

HORNBY®

**HORNBY PLC
ANNUAL
REPORT
& ACCOUNTS**

YEAR ENDED
31 MARCH 2001



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DIRECTORS AND CORPORATE INFORMATION

DIRECTORS

N A Johnson
Non-Executive Chairman

F Martin
Chief Executive

N J Cosh
Non-Executive Director

J W Stansfield
Finance Director

SECRETARY

J W Stansfield

REGISTERED OFFICE

Westwood
Margate
Kent CT9 4JX

COMPANY REGISTERED NUMBER

Registered in England No. 1547390

AUDITORS

PricewaterhouseCoopers
Orchard House
10 Albion Place
Maidstone
Kent ME14 5DZ

SOLICITORS

Berwin Leighton Paisner
Adelaide House
London Bridge
London EC4R 9HA

PRINCIPAL BANKERS

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

STOCKBROKERS

Beeson Gregory
The Registry
Royal Mint Court
London EC3N 4EY

REGISTRARS AND TRANSFER AGENTS

Capita IRG plc
Balfour House
390/398 High Road
Ilford
Essex IG1 1NQ

FINANCIAL HIGHLIGHTS

	2001 £'000	2000 £'000
TURNOVER	24,604	21,477
OPERATING PROFIT BEFORE EXCEPTIONALS	2,211	1,395
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1,495	1,207
EQUITY SHAREHOLDERS' FUNDS	12,003	13,496
CASH	5,212	3,565
EARNINGS PER ORDINARY SHARE:		
Basic	11.74p	9.68p
Diluted	11.74p	9.68p
Basic before exceptional items	18.46p	11.31p
DIVIDENDS PER ORDINARY SHARE	12.0p	7.0p
NET ASSETS PER ORDINARY SHARE	165.4p	161.5p

CHAIRMAN'S STATEMENT

In this, my first Chairman's statement, I am pleased to be able to report significantly improved performance for the year ended 31 March 2001. Turnover increased by 15% and profit, before exceptional items, improved 63% to £2.3 million. Even after accounting for these exceptional costs, profit before tax was up 24% on last year at £1.5 million.

Much of the detail is contained in the Chief Executive's operating review. However, I would like to highlight a number of important performance indicators. There has been strong sales growth across the product ranges, and in both Export and UK independent markets for Scalextric sets and Hornby locomotives. The excellent performance of Scalextric USA, Inc. (our wholly-owned USA subsidiary) gives cause for real optimism in a market with enormous potential. New product introductions have attracted acclaim in both Hornby and Scalextric ranges and the completion of our strategy to transfer all production processes to China continues to improve operational performance, quality and modelling detail. This success clearly indicates growing popularity in the crucial market opportunity represented by adult collectors and enthusiasts for both product streams. These product innovations will continue in the coming year.

Board Restructuring

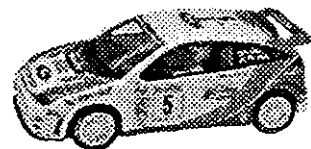
I should like to thank Peter Newey, the former Executive Chairman, for his work in laying the foundations for last year's excellent performance. Peter left the Company in December to pursue his many external interests. We wish him well.

Following Peter's departure the Board took the view that some fundamental changes in management processes were desirable. I was appointed non-executive Chairman and, shortly thereafter, at the beginning of 2001, we were successful in recruiting Frank Martin as our Chief Executive. Frank has an outstanding track record in markets closely related to our own and we are indeed fortunate to have him lead our executive team.

Your Board also took the important decision to concentrate on two areas of activity. Firstly to reduce the overheads within the business and secondly, following the conclusion of the non-productive sale/MBO process, to enable the executive directors to focus their energy and skills on running the business. This has led to a number of further changes within the Company.

Your Board has been restructured to reflect more appropriately the size and complexity of our business. The Plc Board now comprises two non-executives together with the Chief Executive and Finance Director. A management board meets regularly in Margate to control the day-to-day operation of the business, and comprises the senior executive directors.

I would like to take this opportunity to thank all of those who recently stood down from the main Board for their contribution to the business, and particularly to David Robins our legal adviser for many years and a non-executive director since 1999 who, I am pleased to report, will continue his relationship with the Company in the former capacity.



Property Review

Restructuring the business in this way has also enabled us to reduce costs elsewhere. Our London Headquarters office and showroom have been closed and the lease is to be disposed of. Similarly, having successfully completed the relocation of our production to China, our Hong Kong office was closed in April 2001. Continuing our property review it is hoped that the existing Margate site will be sold for redevelopment allowing the Company to relocate to more suitable premises. The terms of a sale would be subject to various planning applications being successful. Further details will be sent to shareholders in due course.

Product Innovation

We continue to embrace emerging technology in our product plans. A Hornby CD Rom based programme has been successfully launched and a PC based interactive system for Scalextric is at an advanced stage of development. I believe that there is great potential in these innovations linking, as they do, computer skills with more traditional three-dimensional hobbies and entertainment.

Share Buy-Back

In our interim report, published in November last year, the Board indicated its intention to return funds to shareholders in 2001. This was achieved in part during March when, using the headroom for share purchase available to the Company, we purchased 1.1 million shares in the market (13.2% of the issued stock) at a price of 145p. You will

note that the Board is seeking the flexibility to re-purchase up to a similar percentage in the coming year should circumstances be favourable.

Dividend

Similarly your Board believes that the current trading position and prospects for the Company enables us to announce a final dividend of 10p per share. This brings the total dividend for the year to 12p, an increase of 71% over the previous year (2000 - 7p).

The final dividend will be payable on 17 August 2001 to those shareholders on the register as at 27 July 2001.

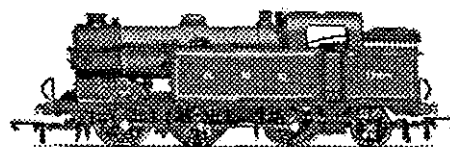
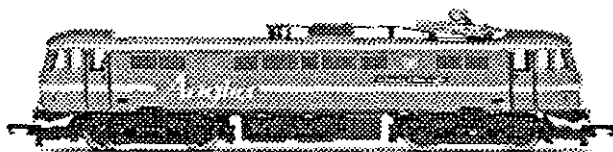
Outlook

The past twelve months have seen major changes at Hornby. Perhaps most notable, and a key contributor to success, has been focus and stability linked to the personal endeavour of our loyal and dedicated staff. Your Board believes that there is further opportunity to develop our business organically, through enhanced product innovations, the use of new technologies, and through potential partnership with or acquisition of similar businesses where Hornby's critical skill base could improve operations.

Our task now is to build and consolidate our success. We can look forward to an exciting future with two really great brands.


Neil Johnson

14 June 2001



CHIEF EXECUTIVE'S REPORT

OPERATIONAL AND FINANCIAL REVIEW

Consolidated turnover for the year to 31 March 2001 was £24.6 million an increase of 15% over the previous year's turnover of £21.5 million. This result included the first full year contribution from Scalextric USA, Inc. which was acquired on 31 October 1999. Scalextric USA, Inc. achieved sales of £2.4 million in the year to 31 March 2001 and was a net contributor to Group profit in the year.

In addition to the growth experienced in Scalextric USA, strong sales growth was experienced in Scalextric sets and Hornby locomotives, to the Export and UK Independent markets respectively.

Substantial benefits continue to accrue from the move of manufacturing to China. The increased level of detail and consequent value for money that the Company's products now represent are resulting in substantially increased sales volumes. In addition, as each new product development initiative comes to fruition, we are able to demonstrate further improvements in quality, detail, accuracy and performance.

In Hornby railways the newly tooled Merchant Navy class of locomotive, launched in August 2000 rapidly became the best selling Hornby locomotive for over 20 years. 2001 sees the continuing programme of "Super Detail" introductions together with the introduction pre-Christmas of the Hornby "Hogwarts Express" train set, produced under licence from Warner Bros. and based on the train featured in the forthcoming film "Harry Potter and the Philosopher's Stone".

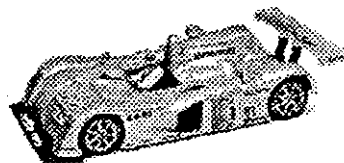
In Scalextric the Cadillac NorthStar LMP launched in January 2001 featured for the first time in a Scalextric car a self-centring guide blade and photo-etched metal features, including pierced brake discs. Sales on both sides of the Atlantic substantially exceeded expectations.

The success in both Hornby railways and in Scalextric of our newly specified ranges gives great confidence that the Company is now accessing a lucrative and growing market amongst adult collectors.

At the younger end of the market, the two "My First Scalextric" 1/64 scale sets launched during 2000 and targeted at the 3-5 years old age group proved highly successful, resulting in increased retailer listings for the Christmas 2001 season. Capitalising on this success, a range of four "Micro - Mania" 1/64 scale sets were launched in January 2001, targeting the 5-7 years age group. These products have been widely listed by major retailers for the latter part of this year.

The core 1/32 scale Scalextric category is targeted at ages 8 years and above. In this category there are a number of exciting developments aimed at confirming the position of Scalextric as the brand leader in slot car racing both in the UK and USA.

The Hornby and Scalextric websites continue to attract hundreds of thousands of visitors from around the world. Developments are in hand to improve the content and interactivity of both sites as a prelude to e-commerce via the sites.



One of Hornby's largest customers, Beatties of London Limited, went into receivership in March 2001. As the stock held in the Beatties stores was owned by Hornby under an agency arrangement, no significant loss arose in terms of bad debt. Current indications are that Hornby's independent retailers are benefiting directly from increased sales as a result of the closure of the Beatties stores. In view of this and the growth in distribution to major accounts indicated above, it is anticipated that the loss of sales via Beatties will be compensated by increases through other retail channels.

Profit before tax of £1.5 million was 24% above last year's result of £1.2 million. However this result is stated after a number of exceptional costs associated with restructuring and redundancies, totalling £797,000. Adding back exceptional costs to the result for both years gives profit before tax of £2.3 million compared to £1.4 million in the previous year. The Company continued to benefit from the lower overhead base arising from the outsourcing of production, and margins across all areas of the business improved as the full benefits of Far East manufacture began to flow.

Overheads for the new financial year which started on 1 April 2001 have been further significantly reduced by, amongst other things, the closure of the Hong Kong office, closure of the loss-making contract printing operation and the restructuring of the Board.

Following the share buy-back which occurred in March 2001, and as a consequence of the improved results this year, earnings per ordinary share before exceptional costs rose to 18.46p (2000 - 11.31p).

There was a net cash inflow during the year of £1.6 million, which is after the costs of the share buy-back of £1.6 million. This strong cash flow arose primarily as a result of a substantial one-off reduction in stocks, in addition to profits generated and the fact that capital expenditure, whilst sufficient for the Company's needs, was substantially below the depreciation charge.

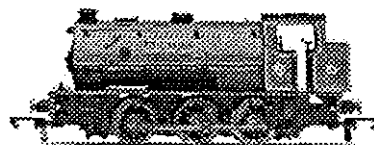
Net cash at 31 March 2001 was £5.2 million compared to £3.6 million at 31 March 2000.

Hornby has an exciting future in prospect. The move of production to China is complete, sales are increasing, overheads have been reduced and there is no shortage of product development initiatives to continue to drive the business forward. It is Management's intention to focus on continuing to improve the performance of the core business, whilst recognising that Hornby is now building the momentum and has the wherewithal to become a major force in the worldwide hobby industry.



Frank Martin
Chief Executive

14 June 2001



REPORT OF THE DIRECTORS

The directors submit their annual report together with the audited financial statements for the year ended 31 March 2001.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company is a holding company and has two operating subsidiaries: Hornby Hobbies Limited in the United Kingdom and Scalextric USA, Inc. in the USA.

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 and Chief Executive's Report.

RESULTS AND DIVIDENDS

The results for the year ended 31 March 2001 are set out in the Consolidated Profit and Loss Account on page 22. Turnover for the year was £24.6m against £21.5m last year. The profit on ordinary activities after taxation for the year amounted to £1.0m (2000 - £0.8m).

An interim dividend of 2.0p (2000 - 2.0p) per ordinary share amounting to £167,146 (2000 - £167,146) was paid on 26 January 2001.

The directors recommend an increased final dividend of 10.0p (2000 - 5.0p) per ordinary share amounting to £725,732 (2000 - £417,866) payable on 17 August 2001 to those shareholders on the register at 27 July 2001.

PURCHASE OF OWN SHARES

Permission was obtained from shareholders at the Annual General Meeting on 28 July 2000 to purchase up to 15 per cent of the Company's ordinary share capital in order to return surplus funds to shareholders and enhance earnings per share. On 15 March 2001 the Company purchased 1,100,000 ordinary shares at a nominal value of 5p, for a total consideration of £1,595,000. This represented 13.2 per cent of the ordinary shares in issue.

The total number of options to subscribe for shares that have not yet been exercised as at 14 June 2001 is 830,000. The proportion of the Company's issued share capital such options represent at such date is 11.4 per cent. If the full authority to buy back the shares (existing authority and the authority being sought) is fully utilised, the proportion of the issued share capital represented by such options will be 13.7 per cent.

RESEARCH & DEVELOPMENT

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

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

PROPERTY VALUES

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

CHARITABLE DONATIONS

During the year the Group made donations of £140 (2000 - £135) for charitable purposes.

DIRECTORS

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

Mr N A Johnson, aged 52, was originally appointed a non-executive director on 1 July 1998. On 22 December 2000 Mr Johnson assumed the responsibilities of Non-Executive Chairman. Mr Johnson is currently Chairman of CyBIT PLC and a non-executive director of Charter Plc and Tenon Group Plc and was previously Chief Executive Officer of RAC Holdings Limited and an executive director of Jaguar Cars Limited.

Mr F Martin, aged 49, was appointed Chief Executive on 3 January 2001. Mr Martin was previously Chief Executive of Humbrol Limited, and formerly Managing Director of Denby Pottery Limited and Group Marketing Director of Hasbro (UK) Limited. Having been appointed during the year, Mr Martin retires and offers himself for re-election at the forthcoming Annual General Meeting. Mr Martin's conditions of employment include, to be effective from 2 July 2001, a notice period of one year to be given by the Company and of six months to be given by Mr Martin.

Mr J W Stansfield, aged 46, has been employed by the Group since April 1982. He was appointed Finance Director and Company Secretary on 4 December 1996. Mr Stansfield retires by rotation under article 97 of the Articles of Association and offers himself for re-election at the forthcoming Annual General Meeting. Mr Stansfield's conditions of employment include a notice period of one year to be given by the Company and of six months to be given by Mr Stansfield.

Mr N J Cosh, aged 54, was appointed a non-executive director on 21 June 1999. He is Chairman of The Fleming Investment Trust plc and a non-executive director of Bradford & Bingley plc, Garban-Intercapital plc and other companies. He was previously finance director of J.I.B. Group plc, M.A.I. plc and Gill & Duffus Group plc.

Mr N B Cole, aged 46, resigned as a director of the Company on 14 May 2001 but will continue as a director of the Company's operating subsidiary, Hornby Hobbies Limited.

Mr F Passet, aged 49, resigned as a director of the Company on 14 May 2001 but will continue as a director of the Company's operating subsidiary, Hornby Hobbies Limited.

Mr P Newey resigned as a director and left the Company on 22 December 2000.

Mr T P Nabbs, resigned as a director and left the Company on 14 May 2001.

Mr D A Robins, aged 48, resigned as a non-executive director on 14 May 2001. He is a partner in City law firm Berwin Leighton Paisner and will continue to provide legal advice to the Company.

The interests of the directors in the shares of the Company and in options granted over such shares are disclosed in the Remuneration Report on pages 17 to 20.

SUBSTANTIAL SHAREHOLDINGS

The Company has been notified that on 1 June 2001 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
Toscafield Limited	2,398,094	33.04
P J Wood Associates Limited	865,000	11.92
Electra Investment Trust PLC	819,030	11.29
Stevenson Engineering Company	630,000	8.68
Tudor Capital UK Limited	400,000	5.51
J J Hosking	302,840	4.17
Marathon Asset Management Limited	240,000	3.31

REPORT OF THE DIRECTORS

CONTINUED

FINANCIAL INSTRUMENTS

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

The Group also enters into derivatives transactions (principally forward foreign currency contracts). The purpose of such transactions is to manage the currency risks arising from the Group's operations.

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

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

Interest rate risk

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

Liquidity risk

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

Foreign currency risk

The Group purchases a significant proportion of its products from the Far East in US and HK dollars. The Group's policy is to reduce currency exposure arising from its purchases and anticipated orders by using forward foreign exchange contracts of up to 6 months. All sales and other purchases originating in the UK are denominated in sterling.

The Company has a US subsidiary. At present the Company does not consider the balance sheet translation exposure significant enough to warrant matching the net currency assets with currency borrowings.

EUROPEAN MONETARY UNION (EMU)

The directors are aware of the implications of the European Monetary Union both for the Company's information systems and other aspects of its operations. The Company's computer systems will accommodate multi-currency transactions and euro-denominated trading.

ANNUAL GENERAL MEETING - SPECIAL BUSINESS RESOLUTIONS

The notice of Annual General Meeting set out on pages 44 and 45 includes special resolutions to renew the directors' authority to allot equity securities and the Company's authority to purchase its own shares.

Resolution Number 5 is a special resolution which would give the Board authority within the meaning of Section 80 of the Companies Act 1985 to allot equity securities of the Company up to an aggregate nominal value of £162,500. If approved, the resolution will entitle the Board to allot equity securities having an aggregate nominal value of £18,000 for cash, equivalent to 360,000 ordinary shares representing 5.0 per cent of the Company's issued share capital as at 31 March 2001,

as if Section 89(1) of the Act 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.

Resolution Number 6 is a special resolution which would give the Board authority under Section 166 of the Companies Act 1985 to make one or more market purchases (within the meaning of Section 163(3) of that Act) of its own shares up to a maximum representing 15 per cent of the issued ordinary share capital of the Company at the date of this resolution. The directors will exercise this power only if they believe that the effect of such purchases will be to increase earnings per share and that to do so is in the best interests of the Company and shareholders generally. The minimum price which may be paid for an ordinary share is the par value of such share, from time to time, exclusive of expenses. The maximum price which may be paid for an ordinary share shall be an amount equal to 5 per cent above the average of the middle-market quotations for the ordinary shares as derived from the London Stock Exchange Daily Official List for the five dealing days immediately preceding the day on which the purchase is made, exclusive of expenses. The authority to make market purchases will also last until the end of the next Annual General Meeting of the Company.

PERSONNEL POLICIES

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

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

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

CREDITOR PAYMENT POLICY

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

The average creditor payment period for the main trading subsidiary at 31 March 2001 was 32 days. The Company itself does not trade and therefore has no external creditors.

AUDITORS

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

By order of the Board


J W Stansfield

Secretary

Westwood

Margate

Kent CT9 4JX

14 June 2001

CORPORATE GOVERNANCE

COMPLIANCE WITH THE COMBINED CODE

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

The Board

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

Upon commencement of the year the Board comprised the Executive Chairman, who also assumed the role of Chief Executive, four other executive directors and three non-executive directors. On 22 December 2000 the Executive Chairman resigned from the Board and Mr Johnson, a non-executive director was appointed non-executive Chairman. On 3 January 2001, Mr Martin was appointed Chief Executive thereby splitting the roles of Chairman and Chief Executive and thereafter the Company complied with principle A.2 of the Combined Code.

Subsequent to the year end, on 14 May 2001, the Board was restructured and four directors (three executive and a non-executive) stood down from the Board. Two of the resigning executive directors remain directors of the Company's operating subsidiary Hornby Hobbies Limited.

The Board believe the restructured team comprising non-executive Chairman, Chief Executive, Finance Director and a non-executive director is more appropriate for the scale of the business and to enable the Group to be managed efficiently.

The Board has adopted a formal schedule of matters specifically reserved to it for decisions including the determination of strategy, the approval of business plans, budgets, acquisitions and disposals, major capital purchases, Board appointments, accounting policies and treasury arrangements. The Board also delegates specific responsibilities to committees as described below. The Board meets monthly and monitors progress against plan at each meeting.

The directors have the authority of the Board to obtain external legal or other independent professional advice in the furtherance of their duties at the Company's expense. All directors have access to the advice and services of the Company Secretary, who is responsible for ensuring Board procedures are followed and applicable rules and regulations are complied with. The executive directors have all received appropriate training for their appointment to the Board of a listed company. The non-executive directors bring a broad expertise to the Board. Mr Johnson and Mr Cosh are both experienced company directors. Biographical details of each director are shown on page 9.

Independent Non-Executive Directors

The Board considers all of the non-executive directors who served during the year to be independent of management and free from any business or other relationship which could interfere with the exercise of their independent judgement. The Board believes that their interest in receiving fees as directors and as being shareholders should not prejudice their independence.

Mr D A Robins is a partner in the Company's legal advisor, Berwin Leighton Paisner, which firm receives fees for the professional services it provides but he has not been involved in the provision of that advice and is considered to be independent.

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

Availability of Information

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

Appointments to the Board

Appointments to the Board require the Board's authorisation. The Chief Executive and executive directors approve a job specification, review comparative terms of remuneration and may appoint an external consultant to prepare a short list of potential candidates. The directors do not consider a separate Nominations Committee is required for a Board of this size.

The potential candidates are interviewed by either the Chairman or the Chief Executive. Their preferred candidate is subsequently interviewed by the non-executive directors. An appointment requires final approval by the Board prior to an offer being forwarded.

The Company's Articles of Association currently require one third of the directors to retire by rotation.

Remuneration Committee

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

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

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

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

Relations with Shareholders

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

CORPORATE GOVERNANCE

CONTINUED

Audit Committee

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

The Committee has written terms of reference, which set out clearly its authority and duties. These include the following:

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

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

Compliance with the provisions of the Combined Code

The Company has complied throughout the year with the Code provisions set out in Section 1 of the Combined Code apart from the provisions relating to:

- the separate positions of Chairman and Chief Executive
- the membership of the Remuneration Committee which included the Executive Chairman
- the Executive Chairman's service agreement had a current notice period of two years

to which the Company now complies following the resignation of the former Executive Chairman on 22 December 2000.

However, following the resignation of Mr D A Robins as a non-executive director on 14 May 2001, the Company no longer complies with Section D.3.1, which requires the Audit Committee to comprise at least three non-executive directors.

The Combined Code requires that the directors review the effectiveness of the Group's system of internal control. In September 1999 the Institute of Chartered Accountants in England and Wales (ICAEW) published guidance for directors on the scope, extent, nature and review of internal control. The Board confirms that an on-going process for identifying, evaluating and managing the Group's significant risks has operated throughout the year, and up to the date of approval of the Annual Report, with the exception of Scalextric USA, Inc. where procedures were in place by 31 December 2000.

INTERNAL CONTROL

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

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

Control environment

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

Identification of business risks

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

Major corporate information systems

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

Main control procedures

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

Monitoring system used by the Board

The Board as a whole monitors the operation of the system of internal control through management reviews and has reviewed the effectiveness of the system of internal 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 and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the Group's financial statements.

CORPORATE GOVERNANCE

CONTINUED


STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2001 and that applicable accounting standards have been followed.

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

By order of the Board



J W Stansfield
Secretary

14 June 2001

REMUNERATION REPORT

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

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

The Committee achieves its objectives through 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 and details of options held by directors are set out on page 19.

The options are exercisable subject to the achievement of certain performance criteria.

- **Pensions**

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

REMUNERATION REPORT

CONTINUED

Executive Directors' Contracts

The executive directors do not have fixed period contracts.

Mr F Martin, the Chief Executive, receives a salary of £128,750 per annum. Mr Martin's conditions of employment include, to be effective from 2 July 2001, a notice period of one year to be given by the Company and of six months to be given by Mr Martin.

Mr J W Stansfield, the Finance Director and Secretary, receives a salary of £71,717 per annum. Mr Stansfield's conditions of employment include a notice period of one year to be given by the Company and of six months to be given by Mr Stansfield.

Mr N B Cole, the Operations Director, resigned as a director of the Company on 14 May 2001 but will continue as a director of the Company's operating subsidiary, Hornby Hobbies Limited. Mr Cole receives a salary of £71,717 per annum. Mr Cole's conditions of employment include a notice period of one year to be given by the Company and of six months to be given by Mr Cole.

Mr F Passet, the International Director, resigned as a director of the Company on 14 May 2001 but will continue as a director of the Company's operating subsidiary, Hornby Hobbies Limited. Mr Passet receives a salary of £66,000 per annum. Mr Passet's conditions of employment include a notice period of one year to be given by the Company and of six months to be given by Mr Passet.

Mr T P Nabbs, who resigned as the Sales and Marketing Director on 14 May 2001, received a salary of £74,984 per annum. Mr Nabbs's conditions of employment included a notice period of one year to be given by the Company and of six months to be given by Mr Nabbs.

In respect of the year ended 31 March 2001 each of the executive directors was entitled to be considered for a discretionary award of bonus which are detailed in the table of directors' emoluments.

Non-Executive Directors' Contracts

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

Mr N A Johnson, was appointed non-executive Chairman on 22 December 2000 having initially joined the Board on 1 July 1998, and receives non-executive directors fees for his services to the Company of £50,000 per annum. The appointment is subject to termination on three months notice to be given by either the Company or Mr Johnson.

Mr N J Cosh, non-executive director, was appointed to the Board on 21 June 1999, and receives non-executive directors fees for his services to the Company of £20,000 per annum. The appointment is subject to termination on three months notice to be given by either the Company or Mr Cosh.

Mr D A Robins, who resigned as a non-executive director on 14 May 2001, received non-executive directors fees for his services to the Company of £20,000 per annum. The appointment was subject to termination on three months notice to be given by either the Company or Mr Robins.

None of the non-executive directors received any pension from the Company nor did they participate in the executive share option scheme for the year ended 31 March 2001.

Directors' Interests

Interests in shares

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

	Number of ordinary shares of 5p	
	2001	2000
N A Johnson	60,000	10,000
N J Cosh	15,000	5,000
P Newey	-	20,000

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

There has been no change in the interests set out above between 31 March 2001 and 1 June 2001.

Interests in share options

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

	Date of Grant	Number of options		Exercise price	Date from which exercisable	Expiry date
		5p ordinary shares 2001	2000			
F Martin	12/03/2001	29,662	-	147.5p	12/03/2004	12/03/2008
	12/03/2001	20,338	-	147.5p	12/03/2004	12/03/2011
N B Cole	09/07/1997	6,548	6,548	223.0p	09/07/2000	09/07/2004
	09/07/1997	13,452	13,452	223.0p	09/07/2000	09/07/2007
	27/01/1999	35,000	35,000	163.5p	27/01/2002	27/01/2006
T P Nabbs	27/01/1999	31,652	31,652	163.5p	27/01/2002	31/01/2002
	27/01/1999	18,348	18,348	163.5p	27/01/2002	31/01/2002
F Passet	27/01/1999	31,652	31,652	163.5p	27/01/2002	27/01/2006
	27/01/1999	18,348	18,348	163.5p	27/01/2002	27/01/2009
J W Stansfield	09/07/1997	22,344	22,344	223.0p	09/07/2000	09/07/2004
	09/07/1997	7,656	7,656	223.0p	09/07/2000	09/07/2007
	27/01/1999	30,000	30,000	163.5p	27/01/2002	27/01/2006

50,000 options were granted during the year to F Martin, Chief Executive, at an exercise price of 147.5p which was the average market price on the 3 days prior to the day of grant.

No options were exercised by the directors during the year.

The Board's policy when issuing share options is to incentivise senior management to achieve targeted growth in earnings per share or profit before interest and taxation.

The market price of the Company's shares at 31 March 2001 was 149.5p and the range during the year ended 31 March 2001 was 117.5p to 172.5p.

REMUNERATION REPORT

CONTINUED

Directors' detailed emoluments

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


	Salary & fees £	Bonus £	Benefits £	Pension contri- butions £	Compensa- tion for loss of office £	2001 Total £	2000 Total* £	2000 Pension contri- butions £
Chairman:								
N A Johnson	36,667	-	-	-	-	36,667	21,250	-
Executive:								
P Newey	146,688	-	8,818	28,151	385,632	569,289	235,991	37,440
F Martin	31,250	10,000	3,423	6,250	-	50,923	-	-
N B Cole	69,628	20,888	10,267	13,926	-	114,709	90,697	13,520
T P Nabbs	74,984	-	8,506	14,997	112,786	211,273	95,042	14,560
F Passet	58,725	19,200	10,476	11,745	-	100,146	81,254	11,947
J W Stansfield	69,628	20,888	11,530	13,926	-	115,972	89,603	13,520
Non-executive:								
N J Cosh	20,000	-	-	-	-	20,000	15,556	-
D A Robins	20,000	-	-	-	-	20,000	15,484	-
M C Thomas	-	-	-	-	-	-	7,292	-
	527,570	70,976	53,020	88,995	498,418	1,238,979	652,169	90,987

* The 2000 total column includes pension contributions.

Salary and fees shown above includes fees paid in respect of duties as directors. Neither annual bonuses or benefits in kind are pensionable.

Six directors accrue benefit from payments to defined contribution pension schemes (2000 - five).

No director waived emoluments in respect of the year ended 31 March 2001 (2000 - nil).


N A Johnson
 Chairman
 14 June 2001

AUDITORS' REPORT

TO THE MEMBERS OF HORNBY PLC

We have audited the financial statements on pages 22 to 43.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 16, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on page 14 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company or Group's corporate governance procedures or its risk and control procedures.

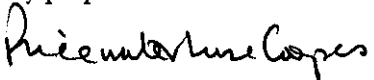
Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. 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 31 March 2001 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.

PricewaterhouseCoopers 
Chartered Accountants and Registered Auditors
Maidstone
Kent

14 June 2001

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2001

	Notes	2001 £'000	2000 £'000
TURNOVER	2	24,604	21,477
Cost of sales		(14,792)	(13,870)
GROSS PROFIT		9,812	7,607
Net operating expenses - exceptional	3	(797)	(195)
- other	3	(7,601)	(6,212)
		(8,398)	(6,407)
OPERATING PROFIT		1,414	1,200
Net interest receivable	4	81	7
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	1,495	1,207
Tax on profit on ordinary activities	7	(520)	(398)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		975	809
Dividends	8	(893)	(585)
RETAINED PROFIT FOR THE FINANCIAL YEAR	18	82	224
ATTRIBUTED TO:			
The Company		(46)	(2)
Subsidiary undertakings		128	226
		82	224
EARNINGS PER ORDINARY SHARE	9		
Basic		11.74p	9.68p
Diluted		11.74p	9.68p
Basic before exceptional items		18.46p	11.31p

All of the activities of the Group are continuing.

STATEMENT OF GROUP TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 2001

	2001 £'000	2000 £'000
Profit for the financial year	975	809
Exchange adjustments offset in reserves	20	1
	<hr/>	<hr/>
Total recognised gains for the year	995	810
	<hr/>	<hr/>

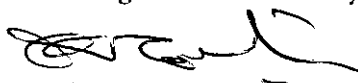
NOTE OF GROUP HISTORICAL COST PROFITS
FOR THE YEAR ENDED 31 MARCH 2001

	2001 £'000	2000 £'000
REPORTED PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1,495	1,207
Difference between the historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	17	17
	<hr/>	<hr/>
Historical cost profit on ordinary activities before taxation	1,512	1,224
	<hr/>	<hr/>
HISTORICAL COST PROFIT FOR THE YEAR RETAINED AFTER TAXATION AND DIVIDENDS	99	241
	<hr/>	<hr/>

CONSOLIDATED BALANCE SHEET
AT 31 MARCH 2001

	Notes	2001 £'000	2000 £'000
FIXED ASSETS			
Intangible assets	10	38	40
Tangible assets	11	3,701	4,478
		<u>3,739</u>	<u>4,518</u>
CURRENT ASSETS			
Stocks	13	4,240	6,083
Debtors	14	4,915	4,944
Cash at bank and in hand		5,212	3,565
		<u>14,367</u>	<u>14,592</u>
CREDITORS: Amounts falling due within one year	15	(5,245)	(4,660)
		<u>9,122</u>	<u>9,932</u>
NET CURRENT ASSETS			
		<u>9,122</u>	<u>9,932</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>12,861</u>	<u>14,450</u>
CREDITORS: Amounts falling due after more than one year	15	(96)	(148)
PROVISIONS FOR LIABILITIES AND CHARGES	16	(762)	(806)
		<u>12,003</u>	<u>13,496</u>
NET ASSETS			
		<u>12,003</u>	<u>13,496</u>
CAPITAL AND RESERVES			
Called up share capital	17	363	418
Capital redemption reserve	18	55	-
Share premium account	18	4,525	4,525
Revaluation reserve	18	808	825
Other reserves	18	1,688	1,688
Profit and loss account	18	4,564	6,040
		<u>12,003</u>	<u>13,496</u>
EQUITY SHAREHOLDERS' FUNDS			
		<u>12,003</u>	<u>13,496</u>

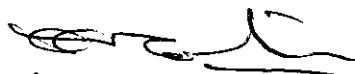
The financial statements on pages 22 to 43 were approved by the Board of directors on 14 June 2001 and were signed on its behalf by:


F Martin
Director

COMPANY BALANCE SHEET
AT 31 MARCH 2001

	Notes	2001 £'000	2000 £'000
FIXED ASSETS			
Tangible assets	11	1,730	1,774
Investments	12	10,397	11,777
		<u>12,127</u>	<u>13,551</u>
CURRENT ASSETS			
Debtors	14	731	473
CREDITORS: Amounts falling due within one year	15	(851)	(527)
		<u>(120)</u>	<u>(54)</u>
NET CURRENT LIABILITIES			
		<u>12,007</u>	<u>13,497</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
PROVISIONS FOR LIABILITIES AND CHARGES	16	(4)	-
		<u>12,003</u>	<u>13,497</u>
NET ASSETS			
CAPITAL AND RESERVES			
Called up share capital	17	363	418
Capital redemption reserve	18	55	-
Share premium account	18	4,525	4,525
Other reserves	18	10,524	11,972
Profit and loss account	18	(3,464)	(3,418)
		<u>12,003</u>	<u>13,497</u>
EQUITY SHAREHOLDERS' FUNDS			

The financial statements on pages 22 to 43 were approved by the Board of directors on 14 June 2001 and were signed on its behalf by:



F Martin

Director

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2001

	Notes	2001		2000	
		£'000	£'000	£'000	£'000
Net cash inflow from operating activities	1		5,162		1,694
Returns on investments and servicing of finance	4		81		7
Taxation			(499)		(171)
Capital expenditure and financial investment					
- purchase of fixed assets		(1,034)		(964)	
- sale of fixed assets		160		40	
			<u>(874)</u>		<u>(924)</u>
Acquisitions		-		(103)	
Overdraft held upon acquisition		-		(66)	
Payment of deferred consideration		(26)		-	
			<u>(26)</u>		<u>(169)</u>
Equity dividends paid			<u>(585)</u>		<u>(585)</u>
Net cash inflow/(outflow) before financing			3,259		(148)
Financing					
Capital element of finance lease payments			(23)		(59)
Purchase of own shares			(1,595)		-
			<u>(1,618)</u>		<u>(658)</u>
Increase/(decrease) in cash in the year			<u>1,641</u>		<u>(207)</u>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Notes	2001 £'000	2000 £'000
Increase/(decrease) in cash in the year		1,641	(207)
Cash outflow from decrease in lease financing		23	59
		<u>1,664</u>	<u>(148)</u>
Change in net funds resulting from cash flows			
New finance leases		-	(59)
New finance leases upon acquisition		-	(13)
Exchange movements		6	-
		<u>1,670</u>	<u>(220)</u>
Movement in net funds in the year			
Net funds at 1 April 2000		3,478	3,698
Net funds at 31 March 2001	II	<u>5,148</u>	<u>3,478</u>

NOTES TO THE CASH FLOW STATEMENT

NOTE I – NET CASH FLOW FROM OPERATING ACTIVITIES

	Notes	2001 £'000	2000 £'000
Operating profit		1,414	1,200
Exchange adjustments offset in reserves		12	1
Depreciation charges	11	1,734	1,363
Amortisation of goodwill		3	2
(Profit) on sale of tangible fixed assets		(87)	-
Decrease in stocks		1,843	125
Decrease/(increase) in debtors		29	(655)
Increase/(decrease) in creditors		133	(353)
Increase in sales returns provision		81	11
Net cash inflow from operating activities		5,162	1,694

NOTE II – ANALYSIS OF NET FUNDS

	1 April 2000 £'000	Cash flow £'000	Exchange differences £'000	31 March 2001 £'000
Cash at bank and in hand	3,565	1,641	6	5,212
Finance leases	(87)	23	-	(64)
Net funds	3,478	1,664	6	5,148
Analysed in Balance Sheet				
Cash at bank and in hand	3,565			5,212
Finance leases				
within one year	(14)			(14)
after one year	(73)			(50)
Net funds	3,478			5,148

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, which have been applied consistently, is set out below.

BASIS OF ACCOUNTING

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

BASIS OF CONSOLIDATION

The Group financial statements consolidate the financial statements of the Company and all its subsidiaries made up to 31 March 2001. The results of subsidiaries acquired are included in the consolidated profit and loss account from the date control passes. Intra group sales and profits are eliminated on consolidation. Any goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is capitalised and amortised over its expected useful economic life.

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

RESEARCH AND DEVELOPMENT

Expenditure on research and development is written off as incurred.

TANGIBLE FIXED ASSETS

Land and buildings are shown at cost or valuation less accumulated depreciation. Assets revalued prior to the issue of FRS15 are retained at their book amounts as though they were the historical cost amounts. Other fixed assets are shown at cost less accumulated depreciation.

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

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

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

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

FIXED ASSET INVESTMENTS

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

STOCKS

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

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

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

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

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

REVALUATION RESERVE

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

TAXATION

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

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

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.

PROVISIONS

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

PENSION COSTS

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

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

Further information on pensions costs is provided in note 22.

FINANCIAL INSTRUMENTS

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

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

FOREIGN CURRENCY

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

TURNOVER

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

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

2. SEGMENTAL INFORMATION

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

BY ORIGIN	Turnover		Profit before Tax		Net assets	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000	2001 £'000	2000 £'000
United Kingdom	22,224	20,747	1,352	1,097	11,714	13,324
United States of America	2,380	730	143	110	289	172
Group	24,604	21,477	1,495	1,207	12,003	13,496

TURNOVER BY DESTINATION

	2001 £'000	2000 £'000
United Kingdom	19,159	17,495
Rest of World	5,445	3,982
Group	24,604	21,477

3. OTHER OPERATING EXPENSES

	2001 £'000	2000 £'000
Distribution costs	788	622
Selling and marketing costs	4,518	3,704
Research and development costs	401	360
Administrative costs	2,691	1,721
	<hr/> 8,398	<hr/> 6,407

Administrative costs include £797,000 (2000 - £195,000) exceptional costs in respect of redundancies and compensation for loss of office (see note 6).

4. NET INTEREST RECEIVABLE

	2001 £'000	2000 £'000
Interest receivable and similar income:		
- bank interest receivable	160	86
Interest payable and similar charges:		
- on overdrafts	(71)	(72)
- on finance leases	(8)	(7)
	<hr/> 81	<hr/> 7

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2001 £'000	2000 £'000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets		
- owned	1,428	1,344
- write down of unutilised assets to realisable value (see note 11)	288	-
- held under finance leases	18	19
Amortisation of goodwill	3	2
Operating lease rentals	211	210
Hire of plant and machinery	22	20
Auditors' remuneration		
- audit fees (Company £6,000; 2000 - £6,000)	46	44
- non audit fees (Company £32,000; 2000 - £13,000)	40	26
Staff costs (see note 6 below)	4,499	4,303
	<hr/> 4,499	<hr/> 4,303

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

6. DIRECTORS AND EMPLOYEES

	2001 £'000	2000 £'000
STAFF COSTS		
Wages and salaries	3,235	3,631
Social security costs	277	275
Other pension costs	190	202
Exceptional redundancy and compensation for loss of office	797	195
	<u>4,499</u>	<u>4,303</u>
AVERAGE MONTHLY NUMBER OF EMPLOYEES		
	2001 Number	2000 Number
The average monthly number of employees, including executive directors, in the Group during the year was:		
Operations	102	196
Sales, marketing and distribution	64	59
Administration	16	17
	<u>182</u>	<u>272</u>

DIRECTORS' EMOLUMENTS

A detailed numerical analysis of directors' remuneration and share options, showing the highest paid director and the number of directors accruing benefits under money purchase pension schemes, is included in the Remuneration Report on pages 17 to 20 and forms part of these financial statements.

7. TAXATION

	2001 £'000	2000 £'000
The taxation charge is based on the profit for the year and comprises:		
UK Corporation taxation at 30% (2000 - 30%) - current	595	372
Overseas taxation	46	32
Deferred taxation arising from:		
- accelerated capital allowances	(125)	(4)
Adjustment of taxation in respect of prior years:		
- current	4	(2)
	<u>520</u>	<u>398</u>

The effective rate of UK tax for the year ended 31 March 2001 of 31.8% is higher than the standard rate of 30% due to non-deductible professional fees incurred and other permanent differences. The effective tax rate in 2000 was approximately equal to the standard rate of 30%. Had the Group recognised the full potential deferred tax the charge for the year would have been increased by approximately £24,000 (2000 - £13,000).

8. DIVIDENDS

	2001 £'000	2000 £'000
Ordinary:		
- interim paid: 2p per share (2000 - 2p per share)	167	167
- final proposed: 10p per share (2000 - 5p per share)	726	418
	<u>893</u>	<u>585</u>

9. EARNINGS PER SHARE

The calculation of basic earnings per ordinary share is based on the profit attributable to ordinary shareholders for the financial year of £975,000 (2000 - £809,000) and the weighted average number of ordinary shares in issue during the year of 8,306,087 (2000 - 8,357,320).

The calculation of earnings per share before exceptional items is based on the profit before exceptional items (net of taxation) of £1,533,000 (2000 - £945,000). It is included as it provides a better understanding of the underlying performance of the Group. Therefore an adjusted earnings per share is presented as follows:

	2001		2000	
	Earnings £'000	Earnings per share pence	Earnings £'000	Earnings per share pence
Earnings per share	975	11.74	809	9.68
Exceptional items:				
Redundancy and compensation for loss of office	797	9.60	195	2.33
Taxation arising on exceptional items at 30% (2000 - 30%)	(239)	(2.88)	(59)	(0.70)
Earnings excluding exceptional items and adjusted earnings per share	<u>1,533</u>	<u>18.46</u>	<u>945</u>	<u>11.31</u>
Diluted		<u>11.74</u>		<u>9.68</u>

The diluted earnings per share is the same as the basic earnings per share as the performance criteria required to exercise options have not been achieved in the year.

10. INTANGIBLE FIXED ASSETS

	Group 2001 £'000
GOODWILL	
COST	
At 1 April 2000	42
Exchange adjustment	1
At 31 March 2001	<u>43</u>
AGGREGATE AMORTISATION	
At 1 April 2000	2
Charge for the year	3
At 31 March 2001	<u>5</u>
NET BOOK AMOUNT	
At 31 March 2001	<u>38</u>
At 31 March 2000	<u>40</u>

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

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

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 1 April 2000	2,377	6,735	257	15,032	24,401
Additions	-	51	28	950	1,029
Exchange adjustment	-	-	2	-	2
Disposals	-	(887)	(35)	-	(922)
At 31 March 2001	2,377	5,899	252	15,982	24,510
DEPRECIATION					
At 1 April 2000	603	5,715	125	13,480	19,923
Charge for the year	44	590	50	1,050	1,734
Exchange adjustment	-	-	1	-	1
Disposals	-	(827)	(22)	-	(849)
At 31 March 2001	647	5,478	154	14,530	20,809
NET BOOK AMOUNT					
At 31 March 2001	1,730	421	98	1,452	3,701
At 31 March 2000	1,774	1,020	132	1,552	4,478

During the year the Group carried out a review of its plant and equipment. This resulted in an additional depreciation charge in the year of £288,000 in order to reflect existing value to the business.

Freehold land amounting to £620,000 (2000 - £620,000) has not been depreciated.

The net book amount of tangible fixed assets includes £60,000 (2000 - £84,000) in respect of assets acquired under finance leases.

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

	2001 £'000	2000 £'000
Valuation in 1986	2,360	2,360
Cost	17	17
	<u>2,377</u>	<u>2,377</u>

Other tangible fixed assets are stated at cost.

TANGIBLE FIXED ASSETS – COMPANY

The fixed assets for the Company comprise solely of freehold land and buildings included in the table above.

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

	2001 £'000	2000 £'000
Original cost	412	412
Depreciation based on cost	(158)	(150)
	<u>254</u>	<u>262</u>

12. FIXED ASSET INVESTMENTS

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

	Interests in subsidiary undertakings at valuation £'000	Loans to subsidiary undertakings at cost £'000	Total £'000
At 1 April 2000	11,560	217	11,777
Retained profit for the year	128	-	128
Investment write down in Hornby Hobbies Limited	(1,595)	-	(1,595)
Other movements	19	68	87
	<u>10,112</u>	<u>285</u>	<u>10,397</u>
At 31 March 2001			

PRINCIPAL GROUP SUBSIDIARY UNDERTAKINGS

Details of the principal subsidiary undertakings of the Company, which are included in the consolidated financial statements, are set out below. Hornby Hobbies Limited is engaged in the development, manufacture and distribution of models. Scalextric USA, Inc. is a distributor of models.

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

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

13. STOCKS

	Group	
	2001 £'000	2000 £'000
Raw materials and consumables	478	509
Work in progress	1,193	2,664
Finished goods and goods for sale	2,569	2,910
	4,240	6,083

14. DEBTORS

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
AMOUNTS FALLING DUE WITHIN ONE YEAR:				
Trade debtors	4,348	4,059	-	-
Dividends receivable from subsidiary undertakings	-	-	726	418
Prepayments	433	687	5	55
Other debtors	134	198	-	-
	4,915	4,944	731	473
TOTAL DEBTORS	4,915	4,944	731	473

15. CREDITORS

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
AMOUNTS FALLING DUE WITHIN ONE YEAR:				
Finance lease obligations	14	14	-	-
Trade creditors	1,472	1,856	-	-
UK Corporation tax payable	440	308	40	2
Overseas Corporation tax payable	46	32	-	-
VAT	281	97	-	-
PAYE and Social Security	79	95	-	-
Dividends proposed	726	418	726	418
Accruals	1,034	633	85	107
Deferred consideration for acquisition	41	38	-	-
Other	1,112	1,169	-	-
	<u>5,245</u>	<u>4,660</u>	<u>851</u>	<u>527</u>
AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR:				
Finance lease obligations	50	73	-	-
Deferred consideration for acquisition	46	75	-	-
	<u>96</u>	<u>148</u>	<u>-</u>	<u>-</u>
TOTAL CREDITORS	<u>5,341</u>	<u>4,808</u>	<u>851</u>	<u>527</u>
Finance leases are repayable as follows (excluding finance charges):				
Between 1 - 2 years	22	18	-	-
Between 2 - 5 years	28	55	-	-
	<u>50</u>	<u>73</u>	<u>-</u>	<u>-</u>

Aggregate finance lease obligations exclude future finance charges amounting to £5,000 (2000 - £13,000).

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

16. PROVISIONS FOR LIABILITIES AND CHARGES

Group	2001	2000
	£'000	£'000
Sales returns		
At 1 April 2000	522	511
Charged to profit and loss account	891	946
Utilised in year	(810)	(935)
	<hr/>	<hr/>
At 31 March 2001	603	522
	<hr/>	<hr/>
Deferred tax		
At 1 April 2000	284	288
Transfer to profit and loss account	(125)	(4)
	<hr/>	<hr/>
At 31 March 2001	159	284
	<hr/>	<hr/>
Total provisions at 31 March 2001	762	806
	<hr/>	<hr/>

	Group			
	2001		2000	
	Provided	Not provided	Provided	Not provided
	£'000	£'000	£'000	£'000
Provision for deferred tax comprises:				
Accelerated capital allowances	159	-	284	-
Other timing differences	-	(25)	-	(49)
	<hr/>	<hr/>	<hr/>	<hr/>
	159	(25)	284	(49)
	<hr/>	<hr/>	<hr/>	<hr/>

No deferred tax has been provided in relation to the revaluation of certain land and buildings as no liability would arise on a sale at the revalued amount.

	Company			
	2001		2000	
	Provided	Not provided	Provided	Not provided
	£'000	£'000	£'000	£'000
Provision for deferred tax comprises:				
Accelerated capital allowances	4	-	-	-
Other timing differences	-	(1)	-	(1)
	<hr/>	<hr/>	<hr/>	<hr/>
	4	(1)	-	(1)
	<hr/>	<hr/>	<hr/>	<hr/>

17. CALLED UP SHARE CAPITAL

	2001 £'000	2000 £'000
Authorised:		
10,000,000 (2000 - 10,000,000) ordinary shares of 5p each	500	500
	<hr/>	<hr/>
Allotted, called up and fully paid:		
7,257,320 (2000 - 8,357,320) ordinary shares of 5p each	363	418
	<hr/>	<hr/>

During the year, within the 15 per cent limit authorised by shareholders at the Annual General Meeting on 28 July 2000, the Company repurchased 13.2 per cent of its allotted share capital in order to return surplus funds to shareholders and enhance earnings per share. This amounted to 1,100,000 shares at a price of 145p per share, a total consideration of £1,595,000. The total nominal value of the shares repurchased (£55,000) has been credited to the capital redemption reserve (see note 18). The shares have subsequently been cancelled.

At 31 March 2001 options granted under the Company's share option schemes were outstanding as follows:

Date granted	Number of options		Exercise price	Period of option
	2001	2000		
8 August 1996	400,000	400,000	206.0p	August 1999 - August 2003
9 July 1997	37,784	37,784	223.0p	July 2000 - July 2004
9 July 1997	77,216	77,216	223.0p	July 2000 - July 2007
27 January 1999	209,956	209,956	163.5p	January 2002 - January 2006
27 January 1999	55,044	55,044	163.5p	January 2002 - January 2009
12 March 2001	29,662	-	147.5p	March 2004 - March 2008
12 March 2001	20,338	-	147.5p	March 2004 - March 2011

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

18. RESERVES

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

GROUP	2001 £'000	2000 £'000
Profit for the financial year	975	809
Dividends	(893)	(585)
Exchange gain on investment	20	1
Sales repurchased	(1,595)	-
Net additions to shareholders' funds	(1,493)	225
Opening shareholders' funds	13,496	13,271
Closing shareholders' funds	12,003	13,496

MOVEMENTS IN RESERVES

GROUP	Share premium account £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Other reserves £'000	Profit and loss account £'000
At 1 April 2000	4,525	-	825	1,688	6,040
Retained profit for the year	-	-	-	-	82
Amortisation of revaluation surplus	-	-	(17)	-	17
Exchange gain on investment	-	-	-	-	20
Shares repurchased	-	55	-	-	(1,595)
At 31 March 2001	4,525	55	808	1,688	4,564

COMPANY	Share premium account £'000	Capital redemption reserve £'000	Other reserves £'000	Profit and loss account £'000
At 1 April 2000	4,525	-	11,972	(3,418)
Profit/(loss) for the year	-	-	128	(46)
Dividend paid for share repurchase	-	-	(1,595)	1,595
Exchange gain on investment	-	-	19	-
Shares repurchased	-	55	-	(1,595)
At 31 March 2001	4,525	55	10,524	(3,464)

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 £315,000 (2000 - £361,000) may be considered to be distributable.

19. FINANCIAL INSTRUMENTS

The Group's policies and strategies in relation to risk and financial instruments are explained in the Directors' Report. Accounting policies used to account for financial instruments are detailed in note 1. Financial assets and liabilities included in this note exclude short term debtors and creditors other than finance lease obligations.

(a) Financial assets

The interest rate and currency profiles of the Group's financial assets comprising cash at bank and in hand at 31 March 2001 were:

Currency	Floating	Fixed	2001	2000
	rate	rate	Total	Total
	£'000	£'000	£'000	£'000
Sterling	4,477	-	4,477	2,765
US dollar	582	-	582	306
HK dollar	140	-	140	482
Other	13	-	13	12
	<u>5,212</u>	<u>-</u>	<u>5,212</u>	<u>3,565</u>

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

(b) Financial liabilities

The Group had at 31 March 2001 fixed rate sterling finance leases, the maturity profile of which is set out in note 15 to the financial statements. In addition the Group has a US dollar denominated liability in respect of deferred consideration on the acquisition of its US subsidiary amounting to £87,000, £82,000 plus interest of £5,000. The principal amount is payable in two equal annual instalments together with their respective accumulated interest on 15 December in 2001 and 2002. Interest is accumulated at a fixed rate of 6.02% per annum.

(c) Fair values of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of the Group's financial assets and liabilities at 31 March 2001.

	2001		2000	
	Book values	Fair values	Book values	Fair values
	£'000	£'000	£'000	£'000
Cash and deposits	5,212	5,212	3,565	3,565
Forward foreign currency contracts	-	14	-	62
Finance leases	(64)	(64)	(87)	(87)
Deferred consideration for acquisition	(87)	(87)	(113)	(113)

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

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

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

(d) Currency exposures

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

	Monetary liabilities	
	Sterling	
	2001	2000
	£'000	£'000
Functional currency of group operation		
US Dollar	(729)	(383)
	<u> </u>	<u> </u>

(e) Borrowing facilities

The Group has undrawn committed borrowing facilities. The facilities available at 31 March 2001, in respect of which all conditions precedent had been met, were as follows:

	2001	2000
	£'000	£'000
Expiring in one year or less	6,000	8,000
	<u> </u>	<u> </u>

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

(f) Gains and losses on hedges

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

	Gains	Losses	Total
	£'000	£'000	£'000
Unrecognised gains and losses on hedges at 1 April 2000	62	-	62
Gains and losses arising: in previous year recognised in 2000/2001	(62)	-	(62)
	<u> </u>	<u> </u>	<u> </u>
before 1 April 2000 not recognised in 2000/2001	-	-	-
in 2000/2001 not recognised in 2000/2001	14	-	14
	<u> </u>	<u> </u>	<u> </u>
Unrecognised gains and losses on hedges at 31 March 2001	14	-	14
	<u> </u>	<u> </u>	<u> </u>

All the unrecognised gains and losses at 31 March 2001 are expected to be recognised in the year to 31 March 2002.

20. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

CAPITAL COMMITMENTS

	Group	
	2001	2000
	£'000	£'000
At 31 March commitments were:		
Contracted for but not provided for	346	145

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.

21. OPERATING LEASE COMMITMENTS

At 31 March 2001 the Group had lease agreements in respect of properties and vehicles, for which the payments extend over a number of years.

	Property	Vehicles	2001	2000
	£'000	£'000	Total	Total
			£'000	£'000
Annual commitments under non-cancellable operating leases expiring:				
Within one year	8	7	15	10
Within 2 to 5 years	84	44	128	38
After 5 years	-	-	-	84
	<u>92</u>	<u>51</u>	<u>143</u>	<u>132</u>

22. PENSION ARRANGEMENTS

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

The pension cost for the year was £190,000 (2000 - £202,000) representing the actual contributions payable in the year and certain scheme administration costs.

23. RELATED PARTY DISCLOSURES

As noted on page 12 Mr D A Robins is a partner in the Company's legal advisor, Berwin Leighton Paisner, which received fees of £106,538 (2000 - £97,982) for the professional services it provided to the Company. Except as mentioned, 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.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the twentieth Annual General Meeting of Hornby Plc will be held at Berwin Leighton Paisner, Adelaide House, London Bridge, London EC4R 9HA on Thursday 26 July 2001 at 11.00am for the following purposes:

ORDINARY BUSINESS

1. To receive the report of the directors and the audited financial statements for the year ended 31 March 2001 and to declare a dividend.
2. To re-elect Mr F Martin a director of the Company.
3. To re-elect Mr J W Stansfield a director of the Company.
4. To re-appoint PricewaterhouseCoopers, the retiring auditors, to hold office until the conclusion of the next Annual General Meeting at which accounts are laid before the Company and to authorise the directors to fix their remuneration.

SPECIAL BUSINESS

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

THAT (a) the directors be generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in that Section) up to a maximum nominal amount of £162,500 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 £18,000.

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.

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

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

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

By order of the Board

J W Stansfield
Secretary
14 June 2001

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.

FIVE YEAR SUMMARY

	2001 £'000	2000 £'000	1999 £'000	1998 £'000	1997 £'000
Turnover	<u>24,604</u>	<u>21,477</u>	<u>21,233</u>	<u>24,877</u>	<u>29,900</u>
Profit after interest before exceptional items	2,292	1,402	1,462	2,643	2,808
Exceptional items	<u>(797)</u>	<u>(195)</u>	<u>(321)</u>	<u>(123)</u>	<u>(158)</u>
Profit on ordinary activities before taxation	1,495	1,207	1,141	2,520	2,650
Taxation	<u>(520)</u>	<u>(398)</u>	<u>(315)</u>	<u>(737)</u>	<u>(699)</u>
Profit on ordinary activities after taxation	<u>975</u>	<u>809</u>	<u>826</u>	<u>1,783</u>	<u>1,951</u>
Assets employed:					
Fixed assets	3,739	4,518	4,815	5,155	4,736
Net current assets	9,122	9,932	9,275	8,790	7,181
Creditors due after more than one year	(96)	(148)	(20)	(51)	(76)
Provisions for liabilities and charges*	(762)	(806)	(799)	(864)	(9)
Net assets	<u>12,003</u>	<u>13,496</u>	<u>13,271</u>	<u>13,030</u>	<u>11,832</u>
Total capital employed	<u>12,003</u>	<u>13,496</u>	<u>13,271</u>	<u>13,030</u>	<u>11,832</u>
Earnings per share:					
- basic	11.7p	9.7p	9.9p	21.3p	23.3p
- diluted	11.7p	9.7p	9.9p	21.3p	23.3p
- basic before exceptional	18.5p	11.3p	12.5p	22.4p	22.7p
Dividend per share (net)	12.0p	7.0p	7.0p	7.0p	6.5p
Net assets per share	165.4p	161.5p	158.8p	155.9p	141.6p

* Sales returns provisions were deducted from trade debtors in the years prior to 1998.

Hornby Plc

FORM OF PROXY

To be used for the Annual General Meeting of the Company to be held on Thursday 26 July 2001.

I/We (block capitals)

_____ of

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

as my/our proxy to attend and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at Berwin Leighton Paisner, Adelaide House, London Bridge, London EC4R 9HA on Thursday 26 July 2001 at 11.00am and at any adjournment thereof on the resolutions set forth in the Notice of Meeting as follows:

RESOLUTION	FOR	AGAINST
Ordinary Business:		
No 1 To receive the report of the directors and the audited accounts for the year ended 31 March 2001 and to declare a dividend on the ordinary shares of the Company.		
No 2 To re-elect Mr F Martin a director of the Company.		
No 3 To re-elect Mr J W Stansfield a director of the Company.		
No 4 To re-appoint PricewaterhouseCoopers, the retiring auditors, to hold office until the conclusion of the next Annual General Meeting at which the accounts are laid before the Company and to authorise the directors to fix their remuneration.		
Special Business:		
No 5 To authorise the directors to allot shares pursuant to Section 80 and to disapply Section 89(1) of the Companies Act 1985 with respect to certain allotments of shares.		
No 6 To authorise the directors to make one or more market purchases of ordinary shares pursuant to Section 166 of the Companies Act 1985.		

Dated this day of 2001

Signature

Notes

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

FOLD HERE

BUSINESS REPLY SERVICE
Licence No. ANG1468



Capita IRG plc
Balfour House
390/398 High Road
Ilford
ESSEX IG1 1BR

FOLD HERE

FOLD HERE

FOLD HERE

**SHAREHOLDERS'
INFORMATION
SERVICE**

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

J W STANSFIELD, FINANCE DIRECTOR
HORNBY PLC
WESTWOOD
MARGATE
KENT CT9 4JX