HORNBY PLC

ANNUAL

REPORT

& ACCOUNTS

YEAR ENDED
31 MARCH 2009

Registered Number: 01547390

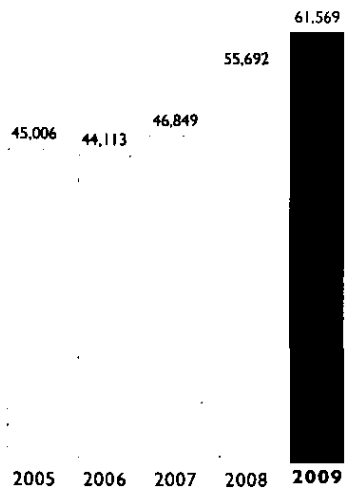
HORNBY PLC

Financial Highlights

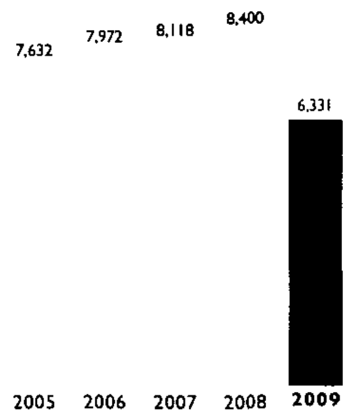
- **Revenue up by 11% to £61.6m**
- **Underlying operating profit down 19% to £7.1m**
- **Underlying profit before taxation down 25% to £6.3m**
- **Tax charge down from 32.6% to 31.2%**
- **No final dividend. Total dividend down 68% to 2.7p**

	2009 £'000	%	2008 £'000
Revenue	61,569	11%	55,692
Underlying:*			
Operating profit	7,109	(19%)	8,769
Profit before taxation	6,331	(25%)	8,400
Profit after taxation	4,498	(21%)	5,694
Basic earnings per share (pence)	11.9p	(21%)	15.1p
Reported:			
Operating profit	6,899	(26%)	9,386
Profit before taxation	6,121	(32%)	9,017
Profit after taxation	4,212	(31%)	6,077
Basic earnings per share (pence)	11.2p	(31%)	16.2p
Net debt	(11,760)		(1,268)
Total dividends per share (pence)	2.7p	(68%)	8.5p

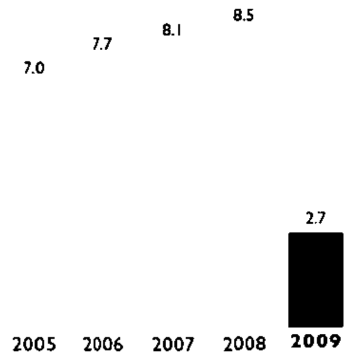
* Underlying figures are pre amortisation of intangibles, net foreign exchange adjustments on intercompany loans, restructuring costs and abortive due diligence.



REVENUE
£'000



UNDERLYING PROFIT BEFORE TAX £'000



DIVIDEND PER SHARE
pence

Chairman's Statement

This has been a challenging year for the Group. Consumer demand for our products has strengthened in the period since Christmas and continues to be strong, although a combination of de-stocking by large retailers, increased product costs from China and continuing disruption in our supply chain during the year, has impacted negatively both on sales and margins.

The most significant challenge has been to maintain continuity of supplies from our largest vendor in China. During the year this supplier faced serious financial problems arising from the debt burden it had carried since its heavily leveraged purchase by a venture capital investor in 2004. We maintained close contact with all interested parties during the greatest period of difficulty between July and November 2008. During this period, in order to ensure that our ongoing supplies would be protected, we incurred due diligence costs in a process that may have led to Hornby acquiring this supplier. These costs are identified separately in note 1. In the event, the supplier was acquired in January 2009 by a well resourced Hong Kong company which is a well established supplier to the toy and model railway industries. We continue to work closely with the new owners to improve our supply chain performance.

Despite the difficulties in model railway supplies, overall Group sales grew by 11% to £61.6 million mainly as a result of increased Airfix sales and the first time contribution of the Corgi business acquired in May 2008. We expect further strong growth from these brands in the current year.

Pre-tax profit before amortisation of intangibles, net foreign exchange adjustments on intercompany loans, restructuring costs and abortive due diligence (hereafter referred to as underlying pre-tax profits) was £6.3 million (2008 - £8.4 million) (see note 1). Basic earnings per share calculated on underlying pre-tax profit (hereafter referred to as underlying basic earnings per share) were 11.92p (2008 - 15.13p). Statutory pre-tax profit was £6.1 million (2008 - £9.0 million). Statutory basic earnings per share were 11.17p (2008 - 16.15p).

DIVIDEND

In view of the challenging economic environment and in particular the current volatility of Sterling against the Hong Kong Dollar, the currency in which most of our purchases are made, the Board has determined that the primary focus of the business should be on maintaining a strong balance sheet. Accordingly the Board is recommending that no final dividend be paid.

The interim dividend of 2.7p, paid in January 2009, therefore becomes the total dividend for the year to 31 March 2009.

REVIEW OF THE BUSINESS

After a flat sales performance in the first half of the financial year, in which sales fell by 1% compared to the previous corresponding period, sales in the second half increased by 20% against a much stronger comparative period. Airfix and Humbrol sales continued to show good growth and the bulk of Corgi sales were made in the second half. Supply chain issues during the year related to our largest supplier once again constrained sales of model railways, mainly in Continental Europe. This supplier was purchased by a well-resourced Hong Kong based company in January 2009 and since this time we have established a positive relationship with the new owners and continue to work closely with them to resolve these supply issues. In addition, for a number of years we have been building relationships with potential alternative suppliers of model railway products and we are now in a position to transfer a substantial proportion of our requirements away from Sanda Kan, should this become necessary.

One of the most encouraging aspects of the year is the fact that demand for our model railway products remains robust in the UK and is continuing to grow in Continental Europe despite the difficult economic environment.

Our Scalextric range continues to attract media attention due to powerful licensing arrangements with partners such as McLaren. The Scalextric products based on the James Bond agreement with Eon Productions were particularly successful and we have recently entered into license agreements with Disney to produce Scalextric products based on the 'Cars' movie series. We are also delighted that we have recently secured the rights to the highly successful Brawn GP Formula One team.

It is becoming increasingly apparent that the breadth of our product and brand portfolio now makes Hornby the primary candidate worldwide for media and other Intellectual Property owners to engage with in awarding licenses for our product sectors. We will continue to leverage this strength in acquiring relevant licenses to promote our products.

UK SUBSIDIARIES

Sales in the principal UK operating companies grew by 8% to £43.5 million (2008 - £40.4 million), and underlying profit before tax was £5.9 million (2008 - £7.7 million). Reported profit before tax was £5.9 million (2008 - £8.4 million). This result includes export sales to third parties of £5.2 million (2008 - £5.6 million).

INTERNATIONAL SUBSIDIARIES

Our subsidiaries in mainland Europe bore the brunt of product supply difficulties and were unable to fulfil their true sales potential. Accordingly underlying profit before tax was lower than the year before at £414,000 on sales of £14.8 million, compared with £723,000 in the previous year on sales of £12.6 million. Reported profit before tax was £255,000 (2008 - £617,000). However our strong European brands continue to attract increasing support from the model railway communities in each of our key territories. Improvements in our supply chain will result in an improved performance in Europe.

Sales in Hornby America were slightly higher at $5.6 million (2008 - $5.4 million), producing a profit before tax of $13,000 (2008 - $32,000). Upon translation into Sterling, due to the stronger US Dollar, sales were £3.3 million (2008 - £2.7 million) with profit before tax of £8,000 (2008 - £16,000). However, Hornby Hobbies in the UK benefits from a gross margin contribution of £565,000 (2008 - £450,000) generated on sales made to Hornby America, which has the effect of increasing significantly the overall contribution to Group profit of our US operation. The potential for sales of Corgi in the US is significantly greater than we had envisaged at the time of the acquisition, and this will help to improve the future performance of our US operations.

Chairman's Statement
continued

BANKING FACILITIES

The Group has improved the security of its banking facilities. A formal offer from the Group's principal bankers, Barclays, has been received and agreed subject to contract. The revised arrangements comprise a combination of a Term Loan over 5 years and a Secured Money Market Loan over 3 years.

PRODUCT DEVELOPMENT

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

OUTLOOK

Our strategy of building a broadly based model and hobby group with strong defensive attributes has been further strengthened by the successful and profitable integration of the Corgi business.

The broader product and geographical spread that this and earlier acquisitions gives the Group is clearly assisting in maintaining sales growth against the challenging economic environment in all our key markets. Consumer demand for our products has strengthened in the period since Christmas and continues to be strong despite the current economic downturn and is proof yet again of the resilience of our business.

Without doubt the key focus for management is to ensure that our supply chain issues are resolved on a sustainable basis in order to allow our model railway businesses to reach their true potential.

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

Neil Johnson
Chairman

11 June 2009

Chief Executive's Report

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

FINANCIAL REVIEW

Consolidated turnover for the year to 31 March 2009 was £61.6 million, an increase of 11% compared to the previous year's £55.7 million.

The underlying profit before tax (stated before amortisation of intangibles, net foreign exchange adjustments on intercompany loans, restructuring costs and abortive due diligence costs) of £6.3 million was below last year's result of £8.4 million (see note 1). Reported pre-tax profit was £6.1 million (2008 - £9.0 million).

An underlying profit before tax margin of 10.3% on sales (2008 - 15.1%) was achieved. A reported profit before tax margin of 9.9% on sales (2008 - 16.2%) was achieved. Statutory basic earnings per share were 11.17p (2008 - 16.15p). Underlying basic earnings per share were 11.92p (2008 - 15.13p).

Full year gross margin was 47.8% (2008 - 52.8%). The reduction in margin was primarily a result of higher product costs from our principal supplier in China, applied with effect from August 2008. In view of the generally challenging trading environment prior to Christmas 2008 we were unable to recover in full the effect of this increase in costs. In addition, the treatment of foreign exchange movements as an overhead has further negatively distorted the comparison with prior year gross margin.

Net borrowings at 31 March 2009 were £11.8 million compared with £1.3 million the previous year, primarily reflecting the payment of £8.5 million for the Corgi assets acquired in May 2008 and a subsequent rebuilding of inventories to satisfy market demand.

Hornby produces the majority of its products in China and India, via third party contract manufacturers. However some packing operations remain in the UK where this strategy provides greater flexibility in meeting market needs. For many years the Group's largest supplier in China, has provided excellent service and quality. In 2004, this supplier was acquired by a venture capital fund in a highly leveraged deal. Since 2006 the financial pressures on the supplier increased steadily until the Autumn of 2008 when under pressure from its banks the business was put up for sale with its debt burden eliminated. At that time, in order to allow the supplier to continue trading Hornby agreed higher prices and shortened payment terms. Between September and November 2008 it appeared that no prospective purchaser may emerge. In the circumstances and in order to protect our supply line Hornby engaged in a due diligence exercise with a view to making an offer to acquire the supplier. The supplier was eventually acquired by a well resourced Hong Kong company in January 2009. Since that time we have established a close working relationship with the new owners and intend to continue to purchase a substantial proportion of our requirements from them. However, as a result of the disruption to supplies experienced before and after the acquisition, Hornby Group sales were held back by around £2 million in the year to 31 March 2009.

Chief Executive's Report
continued

In parallel, since 2005 we have been actively developing alternative sources of model railway production. This is not a quick process. The skills needed for detailed model railway production are not widely available amongst Chinese vendors. However the necessary skills remain within the Hornby Group, and in fact these skills were instrumental in raising the skill base within our largest supplier over many years. We are now in a position to diversify our model railway requirements amongst a broader base of suppliers in order to reduce our overall dependence on our largest supplier, should this become necessary. The bulk of our Scalextric, Airfix, Humbrol and Corgi purchases are already made from alternative vendors in China and India.

All purchases from our Chinese suppliers are either in US or Hong Kong Dollars. It is the Group's policy to enter into forward currency contracts in anticipation of purchases up to 12 months in the future. As a result of such forward contracts, during the past year we benefited from the effects of a strong Sterling. For the year to March 2010 we have entered into currency contracts at substantially less favourable rates than during the year to March 2009 and this will have a negative effect on our earnings for the coming year. In order to mitigate the negative effects of exchange rates we have successfully raised our selling prices and commenced a thorough review to reduce the costs of our products without compromising their value for money.

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

UNITED KINGDOM

Sales in the UK company during the year suffered from de-stocking by the major retailers but with the benefit of Corgi finished 8% above the previous year at £43.5 million (2008 - £40.4 million). However, primarily as a result of increased product costs and additional finance and depreciation charges, together with product supply issues, underlying profit before tax fell to £5.9 million compared to £7.7million the previous year. The independent retail channel and sales through our network of concessions performed well. In contrast, sales via the major retailers were held back as a result of cautious stocking policies implemented by those retailers prior to Christmas. Since Christmas we have been encouraged by the strong year-on-year sales performance in the independent, concessions and internet sales channels. These channels now represent 80% of our UK domestic business. This strong performance underlines the defensive qualities of our predominantly hobby-based brands in times of economic uncertainty.

Just prior to Christmas one of the largest retailers of toys in the UK, Woolworths, went into receivership. Hornby did not suffer material loss as a result of this business failure, as Woolworths was a relatively small purchaser of Hornby products. In the period since Woolworths closed its UK stores, we have noted a marked increase in sales via our network of in-store concessions and our independent retailers report good consumer demand for our products. It would appear that many of those consumers who previously shopped at Woolworths are now shopping in stores where our products are more widely stocked and partly as a result of this we are experiencing an increase in consumer demand for our products.

CONTINENTAL EUROPE

Demand in our subsidiaries in Continental Europe continued to be strong, but as in the previous year sales were once again constrained by product supply issues. Whilst sales during the year increased by 18% from £12.6 million to £14.8 million, as a result of the supply issues and the effects of price increases from China, together with a weaker Euro/US Dollar exchange rate, operating profit fell by 23% to £1.1 million.

Demand for our products in Continental Europe continues to grow and provided that supply chain issues can be resolved, we look forward to continued sales growth and an improved performance.

AMERICA

Sales in Hornby America were slightly higher at \$5.6 million (2008 - \$5.4 million), producing a profit before tax of \$13,000 (2008 - \$32,000). Upon translation into Sterling, due to the stronger US Dollar, sales were £3.3 million (2008 - £2.7 million) with profit before tax of £8,000 (2008 - £16,000). However, Hornby Hobbies in the UK benefits from a gross margin contribution of £565,000 (2008 - £450,000) generated on sales made to Hornby America, which has the effect of increasing significantly the overall contribution to Group profit of our US operation. The potential for sales of Corgi in the US is significantly greater than we had envisaged at the time of the acquisition, and this will help to improve the future performance of our US operations.

CORGI ACQUISITION

We have successfully integrated the Corgi business into the Group structure and have been pleased by the speed with which we have been able to reinvigorate the new product development pipeline. This acquisition has also introduced to Hornby an additional group of manufacturers in China, with some of whom we are now working on the development of production capacity for other product ranges within the Group. We are delighted to have been able to secure the rights to the James Bond franchise for Corgi. This license gives us the rights to produce die cast products based on all of the James Bond movies, from the early 1960's to the present day. Corgi performed well during its first part year of Hornby ownership and as forecast at the time of the acquisition was earnings neutral for the year. Corgi is now on track to deliver strong growth in the year to March 2010.

OUTLOOK

The breadth of product offer and geographical spread across the Group has enabled us to deliver encouraging sales growth against a challenging economic background. Current indications are that the worst of Sterling weakness against the US Dollar may be behind us. This, coupled with our actions in reducing our product costs, should lead to a steady rebuilding of margins over the coming years. Our primary challenge this year will be to ensure that we resolve the supply chain issues that have held back our performance for the past two years. Consumer demand for our products has strengthened in the period since Christmas and continues to be strong. We would expect to continue to grow sales during the current year to March 2010, whilst laying firm foundations for significantly stronger financial performance in future years.

Frank Martin

11 June 2009

Directors and Corporate Information

DIRECTORS

N A Johnson
Chairman

F Martin
Chief Executive

A J Morris
Finance Director

N J Cosh
Non-Executive Director – resigned 28/7/2008

N M Carrington
Non-Executive Director

M E Rolfe
Non-Executive Director

SECRETARY

J W Stansfield

REGISTERED OFFICE

Westwood
Margate
Kent CT9 4JX

COMPANY REGISTERED NUMBER

Registered in England No. 01547390

AUDITORS

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First Point
Buckingham Gate
Gatwick
RH6 0PP

SOLICITORS

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

PRINCIPAL BANKERS

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Canterbury
Kent CT1 2JX

FINANCIAL ADVISERS AND BROKERS

Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT

REGISTRARS AND TRANSFER AGENTS

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire HD8 0GA

Directors' Report

The directors submit their Annual Report together with the audited financial statements for the year ended 31 March 2009.

PRINCIPAL ACTIVITIES

The Company is a holding company with a Spanish branch and has 6 operating subsidiaries: Hornby Hobbies Limited in the United Kingdom, Hornby America Inc. in the USA, Hornby España S.A in Spain, Hornby Italia s.r.l. in Italy, Hornby France S.A.S. in France and Hornby Deutschland GmbH in Germany. Hornby Plc is a public limited company incorporated and operating in the United Kingdom. Its registered office is set out on page 8

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

BUSINESS REVIEW

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

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

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

The business KPIs are included in the Directors' Report.

RESULTS AND DIVIDENDS

The results for the year ended 31 March 2009 are set out in the Group Income Statement on page 30. Turnover for the year was £61.6 million compared to £55.7 million last year. The profit for the year attributable to equity holders amounted to £4.2 million (2008 - £6.1 million). The position of the Group is set out in the Group Balance Sheet on page 31.

An interim dividend of 2.7p (2008 - 2.7p) per ordinary share amounting to £1,018,136 (2008 - £1,019,853) was paid on 30 January 2009. The Group's Short Term Incentive Plan Trust waived its right to the interim dividend on 280,342 ordinary shares (see note 22).

The directors recommend no final dividend (2008 - 5.8p per ordinary share £2,194,766 total).

This represents a total dividend paid in respect of the year ended 31 March 2009 of 2.7p per ordinary share (2008 - 8.5p).

KEY PERFORMANCE INDICATORS (KPIs)

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

RESEARCH & DEVELOPMENT

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

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

PROPERTY VALUES

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

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

CHARITABLE DONATIONS

During the year the Group made donations of £21,635 (2008 - £15,354) for charitable purposes, to include the Theatre Royal Margate (£20,000) and Toy Trust (£1,185). There were no political donations in the year (2008 - £nil).

Directors' Report

continued

DIRECTORS

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

Neil A Johnson, aged 60, was originally appointed a non-executive director on 1 July 1998. On 22 December 2000 he assumed the responsibilities of Chairman. He is currently a member of the Metropolitan Police Authority. Neil served for five years as a member of the Prime Minister's Advisory Panel for the Citizen's Charter. He is a member of a number of private company Boards and Trusts, Chairman of Motability Operations Group Plc and Chairman of Cybit Holdings Plc.

Frank Martin, aged 57, was appointed Chief Executive on 3 January 2001. Frank was previously Chief Executive of Humbrol Limited, and formerly Managing Director of Denby Pottery Limited and Group Marketing Director of Hasbro (UK) Limited. His conditions of employment include a notice period of one year to be given by the Company and of six months to be given by him.

Andrew J Morris, aged 46, was appointed Group Finance Director on 26 November 2007. Andrew was previously CFO of Speedo International and formerly Finance Director, Africa Glaxo Smithkline plc. His conditions of employment include a notice period of one year to be given by the Company and of six months to be given by him.

Nigel M Carrington, aged 53, was appointed a non-executive director on 1 December 2007. Nigel is currently Rector of University of the Arts London and a member of the board of a number of charities. He was formally a corporate lawyer and Managing Partner at Baker & McKenzie and Managing Director and Deputy Chairman of McLaren Group Limited.

Mark E Rolfe, aged 50, was appointed a non-executive director on 1 January 2008. After qualifying as a chartered accountant with Coopers and Lybrand, Mark joined Gallaher Group plc in 1986, where he was Finance Director for seven years retiring in 2007. He is a non-executive director of The Sage Group Plc and Barratt Developments Plc, and Chairman of Lane Clark & Peacock LLP.

Nicholas J Cosh resigned as a director on 28 July 2008.

The interests of the directors in the shares of the Company and in options granted over such shares are disclosed in the Directors' Remuneration Report on pages 22 to 26.

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

DIRECTORS' INDEMNITIES

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

SUBSTANTIAL SHAREHOLDINGS

The Company has been notified that at close of business on 29 May 2009 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
Phoenix Asset Management Partners Limited	5,202,033	13.69
P J Wood	4,012,500	10.56
Aberdeen Asset Management	3,185,864	8.39
Electra Quoted Partners	2,995,150	7.88
Insight Investment Professional Funds	2,904,376	7.65
J J Hosking	1,664,200	4.38
Legal & General Investment Management	1,553,646	4.09

FINANCIAL INSTRUMENTS

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

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

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

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

Interest rate risk

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

Credit risk

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

Liquidity risk

The Group has agreed with its principal lender to re-arrange its borrowings into a 3-year revolving credit facility (£10 million) and a 5-year fixed-term loan agreement (£12 million). Previously the Group had an overdraft facility (£12 million) and a fixed term loan (£10 million). The Group's policy on liquidity risk is to ensure that sufficient cash is available to fund future operations. The peak level of net debt in the year to March 2009 was £19.5 million. The Board manages exposure to liquidity risk by maintaining adequate facilities to meet the future needs of the business. Those needs are determined by monitoring forecast and actual cash flows. The Group regularly monitors its performance against its banking covenants to ensure compliance.

Foreign currency risk

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

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

PERSONNEL POLICIES

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

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

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

CREDITOR PAYMENT POLICY

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

The average creditor payment period for the main trading subsidiary at 31 March 2009 was 24 days (2008 - 21 days). The Company itself does not trade and therefore has no external trade creditors.

AUDITORS

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

Directors' Report
continued

POST BALANCE SHEET EVENTS

In June 2009 the Group improved the security of its banking facilities. A formal offer from the Group's principal bankers, Barclays, has been received and agreed subject to contract. The bank facilities have been revised to comprise a 3-year revolving credit facility of £10 million and a 5-year fixed term loan agreement of £12 million, resulting in combined committed banking facilities of £22 million. The future interest rates of these facilities are Libor + 2.85% for the revolving credit facility and Libor + 3.6% for the fixed term loan.

ANNUAL GENERAL MEETING

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

The notice of the Annual General Meeting is set out on pages 79 to 81.

Resolution 9 under section 80 of the Companies Act 1985 (the 'Act'), the directors may allot unissued shares only if authorised to do so. This resolution will give the directors authority to issue new ordinary shares in the capital of the Company up to a nominal value of £125,000, which is equal to approximately 33% of the Company's issued ordinary capital as at the date of the notice. This authority will expire on 29 July 2014. The directors do not have any present intention of exercising the authority granted by this resolution except in connection with the Company's share schemes.

Resolution 10 is proposed to renew the authority to the directors to allot equity securities for cash without first being required to offer such securities to existing members. This will include the sale for cash on a non pre-emptive basis of any shares which the Company holds in treasury. The authority relates to up to £18,000 of nominal capital representing 5% of the issued ordinary share capital of the Company as at the date of the notice. The authority sought at the Annual General Meeting will expire at the conclusion of the next annual general meeting of the Company.

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

Resolution 11 the Company is seeking authority to purchase approximately 10% of the Company's issued ordinary share capital at, or between, the minimum and maximum prices specified in the resolution. As at the date of the notice the total number of options to subscribe for shares in the Company was 2,591,005 (approximately 6.8% of the Company's issued ordinary share capital and approximately 6.2% of the Company's issued ordinary share capital if the full authority proposed by resolution 11 was used and the shares purchased were cancelled). This power would be used only after careful consideration by the directors, having taken into account market conditions prevailing at that time, the investment needs of the Company, its opportunities for expansion and its overall financial position. The directors would exercise the authority to purchase ordinary shares only if they considered it to be in the best interest of the members and they believe that the effect of such purchases will be to increase earnings per share.

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

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

By order of the Board

A J MORRIS
Finance Director
Westwood, Margate
Kent CT9 4JX

11 June 2009

Corporate Governance Statement

The Company is committed to the principles of corporate governance contained in the Combined Code of Corporate Governance issued in 2006 by the Financial Reporting Council ('the Code') for which the Board is accountable to shareholders.

Statement of Compliance with the Combined Code

Throughout the year ended 31 March 2009, the Company has been in compliance with the Code provisions set out in section 1 of the Code.

Statement about applying the principles of the Code

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

DIRECTORS

Board effectiveness

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

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

During the year 12 Board meetings were held. All directors attended all meetings during their periods in office with the exception of the Chairman and N M Carrington who were both absent for one board meeting each.

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

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

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

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

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

Chairman and Chief Executive

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

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

Senior Independent Director

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

Board balance and independence

The Board considers the non-executive directors who served during the year to be independent of management and free from any business or other relationship which could interfere with the exercise of their independent judgement. Code provision A.3.2 requires at least half the Board, excluding the Chairman, to be independent non-executive directors and smaller companies are only required to have only two non-executive directors. On 1 June 2009 N A Johnson stepped down from the Audit and Remuneration Committees.

Corporate Governance
continued

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

During the year N J Cosh, non-executive director, resigned from the Board.

APPOINTMENTS TO THE BOARD

Nominations Committee

There have been no appointments to the Board during the year ended 31 March 2009. Appointments to the Board require the Board's authorisation and are conducted by the Nominations Committee. The Nominations Committee comprises the Chairman, executive and non-executive directors. During the year there were no meetings held.

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

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

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

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

Information and professional development

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

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

Performance Evaluation

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

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

Re-election

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

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

Remuneration Committee

The Remuneration Committee comprises N M Carrington and M E Rolfe following N A Johnson stepping down on 1 June 2009. N M Carrington is the Chairman of the Remuneration Committee.

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

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

Audit Committee and Auditors

The Audit Committee comprises N M Carrington and M E Rolfe following the retirement of N J Cosh from the Board at the Annual General Meeting and N A Johnson stepping down on 1 June 2009. M E Rolfe became Chairman of the Audit Committee on 28 July 2008. Mark is a Fellow of the Institute of Chartered Accountants in England and Wales and is considered by the Board to have recent and relevant financial experience. N M Carrington has a wide range of business experience, which is evidenced by his biography set out in the Directors' Report.

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

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

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

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

Activity during the year

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

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

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

To assess the effectiveness of the external auditors, the Committee reviewed their fulfilment of the agreed audit plan; the robustness and perceptiveness of the auditors in their handling of key accounting and audit judgements, the content of their letter to management on control matters and adherence to service standards set out in Hornby's Audit Charter policy. There are no contractual restrictions on the choice of the Committee as to external audit and, having considered the services provided by the current external auditors, PricewaterhouseCoopers LLP, their independence and knowledge of the Group, the Committee has recommended to the Board the reappointment of the auditors at the Annual General Meeting in July 2009. In reaching this decision the Committee also had regard to the likelihood of a withdrawal of the auditor from the market.

Corporate Governance Statement
continued

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

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

Internal Control and Risk Management

The Board is responsible for the operation and effectiveness of the Group's system of internal controls and risk management. There is a continuous process for identifying, evaluating and managing the significant risks the Group faces. This process has been in place throughout the year and complies fully with the Turnbull guidance.

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

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

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

Control Environment

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

RELATIONS WITH SHAREHOLDERS

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

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

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

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

IDENTIFICATION OF BUSINESS RISKS

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

BUSINESS RISKS

UK Market Dependence

The UK market represents a significant part of Group revenue; 62% in 2009 (2008 - 63%). In order to reduce the exposure to the UK market the Board's strategy continues to be to expand overseas sales. The acquisitions of the brands Electrotren, Rivarossi, Lima, Jouef, Airfix, Humbrol and Corgi have provided the Group significant market shares of the model railway, model and die cast markets in UK, Spain, Italy, France and Germany to facilitate European expansion.

Market Conditions

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

Foreign Exchange

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

Overseas Suppliers

The Group purchases goods, in the main from third party Chinese suppliers. The principal supplier to the Group, Sanda Kan, was purchased in January 2009 by Kader Holdings Company Limited; a well resourced Hong Kong based company with interests in the model train sectors in Europe and the US. The purchase of products from lower-wage economies provides the Group with a significant cost advantage when competing with locally-manufactured products in Europe. However the Group does not have exclusive arrangements with its suppliers and there is a risk that competition for manufacturing capacity can lead to delays in introducing new products or servicing existing demand. Furthermore there is a risk that input price escalation could reduce or remove the Group's pricing advantage.

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

Competition

The Group has competition in the model railway, slot racing, model kits, die cast and paint market but in the majority of those markets the Group enjoys a strong market position through the strength of existing brands mentioned above.

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

Main control procedures

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

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

Monitoring system used by the Board

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

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

Corporate Governance Statement
continued

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

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

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

Going Concern
A review of Group business activities and future outlook are set out on pages 5 to 7 of the Chief Executive's Report. The financial position of the Group, its cash flows and liquidity position are shown in the balance sheet, cash flow statement and accompanying notes to the financial statements. The principal business risks associated with the business are shown on pages 16 and 17, whilst the risks arising from the Group's financial instruments are covered on pages 10 and 11.

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

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

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

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

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

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

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

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

Directors' Remuneration Report

for the Year Ended 31 March 2009

INTRODUCTION

This report has been prepared in accordance with Schedule 7A to the Companies Act 1985. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to directors' remuneration in the Combined Code. As required by the Act, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

The Act requires the Auditors to report to the Company's members on certain parts of the Directors' Remuneration Report and to state whether in their opinion those parts of the report have been properly prepared in accordance with the Companies Act 1985. The report has therefore been divided into separate sections for audited and unaudited information.

UNAUDITED INFORMATION

Remuneration Committee

The Company has established a Remuneration Committee (the 'Committee') which is constituted in accordance with the recommendations of the Combined Code. The Committee is comprised of independent non-executive directors. The current members of the Committee are N M Carrington (Committee Chairman) and M E Rolfe, both of whom served throughout the financial year. N A Johnson, who also served on the Committee throughout the year resigned from the Committee on 1 June 2009.

The Committee normally meets twice per annum but more frequently if required. During the year three Remuneration Committee meetings were held. All members attended all meetings during their periods in office.

None of the Committee members has any personal financial interest (other than as shareholders), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. The Committee makes recommendations to the Board. No director plays a part in any discussion about their remuneration. The terms of reference of the Committee are available from the Company Secretary on request.

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

Remuneration policy for the Executive Directors

General policy

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

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

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

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

Salary and benefits

Executive directors' base salaries are reviewed annually by the Committee taking into account the responsibilities, skills and experience of each individual and salary levels within listed companies of a similar size. Base salary levels as at 1 April 2008 and 2009 are as follows:

Director	Salary at 1 April 2009	Salary at 1 April 2008
F Martin *Chief Executive*	£250,000	£250,000
A J Morris *Finance Director*	£165,000	£165,000

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

Directors' Remuneration Report
continued

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

Performance-related annual bonus
Executive directors participate in a performance-related bonus scheme. The maximum bonus continues to be capped at 100% of base salary for the Chief Executive and 75% of salary for the Finance Director.

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

In respect of the year ended 31 March 2009, both of the executive directors were entitled to a bonus, details of which appear in the table of directors' emoluments.

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

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

The maximum award level is 150% of base salary per annum although awards up to 200% of base salary may be granted to an individual in exceptional circumstances (e.g. recruitment or retention). Initial awards granted to the executive directors in July 2008 were made over shares worth 100% of salary and it is anticipated that future award levels will be maintained at this level.

An award is subject to a total shareholder return ('TSR') condition and a range of normalised underlying earnings per share growth targets, each applying to a separate 50% of an award and measured over a period of three financial years.

The TSR condition is based on the Company's underlying performance against the constituents of the FTSE SmallCap (excluding investment trusts) as at the date of grant. 25% of this part of the award will vest if Hornby's TSR is equal to the TSR of the median company, with full vesting for top quartile performance. A sliding scale operates between these points.

For the EPS part of the award, 25% vests for average annual underlying EPS growth of RPI+3% p.a., with full vesting for average annual EPS growth of RPI+10% p.a.. A sliding scale operates between these points.

The Committee is comfortable that the blend of TSR and EPS targets continues to provide a good balance between incentivising and rewarding good financial performance on the one hand whilst, on the other hand, providing a strong and direct alignment with the interests of institutional shareholders by rewarding stock market outperformance.

Performance conditions are calculated by independent advisers and verified by the Committee.

Executives benefit, in the form of additional cash or shares, from the value of dividends paid over the vesting period, to the extent that awards vest.

It is currently intended that market purchased shares are used to satisfy awards although there is flexibility to use new issue and treasury shares within institutional shareholder dilution limits.

Shareholding guidelines

A policy for share ownership guidelines is operated for the Top 6 executives. For the executive directors, the required threshold of share ownership is 100% of base salary. Until such time as this level of shareholding is achieved, 50% of the net of tax value of awards which vest under the PSP are required to be retained.

Executive Directors' Service Contracts

The executive directors do not have fixed period contracts.

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

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

Non-Executive Directors' Contracts

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

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

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

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

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

Directors' Remuneration Report
continued

AUDITED INFORMATION
DIRECTORS' INTERESTS

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

	At 31 March 2009	At 31 March 2008
N A Johnson	50,000	50,000
F Martin	236,151	209,451
A J Morris	–	–
N J Cosh (resigned)	–	95,000
N M Carrington	10,000	10,000
M E Rolfe	10,000	10,000

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

There have been no other changes in the interests set out above between 31 March 2009 and 11 June 2009.

Aggregate Directors' remuneration
The total amount for directors' remuneration was as follows:

	2009 £'000	2008 £'000
Emoluments	666	760
Gains on exercise of share options	-	320
Money purchase pension contributions	84	72
	750	1,152

Directors' detailed emoluments

The emoluments of the directors were as follows:

	Salary & Fees £	Bonus[1] £	Taxable Benefits[2] £	Pension Contribution £	2009 Total £	2008 Total[3] £
Chairman:						
N A Johnson	90,000	–	–	–	90,000	90,000
Executive:						
F Martin	250,000	36,500	13,063	50,000	349,563	458,275
A J Morris	165,000	18,563	9,395	33,845	226,803	78,608
Non-executive:						
N M Carrington	35,000	–	–	–	35,000	11,667
M E Rolfe	35,000	–	–	–	35,000	8,750
N J Cosh (resigned)	13,333	–	–	–	13,333	40,000
Former director:						
J W Stansfield	–	–	–	–	–	144,397
	588,333	55,063	22,458	83,845	749,699	831,697

1. The stretching profit related targets for the annual bonus plan were not achieved for the year ended 31 March 2009 resulting in no payout for 80% of bonus potential. Of the remaining 20% based on specific non-financial strategic objectives, F Martin achieved 73% of his objectives and A J Morris achieved 75% of his objectives.
2. Taxable benefits relate to the provision of a company car and health assurance.
3. The 2008 total column includes pension contributions which were F Martin (£42,539) and A J Morris (£10,256).

No directors waived emoluments in respect of the year ended 31 March 2009 (2008 - nil).

Directors' Remuneration Report

continued

Performance Share Plan

At 31 March 2009, outstanding awards to directors under the Performance Share Plan were as follows:

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

For the awards granted in July 2008, 50% of an award is subject to a TSR condition and 50% is subject to an EPS performance condition, both of which are measured over a period of three financial years. For the TSR condition, 25% of this part of the award will vest if Hornby's TSR is equal to the TSR of the median company of the constituents of the FTSE SmallCap (struck at the date of grant), with full vesting for top quartile performance, with a sliding scale operating between these points. For the EPS part of the award, 25% vests for average annual underlying EPS growth of RPI+3% p.a., with full vesting for average annual EPS growth of RPI+10% p.a., with a sliding scale operating between these points.

Interests in share options

Details of options held by directors at 31 March 2009 are set out below:

Director	Date of Grant	Options held at 1 April 2008	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options held at 31 March 2009	Exercise price	Exercise period
F Martin	28/03/2002	1,000,000	–	–	–	1,000,000	76.8p	28/03/2005 - 28/03/2012
A J Morris	3/12/2007	118,110	–	–	–	118,110	254.0p	3/12/2010 - 3/12/2017

F Martin's options granted March 2002 were subject to performance criteria requiring profit before interest and tax to exceed £4.0 million in the year ended 31 March 2003. This condition has been satisfied. Following shareholder approval at the 2008 AGM, the life of these options, which was originally set at seven years from grant, was extended to ten years from grant, extending the end of exercise period from 2009 to 2012.

Performance criteria for options granted to A J Morris requires aggregate profit before tax for years ending 31 March 2008 to 2010 to exceed £32.7 million.

The directors above did not exercise any share options during the year and thus no gains were realised (2008 - F Martin realised a gain of £319,608).

The market price of the Company's shares at 31 March 2009 was 68.25p and the range during the year ended 31 March 2009 was 66.0p to 186.0p.

Short Term Incentive Plan

At 31 March 2009, outstanding awards to directors under the Short Term Incentive Plan were as follows:

Director	Award date	Vesting dates	Market price at Award date	Number of shares	Value of entitlement 31 March 2009	Value of entitlement 31 March 2008
					£'000	£'000
F Martin	June 2004	June 2008	215.5p	–	–	29
	June 2005	June 2008/9	221.0p	20,812	14	79
	June 2006	June 2008/9/10	266.0p	18,847	13	54
	June 2008	June 2010/1/2	156.1p	81,572	56	127
					83	289
A J Morris	June 2008	June 2010/1/2	156.1p	5,106	3	8

On 23 June 2008, 15,465 shares of the 2004 Award, 20,811 shares of the 2005 Award and 9,424 shares of the 2006 Award were vested to F Martin. The share price on this date was 156.1p.

Value of entitlement at 31 March 2009 is based on the closing market price of the Company's shares of 68.25p (2008 - 189.5p).

Directors' Remuneration Report
continued

Performance graph

The following graph shows the Company's total shareholder return compared to the TSR of the FTSE SmallCap (excluding investment trusts) over the five year period to 31 March 2009. This index has been selected given that the Company is a constituent of the FTSE SmallCap.

N M CARRINGTON
Remuneration Committee Chairman

11 June 2009

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT, THE DIRECTORS' REMUNERATION REPORT AND THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and Company for that period.

In preparing 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 that the financial statements comply with IFRSs as adopted by the European Union;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

So far as the directors are aware, there is no relevant audit information (as defined by Section 234ZA of the Companies Act 1985) of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

J W STANSFIELD
Company Secretary

11 June 2009

Independent Auditors' Report to the Members of Hornby Plc

We have audited the Group and Parent Company Financial Statements (the 'financial statements') of Hornby Plc for the year ended 31 March 2009 which comprise the Group and Parent Company Income Statements, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, the Chief Executive's Report and the Corporate Governance Statement that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Financial Highlights, the Chairman's Statement, the Chief Executive's Report, Directors and Corporate Information, the Directors' Report, the Corporate Governance Statement, the unaudited part of the Directors' Remuneration Report, the Statement of Directors' Responsibilities, the Five Year Summary and the Form of Proxy. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and 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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

OPINION

In our opinion:

the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's and the Parent Company's affairs as at 31 March 2009 and of the Group's and the Parent Company's profit and cash flows for the year then ended;

the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and

the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
and Registered Auditors
Gatwick

11 June 2009

Group and Company Income Statement
for the Year Ended 31 March 2009

	Notes	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
REVENUE	2	61,569	55,692	1,540	1,504
Cost of sales		(32,168)	(26,297)	–	–
GROSS PROFIT		29,401	29,395	1,540	1,504
Distribution costs		(2,454)	(2,138)	–	–
Selling and marketing costs		(13,641)	(11,551)	–	–
Administrative expenses		(7,976)	(6,268)	(1,147)	(978)
Other operating income/(expenses)	4	1,569	(52)	(60)	(28)
OPERATING PROFIT	2	6,899	9,386	333	498
Finance income	3	27	5	5,930	3,194
Finance costs	3	(805)	(374)	(280)	(256)
PROFIT BEFORE TAXATION	4	6,121	9,017	5,983	3,436
Analysed as:					
Underlying profit before taxation		6,331	8,400	6,240	3,436
Net foreign exchange impact on intercompany loans		535	780	–	–
Amortisation of intangibles		(370)	(163)	–	–
Restructuring and abortive due diligence costs		(375)	–	(257)	–
PROFIT BEFORE TAXATION		6,121	9,017	5,983	3,436
Taxation	5	(1,909)	(2,940)	(118)	(11)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS		4,212	6,077	5,865	3,425
EARNINGS PER ORDINARY SHARE					
Basic	7	11.17p	16.15p		
Diluted	7	10.98p	15.62p		

All of the activities of the Group are continuing.

Group and Company Balance Sheet
at 31 March 2009

	Notes	Group		Company	
ASSETS		2009	2008	2009	2008
NON-CURRENT ASSETS		£'000	£'000	£'000	£'000
Goodwill	8	13,624	9,925	–	–
Intangible assets	9	5,689	2,404	–	–
Property, plant and equipment	10	10,523	8,360	1,433	1,426
Investments	11	–	–	32,989	30,088
Deferred tax assets	20	67	123	18	47
		29,903	20,812	34,440	31,561
CURRENT ASSETS					
Inventories	12	14,368	11,890	–	–
Trade and other receivables	13	13,119	10,699	8	21
Current tax assets	17	124	152	9	152
Cash and cash equivalents	14	427	940	8	8
		28,038	23,681	25	181
LIABILITIES					
CURRENT LIABILITIES					
Borrowings	18	(5,138)	(2,220)	–	–
Derivative financial instruments	19	(3,960)	(1,350)	–	–
Trade and other payables	15	(8,270)	(6,851)	(158)	(258)
Provisions	16	(538)	(500)	–	–
Current tax liabilities	17	(999)	(1,723)	–	–
		(18,905)	(12,644)	(158)	(258)
NET CURRENT ASSETS/(LIABILITIES)		9,133	11,037	(133)	(77)
NON-CURRENT LIABILITIES					
Borrowings	18	(7,181)	(41)	(5,580)	(4,801)
Deferred tax liabilities	20	(301)	(346)	(201)	(206)
		(7,482)	(387)	(5,781)	(5,007)
NET ASSETS		31,554	31,462	28,526	26,477
SHAREHOLDERS' EQUITY					
Share capital	21	380	380	380	380
Share premium		5,278	5,278	5,278	5,278
Capital redemption reserve		55	55	55	55
Translation reserve		(533)	(197)	(1,590)	(755)
Hedging reserve		(680)	133	–	–
Other reserves		1,688	1,688	19,145	19,145
Retained earnings		25,366	24,125	5,258	2,374
TOTAL EQUITY		31,554	31,462	28,526	26,477

The financial statements on pages 30 to 35 were approved by the Board of directors on 11 June 2009 and were signed on its behalf by:

F Martin,
Director

Statement of Changes in Equity

Years ended 31 March 2009 and 31 March 2008

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Translation reserve £'000	Hedging reserve £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
GROUP								
Balance at 1 April 2007	378	5,236	55	(77)	(133)	1,740	20,646	27,845
Exchange adjustment offset in reserves	–	–	–	(120)	–	–	–	(120)
Cash flow hedges	–	–	–	–	266	–	–	266
Net expense recognised directly in reserves	–	–	–	(120)	266	–	–	146
Profit for the year	–	–	–	–	–	–	6,077	6,077
Total recognised income for the year	–	–	–	(120)	266	–	6,077	6,223
Issue of shares	2	42	–	–	–	–	–	44
Share-based payments	–	–	–	–	–	–	225	225
Deferred tax on share-based payments	–	–	–	–	–	(52)	–	(52)
Shares vested from employee benefit trust	–	–	–	–	–	–	295	295
Dividends	–	–	–	–	–	–	(3,118)	(3,118)
	2	42	–	–	–	(52)	(2,598)	(2,606)
Balance at 31 March 2008	380	5,278	55	(197)	133	1,688	24,125	31,462
Exchange adjustment offset in reserves	–	–	–	(336)	–	–	–	(336)
Cash flow hedges	–	–	–	–	(813)	–	–	(813)
Net expense recognised directly in reserves	–	–	–	(336)	(813)	–	–	(1,149)
Profit for the year	–	–	–	–	–	–	4,212	4,212
Total recognised income for the year	–	–	–	(336)	(813)	–	4,212	3,063
Share-based payments	–	–	–	–	–	–	224	224
Purchase of own shares for employee benefit trust	–	–	–	–	–	–	(284)	(284)
Shares vested from employee benefit trust	–	–	–	–	–	–	294	294
Dividends	–	–	–	–	–	–	(3,205)	(3,205)
	–	–	–	–	–	–	(2,971)	(2,971)
Balance at 31 March 2009	380	5,278	55	(533)	(680)	1,688	25,366	31,554

Retained earnings includes £672,000 at 31 March 2009 (2008 - £689,000) which is not distributable and relates to a 1986 revaluation of land and buildings.

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Translation reserve £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
COMPANY							
Balance at 1 April 2007	378	5,236	55	(58)	19,162	1,842	26,615
Exchange adjustment offset in reserves recognised directly in equity	–	–	–	(697)	–	–	(697)
Profit for the year	–	–	–	–	–	3,425	3,425
Total recognised income for the year	–	–	–	(697)	–	3,425	2,728
Issue of shares	2	42	–	–	–	–	44
Share-based payments	–	–	–	–	–	225	225
Deferred tax on share-based payments	–	–	–	–	(17)	–	(17)
Dividends	–	–	–	–	–	(3,118)	(3,118)
	2	42	–	–	(17)	(2,893)	(2,866)
Balance at 31 March 2008	380	5,278	55	(755)	19,145	2,374	26,477
Exchange adjustment offset in reserves recognised directly in equity	–	–	–	(835)	–	–	(835)
Profit for the year	–	–	–	–	–	5,865	5,865
Total recognised income for the year	–	–	–	(835)	–	5,865	5,030
Share-based payments	–	–	–	–	–	224	224
Dividends	–	–	–	–	–	(3,205)	(3,205)
	–	–	–	–	–	(2,981)	(2,981)
Balance at 31 March 2009	380	5,278	55	(1,590)	19,145	5,258	28,526

Group and Company Cash Flow Statement
for the Year Ended 31 March 2009

	Group		Company	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash generated from operations	11,377	10,007	350	666
Interest received	27	5	190	76
Interest paid	(805)	(374)	(280)	(256)
Tax (paid)/received	(2,594)	(2,385)	49	(204)
Net cash generated from operating activities	8,005	7,253	309	282
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of trade assets and related costs	(8,495)	–	–	–
Proceeds from sale of property, plant and equipment	2	71	–	–
Purchase of property, plant and equipment	(4,763)	(3,485)	(51)	–
Dividends received	–	–	5,740	3,118
Net cash (utilised in)/generated from investing activities	(13,256)	(3,414)	5,689	3,118
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of ordinary shares	–	44	–	44
Proceeds from issue/(repayment) of loans	8,684	(13)	–	–
Purchase of own shares by Short Term Incentive Plan	(284)	–	–	–
Finance lease capital payments	(19)	(49)	–	–
Dividends paid to Company's shareholders	(3,205)	(3,118)	(3,205)	(3,118)
Loans to subsidiary undertakings	–	–	(2,737)	(385)
Net cash generated from/(utilised in) financing activities	5,176	(3,136)	(5,942)	(3,459)
Effect of exchange rate movements	(1,717)	(1,344)	(56)	17
Net decrease in cash and cash equivalents	(1,792)	(641)	–	(42)
Cash, cash equivalents and bank overdrafts at beginning of the year	(1,268)	(627)	8	50
CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS AT END OF YEAR	(3,060)	(1,268)	8	8
CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS CONSIST OF:				
Cash and cash equivalents	427	940	8	8
Bank overdrafts	(3,487)	(2,208)	–	–
CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS AT END OF YEAR	(3,060)	(1,268)	8	8

Notes to the Cash Flow Statement
Cash Flow from Operating Activities

	Group		Company	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
Profit before taxation	6,121	9,017	5,983	3,436
Interest payable	805	374	280	256
Interest receivable	(27)	(5)	(190)	(76)
Dividends receivable	–	–	(5,740)	(3,118)
Amortisation of intangible assets	370	163	–	–
Depreciation	4,315	2,908	44	45
Loss/(profit) on disposal of tangible fixed assets	25	(7)	–	–
Share-based payments	224	225	60	28
Loss/(gain) on financial derivatives	6	(65)	–	–
Increase in provisions	38	207	–	–
Increase in inventories	(1,735)	(3,449)	–	–
(Increase)/decrease in trade and other receivables	(2,535)	(551)	21	(14)
Increase/(decrease) in trade and other payables	3,770	1,190	(108)	109
CASH GENERATED FROM OPERATIONS	11,377	10,007	350	666

Notes to the Financial Statements

1 SIGNIFICANT ACCOUNTING POLICIES

Accounting policies for the year ended 31 March 2009

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

BASIS OF PREPARATION

The financial information for the year ended 31 March 2009 has been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') and also as issued by the International Accounting Standards Board, International Financial Reporting Interpretations Committee ('IFRIC') interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial liabilities (including derivative instruments) at fair value.

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

BASIS OF CONSOLIDATION

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

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

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

ADOPTION OF NEW AND REVISED STANDARDS

There were no:

(a) interpretations effective in the current year; or

(b) standards and amendments early adopted by the Group

Interpretations effective in the current period but not relevant

The following interpretation to published standards is mandatory for accounting periods beginning on or after 1 January 2008 but is not relevant to the Group's operations:

IFRIC 12	Service concession arrangements

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

IFRS 2	Amendment (Share-based payments on 'Vesting conditions and cancellations')
IFRS 3	Revised (Business combinations)
IFRS 8	Operating segments
IAS 1	Revised and amended (Presentation of financial statements)
IAS 23	Revised (Borrowing costs)
IAS 39	Amendment (Financial instruments: Recognition and measurement on 'Eligible hedged items')
IFRIC 13	Customer loyalty programmes

Annual improvements to IFRSs (2007)

Annual improvements to IFRSs (2009)

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for additional segment disclosures when IFRS 8 comes into effect at the Group's 2010 year end.

Interpretations and amendments to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the Group's operations:

IFRS 1	Amendment (First-time adoption)
IFRS 7	Amendment (Financial instruments: Disclosures, on the 'Reclassification of financial assets')
IAS 1	Amendment (Presentation of financial statements on 'Puttable financial instruments and obligations arising on liquidation')
IAS 27	Revised (Consolidated and separate financial statements)
IAS 32	Amendment (Financial instruments: Presentation)
IAS 39	Amendment (Financial instruments: Recognition and measurement)
IFRIC 9	Amendment (Re-assessment of embedded derivatives)
IFRIC 14	IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction.
IFRIC 15	Agreements for construction of real estates
IFRIC 16	Hedges of a net investment in a foreign operation
IFRIC 17	Distributions of non-cash assets to owners
IFRIC 18	Transfer of assets from customers

Notes to the Financial Statements
continued

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

	Group	
	2009 £'000	2008 £'000
Profit before taxation	6,121	9,017
Foreign exchange on intercompany loans including impact of foreign exchange collar*	(535)	(780)
Amortisation of intangibles (note 4)	370	163
Restructuring costs	154	–
Abortive due diligence costs	221	–
Underlying/adjusted profit before taxation	6,331	8,400

The Income Statement disclosed restructuring and aborted due diligence costs in administrative expenses. Foreign exchange movements and amortisation of intangibles were disclosed in other operating income/(expenses).

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

The amount shown above comprises gains on translation of intercompany loans of £2,459,000 (2008 – gain of £2,126,000), offset by a loss on marking to market the foreign exchange collar of £1,924,000 (2008 – loss of £1,346,000).

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

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

As at 31 March 2009 the profit impact is a gain of £819,000. Therefore in the period 1 April 2009 to 30 September 2011 there will be an adjustment to the Income Statement between a £4,000 profit and £479,000 charge. The derivative will become an increasingly efficient hedge as the contract approaches maturity.

REVENUE RECOGNITION

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

Revenue is recognised as follows:

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

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

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

Dividend income in the Company is recognised upon receipt.

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

SEGMENTAL REPORTING

The Group's primary reporting format is geographical segments and secondary format is business segment. A geographical segment is a component of the Group that operates within a particular economic environment and is subject to risks and returns that differ from those components operating in other economic environments. A business segment is a component of the Group that provides a group of related products and is subject to risks and returns that are different from those of other business segments.

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

BUSINESS COMBINATIONS

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

GOODWILL

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

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

Notes to the Financial Statements
continued

INTANGIBLES

(a) Brand names

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

(b) Customer lists

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

(c) Research and development

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

Freehold land is not depreciated.

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

IMPAIRMENT OF NON-CURRENT ASSETS

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

INVESTMENTS

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

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).

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

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

FINANCIAL INSTRUMENTS

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

FINANCIAL LIABILITIES AND EQUITY

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

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

TRADE RECEIVABLES

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

TRADE PAYABLES

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

TAXATION INCLUDING DEFERRED TAX

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

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

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

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

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

Deferred tax assets and liabilities have not been discounted.

KEY AREAS OF JUDGEMENT

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

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

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

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

CASH AND CASH EQUIVALENTS

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

SHARE-BASED PAYMENT

Hornby Plc operates three share-based plans:

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

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

The Group has applied the requirements of IFRS 2 Share-based Payment. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 January 2005.

Share Option Scheme

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

Short Term Incentive Plan

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

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

Performance Share Plan

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

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

- Total Shareholder Return (TSR)
- Earnings per share (EPS) growth targets

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

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

EMPLOYEE BENEFIT COSTS

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

Contributions to defined contribution pension schemes are charged to the income statement according to the year in which they are payable.

Further information on pensions costs and the scheme arrangements is provided in note 25.

SHARE CAPITAL AND SHARE PREMIUM

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

LEASES

The Group enters into operating and finance leases.

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

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

BORROWING COSTS

Borrowing costs are written off as incurred.

FINANCIAL RISK MANAGEMENT

Financial risk factors

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

(a) Foreign exchange risk

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

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

(b) Interest rate risk

The Group has interest bearing assets and liabilities and maintains these at both fixed and floating rates of interest to manage the Group's exposure to interest rate fluctuations.

The Group agreed a 5-year term facility (£12 million) with Barclays Plc of which £8.7 million has been drawn down. Simultaneously the Group entered an interest rate swap to ensure the interest rate on the drawdown remained fixed throughout the term. The Group also agreed a 3-year revolving credit facility (£10 million).

(c) Credit risk

The Group has some significant concentrations of credit risk within retail customers. Policies have been implemented that require appropriate credit checks on potential customers before sales commence and on potential suppliers before orders can be raised. The Group operates trade credit insurance to cover the majority of customers where available.

(d) Liquidity risk

The Group Treasury function is required to ensure the Group has sufficient committed debt facilities to cover its liquidity requirements for at least the next 12 months.

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

(a) Cash flow hedge

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

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

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

(b) Derivatives that do not qualify for hedge accounting

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

FAIR VALUE ESTIMATION

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

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

FOREIGN CURRENCY

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

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

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

DIVIDEND DISTRIBUTION

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

Notes to the Financial Statements
continued

2 SEGMENTAL REPORTING

The primary reporting format for segmental purposes is geographic, as this is the basis on which the Group is organised and managed. Transactions with and balances to the other segments have been identified below and eliminated.

Hornby's secondary reporting format is business and as the Group operates on a single business segment, further analysis is not required here.

The Company is a holding company operating in the UK with its results given in the Company Income Statement on page 30 and its assets and liabilities given in the Company Balance Sheet on page 31 Other Company information is provided in the other notes to the accounts.

Year ended 31 March 2009	UK £'000	USA £'000	Rest of Europe £'000	Total Reportable Segments £'000	Intra Group £'000	Group £'000
Revenue - External	43,497	3,253	14,819	61,569	–	61,569
- Other segments	3,582	–	3,329	6,911	(6,911)	–
Operating profit	**5,773**	**21**	**1,105**	**6,899**	**–**	**6,899**
Interest expense - External	(749)	–	(56)	(805)	–	(805)
- Other segments	(230)	(16)	(796)	(1,042)	1,042	–
Interest income - External	22	3	2	27	–	27
- Other segments	1,042	–	–	1,042	(1,042)	–
Profit before tax	5,858	8	255	6,121	–	6,121
Taxation	(1,694)	(4)	(211)	(1,909)	–	(1,909)
Profit for the year	**4,164**	**4**	**44**	**4,212**	**–**	**4,212**
Segment assets	53,004	2,061	25,530	80,595	(22,845)	57,750
Less intercompany receivables	(21,045)	(2)	(1,798)	(22,845)	22,845	–
Add tax assets	67	–	124	191	–	191
Total assets	**32,026**	**2,059**	**23,856**	**57,941**	**–**	**57,941**
Segment liabilities	22,591	2,252	23,089	47,932	(22,845)	25,087
Less intercompany payables	(367)	(2,198)	(20,280)	(22,845)	22,845	–
Add tax liabilities	1,189	1	110	1,300	–	1,300
Total liabilities	**23,413**	**55**	**2,919**	**26,387**	**–**	**26,387**
Other segment items						
Capital expenditure (including acquisitions)	4,422	23	1,713	6,158	–	6,158
Depreciation	2,839	11	1,465	4,315	–	4,315
Net foreign exchange on intercompany loans	(535)	–	–	(535)	–	(535)
Amortisation of intangible assets	247	–	123	370	–	370
Share-based payment – charge to Income Statement (note 22)	224	–	–	224	–	224

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

Year ended 31 March 2008	UK £'000	USA £'000	Rest of Europe £'000	Total Reportable Segments £'000	Intra Group £'000	Group £'000
Revenue - External	40,420	2,696	12,576	55,692	–	55,692
- Other segments	3,067	–	2,601	5,668	(5,668)	–
Operating profit	**7,915**	**34**	**1,437**	**9,386**	–	**9,386**
Interest expense - External	(301)	–	(73)	(374)	–	(374)
- Other segments	(109)	(22)	(748)	(879)	879	–
Interest income - External	–	4	1	5	–	5
- Other segments	879	–	–	879	(879)	–
Profit before tax	8,384	16	617	9,017	–	9,017
Taxation	(2,524)	–	(416)	(2,940)	–	(2,940)
Profit for the year	**5,860**	**16**	**201**	**6,077**	–	**6,077**
Segment assets	40,830	1,021	20,861	62,712	(18,494)	44,218
Less intercompany receivables	(17,582)	(1)	(911)	(18,494)	18,494	–
Add tax assets	244	–	31	275	–	275
Total assets	**23,492**	**1,020**	**19,981**	**44,493**	–	**44,493**
Segment liabilities	8,597	1,004	19,855	29,456	(18,494)	10,962
Less intercompany payables	(21)	(962)	(17,511)	(18,494)	18,494	–
Add tax liabilities	1,604	–	465	2,069	–	2,069
Total liabilities	**10,180**	**42**	**2,809**	**13,031**	–	**13,031**
Other segment items						
Capital expenditure (including acquisitions)	1,960	23	1,632	3,615	–	3,615
Depreciation	1,970	8	930	2,908	–	2,908
Net foreign exchange on intercompany loans	(780)	–	–	(780)	–	(780)
Amortisation of intangible assets	57	–	106	163	–	163
Share-based payment – charge to Income Statement (note 22)	225	–	–	225	–	225

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

Notes to the Financial Statements
continued

3 FINANCE (COSTS)/INCOME

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Finance costs:				
Interest paid on bank borrowings	(793)	(369)	–	–
Interest paid on intercompany borrowings	–	–	(280)	(256)
Interest paid on finance leases	(12)	(5)	–	–
	(805)	(374)	(280)	(256)
Finance income:				
Bank interest	27	5	–	–
Interest received on intercompany loans	–	–	190	76
Dividend received	–	–	5,740	3,118
	27	5	5,930	3,194
Net finance (costs)/income	(778)	(369)	5,650	2,938

4 PROFIT BEFORE TAXATION

	Group		Company	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
The following items have been included in arriving at profit before taxation:				
Staff costs (note 24)	9,059	7,299	834	749
Inventories:				
- Cost of inventories recognised as an expense (included in cost of sales)	32,490	27,473	–	–
- Write down charge	502	55	–	–
Depreciation of property, plant and equipment:				
- Owned assets	4,293	2,890	44	45
- Under finance leases	22	18	–	–
Loss/(profit) on disposal of assets	25	(7)	–	–
Other operating lease rentals payable:				
- Plant and machinery	175	112	–	–
- Property	417	241	–	–
Repairs and maintenance expenditure on property, plant and equipment	208	215	–	–
Research and development expenditure	1,429	1,234	–	–
Foreign exchange (gains)/losses:				
- On trading transactions	(1,634)	509	–	–
- Net impact on intercompany loans	(535)	(780)	–	–
Impairment of trade receivables	202	73	–	–
Other operating (income)/expenses:				
- On trading transactions	(1,634)	509	–	–
- Net impact on intercompany loans	(535)	(780)	–	–
- Movement on fair value of ineffective hedge	6	(65)	–	–
- Share-based payment charge	224	225	60	28
- Amortisation of intangible assets	370	163	–	–
	(1,569)	52	60	28

Notes to the Financial Statements
continued

Services provided by the Group's auditor and network firms

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

	Group		Company	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
- Fees payable to the Company's auditor for the audit of parent company and consolidated accounts	88	109	12	46
- Fees payable to the Company's auditor and its associates for other services:				
The auditing of accounts of subsidiaries of the Company pursuant to legislation	68	90	–	33
Other services pursuant to legislation	20	19	20	19
Services relating to corporate finance transactions	173	45	147	45
Services relating to taxation	38	70	16	24
All other services	–	14	–	14
	387	347	195	181

5 TAXATION

Analysis of tax charge in the year

	Group		Company	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
Current tax				
- current year	1,671	2,318	104	(13)
- adjustments in respect of prior years	1	(47)	(2)	(10)
- overseas taxation	228	450	(8)	–
- adjustment in respect of prior years	–	(9)	–	–
	1,900	2,712	94	(23)
Deferred tax (note 20)				
- current year	22	253	24	34
- overseas taxation	(13)	(25)	–	–
	9	228	24	34
Total tax charge to the Income Statement	1,909	2,940	118	11
Tax on items credited to equity:				
Deferred tax debit on share-based payments	–	52	–	17

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

	Group		Company	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
Profit before taxation	6,121	9,017	5,983	3,436
Profit on ordinary activities multiplied by rate of corporation tax in UK of 28% (2008 – 30%)	1,714	2,705	1,675	1,031
Effects of:				
Adjustment to tax in respect of prior years	1	(56)	(2)	(10)
Income not taxable	–	–	(1,607)	(935)
Expenses not deductible/(deductible) for tax purposes	52	193	52	(63)
Difference on overseas rates of tax	24	28	–	–
Impact of overseas losses not recognised	118	73	–	–
Remeasurement of deferred tax				
- change in UK tax rate	–	(3)	–	(12)
Total taxation	1,909	2,940	118	11

6 DIVIDENDS

	Group and Company	
	2009	2008
	£'000	£'000
Final paid 5.8p per share in relation to year ended 31 March 2008 (2008 – paid 5.6p per share in relation to year ended 31 March 2007)	2,187	2,098
Interim paid 2.7p per share in relation to year ended 31 March 2009 (2008 – paid 2.7p per share in relation to year ended 31 March 2008)	1,018	1,020
	3,205	3,118

The directors are not proposing a final dividend in respect of the financial year ended 31 March 2009.

Notes to the Financial Statements
continued

7 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding those held in the employee share trust (note 22) which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares that have satisfied the appropriate performance criteria at 31 March 2009.

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

	Earnings £'000	2009 Weighted average number of shares 000's	Per-share amount pence	Earnings £'000	2008 Weighted average number of shares 000's	Per-share amount pence
Basic EPS						
Earnings attributable to ordinary shareholders	4,212	37,724	11.17	6,077	37,637	16.15
Effect of dilutive securities						
Options		627	(0.19)		1,277	(0.53)
Diluted EPS	4,212	38,351	10.98	6,077	38,914	15.62
Earnings attributable to shareholders	4,212	37,724	11.17	6,077	37,637	16.15
Amortisation of intangibles	370		0.98	163		0.43
Net foreign exchange translation adjustments	(385)		(1.02)	(546)		(1.45)
Restructuring and abortive due diligence costs	301		0.79	–		–
Underlying EPS	4,498	37,724	11.92	5,694	37,637	15.13
Underlying diluted EPS	4,498	38,351	11.73	5,694	38,914	14.63

8 GOODWILL

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

GROUP	£'000
COST	
At 1 April 2007	9,206
Exchange adjustments	719
At 31 March 2008	9,925
AGGREGATE IMPAIRMENT	
At 1 April 2007 and 31 March 2008	–
Net book amount at 31 March 2008	9,925

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

Notes to the Financial Statements
continued

The goodwill has been allocated to cash-generating units and a summary of carrying amounts of goodwill by geographical segments (representing cash-generating units) at 31 March 2009 is as follows:

	UK	USA	Rest of Europe	**Total**
GROUP	£'000	£'000	£'000	**£'000**
At 31 March 2009	3,992	6	9,626	**13,624**
At 31 March 2008	1,081	5	8,839	**9,925**

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

The key assumptions in the value in use calculation:

Budgeted revenue growth was based on expected levels of activity given results to date, together with growth based upon internal improvements, marketing initiatives, and expected economic and market conditions.

Budgeted operating profit was calculated based upon management's expectation of operating costs appropriate to the growing business.

The relative risk adjusted (or 'beta') discount rates applied to reflect the risk inherent in hobby based product companies. In determining the risk adjusted discount rate, management has applied an adjustment for risk of such companies in the industry on average determined using the betas of comparable hobby based product companies.

The forecasts are based on approved budgets for the year ending 31 March 2010. Subsequent cash flows have been increased in line with historic local territory gross domestic product. For cash flows after 5 years, growth is no higher than long-term growth rate for each country. The cash flows were discounted using a pre tax discount rate of around 12% which management believes is appropriate for all territories.

9 INTANGIBLE ASSETS

GROUP	Brands	Customer lists	Rent free period	Total
ACQUIRED INTANGIBLE ASSETS	£'000	£'000	£'000	£'000
COST				
At 1 April 2008	2,151	679	32	2,862
Acquisitions	2,676	729	–	3,405
Exchange adjustments	256	65	5	326
At 31 March 2009	5,083	1,473	37	6,593
AMORTISATION				
At 1 April 2008	290	136	32	458
Charge for the year	234	136	–	370
Exchange adjustments	50	21	5	76
At 31 March 2009	574	293	37	904
Net book amount at 31 March 2009	4,509	1,180	–	5,689
COST				
At 1 April 2007	1,924	613	28	2,565
Reclassification	(7)	7	–	–
Exchange adjustments	234	59	4	297
At 31 March 2008	2,151	679	32	2,862
AMORTISATION				
At 1 April 2007	157	59	28	244
Charge for the year	99	64	–	163
Exchange adjustments	34	13	4	51
At 31 March 2008	290	136	32	458
Net book amount at 31 March 2008	1,861	543	–	2,404
Net book amount at 31 March 2007	1,767	554	–	2,321

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

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

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

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

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

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

The Company has no intangible assets.

Notes to the Financial Statements
continued

10 PROPERTY, PLANT AND EQUIPMENT

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

GROUP	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Tools & moulds £'000	Total £'000
COST					
At 1 April 2007	2,825	5,933	352	27,621	36,731
Exchange adjustments	79	72	12	456	619
Additions at cost	15	489	18	3,099	3,621
Disposals	–	(1,357)	(114)	–	(1,471)
At 31 March 2008	2,919	5,137	268	31,176	39,500
ACCUMULATED DEPRECIATION					
At 1 April 2007	968	4,668	192	23,445	29,273
Exchange adjustments	12	53	5	294	364
Charge for the year	52	278	46	2,532	2,908
Disposals	–	(1,356)	(49)	–	(1,405)
At 31 March 2008	1,032	3,643	194	26,271	31,140
Net book amount at 31 March 2008	1,887	1,494	74	4,905	8,360
At 31 March 2007	1,857	1,265	160	4,176	7,458

Freehold land amounting to £786,000 (2008 – £786,000) has not been depreciated.

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

	2009 £'000	2008 £'000
Cost	167	69
Aggregate depreciation	(41)	(19)
Net book amount	126	50

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

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

Notes to the Financial Statements
continued

10 PROPERTY, PLANT AND EQUIPMENT continued

COMPANY

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

COMPANY

	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000
COST			
At 1 April 2007	2,377	3	2,380
Exchange adjustments	–	1	1
At 31 March 2008	2,377	4	2,381
ACCUMULATED DEPRECIATION			
At 1 April 2007	908	1	909
Exchange adjustments	–	1	1
Charge for the year	44	1	45
At 31 March 2008	952	3	955
Net book amount at 31 March 2008	1,425	1	1,426
At 31 March 2007	1,469	2	1,471

The Company does not hold any assets under finance leases.

11 INVESTMENTS

COMPANY

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

	Interests in subsidiary undertakings at valuation £'000	Loans to subsidiary undertakings at cost £'000	Total £'000
At 1 April 2008	25,985	4,103	30,088
Capitalisation of subsidiary	1,782	–	1,782
Capital contribution relating to share-based payment	164	–	164
Net increase in loans to subsidiary undertakings	–	955	955
At 31 March 2009	27,931	5,058	32,989
At 1 April 2007	25,788	3,718	29,506
Capital contribution relating to share-based payment	197	–	197
Net increase in loans to subsidiary undertakings	–	385	385
At 31 March 2008	25,985	4,103	30,088

Interest was charged on loans to subsidiary undertakings at 6% pa, subsequently reduced to Euribor + 2% on loans to European subsidiaries.

Loans are unsecured and exceed five years maturity.

PRINCIPAL GROUP SUBSIDIARY UNDERTAKINGS

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

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

Notes to the Financial Statements
continued

12 INVENTORIES

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Raw materials	534	759	–	–
Work in progress	103	384	–	–
Finished goods	13,731	10,747	–	–
	14,368	11,890	–	–

13 TRADE AND OTHER RECEIVABLES

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
CURRENT:				
Trade receivables	12,370	9,801	–	–
Less: provision for impairment of receivables	(338)	(203)	–	–
Trade receivables – net	12,032	9,598	–	–
Other receivables	171	373	–	–
Prepayments	916	728	8	21
	13,119	10,699	8	21

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated. Due to this, management believes there is no further credit risk provision required in excess of the normal provision for doubtful receivables. Credit insurance policies are in place in Hornby Hobbies Limited, Hornby America, Hornby España, Hornby Italia, Hornby France and Hornby Deutschland covering trade receivables at 31 March 2009 to the value of £10.4 million (2008 – £5.4 million).

Gross trade receivables can be analysed as follows:

	2009 £'000	2008 £'000
Fully performing	10,199	7,996
Past due	1,701	1,262
Impaired	470	543
Trade receivables	12,370	9,801

As of 31 March 2009, trade receivables of £1,701,000 (2008 – £1,262,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2009 £'000	2008 £'000
1 - 120 days	1,549	1,244
> 120 days	152	18
	1,701	1,262

As of 31 March 2009, trade receivables of £470,000 (2008 – £543,000) were impaired and provided for. The amount of provision was £338,000 (2008 – £203,000) as of 31 March 2009.

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

The ageing of these receivables is as follows:

	2009 £'000	2008 £'000
1 - 120 days	190	243
> 120 days	280	300
	470	543

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

	2009 £'000	2008 £'000
At 1 April	203	173
Provision for receivables impairment	202	73
Receivables written off during the year as uncollectible	(107)	(54)
Exchange adjustments	40	11
At 31 March	338	203

Notes to the Financial Statements
continued

13 TRADE AND OTHER RECEIVABLES continued

The charge relating to the increase in provision has been included in 'administrative expenses' in the income statement.

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

	Group		Company	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
Sterling	6,638	6,320	7	17
Euro	5,791	3,914	1	4
US dollar	457	315	–	–
HK dollar	233	150	–	–
	13,119	10,699	8	21

14 CASH AND CASH EQUIVALENTS

	Group		Company	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
Cash at bank and in hand	427	940	8	8

15 TRADE AND OTHER PAYABLES

	Group		Company	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
CURRENT:				
Trade payables	3,935	3,214	–	–
Other taxes and social security	1,024	808	15	16
Other payables	1,955	1,135	–	1
Accruals	1,356	1,694	143	241
	8,270	6,851	158	258

16 PROVISIONS

	Group		Company	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
Sales returns				
At 1 April	500	293	–	–
Charged to income statement	1,050	1,265	–	–
Utilised in year	(1,012)	(1,058)	–	–
At 31 March	538	500	–	–

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

17 CURRENT TAX

		Group		Company	
		2009	2008	2009	2008
		£'000	£'000	£'000	£'000
Current tax assets					
Corporation tax receivable	- UK	–	121	–	121
Corporation tax recoverable	- Overseas	124	31	9	31
		124	152	9	152

	Group		Company	
Current tax liabilities				
UK Corporation tax liability	910	1,291	–	–
Overseas Corporation tax liability	89	432	–	–
	999	1,723	–	–

Notes to the Financial Statements
continued

18 BORROWINGS

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Unsecured borrowing at amortised cost				
Bank overdrafts	3,487	2,208	–	–
Bank loan	8,700	–	–	–
Finance leases	132	53	–	–
Loan from subsidiary undertakings	–	–	5,580	4,801
	12,319	2,261	5,580	4,801
Total borrowings				
Amount due for settlement within 12 months	5,138	2,220	–	–
Amount due for settlement after 12 months	7,181	41	5,580	4,801
	12,319	2,261	5,580	4,801

The Group and Company have no secured borrowings. The Group complied with all loan covenants during the year.

Analysis of borrowings by currency:

Group	Sterling £'000	Euros £'000	Total £'000
31 March 2009			
Bank overdrafts	3,432	55	3,487
Bank loan	8,700	–	8,700
Finance leases	132	–	132
	12,264	55	12,319
31 March 2008			
Bank overdrafts	1,905	303	2,208
Finance leases	53	–	53
	1,958	303	2,261

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

At 31 March 2009 the Group had a £6 million overdraft facility and a £10 million fixed term loan agreement. In June 2009 the Group improved the security of its banking facilities. A formal offer from the Group's principal bankers, Barclays, has been received and agreed subject to contract. The bank facilities have been revised to comprise a 3-year revolving credit facility of £10 million and a 5-year fixed term loan agreement of £12 million, resulting in combined committed banking facilities of £22 million. The future interest rates of these facilities are Libor + 2.85% for the revolving credit facility and Libor + 3.6% for the fixed term loan. The facilities have been authorised by the Group's principal bankers.

The average effective interest rate on bank overdrafts approximated to 4.52% (2008 – 6.02%) per annum and is determined based on 1.0% above the Barclays Bank base rate.

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

	2009	2008
	%	%
Bank overdrafts	4.52	6.02

Undrawn borrowing facilities

At 31 March 2009, the Group had available £5.6 million (2008 – £3.9 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

19 FINANCIAL INSTRUMENTS

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

		Assets		Liabilities	
Group		2009	2008	2009	2008
		£'000	£'000	£'000	£'000
Carrying values of derivative financial instruments					
Foreign exchange collar		–	–	(3,270)	(1,346)
Forward foreign currency contracts	- cash flow hedges	–	133	(259)	(4)
Interest rate swap	- cash flow hedge	–	–	(431)	–
		–	133	(3,960)	(1,350)

The Company does not have any derivative financial instruments.

The hedged forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months. Gains and losses recognised in reserves in equity on forward foreign exchange contracts as of 31 March 2009 are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement, which is within 12 months from the balance sheet date.

At 31 March 2009 outstanding forward currency contracts were as follows:

	2009	2008
	000's	000's
Hong Kong $	125,000	127,733
US$	116	1,400
Euros	(445)	–

The notional principal amount of the outstanding interest rate swap contract at 31 March 2009 was £8.7 million (2008 – nil). At 31 March 2009, the interest rate swap fixes the interest rate in the bank loan disclosed in note 18 to 6.4%. The loss recognised in the interest rate swap included in the hedging reserve as of 31 March 2009 will be continuously released to the income statement until the maturity of the swap.

Notes to the Financial Statements
continued

19 FINANCIAL INSTRUMENTS continued

The total fair value above for forward foreign currency contracts and interest rate swap comprises £690,000 liability (2008 – £129,000 asset), £680,000 liability (2008 – £133,000 asset) has been effectively hedged at 31 March 2009 and therefore charged to reserves in accordance with IAS39. The liability balance of £10,000 (2008 – £4,000) was the ineffective hedged portion and was included within operating expenses.

In accordance with IAS39, the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. No embedded derivatives have been identified.

Fair values of non-derivative financial assets and liabilities

For the Group and the Company, as at 31 March 2009 and 31 March 2008, there is no difference between the carrying amount and fair value of each of the following classes of financial assets and liabilities, principally due to their short maturity: trade and other receivables, cash at bank and in hand, trade and other payables and current borrowings. There is no significant difference between the fair value and carrying amount of non-current borrowings as the impact of discounting is not significant.

Maturity of non-current financial liabilities

GROUP

			2009	2008
	Bank loan £'000	Finance leases £'000	Total £'000	Finance leases £'000
Between one and two years (note 18)	2,176	47	2,223	27
Between two and five years (note 18)	4,892	66	4,958	14
	7,068	113	7,181	41

COMPANY	2009 Debt £'000	2008 Debt £'000
More than five years (note 18)	5,580	4,801

Bank deposits attract interest within 0.5% of the ruling market rate.

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

GROUP	2009 £'000	2008 £'000
Not later than one year	30	15
Later than one year but not more than five	120	41
	150	56
Future finance charges on finance leases	(18)	(3)
Present value of finance lease liabilities	132	53

Financial Instruments

Interest rate sensitivity

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

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

The effect on both income and equity based on exposure to borrowings at the balance sheet date for a 1% increase in interest rates is £132,000 (2008 – £36,000), before tax. A 1% fall in interest rates give the same but opposite effect.

1% increase in interest rates	Income and Equity Sensitivity	
	2009	2008
	£'000	£'000
Borrowings	132	36

Foreign currency sensitivity

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

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

	Income and Equity Sensitivity	
	2009	2008
	£'000	£'000
US and HK dollars	1,131	772
Euros	215	462
	1,346	1,234

Capital risk management

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

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

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

Notes to the Financial Statements
continued

19 FINANCIAL INSTRUMENTS continued

	2009 £'000	2008 £'000
Total borrowings (note 18)	12,319	2,261
Less:		
Total cash and cash equivalents (note 14)	(427)	(940)
Net Debt	11,892	1,321
Total Equity	31,985	31,462
Total Capital	43,877	32,783
Gearing	27%	4%

20 DEFERRED TAX

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (2008 – 28%).

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

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
At 1 April	223	(63)	159	108
Charge to income statement				
- origination and reversal of timing differences	9	228	24	34
Exchange adjustments	2	6	–	–
Debit to equity	–	52	–	17
At 31 March	234	223	183	159

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

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

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

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

Deferred tax liabilities	Group					Company		
	Revaluation	Accelerated capital allowances	Humbrol intangibles	Overseas	Total	Revaluation	Accelerated capital allowances	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2008	193	120	–	33	346	193	13	206
Credit to income statement	(5)	(29)	–	(11)	(45)	(5)	–	(5)
At 31 March 2009	188	91	–	22	301	188	13	201
At 1 April 2007	212	88	6	52	358	212	14	226
(Credit)/charge to income statement	(19)	32	(6)	(19)	(12)	(19)	(1)	(20)
At 31 March 2008	193	120	–	33	346	193	13	206

Of the total deferred tax liability of £301,000, £5,000 was due within one year for the Group (2008 – £5,000) and £5,000 for the Company (2008 – £5,000).

Deferred tax assets	Group				Company
	Short-term incentive plan	Share options	Other	Total	Short-term incentive plan
	£'000	£'000	£'000	£'000	£'000
GROUP					
At 1 April 2008	(122)	–	(1)	(123)	(47)
Charge/(credit) to income statement	77	–	(21)	56	29
At 31 March 2009	(45)	–	(22)	(67)	(18)
At 1 April 2007	(321)	(100)	–	(421)	(118)
Charge/(credit) to income statement	170	77	(1)	246	54
Debit to equity	29	23	–	52	17
At 31 March 2008	(122)	–	(1)	(123)	(47)
Net deferred tax asset					
At 31 March 2009				–	–
At 31 March 2008				–	–
Net deferred tax liability					
At 31 March 2009				234	183
At 31 March 2008				223	159

The deferred tax liability arising on the revaluation of freehold land and buildings in 1986 cannot be offset against deferred tax assets. Therefore, the deferred tax asset and deferred tax liability at 31 March 2009 and 31 March 2008 have been recognised separately.

Notes to the Financial Statements
continued

20 DEFERRED TAX continued

GROUP	2009 Recognised £'000	2009 Not recognised £'000	2008 Recognised £'000	2008 Not recognised £'000
Deferred tax comprises:				
Accelerated capital allowances	91	–	120	–
Other timing differences	121	–	70	–
Overseas taxation	22	–	33	–
Deferred tax liability	234	–	223	–

COMPANY	2009 Recognised £'000	2009 Not recognised £'000	2008 Recognised £'000	2008 Not recognised £'000
Deferred tax comprises:				
Accelerated capital allowances	13	–	13	–
Other timing differences	170	–	146	–
Deferred tax liability	183	–	159	–

21 CALLED UP SHARE CAPITAL

GROUP AND COMPANY	2009 £'000	2008 £'000
Authorised:		
50,000,000 (2008 – 50,000,000) ordinary shares of 1p each	500	500

Allotted, called up and fully paid:

Ordinary shares of 1p each	2009 Number of shares	2009 £'000	2008 Number of shares	2008 £'000
At 1 April	37,989,100	380	37,840,790	378
Allotted under share option schemes	–	–	148,310	2
At 31 March	37,989,100	380	37,989,100	380

At 31 March 2009 options granted under the Company's share option schemes were outstanding as follows:

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

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

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

Notes to the Financial Statements
continued

22 SHARE-BASED PAYMENTS

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

SOS awards

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

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

Activity relating to share options for the year ended 31 March 2009 and 31 March 2008 was as follows:

	2009		2008	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 April	2,591,005	133.1p	2,320,810	105.0p
Granted	–	–	418,505	252.6p
Exercised	–	–	(148,310)	29.5p
Outstanding at 31 March	2,591,005	133.1p	2,591,005	133.1p

No options were exercised in the current year. The weighted average share price during the year was 129.3p (2008 – 245.0p).

The following table summarises information relating to the number of shares under option (SOS awards) and those which were exercisable at 31 March 2009.

Range of exercise prices	Total shares under option Number	Weighted average remaining contractual life Months	Options exercisable at 31 March 2009 Number	Options exercisable at 31 March 2008 Number	Exercisable weighted average exercise price for options exercisable at 31 March 2009
£0.70 - £0.80	1,000,000	36	1,000,000	1,000,000	76.8p
£0.80 - £0.90	622,500	39	622,500	622,500	83.4p
£2.00 - £2.10	550,000	39	550,000	–	201.0p
£2.50 - £2.60	418,505	100	–	–	–
	2,591,005		2,172,500	1,622,500	110.1p

STIP awards

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

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

Performance Share Plan

All Performance Share Plan (PSP) awards outstanding at 31 March 2009 vest only if performance conditions are met. Awards granted under the PSP must be exercised within one year of the relevant award vesting date.

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

All plans are subject to continued employment. To the extent that such shares in the above plans are awarded to employees below fair value, a charge calculated in accordance with IFRS 2 'Share-based payment' is included within other operating expenses in the income statement. This charge for the Group amounted to £224,000 in the year ended 31 March 2009 (2008 – £225,000) and the Company £60,000 in the year ended 31 March 2009 (2008 – £28,000).

The Group has taken advantage of the exemption allowed under IFRS 1 regarding IFRS 2 'Share-based payment' and only applied this standard to equity settled awards made since 7 November 2002.

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

	2009			2008	
	SOS	STIP	PSP*	SOS	STIP
Fair value (p)	–	–	81.54p	62.1p	–
Options pricing model used	–	–	Stochastic	Black Scholes	–
Share price at grant date (p)	–	–	150.0p	252.6p	–
Exercise price (p)	–	–	n/a	252.6p	–
Expected volatility (%)	–	–	33.0%	29.8%	–
Risk-free rate (%)	–	–	n/a	4.9%	–
Expected option term (years)	–	–	3	5	–
Expected dividends (per year, %)	–	–	0%	3.2%	–

* Assumptions for TSR component only.

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

The Group reported a provision for National Insurance and other social security taxes of £5,324 (2008 – £22,715) in respect of liabilities arising from the above share-based payment transactions.

Notes to the Financial Statements
continued

22 SHARE-BASED PAYMENTS continued

GROUP – SHORT TERM INCENTIVE PLAN

	2009 £'000	2008 £'000
At 1 April	507	802
Shares acquired in Company	284	–
Shares vested	(294)	(295)
At 31 March	497	507

Details of the Short Term Incentive Plan are given in the Directors' Remuneration Report on pages 19 to 26.

The Employee Benefit Trust acquired 182,096 ordinary shares to the value of £284,195 in June 2008 in accordance with the incentive plan.

On 23 June 2008, the final third of the 2004 allocation (42,301 ordinary shares), the 2nd third of the 2005 allocation (54,213 ordinary shares) and the 1st third of the 2006 allocation (22,015 ordinary shares) were vested.

On 13 March 2009 a leaving employee was vested 13,932 shares.

At 31 March 2009, a total of 267,310 (2008 – 216,775) ordinary shares are held by the Trust and allotted to the directors and senior management under the plan with a nominal value of £2,673 (2008 – £2,168) and a market value of £182,439 (2008 – £410,789). The costs of the plan are borne by Hornby Plc. The Trust has waived its right to dividends.

23 ACQUISITIONS

CORGI

On 1 May 2008 Hornby Hobbies Limited acquired the Corgi brand and related tooling and intellectual property rights from Corgi International Limited for £7,589,000 and inventories for £743,000. Legal and due diligence fees of £163,000 were incurred by Hornby Plc.

The table below sets out the Group's assessment of the fair values of the assets acquired.

	Acquirer's carrying amount £'000	Fair value to the Group £'000
Intangible assets:		
- customer lists	–	729
- brand names	–	2,676
Property, plant and equipment	1,432	1,432
Inventories	743	743
Net assets acquired	2,175	5,580
Goodwill		2,915
Consideration		8,495
Consideration		
- satisfied by cash		8,332
- direct costs relating to acquisition		163
		8,495

Goodwill is attributable to significant synergies arising post-acquisition due to Hornby's existing presence in the hobby sector and its extensive customer base.

Goodwill arising on the acquisition of Corgi is expected to be deductible for tax purposes.

Hornby Hobbies Limited acquired a part of the Corgi International Limited assets and therefore historical trading performance is not available in relation to the assets acquired. The Corgi assets have been fully integrated into Hornby Hobbies Limited and it is not possible to extract meaningful trading results of the assets since acquisition to 31 March 2009 other than £5.5 million sales of Corgi product in the period would have been approximately £5.8 million had the Corgi brands been included in the Group from the start of the financial year.

Notes to the Financial Statements
continued

24 EMPLOYEES AND DIRECTORS

	Group		Company	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
Staff costs for the Group during the year:				
Wages and salaries	7,360	6,056	611	576
Share-based payments	224	225	60	28
Social security costs	781	568	69	102
Other pension costs (note 25)	540	424	58	43
Redundancy and compensation for loss of office	154	26	36	–
	9,059	7,299	834	749

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

	Group		Company	
	2009	2008	2009	2008
	Number	Number	Number	Number
Operations	94	83	–	–
Sales, marketing and distribution	99	83	1	1
Administration	47	48	4	3
	240	214	5	4

Key management compensation:

	Group		Company	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
Salaries and short-term benefits	2,071	1,934	492	484
Share-based payments	206	206	60	28
Post-employment benefits	185	143	51	43
	2,462	2,283	603	555

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

A detailed numerical analysis of directors' remuneration and share options showing the highest paid director, number of directors accruing benefit under money purchase pension schemes and gains realised on the exercise of share options, is included in the Directors' Remuneration Report on pages 19 to 26 and forms part of these financial statements.

25 PENSION COMMITMENTS

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

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

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

The Group pension cost for the year was £540,000 (2008 – £424,000) representing the actual contributions payable in the year and certain scheme administration costs. The Company pension cost for the year was £58,000 (2008 – £43,000).

26 FINANCIAL COMMITMENTS

CAPITAL COMMITMENTS	Group	
	2009	2008
	£'000	£'000
At 31 March commitments were:		
Contracted for but not provided for	1,292	1,182

The Company does not have any capital commitments.

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

CONTINGENT LIABILITIES

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

Notes to the Financial Statements
continued

27 OPERATING LEASE COMMITMENTS

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

	2009	2008
GROUP	£'000	£'000
Not later than one year	472	404
Later than one year but not more than five years	1,115	1,007
More than 5 years	64	62
	1,651	1,473

The Company had no operating lease commitments during 2009 (2008 – nil).

28 RELATED PARTY DISCLOSURES

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

The Company received management fees from subsidiaries of £1,540,000 (2008 – £1,504,000), interest of £190,000 (2008 – £76,000) and dividends from subsidiaries of £5,740,000 (2008 – £3,118,000).

At the year-end balances due from subsidiaries to the Company amounted to £5,777,000 (2008 – £4,539,000) and due to subsidiaries from the Company amounted to £6,299,000 (2008 – £5,237,000).

29 POST BALANCE SHEET EVENTS

In June 2009 the Group improved the security of its banking facilities. A formal offer from the Group's principal bankers, Barclays, has been received and agreed subject to contract. The bank facilities have been revised to comprise a 3-year revolving credit facility of £10 million and a 5-year fixed term loan agreement of £12 million, resulting in combined committed banking facilities of £22 million. The future interest rates of these facilities are Libor + 2.85% for the revolving credit facility and Libor + 3.6% for the fixed term loan.

Notice of Annual General Meeting

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

Notice is hereby given that the twenty-eighth Annual General Meeting of Hornby Plc (the 'Company') will be held at Berwin Leighton Paisner LLP, Adelaide House, London Bridge, London EC4R 9HA on Thursday 30 July 2009 at 11.00am for the following purposes:

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

ORDINARY RESOLUTIONS

1. To receive and adopt the Annual Report and Accounts for the financial year ended 31 March 2009 together with the Report of the Directors and Auditors.

2. To approve the Directors' Remuneration Report, as set out on pages 19 to 26 of the Company's Annual Report and Accounts, for the financial year ended 31 March 2009.

3. To re-elect N A Johnson as a Director.

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

5. To re-elect N M Carrington, who retires by rotation, as a Director.

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

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

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

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

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

   For the purpose of this resolution, the terms 'political donations', 'political expenditure', 'independent election candidates', 'political parties' and 'political organisations' shall have the meaning given to them by Part 14 of the Companies Act 2006.

Notice of Annual General Meeting
continued

9. THAT, in place of the equivalent authority given to the Directors at the last AGM (but without prejudice to the continuing authority of the Directors to allot shares pursuant to an offer or agreement made by the Company before the expiry of the authority pursuant to which such offer or agreement was made), the Directors be generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 to allot relevant securities of the Company (within the meaning of section 80(2) of the Companies Act 1985) up to a maximum aggregate nominal amount of £125,000, such authority shall expire on 29 July 2014 but so that the Company may, before the expiry of such period, make an offer or agreement which would or might require relevant securities to be allotted after the expiry of such period and the Directors may allot relevant securities pursuant to such an offer or agreement as if the authority had not expired.

SPECIAL RESOLUTIONS

10. THAT, subject to and conditional on the passing of resolution 9, the Directors be empowered, pursuant to section 95 of the Companies Act 1985, to allot equity securities (within the meaning of section 94(2) of the Companies Act 1985) for cash pursuant to the authority conferred by resolution 9 as if section 89(1) of the Companies Act 1985 did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

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

    (b) otherwise than pursuant to sub-paragraph Clause 10(a) above up to an aggregate nominal amount of £18,000,

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

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

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

11. THAT, subject to and in accordance with Article 10 of the Company's articles of association, the Company be generally and unconditionally authorised to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) of Ordinary Shares on such terms as the Directors think fit and where such shares are held as treasury shares, the Company may use them for the purposes set out in Section 162D of the Companies Act 1985, including for the purpose of its employee share schemes, provided that:

(a) the maximum number of Ordinary Shares hereby authorised to be purchased is 3,750,000 being an amount equal to 10% of the Ordinary Shares in issue at the date of this Notice;

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

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

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

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

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

By order of the Board

J W Stansfield
Secretary
Dated: 11 June 2009
Registered office: Westwood, Margate, Kent CT9 4JX
Registered in England and Wales with number 01547390

Notice of Annual General Meeting
continued

NOTES

1. This notice is being sent to all members and to any person nominated by a member of the Company under section 146 of the Companies Act 2006 to enjoy information rights.

2. Only holders of Ordinary Shares, or their duly appointed representatives, are entitled to attend, vote and speak at the AGM. A member so entitled may appoint (a) proxy/(ies), who need not be (a) member(s), to attend, speak and vote on his/her behalf. A Proxy Form is enclose with this Notice. To be valid a proxy appointment must reach the office of the Company's Registrars, Capita Registrars Limited (Proxies), PO Box 25, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time fixed for the AGM or any adjournment thereof.

3. The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with section 146 of the Companies Act 2006 ('nominated persons'). Nominated persons may have a right under an agreement with the registered shareholder who hold shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.

4. The Company, pursuant to Regulation 41 of the Uncertified Securities Regulations 2001, specifies that only those Shareholders on the register of members of the Company as at 11am on 28 July 2009 (or, if the AGM is adjourned, Shareholders on the register of members not later than 48 hours before the time fixed for the adjourned meeting) are entitled to attend and vote at the AGM in respect of the shares registered in their names at that time. Subsequent changes to the register shall be disregarded in determining the rights of any person to attend and vote at the AGM.

5. Copies of contracts of service and letters of appointment between the Directors and the Company will be available for inspection at the offices of Berwin Leighton Paisner LLP at Adelaide House, London Bridge, EC4R 9HA during normal business hours from the date of this Notice, until the conclusion of the AGM, and at the place of the AGM for at least 15 minutes prior to the AGM until its conclusion.

6. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate member has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that member at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate member attends the meeting but the corporate member has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate members are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – http://www.icsa.org.uk/ – for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.

Five Year Summary

	2009 IFRS £'000	2008 IFRS £'000	2007 IFRS £'000	2006 IFRS £'000	2005 IFRS £'000
Turnover	61,569	55,692	46,849	44,113	45,006
Profit on ordinary activities before taxation	6,121	9,017	7,662	8,164	7,585
Taxation	(1,909)	(2,940)	(2,149)	(2,306)	(1,993)
Profit on ordinary activities after taxation	4,212	6,077	5,513	5,858	5,592
Assets employed:					
Non-current assets	29,903	20,812	19,406	15,632	14,631
Net current assets	9,133	11,037	8,850	9,501	7,456
Creditors due after more than one year	(7,181)	(41)	(53)	(39)	(80)
Deferred tax liabilities	(301)	(346)	(358)	(231)	(235)
Net assets	31,554	31,462	27,845	24,863	21,772
Total capital employed	31,554	31,462	27,845	24,863	21,772
Earnings per share					
- basic	11.2p	16.2p	14.6p	15.6p	15.1p
- diluted	11.0p	15.6p	14.1p	15.1p	14.4p
Dividend per share (net)	2.7p	8.5p	8.1p	7.7p	7.0p
Net assets per share	83.1p	82.8p	73.6p	66.2p	58.4p

SHAREHOLDERS' INFORMATION SERVICE

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

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