimed at improving the attraction of these products to all customers, enthusiasts/collectors and those purchasing or using the product for the first time. Innovation is constantly being sought in marketing and product development.

Hornby has distributed radio control cars in the UK for the last two years. This market is becoming increasingly difficult with new competition. We have been reviewing the position with our current supplier and intend to make alternative arrangements from the beginning of next year in order to remain competitive.

Dividend

The Board feels that the necessary major structural changes have now been made and the underlying business is performing well. The directors are, therefore, recommending that the dividend be increased by ten per cent to 5.5 pence per share for the fifteen month period ending 31st March 1996.

Official listing

The London Stock Exchange is closing down the Unlisted Securities Market at the end of this year. This provides us with an opportunity to move Hornby to the Official List and steps have been taken to put this into effect.

Extraordinary General Meeting

The directors are of the opinion that it is no longer appropriate to include the word 'Group' in the name of the Company following the disposal of the Fletcher boat business. The directors, therefore, intend to propose that the name of the Company is changed to 'Hornby Plc'.

The directors also believe that it would be appropriate for the Company to adopt new Articles of Association in line with current practice and to put into place a new executive share option scheme.

Further details of these proposed changes will be included in an explanatory circular to shareholders and it is intended that appropriate resolutions will be proposed at an extraordinary general meeting that will follow the forthcoming annual general meeting.

Customers, management and staff

The new strategy has been well received by our retail customers and employees who appreciate that the changes that have been implemented were necessary and are relieved that the Company has returned to the products that it knows best and sells well.

Peter Newey
15th July 1996

REPORT OF THE DIRECTORS

The directors submit their annual report together with the audited financial statements for the fifteen months ended 31st March 1996.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company is a holding company. Following the sale of Norman Fletcher (Sales & Developments) Limited on 14th February 1996 the Company has only one operating subsidiary, Hornby Hobbies Limited.

The Group is principally engaged in the development, manufacture and distribution of model products.

The Group's business review and future developments are included in the Chairman's Statement.

The Board considers that research and development continues to play an important role in the Group's success. Details are given in note 3 to the financial statements.

RESULTS AND DIVIDENDS

The results for the fifteen months ended 31st March 1996 are set out in the Consolidated Profit and Loss Account on page 20. Turnover for the fifteen months was £38.6m compared to £31.3m for the twelve months ended 31st December 1994. The loss on ordinary activities after taxation for the period amounted to £5.2m (twelve months ended 31st December 1994—profit £0.8m).

The directors recommend a final dividend of 5.5p per ordinary share payable on 14th August 1996 to those shareholders on the register at 23rd July 1996.

PROPERTY VALUES

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

CHARITABLE DONATIONS

During the fifteen months the Group made donations of £51 (twelve months ended 31st December 1994—£668) for charitable purposes.

DIRECTORS

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

Mr P Newey, aged 48, was originally appointed a non-executive director on 20th May 1993. In October 1995 Mr Newey became an executive director and assumed the responsibilities of Chief Executive. On 1st March 1996 Mr Newey was appointed Executive Chairman. He was previously an executive director of Lazard Brothers & Co Limited and is currently a director of Holmes & Marchant Group PLC. Mr Newey retires by rotation under article 93 of the Articles of Association and offers himself for re-election.

Mr M C Thomas, aged 67, who was appointed to the Board on 17th August 1987, stepped down as Chairman on 1st March 1996 and was appointed Deputy Chairman on the same date. He was previously a director of Reed International PLC and is currently President of Smurfit (UK) Limited. Mr Thomas is also a director of Holmes & Marchant Group PLC.

REPORT OF THE DIRECTORS

CONTINUED

Mr A R Cox, aged 46, has been employed by the Group since October 1982. He was appointed Company Secretary on 1st February 1985 and became Finance Director on 17th July 1986.

Mr K L Ness, resigned as a director on 19th February 1996 having previously left the employment of the Company on 20th October 1995.

Mr G V Hill, aged 61, was appointed a non-executive director on 21st November 1995. He was previously Vice President of A T Kearney Limited and has gained extensive experience in many different industries as a management consultant. His appointment follows a period of consultancy with the Group. Having been appointed during the period, Mr Hill retires and offers himself for re-election at the forthcoming Annual General Meeting.

The interests of the directors in the shares of the Company and in options granted over such shares are disclosed in the report of the remuneration committee.

There were no contracts of significance with the Company or any of its subsidiaries subsisting during or at the end of the financial period in which a director of the Company was materially interested.

SUBSTANTIAL SHAREHOLDINGS

The Company has been notified that on 8th July 1996 the following parties were interested in 3 per cent or more for the Company's ordinary share capital:

Shareholder	Number of Ordinary Shares	Percentage held
M&G Investment Management Limited	828,594	9.9
Electra Investment Trust PLC	819,030	9.8
BT Pension Scheme	436,080	5.2
Strathclyde Regional Council Superannuation Fund	370,000	4.4
Black Horse Life Assurance Company Limited	365,000	4.3
Pilot Investment Trust plc	300,000	3.5
GUD Pension Trustee Limited	260,000	3.1

CREST

CREST is the new computerised system for settling sales and purchases of shares on the London Stock Exchange. The system replaces the current Talisman system and is expected to begin operations in July 1996. All shareholders will be able to hold shares in electronic form as a computer record rather than in the form of share certificates. However, investors will not be forced to use CREST.

Notice

Notice is given, in accordance with the Uncertificated Securities Regulations 1995 ('the Regulations') that on 26th June 1996, the Company resolved by resolution of its directors that title to the ordinary shares of 5p each in the capital of the Company, in issue or to be issued, may be transferred by means of a relevant system. The resolution of the directors will become effective immediately prior to CRESTCo Limited granting permission for the shares concerned to be transferred by means of the CREST system.

Explanatory note

The above notice is the notice that the Company is obliged to give to its members, under the Regulations, of the passing of a "directors' resolution" (as defined in the Regulations) in relation to its ordinary shares. The directors' resolution will enable the Company's ordinary shares to join CREST in due course. The shares have not become transferable by means of the CREST system merely by virtue of the passing of the directors' resolution, nor will they become so by virtue of the directors' resolution becoming effective; the permission of the Operator of the system, CRESTCo Limited, must also be given before the shares can become so transferable. It is anticipated that permission will be granted in December 1996.

The effect of the directors' resolution is to disapply, in relation to the ordinary shares, those provisions of the Company's articles of association that are inconsistent with the holding and transfer of those shares in CREST and any provision of the Regulations, as and when the shares concerned enter the CREST system.

Shareholders should also note that, under the Regulations, they have the right by ordinary resolution:

- (a) until the directors' resolution referred to above comes into effect in accordance with its terms, to resolve that it shall not come into effect;
- (b) if the directors' resolution referred to above is effective in accordance with its terms but the permission of the Operator of the system, CRESTCo Limited, has not yet been given to the shares concerned becoming transferable by means of the CREST system, to resolve that the directors' resolution shall cease to have effect;
- (c) once the directors' resolution referred to above is effective in accordance with its terms and the permission of the Operator of the system, CRESTCo Limited, has been given to the shares concerned becoming transferable by means of the CREST system, to resolve that the directors of the Company shall take the necessary steps to ensure that title to the shares concerned shall cease to be transferable by means of the CREST system and that the directors' resolution shall cease to have effect.

STOCK EXCHANGE OFFICIAL LISTING

The directors have decided to apply to the London Stock Exchange to have the shares of the Company traded on the Official List.

The Listing rules were changed in July 1994 to reflect an amendment to the European Union Listing Particulars Directive. One of the objectives of the Directive amendment was to facilitate the transition of USM companies that wished to gain admission to the Official List without a simultaneous marketing of further securities which would necessitate listing particulars or a prospectus in accordance with either the Directive or the Companies Acts.

The Company has appointed SBC Warburg as its sponsors who will, in conjunction with the Company, prepare and submit to the London Stock Exchange for approval an 'exempt listing document'. There is no requirement to circulate this document to shareholders, nor is a circular required. A copy of the exempt listing document will be available for inspection at the Registered Office of the Company in due course and should a shareholder wish to examine it this can be arranged with the Company Secretary. It is planned to submit the document to the London Stock Exchange for approval by the end of August 1996 and it is hoped that dealings will begin on the Official List shortly thereafter.

REPORT OF THE DIRECTORS

CONTINUED

ANNUAL GENERAL MEETING – AUTHORITY TO ISSUE SHARES

The notice of the Annual General Meeting includes a special resolution to renew the directors' authority to allot equity securities.

Resolution Number 5 is a special resolution which would give the Board authority within the meaning of Section 80 of the Companies Act 1985 to allot relevant securities of the Company up to an aggregate nominal value of £82,000. The resolution will entitle the Board to allot equity securities having an aggregate nominal value of £20,000 for cash, equivalent to 400,000 ordinary shares representing 4.8 per cent of the Company's issued share capital as at 31st March 1996, as if Section 89(1) of the Companies Act 1985 conferring pre-emption rights on shareholders did not apply. Allotments for cash in excess of this figure on a non pre-emptive basis will require prior shareholder approval except in the case of a rights issue to existing shareholders. This Section 80 authority and Section 89 disapplication will last until the end of the next Annual General Meeting of the Company.

EXTRAORDINARY GENERAL MEETING

The directors intend to give notice of an Extraordinary General Meeting of the Company to take place immediately following the conclusion of the business of the forthcoming Annual General Meeting. A summary of the resolutions to be proposed is provided below and further details will be contained in the notice of meeting and in an explanatory circular accompanying this annual report and accounts.

Change of name

The directors believe that it is no longer appropriate to include the word "Group" in the name of the Company. Accordingly, the directors intend to propose a special resolution which would change the name of the Company to "Hornby Plc". In the event of this special resolution being passed the change of name would become effective from the date on which a Certificate of Incorporation on Change of Name is issued by the Registrar of Companies.

Articles of Association

In view of the Company's plans to apply to the London Stock Exchange to have the shares of the Company traded on the Official List the articles of association of the Company require to be amended to reflect changes in Stock Exchange policy and latest business practice. The changes are essentially technical in nature. The directors intend to propose a special resolution to adopt a new set of articles of association incorporating these changes.

Executive share option scheme

The Company's existing executive share option scheme was adopted on 20th February 1986 and no further share options can be granted under the scheme. The directors believe that share options continue to provide an effective means of providing long term incentive plans for directors and senior management and propose to recommend the adoption of a new executive share option scheme which will incorporate relevant performance measures.

CLOSE COMPANY STATUS

The Company is not a close company within the meaning of the Income and Corporation Taxes Act 1988 and this position has not changed since the end of the financial period.

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 for 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.

The Group encourages employees to be shareholders of the Company.

CREDITOR PAYMENT POLICY

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

AUDITORS

A resolution to re-appoint the auditors, Coopers & Lybrand, will be proposed at the Annual General Meeting which adopts these financial statements.

By order of the Board

A R Cox
Secretary
Westwood
Margate
Kent CT9 4JX

15th July 1996

CORPORATE GOVERNANCE

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The directors have considered the Report of the Committee on the Financial Aspects of Corporate Governance (the Cadbury Committee). The directors confirm that the Company fully supports the recommendations of the Cadbury Committee and has complied throughout the period with its Code of Best Practice with the following variations and exceptions.

During the period to 20th October 1995 the Board consisted of two executive directors and two non-executive directors. Mr K L Ness, Chief Executive, left the Company on 20th October 1995 and Mr P Newey assumed his responsibilities from that date. Mr G V Hill, a non-executive director, was appointed on 21st November 1995. Mr P Newey was appointed Executive Chairman on 1st March 1996.

The Board currently, therefore, comprises two executive directors and two non-executive directors. The Board regards the current number of non-executive directors as being appropriate for the size of the Company at the present time although the Board is currently reviewing its future composition. The Cadbury Code recommends the minimum of three non-executive directors. The report of the City Group for Small Companies acknowledged that two non-executive directors may be more appropriate for smaller listed companies. Our non-executive directors are both independent of the Group and have a breadth of professional experience. The Chairman has assumed the role of Chief Executive until a replacement is found. Spencer Stuart, the executive search consultants, have been appointed.

BOARD PROCEDURE AND COMMITTEES

The Board has adopted a formal schedule of matters reserved for the Board including the determination of strategy, the approval of business plans, budgets, acquisitions and disposals, major capital purchases, Board appointments, accounting policies and treasury arrangements. The Board meets monthly and monitors the progress against the plan at each meeting.

The Remuneration Committee of the Board consists of the Chairman and the non-executive directors. The Board adopted formal terms of reference for the Remuneration Committee on 30th April 1996.

The Audit Committee of the Board comprises the Chairman and the non-executive directors with the Chief Executive and Finance Director normally attending meetings. The Board adopted formal terms of reference for the Audit Committee on 30th April 1996. The Audit Committee meets at least twice a year. The Committee has the authority of the Board to obtain external legal or other independent professional advice in the furtherance of its duties.

INTERNAL FINANCIAL CONTROL

The directors have overall responsibility for the Group's system of internal financial control. Although no system of internal financial control can provide absolute assurance against material mis-statement or loss, the system is designed to provide the directors with reasonable assurance that problems are identified on a timely basis and are dealt with appropriately.

The key elements of the Group's system of internal financial control are as follows:

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.

Identification of business risks

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

Major corporate information systems

The Group operates a comprehensive annual planning and budgeting system in conjunction with a three year business plan which is regularly updated to reflect changing circumstances. 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.

Main control procedures

Management establishes control procedures in response to each of the key risks identified. Standard financial control procedures operate to ensure the integrity of the Group's financial statements.

Monitoring system used by the Board

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

GOING CONCERN

After making appropriate enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the Group's financial statements.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

A R Cox
Secretary

15th July 1996

REPORT OF THE REMUNERATION COMMITTEE

The remuneration committee comprises the Chairman and the non-executive directors and adopted formal terms of reference on 30th April 1996. The committee is of the opinion that since adopting the formal terms of reference the Company has complied with section A of the best practice provisions for directors' remuneration annexed to the London Stock Exchange's Listing Rules, which concerns the membership and operation of the remuneration committee except that Mr P. Newey is an executive director. The Board believes that the Chairman should be a member of this committee. The current members of the committee are:

P Newey

M C Thomas*

G V Hill*

* Non-executive

The objective of the remuneration committee is to ensure that the directors and senior management of the Group are fairly rewarded for their individual contributions to the Group's performance and to ensure that their remuneration is commensurate with their duties and responsibilities. In determining the Group's remuneration policy it has given full consideration to section B of the best practice provisions for directors' remuneration annexed to the London Stock Exchange's Listing Rules. In setting the policy it considers a number of factors including:

- (a) The basic salaries and benefits available to directors and senior management of comparable companies.
- (b) The need to attract and retain individuals of an appropriate calibre.

The committee achieves its objectives through the following:

- **Salary and benefits**

Salaries for the executive directors and senior management are reviewed regularly and these salaries are changed at the time of the Group's annual salary review. Policies concerning other benefits together with the Group's company car policy are reviewed periodically.

- **Share options**

The Group has an approved executive share option scheme under which no further share options may be granted. No options were granted during the period. The directors intend to introduce a new executive share option scheme in order to provide appropriate long term incentive plans for directors and senior management. The proposed new share option scheme will include relevant performance measures, and the Board will seek shareholder approval as required.

- **Pensions**

The Group operates a contributory defined contribution (money purchase) pension scheme.

Executive Directors' Contracts

The Chairman of the Board, Mr P Newey, is now an executive director and is currently assuming the role of Chief Executive. Mr Newey, during the period from 20th October 1995 to 30th June 1996 received a fee for his services as acting Chief Executive. The remuneration committee, after seeking independent external advice, has decided that from 1st July 1996 Mr Newey should receive £100,000 per annum in connection with his appointment as Executive Chairman with a notice period to be given by the Company of two years and of not less than six months by Mr Newey.

Mr A. R. Cox, the Finance Director and Secretary, receives a salary of £82,060 per annum. Mr Cox's conditions of employment include a notice period to be given by the Company of two years and six months notice to be given by Mr Cox.

Non-Executive Directors' Contracts

The remuneration of the non-executive directors is determined by the remuneration committee based on the level of fees paid to non-executive directors of similar companies and by considering the view of independent external advice.

The Deputy Chairman, Mr M C Thomas, was formerly Chairman of the Board. Mr Thomas was appointed to the Board on 17th August 1987. The remuneration committee has decided that, from 1st July 1996, Mr Thomas should receive non-executive directors fees for his services to the Company of £25,000 per annum. His terms of appointment include a notice period to be given by the Company of one year and six months notice to be given by Mr Thomas.

The non-executive director, Mr G V Hill, was appointed to the Board on 21st November 1995. The appointment was for an initial period of one year subject to a one year notice period given by the Company and six months by Mr Hill. Mr Hill currently receives fees of £15,000 per annum.

Neither the Chairman nor the non-executive directors received any pension or other benefits from the Company nor have they participated in the executive share option scheme for the period ending 31st March 1996.

Directors' Interests

Interests in shares

The interests of the directors in the shares of the Company at 31st March 1996 were:

	Number of ordinary shares of 5p	
	31st March 1996	31st December 1994
P Newey	20,000	-
M C Thomas	5,000	5,000
A R Cox	28,600	28,600
G V Hill	-	-

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

There has been no change in the interests set out above between 31st March 1996 and 15th July 1996.

REPORT OF THE REMUNERATION COMMITTEE

CONTINUED

Interests in share options

Details of options held by directors are set out below:

	Number of options		Exercise price	Date from which exercisable	Expiry date
	31st March 1996	31st December 1994			
A R Cox	18,000	18,000	235p	16/03/1993	16/03/2000

On 18th October 1995 Mr K L Ness, a former director, exercised options over 94,100 ordinary shares of 5p each at an exercise price of 33.3p per share. The mid-market price of the shares on 18th October 1995 was 161p.

There were no options granted during the period.

The market price of the Company's shares at 31st March 1996 was 196p and the range during the fifteen month period ended 31st March 1996 was 96p to 197p.

Directors' detailed emoluments

Details of individual directors' emoluments for the period are as follows:

	12 months ended 31st December 1995					1994	
	Salary and fees	Other fees	Bene-fits	Pension contri-butions	Total	Total*	Pension contri-butions
	£	£	£	£	£	£	£
Chairman:							
P Newey	13,750	43,150	-	-	56,900	15,500	-
Executive:							
K L Ness	93,840	-	18,221	12,648	124,709	140,167	14,735
A R Cox	79,670	-	8,837	7,170	95,677	92,761	6,961
Non-executive:							
M C Thomas	31,145	-	-	-	31,145	25,000	-
G V Hill	1,730	15,000	-	-	16,730	-	-
	220,135	58,150	27,058	19,818	325,161	273,428	21,696

* The 1994 total column includes pension contributions

15 months ended 31st March 1996

	Salary and fees £	Bonus £	Other fees £	Bene- fits £	Pension contri- butions £	Compen- sation for loss of office £	Total £
Chairman:							
P Newey	17,500	70,000	80,650	-	-	-	168,150
Executive:							
K L Ness	93,840	-	-	22,555	12,648	719,500	848,543
A R Cox	99,588	-	-	11,041	8,962	-	119,591
Non-executive:							
M C Thomas	39,061	-	-	-	-	-	39,061
G V Hill	4,855	-	15,000	-	-	-	19,855
	<hr/> 254,844	<hr/> 70,000	<hr/> 95,650	<hr/> 33,596	<hr/> 21,610	<hr/> 719,500	<hr/> 1,195,200 <hr/>

In the year ended 31st December 1994, Mr K L Ness waived £150,000 of his contractual bonus. The compensation for loss of office paid to Mr Ness on 3rd July 1996 included a contribution to his pension of £380,000, and was in full and final settlement in respect of his contractual bonus and other entitlements.

Salary and fees shown above includes fees paid in respect of duties as directors. Other fees includes amounts paid in respect of consultancy and other services provided by directors.

The bonus paid to Mr Newey is in recognition of the improved financial position of the Company and the amount of the bonus is in relation to the increase in the share price during the period.

REPORT OF THE AUDITORS

TO HORNBY GROUP PLC ON CORPORATE GOVERNANCE MATTERS

In addition to our audit of the financial statements, we have reviewed the directors' statement on pages 12 to 13 on the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which is not disclosed.

Basis of opinion

We carried out our review in accordance with Bulletin 1995/1 'Disclosures relating to corporate governance' issued by the Auditing Practices Board. The Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of the Group's systems of internal financial control or its corporate governance procedures, nor on the ability of the Group or Company to continue in operational existence.

Opinion

With respect to the directors' statement on internal financial control on pages 12 and 13 and going concern on page 13, in our opinion the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on pages 12 and 13 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review.

Coopers & Lybrand
Chartered Accountants
Maidstone
Kent

15th July 1996

REPORT OF THE AUDITORS

TO THE MEMBERS OF HORNBY GROUP PLC

We have audited the financial statements on pages 20 to 40.

Respective responsibilities of directors and auditors

As described on page 13 the Company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31st March 1996 and of the result and cash flows of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand
Chartered Accountants and Registered Auditors
Maidstone
Kent
15th July 1996

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE FIFTEEN MONTHS ENDED 31ST MARCH 1996

	Notes	15 months ended 31st Mar 1996 (audited) £'000	12 months ended 31st Dec 1995 (unaudited) £'000	12 months ended 31st Dec 1994 (audited) £'000
TURNOVER				
Continuing operations		35,328	30,780	28,352
Discontinued operations		3,286	2,868	2,971
TOTAL TURNOVER	2,3	38,614	33,648	31,323
Cost of sales	3	(27,543)	(23,949)	(21,997)
GROSS PROFIT		11,071	9,699	9,326
Other operating expenses	3	(9,975)	(8,466)	(8,376)
Exceptional items	4	(1008)	(280)	-
OPERATING PROFIT/(LOSS)		534	1,332	1,062
Continuing operations		(446)	(379)	(112)
Discontinued operations				
TOTAL OPERATING PROFIT		88	953	950
Loss on sale of discontinued operations	19	(4,044)	(4,060)	-
Amounts written off investments	12	(694)	(694)	-
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		(4,650)	(3,801)	950
Net interest payable	5	(514)	(502)	(339)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(5,164)	(4,303)	611
Tax on ordinary activities	8	(57)	(145)	170
(LOSS)/PROFIT BEFORE DIVIDEND		(5,221)	(4,448)	781
Dividends proposed	9	(460)	-	(413)
(LOSS)/PROFIT RETAINED FOR THE PERIOD		(5,681)	(4,448)	368
ATTRIBUTED TO:				
The Company		21	11	2
Subsidiary undertakings		(5,702)	(4,459)	366
		(5,681)	(4,448)	368
(LOSS)/EARNINGS PER ORDINARY SHARE	10			
Basic excluding exceptional items		3.83 p	5.96 p	9.45 p
Basic		(62.92)p	(53.70)p	9.45 p

The Group has no recognised gains or losses other than those included in the results above and therefore no separate statement of total recognised gains and losses has been presented.

NOTE OF HISTORICAL COST PROFITS AND LOSSES
FOR THE FIFTEEN MONTHS ENDED 31ST MARCH 1996

	15 months ended 31st Mar 1996 (audited) £'000	12 months ended 31st Dec 1995 (unaudited) £'000	12 months ended 31st Dec 1994 (audited) £'000
REPORTED (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	(5,164)	(4,303)	611
Difference between the historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	21	17	17
Historical cost (loss)/profit on ordinary activities	<u>(5,143)</u>	<u>(4,286)</u>	<u>628</u>
 HISTORICAL COST (LOSS)/PROFIT FOR THE PERIOD RETAINED AFTER TAXATION AND DIVIDENDS	 <u>(5,660)</u>	 <u>(4,431)</u>	 <u>385</u>

CONSOLIDATED BALANCE SHEET
AT 31ST MARCH 1996

	Notes	31st Mar 1996 (audited)	31st Dec 1995 (unaudited)	31st Dec 1994 (audited)
		£'000	£'000	£'000
FIXED ASSETS				
Tangible assets	11	4,450	6,263	6,547
Investments	12	—	—	694
		<u>4,450</u>	<u>6,263</u>	<u>7,241</u>
CURRENT ASSETS				
Stocks	13	5,689	5,939	5,835
Debtors	14	4,537	6,295	8,402
Cash at bank and in hand		890	1,655	619
		<u>11,116</u>	<u>13,889</u>	<u>14,856</u>
CREDITORS: Amounts falling due within one year	15	(4,929)	(5,401)	(6,896)
NET CURRENT ASSETS		<u>6,187</u>	<u>8,488</u>	<u>7,960</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		10,637	14,751	15,201
CREDITORS: Amounts falling due after more than one year	15	(213)	(282)	(376)
PROVISIONS FOR LIABILITIES AND CHARGES	16	—	(2,793)	(63)
NET ASSETS		<u>10,424</u>	<u>11,676</u>	<u>14,762</u>
CAPITAL AND RESERVES				
Called up share capital	17	418	418	413
Share premium account	18	4,525	4,525	4,498
Revaluation reserve	18	893	897	914
Other reserves	18	1,688	1,707	377
Profit and loss account	18	2,900	4,129	8,560
		<u>10,424</u>	<u>11,676</u>	<u>14,762</u>
EQUITY SHAREHOLDERS' FUNDS		<u>10,424</u>	<u>11,676</u>	<u>14,762</u>

The financial statements on pages 20 to 40 were approved by the Board of directors on 15th July 1996 and were signed on its behalf by:

A R Cox
Director

COMPANY BALANCE SHEET

AT 31ST MARCH 1996

	Notes	31st Mar 1996 (audited) £'000	31st Dec 1995 (unaudited) £'000	31st Dec 1994 (audited) £'000
FIXED ASSETS				
Investments	12	10,677	16,124	15,791
		<u>10,677</u>	<u>16,124</u>	<u>15,791</u>
CURRENT ASSETS				
Debtors	14	467	12	430
Cash at bank and in hand		-	-	7
		<u>467</u>	<u>12</u>	<u>437</u>
CREDITORS: Amounts falling due within one year	15	(720)	(182)	(435)
NET CURRENT (LIABILITIES)/ASSETS		<u>(253)</u>	<u>(170)</u>	<u>2</u>
TOTAL ASSETS LESS CURRENT LIABILITIES				
		<u>10,424</u>	<u>15,954</u>	<u>15,793</u>
PROVISIONS FOR LIABILITIES AND CHARGES	16	-	(2,730)	-
NET ASSETS		<u>10,424</u>	<u>13,224</u>	<u>15,793</u>
CAPITAL AND RESERVES				
Called up share capital	17	418	418	413
Share premium account	18	4,525	4,525	4,498
Other reserves	18	9,001	15,235	14,423
Profit and loss account	18	(3,520)	(6,954)	(3,541)
		<u>10,424</u>	<u>13,224</u>	<u>15,793</u>
EQUITY SHAREHOLDERS' FUNDS		<u>10,424</u>	<u>13,224</u>	<u>15,793</u>

The financial statements on pages 20 to 40 were approved by the Board of directors on 15th July 1996 and were signed on its behalf by:

A R Cox

Director

CONSOLIDATED CASH FLOW STATEMENT
FOR THE FIFTEEN MONTHS ENDED 31ST MARCH 1996

	Notes	15 months ended 31st Mar 1996 (audited) £'000	12 months ended 31st Dec 1995 (unaudited) £'000	12 months ended 31st Dec 1994 (audited) £'000
OPERATING ACTIVITIES				
Net cash inflow/(outflow) from continuing operating activities		3,558	3,872	(300)
Net cash (outflow)/inflow from discontinued operating activities		(136)	153	(167)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES		3,422	4,025	(467)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE:				
Interest received		42	25	49
Interest paid		(483)	(466)	(319)
Interest paid on finance leases		(73)	(61)	(69)
Dividends paid		(413)	(413)	(744)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(927)	(915)	(1,089)
TAXATION:				
Corporation tax paid		(269)	(269)	(430)
INVESTING ACTIVITIES:				
Purchase of owned tangible fixed assets		(1,569)	(1,192)	(1,440)
Purchase of fixed asset investment		-	-	(69)
Sales of tangible fixed assets		9	-	2
Sale of subsidiaries	19	267	-	-
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(1,293)	(1,192)	(2,117)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING		933	1,649	(4,106)
FINANCING:				
Capital element of finance lease rental payments		(180)	(141)	(12)
Ordinary shares issued		32	32	-
NET CASH OUTFLOW FROM FINANCING		(148)	(109)	(12)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	21	785	1,540	(4,220)

RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	15 months ended 31st Mar 1996 (audited)	12 months ended 31st Dec 1995 (unaudited)	12 months ended 31st Dec 1994 (audited)
	£'000	£'000	£'000
CONTINUING ACTIVITIES			
Operating profit excluding exceptional items	1,542	1,612	1,062
Exceptional items	(1,008)	(280)	-
Depreciation of tangible fixed assets	1,610	1,355	1,371
Loss/(gain) on sale of tangible fixed assets	2	-	(11)
Increase in stocks	(530)	(16)	(1,516)
Decrease/(increase) in debtors	2,840	1,497	(1,486)
(Decrease)/increase in creditors	(898)	(296)	280
NET CASH INFLOW/(OUTFLOW) FROM CONTINUING OPERATING ACTIVITIES	3,558	3,872	(300)
	£'000	£'000	£'000
DISCONTINUED ACTIVITIES			
Operating loss	(446)	(379)	(112)
Depreciation of tangible fixed assets	159	145	162
Gain on sale of tangible fixed assets	-	-	(5)
Increase in stocks	(58)	(88)	(16)
Decrease/(increase) in debtors	206	529	(166)
(Decrease)/increase in creditors	3	(54)	(30)
NET CASH (OUTFLOW)/INFLOW FROM DISCONTINUED OPERATING ACTIVITIES	(136)	153	(167)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	3,422	4,025	(467)

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the principal Group accounting policies, all of which have been applied consistently throughout the period, and with the preceding year, is set out below.

The figures for the fifteen month period ended 31st March 1996 are shown in the following notes under '1995/6' and for the twelve month period ended 31st December 1994 as '1994'. The amounts shown as at 31st March 1996 and 31st December 1994 are shown under '1996' and '1994' respectively.

BASIS OF ACCOUNTING

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets.

BASIS OF CONSOLIDATION

The Group financial statements consolidate the financial statements of the Company and its subsidiaries made up to 31st March 1996. Goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is written off against other reserves on acquisition.

The Company has taken advantage of the exemption provided by Section 230 of the Companies Act 1985 not to present its own profit & loss account.

RESEARCH AND DEVELOPMENT

Expenditure on research and development is written off as incurred.

TANGIBLE FIXED ASSETS

Land and buildings are shown at cost or valuation less accumulated depreciation. Other fixed assets are shown at cost less accumulated depreciation.

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

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

Residual value is calculated on prices prevailing at the date of acquisition or revaluation where this has taken place. Profits or losses on the disposal of plant and equipment are included in the calculation of operating profit.

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.

FIXED ASSET INVESTMENTS

In the Company's financial statements investments in subsidiary undertakings are stated using the equity method of valuation. Accordingly, subsequent increases and reductions in the value of these investments are set against other reserves in the financial statements of the Company. The directors consider that this policy more fairly represents the Company's investments than carrying them at cost.

STOCKS

Stocks are stated at the lower of cost and net realisable value.

Cost incurred in bringing each product to its present location and condition is based on:

Raw materials	-	actual purchase cost on a first in first out basis including freight and duty where applicable
Work in progress and finished goods	-	cost of actual direct materials and labour plus a proportion of manufacturing overheads based on the normal level of activity.

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.

There are no significant differences between balance sheet and replacement cost values. For these purposes replacement cost is based on latest invoice prices before the balance sheet date.

REVALUATION RESERVE

The surplus arising on the revaluation of freehold land and buildings is credited to the revaluation reserve, which is not distributable. Where depreciation charges are increased following a revaluation, an amount equal to such increase is transferred annually from this reserve to the profit and loss account.

TAXATION

Corporation tax, where payable, is provided on taxable profits at the current rate.

Advance corporation tax payable on dividends paid or provided for in the year is written off, except when recoverability against corporation tax payable is considered to be reasonably assured. Credit is taken for advance corporation tax written off in previous years when it is recovered against corporation tax liabilities.

The taxation liabilities of certain group undertakings are reduced wholly or in part by the surrender of losses by fellow group undertakings. The tax benefits arising from group relief are recognised in the financial statements of the surrendering and recipient undertakings.

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

PENSION 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 appointed by the Company.

The amount charged to the profit and loss account in respect of the scheme is the contribution payable in the year.

Further information on pension costs is provided in note 23.

FOREIGN CURRENCY

Transactions and investments denominated in foreign currencies are recorded in sterling at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rate of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is reported in the profit and loss account as an exchange gain or loss.

TURNOVER

Group turnover is recorded at the date of despatch and comprises the value of sales (excluding VAT and trade discounts) of goods and services in the normal course of business, and royalties receivable.

LEASES

The Group enters into operating and finance leases.

Assets held under finance leases are initially reported at the fair value of the asset with an equivalent liability categorised as appropriate under creditors due within or after one year. The assets are depreciated over the shorter of the lease term and their useful economic life. 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 reduction of the liability, and allocated to cost of sales and other operating expenses as appropriate.

Rentals under operating leases are charged on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

2. SEGMENT INFORMATION

The analysis of Group turnover, profit/(loss) on ordinary activities before taxation and net assets by business and geographical segment is as follows:

BUSINESS SEGMENTS	Toys & Models		Sports Boats		Group			
	1995/6	1994	1995/6	1994	1995/6	1994		
	£'000	£'000	£'000	£'000	£'000	£'000		
TURNOVER								
Sales to third parties	35,328	28,352	3,286	2,971	38,614	31,323		
SEGMENT PROFIT/(LOSS)	2,028	1,145	(446)	(112)	1,582	1,033		
Exceptional items					(5,746)	-		
Common costs					(486)	(83)		
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST					(4,650)	950		
Net interest payable					(514)	(335)		
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION					(5,164)	615		
NET ASSETS								
Segment net assets	10,424	14,153	-	1,019	10,424	15,172		
Unallocated liabilities					-	(416)		
TOTAL NET ASSETS					10,424	14,756		
GEOGRAPHICAL SEGMENTS	United Kingdom		Rest of Europe		Other		Group	
	1995/6	1994	1995/6	1994	1995/6	1994	1995/6	1994
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
TURNOVER BY DESTINATION								
Sales to third parties	32,383	25,965	4,489	4,182	1,742	1,176	38,614	31,323

All turnover, profit and net assets can be considered to originate in the United Kingdom. The entire sports boats business segment was sold on 14th February 1996 (see note 19).

3. COST OF SALES AND OTHER OPERATING EXPENSES

	1995/6			1994		
	Con- tinuing £'000	Discon- tinued £'000	Total £'000	Con- tinuing £'000	Discon- tinued £'000	Total £'000
TURNOVER	35,328	3,286	38,614	28,352	2,971	31,323
Cost of sales	(24,502)	(3,041)	(27,543)	(19,525)	(2,472)	(21,997)
GROSS PROFIT	10,826	245	11,071	8,827	499	9,326
OTHER OPERATING EXPENSES						
Distribution costs	664	71	735	539	79	618
Selling and marketing costs	6,180	267	6,447	5,447	213	5,660
Research and development costs	223	-	223	335	-	335
Administrative costs	3,225	353	3,578	1,444	319	1,763
TOTAL OTHER OPERATING EXPENSES	10,292	691	10,983	7,765	611	8,376
OPERATING PROFIT/(LOSS)	534	(446)	88	1,062	(112)	950
ADMINISTRATIVE COSTS						
Administrative expenses	2,217	353	2,570	1,444	319	1,763
Exceptional administrative costs	1,008	-	1,008	-	-	-
Total administrative costs	3,225	353	3,578	1,444	319	1,763

4. EXCEPTIONAL ITEMS

	1995/6 £'000	1994 £'000
Redundancy costs	288	-
Compensation for loss of office payable to former director	720	-
	1,008	-

5. NET INTEREST PAYABLE

	1995/6 £'000	1994 £'000
Interest receivable and similar income:		
- bank interest receivable	(42)	(49)
Interest payable and similar charges:		
- on bank loans and overdrafts repayable within five years, not by instalments	483	319
Interest payable on finance leases	73	69
	514	339

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

6. (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1995/6	1994
	£'000	£'000
(Loss)/profit on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets		
- owned	1,594	1,394
- held under finance leases	175	139
Operating lease rentals	54	44
Hire of plant and machinery	23	15
Auditors' remuneration - audit fees	39	41
- non audit fees	75	10
Staff costs (see note 7 below)	10,325	7,702
	<hr/>	<hr/>
7. DIRECTORS AND EMPLOYEES	1995/6	1994
	£'000	£'000
STAFF COSTS		
Wages and salaries	9,301	6,888
Social security costs	731	591
Other pension costs	293	223
	<hr/>	<hr/>
	10,325	7,702
	<hr/>	<hr/>
AVERAGE NUMBER OF EMPLOYEES	1995/6	1994
The average number of employees in the Group during the period was:	Number	Number
Manufacturing	581	580
Sales, marketing and distribution	103	92
Administration	37	34
	<hr/>	<hr/>
	721	706
	<hr/>	<hr/>
DIRECTORS' EMOLUMENTS		
Detailed disclosures of directors' individual remuneration and share options are given in the Report of the Remuneration Committee on pages 15 to 17.		
Directors' emoluments in respect of the Company were as follows:		
Fees as directors	157	40
Salaries as directors	193	198
Incentive payments	70	-
Other emoluments (including pension contributions)	55	43
Compensation for loss of office	720	-
	<hr/>	<hr/>
	1,195	281
	<hr/>	<hr/>
The directors' emoluments shown above (excluding pension contributions) include:	1995/6	1994
Chairman:	£'000	£'000
Mr M C Thomas (to 1st March 1996)	37	21
Mr P Newey (from 1st March 1996)	14	-
	<hr/>	<hr/>
Highest paid director:		
Salary, fees and bonus	168	111
Other	-	11
	<hr/>	<hr/>
	168	122
	<hr/>	<hr/>

In the year ended 31st December 1994, Mr K L Ness waived £150,000 of his contractual bonus. The compensation for loss of office paid to Mr Ness on 3rd July was in full and final settlement in respect of his contractual bonus and other entitlements

7. **DIRECTORS AND EMPLOYEES CONTINUED**

The directors received emoluments (excluding pension contributions) in the following ranges:

	1995/6 Number	1994 Number
£5,001 - £10,000	-	1
£15,001 - £20,000	1	1
£20,001 - £25,000	-	1
£35,001 - £40,000	1	-
£85,001 - £90,000	-	1
£110,001 - £115,000	1	-
£115,001 - £120,000	1	-
£125,001 - £130,000	-	1
£165,001 - £170,000	1	-

8. **TAXATION**

The tax charge/(credit) is based on the result for the period and comprises:

	1995/6 £'000	1994 £'000
Corporation tax at 33% (twelve months ended 31 December 1994—33%)	58	176
Adjustment of taxation in respect of prior years	58	176
- current taxation	(1)	(346)
	57	(170)

The effective rate of tax on total operating profit less interest payable is higher than the standard rate of 33% principally due to disallowable expenditure and deferral of relief for certain expenses in respect of which no deferred tax benefit is recognised. The effective tax rate was lower than the standard rate in 1994 principally due to the agreed tax treatment of tools and moulds as short life assets. Had the Group recognised the full amount of potential deferred tax the charge for the year would have been reduced by approximately £122,000 (1994 - increased by £305,000).

9. **DIVIDENDS PROPOSED**

	1995/6 £'000	1994 £'000
Ordinary:		
- final proposed of 5.5p per share	460	413
(twelve months ended 31st December 1994—5.0p per share)		

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

10. EARNINGS PER SHARE

The calculation of earnings per ordinary share is based on the loss after taxation for the fifteen month period ended 31st March 1996 of £5,221,000 (twelve months ended 31st December 1994 - profit of £781,000) and the weighted average number of ordinary shares in issue during the period of 8,297,345 (twelve months ended 31st December 1994 - 8,263,220).

The calculation of earnings/(loss) per share for the twelve months ended 31st December 1995 is based on the loss after taxation of £4,448,000 and the weighted average number of ordinary shares in issue during the year of 8,282,556.

The earnings/(loss) per share excluding exceptional items is set out below:

	1995/6 pence per share (audited)	1995 pence per share (unaudited)	1994 pence per share (audited)
Earnings/(loss) per share	(62.92)	(53.70)	9.45
Exceptional items	9.65	2.26	-
Loss on sale of discontinued operations	48.74	49.02	-
Amounts written off investments	8.36	8.38	-
Earnings per share excluding exceptional items	3.83	5.96	9.45

Earnings per share calculated on a fully diluted basis are not materially different from the figures shown above.

11. TANGIBLE FIXED ASSETS—GROUP

	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Tools & Moulds £'000	Total £'000
COST OR VALUATION					
At 1st January 1995	3,846	6,161	493	10,191	20,691
Additions	-	272	87	1,252	1,611
Disposals	(1,469)	(672)	(143)	(826)	(3,110)
At 31st March 1996	2,377	5,761	437	10,617	19,192
DEPRECIATION					
At 1st January 1995	438	4,343	161	9,202	14,144
Charge for the period	80	588	105	996	1,769
Disposals	(94)	(440)	(82)	(555)	(1,171)
At 31st March 1996	424	4,491	184	9,643	14,742
NET BOOK VALUE					
At 31st March 1996	1,953	1,270	253	974	4,450
At 31st December 1994	3,408	1,818	332	989	6,547

11. TANGIBLE FIXED ASSETS—GROUP CONTINUED

Freehold land amounting to £620,000 (1994—£1,116,000) has not been depreciated.

Included in tangible fixed assets are the following capitalised values and related accumulated depreciation of motor vehicles and computer equipment acquired under finance leases:

	1996 £'000	1994 £'000
Capitalised value	782	997
Accumulated depreciation	(426)	(498)
NET BOOK VALUE	356	499

The cost of freehold land and buildings at 31st March 1996 is represented by:

	1996 £'000	1994 £'000
Valuation in 1986	2,360	2,360
Cost	17	1,486
	2,377	3,846

Other tangible fixed assets are stated at cost.

The original cost and aggregate depreciation, based on cost of land and buildings included at valuation, are as follows:

	1996 £'000	1994 £'000
Original cost	412	412
Depreciation based on cost	(116)	(103)
	296	309

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

12. FIXED ASSET INVESTMENTS

The following are included in the net book value of fixed asset investments:

GROUP	Investment £'000		
Cost		694	
At 1st January 1995		(694)	
Amounts written off			
At 31st March 1996			
COMPANY	Interests in subsidiary undertakings £'000	Investment £'000	Total £'000
At 1st January 1995	15,097	694	15,791
Amounts written off	-	(694)	(694)
Other movements	(4,420)	-	(4,420)
At 31st March 1996	10,677	-	10,677

The investment represents a ten per cent shareholding in the common stock of The Original San Francisco Toymakers Inc. The cost of the investment was written off in the year as a result of a permanent diminution in value.

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

	Interests in subsidiary undertakings £'000	Loans to/ (from) subsidiary undertakings £'000	Total £'000
At 1st January 1995	16,002	(905)	15,097
Retained loss for the period	(6,111)	-	(6,111)
Shares issued by subsidiary undertaking	1,206	-	1,206
Disposal of subsidiary undertaking	(2,631)	(300)	(2,931)
Other movements	-	3,416	3,416
At 31st March 1996	8,466	2,211	10,677

PRINCIPAL GROUP SUBSIDIARY UNDERTAKING

Details of the principal subsidiary undertaking of the Company, which is included in the consolidated financial statements, are set out below. The subsidiary undertaking is a wholly-owned private company engaged in the development, manufacture and distribution of toys and models.

	Country of incorporation	Description of shares held	Proportion of nominal value of issued shares held Group %	Company %
Hornby Hobbies Limited	Great Britain	Ordinary £1 shares	100	100

13. STOCKS

	Group	
	1996 £'000	1994 £'000
Raw materials and consumables	619	1,203
Work in progress	1,955	1,534
Finished goods and goods for resale	3,115	3,098
	<u>5,689</u>	<u>5,835</u>

14. DEBTORS

	Group		Company	
	1996 £'000	1994 £'000	1996 £'000	1994 £'000
AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR:				
ACT recoverable	<u>115</u>	<u>103</u>	<u>-</u>	<u>-</u>
AMOUNTS FALLING DUE WITHIN ONE YEAR:				
Trade debtors	3,520	7,203	-	-
UK Corporation tax receivable	38	-	-	-
Dividends receivable from subsidiary undertakings	-	-	460	413
Prepayments	649	1,015	7	17
VAT	151	-	-	-
Other debtors	<u>64</u>	<u>81</u>	<u>-</u>	<u>-</u>
	<u>4,422</u>	<u>8,299</u>	<u>467</u>	<u>430</u>
TOTAL DEBTORS	<u>4,537</u>	<u>8,402</u>	<u>467</u>	<u>430</u>

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

15. CREDITORS

	Group		Company	
	1996 £'000	1994 £'000	1996 £'000	1994 £'000
AMOUNTS FALLING DUE WITHIN ONE YEAR				
Bank overdraft	—	514	—	—
Finance lease obligations	186	173	—	—
Trade creditors	1,412	2,486	—	—
UK Corporation tax payable	—	173	—	—
ACT payable	115	103	—	—
VAT	13	734	13	—
PAYE and Social Security	107	185	—	—
Dividends proposed	460	413	460	413
Accruals	1,625	664	247	247
Other	1,011	1,451	—	—
	<u>4,929</u>	<u>6,896</u>	<u>720</u>	<u>413</u>
AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR				
Finance lease obligations	213	376	—	—
	<u>5,142</u>	<u>7,272</u>	<u>720</u>	<u>413</u>
TOTAL CREDITORS				
	<u>5,142</u>	<u>7,272</u>	<u>720</u>	<u>413</u>
Finance leases are repayable as follows (excluding finance charges):				
Between 1-2 years	141	173	—	—
Between 2-5 years	72	203	—	—
	<u>213</u>	<u>376</u>	<u>—</u>	<u>—</u>

The Group has provided a debenture on its total assets, excluding freehold land and buildings, to secure bank overdrafts of £nil (1994—£514,000).

Aggregate finance lease obligations exclude future finance charges amounting to £40,000 (1994—£91,000).

16. PROVISIONS FOR LIABILITIES AND CHARGES

	Group	
	1996 £'000	1994 £'000
Deferred taxation:		
- excess of tax allowances over book depreciation of fixed assets	—	—
- other timing differences related to current assets and liabilities	—	—
	<u>—</u>	<u>—</u>

No deferred tax has been provided as there is a potential deferred tax asset.

No deferred tax has been provided in respect of timing differences relating to the revaluation of certain land and buildings due to the existence of capital losses, although these have yet to be agreed with the Inland Revenue.

The net potential deferred tax asset not recognised in the financial statements has increased as a result of the deferral of relief for certain expenditure. The deferred tax assets not recognised are detailed below:

	1996 £'000	1994 £'000
Fixed assets	35	25
Other current items	274	162
	<u>309</u>	<u>187</u>

Group

	1995/6 £'000	1994 £'000
The movement of deferred taxation comprises:		
Beginning of the period	63	63
Reduction due to disposal of subsidiary undertaking (see note 19)	(63)	-
End of the period	<u>-</u>	<u>63</u>

17. CALLED UP SHARE CAPITAL

	1996 £'000	1994 £'000
Authorised:		
10,000,000 (1994—10,000,000) ordinary shares of 5p each	500	500
Allotted, called up and fully paid:		
8,357,320 (1994—8,263,220) ordinary shares of 5p each	418	413

At 31st March 1996 options granted under the Company's share option scheme were outstanding as follows:

Date granted	Number of options	Exercise price	Period of option
16th March 1990	75,000	235.0p	March 1993-March 2000

18. RESERVES

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

GROUP	1996 £'000	1994 £'000
(Loss)/profit for the period	(5,221)	781
Dividends proposed	(460)	(413)
	<u>(5,681)</u>	<u>368</u>
New share capital issued	32	-
Goodwill transferred to profit and loss account in respect of disposal of subsidiary	1,330	-
Exchange reserve eliminated on disposal of subsidiary	(19)	-
Net (reductions)/additions to shareholders' funds	<u>(4,338)</u>	<u>368</u>
Opening shareholders' funds	14,762	14,394
Closing shareholders' funds	<u>10,424</u>	<u>14,762</u>

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

18. RESERVES CONTINUED

MOVEMENTS IN RESERVES

GROUP	Share premium account £'000	Revaluation reserve £'000	Other reserves £'000	Profit and loss account £'000
At 1st January 1995	4,498	914	377	8,560
Loss in the period	-	-	-	(5,681)
Goodwill on disposal	-	-	1,330	-
Exchange reserve eliminated on disposal	-	-	(19)	-
Share issue	27	-	-	-
Amortisation of revaluation surplus	-	(21)	-	21
At 31st March 1996	4,525	893	1,688	2,906

The cumulative goodwill resulting from acquisitions which had been written off prior to 31st December 1994 was £1,330,000. On the disposal of the subsidiary this amount was included in the loss on disposal charged to the profit and loss account in the period.

COMPANY	Share premium account £'000	Other reserves £'000	Profit and loss account £'000
At 1st January 1995	4,498	14,423	(3,541)
Reduction in underlying net assets of subsidiary undertakings	-	(6,111)	-
Eliminated on disposal	-	689	-
Share issue	27	-	-
Retained profit for the period	-	-	-
At 31st March 1996	4,525	9,001	(3,541)

The net deficit carried forward on the Company's profit and loss account arises as a result of a provision for the diminution in the value of the investment in Hornby Industries Limited. Relying on Section 275(1) of the Companies Act 1985, the provision for diminution in value of the investment in Hornby Industries Limited is not treated for distribution purposes as a realised loss. In the directors' opinion therefore, at the end of the period £259,000 (1994—£238,000) may be considered to be distributable.

9. DISPOSAL OF SUBSIDIARY UNDERTAKING

On 14th February 1996 the Group sold the entire share capital of its subsidiary Norman Fletcher (Sales & Developments) Limited, the holding company for Fletcher International Sports Boats Limited.

Net assets disposed of:	£'000
Tangible fixed assets	1,904
Stocks	734
Debtors	892
Creditors	(480)
Provision for deferred tax	(63)
Cash	13
Other	(19)
	<hr/>
	2,981
Goodwill previously written off to reserves	1,330
Loss on disposal	(4,044)
	<hr/>
Satisfied by cash	267
	<hr/>

Norman Fletcher (Sales & Developments) Limited used £136,000 of the net operating cash flows, paid £19,000 in respect of net returns on investments and servicing of finance, £80,000 in respect of investing activities and £14,000 in respect of financing, and received a taxation refund of £7,000.

20. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

CAPITAL COMMITMENTS

Group

At 31st March 1996 commitments were:

	1996 £'000	1994 £'000
Contracted for but not provided for	138	187
	<hr/>	<hr/>

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.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

21. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE BALANCE SHEET

	1996 £'000	Change £'000	1994 £'000	Change £'000	1993 £'000
Analysis of balances:					
Cash at bank and in hand	890	271	619	(3,718)	4,333
Bank overdrafts	-	514	(514)	(514)	-
Net cash	890	785	105	(4,232)	4,333

22. ANALYSIS OF CHANGES IN FINANCING

	1995/6		1994	
	Share capital (including premium) £'000	Loans and finance lease obligations £'000	Share capital (including premium) £'000	Loans and finance lease obligations £'000
At 1st January	4,911	549	4,911	4,911
Cash inflow/(outflow) from financing	32	(180)	-	(180)
Inception of finance lease contracts	-	87	-	87
Disposal of finance lease contracts	-	(57)	-	(57)
At 31st March and 31st December	4,943	399	4,911	5,061

MAJOR NON-CASH TRANSACTIONS

During the period the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £87,000 (twelve months ended 31st December 1994—£237,000).

23. PENSION ARRANGEMENTS

On 1st January 1993 the Group defined benefit pension scheme was converted to a Group defined contribution contracted-out money purchase scheme. The scheme is open to all permanent salaried employees aged twenty years or over. The assets of the previous final salary scheme were converted into cash and the total proceeds were allocated to individual members by the scheme's actuaries on the basis of the value of the members' accrued benefits under the previous scheme. The amounts allocated to individual members were invested in either a managed fund investment, an insured with profits insurance contract or in a building society deposit account, according to the wishes of individual members. The level of contributions to the money purchase scheme for current members is fixed by the Trustees according to the age of the member.

The pension cost for the year was £293,000 excluding the amount payable to Mr K L Ness in respect of compensation for loss of office (twelve months ended 31st December 1994—£223,000) representing actual contributions payable in the year and certain scheme administration costs.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the fifteenth Annual General Meeting of Hornby Group Plc will be held at SBC Warburg, 7th Floor, 1 Finsbury Avenue, London EC2M 2PP on Thursday 8th August at 11.00 am for the following purposes:

ORDINARY BUSINESS

1. To receive the report of the directors and the audited financial statements for the fifteen months ended 31st March 1996 and to declare a dividend.
2. To re-elect Mr P Newey a director of the Company.
3. To re-elect Mr G V Hill a director of the Company.
4. To re-appoint Coopers & Lybrand, the retiring auditors, and to authorise the directors to determine their remuneration.

SPECIAL BUSINESS

5. To consider and if thought fit to pass the following resolution which will be proposed as a special resolution:

- THAT (a) the directors be generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in that Section) up to a maximum nominal amount of £82,000 provided that such authority (unless previously revoked, varied or renewed) shall expire at the conclusion of the Annual General Meeting of the Company next following the date of the passing of this resolution (save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired) and shall be in substitution for any and all authorities previously conferred upon the directors for the purposes of Section 80 of the Act;
- (b) the directors be empowered pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94(2) of the Act) for cash pursuant to the authority referred to in paragraph (a) above as if Section 89(1) of the Act did not apply to any such allotment, such power to expire at the conclusion of the Annual General Meeting of the Company next following the date of the passing of this 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 such offer or agreement as if the power conferred hereby had not expired) and to be limited to:
- (i) the allotment of equity securities in connection with an offer of securities open for acceptance for a period fixed by the directors or (where applicable) in accordance with the rights for the time being attached to such shares (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with legal or practical problems under the laws of any territory or the requirements of any regulatory body or any stock exchange in any territory or in connection with fractional entitlements or otherwise);
 - (ii) the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities for cash up to an aggregate nominal amount of £20,000.

Words and expressions defined in or for the purposes of Sections 89 to 96 of the Companies Act 1985 shall bear the same meaning in this Resolution.

By order of the Board

A R Cox
Secretary
15th July 1996

NOTES

1. A member is entitled to appoint a proxy, who need not be a member of the Company, to attend and vote instead of him. A form of proxy is enclosed. To be valid a form of proxy and the authority (if any) under which it is signed must be lodged with the Company's registrars not later than 48 hours before the time of the meeting or adjourned meeting. Completion of a form of proxy will not preclude a member from attending and voting at the meeting in person.
2. There will be available for inspection at the Registered Office of the Company during usual business hours (Saturday excepted), from the date of this Notice, until the date of the Annual General Meeting, a copy of each contract of service open to inspection under Section 318 of the Companies Act 1985, whereunder the directors are employed. These documents will also be available for inspection at the Annual General Meeting and for fifteen minutes prior thereto.

TEN YEAR SUMMARY

	1995/6	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Turnover	38,614	33,648	31,323	28,238	31,323	32,036	39,467	31,996	23,424	20,096	14,233
Profit after interest before exceptional items	582	731	611	1,501	1,455	2,088	3,821	3,467	2,404	1,828	60
Exceptional items	(5,746)	(5,034)	-	-	-	-	616	-	-	-	-
(Loss)/profit on ordinary activities before taxation	(5,164)	(4,303)	611	1,501	1,455	2,088	4,437	3,467	2,404	1,828	60
Taxation	(57)	(145)	170	(598)	(504)	(818)	(1,365)	(1,174)	(947)	(720)	(21)
(Loss)/profit on ordinary activities after taxation	(5,221)	(4,448)	781	903	951	1,270	3,072	2,293	1,457	1,108	39
Assets employed:											
Fixed assets	4,450	6,263	6,547	6,458	7,282	7,020	7,246	5,378	4,551	3,365	3,365
Investment	-	-	694	-	-	-	-	-	-	-	-
Net current assets	6,187	8,488	7,960	8,320	7,420	7,228	6,862	6,346	5,565	5,722	4,233
Creditors due after more than one year	(213)	(282)	(376)	(321)	(415)	(121)	(294)	(239)	(73)	(90)	(10)
Provision for liabilities and charges	-	(2,793)	(63)	(63)	(52)	(104)	(49)	(51)	(2,585)	(1,684)	(9)
Net assets	10,424	11,676	14,762	14,394	14,235	14,023	13,765	11,434	7,458	7,313	6,589
Total capital employed	10,424	11,676	14,762	14,394	14,235	14,023	13,765	11,434	7,458	7,313	6,589
Earnings per share (Excluding exceptional items)	3.8p	6.0p	9.5p	10.9p	11.5p	15.4p	37.7p	28.3p	18.2p	13.8p	10.0p
Dividend per share (net)	5.5p	-	5.0p	9.0p	9.0p	9.0p	9.0p	7.5p	5.25p	4.0p	-
Net assets per share (after adding back goodwill written off)	124.7p	139.7p	194.7p	190.3p	188.4p	185.9p	181.0p	153.6p	106.4p	91.1p	80.0p

Hornby Group Plc

FORM OF PROXY

To be used for the Annual General Meeting of the Company to be held on Thursday 8th August 1996.

I/We (block capitals)

_____ of

being a Member of Hornby Group Plc hereby appoint The Chairman of the Meeting or failing him

as my/our proxy to attend and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at SBC Warburg, 7th Floor, 1 Finsbury Avenue, London EC2M 2PP on Thursday 8th August 1996 at 11.00 am and at any adjournment thereof on the resolutions set forth in the Notice of Meeting as follows:

RESOLUTION	FOR	AGAINST
Ordinary Business:		
No 1 To receive the report of the directors and the audited accounts for the fifteen months ended 31st March 1996 and to declare a dividend on the ordinary shares of the Company.		
No 2 To re-elect Mr P Newey a director of the Company.		
No 3 To re-elect Mr G V Hill a director of the Company.		
No 4 To re-appoint Coopers & Lybrand, the retiring auditors, and to authorise the directors to determine their remuneration.		
Special Business:		
No 5 To authorise the directors to allot shares pursuant to Section 80 and to disapply Section 89(1) of the Companies Act 1985 with respect to certain allotments of shares.		

Dated this day of 1996

Signature

Notes:

1. Please indicate by a cross in the appropriate box opposite each resolution how you wish your proxy to vote. Subject to any voting directions so given the proxy will exercise his discretion as how to vote, or whether to abstain from voting on the above resolutions, to adjourn the meeting and on any other business that may properly come before the meeting.
2. Delete "The Chairman of the Meeting" if it is desired to appoint any other person and insert the name and address of your proxy.
3. To be valid this form of proxy must be received by the Company's Registrar (Independent Registrars Group, Balfour House, 390/398 High Road, Ilford, Essex IG1 1BR) not later than 48 hours before the time appointed for holding the meeting.
4. In the case of a Corporation the form of proxy should be under its Common Seal or under the hand of an Officer or Attorney duly authorised in writing. The Power of Attorney or a duly certified copy thereof must be deposited with the form of proxy with the Company's Registrar within the period stated above.
5. In the case of a joint holding, any one of several joint holders may sign. The vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the Register of Members.

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BUSINESS REPLY SERVICE
Licence No. IY592

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FOLD HERE

Independent Registrars Group
Balfour House
390/398 High Road
Ilford
ESSEX IG1 1BR

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Appendix 2

**Circular to shareholders in relation to change of name,
adoption of new articles of association and
adoption of new executive share option scheme**

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action to be taken, you should consult your stockbroker, bank manager, solicitor, accountant or other independent adviser. If you have sold or otherwise transferred all your ordinary shares in Hornby Group Plc, please send this document and the accompanying form of proxy to the purchaser or the transferee or to the stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

HORNBY GROUP Plc

(registered in England No. 1547390)

Directors:

P Newey
M C Thomas*
G V Hill*
A R Cox

Registered Office:

Westwood, Margate
Kent CT9 4JX

16 July 1996

*Non-executive

Dear Shareholder

CHANGE OF NAME, ADOPTION OF NEW ARTICLES OF ASSOCIATION AND ADOPTION OF NEW EXECUTIVE SHARE OPTION SCHEME

This letter contains details of proposals which your Board is recommending for the change of the Company's name, the adoption of new articles of association and the adoption of a new executive share option scheme.

CHANGE OF NAME

As mentioned on 4 July in the preliminary announcement of the Company's results for the fifteen month period ended 31 March 1996, your Board believes that following the disposal of the non-core Fletcher boat business it is no longer appropriate to include the word "Group" in the name of the Company. The Board therefore proposes that the Company should resolve to change its name to "Hornby Plc" at the forthcoming Extraordinary General Meeting.

MODERNISATION OF ARTICLES OF ASSOCIATION

The existing articles of association were adopted in December 1986. Since then however, new legislation which affects the Company has been introduced in the Companies Act 1989 and the London Stock Exchange has also introduced a number of new rules which affect listed companies.

Your Board considers that it is now appropriate to update the existing articles of association generally, so as to reflect such recent changes in legislation and rules and to accord with modern practice.

A summary of the principal differences between the existing articles of association and the proposed new articles of association is set out in Appendix 1 to this letter. A full copy of the new articles of association will be available for inspection at the offices of Berwin Leighton, Adelaide House, London Bridge, London EC4R 9HA during normal business hours on any week day (except Saturdays and public holidays) from the

date of this letter until the date of the Extraordinary General Meeting and at the place of the meeting for 15 minutes prior to, and until the conclusion of, the meeting.

ADOPTION OF NEW EXECUTIVE SHARE OPTION SCHEME

The existing executive share option scheme which was adopted on 20 February 1986 expired earlier this year. In view of this, your Board is recommending the adoption of a new executive share option scheme. The executive share option scheme is an important part of the Company's remuneration policy for senior executives. The directors believe that the Company must have the facility to grant options if it is to continue to attract and retain key executives.

The proposed new scheme will consist of two similar parts. One part will be submitted to the Board of Inland Revenue for approval under the Income and Corporation Taxes Act 1988 so as to obtain the benefit of the favourable tax regime under that Act. The other part will be in similar terms but will not be submitted for approval.

Under the proposed new scheme the exercise of options will normally be conditional on the achievement of a specified performance target determined by the remuneration committee when options are granted. The remuneration committee which is comprised of myself and the non-executive directors, will be responsible for administering the scheme and supervising the grant of options.

The remuneration committee has indicated that in determining the appropriate performance target it will have regard to institutional investment committee guidelines and that the aim of the performance targets will be to produce significant and sustained improvement in the underlying financial performance of the Company.

It is your Board's intention that if the new executive share option scheme is adopted at the Extraordinary General Meeting, I will immediately be granted options under the Unapproved Part of the scheme to acquire 400,000 ordinary shares at the then market value of the Company's shares, determined in accordance with the rules by taking the average of the mid closing prices for the Company's shares over the three dealing days immediately preceding the meeting. The options will normally be exercisable by me between the third and seventh anniversaries of the date of grant but otherwise in accordance with the rules of the scheme.

Since the market value of the shares comprised in the proposed options will exceed four times my salary, the exercise of the options will be subject to the satisfaction of a further performance condition in addition to the performance conditions referred to in Appendix 2 to this letter.

The additional performance condition will provide that the options will not normally be exercisable unless the earnings per share (excluding exceptional items) of the Company are at least 17p by the end of the financial year ending 31 March 1999 or, if that is not achieved, the earnings per share for the financial year ending 31 March 2000 are at least 20p or, if that is not achieved, the earnings per share for the financial year ending 31 March 2001 are at least 23p.

These proposals have been formulated by the remuneration committee. However, I have taken no part in the deliberations in relation to the proposed grant of options to me.

A summary of the rules of the proposed new executive share option scheme is contained in Appendix 2. A full copy of the draft rules of the proposed new executive share option scheme will be available for inspection at the offices of Berwin Leighton, Adelaide House, London Bridge, London EC4R 9HA during normal business hours on any week day (except Saturdays and public holidays) from the date of this letter until the date of the Extraordinary General Meeting and at the place of the meeting for 15 minutes prior to, and until the conclusion of, the meeting.

ACTION TO BE TAKEN

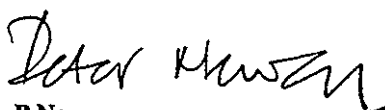
You will find on page 10 a Notice convening an Extraordinary General Meeting of the Company on Thursday 8 August 1996 at 11.15 am (or such later time as may be necessary for the meeting to follow immediately after the Annual General Meeting of the Company to be held on the same day) for the purpose of proposing special resolutions to change the name of the Company and adopt new articles of association and an ordinary resolution to adopt the new executive share option scheme.

You will find enclosed for use at the Extraordinary General Meeting a green form of proxy which you are requested to complete and return in accordance with the instructions provided thereon as soon as possible and in any event not later than 48 hours before the time fixed for the meeting. The return of the form of proxy will not preclude you attending and voting should you decide to do so.

RECOMMENDATION

Your directors consider that these proposals are in the best interests of the Company and its shareholders and recommend unanimously that you vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings amounting to 53,600 ordinary shares.

Yours faithfully



P Newey
Chairman

APPENDIX 1
SUMMARY OF PRINCIPAL DIFFERENCES BETWEEN
PROPOSED AND EXISTING ARTICLES OF ASSOCIATION

The following is a summary of the principal differences between the new articles of association it is proposed be adopted pursuant to Resolution 2 contained in the notice of Extraordinary General Meeting on page 10 (the "New Articles") and the existing articles of association (the "Existing Articles"). The article numbers referred to below are those in the New Articles (unless otherwise stated).

Right to share certificate

- Article 18 Share certificates will be issued within one month after an allotment of shares and within five days (one month in the case of partly paid shares) after lodgement of a transfer of shares. These time limits comply with the Listing Rules of the London Stock Exchange.

Evidence of title to securities

- Article 21 The New Articles allow the Company's shares to be held and registered in uncertificated form as will be the case in respect of shares transferred by means of the CREST settlement system.

Right to decline registration of partly paid shares

- Article 44 As permitted by the Listing Rules of the London Stock Exchange, the Board can decline to register the transfer of a partly paid share unless such refusal would prevent dealings in the shares on the London Stock Exchange from taking place on an open and proper basis.

Notice of refusal

- Article 46 In line with the Companies Act 1985 notice of the Board's refusal to register a transfer will be sent to the transferee within two months after the date on which the transfer was lodged with the Company.

Arrangements for general meetings

- Article 63 The New Articles allow general meetings to be held at other sites simultaneously with the main meeting. The Board may also issue tickets for attendance at general meetings. This is in line with the practice of other listed companies.

Right to attend and speak at general meetings

- Article 68 The Chairman may invite any person to attend and speak at any general meeting of the Company if the Chairman believes his presence will assist in the deliberations of the meeting.

Adjournment

- Article 69 The New Articles allow the Chairman to adjourn a general meeting in the event of unruly behaviour or other factors which threaten the orderly conduct of the meeting and is in line with the practice of other listed companies.

Method of voting

- Article 71 The minimum number of members of the Company entitled to demand a poll pursuant to the New Articles has been raised from two to three and is in line with the practice of other listed companies.

Suspension of rights following non-disclosure of interests

- Article 82 The New Articles incorporate in full the disclosure and the disenfranchisement provisions contained in part VI of the Companies Act 1985 as permitted by the Listing Rules of the London Stock Exchange. In the event of non-disclosure then in addition to the voting restrictions which can be imposed under the Existing Articles, transfer and dividend restrictions can also be attached to a member's shares if the holding is greater than 0.25% of the shares in issue.

Number of directors

- Article 90 In line with the practice of many other listed companies the New Articles provide for a maximum number of directors, which has been set for the time being at ten.

Persons eligible as directors

- Article 102 In accordance with the Listing Rules of the London Stock Exchange the New Articles provide that notice by a member that he will propose a person for election or re-election as a director should be delivered to the registered office of the Company not less than seven and not more than forty-two days before the date of the meeting.

Vacation of office by director

- Article 103 A director shall vacate his office if all the other directors request his resignation by notice in writing.

Limitation of directors' fees

- Article 105 The New Articles provide that the maximum fee payable to each director shall not exceed £50,000 per annum subject to the figure increasing automatically every year in line with any percentage increase in the Retail Price Index. A further ordinary resolution of the Company would be required to raise the figure by more than that amount. The Existing Articles provide for a sum of £50,000 in aggregate for all directors' fees and do not allow for any adjustment in line with the RPI.

Borrowing powers and restrictions

- Article 111 The lengthy provisions in the Existing Articles relating to borrowing powers have been simplified in line with the practice of other listed companies. The Board shall not allow the borrowings of the Company to exceed, except with the previous sanction of an ordinary resolution of the Company, £30 million. At present the formula is a multiple of three times share capital and reserves.

Permitted interests and voting

- Article 121 As permitted by the Listing Rules of the London Stock Exchange a director can vote at and be counted in the quorum at a board meeting dealing with a proposal for insurance which the Company proposes to maintain for the benefit of that director. This is in addition to other matters already contained in the Existing Articles.

Participation in meetings by communication equipment

- Article 129 In line with the practice of other listed companies, the New Articles permit board or committee meetings to be held by means of conference telephone or other communication equipment.

Scrip dividends

- Article 149 The New Articles, in common with the articles of association of other listed companies, expand the provisions under which the directors may offer a share alternative to cash dividends, subject to shareholder approval.

Summary financial statements

- Article 155 As permitted by the Companies Act 1985 the Company may send summary financial statements to shareholders in the place of full audited accounts.

Indemnity

- Article 176 In accordance with the Companies Act 1985 the Company may now provide liability insurance for its directors and other officers.

Life President

- Existing
Article 118 In line with the practice of other listed companies the New Articles do not provide for the office of a Life President of the Company.

APPENDIX 2

SUMMARY OF THE RULES OF THE NEW EXECUTIVE SHARE OPTION SCHEME

The Hornby Executive Share Option Scheme comprises two parts, namely The Hornby Approved Executive Share Option Scheme ("Approved Part") and The Hornby Unapproved Executive Share Option Scheme ("Unapproved Part"). The Approved Part will be submitted to the Board of Inland Revenue for approval under the provisions of the Income and Corporation Taxes Act 1988. The Unapproved Part has not been approved by the Inland Revenue and it is not intended to apply for approval in respect of it. The principal terms of The Hornby Executive Share Option Scheme are as follows:-

Eligibility

The directors may select employees and directors of the Company and of its subsidiaries (who are not within two years of their normal retirement date) to whom options may be granted over ordinary shares.

Exercise price

The exercise price per ordinary share in the case of the Approved Part will not be less than its market value as agreed with the Inland Revenue and in the case of the Unapproved Part will not be less than the average of the mid closing prices as derived from the SEAQ screen for the three dealing days immediately preceding the date of grant or in the case of an option to subscribe, the nominal value of the ordinary share if higher. If the Company is admitted to the Official List of the London Stock Exchange the exercise price under both the Approved Part and the Unapproved Part will not be less than the middle market price averaged over the three dealing days immediately preceding the grant as derived from the Official List of the London Stock Exchange.

Performance conditions

The exercise of options will normally be conditional on the achievement of a specified performance target determined by the remuneration committee when options are granted. The remuneration committee has indicated that for the purposes of determining the appropriate performance target it will have regard to guidelines on share option schemes issued by institutional investors. The remuneration committee will determine the appropriate performance targets before any grant of options. The remuneration committee intends that the exercise of all options will be subject to the satisfaction of a minimum performance target which will require the achievement of an increase in earnings per share over a three year period of the greater of inflation plus 6 per cent. or 10 per cent. per annum compound.

Grant of options

Options may normally only be granted within 42 days of the Scheme being approved by shareholders or, in the case of the Approved Scheme, within 42 days of the Approved Part being approved by the Inland Revenue and thereafter only within 42 days of the announcement by the Company of its interim or final results each year. Options may be granted outside these periods if the directors consider that there are sufficiently exceptional circumstances to justify the grant of options at that time. No payment is required for the grant of an option.

Individual limit

Each individual's participation will be limited so that the aggregate price payable for ordinary shares under options granted under The Hornby Executive Share Option Scheme and any other executive share option scheme established by the Company (including options which have been surrendered or exercised or which

have lapsed) over a ten year period will not normally exceed four times his annual remuneration unless the remuneration committee determines that there are exceptional circumstances justifying the grant of options in excess of this limit.

In addition, so as to comply with Inland Revenue requirements, an individual's participation under the Approved Part is restricted by limiting the value (as at the date the option is granted) of ordinary shares under subsisting options to £30,000 or such other amount as is from time to time specified by legislation.

Exercise of options

In normal circumstances, an option may only be exercised after three years and within ten years or, in the case of the Unapproved Part, within seven years (or such shorter period exceeding three years as the directors may determine) from its grant and, in the case of an option granted subject to the satisfaction of a performance condition, if that performance requirement has been met.

An option will normally lapse if the participant ceases to be an employee of the group. Where, however, a participant ceases to be an employee by reason of injury, disability, redundancy, retirement or a disposal of the company or business in which he works, he will have six months from the date of leaving within which to exercise his option irrespective (save in the case of retirement) of whether the performance requirement has been satisfied and notwithstanding that he has not held the option for three years. The remuneration committee has discretion to extend the period for exercise.

If a participant dies, the option may be exercised within twelve months after his death irrespective of whether the performance requirement has been satisfied. The remuneration committee may allow a participant to exercise his option on cessation of employment in other circumstances notwithstanding that the performance requirement has not been satisfied.

In the event of a take-over, reconstruction, amalgamation or voluntary winding-up of the Company, options may (irrespective of whether the performance requirement has been satisfied) within the specified period after the relevant event, be exercised, or in certain circumstances exchanged for options over shares in the acquiring company or a company associated with the acquiring company.

Terms of options and issue of ordinary shares

Options are neither transferrable nor assignable. As soon as practicable after the exercise of an option granted over unissued shares, the appropriate number of ordinary shares will be allotted and issued to the option holder or his nominee and the Company will apply to the London Stock Exchange for such shares to be admitted to the Unlisted Securities Market or, if applicable, the Official List. The ordinary shares allotted will rank *pari passu* with all other issued ordinary shares of the Company save that they will not rank for any dividend or other rights attaching to such shares by reference to a record date prior to their issue. Existing ordinary shares may also be transferred on the exercise of an option.

Variation of capital

In the event of any variation of share capital including a capitalisation issue or rights issue or any consolidation, sub-division or reduction of capital of the Company the number and option price of ordinary shares subject to options shall be adjusted in such manner as the auditors of the Company confirm in their opinion is fair and reasonable subject, in the case of the Approved Part, to the prior approval of the Board of Inland Revenue being obtained.

Amendment and termination

The directors may make amendments to the terms of the Scheme, but no amendment may be made which would adversely affect any rights already acquired by a participant. No alteration to the advantage of participants may be made to provisions relating to the persons to whom options may be granted, the limits on the total number of ordinary shares over which options may be granted, the limits on the number of options which may be granted to any participant and the adjustments to be made in the event of a variation of share capital (except for minor alterations to benefit the administration of the Scheme, to take account of a change in legislation or to obtain or maintain favourable exchange control or regulatory treatment for participants or any member of the group). No amendment to the Approved Part may be made without the approval of the Board of Inland Revenue.

No option may be granted more than ten years after the date on which the Scheme is adopted by shareholders.

Limit on share capital

No option may be granted if the nominal value of ordinary shares issuable on the exercise of that option when aggregated with the nominal value of all ordinary shares (i) issued or issuable in respect of options granted under the Scheme and any other share option scheme of the Company during the previous ten years and (ii) issued under any other employee share scheme of the Company during the same period would exceed 10% of the nominal value of the issued ordinary share capital of the Company.

In applying these limits options which have been surrendered or cancelled or which have lapsed without being exercised are ignored.

HORNBY GROUP Plc
NOTICE OF EXTRAORDINARY GENERAL MEETING

Notice is hereby given that an Extraordinary General Meeting of Hornby Group Plc will be held at SBC Warburg, 7th Floor, 1 Finsbury Avenue, London EC2M 2PP on Thursday 8 August 1996 at 11.15 am (or such later time as may be necessary for the meeting to follow immediately after the Annual General Meeting of the Company to be held on the same day) for the purpose of considering and, if thought fit, passing the following Resolutions of which Resolutions 1 and 2 will be proposed as Special Resolutions and Resolution 3 will be proposed as an Ordinary Resolution.

SPECIAL RESOLUTIONS

- 1 **THAT** the name of the Company be changed to Hornby Plc.
- 2 **THAT** the regulations in the form produced to the meeting and signed by the Chairman for the purposes of identification be approved and adopted as the articles of association of the Company in substitution for and to the exclusion of the existing articles of association.

ORDINARY RESOLUTION

- 3 **THAT:**
- (a) The Hornby Executive Share Option Scheme, the main features of which are summarised in Appendix 2 to the circular to shareholders dated 16 July 1996 be approved and adopted and that the directors be authorised to do all acts and things which they may consider necessary to establish and carry the same into effect; and
- (b) the directors may vote and be counted in a quorum on any matter concerned with such Scheme notwithstanding that they may be interested in it and any prohibition on voting by interested directors contained in the articles of association from time to time be accordingly relaxed to that extent provided that no director may vote or be counted in any quorum on any matter solely concerning his own participation in such scheme.

BY ORDER OF THE BOARD

A R Cox
Secretary

Date 16 July 1996

NOTE: A member is entitled to appoint a Proxy, who need not be a member of the Company, to attend and vote instead of him. A green form of proxy is enclosed. To be valid, a form of proxy and the authority (if any) under which it is signed must be lodged with the Company's registrars not later than 48 hours before the time of the meeting or adjourned meeting. Completion of a form of proxy will not preclude a member from attending and voting at the meeting in person.