CONTENTS

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FINANCIAL HIGHLIGHTS

	Year ended 31st December	
	1989 £'000	1988 £'000
TURNOVER	31,996	23,[illegible]
PROFIT		
Operating profit	3,753	2,444
Profit before taxation	3,467	2,404
Profit after taxation	2,293	1,457
Profit after extraordinary credit	4,527	1,457
EARNINGS PER SHARE		
Basic after actual tax at 34 per cent	28.3p	18.2p
Basic after notional tax at 35 per cent	27.8p	19.5p
NET DIVIDEND PER SHARE	7.50p	5.25p
NET ASSETS PER SHARE AT BALANCE SHEET DATE	153.6p	106.[illegible]p

CHAIRMAN'S STATEMENT

The year ended 31st December 1989 was another record year for the Group with excellent progress being made in all areas.

During the year, the demand for our products remained very buoyant despite the general uncertainty in the retail sector and the high level of interest rates. This strong demand was experienced in all product sectors including hobby products, toys and Fletcher sports boats, acquired at the end of 1988.

Turnover increased by 37 per cent, operating profit improved by 54 per cent and earnings per share (after actual tax) increased by 55 per cent. In addition, we successfully agreed the 1981 tax loss position and this has resulted in an extraordinary credit of £2.2 million, adding 27.5 pence to net assets per share.

Overall, the Group now has a four year record of earnings per share growth at a compound rate of 40 per cent per annum.

The Group continued to invest in both equipment and new product tooling during the year to support the increased level of activity. Capital expenditure amounted to £1.8 million (1988 – £1.1 million).

Results for the year ended 31st December 1989

Turnover in the year increased to £32.0 million (1988 – £23.4 million), an increase of 37 per cent, represented by a 20 per cent increase in our traditional Hornby business and the inclusion for the first time of a full year effect of The Fletcher Group. Operating profit increased to £3.75 million (1988 – £2.44 million) and represented 12 per cent of turnover. Net interest costs amounted to £0.3 million (1988 – £ nil) which resulted in a profit on ordinary activities before taxation of £3.5 million (1988 – £2.4 million), an increase of 44 per cent.

As reported above, following a favourable decision from the Special Commissioners in respect of our tax appeal, the retained profits have benefited from an extraordinary credit of £2.2 million. This had previously been provided as a provision for corporation tax following the Inland Revenue's decision to seek to restate the terms of the original acquisition of Hornby Hobbies Limited in 1981. The directors had thought it prudent to fully provide for the maximum potential corporation tax liability, and as a result of the outcome of the hearing, we are now able to release this provision and return to a normal tax charge for the year.

Dividends

The level of earnings and the underlying strength of the balance sheet enables the directors to recommend the payment of a single final dividend of 7.5 pence per share representing an increase of 43 per cent. The net dividend is covered 3.8 times by earnings (1988 – 3.5 times).

Prospects

The Group will continue to adopt a cautious approach to the future but I am pleased to report that all aspects of the Group's businesses are performing well with orders received, despatches and production being well ahead of the same period last year.

We are currently consolidating the various Fletcher businesses on a five acre site close to the existing factory in order to expand capacity to meet the increasing demand for our products and to enable production efficiencies to be achieved.

The Group's new products have been received favourably and the prospects for the current year are very encouraging. We look forward to another successful year.

Management and employees

The excellent results for the year could not have been achieved without the commitment and dedication of the Group's employees and, on behalf of the board of directors, I would like to give credit and thanks to the management and employees who have contributed to the success of the Group.

G J Strowger
Chairman
11th April 1990

DIRECTORS AND ADVISERS

Directors
G J Strowger CBE – Chairman
K L Ness – Managing Director and Chief Executive
A R Cox BA ACMA – Finance Director
D Michaels BSc DMS FSS – Non-Executive
J P Moulton BA FCA – Non-Executive
M C Thomas – Non-Executive

Secretary
A R Cox BA ACMA

Registered Office
Westwood, Margate, Kent CT9 4JX

Auditors
Arthur Andersen & Co.
1 Surrey Street, London WC2R 2PS

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

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

Stockbrokers
Rowe & Pitman Limited
1 Finsbury Avenue, London EC2M 2PA

Registrars and Transfer Agents
Stentiford Close Registrars Limited
Broseley House, Newlands Drive, Witham, Essex CM8 2UL

REPORT OF THE DIRECTORS

The directors present their annual report on the Group together with the accounts and auditors' report for the year ended 31st December 1989.

Principal activities and business review

Hornby Group's principal activity is the design, manufacture and marketing of products for the toy, hobby and leisure industries. These activities include the manufacture of model railways, Scalextric slot-car racing, and the manufacture or distribution of a range of other toy and model products. In November 1988 the Group acquired Fletcher International Sportsboats Limited and its associated companies (The Fletcher Group) which are engaged in the design, manufacture and marketing of sports boats, boat trailers and accessories.

Group turnover increased in the year to £32.0 million from £23.4 million, an increase of 36.6%. Profit before taxation and extraordinary items was £3.5 million compared with £2.4 million in 1988.

During the year the directors were able to release the provision for corporation tax and interest thereon of £2.2 million to the profit and loss account as an extraordinary credit following a favourable decision by the Special Commissioners.

Results and dividends

The results for the year ended 31st December 1989 are set out on pages 8 to 22.

The Directors recommend a final dividend in respect of the year ended 31st December 1989 of 7.5p (net) (1988 - 5.25p) per share on the issued and fully paid share capital. This dividend, if approved at the Annual General Meeting, will be payable on 25th May 1990 to shareholders on the register at 11th May 1990. The dividend for the year, together with the associated tax credit, is equivalent to a gross dividend of 10.0p per share (1988 - 7.0p). The cover for this dividend is 3.8 times (1988 - 3.5 times).

Directors and their interests

The directors of the Company during the year, together with their interests in the Ordinary shares of the Company at 31st December 1989, were:

	Ordinary shares of 5p each		Share options granted on
	31.12.89	31.12.88	1.5.86
G J Strowger	**64,000**	64,000	—
K L Ness	**79,200**	79,200	175,500
A R Cox	**28,600**	28,600	35,300
D Michaels	**6,000**	108,500	—
J P Moulton	**10,452**	10,452	—
M C Thomas	**5,000**	5,000	—

The interests of Mr D Michaels shown above includes 5,000 (1988 - 107,500) Ordinary shares owned by The Guidehouse Group Plc, of which he is a director and a substantial shareholder. Save as aforesaid, the above interests are beneficial.

On 16th March 1990 the Company granted further options to subscribe for Ordinary shares to Mr K L Ness and Mr A R Cox amounting to 23,000 shares and 18,000 shares respectively. There have been no other changes in the above shareholdings since 31st December 1989.

Mr K L Ness and Mr A R Cox retire by rotation and, being eligible, offer themselves for re-election at the next Annual General Meeting.

Substantial shareholdings

Shareholdings representing 5 per cent or more of the Ordinary share capital of the Company as shown on the share register at 11th April 1990 were as follows.

	Number of Ordinary shares	Percentage held
Nutraco Nominees Limited	1,354,000	16.7%
Citicorp Capital Investors Europe Limited	857,602	10.6%
Bishopsgate Nominees Limited	819,030	10.1%
Scottish Amicable Nominees Limited	641,800	7.9%

Share capital

On 18th January 1989 the Company issued 91,158 Ordinary shares of 5p each at a premium of 185p as deferred and final consideration for the acquisition of the whole of the share capital of The Fletcher Group.

Close company status

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

Fixed assets

Information relating to the changes in tangible fixed assets of the Group is given in note 13 to the accounts.

In the opinion of the directors the market value of the Group's freehold land and buildings is in excess of the amount at which these are stated in the accounts.

Charitable contributions

The Group made charitable donations during the year of £3,852 (1988 - £1,928).

Non-executive directors

Mr D Michaels, non-executive director, is aged 46. He was appointed to the Board in March 1981 and has since had a close involvement with the Group. He is Chairman of The Guidehouse Group Plc which is quoted on the Unlisted Securities Market. Between 1971 and 1980 he was at merchant bankers N M Rothschild & Sons. He is also a director of a number of other industrial companies.

Mr J P Moulton, non executive director, is aged 39 and is a chartered accountant. He was first appointed to the Board in May 1981 and has served three separate terms of office as a director. He is the managing partner of Schroder Venture Advisers and a non-executive director of a number of other companies.

Mr M C Thomas, non executive director, is aged 61 and was appointed to the Board in August 1987. He was a director of Reed International PLC and is currently President of Smurfit (UK) Limited. He is also Chairman of Minipack Systems Limited and a director of Holmes and Marchant PLC.

Employee involvement

During the year, the Group continued to encourage the involvement of all employees in the management of the business. It is the Group's policy to keep employees informed on the various matters affecting them and on the major issues affecting the Group through regular meetings with their employee representatives. The Group also encourages employee shareholding.

Disabled persons

The Group supports the employment of disabled persons wherever possible, bearing in mind the respective aptitudes of the employees concerned, both in recruitment, by retention of those who become disabled during their employment, and by offering as far as possible career development and promotion opportunities identical to those of other employees.

Auditors

The auditors, Arthur Andersen & Co., have expressed their willingness to continue in office. A resolution to re-appoint them will be proposed at the Annual General Meeting.

By Order of the Board
A R Cox
Secretary
Westwood,
Margate,
Kent CT9 4JX
11th April 1990

AUDITORS' REPORT

To the Members of Hornby Group Plc:

We have audited the accounts set out on pages 8 to 22 in accordance with Auditing Standards.

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and Group at 31st December 1989 and of the Group profit and source and application of funds for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen & Co.
Chartered Accountants
London

11th April 1990

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st December 1989

	Notes	1989 £'000	1988 £'000
Turnover	3	31,996	23,424
Cost of sales		(20,923)	(14,868)
Gross profit		11,073	8,556
Other operating expenses	4	(7,320)	(6,112)
Operating profit		3,753	2,444
Interest income	5	149	123
Interest payable and similar charges	6	(435)	(163)
Profit on ordinary activities before taxation	7	3,467	2,404
Taxation	9	(1,174)	(947)
Profit on ordinary activities after taxation		2,293	1,457
Extraordinary credit	10	2,234	—
Profit for the financial year		4,527	1,457
Dividend proposed	11	(609)	(426)
Retained profit for the year		3,918	1,031
Transfer from revaluation reserve	21	17	17
Retained profit (accumulated deficit) at beginning of year		951	(97)
Retained earnings at end of year		4,886	951
Earnings per share – Basic after actual tax	12	28.3p	18.2p

CONSOLIDATED BALANCE SHEET

At 31st December 1989

	Notes	1989 £'000	1989 £'000	1988 £'000	1988 £'000
Fixed assets					
Tangible assets	13		5,377		4,550
Investments	14		1		1
			5,378		4,551
Current assets					
Stocks	15	5,121		3,823	
Debtors	16	5,780		4,408	
Cash at bank and in hand		4,658		4,787	
		15,559		13,018	
Creditors – Amounts falling due within one year	17	(9,213)		(7,453)	
Net current assets			6,346		5,565
Total assets less current liabilities			11,724		10,116
Creditors – Amounts falling due after more than one year	18		(239)		(73)
Provisions for liabilities and charges	19		(51)		(2,585)
Net assets			11,434		7,458
Called-up share capital	20		406		401
Share premium account	21		4,456		4,288
Revaluation reserve	21		999		1,016
Other reserves	21		687		802
Profit and loss account	21		4,886		951
Total capital employed			11,434		7,458

Signed on behalf of the Board

K L Ness
A R Cox } Directors

11th April 1990

COMPANY BALANCE SHEET

At 31st December 1989

	Notes	1989 £'000	1989 £'000	1988 £'000	1988 £'000
Fixed assets					
Investments	14		13,358		9,418
Current assets					
Debtors	16	2,059		1,844	
Cash at bank and in hand		2		10	
		2,061		1,854	
Creditors - Amounts falling due within one year	17	(2,992)		(2,729)	
Net current liabilities			(931)		(875)
Total assets less current liabilities			12,427		8,543
Provisions for liabilities and charges	19		—		(7)
Net assets			12,427		8,536
Called up share capital	20		406		401
Share premium account	21		4,456		4,288
Other reserves	21		5,605		5,805
Profit and loss account	21		1,960		(1,958)
Total capital employed			12,427		8,536

Signed on behalf of the Board

K L Ness
A R Cox
Directors

11th April 1990

CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

For the year ended 31st December 1989

	1989		1988	
	£'000	£'000	£'000	£'000
Source of funds				
Profit on ordinary activities before taxation		3,467		2,4[illegible]
Adjustment for items not involving the movement of funds:				
Depreciation of tangible fixed assets		961		698
Loss/(gain) on disposal of tangible fixed assets		2		(3)
Funds generated from operations		4,430		3,099
Funds from other sources				
Increase in capital reserve	—		200	
Proceeds from disposal of tangible fixed assets	23		12	
Increase in creditors falling due after more than one year	166			
Translation differences	38			
Adjustment to goodwill on acquisition	47			
Decrease in net current assets, as shown below	—		17	
		274		229
		4,704		3,328
Application of funds				
Taxation paid		41		11
Dividends paid		426		321
Tangible fixed asset additions		1,813		1,892
Extraordinary credit — costs incurred		193		
Goodwill on acquisition		—		1,079
Shares issued as final consideration for the acquisition of subsidiary		173		
Decrease in capital reserve		200		
Other		—		25
Increase in net current assets, as shown below		1,858		
		4,704		3,328
Increase/(decrease) in net current assets				
Stocks		1,298		1,261
Debtors		1,168		795
Investments		—		(23)
Creditors due within one year (other than dividends, bank overdraft and taxation)		(377)		(2,258)
		2,089		(225)
Movement in net liquid funds				
Increase/(decrease) in cash at bank and in hand	(129)		708	
Increase in bank overdraft	(102)	(231)	(500)	208
		1,858		(17)

NOTES TO THE ACCOUNTS

1. *Accounting policies*

Basis of accounting
The accounts are prepared under the historical cost convention as modified by the revaluation of certain fixed assets.

Basis of consolidation
The Group accounts consolidate the accounts of the Company and all its subsidiaries made up to 31st December 1989. The results of subsidiaries acquired in the year are included in the consolidated profit and loss account from the date of acquisition. Goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired, having made appropriate provisions for any reorganisation costs) is written off against other reserves on acquisition.

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

Patents and trademarks
The cost of patents and trademarks is written off in the year in which the patents and trademarks are acquired.

Prepaid advertising costs
To the extent that such costs are identified with future revenue streams, those incurred in the production of new sales catalogues are carried forward and included in debtors at the balance sheet date.

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

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

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

Tooling is 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.

Profits or losses on the disposal of plant and machinery are included in the calculation of operating profit

Fixed asset investments
Investments in subsidiaries are stated on the equity method of accounting. The directors consider that this policy more fairly represents the Company's investments than carrying them at cost

Other investments are shown at cost less amounts written off

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

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

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

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.

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.

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

Pension costs
It is the general policy of the Group to provide for and fund pension liabilities on a going concern basis, on the advice of external actuaries, by payments to an independently managed pension scheme administered by trustees. Independent actuarial valuations on a going concern basis are carried out every three years.

The amount charged to the profit and loss account (the regular pension cost) in respect of the scheme is calculated so as to produce a substantially level percentage of the present and future pensionable payroll. Variations from regular cost are allocated to the profit and loss account on a prudent basis over a period not exceeding employees' average remaining service lives.

Any difference between amounts charged in the profit and loss account and paid to the pension scheme is shown in the balance sheet as a liability or asset.

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

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

Leases
The Group enters into operating and finance leases.

Assets held under finance leases are initially reported at the fair value of the asset with an equivalent liability categorised as appropriate under creditors due within or after one year. The asset is depreciated over the shorter of the lease term and its useful economic life. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of return on the outstanding balance. Rentals are apportioned between finance charges and reduction of the liability, and allocated to cost of sales and other operating expenses as appropriate. Rentals under operating leases are charged on a straight-line basis over the lease term.

2. **Holding company profit and loss account**
The Company has taken advantage of the exemption in S.228(7) of the Companies Act 1985 not to present its own profit and loss account.

NOTES TO THE ACCOUNTS continued

3. Segment Information

Turnover comprises the design, manufacture and marketing in the toy, hobby and leisure industries. The analysis of turnover by geographical area is as follows:

	1989 £'000	1988 £'000
United Kingdom	28,743	21,368
Rest of the World	3,253	2,056
	31,996	23,424

An analysis of overseas turnover has not been given since, in the opinion of the directors, this may be prejudicial to the commercial interests of the Group.

The profitability on sales to overseas customers is not materially different from sales to customers in the United Kingdom.

4. Other operating expenses

	1989 £'000	1988 £'000
Distribution costs	586	420
Selling and marketing costs	4,939	4,274
Research and development costs	262	96
Administrative expenses	1,533	1,322
	7,320	6,112

5. Interest income

	1989 £'000	1988 £'000
Bank interest receivable	149	123

6. Interest payable and similar charges

	1989 £'000	1988 £'000
Interest on bank loans and overdrafts repayable within five years not by instalments, and bank charges	435	363

7. Profit on ordinary activities before taxation

The following have been charged in arriving at the profit on ordinary activities before taxation:

	1989 £'000	1988 £'000
Depreciation of tangible fixed assets – owned	929	678
– held under finance leases	32	20
Operating lease rentals for motor vehicles	90	99
Hire of plant and machinery	42	44
Accrued costs associated with Inland Revenue claim	—	150
Auditors' remuneration	40	36
Staff costs (see note 8 below)	8,251	6,385

8. Employees

Staff costs

Staff costs (including directors) during the year amounted to:

	1989 £'000	1988 £'000
Wages and salaries	7,556	5,673
Social Security costs	590	425
Pension costs	105	88
	8,251	6,186

Average number of employees

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

	1989 Number	1988 Number
Manufacturing	828	819
Sales, marketing and distribution	91	79
Administration	39	39
	958	937

Directors' remuneration

The employee costs shown above include the following remuneration in respect of the directors of the Company.

	1989 £'000	1988 £'000
Fees	5	5
Salaries as directors	152	138
Other emoluments (including pension contributions)	260	178
	417	321

The remuneration of the directors of Hornby Group Plc shown above (excluding pension contributions) includes:

	1989 £'000	1988 £'000
Chairman	43	35
Highest paid director	283	212

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

	1989 Number	1988 Number
Nil	2	2
£0 – £5,000	1	1
£60,001 – £65,000	—	1
£80,001 – £85,000	1	—

The number of employees in the Group (other than directors of the Company) whose emoluments (excluding pension contributions) exceeded £30,000 is set out below

	1989 Number	1988 Number
£30,001 – £35,000	5	—
£40,001 – £45,000	—	1
£45,001 – £50,000	—	1
£50,001 – £55,000	1	—
£55,001 – £60,000	—	1
£65,001 – £70,000	1	—

9. Taxation

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

	1989 £'000	1988 £'000
Corporation tax at 35% (1988 – 35%)	1,171	987
Interest on 1981 corporation tax	—	63
Deferred taxation arising from:		
capital allowances	3	(45)
other timing differences	—	(88)
	1,174	917

10. Extraordinary credit

The extraordinary credit arises due to the release of part of the provision for liabilities and charges which amounted to £2,585,000 at 31st December 1988. This follows a favourable decision by the Special Commissioners in respect of the tax consequences of the original acquisition of Hornby Hobbies Limited by the Company. The extraordinary credit represents the reversal of the provision for estimated corporation tax and interest thereon in respect of 1981 and subsequent years less estimated corporation tax payable for 1987 and 1988 and after deducting costs incurred in contesting the Inland Revenue's assertions (see note 19).

The extraordinary credit comprises:

	1989 £000
Provision for corporation tax at beginning of year	2,537
Less	
Corporation tax paid or payable	(110)
Costs incurred	(193)
	2,234

11. Dividend proposed

	1989 £'000	1988 £'000
Ordinary:		
– final proposed of 7.50p net per share (1988 – 5.25p)	609	426

12. Earnings per share

Basic earnings per Ordinary share are based on Group profit on ordinary activities after taxation of £2,293,000 (1988 – £1,457,000) and on 8,111,462 (1988 – 8,024,550) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year. A fully diluted earnings per share figure taking account of share options outstanding is not provided as the effect on earnings per share is not material.

13. Tangible fixed assets

The movement in Group tangible fixed assets for the year was as follows:

	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Tooling £'000	Total £'000
Cost or valuation					
Beginning of year	2,857	3,029	[illegible]	4,765	10,711
Additions	2	[illegible]	[illegible]	778	1,813
Disposals	–	(17)	(21)	–	(38)
End of year	2,859	[illegible]	324	5,543	12,486
Depreciation					
Beginning of year	91	[illegible]	19	4,217	6,161
Charge	51	[illegible]	34	590	961
Disposals	–	[illegible]	(8)	–	(13)
End of year	145	[illegible]	45	4,807	7,109
Net book value					
At 31st December 1989	2,714	[illegible]	279	736	5,377
At 31st December 1988	2,766	[illegible]	41	548	4,550

13. Tangible fixed assets (continued)

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

	1989 £'000	1988 £'000
Capitalised value	342	123
Accumulated depreciation	(86)	(53)
Net book value	256	70

The cost or valuation of freehold land and buildings at 31st December 1989 is represented by:

	Freehold land and buildings 1989 £'000
Valuation in 1986	2,360
Cost	499
	2,859

Other tangible fixed assets are stated at cost

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

	Freehold land and buildings	
	1989 £'000	1988 £'000
Original cost	412	412
Depreciation based on cost	(63)	(55)
Net book value based on cost	349	357

14. Fixed asset investments

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

	Group		Company	
	1989 £'000	1988 £'000	1989 £'000	1988 £'000
Subsidiaries	—	—	12,986	9,046
Loan to subsidiary	—	—	371	371
Other investments	1	1	1	1
	1	1	13,358	9,418

(b) Investments in subsidiaries

The movements in the values of the subsidiaries are as follows:

	Company	
	1989 £'000	1988 £'000
Shares at cost less amounts written off:		
Beginning of year	5,403	3,244
Additions	—	2,159
Adjustment to goodwill on acquisition	(47)	—
End of year	5,356	5,403
Excess of assets purchased over cost	2,438	2,438
	7,794	7,841
Movement in underlying net assets since acquisition:		
Beginning of year	1,205	181
Increase during year	3,987	1,024
End of year	5,192	1,205
	12,986	9,046

14. Fixed asset Investments (continued)

(c) Principal group subsidiaries

Details of the principal subsidiaries of the Company are set out below. All subsidiaries are wholly owned private companies.

	Principal activity	Place of incorporation and operation
Hornby Hobbies Limited	Toy manufacture	England
Norman Fletcher (Sales and Developments) Limited	Holding and management company	England
Miles Products Limited	Manufacture of boat trailers	England
Fletcher International Sportsboats Limited	Manufacture of sports boats	England
Fletcher France SARL	Distributor of sports boats	France

(d) Loan to subsidiary

The loan to subsidiary comprises a loan from Hornby Group Plc to Hornby Industries Limited, being a non interest bearing loan with no fixed repayment date. This loan is secured by a fixed and floating charge over the subsidiary's assets.

(e) Other investments

The other investment in the Group represents a five per cent shareholding in Fletcher Svenska, a distribution company incorporated in Sweden

15. Stocks

The following are included in the Group net book value of stocks:

	1989 £'000	1988 £'000
Raw materials and consumables	1,450	1,494
Work in progress	2,064	1,498
Finished goods	1,607	831
	5,121	3,823

16. Debtors

The following are included in the net book value of debtors:

	Group		Company	
	1989 £'000	1988 £'000	1989 £'000	1988 £'000
Amounts falling due within one year				
Trade debtors	4,769	3,685	—	—
Dividends receivable	—		609	426
Prepayments	383	214	3	—
Prepaid advertising costs	206	150	—	
Other debtors	219	217	—	18
	5,577	4,266	612	444
Amounts falling due after more than one year				
Amounts owed by Group companies	—	—	1,447	1,400
ACT recoverable	203	142	—	
	5,780	4,408	2,059	1,844

17. Creditors: Amounts falling due within one year

The following amounts are included in creditors falling due within one year:

	Group		Company	
	1989 £'000	1988 £'000	1989 £'000	1988 £'000
Finance lease obligations	47	17	—	
Bank overdraft (secured—see note 23)	667	565	—	
Trade creditors	3,193	2,736	—	
Amounts owed to subsidiaries	—	—	2,349	2,183
Reorganisation provision	15	151	—	
Other creditors				
UK corporation tax	1,133	35	6	
ACT payable	203	142	—	
VAT	663	683	5	
PAYE and Social Security	259	222	—	
Other creditors	1,195	973	—	119
Pension scheme	—	79	—	
Dividends payable	609	426	609	426
Accruals	1,229	1,424	23	
	9,213	7,453	2,992	2,729

The reorganisation provision relates to the acquisition of The Fletcher Group in November 1988 and *the movement in the provision during the year represents reorganisation costs incurred of £136,000.*

18. Creditors: Amounts falling due after more than one year

The following amounts are included in creditors falling due after more than one year:

	Group	
	1989 £'000	1988 £'000
Finance lease obligations	239	73

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

	Group	
	1989 £'000	1988 £'000
Between one and two years	84	19
Between two and five years	155	54
	239	73

Aggregate finance lease obligations exclude future finance charges amounting to £66,000 (1988 £20,000).

19. Provisions for liabilities and charges

Provisions for liabilities and charges comprise

	Group		Company	
	1989 £'000	1988 £'000	1989 £'000	1988 £'000
Provision for corporation tax	—	2,537	—	[illegible]
Deferred taxation	51	48	—	
	51	2,585	—	7

The movement on the provision for corporation tax is as follows

	Group	Company
	1989 £'000	1989 £'000
Beginning of year	2,537	7
Credited to profit and loss account	(2,537)	(7)
End of year	—	—

19. Provisions for liabilities and charges (continued)

The provision for corporation tax represented a provision for corporation tax and interest thereon for the period from 1981 to 1988 following the decision of the Inland Revenue to seek to restate the terms of the acquisition of Hornby Hobbies Limited for tax purposes. As a result of a favourable decision by the Special Commissioners the provision is no longer required and has been released to the profit and loss account as an extraordinary credit during the year (see note 10).

The movement on deferred taxation comprises :

	Group
	1989
	£'000
Beginning of year	48
Charged to profit and loss account in respect of capital allowances	3
End of year	51

20. Called-up share capital

	1989 £'000	1988 £'000
Authorised:		
10,000,000 Ordinary shares of 5p each	500	500
Issued and fully paid:		
8,115,708 Ordinary shares of 5p each	406	401

On 1st May 1986 the Company granted for a consideration of £1 in each case options under the Company's share option scheme to subscribe for 244,980 Ordinary shares of 5p each at a price of 33.3p per share. Except in special circumstances no option may be exercised within three years from the date of its grant nor more than ten years after its date of grant. On 16th March 1990 the Company granted further options to subscribe for 106,000 Ordinary shares of 5p each at a price of 235p per share. On 22nd March 1990 options in respect of 4,824 Ordinary shares were exercised.

On 18th January 1989 the Company issued 91,158 Ordinary shares of 5p each at a premium of 185p as deferred and final consideration for the acquisition of the whole of the share capital of The Fletcher Group.

21. Reserves

(a) Group

The movements on the Group reserves in the year were as follows.

	Share premium account £'000	Revaluation reserve £'000	Other reserves £'000	Profit and loss account £'000
Beginning of year	4,288	1,016	802	951
Premium on issue of shares	168	—	—	—
Retained profit for year	—	—	—	3,918
Amortisation of revaluation surplus	—	(17)	—	17
Adjustment to goodwill on acquisition		—	47	—
Foreign currency investment translation reserve	—	—	38	—
Capital reserve	—	—	(200)	—
End of year	4,456	999	687	4,886

21. Reserves (continued)

(b) Company

The movements on the Company reserves in the year were as follows:

	Share premium account £'000	Other reserves £'000	Profit and loss account £'000
Beginning of year	4,288	5,805	(1,958)
Loss in year	—	—	(69)
Increase in underlying net assets of subsidiaries	—	—	3,987
Premium on issue of shares	168	—	—
Capital reserve	—	(200)	—
End of year	4,456	5,605	1,960

The capital reserve included in other reserves for Group and Company related to shares issued on 18th January 1989 as deferred and final consideration for the acquisition of The Fletcher Group (see note 20). The nominal value and premium was transferred to share capital and share premium account respectively in 1989.

22. *Guarantees and other financial commitments*

(a) Capital commitments

At the end of the year capital commitments were:

	Group 1989 £'000	Group 1988 £'000
Contracted for	532	134
Authorised but not contracted for	149	103
	681	237

(b) Fixed and floating charges

The various fixed and floating charges over the Group's assets in respect of the bank overdraft rank as follows

(i) All Group companies to Barclays Bank PLC
(ii) Between the Group companies.

(c) Operating lease commitments

The Group has entered into operating leases in respect of motor vehicles. The contracts for individual vehicles extend up to three years. The total rental expense during the year was £88,000 (1988 – £98,000).

The minimum annual rentals under these leases are as follows:

		Group 1989 £'000	Group 1988 £'000
Leases which expire	within 1 year	26	20
	between 2–5 years	18	51
		44	71

(d) VAT

The Company is registered for VAT purposes in a group of companies which share a common registration number. As a result, it has jointly guaranteed the VAT liability of the Group, and failure by other members of the Group would give rise to additional liabilities for the Company. The directors are of the opinion that no liability is likely to arise from the failure of these companies.

23. Bank facilities

The Group has available facilities from Barclays Bank PLC of £7,259,000 which, to the extent that they are utilised, are secured by way of a debenture over the Group's current assets. These facilities are subject to periodic review.

24. Pension arrangements

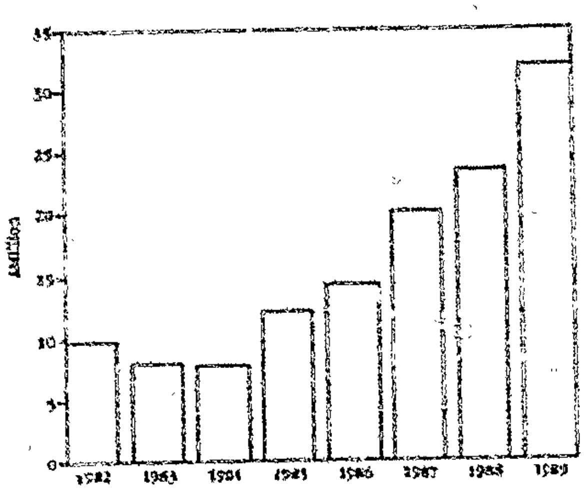
The Group operates a defined benefit pension scheme for all salaried employees. The scheme is a non insured contracted out scheme administered by trustees. The scheme provides benefits based on final pensionable salaries. The assets of the scheme are held separately from those of the Group and are invested by Morgan Grenfell Asset Management. The contribution rates are determined by the trustees based on the advice of a qualified actuary on the basis of a triennial valuation using a combination of the projected unit method and the current unit method. The most recent valuation was at 1st April 1987. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rate of increase in salaries. It was assumed that investment returns would be 1½% in excess of future salary increases. The valuation dated 1st April 1987 showed that the market value of the scheme's assets was £2.1 million and that the actuarial value of those assets represented 131% of the benefits that had accrued to members, after allowing for expected future increases in salaries.

The pension costs for the period were £105,000 (1988 £88,000). There is no material difference between the regular and actual pension costs for the year.

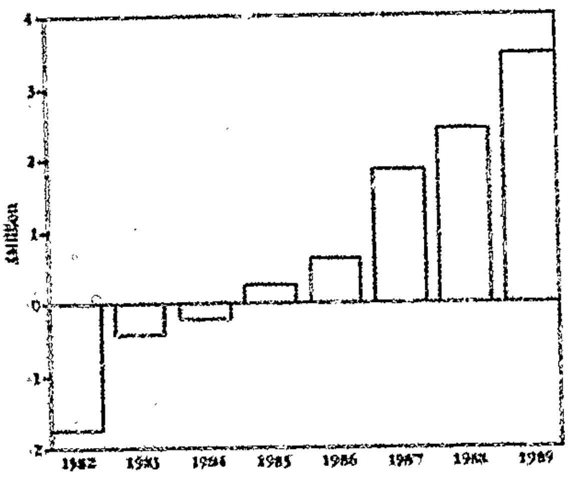
EIGHT YEAR SUMMARY

	1989 £'000	1988 £'000	1987 £'000	1986 £'000	1985 £'000	1984 £'000	1983 £'000	1982 £'000
Turnover	31,996	23,424	20,096	14,237	12,169	7,608	7,877	9,763
Profit (Loss) on ordinary activities before taxation	3,467	2,404	1,828	608	271	(222)	(418)	(1,741)
Taxation	(1,174)	(947)	(720)	(215)	—	—	2	—
Profit (Loss) on ordinary activities after taxation	2,293	1,457	1,108	393	271	(222)	(416)	(1,741)
Assets employed:								
Fixed assets	5,378	4,551	3,365	3,315	2,313	2,445	2,724	3,075
Net current assets	6,346	5,565	5,722	4,279	2,421	2,620	2,563	2,606
Creditors due after more than one year	(239)	(73)	(90)	(104)	(3,010)	(3,612)	(3,612)	(3,590)
Provisions for liabilities and charges	(51)	(2,585)	(1,684)	(964)	(750)	—	—	—
Net assets	11,434	7,458	7,313	6,526	974	1,453	1,675	2,091
Called up share capital	406	401	401	401	6	6	6	6
Share premium account	4,456	4,288	4,288	4,288	574	574	574	574
Revaluation reserve	999	1,016	1,033	1,050	—	—	—	—
Other reserves	687	802	1,688	1,688	1,688	2,438	2,438	2,438
Profit and loss account	4,886	951	(97)	(901)	(1,294)	(1,565)	(1,343)	(927)
Total capital employed	11,434	7,458	7,313	6,526	974	1,453	1,675	2,091
Earnings (loss) per share	28.3p	18.2p	13.8p	10.4p	7.7p	(6.3p)	(11.9p)	(49.6p)
Dividend per share (net)	7.5p	5.25p	4.0p	—	—	—	—	—
Net assets per share (after adding back goodwill written off)	153.6p	106.4p	91.1p	81.3p	27.7p	41.4p	47.7p	59.6p

Turnover



Profit (Loss) on ordinary activities before taxation



NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the ninth Annual General Meeting of Hornby Group Plc will be held at The Inn on the Lake, Shorne, Gravesend, Kent DA12 3HB on Friday 18th May 1990 at 11.00 a.m. for the following purposes:

Ordinary Business

1. To receive the report of the directors and the audited accounts for the year ended 31st December 1989, and to declare a dividend.
2. To re-elect Mr R L Ness a director of the company.
3. To re-elect Mr A R Cox a director of the company.
4. To re-appoint Arthur Andersen & Co., the retiring auditors, and to authorise the directors to determine their remuneration

Special Business

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

THAT the directors be empowered for a period expiring at the conclusion of the Annual General
Meeting of the Company next following the date of the passing of this Resolution to allot equity
securities of the Company as if Section 89(1) of the Companies Act 1985 did not apply to any such
allotment provided that such power shall be limited to the allotment of equity securities:-
(a) in connection with an offer of securities, open for acceptance for a period fixed by the directors,
by way of rights to holders of shares in proportion (as nearly as may be) to their holdings on a
record date fixed by the directors or (where applicable) in accordance with the rights for the time
being attached to such shares (but subject to such exclusions or other arrangements as the directors
may deem necessary or expedient to deal with problems under the laws of any territory or the
requirements of any regulatory body or any stock exchange in any territory or in connection with
fractional entitlements or otherwise howsoever);
(b) pursuant to the terms of the Company's existing Executive Share Option Scheme;
(c) (otherwise than under paragraphs (a) and (b) of this Resolution) up to an aggregate nominal
value of £20,000, and
(d) such power shall permit and enable the directors to make an offer or agreement, before the expiry
of such power, which would or might require equity securities to be allotted after such expiry.
Words and expressions defined in or for the purposes of Sections 89-96 of the Companies Act 1985
shall bear the same meanings in this Resolution

By Order of the Board

A R Cox

Secretary

11th April 1990

Notes

1 A Member is entitled to appoint a Proxy, who need not be a Member of the Company, to attend and vote
instead of him. A form of proxy is enclosed. Completion of a form of proxy will not preclude a member
from attending and voting at the meeting in person

2 There will be available for inspection at the Registered Office of the Company during usual business
hours (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 S.318 of the Companies Act 1985, whereunder
the directors are employed. These documents will also be available for inspection at the Annual General
Meeting and for fifteen minutes prior thereto