1547390

HORNBY PLC
ANNUAL
REPORT
& ACCOUNTS

YEAR ENDED
31ST MARCH 1997

Directors and Corporate Information

DIRECTORS

P Newey
Executive Chairman

M C Thomas
Deputy Chairman

J W Stansfield
Finance Director

G V Hill
Non-Executive Director

M R Hoffman
Non-Executive Director

SECRETARY

J W Stansfield

REGISTERED OFFICE

Westwood
Margate
Kent CT9 4JX

COMPANY REGISTERED NUMBER

Registered in England No. 1547390

AUDITORS

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

SOLICITORS

Berwin Leighton
Adelaide House
London Bridge
London EC4R 9HA

PRINCIPAL BANKERS

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

STOCKBROKERS

SBC Warburg
1 Finsbury Avenue
London EC2M 2PP

REGISTRARS AND TRANSFER AGENTS

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

FINANCIAL HIGHLIGHTS

	12 months ended 31st March 1997 (audited) £'000	12months ended 31st March 1996 (unaudited) £'000	15 months ended 31st March 1996 (audited) £'000
TURNOVER	**29,900**	33,553	38,614
OPERATING PROFIT/(LOSS) EXCLUDING EXCEPTIONAL ITEMS:			
Continuing operations	**2,999**	1,702	1,542
Discontinued operations	**–**	(394)	(446)
TOTAL	**2,999**	1,308	1,096
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	**2,650**	(4,896)	(5,164)
EQUITY SHAREHOLDERS' FUNDS	**11,832**	10,424	10,424
NET CASH	**2,684**	890	890
EARNINGS PER ORDINARY SHARE:			
Basic excluding exceptional items	**22.73 p**	6.15 p	3.83 p
Basic	**23.34 p**	(60.54)p	(62.92)p
DIVIDENDS PER ORDINARY SHARE	**6.5 p**	5.5 p	5.5 p
NET ASSETS PER ORDINARY SHARE	**141.6 p**	124.7 p	124.7 p

Review of the Company's Financial Performance

I am pleased to be able to report that the year to 31st March 1997 was one of further progress at Hornby. As these results demonstrate, the focus upon our core products is delivering positive benefits. Also, we have completed the disposal of all our non-core products, joint ventures and operations.

Operating profit before any exceptional items increased to £3.0m for the year to 31st March 1997, an improvement of 76% for continuing operations over the previous year. This operating profit gives a return on sales of 10% and 25% return on shareholders' funds. Profit before tax was £2.65m after taking into account the disposal proceeds of the Company's interest in San Francisco Toy Makers Inc of £96,000. Interest for the period, at £191,000, was significantly below the previous year, due to a reduction of working capital and the disposal of Fletcher Sports Boats. At 31st March 1997 the net cash was £2.7m compared to £0.9m at the corresponding date in 1996.

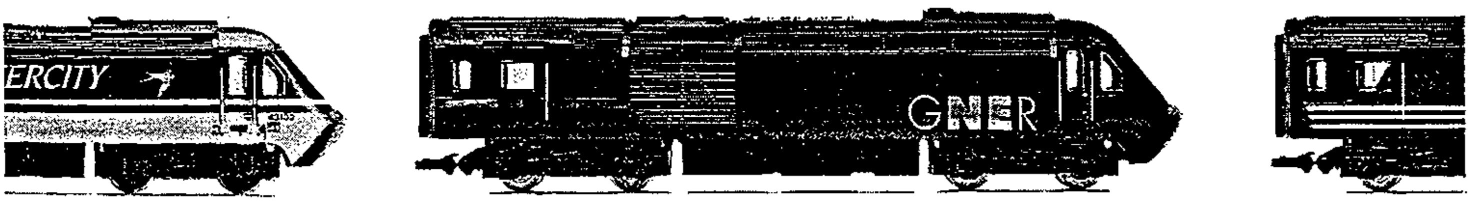
Hornby railways and Scalextric cars, our core products, performed well and like for like sales grew by 16% compared to the previous year. This strong performance has been achieved by improving our customer service and developing the product range, rather than a general improvement in consumer demand for toy and hobby products. As toys have been discontinued and Fletcher Sports Boats sold, the total sales for the Company were down 11% to £29.9m.

The discontinuation of the toy range accounted for only £0.8m of sales compared to £4.7m in the previous year. In addition, since 31st December 1996, Nikko have decided to handle their own distribution in the UK and our arrangement with them has been terminated. The sales of Nikko product for the year to 31st March 1997 were £3.5m.

Operational review

From the beginning of 1996, significant effort has been made to improve customer service. We have implemented a plan to enhance product availability. This has enabled the Company to achieve a 48 hour delivery service and ensure that our customers' shelves are stocked, to take advantage of potential sales.

The improved level of customer service

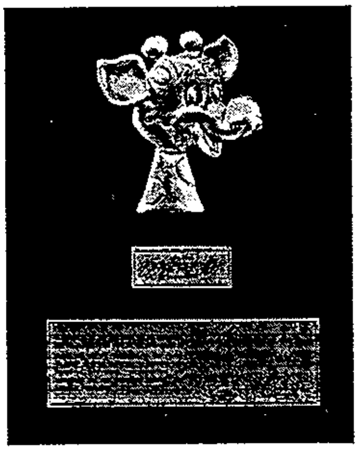


Privatisation has provided the opportunity to produce a variety of liveries for current rolling stock.

has been generally recognised and appreciated by our customers and, in particular, we were very pleased to receive the Toys "Я" Us Vendor of the Year Award in recognition of "outstanding service".

The Company continues to investigate further ways in which its manufacturing can be improved. We are reviewing a number of outsourcing initiatives and the production of pressings and die castings have been subcontracted. The philosophy of the Company is to concentrate its investment in manufacturing on the key areas where Hornby can "add value". This is primarily in the area of printing and decorating replica product. Investment will also be made in packing, warehousing and distribution, to ensure that we continue to be a highly flexible operation, and maintain our current standards of customer service with minimum levels of stock.

Manufacturing efficiency has improved significantly over the last 12 months, since changes were made in the management. In fact, the number of employees has been reduced by a third since the peak in September 1995.

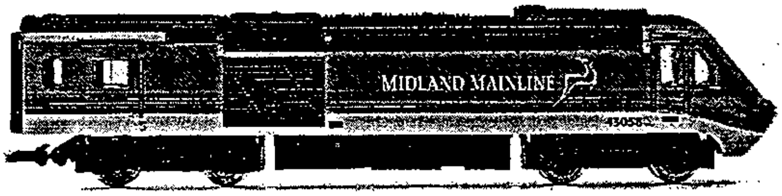


Toys "Я" Us, Toy Supplier of the Year Award, 1997

Although opportunities exist in the UK, we believe that the greatest opportunity to develop will be in the export of the Scalextric range. The sales force has been re-organised to concentrate more activity on this important area.

We have reviewed all our overseas operations and have appointed new agents or distributors in France, Italy, Switzerland, Norway and Canada. In addition, we are establishing distribution in Germany and the United States. We have also begun investigating the opportunities for our products in Eastern Europe, Asia and South America.

In the UK, action has also been taken to improve our share of our markets by strengthening the product offering to the enthusiast and collector. In August 1996, we



acquired the Dapol range of railway tooling for £650,000. Also, we have launched a new range of railway buildings and accessories and are soon to launch an improved system of railway track and controllers. These are areas in which the Company has lost market share in recent years through under-investment.

The Hornby OO gauge Eurostar was launched in September 1996. The product is more detailed than previous models and a programme of continuous improvement will introduce new features each year. In September 1997, we plan to launch the Networker, which will build on these new standards. This will be followed next year by a range of highly detailed products for the enthusiast and collector.

Scalextric is being made an international product and the range has been strengthened by the launch of the Audi A4, Vauxhall/Opel Vectra and Renault Mégane. Cars in local liveries have already been specially produced for the European markets and the NASCAR Ford and Chevrolet cars will be launched into the North American market in October.

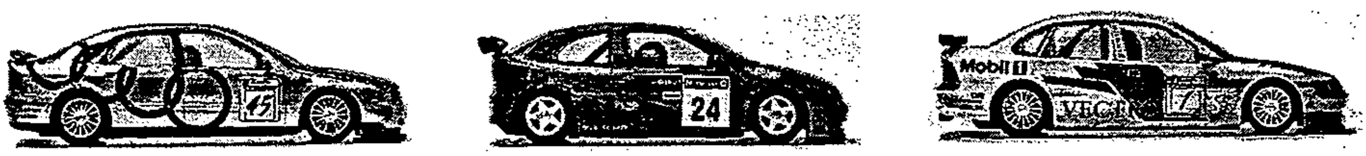
All this activity has meant that product development expenditure on the core products has more than doubled over the last two years.

Current trading

This increased activity in product development demonstrates our commitment to the railway and slot car racing markets and is proof of our determination to improve our customer service and product quality.

Sales from the independent model and hobby shops, the specialist toy retailers and the mail order houses are encouraging but trading with the multiple retailers is mixed. Whilst some are reporting increased sales, others are undoubtedly finding trading more difficult. All are paying more attention to their inventory and attempting, where possible, to introduce a "just in time" policy. This favours Hornby with its improved customer service.

The strength of sterling has also adversely affected our export efforts. Some export markets seem to be adjusting to the new level of exchange rates but a general improvement in export sales can only be achieved when our European markets move out of recession. The new markets we are beginning to exploit will take a number of years to establish.



National racing trims are available on the recently launched Audi A4, Renault Mégane and Vauxhall/Opel Vectra making them suitable for export markets.

Dividend

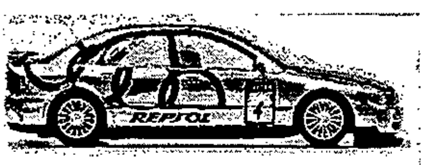
The Board believes that the dividend policy should reflect the underlying performance of the business. The directors are, therefore, recommending a final net dividend of 4.5 pence per share which, together with the interim net dividend of 2.0 pence per share, paid on 30th January, gives a total net dividend for the year of 6.5 pence per share (1995/96, 5.5 pence) an increase of 18%. This dividend will be covered 3.6 times by earnings.

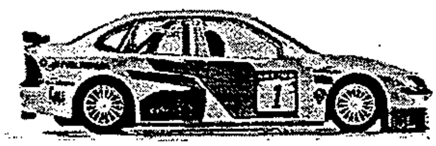
Summary

The restructuring of the Company is ahead of schedule, and therefore the profit for 1996/97 is better than anticipated. However, the mixed trading in the UK and strength of sterling are likely to limit the opportunities for growth in 1997/98.

The Company is investing heavily in product development, improving manufacturing and in developing new markets for our products. The Board firmly believes that the right foundation is in place to enable the Company to grow profitably in the future.

Peter Newey
15th July 1997





REPORT OF THE DIRECTORS

The directors submit their annual report together with the audited financial statements for the year ended 31st March 1997.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company is a holding company and has one operating subsidiary, Hornby Hobbies Limited.

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

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

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

RESULTS AND DIVIDENDS

The results for the year ended 31st March 1997 are set out in the Consolidated Profit and Loss Account on page 18. Turnover for the twelve months was £29.9m compared to £38.6m for the fifteen months ended 31st March 1996. The profit on ordinary activities after taxation for the year amounted to £2.0m (fifteen months ended 31st March 1996 - loss £5.2m).

An interim dividend of 2.0p per ordinary share was paid on 30th January 1997.

The directors recommend a final dividend of 4.5p per ordinary share payable on 15th August 1997 to those shareholders on the register at 25th July 1997.

PROPERTY VALUES

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

CHARITABLE DONATIONS

During the year the Group made donations of £550 (fifteen months ended 31st March 1996 - £51) for charitable purposes.

DIRECTORS

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

Mr P Newey, aged 49, was originally appointed a non-executive director on 20th May 1993. In October 1995 Mr Newey became an executive director and assumed the responsibilities of Chief Executive. On 1st March 1996 Mr Newey was appointed Executive Chairman. He was previously an executive director of Lazard Brothers & Co Limited.

Mr M C Thomas, aged 68, who was appointed to the Board on 17th August 1987, stepped down as Chairman on 1st March 1996 and was appointed Deputy Chairman on the same date. He was previously a director of Reed International PLC and is currently President of Smurfit (UK) Limited. Mr Thomas retires by rotation under article 93 of the Articles of Association and offers himself for re-election.

Mr G V Hill, aged 62, was appointed a non-executive director on 21st November 1995. He was previously Vice President of A T Kearney Limited and has gained extensive experience in many different industries as a management consultant. His appointment followed a period of consultancy with the Group.

Mr J W Stansfield, aged 42, has been employed by the Group since April 1982. He was appointed Finance Director and Company Secretary on 4th December 1996. Having been appointed during the year, Mr Stansfield retires and offers himself for re-election at the forthcoming Annual General Meeting.

Mr M R Hoffman, aged 57, was appointed a non-executive director on 1st January 1997. He is currently a director of Powergen PLC and Anite Group PLC and was formerly Chief Executive of Thames Water PLC. Having been appointed during the year, Mr Hoffman retires and offers himself for re-election at the forthcoming Annual General Meeting.

Mr A R Cox resigned as a director and left the employment of the Company on 4th December 1996.

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

There were no contracts 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.

SUBSTANTIAL SHAREHOLDINGS

The Company has been notified that on 30th June 1997 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
Hill Samuel Investment Management Limited	1,510,000*	18.07
M & G Investment Management Limited	1,208,594	14.46
Electra Investment Trust PLC	819,030	9.80
Tudor Capital UK Limited	505,000	6.04
BT Pension Scheme	436,080	5.22
Strathclyde Pension Fund	415,000	4.97
3I Smaller Quoted Companies Trust PLC	375,000	4.49
Post Office Staff Superannuation Scheme	290,720	3.48

*Includes the holding of Strathclyde Pension Fund identified separately.

CREST

CREST is the new computerised system for settling sales and purchases of shares on the London Stock Exchange replacing the Talisman system. If they wish, shareholders are able to hold shares in electronic form as a computer record rather than in the form of share certificates. However, investors are not obliged to use CREST. The Company's shares were admitted to the CREST system on 20th January 1997.

STOCK EXCHANGE OFFICIAL LISTING

As disclosed last year, the closure of the Unlisted Securities Market at the end of 1996 provided the Company with an opportunity to move up to a full listing on the London Stock Exchange. Dealings in the Company's shares on the Official List commenced on 2nd August 1996.

ANNUAL GENERAL MEETING SPECIAL BUSINESS RESOLUTION

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

Resolution Number 6 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 £82,000. The resolution will entitle the Board to allot equity securities having an aggregate nominal value of £20,000 for cash, equivalent to 400,000 ordinary shares representing 4.8 per cent of the Company's issued share capital as at 31st March 1997, as if Section 89(1) of the Companies Act 1985 conferring pre-emption rights on shareholders did not apply. Allotments for cash in excess of this figure on a non pre-emptive basis will require prior shareholder approval except in the case of a rights issue to existing shareholders. This Section 80 authority and Section 89 disapplication will last until the end of the next Annual General Meeting of the Company.

CLOSE COMPANY STATUS

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

PERSONNEL POLICIES

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

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees. 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 at the individual company level.

The Group encourages employees to be shareholders of the Company.

CREDITOR PAYMENT POLICY

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

The Group's average creditor payment period at the 31st March 1997 was 19 days.

AUDITORS

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

By order of the Board
JW Stansfield
J W Stansfield
Secretary
Westwood
Margate
Kent CT9 4JX

15th July 1997

CORPORATE GOVERNANCE

COMPLIANCE WITH THE CODE OF BEST PRACTICE

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

During the period to 1st January 1997 the Board consisted of two executive directors and two non-executive directors. Mr A R Cox, the former Finance Director, left the Company on 4th December 1996 and Mr J W Stansfield assumed his responsibilities and was appointed an executive director from that date. Mr M R Hoffman was appointed as a non-executive director on 1st January 1997.

The Board currently comprises two executive directors and three non-executive directors. The Board regards the current number of non-executive directors as being appropriate for the size of the Company and this complies with the Cadbury Code recommendation. Our non-executive directors are independent of the Group and have a breadth of professional experience. The Chairman has continued in the role of Chief Executive which is considered appropriate in a smaller company.

BOARD PROCEDURE AND COMMITTEES

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

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

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

INTERNAL FINANCIAL CONTROL

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

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

Control environment

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

Identification of business risks

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

Major corporate information systems

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

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

Monitoring system used by the Board
The Board as a whole monitors the operation of the system of internal financial control through management reviews and has reviewed the effectiveness of the system of internal financial control for the 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.

GOING CONCERN

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

By order of the Board

J W Stansfield
Secretary

15th July 1997

REPORT OF THE REMUNERATION COMMITTEE

The Remuneration Committee comprises the Chairman and the non-executive directors and adopted formal terms of reference on 30th April 1996. The committee is of the opinion that since adopting the formal terms of reference the Company has complied with section A of the best practice provisions for directors' remuneration annexed to the London Stock Exchange's Listing Rules, which concerns the membership and operation of the Remuneration Committee except that Mr P Newey is an executive director. The Board believes that the Chairman should be a member of this committee but he does not attend meetings to determine his own remuneration which is considered solely by by the non-executive directors. The current members of the committee are:

P Newey

M C Thomas *

G V Hill *

M R Hoffman *

* Non-executive

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

(a) The basic salaries and benefits available to directors and senior management of comparable companies.

(b) The need to attract and retain individuals of an appropriate calibre.

The committee achieves its objectives through the following:

- **Salary and benefits**

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

- **Share options**

  The Group currently has a part approved and part unapproved executive share option scheme which was introduced on 8th August 1996. On that date Mr P Newey was granted options over 400,000 shares under the unapproved scheme at an exercise price of 206p. The options are exercisable subject to the achievement of certain performance criteria explained in the circular to shareholders dated 16th July 1996.

- **Pensions**

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

Executive Directors' Contracts

The Chairman of the Board, Mr P Newey, is an executive director and also assumes the role of Chief Executive. Mr Newey, during the period from 1st April 1996 to 30th June 1996 received a fee for his services as acting Chief Executive. The Remuneration Committee, after seeking independent

All of 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 31st March 1997 and 15th July 1997.

Interests in share options

Details of options held by directors are set out below:

	Number of options			Date from	
	31st March 1997	31st March 1996	Exercise price	which exercisable	Expiry date
J W Stansfield	**5,500**	5,500	235p	16/03/1993	16/03/2000
P Newey	**400,000**	-	206p	08/08/1999	07/08/2003

400,000 options were granted during the year at an exercise price of 206p.

The market price of the Company's shares at 31st March 1997 was 239p and the range during the year ended 31st March 1997 was 192p to 253p.

Directors' detailed emoluments

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

	12 months ended 31st March 1997							15 months ended 31st March 1996	
	Salary & fees £	Bonus £	Other Fees £	Bene-fits £	Pension contrib-butions £	Compen-sation for loss of office £	Total £	Total* £	Pension contri-butions £
Chairman:									
P Newey	75,000	145,000	47,500	-	10,000	-	277,500	168,150	-
Executive:									
K L Ness	-	-	-	-	-	-	-	848,543**	12,648
A R Cox	55,653	-	-	5,949	5,009	88,514	155,125	119,591	8,962
J W Stansfield	16,258	5,000	-	2,227	1,078	-	24,563	-	-
Non-executive:									
M C Thomas	26,667	-	-	103	-	-	26,770	39,061	-
G V Hill	15,000	-	3,000	-	-	-	18,000	19,855	-
M R Hoffman	3,750	-	-	-	-	-	3,750	-	-
	192,328	150,000	50,500	8,279	16,087	88,514	505,708	1,195,200	21,610

* The 1996 total column includes pension contributions.

**Mr Ness was paid £719,500 compensation for loss of office in full and final settlement in respect of his contractual bonus and other entitlements in the fifteen months ended 31st March 1996.

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

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

The compensation for loss of office paid to Mr Cox was in full and final settlement in respect of his contractual entitlements.

Report by the Auditors

to Hornby plc on Corporate Governance Matters

In addition to our audit of the financial statements, we have reviewed the directors' statement on pages 11 to 12 concerning the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London (Irish) Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or its corporate governance procedures, nor on the ability of the Group to continue in operational existence.

Opinion

With respect to the directors' statements on internal financial control on pages 11 and 12 and going concern on page 12, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on the enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on pages 11 and 12 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants
Maidstone
Kent

15th July 1997

Report of the Auditors
to the Members of Hornby PLC

We have audited the financial statements on pages 18 to 38.

Respective responsibilities of directors and auditors

As described on page 12 the Company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31st March 1997 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants and Registered Auditors
Maidstone
Kent

15th July 1997

Consolidated Profit and Loss Account

FOR THE YEAR ENDED 31ST MARCH 1997

	Notes	12 months ended 31st Mar 1997 (audited) £'000	12 months ended 31st Mar 1996 (unaudited) £'000	15 months ended 31st Mar 1996 (audited) £'000
TURNOVER				
Continuing operations		29,900	31,018	35,328
Discontinued operations		–	2,535	3,286
TOTAL TURNOVER	2,3	29,900	33,553	38,614
Cost of sales	3	(19,628)	(24,068)	(27,543)
GROSS PROFIT		10,272	9,485	11,071
Other operating expenses	3	(7,273)	(8,177)	(9,975)
Exceptional items	4	(254)	(1,008)	(1,008)
OPERATING PROFIT/(LOSS)				
Continuing operations		2,745	694	534
Discontinued operations		–	(394)	(446)
TOTAL OPERATING PROFIT		2,745	300	88
Loss on sale of discontinued operations		–	(4,044)	(4,044)
Sale proceeds from/(amounts written off) investments	12	96	(694)	(694)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE INTEREST		2,841	(4,438)	(4,650)
Net interest payable	5	(191)	(458)	(514)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	6	2,650	(4,896)	(5,164)
Tax on ordinary activities	8	(699)	(132)	(57)
PROFIT/(LOSS) FOR THE FINANCIAL YEAR AFTER TAXATION		1,951	(5,028)	(5,221)
Dividends	9	(543)	(460)	(460)
RETAINED PROFIT/(LOSS) FOR THE PERIOD		1,408	(5,488)	(5,681)
ATTRIBUTED TO:				
The Company		86	24	21
Subsidiary undertakings		1,322	(5,512)	(5,702)
		1,408	(5,488)	(5,681)
EARNINGS/(LOSS) PER ORDINARY SHARE	10			
Basic excluding exceptional items		22.73 p	6.15 p	3.83 p
Basic		23.34 p	(60.54)p	(62.92) p

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

NOTE OF HISTORICAL COST PROFITS AND LOSSES
FOR THE YEAR ENDED 31ST MARCH 1997

	12 months ended 31st Mar 1997 (audited)	12 months ended 31st Mar 1996 (unaudited)	15 months ended 31st Mar 1996 (audited)
	£'000	£'000	£'000
REPORTED PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	**2,650**	(4,896)	(5,164)
Difference between the historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	**17**	17	21
Historical cost profit/(loss) on ordinary activities	**2,667**	(4,879)	(5,143)
HISTORICAL COST PROFIT/(LOSS) FOR THE YEAR RETAINED AFTER TAXATION AND DIVIDENDS	**1,425**	(5,471)	(5,660)

Consolidated Balance Sheet
AT 31ST MARCH 1997

	Notes	31st Mar 1997 (audited) £'000	31st Mar 1996 (audited) £'000
FIXED ASSETS			
Tangible assets	11	4,736	4,450
CURRENT ASSETS			
Stocks	13	5,099	5,689
Debtors	14	4,269	4,537
Cash at bank and in hand		2,684	890
		12,052	11,116
CREDITORS: Amounts falling due within one year	15	(4,777)	(4,929)
NET CURRENT ASSETS		7,275	6,187
TOTAL ASSETS LESS CURRENT LIABILITIES		12,011	10,637
CREDITORS: Amounts falling due after more than one year	15	(76)	(213)
PROVISIONS FOR LIABILITIES AND CHARGES	16	(103)	-
NET ASSETS		11,832	10,424
CAPITAL AND RESERVES			
Called up share capital	17	418	418
Share premium account	18	4,525	4,525
Revaluation reserve	18	876	893
Other reserves	18	1,688	1,688
Profit and loss account	18	4,325	2,900
EQUITY SHAREHOLDERS' FUNDS		11,832	10,424

The financial statements on pages 18 to 38 were approved by the Board of directors on 15th July 1997 and were signed on its behalf by:

P Newey Peter Newey

J W Stansfield JW Stansfield

Directors

COMPANY BALANCE SHEET
AT 31ST MARCH 1997

	Notes	31st Mar 1997 (audited) £'000	31st Mar 1996 (audited) £'000
FIXED ASSETS			
Investments	12	12,121	10,677
CURRENT ASSETS			
Debtors	14	377	467
CREDITORS: Amounts falling due within one year	15	(666)	(720)
NET CURRENT LIABILITIES		(289)	(253)
NET ASSETS		11,832	10,424
CAPITAL AND RESERVES			
Called up share capital	17	418	418
Share premium account	18	4,525	4,525
Other reserves	18	10,323	9,001
Profit and loss account	18	(3,434)	(3,520)
EQUITY SHAREHOLDERS' FUNDS		11,832	10,424

The financial statements on pages 18 to 38 were approved by the Board of directors on 15th July 1997 and were signed on its behalf by:

Peter Newey

JW Stansfield

P Newey

J W Stansfield

Directors

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31ST MARCH 1997

	Notes (pages 23 & 24)	12 months ended 31st Mar 1997 (audited) £'000	12 months ended 31st Mar 1997 (unaudited) £'000	15 months ended 31st Mar 1997 (audited) £'000
Cash flow from operating activities				
Continuing	I	4,587	4,965	3,558
Discontinued	I	–	270	(136)
		4,587	5,235	3,422
Returns on investments and servicing of finance	II	(191)	(458)	(514)
Taxation		(103)	(265)	(269)
Capital expenditure	II	(1,733)	(1,185)	(1,503)
Acquisitions and disposals	II	96	267	267
Dividends paid		(627)	(413)	(413)
		2,029	3,181	990
Financing	II			
Issue of ordinary shares		–	32	32
Increase in debt		(127)	(147)	(180)
Increase in cash in the period		1,902	3,066	842

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS (NOTE II)

	£'000	£'000	£'000
Increase in cash in the period	1,902	3,066	842
Cash outflow from decrease in debt and lease financing	127	147	180
Change in net funds resulting from cash flows	2,029	3,213	1,022
New finance leases	(28)	(87)	(87)
Movement in net funds in the period	2,001	3,126	935
Net funds/(debt) at 1st April 1996	491	(2,635)	(444)
Net funds at 31st March 1997	2,492	491	491

NOTES TO THE CASH FLOW STATEMENT

I NET CASH FLOW FROM OPERATING ACTIVITIES

	Notes	**12 months ended 31st Mar 1997 (audited) £'000**	12 months ended 31st Mar 1997 (unaudited) £'000	15 months ended 31st Mar 1997 (audited) £'000
Continuing activities				
Operating profit	3	**2,999**	1,702	1,542
Depreciation charges	11	**1,473**	1,351	1,610
Loss on sale of tangible fixed assets		**1**	2	2
Exceptional items	4	**(254)**	(1,008)	(1,008)
Decrease/(increase) in stocks		**590**	707	(530)
Decrease in debtors		**217**	547	2,840
(Decrease)/increase in creditors		**(439)**	1,664	(898)
Net cash inflow from continuing operating activities		4,587	4,965	3,558
Discontinued activities				
Operating loss		–	(394)	(446)
Depreciation charges		–	121	159
Decrease/(increase) in stocks		–	88	(58)
Decrease in debtors		–	473	206
(Decrease)/increase in creditors		–	(18)	3
Net cash inflow/(outflow) from discontinued operating activities		-	270	(136)
Net cash inflow from operating activities		4,587	5,235	3,422

II Analysis of Cash Flows for Headings Netted in the Cash Flow Statement

	Notes	12 months ended 31st Mar 1997 (audited) £'000	12 months ended 31st Mar 1997 (unaudited) £'000	15 months ended 31st Mar 1997 (audited) £'000
Returns on investments and servicing of finance				
Interest received	5	95	35	42
Interest paid	5	(257)	(438)	(483)
Interest element of finance leases	5	(29)	(55)	(73)
Net cash outflow for interest		(191)	(458)	(514)
Capital expenditure				
Purchase of tangible fixed assets		(1,862)	(1,251)	(1,569)
Sale of tangible fixed assets		129	66	66
Net cash outflow for capital expenditure		(1,733)	(1,185)	(1,503)
Acquisitions and disposals				
Sale of subsidiaries and investments	12	96	267	267
Financing				
Issue of ordinary share capital		–	32	32
Principal payment under finance leases		(127)	(145)	(180)
Net cash outflow from financing		(127)	(113)	(148)

III ANALYSIS OF NET FUNDS

	1st April 1996	Cash flow	Other non-cash changes	31st March 1997
Cash at bank and in hand	890	1,794	-	2,684
Finance leases	(399)	235	(28)	(192)
Net funds	491	2,029	(28)	2,492
Analysed in Balance Sheet				
Cash at bank and in hand	890			2,684
Finance leases				
within one year	(186)			(116)
after one year	(213)			(76)
	491			2,492

NOTES TO THE FINANCIAL STATEMENTS

1. *ACCOUNTING POLICIES*

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

ACCOUNTING PERIODS

The figures for the twelve month period ended 31st March 1997 are shown in the following notes under '1996/7' and for the fifteen month period ended 31st March 1996 under '1995/6'. The amounts as at 31st March 1997 and 31st March 1996 are shown under '1997' and '1996' respectively.

BASIS OF ACCOUNTING

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

BASIS OF CONSOLIDATION

The Group financial statements consolidate the financial statements of the Company and all its subsidiaries made up to 31st March 1997. Goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is written off against other reserves on acquisition.

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

RESEARCH AND DEVELOPMENT

Expenditure on research and development is written off as incurred.

TANGIBLE FIXED ASSETS

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

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

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

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

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

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

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

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

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

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

There are no significant differences between balance sheet and replacement cost values. For these purposes replacement cost is based 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.

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

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

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

PENSION COSTS

During the year the Group operated a defined contribution money purchase pension scheme under which it pays contributions based upon a percentage of the members' basic salary. The scheme is administered by trustees appointed by the Company.

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

Further information on pension costs is provided in note 20.

FOREIGN CURRENCY

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

TURNOVER

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

LEASES

The Group enters into operating and finance leases.

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

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

2. *SEGMENT INFORMATION*

It should be noted that the 1996/7 period was twelve months compared to 1995/6 which was a fifteen month period.

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

BUSINESS SEGMENTS	Toys & Models		Sports Boats		Group	
	1996/7	1995/6	**1996/7**	1995/6	**1996/7**	1995/6
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
TURNOVER						
Sales to third parties	**29,900**	35,328	**–**	3,286	**29,900**	38,614
SEGMENT PROFIT/(LOSS)	**2,999**	2,028	**–**	(446)	**2,999**	1,582
Exceptional items					**(158)**	(5,746)
Common costs					**–**	(486)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE INTEREST					**2,841**	(4,650)
Net interest payable					**(191)**	(514)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION					**2,650**	(5,164)
NET ASSETS						
Segment net assets	**11,832**	10,424	**–**	–	**11,832**	10,424

GEOGRAPHICAL SEGMENTS	United Kingdom		Rest of Europe		Other		Group	
	1996/7	1995/6	**1996/7**	1995/6	**1996/7**	1995/6	**1996/7**	1995/6
	£'000	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
TURNOVER BY DESTINATION								
Sales to third parties	**25,120**	32,383	**3,579**	4,489	**1,201**	1,742	**29,900**	38,614

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

3. *COST OF SALES AND OTHER OPERATING EXPENSES*

	1996/7			1995/6		
	Continuing £'000	**Discontinued £'000**	**Total £'000**	Continuing £'000	Discontinued £'000	Total £'000
TURNOVER	29,900	–	29,900	35,328	3,286	38,614
Cost of sales	(19,628)	–	(19,628)	(24,502)	(3,041)	(27,543)
GROSS PROFIT	10,272	–	10,272	10,826	245	11,071
OTHER OPERATING EXPENSES						
Distribution costs	592	–	592	664	71	735
Selling and marketing costs	4,604	–	4,604	6,180	267	6,447
Research and development costs	176	–	176	223	-	223
Administrative costs	2,155	–	2,155	3,225	353	3,578
TOTAL OTHER OPERATING EXPENSES	7,527	–	7,527	10,292	691	10,983
OPERATING PROFIT/(LOSS)	2,745	–	2,745	534	(446)	88
ADMINISTRATIVE COSTS						
Administrative costs	1,901	–	1,901	2,217	353	2,570
Exceptional administrative costs	254	–	254	1,008	-	1,008
Total administrative costs	2,155	–	2,155	3,225	353	3,578

4. *EXCEPTIONAL ITEMS*

	1996/7 £'000	1995/6 £'000
Redundancy costs	167	288
Compensation for loss of office of former directors	87	720
	254	1,008

5. *NET INTEREST PAYABLE*

	1996/7 £'000	1995/6 £'000
Interest receivable and similar income:		
- bank interest receivable	(95)	(42)
Interest payable and similar charges:		
- on bank loans and overdrafts repayable within five years, not by instalments	257	483
Interest payable on finance leases	29	73
	191	514

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

6. ***PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION***

	1996/7	1995/6
	£'000	£'000
Profit/(loss) on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets		
- owned	1,366	1,594
- held under finance leases	107	175
Operating lease rentals	35	54
Hire of plant and machinery	13	23
Auditors' remuneration - audit fees	38	39
- non audit fees	35	75
Staff costs (see note 7 below)	6,595	10,325

7. ***DIRECTORS AND EMPLOYEES***

	1996/7	1995/6
	£'000	£'000
STAFF COSTS		
Wages and salaries	5,985	9,301
Social security costs	410	731
Other pension costs	200	293
	6,595	10,325

AVERAGE NUMBER OF EMPLOYEES	1996/7	1995/6
The average number of employees in the Group during the period was:	Number	Number
Manufacturing	424	581
Sales, marketing and distribution	78	103
Administration	22	37
	524	721

DIRECTORS' EMOLUMENTS	1996/7	1995/6
Detailed disclosures of directors' individual remuneration and share options are given in the Report of the Remuneration Committee on pages 13 to 15.	£'000	£'000
Directors' emoluments in respect of the Company were as follows:		
Fees as directors	96	157
Salaries as directors	147	193
Incentive payments	150	70
Other emoluments (including pension contributions)	24	55
Compensation for loss of office	89	720
	506	1,195

The directors' emoluments shown above (including pension contributions) include:	1996/7	1995/6
	£'000	£'000
Chairman and highest paid director:		
Salary and incentive payments	220	168
Company pension contributions	10	-
Other	48	-
	278	168

The aggregate pension contribution paid by the Company and the number of directors accruing benefit from this contribution is detailed in the Report of the Remuneration Committee.

8. *TAXATION*

	1996/7 £'000	1995/6 £'000
The taxation charge is based on the profit for the year and comprises:		
Corporation taxation at 33% (fifteen months 1995/6 — 33%)	652	58
Deferred taxation arising from:		
- capital allowances	103	-
Adjustment of taxation in respect of prior years:		
- current taxation	(56)	(1)
	699	57

The effective tax rate is lower than the standard rate of 33% principally due to the agreed tax treatment of tools and moulds as short life assets and relief on certain expenses deferred until actual payment. The effective tax rate was higher than the standard rate in 1995/6 principally due to disallowable expenditure and deferral of relief for certain expenses in respect of which no deferred tax benefit was recognised. Had the Group recognised the full potential deferred tax the charge for the year would have been increased by approximately £137,000 (1995/6 - reduced by £122,000).

9. *DIVIDENDS*

	1996/7 £'000	1995/6 £'000
Ordinary:		
- interim paid 2p per share (fifteen months 1995/6 - nil)	167	-
- final proposed of 4.5p per share (fifteen months 1995/6 - 5.5p per share)	376	460
	543	460

10. *EARNINGS/(LOSS) PER SHARE*

The calculation of earnings per ordinary share is based on the profits after taxation for the financial year of £1,951,000 (fifteen months ended 31st March 1996 - loss of £5,221,000) and the weighted average number of ordinary shares in issue during the year of 8,357,320 (fifteen months ended 31st March 1996 - 8,297,345).

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

	1996/7 pence per share	1995/6 pence per share
Earnings/(loss) per share	23.34	(62.92)
Exceptional items after taxation	0.54	9.65
Loss on sale of discontinued operations	–	48.74
(Sale proceeds from)/amounts written off investments	(1.15)	8.36
Earnings per share excluding exceptional items	22.73	3.83

11. *TANGIBLE FIXED ASSETS—GROUP*

	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Tools & moulds £'000	Total £'000
COST OR VALUATION					
At 1st April 1996	2,377	5,761	437	10,617	19,192
Additions	-	328	43	1,519	1,890
Disposals	-	(275)	(253)	-	(528)
At 31st March 1997	2,377	5,814	227	12,136	20,554
DEPRECIATION					
At 1st April 1996	424	4,491	184	9,643	14,742
Charge	45	420	50	958	1,473
Disposals	-	(252)	(145)	-	(397)
At 31st March 1997	469	4,659	89	10,601	15,818
NET BOOK VALUE					
At 31st March 1997	**1,908**	**1,155**	**138**	**1,535**	**4,736**
At 31st March 1996	1,953	1,270	253	974	4,450

Freehold land amounting to £620,000 (1996 — £620,000) has not been depreciated.

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

	1997 £'000	1996 £'000
Capitalised value	494	782
Accumulated depreciation	(325)	(426)
NET BOOK VALUE	169	356

The cost of freehold land and buildings at 31st March 1997 is represented by:

	Freehold land and buildings	
	1997 £'000	1996 £'000
Valuation in 1986	**2,360**	2,360
Cost	**17**	17
	2,377	2,377

Other tangible fixed assets are stated at cost.

11. *TANGIBLE FIXED ASSETS—GROUP* CONTINUED

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

	Freehold land and buildings 1997 £'000	Freehold land and buildings 1996 £'000
Original cost	412	412
Depreciation based on cost	(124)	(116)
	288	296

12. *FIXED ASSET INVESTMENTS*

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

COMPANY	Interests in subsidiary undertakings £'000
At 1st April 1996	10,677
Other movements	1,444
At 31st March 1997	12,121

The investment representing a ten per cent shareholding in the common stock of The Original San Francisco Toymakers Inc., written off in the previous year, was disposed of in July 1996 for a consideration of US$150,000 (£96,000).

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

	Interests in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000
At 1st April 1996	8,466	2,211	10,677
Retained profit for the year	1,322	-	1,322
Other movements	-	122	122
At 31st March 1997	9,788	2,333	12,121

12. *FIXED ASSET INVESTMENTS* CONTINUED

PRINCIPAL GROUP SUBSIDIARY UNDERTAKING

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

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

13. *STOCKS*

	Group	
	1997	1996
	£'000	£'000
Raw materials and consumables	638	619
Work in progress	2,024	1,955
Finished goods and goods for sale	2,437	3,115
	5,099	5,689

14. *DEBTORS*

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR:				
ACT recoverable	94	115	–	-
AMOUNTS FALLING DUE WITHIN ONE YEAR:				
Trade debtors	3,104	3,520	–	-
UK Corporation tax receivable	–	38	–	-
Dividends receivable from subsidiary undertakings	–	-	376	460
Prepayments	576	649	1	7
VAT	332	151	–	-
Other debtors	163	64	–	-
	4,175	4,422	377	467
TOTAL DEBTORS	4,269	4,537	377	467

15. *CREDITORS*

	Group 1997 £'000	Group 1996 £'000	Company 1997 £'000	Company 1996 £'000
AMOUNTS FALLING DUE WITHIN ONE YEAR:				
Finance lease obligations	116	186	–	-
Trade creditors	1,505	1,412	–	-
UK Corporation tax payable	412	-	–	-
ACT payable	136	115	10	-
VAT	–	13	–	13
PAYE and Social Security	109	107	–	-
Dividends proposed	376	460	376	460
Accruals	1,041	1,625	280	247
Other	1,082	1,011	–	-
	4,777	4,929	666	720
AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR:				
Finance lease obligations	76	213	–	-
TOTAL CREDITORS	4,853	5,142	666	720

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

Between 1-2 years	25	141	–	-
Between 2-5 years	51	72	–	-
	76	213	–	-

Aggregate finance lease obligations exclude future finance charges amounting to £15,000 (1996 - £40,000).

16. *PROVISIONS FOR LIABILITIES AND CHARGES*

	Group 1997 Provided £'000	Group 1997 Not provided £'000	Group 1996 Provided £'000	Group 1996 Not provided £'000
Deferred taxation liability/(asset):				
- accelerated capital allowances	103	–	-	(35)
- short term timing differences	–	(172)	-	(274)
	103	(172)	-	(309)

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

16. *PROVISIONS FOR LIABILITIES AND CHARGES* CONTINUED

	Group 1997 £'000	Group 1996 £'000
The movement on deferred taxation comprises:		
At 1st April 1996	–	63
Transfer from profit and loss account	103	-
Reduction due to disposal of subsidiary undertaking	–	(63)
At 31st March 1997	103	-

17. *CALLED UP SHARE CAPITAL*

	1997 £'000	1996 £'000
Authorised:		
10,000,000 (1996—10,000,000) ordinary shares of 5p each	500	500
Allotted, called up and fully paid:		
8,357,320 (1996—8,357,320) ordinary shares of 5p each	418	418

At 31st March 1997 options granted under the Company's share option schemes were outstanding as follows:

Date granted	Number of options	Exercise price	Period of option
16th March 1990	26,500	235.0p	March 1993 - March 2000
8th August 1996	400,000	206.0p	August 1999 - August 2003

18. *RESERVES*

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

GROUP	1997 £'000	1996 £'000
Profit/(loss) for the financial year	1,951	(5,221)
Dividends	(543)	(460)
	1,408	(5,681)
New share capital issued	–	32
Goodwill transferred to profit and loss account in respect of disposal of subsidiary	–	1,330
Exchange reserve eliminated on disposal of subsidiary	–	(19)
Net additions/(reductions) to shareholders' funds	1,408	(4,338)
Opening shareholders' funds	10,424	14,762
Closing shareholders' funds	11,832	10,424

18. *RESERVES* CONTINUED

MOVEMENTS IN RESERVES

GROUP	Share premium account £'000	Revaluation reserve £'000	Other reserves £'000	Profit and loss account £'000
At 1st April 1996	4,525	893	1,688	2,900
Retained profit for the year	-	-	-	1,408
Amortisation of revaluation surplus	-	(17)	-	17
At 31st March 1997	**4,525**	**876**	**1,688**	**4,325**

COMPANY	Share premium account £'000	Other reserves £'000	Profit and loss account £'000
At 1st April 1996	4,525	9,001	(3,520)
Increase in underlying net assets of subsidiary undertakings	-	1,322	-
Profit on disposal of investment	-	-	96
Loss for the year	-	-	(10)
At 31st March 1997	**4,525**	**10,323**	**(3,434)**

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 £345,000 (fifteen months ended 31st March 1996 — £259,000) may be considered to be distributable.

19. *GUARANTEES AND OTHER FINANCIAL COMMITMENTS*

CAPITAL COMMITMENTS

	Group	
	1997	1996
At 31st March 1997 commitments were:	£'000	£'000
Contracted for but not provided for	319	138

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.

20. *PENSION ARRANGEMENTS*

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

The pension cost for the year was £200,000 (fifteen months ended 31st March 1996 - £293,000) representing the actual contributions payable in the year and certain scheme administration costs.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the sixteenth Annual General Meeting of Hornby Plc will be held at Berwin Leighton, Adelaide House, London Bridge, London EC4R 9HA on Thursday 7th August 1997 at 11.00 am for the following purposes:

ORDINARY BUSINESS

1. To receive the report of the directors and the audited financial statements for the year ended 31st March 1997 and to declare a dividend.
2. To re-elect Mr M C Thomas a director of the Company.
3. To re-elect Mr J W Stansfield a director of the Company.
4. To re-elect Mr M R Hoffman a director of the Company.
5. To re-appoint Coopers & Lybrand, the retiring auditors, and to authorise the directors to determine their remuneration.

SPECIAL BUSINESS

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

THAT (a) the directors be generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in that Section) up to a maximum nominal amount of £82,000 provided that such authority (unless previously revoked, varied or renewed) shall expire at the conclusion of the Annual General Meeting of the Company next following the date of the passing of this resolution (save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired) and shall be in substitution for any and all authorities previously conferred upon the directors for the purposes of Section 80 of the Act;

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

(i) the allotment of equity securities in connection with an offer of securities open for acceptance for a period fixed by the directors or (where applicable) in accordance with the rights for the time being attached to such shares (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with legal or practical problems under the laws of any territory or the requirements of any regulatory body or any stock exchange in any territory or in connection with fractional entitlements or otherwise);

(ii) the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities for cash up to an aggregate nominal amount of £20,000.

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

By order of the Board

J W Stansfield
Secretary
15th July 1997

NOTES

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

2. There will be available for inspection at the Registered Office of the Company during usual business hours (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.

Ten Year Summary

	1996/7 £'000	1995/6 £'000	1995 £'000	1994 £'000	1993 £'000	1992 £'000	1991 £'000	1990 £'000	1989 £'000	1988 £'000	1987 £'000
Turnover	29,900	38,614	33,648	31,323	28,238	31,323	32,036	39,467	31,996	23,424	20,096
Profit after interest before exceptional items	2,808	582	731	611	1,501	1,455	2,088	3,821	3,467	2,404	1,828
Exceptional items	(158)	(5,746)	(5,034)	–	–	–	–	616	–	–	–
Profit/(loss) on ordinary activities before taxation	2,650	(5,164)	(4,303)	611	1,501	1,455	2,088	4,437	3,467	2,404	1,828
Taxation	(699)	(57)	(145)	170	(598)	(504)	(818)	(1,365)	(1,174)	(947)	(720)
Profit/(loss) on ordinary activities after taxation	1,951	(5,221)	(4,448)	781	903	951	1,270	3,072	2,293	1,457	1,108
Assets employed:											
Fixed assets	4,736	4,450	6,263	6,547	6,458	7,282	7,020	7,246	5,378	4,551	3,365
Investment	–	–	–	694	–	–	–	–	–	–	–
Net current assets	7,275	6,187	8,488	7,960	8,320	7,420	7,228	6,862	6,346	5,565	5,722
Creditors due after more than one year	(76)	(213)	(282)	(376)	(321)	(415)	(121)	(294)	(239)	(73)	(90)
Provisions for liabilities and charges	(103)	–	(2,793)	(63)	(63)	(52)	(104)	(49)	(51)	(2,585)	(1,684)
Net assets	11,832	10,424	11,676	14,762	14,394	14,235	14,023	13,765	11,434	7,458	7,313
Total capital employed	11,832	10,424	11,676	14,762	14,394	14,235	14,023	13,765	11,434	7,458	7,313
Earnings per share (Excluding exceptional items)	22.7p	3.8p	6.0p	9.5p	10.9p	11.5p	15.4p	37.7p	28.3p	18.2p	13.8p
Dividend per share (net)	6.5p	5.5p	–	5.0p	9.0p	9.0p	9.0p	9.0p	7.5p	5.25p	4.0p
Net assets per share (after adding back goodwill written off)	141.6p	124.7p	139.7p	194.7p	190.3p	188.4p	185.9p	181.0p	153.6p	106.4p	91.1p

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SHAREHOLDERS' INFORMATION SERVICE

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

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