

HORNBY PLC

ANNUAL

REPORT

& ACCOUNTS

YEAR ENDED
31 MARCH 2004



Financial Highlights

Turnover £'000

2003	34,142
2004	38,970

Operating profit £'000

2003	5,356
2004	6,363

Profit on ordinary activities before taxation £'000

2003	5,411
2004	6,469

Equity shareholders' funds £'000

2003	15,186
2004	17,329

Cash £'000

2003	7,909
2004	5,806

Earnings per ordinary share Basic

2003	53.32p
2004	61.02p

Earnings per ordinary share Diluted

2003	52.00p
2004	58.20p

Dividends per ordinary share

2003	25.0p
2004	30.0p

Net assets per ordinary share

2003	206.8p
2004	234.4p

Chairman's Statement

I am pleased to be able to report continued encouraging progress in the past 12 months. In global markets which remained challenging, sales increased by 14% to £39.0 million. Profit before tax at £6.5 million is 20% above last year's result (£5.4 million), and basic earnings per share are up by 14% to 61.0p.

PROPOSED SHARE SPLIT

It is proposed to subdivide the Company's existing ordinary shares of 5p each (issued and unissued) ("Existing Ordinary Shares") into five new ordinary shares of 1p each ("New Ordinary Shares"). The share split is proposed because of the Board's belief that the share price of the Existing Ordinary Shares, which has risen by over 600% since the beginning of the calendar year 2001, is now at a level that might impair their marketability and liquidity. The Directors believe that by lowering the price at which the Company's securities are traded, shareholders will benefit from their increased marketability and liquidity. Accordingly the Company will be seeking shareholder approval at the Annual General Meeting to be held on 22 July 2004 to implement the subdivision. Each shareholder's percentage holding will not be affected and, except for the change to the nominal value, the New Ordinary Shares will have the same rights as the Existing Ordinary Shares.

If approved by shareholders, the share split will become effective at close of business on 30 July 2004.

DIVIDEND

Reflecting the continued strength of the Company's performance your Board is recommending a final dividend of 22p per Existing Ordinary Share. This will bring the total dividend for the year to 30p per Existing Ordinary Share, an increase of 20% over the 25p declared in the previous financial year. This dividend is payable to all shareholders on the register as at 30 July 2004 and will be paid on 20 August 2004.

BUSINESS REVIEW

All of the Company's distribution channels, both in the UK and internationally, again showed good year-on-year sales growth across both Hornby and Scalextric ranges, underlining the well-balanced nature of our business. Growth in our in-store concessions, which now total 111, has exceeded expectations. This high-visibility presence throughout the year in major retail outlets has helped to underpin our retail growth.

As predicted in last year's report, the introduction of exciting new products across both Hornby and Scalextric ranges has continued to attract both positive comment and, more importantly, new business. First of the new products introduced in the summer of last year, was Hornby Live Steam. This exciting innovation, in both engineering and conceptual terms, has proved highly successful. In January this year the Company was awarded the British Association of Toy Retailers Award for "Innovative Toy of 2003"; a distinction for a model railway locomotive! Live Steam was available in the market place for the Christmas season 2003 and contributed to sales and profitability in the financial year recently ended. Other major innovations for the Scalextric ranges included MotoGP, Scalextric Sport Digital and Scalextric Sport World. Sales of these products will contribute to the current year's earnings.

In the United States it was again pleasing to see sales grow by 9% to \$5.4 million. Pre-tax profit was also up over 25% on the previous year. This progress was achieved against the background of a generally weak US economy. Our commitment to developing the US market continues and with the advent of Live Steam a limited range of Hornby products will also be marketed through our US distribution channels.

EUROPEAN ACQUISITIONS

The Company's growth in recent years, across both Hornby and Scalextric ranges, has been organic. The Board believes that there exist substantial opportunities for further broadening of both product ranges and to continue to grow profitability within our core hobby business.

Having consolidated Hornby's position in the UK over the past 3 years, the Board believed it appropriate to explore suitable acquisition opportunities. In the collectibles/models sector, European markets tend to be fragmented with highly specialised operators. The opportunity to consolidate certain parts of the market and to apply the lessons learned by Hornby in the UK led to the announcements earlier this year of Hornby's intention to expand into both the Spanish and Italian markets. Electrotren S.A., based in Madrid, and acquired on 31 March 2004, is a leading company servicing the European railway modelling sector with particular emphasis on the Spanish and trans-European railway markets. Since acquiring Electrotren we continue to be impressed by the incumbent management and by the opportunities for future growth in the business. Similarly, in Italy, your Board believes that the potential acquisition of certain assets of Lima S.p.A (in liquidation) will provide Hornby with the opportunity to re-invigorate the Lima, Jouef and Rivarossi brands and the quality of their products. Lima has a tradition of producing desirable European product in the railway modelling sector. Clearly, as both opportunities develop, your Board will consider the marketing opportunities for our other products in these markets.

PROPERTY

In December last year the Secretary of State refused permission for the development of our current Margate site as a D.I.Y. superstore. However I am happy to be able to report that the business is not constrained by continuing to operate from the present facilities.

GLOBAL CONTEXT

At the time of the last Annual Report it appeared that the two major issues affecting global confidence were in the process of becoming resolved.

With our manufacturing base in China we were naturally concerned about the potential impact of the SARS virus. This matter happily appears now to be under control and we do not anticipate any significant related issues. Despite the speedy conclusion of the war in Iraq in 2003 the world continues to suffer the after-effects. In particular the impact on oil prices is a concern to all trading operations. Your Board continues to monitor these issues closely.

PRODUCT DEVELOPMENT

The past year has seen some significant developments in both product ranges, as referred to earlier in this report. Both brands continue to focus significant resources on new product development and enhancement of current product ranges. These initiatives will continue to bear fruit during the coming year. We will also, of course, focus on product improvement and development in Electrotren and Lima (once acquired).

OUTLOOK

Sales growth momentum is now well established in both the UK and our international target markets. Trading in the new financial year has again started well and we have a strong pipeline of new product developments to ensure continued growth during the current financial year and beyond. Our European acquisitions will broaden the Company's base of operations and provide a platform from which to sell more strongly in Continental European markets.

I should like once again to thank Frank Martin our chief executive, our directors and all our staff for their dedicated support and hard work. They can be satisfied that their efforts have produced excellent results.

Neil Johnson

4 June 2004



Chief Executive's Report

OPERATIONAL AND FINANCIAL REVIEW

The Company's principal business is the development and supply of Hobby and Toy products. The Company's two principal brands, Hornby and Scalextric, are distributed through a network of specialist and multiple retailers throughout the UK and also overseas.

Consolidated turnover for the year to 31 March 2004 was £39.0 million, an increase of 14% over the previous year's £34.1 million. This follows two successive years of sales growth of 20% and 16% in 2003 and 2002 respectively.

Profit before tax of £6.5 million was 20% above last year's result of £5.4 million and represents a four-fold increase over the profit before tax recorded for the year ended 31 March 2001.

Basic underlying earnings per share rose to 61.0p, an increase of 20% on underlying earnings reported in 2003 (2003 - 50.7p).

There was a net cash outflow during the year of £2.1 million. Cash at 31 March 2004 was £5.8 million compared to £7.9 million for the previous year. The reduction in the year-end cash position is due to the acquisition of Electrotren S.A. for a cash consideration of £5.3 million on 31 March 2004. Adding back this amount shows a like for like cash generation of over £3 million from continuing operations in the year.

The Company manufactures all of its products in China, via third party contract manufacturers. However some packing operations remain in the UK where this strategy provides greater flexibility in meeting market needs. All purchases from our Chinese suppliers are made either in US or Hong Kong Dollars. It is the Company's policy to make forward currency purchases to match or exceed purchase order commitments at any time.

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

A 17% return before tax on sales (2003 - 16%) was achieved despite a significant increase in product development expenditure. In my report last year I indicated that we would be revealing important new product initiatives during the year. These initiatives, principally Live Steam, MotoGP, Scalextric Sport Digital and Scalextric Sport World have been successfully launched, although during the year only Live Steam has contributed to sales and profits. The benefit of the Scalextric initiatives will be felt during the new financial year. However we believe that the benefits that will ultimately flow from Scalextric Sport World will take some time to be fully appreciated. The Sport World system is designed to foster a worldwide community of Scalextric enthusiasts, able to communicate via a dedicated website, and able to take part in or simply spectate at online races, with participants drawn from around the world.

All sectors of the Company's channels of distribution, both in the UK and Internationally, once again showed good year-on-year growth. We have again enjoyed significant growth in our in-store concessions. These numbered 111 as at 31 March 2004, compared to 65 a year earlier. In every location where we have converted a

conventional retail outlet to the Hornby/Scalextric concession format, we have achieved a dramatic increase in sales and profits both for Hornby and for the individual retailer. Year-round availability of our products, properly displayed and demonstrated in prominent high-street locations is an important factor in the continuing growth of both our hobby brands.

At Scalextric USA, sales in US Dollars grew by 9% to \$5.4 million in the year to 31 March 2004. This growth was achieved against the background of a generally weak US economy. A profit of \$128,000 was recorded, compared to \$101,000 in the previous year. Our commitment to building a larger business in the USA continues. During the trading year we have opened 101 new accounts in the USA, taking the total as at 31 March 2004 to 519. From the beginning of the new financial year, Scalextric USA will also benefit from sales of the Hornby range. Our decision to channel Hornby products through our USA subsidiary has arisen in view of the high level of interest shown in the Live Steam product at various hobby exhibitions in the USA.

Both of our major brands, Hornby and Scalextric, once more achieved significant sales growth during the year. Within the brands, both Hornby locomotives and Scalextric cars and accessories showed particularly strong sales growth. This growth continues to be driven by a steady stream of new product introductions. We try to innovate with every new product we introduce. For example the recently launched Lister Storm car features a removable underpan to enable users easily to modify gear ratios, change motors and adapt their cars in other ways for optimum performance. We believe that this attention to the needs of the hobbyist is helping to establish Hornby and Scalextric as technically superior brands.

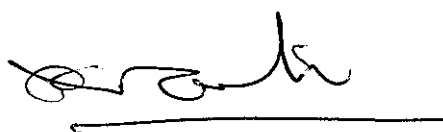
The year to 31 March 2004 saw much broader distribution in retail channels that had not stocked our products in recent years. This trend of expanding distribution will continue in the new financial year, as the growing opportunity represented by both our major brands is recognised by further major retailers.

Our growth over the past few years has been predominantly organic, and we believe that there remains a substantial opportunity to continue to build our core business. However, we have demonstrated in our UK market that the combination of strong brands in model railways and slot car racing provides an exceptionally powerful trading platform. Our acquisition of Electrotren S.A. is the first step towards replicating this position in other markets. Subject to the approval of the competent Italian Court, our intended acquisition of certain assets of Lima S.p.A. (in liquidation) will extend our model railway business primarily into Italy and France. However the Lima range will also enable us to create a model railway presence in most other European markets, as well as the USA. The process of acquiring the Lima assets is proceeding according to plan, and we hope to complete this transaction before the end of 2004.

The new financial year has once again started strongly and we remain confident about future prospects.

Frank Martin

4 June 2004



Directors and Corporate Information

DIRECTORS

N A Johnson
Non-Executive Chairman

F Martin
Chief Executive

N J Cosh
Non-Executive Director

J W Stansfield
Finance Director

SECRETARY

J W Stansfield, FCMA

REGISTERED OFFICE

Westwood
Margate
Kent CT9 4JX

COMPANY REGISTERED NUMBER

Registered in England No. 01547390

AUDITORS

PricewaterhouseCoopers LLP
First Point
Buckingham Gate
Gatwick
RH6 0PP

SOLICITORS

Berwin Leighton Paisner
Adelaide House
London Bridge
London EC4R 9HA

PRINCIPAL BANKERS

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

FINANCIAL ADVISERS AND BROKERS

Robert W. Baird Limited
Mint House
77 Mansell Street
London E1 8AF

REGISTRARS AND TRANSFER AGENTS

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Report of the Directors

The directors submit their annual report together with the audited financial statements for the year ended 31 March 2004.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company is a holding company and has three operating subsidiaries: Hornby Hobbies Limited in the United Kingdom, Scalextric USA, Inc. in the USA and Electrotren S.A. a former distributor in Spain acquired on 31 March 2004 through a newly formed Branch in Spain.

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

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

RESULTS AND DIVIDENDS

The results for the year ended 31 March 2004 are set out in the Consolidated Profit and Loss Account on page 22. Turnover for the year was £39.0 million compared to £34.1 million last year. The profit on ordinary activities after taxation for the year amounted to £4.5 million (2003 - £3.9 million).

An interim dividend of 8.0p (2003 - 6.0p) per ordinary share amounting to £584,827 (2003 - £437,802) was paid on 30 January 2004. The Group's Short Term Incentive Plan Trust waived its right to the interim dividend on 78,485 ordinary shares (see notes 8 and 12).

The directors recommend an increased final dividend of 22.0p (2003 - 19.0p) per ordinary share amounting to £1,626,200 (2003 - £1,395,222) payable on 20 August 2004 to those shareholders on the Register at 30 July 2004.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Board has, as part of its normal procedures, reviewed its historic accounting policies to ensure that the Group's accounts not only show a true and fair view of the state of the Group's affairs, but also give the most transparent and realistic view to stakeholders.

As a result of this review they are aware that, being a UK listed group, Hornby Plc will be required to produce all future financial statements and annual reports for accounting periods starting after 1 January 2005, in line with International Financial Reporting Standards ("IFRS"). This will require an opening balance sheet to be prepared under IFRS as at 1 April 2004 and a full profit and loss account, balance sheet, cash flow statement etc. for the year ended 31 March 2005 for comparative purposes.

The Board has studied the IFRS, and is confident that it will be able to report in line with IFRS when required.

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 are charged to the Profit and Loss Account as set out in note 3.

PROPERTY VALUES

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

CHARITABLE DONATIONS

During the year the Group made donations of £2,180 (2003 - £1,291) for charitable purposes.

DIRECTORS

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

Neil A Johnson, aged 55, was originally appointed a non-executive director on 1 July 1998. On 22 December 2000 Mr Johnson assumed the responsibilities of Non-Executive Chairman. Mr Johnson is currently Chairman of Motability Finance Limited, CybIT PLC and Tenon Group Plc. Mr Johnson retires by rotation under article 97 of the Articles of Association and offers himself for re-election at the forthcoming Annual General Meeting.

Report of the Directors

continued

Frank Martin, aged 52, was appointed Chief Executive on 3 January 2001. Mr Martin was previously Chief Executive of Humbrol Limited, and formerly Managing Director of Denby Pottery Limited and Group Marketing Director of Hasbro (UK) Limited. Mr Martin's conditions of employment include a notice period of one year to be given by the Company and of six months to be given by Mr Martin. Mr Martin was appointed non-executive director of John David Group PLC on 12 June 2003 and resigned on 25 March 2004 and retained fees of £25,000.

John W Stansfield, aged 49, has been employed by the Group since April 1982. He was appointed Finance Director and Company Secretary on 4 December 1996. Mr Stansfield's conditions of employment include a notice period of one year to be given by the Company and of six months to be given by Mr Stansfield.

Nicholas J Cosh, aged 57, was appointed a non-executive director on 21 June 1999. He is a non-executive director of Bradford & Bingley plc, ICAP plc and Computacenter plc. He was previously finance director of J.I.B. Group plc and M.A.I. plc. Mr Cosh retires by rotation under article 97 of the Articles of Association and offers himself for re-election at the forthcoming Annual General Meeting.

The interests of the directors in the shares of the Company and in options granted over such shares are disclosed in the Remuneration Report on pages 14 to 19.

SUBSTANTIAL SHAREHOLDINGS

The Company has been notified that on 28 May 2004 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
P J Wood Associates Limited	740,000	10.01
Electra Quoted Partners	604,030	8.17
Fidelity Investments	579,047	7.83
Scottish Widows Investment Partnership Limited	420,768	5.69
J J Hosking	392,840	5.31
Insight Investment Professional Funds	366,307	4.96
Fleming Investment Management Ltd	320,782	4.34
Standard Life Investments	236,181	3.20

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.

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

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies, established 1 April 2000, have been reviewed and remain unchanged.

Interest rate risk

The Group finances its operations through a mixture of retained profits and bank borrowings. The Group borrows, principally in sterling, at floating rates of interest to meet short term funding requirements. At the year end the Group had no borrowings other than finance leases.

Liquidity risk

The Group only requires borrowings at certain times of the year. The short term flexibility required is achieved by overdraft facilities.

Foreign currency risk

The Group purchases a significant proportion of its products from the Far East in HK 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 and Spain. At present the Company does not consider the balance sheet translation exposure significant enough to warrant matching the net currency assets with currency borrowings.

ANNUAL GENERAL MEETING – SPECIAL BUSINESS RESOLUTIONS

The notice of Annual General Meeting set out on pages 47 to 49 includes an ordinary resolution to sub-divided the share capital of the Company and special resolutions to renew the directors' authority to allot equity securities and the Company's authority to purchase its own shares.

Resolution Number 7 is an ordinary resolution which authorises, with effect from close of business on 30 July 2004, the sub-division of each Existing Ordinary Share of 5p each into five New Ordinary Shares of 1p each.

Following the sub-division, each shareholder will hold five New Ordinary Shares for every one Existing Ordinary Share previously held by them. The New Ordinary Shares will be subject to the same rights and restrictions as the Existing Ordinary Shares. Each shareholder will hold the same percentage interests in the share capital of the Company immediately after the sub-division becomes effective as that shareholder held immediately before the sub-division became effective.

Following the sub-division, appropriate adjustments will be made to outstanding options granted in respect of Existing Ordinary Shares. Confirmation will be sought from the Company's auditors as to whether such adjustments to outstanding options are fair and reasonable. In relation to Inland Revenue approved options, approval of the Inland Revenue will be obtained prior to any adjustments. Option-holders will be written to separately notifying them of adjustments in due course.

If approved by the shareholders, the sub-division will be effective at close of business on 2 August 2004 when dealings in the Existing Ordinary Shares will cease. Application will be made to the UK Listing Authority for the New Ordinary Shares to be admitted to the Official List and to the London Stock Exchange plc for the New Ordinary Shares to be admitted to trading. It is expected that admission will take place and dealings will commence in the New Ordinary Shares on 2 August 2004.

Where Existing Ordinary Shares are held in certificated form, share certificates in respect of Existing Ordinary Shares will no longer be valid from close of business on 30 July 2004. Certificates in respect of New Ordinary Shares will be posted, at the risk of shareholders, by 9 August 2004. Transfers between 30 July 2004 and the date of despatch of such share certificates will be certified against the register if required. Shareholders who hold their Existing Ordinary Shares in uncertificated form, through CREST, will have their CREST accounts credited with the relevant entitlements to New Ordinary Shares on 2 August 2004. Settlements effected on or after 3 August 2004 of bargains made before that date will be in New Ordinary Shares.

Resolution Number 8 is a special resolution which would give the Board authority within the meaning of Section 80 of the Companies Act 1985 to allot equity securities of the Company up to an aggregate nominal value of £150,000 representing 40.6 per cent, of the Company's issued share capital as at 2 June 2004. If approved, the resolution will entitle the Board to allot equity securities having an aggregate nominal value of £18,000 for cash, equivalent to 360,000 Existing Ordinary Shares representing 4.9 per cent of the Company's issued share capital as at 2 June 2004, as if Section 89(1) of the Act conferring pre-emption rights on shareholders did not apply. This authority also allows the directors, within the same aggregate limit, to sell for cash, shares that may be held by the Company in treasury. Allotments for cash in excess of this figure on a non pre-emptive basis will require prior shareholder approval except in the case of a rights issue to existing shareholders. This Section 80 authority and Section 89 disapplication will last until the end of the next Annual General Meeting of the Company. The Directors do not have any present intention of exercising the authority granted by this resolution.

Report of the Directors

continued

Resolution Number 9 is a special resolution which would give the Board authority under Section 166 of the Companies Act 1985 to make one or more market purchases (within the meaning of Section 163(3) of that Act) of its own shares representing less than 15 per cent of the issued ordinary share capital of the Company at the date of this resolution. The directors will exercise this power only if they believe that the effect of such purchases will be to increase earnings per share and that to do so is in the best interests of the Company and shareholders generally. The minimum price which may be paid for an ordinary share is the par value of such share, from time to time, exclusive of expenses. The maximum price which may be paid for an ordinary share shall be an amount equal to 5 per cent above the average of the middle-market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five dealing days immediately preceding the day on which the purchase is made, exclusive of expenses. The authority to make market purchases will also last until the end of the next Annual General Meeting of the Company. Shares purchased under this authority will be cancelled, or, if the directors consider appropriate, held in treasury.

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 2004 was 28 days (2003 - 23 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.

By order of the Board

JW Stansfield

Secretary
Westwood
Margate
Kent CT9 4JX



4 June 2004

Corporate Governance

COMPLIANCE WITH THE COMBINED CODE

The maintenance of effective corporate governance remains a key priority for the Board and the statement below describes how the directors have applied the principles of corporate governance and complied with Section 1 of the Combined Code throughout the year subject to the exceptions mentioned below.

The Board

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 a non-executive director. The Board believes the 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 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 and N J Cosh are both experienced company directors. Biographical details of each director are shown on pages 7 and 8.

Chairman and Chief Executive

The roles of the Chairman and Chief Executive are separate and there is a clear division of responsibility. The Chairman is considered independent and 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.

Independent Non-Executive Directors

The Board considers both of 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. The Board believes that their interest in receiving fees as directors and as being shareholders should not prejudice their independence.

N J Cosh has been identified as the senior independent non-executive director through whom concerns can be conveyed to the Board.

Availability of Information

Executive management have a responsibility to provide the Board with sufficient information in a form and quality appropriate to enable it to discharge its duties. The Board therefore expects to receive timely information, circulated in advance, on all issues scheduled to arise at Board meetings. On a regular basis these will include management accounts indicating the performance of the business against budget together with financial forecasts that are updated on a monthly and quarterly basis.

Appointments to the Board

Appointments to the Board require the Board's authorisation and are conducted by the Nominations Committee comprising the Chairman, executive and non-executive directors. The Chief Executive and executive directors approve a job specification, review comparative terms of remuneration and may appoint an external consultant to prepare a short list of potential candidates.

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

The Company's Articles of Association currently require one third of the directors to retire by rotation at each Annual General Meeting.

Remuneration Committee

The Remuneration Committee comprises the

Corporate Governance

continued

non-executive directors. The current members of the committee are NA Johnson (Chairman) and NJ Cosh.

The composition is in compliance with the Combined Code provision B.2.2 which states that the Committee should consist exclusively of non-executive directors, and provision B.1.7 which requires setting notice or contract periods at, or reducing them to, one year or less.

Details of directors' contracts are provided in the Remuneration Report.

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.

Relations with Shareholders

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

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 Chief Executive.

The senior independent non-executive director also welcomes direct discussions with shareholders.

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.

Audit Committee

The Audit Committee comprises the non-executive directors. The current members of the Committee are NJ Cosh (Chairman) and NA Johnson.

The Committee has written terms of reference,

which set out clearly its authority and duties. These include the following:

- review of the interim and full year results and the Annual Report and Accounts
- review the scope and results of the audit and its cost effectiveness
- review the independence and objectivity of the auditors
- review the appropriateness and effectiveness of the Group's internal controls, policies and procedures

The Committee meets at least twice a year and the meetings are usually attended by the Chief Executive, Finance Director and the Group's auditors.

INTERNAL CONTROL

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

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

Control environment

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

Identification of business risks

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

Major corporate information systems

The Group operates a comprehensive annual planning and budgeting system in conjunction with a three year business plan which is regularly updated to reflect changing circumstances. The annual plans and budgets are approved by the Board. The Board reviews the management accounts at its monthly meetings and financial forecasts are updated monthly and quarterly. Performance against budget is monitored and where any significant deviations are identified appropriate action is taken.

Main control procedures

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

Monitoring system used by the Board

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

The Board reviewed the effectiveness of the system of internal controls in April 2004 and considered them appropriate for the size of the Group.

Compliance with the provisions of the Combined Code

The Company has complied throughout the year with the Code provisions set out in Section 1 of the Combined Code apart from Section D.3.1, which requires the Board and the Audit Committee to comprise at least three non-executive directors.

The Combined Code requires that the directors review the effectiveness of the Group's system of internal control. In September 1999 the Institute of Chartered Accountants in England and Wales (ICAEW) published guidance for directors on the scope, extent, nature and review of internal control. The Board confirms that an on-going process for identifying, evaluating and managing the Group's significant risks has operated throughout the year, and up to the date of approval of the Annual Report.

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 commissions independent external audits of Far Eastern suppliers annually to ensure their

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.

GOING CONCERN

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that year. The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2004 and that applicable accounting standards have been followed.

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 comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

JW Stansfield

Secretary

4 June 2004



Remuneration Report

for the Year Ended 31 March 2004

This part of the Remuneration Report is unaudited.

The Remuneration Committee is chaired by the non-executive Chairman and comprises the non-executive directors. The current members of the Committee are N A Johnson (Chairman) and N J Cosh.

Director's service contracts and the Short Term Incentive Plan (STIP) were established through consultation with the Group's lawyers, Berwin Leighton Paisner.

REMUNERATION POLICY

The Remuneration Committee is responsible for devising and implementing a remuneration policy for executive directors which complies with the principles set out in Section 1 of the Combined Code. The Committee's policy is to ensure that executive remuneration packages are sufficient to attract, retain and motivate executive directors of the required quality whilst avoiding paying more than is necessary. It also endeavours to establish performance related elements of remuneration which align the interest of the directors with those of the shareholders.

The Committee achieves its objectives through remuneration packages of executive directors and senior management that comprise the following:

• Salary and benefits

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

• Share options

The Group currently has a part approved and part unapproved executive share option scheme and details of options held by directors are set out on page 17.

The options are 100% exercisable subject to the achievement of certain performance criteria. In respect of awards made up to and including January 1999 the target criteria were based on earnings per share and thereafter the target criteria were based on profit before interest and tax. No award vests unless target criteria have been met.

• Pensions

The executive directors and senior managers are members of defined contribution pension schemes and annual contributions are calculated by reference to basic salaries with neither annual bonuses nor awards under the share incentive schemes taken into account in calculating the amounts due.

• Performance-related bonus scheme

In addition to salaries executive directors and senior management participate in a discretionary performance-related bonus scheme. Performance targets are designed to both stretch and encourage individuals whilst aligning their interests with that of the Group. The bonuses available are divided between a capped range of targets established for Group profit before tax and personal objectives. Bonuses relating to personal objectives are only realised if Group profit exceeds minimum targets.

• Short Term Incentive Plan

The Company has introduced a Short Term Incentive Plan (STIP) to reward the performance of executive directors and senior management. A participating employee is entitled to a conditional award of shares (Basic Award) equal in value to and in substitution for part of their cash bonus which would otherwise have been payable.

Where a participant so elects the Company will also provide an equivalent matching award (Matching Award) of the same number of shares. Both the Basic and Matching Awards will usually only be vested in the participant in equal amounts on the second, third and fourth anniversaries of the award date subject to the participant continuing to be employed within the Group. Shares to satisfy both the Basic and Matching Awards are purchased in the market by an employee benefit trust established and funded by the Company.

Set out below is a Performance Graph that compares the total shareholder return performance of Hornby with the FTSE Small Cap index, selected because it includes UK quoted companies of a similar size to Hornby.

The total shareholder return for the 5 year period of 539% compares to the total return of the FTSE Small Cap of 25%.

Total Shareholder Return 1/4/1999 to 31/3/2004

Source: Datastream

The targeted composition of each director's remuneration for the forthcoming year is as follows:

Director	Position	Non-performance Related	Performance Related
N A Johnson	Non-executive Chairman	100%	Nil
F Martin	Chief Executive	46%	54%
J W Stansfield	Finance Director	63%	37%
N J Cosh	Non-executive director	100%	Nil

In accordance with the Articles of Association the Board determines the remuneration of the non-executive directors.

Remuneration Report

continued

Executive Directors' Contracts

The executive directors do not have fixed period contracts.

Frank Martin, the Chief Executive, receives a salary of £150,000 per annum effective 1 April 2003.

Mr 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 Mr 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.

John Stansfield, the Finance Director and Secretary, receives a salary of £100,000 per annum effective 1 April 2004. Mr Stansfield's service contract dated 16 July 1999 includes a notice period of one year to be given by the Company and of six months to be given by Mr Stansfield. 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.

In respect of the year ended 31 March 2004 each of the executive directors was entitled to an award of bonus, details of which appear in the table of directors' emoluments.

Non-Executive Directors' Contracts

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

Neil Johnson, was appointed non-executive Chairman on 22 December 2000 having initially joined the Board on 1 July 1998. Non-executive directors fees for his services to the Company of £80,000 per annum effective 1 April 2003 are paid to a third party consultancy company. Mr Johnson's service contract dated 1 July 1998 is subject to termination on three months notice to be given by either the Company or Mr 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.

Nicholas Cosh, non-executive director, was appointed to the Board on 21 June 1999, and receives non-executive directors fees for his services to the Company of £30,000 per annum effective 1 September 2002. Mr Cosh's service contract dated on appointment is subject to termination on three months notice to be given by either the Company or Mr Cosh. 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.

None of the non-executive directors receives any pension or discretionary bonus from the Company nor do they participate in the executive share option scheme.

DIRECTORS' INTERESTS**Interests in shares**

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

	Number of ordinary shares of 5p	
	2004	2003
N A Johnson	60,000	60,000
N J Cosh	15,000	15,000
J W Stansfield	8,000	2,156

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 has been no change in the interests set out above between 31 March 2004 and 28 May 2004.

This part of the Remuneration Report is auditable information.

Interests in share options

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

	Date of grant	Number of options 5p ordinary shares		Exercise price	Date from which exercisable	Expiry date
		2004	2003			
F Martin	12/03/2001	29,662	29,662	147.5p	12/03/2004	12/03/2008
	12/03/2001	20,338	20,338	147.5p	12/03/2004	12/03/2011
	28/03/2002	200,000	200,000	384.0p	28/03/2005	28/03/2009
J W Stansfield	09/07/1997	-	15,844	223.0p	09/07/2000	09/07/2004
	27/01/1999	30,000	30,000	163.5p	27/01/2002	27/01/2006
	19/06/2002	50,000	50,000	417.0p	19/06/2005	19/06/2009

F Martin's options granted March 2001 and March 2002 satisfied the performance criteria for exercise upon profit before interest and tax exceeding £2.2m and £4.0m respectively in the year ended 31 March 2003.

J W Stansfield's options granted July 1997 and January 1999 satisfied the performance criteria for exercise upon earnings per share exceeding 23p in the year ended 31 March 2002. Options granted June 2002 satisfied the performance criteria for exercise upon profit before interest and tax exceeding £4.0m in the year ended 31 March 2003.

J W Stansfield exercised 15,844 share options during the year at 223p, the market price being 1100p, realising a gain of £138,952.

The market price of the Company's shares at 31 March 2004 was 1050p and the range during the year ended 31 March 2004 was 511p to 1235p.

Remuneration Report

continued

Directors' detailed emoluments

Details of individual directors' emoluments charged in the year are as follows:

	Salary & fees	Bonus	STIP	Benefits	Pension contri- butions	2004 Total	2003 Total*
	£	£	£	£	£	£	£
Chairman:							
N A Johnson	80,000	-	-	-	-	80,000	50,000
Executive:							
F Martin	151,000	62,500	100,000	10,517	30,000	354,017	323,479
J W Stansfield	86,000	28,417	42,500	8,858	17,200	182,975	182,584
Non-executive:							
N J Cosh	30,000	-	-	-	-	30,000	25,833
	347,000	90,917	142,500	19,375	47,200	646,992	581,896

* The 2003 total column includes pension contributions.

Salary and fees shown above includes fees paid in respect of duties as directors. Neither annual bonuses nor benefits in kind are pensionable.

STIP includes individual Basic and Matching Awards to the Short Term Incentive Plan for the year ended 31 March 2004.

Benefits include motor cars and healthcare.

Two directors accrue benefit from payments to defined contribution pension schemes (2003 - two).

No director waived emoluments in respect of the year ended 31 March 2004 (2003 - nil).

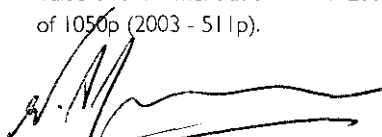
Short Term Incentive Plan

At 31 March 2004, 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	Value of entitlement
					31 March 2004	31 March 2003
				No.	£'000	£'000
F Martin	June 2002	June 2004/5/6	412p	14,062	148	72
	June 2003	June 2005/6/7	702p	9,444	99	66
	June 2004	June 2006/7/8	*	*	100	-
					347	138
J W Stansfield	June 2002	June 2004/5/6	412p	8,704	91	44
	June 2003	June 2005/6/7	702p	5,260	55	37
	June 2004	June 2006/7/8	*	*	43	-
					189	81

* 2004 awards have been charged to the profit and loss account in the year and the STIP Trust will purchase shares in the Company following the preliminary announcement at the prevailing market price.

Value of entitlement at 31 March 2004 is based on the closing market price of the Company's shares of 1050p (2003 - 511p).



N.A. Johnson
Chairman

4 June 2004

Independent Auditors' Report to the Members of Hornby Plc

We have audited the financial statements which comprise the consolidated profit and loss account, the consolidated and Company balance sheets, the consolidated cash flow statement, the statement of Group total recognised gains and losses and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the directors' remuneration report ("the auditable part").

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the directors' remuneration report.

Our responsibility is to audit the financial statements and the auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 auditable part of the directors' remuneration report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report, the unaudited part of the directors' remuneration report, the chairman's statement, the chief executive's report and the corporate governance statement.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code 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 to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

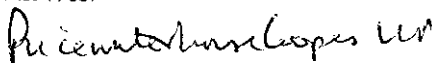
We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the directors' remuneration report. It also includes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

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 2004 and of the profit and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
Gatwick

4 June 2004

Consolidated Profit and Loss Account

for the Year Ended 31 March 2004

	Notes	2004 £'000	2003 £'000
TURNOVER	2	38,970	34,142
Cost of sales		(20,083)	(18,369)
GROSS PROFIT		18,887	15,773
Net operating expenses	3	(12,524)	(10,417)
OPERATING PROFIT		6,363	5,356
Net interest receivable	4	106	55
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	6,469	5,411
Tax on profit on ordinary activities	7	(1,974)	(1,519)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		4,495	3,892
Dividends	8	(2,199)	(1,830)
RETAINED PROFIT FOR THE FINANCIAL YEAR	18	2,296	2,062
ATTRIBUTED TO:			
The Company		(30)	(45)
Subsidiary undertakings		2,326	2,107
		2,296	2,062
EARNINGS PER ORDINARY SHARE	9		
Basic		61.02p	53.32p
Diluted		58.20p	52.00p

All of the activities of the Group are continuing.

Statement of Group Total Recognised Gains and Losses

for the Year Ended 31 March 2004

	2004 £'000	2003 £'000
Profit for the financial year	4,495	3,892
Exchange adjustments offset in reserves	(33)	(21)
Total recognised gains for the year	4,462	3,871

Note of Group Historical Cost Profits

for the Year Ended 31 March 2004

	2004 £'000	2003 £'000
REPORTED PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6,469	5,411
Difference between the historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	17	17
Historical cost profit on ordinary activities before taxation	6,486	5,428
HISTORICAL COST PROFIT FOR THE YEAR RETAINED AFTER TAXATION AND DIVIDENDS	2,313	2,079


Consolidated Balance Sheet

at 31 March 2004

	Notes	2004 £'000	2003 £'000 <i>As restated</i>
FIXED ASSETS			
Intangible assets	10	4,017	31
Tangible assets	11	4,436	3,569
		8,453	3,600
CURRENT ASSETS			
Stocks	13	7,369	6,150
Debtors	14	6,217	5,222
Cash at bank and in hand		5,806	7,909
		19,392	19,281
CREDITORS: Amounts falling due within one year	15	(9,886)	(7,187)
NET CURRENT ASSETS		9,506	12,094
TOTAL ASSETS LESS CURRENT LIABILITIES		17,959	15,694
CREDITORS: Amounts falling due after more than one year	15	(103)	(22)
PROVISIONS FOR LIABILITIES AND CHARGES	16	(527)	(486)
NET ASSETS		17,329	15,186
CAPITAL AND RESERVES			
Called up share capital	17	370	367
Capital redemption reserve	18	55	55
Share premium account	18	4,797	4,696
Revaluation reserve	18	757	774
Other reserves	18	1,688	1,688
Profit and loss account	18	9,662	7,606
EQUITY SHAREHOLDERS' FUNDS	18	17,329	15,186

The financial statements which comprise the consolidated profit and loss account, the consolidated and Company balance sheets, the consolidated cash flow statement, the statement of Group total recognised gains and losses and the related notes were approved by the Board of directors on 4 June 2004 and were signed on its behalf by:

F Martin
Director




Company Balance Sheet

at 31 March 2004

	Notes	2004 £'000	2003 £'000
FIXED ASSETS			
Tangible assets	11	1,600	1,643
Investments	12	21,952	14,054
		<u>23,552</u>	<u>15,697</u>
CURRENT ASSETS			
Debtors	14	1,705	1,407
Cash at bank and in hand		68	-
CREDITORS: Amounts falling due within one year	15	(2,209)	(1,717)
NET CURRENT LIABILITIES		<u>(436)</u>	<u>(310)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>23,116</u>	<u>15,387</u>
CREDITORS: Amounts falling due within one year	15	(5,371)	-
PROVISIONS FOR LIABILITIES AND CHARGES	16	-	(9)
NET ASSETS		<u>17,745</u>	<u>15,378</u>
CAPITAL AND RESERVES			
Called up share capital	17	370	367
Capital redemption reserve	18	55	55
Share premium account	18	4,797	4,696
Other reserves	18	16,103	13,810
Profit and loss account	18	(3,580)	(3,550)
EQUITY SHAREHOLDERS' FUNDS		<u>17,745</u>	<u>15,378</u>

The financial statements which comprise the consolidated profit and loss account, the consolidated and Company balance sheets, the consolidated cash flow statement, the statement of Group total recognised gains and losses and the related notes were approved by the Board of directors on 4 June 2004 and were signed on its behalf by:

F Martin
Director



Consolidated Cash Flow Statement

for the Year Ended 31 March 2004

		2004		2003	
	Notes	£'000	£'000	£'000	£'000
Net cash inflow from operating activities	I		8,210		5,814
Returns on investments and servicing of finance - net interest received			106		55
Taxation			(1,864)		(1,662)
Capital expenditure and financial investment					
- purchase of fixed assets		(1,370)		(1,219)	
- sale of fixed assets		27		60	
- purchase of own shares		(224)		(192)	
			(1,567)		(1,351)
Acquisitions					
- purchase of subsidiary undertakings		(5,303)		-	
- cash held upon acquisition		222		-	
- payment of deferred consideration		-		(49)	
			(5,081)		(49)
Equity dividends paid			(1,968)		(1,524)
Net cash (outflow)/inflow before financing			(2,164)		1,283
Financing					
Issue of ordinary shares			104		175
Capital element of finance lease payments			(26)		(17)
(Decrease)/increase in cash in the year			(2,086)		1,441

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

		2004	2003
	Notes	£'000	£'000
(Decrease)/increase in cash in the year		(2,086)	1,441
Cash outflow from decrease in lease financing		26	17
Change in net funds resulting from cash flows		(2,060)	1,458
New finance leases		(105)	(28)
New finance leases upon acquisition		(12)	-
Exchange movements		(17)	(9)
Movement in net funds in the year		(2,194)	1,421
Net funds at 1 April 2003		7,867	6,446
Net funds at 31 March 2004	II	5,673	7,867

Notes to the Cash Flow Statement

NOTE I – NET CASH FLOW FROM OPERATING ACTIVITIES

	2004	2003
	£'000	£'000
Operating profit	6,363	5,356
Depreciation charges	1,364	1,266
Amortisation of goodwill	3	3
Loss /(profit) on sale of tangible fixed assets	2	(18)
(Increase) in stocks	(830)	(615)
(Increase) in debtors	(401)	(374)
Increase in creditors	1,659	341
Increase/(decrease) in sales returns provision	50	(145)
Net cash inflow from operating activities	8,210	5,814

NOTE II – ANALYSIS OF NET FUNDS

	1 April	Cash	Other	31 March
	2003	flow	non-cash	2004
	£'000	£'000	changes	£'000
Cash at bank and in hand	7,909	(2,086)	(17)	5,806
Finance leases	(42)	26	(117)	(133)
Net funds	7,867	(2,060)	(134)	5,673
Analysed in Balance Sheet				
Cash at bank and in hand	7,909			5,806
Finance leases				
within one year	(20)			(30)
after one year	(22)			(103)
Net funds	7,867			5,673

Notes to the Financial Statements

I ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, except where noted, is set out below.

BASIS OF ACCOUNTING

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

BASIS OF CONSOLIDATION

The Group financial statements consolidate the financial statements of the Company and all its subsidiaries made up to 31 March 2004. The results of subsidiaries acquired are included in the consolidated profit and loss account from the date control passes. Intra group sales and profits are eliminated on consolidation. Any goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is capitalised and amortised over its expected useful economic life.

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

RESEARCH AND DEVELOPMENT

Expenditure on research and development is written off as incurred.

TANGIBLE FIXED ASSETS

Land and buildings are shown at cost or valuation less accumulated depreciation. Assets revalued prior to the issue of FRS 15 are retained at their book amounts as though they were the historical cost amounts. Other fixed assets are shown at cost less accumulated depreciation.

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

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

Residual value is calculated on prices prevailing at the date of acquisition or revaluation where this has taken place.

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

FIXED ASSET INVESTMENTS

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

SHORT TERM INCENTIVE PLAN - PRIOR YEAR ADJUSTMENT

The Short Term Incentive Plan set up in the prior year was accounted for in accordance with UTIF Abstract 13 "Accounting for ESOP Trusts" and recognised as a fixed asset investment. This abstract has now been withdrawn and replaced by UTIF Abstract 38 "Accounting for ESOP Trusts" which requires the amount in this trust to be shown as a deduction from the profit and loss reserve disclosed in the notes to the accounts, with a prior year

adjustment in the year adopted. UTIF 38 has been adopted this year and as a result the comparatives have been restated accordingly. £192,000 previously shown as an investment has been restated and shown as a deduction from the profit and loss account reserve. A further £224,000 has been used to purchase shares as part of this plan in the current year and shown as a deduction from the profit and loss account reserve. See note 18.

STOCKS

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

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

Raw materials and consumables - actual purchase cost on a first in first out basis including freight and duty where applicable.

Work in progress and finished goods - cost of actual direct materials and labour plus a proportion of manufacturing overheads based on the normal level of activity.

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

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

REVALUATION RESERVE

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

TAXATION

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

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

Full provision is made for the tax liability on all timing differences in accordance with FRS19. Deferred tax balances have not been subject to discounting.

PROVISIONS

The Group provides for liabilities when it has a legal or constructive obligation due to a past event.

PENSION COSTS

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

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

Further information on pensions costs is provided in note 23.

Notes to the Financial Statements

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FINANCIAL INSTRUMENTS

Foreign currency forward contracts are used to hedge significant commitments or anticipated transactions. Gains and losses arising from these contracts are recognised when the hedged transaction occurs.

FOREIGN CURRENCY

Transactions and investments denominated in foreign currencies are recorded in sterling at the exchange rates ruling at the date of the transaction. The assets, liabilities and results of foreign subsidiaries are translated into sterling at the rates of exchange ruling at the balance sheet date. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rate of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is reported in the profit and loss account as an exchange gain or loss, with the exception of gains and losses on the retranslation of opening net foreign currency investments in subsidiaries which are taken to reserves and recognised in the statement of total recognised gains and losses.

TURNOVER

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

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.

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

2 SEGMENTAL INFORMATION

The directors consider there to be one class of business, being the development, manufacture and distribution of model products.

BY ORIGIN	Turnover		Profit before tax		Net assets	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000	2004 £'000	2003 £'000
					As restated	
United Kingdom	36,028	30,680	6,399	5,347	15,762	14,951
United States of America	2,942	3,462	70	64	254	235
Spain	-	-	-	-	1,313	-
Group	38,970	34,142	6,469	5,411	17,329	15,186

TURNOVER BY DESTINATION	2004 £'000	2003 £'000
United Kingdom	30,961	26,473
Rest of World	8,009	7,669
Group	38,970	34,142

3 NET OPERATING EXPENSES

	2004	2003
	£'000	£'000
Distribution costs	1,097	1,027
Selling and marketing costs	7,203	5,979
Research and development costs	1,107	711
Administrative costs	3,117	2,700
	12,524	10,417

4 NET INTEREST RECEIVABLE

	2004	2003
	£'000	£'000
Interest receivable and similar income:		
- bank interest receivable	187	138
Interest payable and similar charges:		
- on overdrafts	(74)	(79)
- on finance leases	(7)	(4)
	106	55

5 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2004	2003
	£'000	£'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation of tangible fixed assets		
- owned	1,355	1,257
- held under finance leases	9	9
Amortisation of goodwill	3	3
Operating lease rentals	59	66
Hire of plant and machinery	32	40
Loss/(profit) on sale of fixed assets	2	(18)
Auditors' remuneration		
- audit fees (Company £14,000 ; 2003 - £14,000)	65	57
- non audit fees (Company £151,000 ; 2003 - £2,000)	160	16
Staff costs (see note 6 below)	4,363	4,019

Non audit fees relate to tax services and acquisition due diligence and legal services.

Notes to the Financial Statements

continued

6 DIRECTORS AND EMPLOYEES

	2004 £'000	2003 £'000
STAFF COSTS (including executive directors)		
Wages and salaries	3,719	3,508
Social security costs	406	315
Other pension costs	228	196
Redundancy and compensation for loss of office	10	-
	<u>4,363</u>	<u>4,019</u>

AVERAGE MONTHLY NUMBER OF EMPLOYEES

	2004 Number	2003 Number
The average monthly number of employees, including executive directors, in the Group during the year was:		
Operations	80	78
Sales, marketing and distribution	55	52
Administration	19	16
	<u>154</u>	<u>146</u>

DIRECTORS' EMOLUMENTS

A detailed numerical analysis of directors' remuneration and share options, showing the highest paid director and the number of directors accruing benefits under money purchase pension schemes, is included in the Remuneration Report on pages 14 to 19 and forms part of these financial statements.

JW Stansfield exercised 15,844 share options during the year at 223p, the market price being 1100p, realising a gain of £138,952.

7 TAXATION**(a) Analysis of tax charge in the year**

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

Current tax

UK Corporation taxation at 30% (2003 - 30%)

Adjustments in respect of prior years

Foreign Tax

Overseas taxation

Adjustments in respect of prior years

Total current tax (Note 7b)

Deferred tax

Current year

Adjustments in respect of prior years

Total deferred tax (Note 16)

Tax on profit on ordinary activities

2004	2003
£'000	£'000

2,054	1,685
150	(189)

19	16
-	4

2,223	1,516
--------------	--------------

(92)	3
(157)	-

(249)	3
--------------	----------

1,974	1,519
--------------	--------------

(b) Factors affecting tax charge for the year

The tax charge for the year is higher than the standard rate of Corporation Tax in the United Kingdom (30%).

The differences are explained below:

	2004	2003
	£'000	£'000
Profit on ordinary activities before tax	6,469	5,411
Tax on profit on ordinary activities at the standard rate of Corporation Tax of 30% (2003 - 30%)	1,941	1,623
Effects of:		
Expenses not deductible for tax purposes	56	43
Differences between capital allowances and depreciation	14	39
Other timing differences	62	-
Adjustments to tax charge in respect of prior years	150	(189)
Current tax charge for the year (Note 7a)	2,223	1,516

Notes to the Financial Statements

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8 DIVIDENDS

	2004	2003
	£'000	£'000
Ordinary:		
- interim paid: 8p per share (2003 - 6p per share)	585	438
- final proposed: 22p per share (2003 - 19p per share)	1,626	1,395
- adjustments (see below)	(12)	(3)
	2,199	1,830

The adjustments relate to dividends that were waived relating to the prior year of £15,000 (2003 - £7,000) and dividends paid on options exercised of £3,000 (2003 - £4,000).

9 EARNINGS PER SHARE

The calculation of basic earnings per ordinary share is based on the profit attributable to ordinary shareholders for the financial year of £4,495,000 (2003 - £3,892,000) and the weighted average number of ordinary shares in issue during the year of 7,366,417 (2003 - 7,299,894).

	2004		2003	
	Earnings	Earnings	Earnings	Earnings
	£'000	per share	£'000	per share
		pence		pence
Earnings per share				
Basic	4,495	61.02	3,892	53.32
Diluted		58.20		52.00

The following table shows a reconciliation of the weighted average number of shares used for calculating the basic and diluted earnings per share.

	2004	2003
	Number	Number
	of shares	of shares
Used for calculating basic earnings per share	7,366,417	7,299,894
Dilution due to share option schemes	356,362	185,147
Used for calculating diluted earnings per share	7,722,779	7,485,041

10 INTANGIBLE FIXED ASSETS

	Group 2004 £'000
GOODWILL	
COST	
At 1 April 2003	41
Exchange adjustment	(1)
Additions	3,990
At 31 March 2004	<u>4,030</u>
AGGREGATE AMORTISATION	
At 1 April 2003	10
Charge for the year	3
At 31 March 2004	<u>13</u>
NET BOOK AMOUNT	
At 31 March 2004	<u>4,017</u>
At 31 March 2003	<u>31</u>

The goodwill arising on the acquisition of the assets of A Day at the Races Inc. is being amortised on a straight-line basis over fifteen years, being the directors' estimate of its expected useful life.

On 31 March 2004 the acquisition of Electrotren S.A., Spain created £3,990,000 of goodwill (see note 20).

Notes to the Financial Statements

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II TANGIBLE FIXED ASSETS - GROUP

	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Tools & moulds £'000	Total £'000
COST OR VALUATION					
At 1 April 2003	2,377	4,420	234	18,419	25,450
Additions	-	101	105	1,306	1,512
Acquisitions	427	345	7	395	1,174
Exchange adjustment	-	(6)	(2)	-	(8)
Disposals	-	(73)	(58)	-	(131)
At 31 March 2004	2,804	4,787	286	20,120	27,997
DEPRECIATION					
At 1 April 2003	734	4,195	156	16,796	21,881
Charge for the year	43	108	27	1,186	1,364
Acquisitions	34	186	6	197	423
Exchange adjustment	-	(3)	(2)	-	(5)
Disposals	-	(68)	(34)	-	(102)
At 31 March 2004	811	4,418	153	18,179	23,561
NET BOOK AMOUNT					
At 31 March 2004	1,993	369	133	1,941	4,436
At 31 March 2003	1,643	225	78	1,623	3,569

Opening depreciation includes a £4,000 reclassification from motor vehicles to plant and equipment.

Freehold land amounting to £786,000 (2003 - £620,000) has not been depreciated.

The net book amount of tangible fixed assets includes £178,000 (2003 - £39,000) in respect of assets acquired under finance leases, which relate to plant and motor vehicles.

The amount of freehold land and buildings at 31 March is represented by:

	2004 £'000	2003 £'000
Valuation in 1986	2,360	2,360
Cost	17	17
Acquisitions	427	-
	<u>2,804</u>	<u>2,377</u>

Other tangible fixed assets are stated at cost.

TANGIBLE FIXED ASSETS - COMPANY

The fixed assets for the Company comprise solely of freehold land and buildings included in the table above and are as follows:

	2004	2003
	£'000	£'000
Opening net book amount	1,643	1,687
Depreciation charge for the year	(43)	(44)
Closing net book amount	1,600	1,643

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

	2004	2003
	£'000	£'000
Original cost	412	412
Depreciation based on cost	(183)	(175)
	229	237

12 INVESTMENTS**GROUP - SHORT TERM INCENTIVE PLAN**

(See note 18)

	Short Term Incentive Plan £'000
At 1 April 2003	192
Shares acquired in Company	224
At 31 March 2004	416

31,901 existing ordinary shares to the value of £224,000 were acquired in June 2003 by the Employee Benefit Trust in accordance with the incentive plan. At 31 March 2004, a total of 78,485 existing ordinary shares have been acquired by the Trust and allotted to the directors and senior management under the plan with a nominal value of £3,924 and a market value of £824,093. The costs of the plan are borne by Hornby Plc. The Trust has waived its right to dividends.

Notes to the Financial Statements

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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 2003	13,398	656	14,054
Acquisitions (see note 20)	5,303	-	5,303
Retained profit for the year	2,293	-	2,293
Other movements	-	302	302
At 31 March 2004	20,994	958	21,952

PRINCIPAL GROUP SUBSIDIARY UNDERTAKINGS

Details of the principal subsidiary undertakings of the Company, which are included in the consolidated financial statements, are set out below. Hornby Hobbies Limited and Electrotren S.A. are engaged in the development, manufacture and distribution of models. Scalextric USA, Inc. is a distributor 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 £1 shares	100	100
Scalextric USA, Inc.	USA	Ordinary shares	100	100
Electrotren S.A.	Spain	Ordinary shares	100	100

13 STOCKS

	Group	
	2004 £'000	2003 £'000
Raw materials and consumables	609	567
Work in progress	1,386	1,135
Finished goods and goods for sale	5,374	4,448
	7,369	6,150

14 DEBTORS

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
AMOUNTS FALLING DUE WITHIN ONE YEAR:				
Trade debtors	5,326	4,482	-	-
Dividends receivable from subsidiary undertakings	-	-	1,626	1,395
Prepayments	573	578	9	12
VAT recoverable	-	67	-	-
Other debtors	78	95	-	-
	5,977	5,222	1,635	1,407
AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR:				
Deferred tax asset (see note 16)	240	-	70	-
	6,217	5,222	1,705	1,407

15 CREDITORS

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
AMOUNTS FALLING DUE WITHIN ONE YEAR:				
Finance lease obligations	30	20	-	-
Trade creditors	2,503	1,675	-	-
UK Corporation tax payable	1,291	935	119	36
Overseas Corporation tax payable	152	15	-	-
VAT payable	123	-	-	-
PAYE and Social Security	98	69	-	-
Dividends proposed	1,626	1,395	1,626	1,395
Accruals	2,047	1,889	464	286
Other creditors	2,016	1,189	-	-
	9,886	7,187	2,209	1,717
AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR:				
Finance lease obligations	103	22	-	-
Loan from subsidiary undertakings	-	-	5,371	-
	9,989	7,209	7,580	1,717

Finance leases are repayable as follows (excluding finance charges):

Within 1 year	30	20	-	-
Between 1 - 2 years	23	5	-	-
Between 2 - 5 years	80	17	-	-
	133	42	-	-

Aggregate finance lease obligations exclude future finance charges amounting to £18,000 (2003 - £4,000).

Notes to the Financial Statements

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16 PROVISIONS FOR LIABILITIES AND CHARGES

Group	2004 £'000	2003 £'000
Sales returns		
At 1 April	477	622
Charged to profit and loss account	939	749
Utilised in year	(889)	(894)
At 31 March	527	477
Deferred tax		
At 1 April	9	6
Transfer (to)/from profit and loss account	(249)	3
At 31 March	(240)	9
Total provisions at 31 March	527	486

The deferred tax asset of £240,000 at 31 March 2004 has been disclosed within debtors (see note 14).

	Group			
	2004		2003	
	Provided £'000	Not provided £'000	Provided £'000	Not provided £'000
Provision for deferred tax comprises:				
Accelerated capital allowances	11	(9)	9	3
Other timing differences	(251)	(25)	-	(20)
	(240)	(34)	9	(17)

No deferred tax has been provided in relation to the revaluation of certain land and buildings as no liability would arise on a sale at the revalued amount. No provision is made for tax liabilities which would arise on the distribution of profits retained by subsidiaries because there is currently no intention that such profits will be remitted.

	Company			
	2004		2003	
	Provided £'000	Not provided £'000	Provided £'000	Not provided £'000
Provision for deferred tax comprises:				
Accelerated capital allowances	11	-	9	-
Other timing differences	(81)	-	-	-
	(70)	-	9	-

The deferred tax asset of £70,000 at 31 March 2004 has been disclosed within debtors (see note 14).

17 CALLED UP SHARE CAPITAL

	2004	2003
	£'000	£'000
Authorised:		
10,000,000 (2003 - 10,000,000) ordinary shares of 5p each	500	500
Allotted, called up and fully paid:		
7,391,820 (2003 - 7,343,276) ordinary shares of 5p each	370	367

Shares issued in the year are set out below:

Date issued	Number of shares	Exercise price
12 June 2003	15,000	223.0p
20 November 2003	6,152	163.5p
27 November 2003	22,392	223.0p
8 January 2004	5,000	223.0p
	48,544	

At 31 March 2004 options granted under the Company's share option schemes were outstanding as follows:

Date granted	Number of options		Exercise price	Period of option
	2004	2003		
9 July 1997	1,548	31,284	223.0p	July 2000 - July 2004
9 July 1997	13,452	26,108	223.0p	July 2000 - July 2007
27 January 1999	80,500	86,652	163.5p	January 2002 - January 2006
12 March 2001	29,662	29,662	147.5p	March 2004 - March 2008
12 March 2001	20,338	20,338	147.5p	March 2004 - March 2011
28 March 2002	200,000	200,000	384.0p	March 2005 - March 2009
19 June 2002	185,000	185,000	417.0p	June 2005 - June 2009
	530,500	579,044		

Notes to the Financial Statements

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18 RESERVES

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

GROUP	2004 £'000	2003 £'000 As restated
Profit for the financial year	4,495	3,892
Dividends	(2,199)	(1,830)
Exchange adjustments offset in reserves	(33)	(21)
Shares issued	104	175
Investments - Short Term Incentive Plan (see note 12)	(224)	(192)
Net additions to shareholders' funds	2,143	2,024
Opening shareholders' funds - as restated	15,186	13,162
Closing shareholders' funds	17,329	15,186

MOVEMENTS IN RESERVES

GROUP	Share premium account £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Other reserves £'000	Profit and loss account £'000
At 1 April 2003 - as previously reported	4,696	55	774	1,688	7,798
Prior year adjustment	-	-	-	-	(192)
At 1 April 2003, as restated	4,696	55	774	1,688	7,606
Retained profit for the year	-	-	-	-	2,296
Amortisation of revaluation surplus	-	-	(17)	-	17
Exchange adjustment offset in reserves	-	-	-	-	(33)
Shares issued	101	-	-	-	-
Shares purchased	-	-	-	-	(224)
At 31 March 2004	4,797	55	757	1,688	9,662

The prior year adjustment is explained in note 1.

COMPANY	Share premium account £'000	Capital redemption reserve £'000	Other reserves £'000	Profit and loss account £'000
At 1 April 2003	4,696	55	13,810	(3,550)
Profit/(loss) for the year	-	-	-	(30)
Increase in underlying net assets of subsidiary undertakings	-	-	2,293	-
Shares issued	101	-	-	-
At 31 March 2004	4,797	55	16,103	(3,580)

The net deficit carried forward on the Company's profit and loss account arises as a result of a provision for the diminution in the value of the investment in Hornby Industries Limited. Relying on Section 275(1) of the Companies Act 1985, the provision for diminution in value of the investment in Hornby Industries Limited is not treated for distribution purposes as a realised loss. In the directors' opinion therefore, at the end of the year £199,000 (2003 - £229,000) may be considered to be distributable.

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. Financial assets and liabilities included in this note, other than currency disclosures, exclude provisions for liabilities and charges, short term debtors and creditors other than finance lease obligations.

(a) Financial assets

The interest rate and currency profiles of the Group's financial assets comprising cash at bank and in hand at 31 March 2004 were:

Currency	Floating rate £'000	Fixed rate £'000	2004 Total £'000	2003 Total £'000
Sterling	4,619	-	4,619	7,004
US dollar	802	-	802	623
HK dollar	22	-	22	205
Euro	352	-	352	63
Other	11	-	11	14
	5,806	-	5,806	7,909

Sterling and cash deposits are placed in a liquidity fund with daily access. Currency cash deposits are placed on the money market at floating bank deposit interest rates for periods of up to three months. Normally Hong Kong and US dollars are placed on short term fixed rate deposits usually less than one month. Floating rate financial assets attract interest at rates based on relevant national LIBOR equivalents.

(b) Financial liabilities

The Group had at 31 March 2004 fixed rate sterling and euro finance leases, the maturity profile of which is set out in note 15 to the financial statements.

(c) Fair values of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of the Group's financial assets and liabilities at 31 March 2004.

	2004		2003	
	Book values £'000	Fair values £'000	Book values £'000	Fair values £'000
Cash and deposits	5,806	5,806	7,909	7,909
Forward foreign currency contracts	-	(437)	-	(14)
Finance leases	(133)	(133)	(42)	(42)

The fair values of forward foreign currency contracts have been determined with reference to prices available from the market.

The directors believe that the fair value of finance leases are not significantly different to their book values.

Notes to the Financial Statements

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(d) Currency exposures

After taking account of the effects of forward foreign exchange contracts the Group's currency exposures were as follows:

	Monetary liabilities	
	Sterling	
	2004 £'000	2003 £'000
Functional currency of group operation		
US Dollar	(713)	(957)

(e) Borrowing facilities

The Group has undrawn committed borrowing facilities. The facilities available at 31 March 2004, in respect of which all conditions precedent had been met, were as follows:

	2004 £'000	2003 £'000
Expiring in one year or less	4,000	4,000

When utilised, the Group's overdraft facilities attract interest at 1.125% above Barclays Bank base rate.

(f) Gains and losses on hedges

The Group enters into forward foreign currency contracts to eliminate the currency exposures that arise on purchases denominated in foreign currencies immediately these purchases have been transacted. Changes in the fair values of instruments used as hedges are not recognised in the financial statements until the hedge position matures. An analysis of these unrecognised gains and losses is as follows:

	Gains £'000	Losses £'000	Total £'000
Unrecognised gains and losses on hedges at 1 April 2003	9	(23)	(14)
Gains and losses arising: in previous year recognised in 2003/2004	(9)	23	14
before 1 April 2003 not recognised in 2003/2004	-	-	-
in 2003/2004 not recognised in 2003/2004	-	(437)	(437)
Unrecognised gains and losses on hedges at 31 March 2004	-	(437)	(437)

All the unrecognised gains and losses at 31 March 2004 are expected to be recognised in the year to 31 March 2005.

20 ACQUISITIONS

With effect from 4 March 2004 the Company formed a Spanish branch, Hornby Plc Sucursal en España. The Company then injected €2,000,000 (£1,340,000) of equity capital into the branch. On 31 March 2004 Hornby Plc Sucursal en España then entered into an agreement to acquire the equity of Electrotren S.A. the Company's former Spanish distributor, for cash amounting to €7,900,000. Stamp duty of €20,000 was incurred by the Company. Acquisition expenses of £90,000 for due diligence, tax and legal advice have been expensed to profit.

In its last financial year to 31 December 2003, Electrotren S.A. made a profit before tax of €800,000. For the period since that date to the date of acquisition, Electrotren management accounts show:

	€'000
Turnover	463
Operating profit	32
Profit before taxation	30
Taxation	(7)
Profit attributable to shareholders	23

The Company had no recognised gains and losses other than the profit above and therefore no separate statement of total recognised gains and losses has been presented.

With the completion of the Electrotren acquisition being so close to the year-end a full review of the fair values of the assets and liabilities acquired was not possible and accordingly the assets and liabilities of Electrotren have been consolidated at provisional book values and the prevailing exchange rate and these values will be reviewed during the year ending 31 March 2005.

	€'000	£'000
Tangible fixed assets	1,123	751
Stocks	581	389
Debtors	511	341
Cash	332	222
Creditors	(583)	(390)
Net assets acquired	1,964	1,313
Goodwill	5,956	3,990
Consideration	7,920	5,303
Consideration satisfied by:		
Cash	7,900	5,290
Acquisition costs	20	13
	7,920	5,303

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21 GUARANTEES AND OTHER FINANCIAL COMMITMENTS**CAPITAL COMMITMENTS**

	Group	
	2004	2003
	£'000	£'000
At 31 March commitments were:		
Contracted for but not provided for	785	413

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.

22 OPERATING LEASE COMMITMENTS

At 31 March 2004 the Group had lease agreements in respect of plant and vehicles, for which the payments extend over a number of years.

	2004	2003
	£'000	£'000
Annual commitments under non-cancellable operating leases expiring:		
Within one year	20	-
Within 2 to 5 years	60	54
	80	54

23 PENSION ARRANGEMENTS

On 1 January 1992 the Group's defined benefit pension scheme was converted to a Group defined contribution contracted-out money purchase scheme. With effect from 5 April 2003 the scheme ceased to be contracted-out. The scheme is open to all permanent salaried employees aged twenty years or over employed by UK companies. The assets of the previous final salary scheme were converted into cash and the total proceeds were allocated to individual members by the scheme's actuaries on the basis of the value of the members' accrued benefits under the previous scheme. The amounts allocated to the individual members were invested in either a managed fund investment, an insured with profits insurance contract or in a building society deposit account, according to the wishes of individual members. The level of contributions to the money purchase scheme for current members is fixed by the Company.

The pension cost for the year was £228,000 (2003 - £196,000) representing the actual contributions payable in the year and certain scheme administration costs.

24 RELATED PARTY DISCLOSURES

There were no contracts with the Company or any of its subsidiaries subsisting during or at the end of the financial year in which a director of the Company was materially interested. The Company has taken advantage of the exemption available to parent companies under Financial Reporting Standard number 8 ("Related Party Disclosures") not to disclose transactions and balances with Group entities which have been eliminated on consolidation.

In the year ended 31 March 2004, Hornby Hobbies Limited made sales of £358,297 to Electrotren S.A. (2003 - £210,357).

Notice of Annual General Meeting

Notice is hereby given that the twenty-third Annual General Meeting of Hornby Plc will be held at Berwin Leighton Paisner, Adelaide House, London Bridge, London EC4R 9HA on Thursday 22 July 2004 at 11.00am for the following purposes:

1. To receive the report of the directors and the audited financial statements for the year ended 31 March 2004.
2. To approve the directors' remuneration report, as set out on pages 14 to 19 of the annual accounts.
3. To declare a final dividend of 22p per ordinary share payable to the shareholders on the register at close of business on 30 July 2004.
4. To re-elect Mr N A Johnson a director of the Company.
5. To re-elect Mr N J Cosh a director of the Company.
6. To re-appoint PricewaterhouseCoopers LLP, the retiring auditors, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that their remuneration be fixed by the directors.

SPECIAL BUSINESS

7. To consider and if thought fit to pass the following resolution which will be proposed as an ordinary resolution.

THAT with effect from close of business on 30 July 2004 each of the issued ordinary shares of 5p each in the capital of the Company and each of the unissued ordinary shares of 5p each in the capital of the Company be sub-divided into 5 ordinary shares of 1p each in the capital of the Company having the rights and being subject to the restrictions set out in the Articles of Association of the Company for the time being.

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

THAT (a) the directors be generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in that Section) up to a maximum nominal amount of £150,000 provided that such authority (unless previously revoked, varied or renewed) shall expire at the conclusion of the Annual General Meeting of the Company next following the date of the passing of this resolution (save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired) and shall be in substitution for any and all authorities previously conferred upon the directors for the purposes of Section 80 of the Act;

- (b) the directors be empowered pursuant to Section 95 of the Act to allot equity securities within the meaning of (Section 94(2) to Section 94(3A) of the Act) for cash pursuant to the authority referred to in paragraph (a) above as if Section 89(1) of the Act did not apply to any such allotment, such power to expire at the conclusion of the Annual General Meeting of the Company next following the date of the passing of this resolution (save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired) and to be limited to:

Notice of Annual General Meeting

continued

- (i) the allotment of equity securities in connection with an offer of securities open for acceptance for a period fixed by the directors or (where applicable) in accordance with the rights for the time being attached to such shares (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with legal or practical problems under the laws of any territory or the requirements of any regulatory body or any stock exchange in any territory or in connection with fractional entitlements or otherwise);
- (ii) the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities for cash up to an aggregate nominal amount of £18,000.

This power shall apply in relation to a sale of shares which is an allotment of equity securities by virtue of Section 94(3A) of the Act in the paragraph (b) as if the words "pursuant to the authority referred to in paragraph (a) above" were omitted.

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

THAT the Company be generally and unconditionally authorised pursuant to Section 166 of the Companies Act 1985 (the "Act") to make one or more market purchases (within the meaning of Section 163(3) of the Act) of ordinary shares of 5p each in the capital of the Company ("ordinary shares") provided that:

- (a) the maximum aggregate number of ordinary shares authorised to be purchased is less than 15 per cent of the issued share capital of the Company at the date of this resolution;
- (b) the minimum price which may be paid for an ordinary share is the par value of such share, from time to time, exclusive of expenses;
- (c) the maximum price which may be paid for an ordinary share shall be an amount equal to 5 per cent above the average of the middle-market quotations for the ordinary shares as derived from the London Stock Exchange Daily Official List for the five dealing days immediately preceding the day on which the purchase is made, exclusive of expenses;
- (d) subject as provided in paragraph (e) below, unless previously revoked, varied or renewed, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company next following the date of the passing of this resolution or within eighteen months from the date of the passing of this resolution, whichever shall be the earlier; and
- (e) the Company may contract to purchase ordinary shares under the authority hereby conferred before the expiry of such authority, which will or may be completed wholly or partly after the expiry of such authority, and may purchase ordinary shares pursuant to any such contract as if such authority had not expired.

By order of the Board

JW Stansfield
Secretary
4 June 2004

NOTES

1. A member is entitled to appoint a Proxy, who need not be a Member of the Company, to attend and vote instead of him. A form of proxy is enclosed. To be valid a form of proxy and the authority (if any) under which it is signed must be lodged with the Company's registrars not later than 48 hours before the time of the meeting or adjourned meeting. Completion of a form of proxy will not preclude a member from attending and voting at the meeting in person.
2. Under Regulation 41 of the Uncertified Securities Regulations 2001, only those shareholders whose names are on the register of members of the Company no later than 11am on 20 July 2004 or, if the meeting is adjourned, shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned meeting are entitled to attend and vote at the meeting 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 or vote at the meeting.
3. There will be available for inspection at the Registered Office of the Company during usual business hours (Saturdays excepted), from the date of this Notice, until the date of the Annual General Meeting, a copy of each contract of service open to inspection under Section 318 of the Companies Act 1985, whereunder the directors are employed. These documents will also be available for inspection at the Annual General Meeting and for fifteen minutes prior thereto.

Five Year Summary

	2004 £'000	2003 £'000	2002 £'000	2001 £'000	2000 £'000
Turnover	38,970	34,142	28,489	24,604	21,477
Profit after interest before exceptional items	6,469	5,411	3,722	2,292	1,402
Exceptional items	-	-	-	(797)	(195)
Profit on ordinary activities before taxation	6,469	5,411	3,722	1,495	1,207
Taxation	(1,974)	(1,519)	(1,329)	(520)	(398)
Profit on ordinary activities after taxation	4,495	3,892	2,393	975	809
Assets employed:					
Fixed assets	8,453	3,600	3,661	3,739	4,518
Net current assets	9,506	12,094	10,145	9,122	9,932
Creditors due after more than one year	(103)	(22)	(16)	(96)	(148)
Provisions for liabilities and charges	(527)	(486)	(628)	(762)	(806)
Net assets	17,329	15,186*	13,162	12,003	13,496
Total capital employed	17,329	15,186*	13,162	12,003	13,496
Earnings per share					
- basic	61.0p	53.3p	33.0p	11.7p	9.7p
- diluted	58.2p	52.0p	32.6p	11.7p	9.7p
Dividend per share (net)	30.0p	25.0p	17.0p	12.0p	7.0p
Net assets per share	234.4p	206.8p*	181.4p	165.4p	161.5p

* As set out in note 1 the Short Term Incentive Plan has been restated as a deduction from the profit and loss account reserves, rather than shown as a fixed asset investment, in accordance with UITF Abstract 38.

HORNBY Plc

FORM OF PROXY

To be used for the Annual General Meeting of the Company to be held on Thursday 22 July 2004.

I/We (block capitals)

of

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

as my/our proxy to attend and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at Berwin Leighton Paisner, Adelaide House, London Bridge, London EC4R 9HA on Thursday 22 July 2004 at 11.00am and at any adjournment thereof on the resolutions set forth in the Notice of Meeting as follows:

RESOLUTION	FOR	AGAINST	VOTE WITHHELD	DISCRETIONARY
No 1 To receive the report of the directors and the audited accounts for the year ended 31 March 2004.				
No 2 To approve the directors' remuneration report.				
No 3 To declare a final dividend.				
No 4 To re-elect Mr N A Johnson a director of the Company.				
No 5 To re-elect Mr N J Cosh a director of the Company.				
No 6 To re-appoint PricewaterhouseCoopers LLP, the retiring auditors, to hold office until the conclusion of the next General Meeting at which the accounts are laid before the Company and to authorise the directors to fix their remuneration.				
Special Business:				
No 7 That each of the issued ordinary shares of 5p each in the capital of the Company and each of the unissued ordinary shares of 5p each in the capital of the Company be sub-divided into 5 ordinary shares of 1p each in the capital of the Company having the rights and being subject to the restrictions set out in the Articles of Association of the Company for the time being.				
No 8 To authorise the directors to allot shares pursuant to Section 80 and to disapply Section 89(1) of the Companies Act 1985 with respect to certain allotments of shares.				
No 9 To authorise the directors to make one or more market purchases of ordinary shares pursuant to Section 166 of the Companies Act 1985.				

Dated this day of 2004

Signature

Notes

- Please indicate by a cross in the appropriate box opposite each resolution how you wish your proxy to vote. The "vote withheld" option is provided to enable you to abstain on any particular resolution. A "vote withheld" is not a vote in law and will not be counted in the calculation of the proportion of the votes "For" and "Against" a resolution. Subject to any voting directions so given the proxy will exercise his discretion as how to vote, or whether to abstain from voting on the above resolutions, to adjourn the meeting and on any other business that may properly come before the meeting.
- Delete "the Chairman of the Meeting" if it is desired to appoint any other person and insert the name and address of your proxy.
- To be valid this form of proxy must be received by the Company's Registrar (Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU) not later than 11.00am on Tuesday 20 July 2004.
- In the case of a Corporation the form of proxy should be under its Common Seal or under the hand of an Officer or Attorney duly authorised in writing. The Power of Attorney or a duly certified copy thereof must be deposited with the form of proxy with the Company's Registrar within the period stated above.
- In the case of a joint holding, any one of several joint holders may sign. The vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the Register of Members.
- Under Regulation 41 of the Uncertified Securities Regulations 2001, only those shareholders whose names are on the register of members of the Company no later than 11.00am on 20 July 2004 or, if the meeting is adjourned, shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned meeting are entitled to attend and vote at the meeting 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 or vote at the meeting.



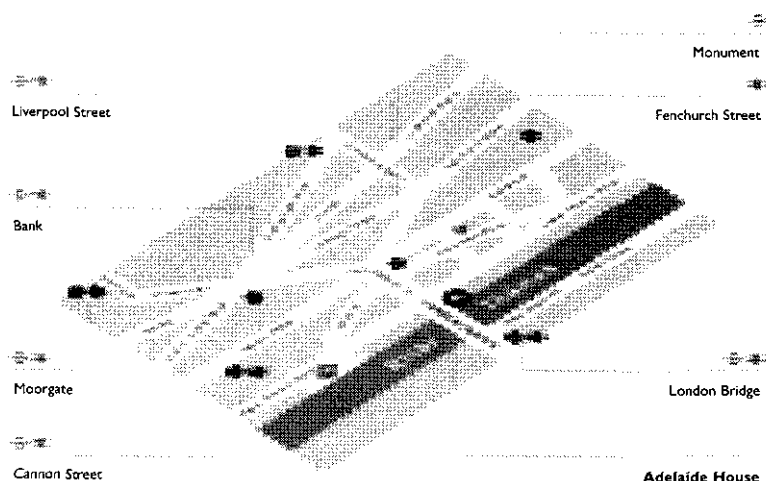
ANNUAL GENERAL MEETING

Thursday 22 July 2004 at 11.00am.

The twenty-third Annual General Meeting of Hornby Plc
will be held at:

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

How to reach Adelaide House



BY UNDERGROUND

The nearest tube station is Monument (Circle and District Lines) although Bank (Northern and Central Lines) and London Bridge (Northern and Jubilee Lines) are also close. In addition, the Docklands Light Railway connects with the Bank/Monument complex.

BY TRAIN

The City is well served by mainline stations, all within walking distance of Adelaide House:

Liverpool Street (with services from Cambridgeshire and East Anglia)
Fenchurch Street (from Essex)
Moorgate (Thameslink services from Hertfordshire)
Cannon Street (from Kent and the South East)
London Bridge (from Sussex and the South Coast).

BY CAR

An NCP car park is situated in Swan Lane, off Upper Thames Street. There are a small number of parking meters available in the area surrounding the Monument. Also many taxis cross the bridge, in both directions, during the day.

BY BUS

Various buses pass over London Bridge during the week, including numbers 17, 21, 35, 40, 43, 47, 48, 133 and 149. Bus stops are situated in front of Adelaide House.

FOLD HERE

BUSINESS REPLY SERVICE
Licence No. MB122

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FOLD HERE

Capita Registrars
(Proxy's)
P.O. Box 25
Beckenham
Kent
BR3 4BR

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