



Hornby PLC

The Group's principal business is the development, production and supply of toy and hobby products for a global market, through a series of heritage brands. The Group distributes its products through a network of hobby specialists, multiple retailers and its own website in the UK and overseas.

CONTENTS

01	Highlights 2019	19	Remuneration and Nomination Committee Report	33	Group and Company Statements of Financial Position
02	Non-Executive Chairman's Report	21	Directors and Corporate Information	34	Group and Company Statements of Changes in Equity
04	CEO's Statement	22	Directors' Report	35	Group and Company Cash Flow Statements
08	Operating and Financial Review of the Year	26	Independent Auditors' Report to the Members of Hornby PLC	36	Notes to the Financial Statements
10	Our Key Performance Indicators ('KPIs')	32	Group and Company Statements of Comprehensive Income	68	Shareholders' Information Service
12	Corporate Governance Report				
17	Audit Committee Report				



Highlights 2019

“The turnaround at Hornby has begun and we have built the foundations for our future success. The new products are in the pipeline and we are now thinking much further ahead. There is a great team at Hornby with a fusion of experience and creativity. It is a team that understands our products, understands our brands and most importantly are proud to be part of this business. The last few years have been difficult for everyone, but the new energy that exists makes it an exciting time to be at Hornby.”

Lyndon Davies, Chief Executive Officer

Revenue
(2018: £35.7m)

£32.8m

Operating loss
(2018: £(9.9)m loss)

£(5.2)m

Reported loss before taxation
(2018: £(10.1)m loss)

£(5.3)m

Underlying¹ loss before taxation
(2018: £(7.6)m loss)

£(4.4)m

Reported loss after taxation
(2018: £(9.9)m loss)

£(5.3)m

Reported loss per share
(2018: (10.13)p loss)

(4.24)p

Underlying basic loss per share
(2018: (8.05)p basic loss)

(3.65)p

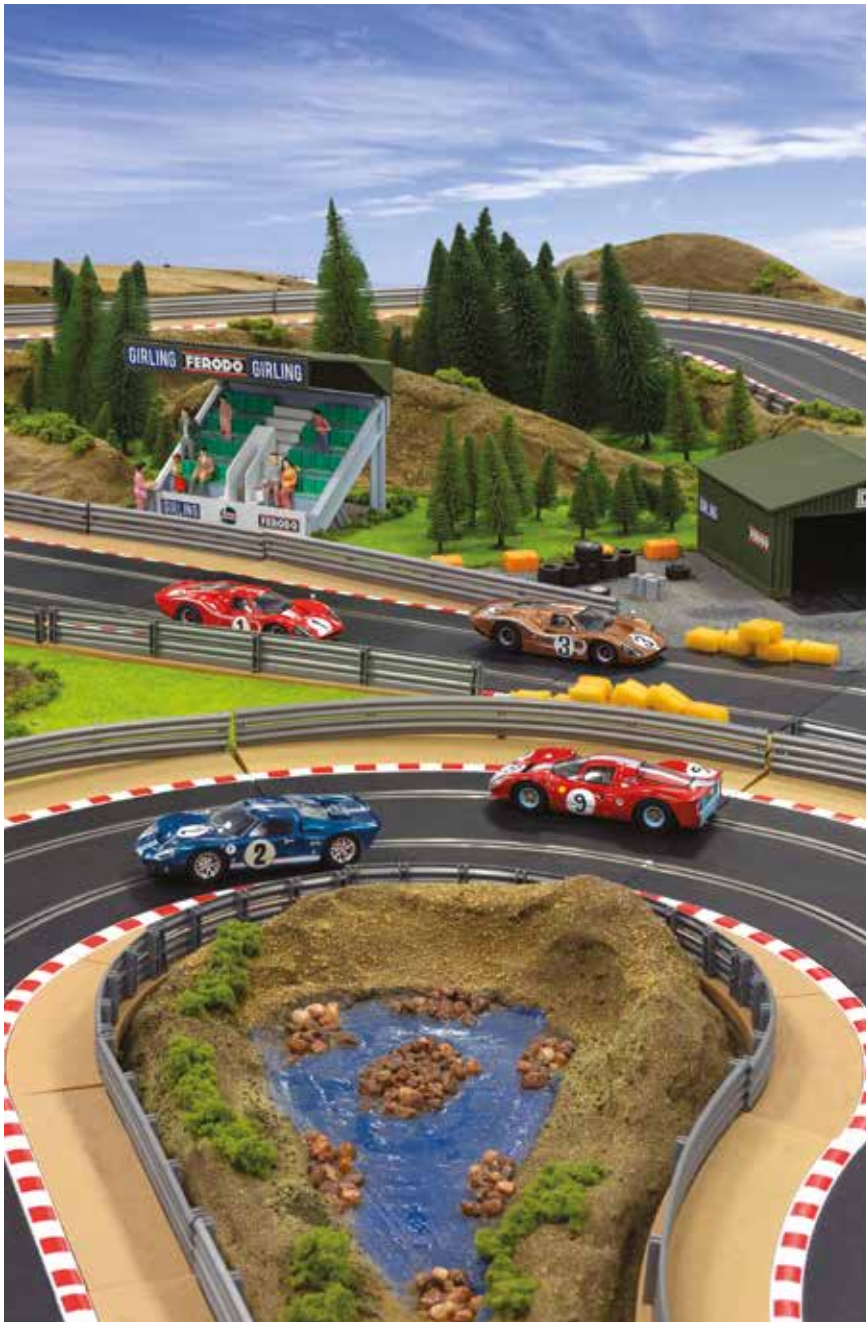
Net (debt)/cash
(2018: £3.9m)

£(1.8)m

¹ Underlying figures are before amortisation of intangibles (brand names and customer lists), and net unrealised foreign exchange movements on intercompany loans and exceptional items.

Non-Executive Chairman's Report

The Strategic Report comprises the Non-Executive Chairman's Report, the CEO Report and the Operating and Financial Review of the Year and our Key Performance Indicators ('KPIs').



I am pleased to report to our shareholders in an exciting but challenging period for our Company. Many will be aware that although I was appointed a Non-Executive in January last year I first joined Hornby in 1982 and enjoyed a 31 year executive career in the Group through many ups and downs over the years and I have a good understanding of the Group.

Revenue in the year of £32.8 million (2018: £35.7 million) was 8% below the previous year. Nevertheless reported loss before tax reduced significantly to £(5.3) million (2018: £(10.1) million) as our new strategy started to unfold.

In our first full year of the new management team we have made considerable progress but this year was one of transition. We spent the first part of the year negotiating the finance facilities which I am pleased to say are expected to fund our plans all the way out to 2023. Discounting has been curtailed and the benefit is evident in the improved gross margin. The new product development cycle is being progressively pulled forward. New product investment has been increased and made more targeted so that we have more new and exciting releases – the lifeblood of any model company. A major new licence agreement with Warner Bros. signed in September 2018 will strengthen new products across our ranges featuring the iconic Harry Potter, DC's Super Heroes and many other timeless favourites.

Overheads have been streamlined and reinvested into more productive uses. Cost savings have been achieved in many areas including rationalising logistics to suit our business and returning to our ancestral home at the Margate site. Hornby has occupied the Westwood site since 1954 and we feel like we have returned home. In addition to re-uniting with the Hornby Visitor Centre we have recovered and refurbished our old showrooms to enable customers to view our ranges in a permanent setting on site.

In the next year we will start to see some of the benefits of work we have done shine through. Lyndon has written about this in more detail below, but in particular I think the work we have done on development cycles and the speed and efficiency with which we convert ideas into product and sales is quite powerful. It is something we will keep improving.

This has been a tough year due to the amount of change in every root and branch of the business. The relocation was quite a difficult task to take on amongst all this structural change and the team did a great job in managing this without the slightest mishap. I would like to thank all the staff in working so hard to achieve so much in such a short time. In particular, I thank those enduring frequent trips to the Far East to re-establish the confidence of existing suppliers and source new suppliers.

GOVERNANCE AND BOARD CHANGES

Good corporate governance provides a framework for delivering the objectives of the Company and is fundamental to a sound decision making process. It supports the executive management to control and achieve the optimal result for shareholders. I am pleased to report that the Board applies the ten principles of the Quoted Companies Alliance (QCA) Code. In the current uncertain economic and political period, management of risks remains a key focus for the Board. The Board has in place a robust process for identifying the major risks facing the business and for developing appropriate policies to manage those risks. The Board reviews those risks on an annual basis carrying out regular reviews and annual updates on our compliance with the QCA Code.

In August 2018 I was appointed Non-Executive Chairman to allow Lyndon Davies to concentrate on executive duties as Chief Executive Officer.

In November 2018 Martin George stepped down from the Board to focus on other executive roles and we wish him every success.

BREXIT

We have assessed the effect of various Brexit outcomes across the business. The major concerns are the importation of stock and export of sales in a 'no deal' scenario. We are confident importation issues can be overcome although we may experience delays in the short term whilst customs procedures and potentially tariffs bed down.

SHAREHOLDERS

We will hold our Annual General Meeting in September in our offices in Margate. I hope many shareholders will be able to attend to celebrate our return to Margate, to hear more about the business and take the opportunity to visit the refurbished Hornby Visitor Centre and product showrooms.

John Stansfield Non-Executive Chairman

12 June 2019



Chief Executive Officer's Statement



Dear Shareholders,

In its most simple terms, I described the turnaround plan as having three stages in the last Annual Report:

1. understanding what is broken and how to fix it;
2. getting to work and actually fixing the issues with long term solutions; and
3. getting the Group back to sustainable profitability and beyond.

Stages one and two were really about doing the basics in a competent and cost-effective way so that we had the right foundation from which to reach up and pull ourselves back into profitability.

The main fixes I have talked about for stages one and two are:

- a) Ending the discounting that destroyed trust and brand integrity.
- b) Adding directly relevant knowledge and experience.
- c) Re-engaging with key licensing partners.
- d) Getting our design schedule and supply chain humming so the right products were ordered in the right quantities, arriving at the right time and at the right cost.

e) Frugality. This means doing more with less and thinking about every penny of spend with respect to how it benefits our stakeholders.

Point a) regarding the discounting was a simple thing to stop, but very painful from a short-term financial perspective. When you become addicted, it's not easy to change your habits. The long-term benefits are crystal clear but that doesn't make the cold-turkey process any more pleasant. You can see the effect it has had on our sales over the last two years and this has been exacerbated by a poorly functioning supply chain. We have held the line on discounting and our customers are starting to finally trust that the discounting era is over.

Points b) to e) are things we have now returned to competence. However, we will continue to optimise these basic building blocks of our business forever. You can always add to and improve talent. You can always get better licensing deals. You can always make your supply chain slicker and more cost effective. There are always ways to save money and do more with less. We will be relentless in our pursuit of perfection.

So, this then leads us on to stage three of the turnaround. We need to make as much profit as possible and put as much distance between us and our competition so that the

profits are sustainable. We intend to do this by delighting our customers and we have lots of plans on how to keep doing this better each year.

Let me make this clear. This is not just a turnaround plan to get back to break even and potentially make the business look like it did a few years ago. The strategy we have chosen has the luxury of being long term and is aimed at fundamentally re-engineering the business to be more profitable and future proof than it has ever been before.

I would love to detail the next few years of game changing innovation we have in development and the exciting new models, licenses, marketing plans and routes to market that we are building. However, our competitors would be equally excited to copy them, so it is in the best interests of shareholders for me to discuss the strategic moves after we have made them.

What I would like to focus on in this statement is accountability. This is something that has been lacking in the past. As I read through the historical communications to shareholders, it is difficult to match up the explanations to the results.

I stand by the people in our business, the strategy and the pipeline of ideas we are working on. As a result, I want to give you some simple and easy ways to measure how we are performing.

The profits won't flow back in overnight and we won't get there in a straight line. Therefore, it is important that you are able to check whether what we are doing is working. I want to be as transparent as I can and bring you along on this exciting journey back to profitability (and beyond) for these heritage brands.

The management lingo for these things is key performance indicators or 'KPIs'. You can call them what you want, but basically, these numbers will tell you whether what we are doing is working or not. I want to treat you how I would want to be treated myself, and this brutal transparency and accountability is what I would want myself, so; here we go...

KEY PERFORMANCE INDICATORS

I wanted to start with a little introduction to the basic economics of our business. I like to think of how I would explain this to my grandfather who was smart and numerate but didn't have any formal business experience or training. Apologies if you are a highly sophisticated business person, but I need to cater to a wide audience of shareholders here who are all just as important as each other, large or small.

The best way to think about our business is in terms of fixed costs and variable costs. You will find these in the Statement of Comprehensive Income (SOI) on page 32.

When we sell our products there are costs directly attached to the products themselves. These are things like the materials used to make the products and the cost our manufacturers charge us to turn the materials into an exciting model, a tub of paint, a diecast car or any number of fascinating things.

These costs are variable because they vary with how many products we sell. You will see these called 'Cost of Sales' in the SOI.

When we add up all our sales and take away the variable costs, the resulting number is called 'Gross Profit'. The Gross Profit we have needs to be larger than our fixed costs in order to have some profit left over for shareholders.

Our fixed costs are not completely fixed in the academic definition, but I think of them as all the overheads we need to get our product to market in the right way. For example, contained within here is the cost of sending samples out to key trade publications. We could stop doing this. In fact, when I arrived, the business had decided to stop sending samples out to save money. It isn't a strictly fixed cost, but if we want people to buy our products we need to do things like this to get people excited about our products. A great way of doing this is by sending samples to the magazines and forums that our customers regularly peruse. In the SOI you will find these fixed costs under the headings; Distribution costs, Selling & Marketing, Administrative and Other.

So, for this year we did not generate enough gross profit to cover our fixed costs although we did better than the previous year:

	2019 £'000	2018 £'000
Sales	32,759	35,651
Variable Costs	(19,348)	(21,900)
Gross Profit	13,411	13,751
Fixed Costs	(18,041)	(21,329)
Operating Loss	(4,630)	(7,578)

When you take our fixed costs away from the gross profit you get the Operating Profit (or Loss). We were £4.63m short of covering our costs. This is a very large loss but it is 39% lower than last year. These losses were necessary to pull the business out of the death spiral in which it was locked two years ago.

I anticipate that those fixed costs won't materially change over the next few years. They may go up a little if we find some more talented people to help us with the job, and/or put wages up for our staff so they can keep pace with inflation.

However, you should think of them as the minimum cost base required to run this business in its current format. Furthermore, you should also know that this cost base can handle a much larger sales figure. It's always difficult to precisely forecast these things out into the future, but I think our broad cost base could handle up to £45-£50 million of sales at a push.

So, we have the foundation. The challenge is to utilise these foundations better by selling more products to generate the necessary gross profit that exceeds our fixed costs.



Chief Executive Officer's Statement continued



KPI NO. 1: CAPEX PRODUCTIVITY

In order to do this, we need to invest in tooling to produce new and exciting models. You will find the money we put into these endeavours in the Cash Flow Statement on page 35. This is called Capital Expenditure or Capex for short. The two lines to add together to figure out our Capex are:

- purchase of Property Plant & Equipment (PPE); and
- purchase of Intangible Assets.

As you will see, this year, we spent £2,144,000 on PPE (including Product Tooling). Now, the important thing to remember about this capital expenditure is that the money we spend in a given year is, roughly speaking, used to

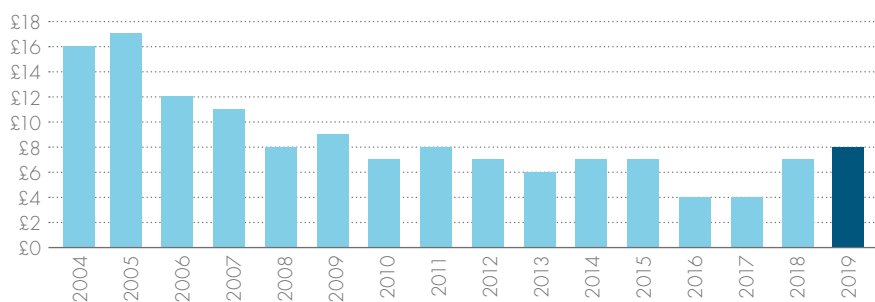
manufacture tooling for models and products that are sold in the following year. We have this lag between spending and revenue.

So, I am proposing to you that a good measure of how good of a job we are doing can be found by looking at the Capex we are incurring and comparing it to the gross profit we are generating in the following year. If you divide the gross profit generated in a year by the Capex in the year before, it will tell you how many pounds of gross profit we generated per pound of capital expenditure. The aim is to get this number as high as possible. Let's call it 'Capex Productivity'.

This is the first Key Performance Indicator (KPI) I would recommend you use to evaluate our performance on our journey back to profitability.

Here is a graph to show the Capex Productivity back to 2004:

Gross Profit Per £ of Capital Expenditure



As you can see, our Capex Productivity has been getting worse for a long time, but an improvement has already begun.

The last couple of years have been based on inherited products and line plans as well as dramatically reduced new capital expenditure. It has been far from ideal, but we did the best with what we had.

The coming year will be our first full year where all the products are designed and produced by the current management team. We expect an improvement in Capex productivity and will continually obsess about doing more with less to improve this measure.

The aim here is not to revert to how we have performed historically. To reiterate a point I made above, it is to be better than we have ever been before and keep improving beyond that.

I will report to you on this measure at the end of every year and discuss the products and the strategies that have fed into the performance (without giving too much away to competitors, of course).

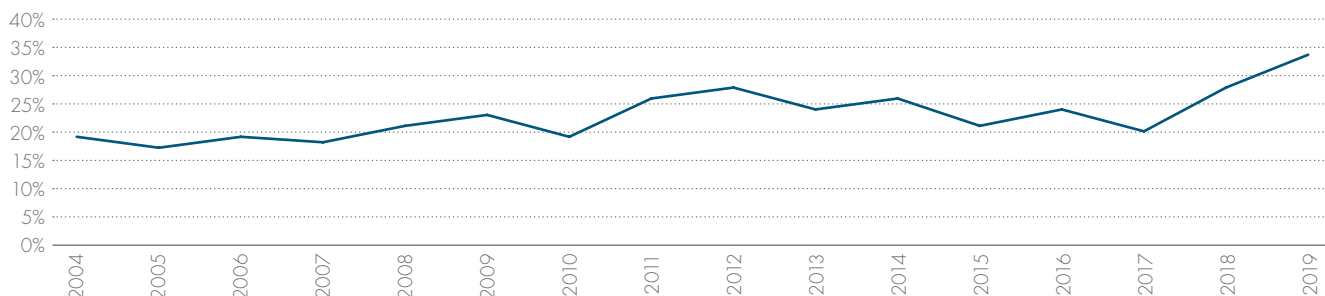
KPI NO. 2: INVENTORY

In an idealised situation if we are producing the right products then we should start the year with very little inventory, sell out of everything as it arrives in the UK and then leave a small inventory balance at the end of the year.

Of course, this rarely happens in reality. Despite having even more passionate and experienced product developers now, we will still produce a few products that won't sell out immediately. This is part and parcel of our business. Even when the business is firing on all cylinders, there will likely be some inventory left at the end of the year which will be sold in the following year. The key is to keep this balance as low as possible.

The best way to think about that inventory balance at the end of the year is as a percentage of our sales for the year. This puts the inventory balance in context against the size of the business. If our inventory doubled, you might think this is bad. However, if the sales were 10x higher with a doubled inventory balance, this would be a great result.

Year End Inventory as a Percentage of Sales



As you can see in the graph, our inventory balance relative to our sales is higher than it was in previous years. Whilst we are prepared for all these valuable and sought after models in our warehouse to sell down at their natural rates, there is a lot to be gained from being even more clever in the way we manage our inventory balance.

Just to be absolutely crystal clear to all our stakeholders reading this Annual Report – we do not need to discount stock to optimise this position. We have the support of our shareholders and the luxury of a strong balance sheet now. Discounting is truly a thing of the past and we are already seeing trust return as a result of this clear message.

As this trust returns to the brands, our marketing efforts become more efficient and focused, and our Group sales grow then you should see our year end inventory balances as a percentage of sales tick down.

Year end inventory as a percentage of sales is the second KPI that I intend to state and explain to you in each Annual Report going forwards. The aim is to have as low a percentage of sales tied up in inventory as possible.

OUTLOOK

There are lots of things we track and monitor in the business, but these two simple measures will allow you to triangulate the progress of our pilgrimage back to profitability and beyond. I intend to report and explain additional KPIs as they become relevant.

We outlined the new staff bonus scheme in the last interim report. This scheme only pays a bonus if the business reaches profitability. The Board is now looking to put in place a similar Long Term Incentive Plan (LTIP) for the Executive Management Team. The message will be the same. If the business doesn't make profits, we don't get paid bonuses. We want to align all staff at all levels with shareholders' interests. We think the bonus schemes will do this.

It is my privilege to be running this business and to be the custodian of your capital as shareholders. I take all aspects of the job very seriously including the opportunity to communicate with you in these financial reports.

As the next few years unfold, I am hoping that shareholders come to expect alignment, accountability, transparency and sustainable profits.

We have really got to grips with the business now. As we focus on the future and leave the excuses and mistakes of the past behind, we are excited about the new start for the business and the passion that is reverberating round the corridors once again at our ancestral home in Margate.

Lyndon Davies
Chief Executive Officer
 12 June 2019



Operating and Financial Review of the Year



PERFORMANCE ON A STATUTORY BASIS

Consolidated revenue for the year ended 31 March 2019 was £32.8 million, a decrease of 8% compared to the previous year's £35.7 million due to lack of product arrival in the beginning of the year. The revenue in the second half of the year of £19.0 million was ahead of previous year which was £18.6 million. Gross profit margin was slightly higher, at 41% (2018: 39%) due to cessation of stock discounting and more desirable product lines.

Overheads reduced year-on-year by 15% from £21.3 million to £18.0 million as a result of measures taken by the new Management team. UK distribution costs reduced by £1.0 million due to the smaller volume of products and sales volume being handled through Hersden. Sales and marketing costs reduced by £0.8 million year-on-year due to more focused expenditure. Administration costs were £1.2 million lower due to contract renegotiations and frugal expenditure. Other operating expenses in the year of £0.2 million (2018: £0.4 million expense) include foreign exchange costs and the amortisation of brand names.

Exceptional costs totalling £0.6 million (2018: £2.3 million) include £0.4 million relating to the relocation of the UK business and £0.2 million relating to the refinancing of the Group away from Barclays to PNC Credit Limited ('PNC') and Phoenix UK Fund Limited ('Phoenix').

PERFORMANCE ON AN UNDERLYING BASIS

The underlying loss before taxation is shown to present a clearer view of the trading performance of the business. Management identified the following items, whose inclusion in performance distorts underlying trading performance: net foreign exchange (gains)/losses on intercompany loans which are dependent on exchange rate fluctuations and can be volatile, and the amortisation of intangibles which result from historical acquisitions. Additionally, exceptional items including relocation, refinancing and restructuring costs are one off items and therefore have also been added back in calculating underlying loss before taxation.

FINANCIAL REVIEW

	2019	2018
Revenue	£32.8m	£35.7m
Gross profit	£13.4m	£13.8m
Gross profit margin	41%	39%
Overheads	£18.0m	£21.3m
Exceptionals	£0.6m	£2.3m
Reported loss before tax	£(5.3)m	£(10.1)m
Underlying loss before tax ¹	£(4.4)m	£(7.6)m
Reported loss after tax	£(5.3)m	£(9.9)m
Basic loss per share	(4.24)p	(10.13)p
Underlying basic loss per share ¹	(3.65)p	(8.05)p
Net (debt)/cash	£(1.8)m	£3.9m
Undrawn Facilities	£5.5m	£6.0m

¹ Stated before amortisation of intangibles (brands and customer lists), net unrealised foreign exchange movements on intercompany loans, goodwill impairments and exceptional items.

	Group	
	2019 £'000	2018 £'000
Statutory Loss before taxation	(5,312)	(10,066)
Adjustments:		
Net foreign exchange impact on intercompany loans	90	(114)
Amortisation of intangibles – brands and customer lists	227	314
Exceptional items:		
Restructuring costs	49	1,823
EGM and Mandatory offer	–	399
Refinancing costs	172	70
Relocation costs	373	–
Underlying loss before taxation	(4,401)	(7,574)

The underlying loss before taxation above was £4.4 million (2018: loss of £7.6 million).

The basic loss per share calculated on underlying loss before taxation (hereafter referred to as underlying basic loss per share) was (3.65)p (2018: (8.05)p).

The income tax credit for the year is £nil (2018: £0.2 million credit).

Reported pre-tax loss was £5.3 million (2018: loss of £10.1 million) and reported basic loss per share was (4.24)p (2018: (10.13)p loss per share).

SEGMENTAL ANALYSIS

Third party sales by the UK business of £25.9 million fell by 9% in the year as a result of late placement of purchase orders by previous management leading to delays in product supply. The loss before taxation of £3.9 million compared to £9.0 million loss last year reflects the continued reduction in overheads during the year.

Sales by the European businesses of £4.0m fell by 14% in the year reflecting the year's reduced product range and previous lack of investment in new product for the European market. The loss before tax was £0.5 million.

Sales in the US business of £2.9 million increased by 16%. The trading loss of £0.9 million in the US was a result of investment in promotion and repositioning of brands resulting in increased spend in Sales and Marketing. We expect sales to increase in this key market in the longer term.

STATEMENT OF FINANCIAL POSITION

Property plant and equipment decreased year on-year by £0.7 million from £4.5 million as depreciation of £2.8 million outweighed capital additions of £2.1 million. Group inventories increased slightly due to earlier arrival to support Q1 sales than in previous years from £10.0 million to £10.9 million. Trade and other receivables increased by 16% largely due to a 15% increase on sales in March compared to the previous March. Trade and other payables increased by £0.7 million due to the increase in inventories at year end. The net effect of these factors was an increase in working capital of £0.3 million (an increase of 14%). Overall investment in new tooling, new intangible computer software and other capital expenditure was £2.7 million (2018: £1.8 million).



DIVIDEND

The Group is still in the Turnaround phase and there will not be a dividend payment this year (2018: £nil). The Board continues to keep the dividend policy under review.

FINANCING AND CAPITAL STRUCTURE

At 31 March 2019 the UK had a £12 million Asset Based Lending facility with PNC Credit Limited ('PNC') and a £6 million loan facility with Phoenix Asset Management Partners.

The £12 million facility with PNC extends for five years ending June 2023 and carries a margin of 2.5-3% over LIBOR. The PNC Facility has a fixed and floating charge on the assets of the Group. The Company will be expected to provide customary operational and financial covenants to PNC on a monthly basis.

The Phoenix Facility is a £6 million facility with a rolling three year term and attracts interest at a margin of 5% over LIBOR on funds drawn. Undrawn funds attract a non-utilisation fee of the higher of 1% or LIBOR.

Borrowings in the year ended 31 March 2019 peaked in November 2018 at £3.5 million.

Net debt at 31 March 2019 was £1.8 million compared with net cash of £3.9 million at 31 March 2018.

Our Key Performance Indicators ('KPIs')

The Directors are of the opinion that the financial KPIs are revenues, gross margins, underlying (loss)/profit before tax and (loss)/earnings per share. The information for which is available in these financial statements and summarised on the financial highlights section earlier in this report. We additionally think that moving forward Capex Productivity and Inventory as percentage of Sales should be monitored. We provide current and historical analysis in the CEO's Statement on pages 4 to 7 and will continue to report in future Annual Reports. The Board monitors progress against plan on a regular basis adjusting future objectives annually in line with current circumstances.

IDENTIFICATION OF PRINCIPAL RISKS AND UNCERTAINTIES

The Board has the primary responsibility for identifying the major risks facing the Group and developing appropriate policies to manage those risks. The Board completes an annual risk assessment programme in order to identify the major risks and has reviewed and determined any mitigating actions required as set out below. The risk assessment has been completed in the context of the overall strategic objectives and the New Business Plan of the Group.

PRINCIPAL RISKS AND UNCERTAINTIES

Risk	Description	Impact/Sensitivity	Mitigation/Comment
Market competition	The Group has competition in the model railway, slot racing, model kits, die cast and paint markets. Loss of market share to increased competitor activity or alternative hobbies would have a negative impact on the Group's results. Failure to evolve and innovate products may lead to brands becoming less relevant in the marketplace.	The Group performance is impacted by the actions of competitors and changes in the wider retail landscape.	In many of our markets the Group still enjoys a strong market position due to the continued development of our brands. We will strive to further improve the strength of our brands. Production of high-quality products which customers want is a key mitigating factor.
The New Business Plan	The New Business Plan may not fully achieve the aims of returning the Group to positive cash generation in 2020/21.	The increase in business scale and reduction of costs and the re-conversion of concession sales currently anticipated is not achieved and the Group does not achieve sustainable profit and cash generation.	The Group has developed clear targets and has cost saving contingencies in the plan being actioned to put the necessary resources in place to deliver the aims of the plan.
Hobby market	Overall decline in the hobby market could lead to greater levels of competition in the medium term, which could have a negative impact on the Group's results.	Failing interest in traditional hobbies may impact our core Independent and National retailers and have a consequent impact upon the Group's performance.	In many of our markets the Group enjoys a strong market position due to the continued development of our brands. Brands are extremely important in the model sector with market entry costs being prohibitive. In the short-term there is an opportunity to regain market share lost through previous underperformance.
Exchange rates	The Group purchases goods in US dollars and sells in pounds sterling, euros and US dollars and is therefore exposed to exchange rate fluctuations.	Significant fluctuations in exchange rates to which the Group is exposed could have a material adverse effect on the Group's future results. In particular the negative impact on sterling of Brexit and the continuing uncertainties will make the US dollar purchase of its goods more expensive.	The Group continues to hedge short-term exposures by establishing forward currency purchases using fixed rate and participating forward contracts up to 12 months ahead. It is deemed impractical to hedge exchange rate movements beyond that period.
Supply chain	The Group's products are manufactured by specialist labour in China, India and Vietnam.	The Group does not have exclusive arrangements with its suppliers and there is a risk that competition for manufacturing capacity could lead to delays in introducing new products or servicing existing demand.	The Group is continuing to develop and review its vendor portfolio and has started diversifying the supplier base. A 26-step critical path analysis tool has been developed to monitor the whole manufacturing process in order to identify and deal with issues as they arise. The Group has its own facilities in China where its tooling is secured and managed.

Risk	Description	Impact/Sensitivity	Mitigation/Comment
Capital allocation	New tooling is important to support the production of new products.	The risk is that the Group has insufficient capital to fund new tooling or invests ineffectively in the wrong products.	The New Business Plan includes significant capital expenditure to fund suitable products to underpin the implementation of the New Business Plan strategy of the Group. This process will be underpinned by a robust capital allocation process aligned to brand strategies and brand delivery targets.
Product compliance	The Group's products are subject to compliance with toy safety legislation around the world.	Failure to comply could lead to a product recall resulting in damage to Company and brand reputation along with an adverse impact on the Group's results.	Robust internal processes and procedures, active monitoring of proposed legislation and involvement in policy debate and lobbying of the relevant authorities.
Liquidity	Insufficient financing to meet the needs of the business.	Without the appropriate level of financing it would be increasingly difficult to execute the Group's business plans.	The Group has a £12.0 million ABL facility and a £6.0m revolving loan facility with Phoenix Asset Management Partners. The Group's policy on liquidity risk is to maintain adequate facilities to meet the future needs of the business.
System and cyber risk	The Group continues to invest in the development of its website and implemented a new Enterprise Resource Planning (ERP) system in 2015.	This exposes the business to greater risk of financial loss, disruption or damage to the reputation of an organisation from a failure of its information technology systems.	The Group has invested significant time and cost in the new website and ERP system in the last three years. The Group has dedicated web and ERP teams to monitor and maintain the Group's systems and holds appropriate insurance policies to minimise material risk. A new website is currently being developed which will have even higher security than the existing system.
Talent and skills	Recruitment, development and retention of talented people are the key to the success of any business.	The Group fails to retain the necessary skills and talent to deliver the Group's plans.	New Management team to encourage and empower employees. Key lost talent has been reacquired and brought back into the Company. An all employee scheme was announced during the year where all employees will participate in profits of the Group.
Brexit	Leaving the EU without suitable trade deals in place.	As the UK government continues its negotiations, uncertainty remains as to the extent to which our operations and financial performance will be affected in the longer term.	At a Group and business level, we have continued to prepare for changes in legislation, trade agreements and working practices in order to mitigate risk. We have contributed to government led consultations on the potential changes and their likely impact on businesses and markets to help inform the exit strategy.

MAIN CONTROL PROCEDURES

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

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

On behalf of the Board

Kirstie Gould
Chief Finance Officer
 12 June 2019

Corporate Governance Report

June 2019

CORPORATE GOVERNANCE

Following the recent change to AIM Rule 26, the Board has committed to apply the principles of the Quoted Companies Alliance (QCA) Corporate Governance Code.

For the year ended 31 March 2019, and up to the date of this report, the Company has applied the main principles of the Code and complied with its detailed provisions throughout the period under review. Full details of our approach to governance are set out below and, as a Board, we continue to be committed to good standards in governance practices and will continue to review the governance structures in place, to ensure that the current practices are appropriate for our current shareholder base and that, where necessary, changes are made.

The key governance principles and practices are described in the statement below, together with the Audit Committee and Nomination and Remuneration Committee reports on pages 17 to 20 and the Directors' Report on pages 22 to 25.

BOARD OF DIRECTORS

<p>JOHN STANSFIELD Independent Non-Executive Chairman Aged 64</p> <p>C C C</p> <p>John Stansfield was appointed Non-Executive Chairman in August 2018. Prior to that, he had been a Non-Executive Director of the company, having been appointed in January 2018.</p> <p>John is a Fellow of the Chartered Institute of Management Accountants and spent 31 years with the Group, 12 years of which he was Group Finance Director.</p> <p>He re-joined the Company, after having left in 2013.</p> <p>John helped to deliver some of the Group's most profitable years and has a wealth of experience in the toy and hobby sectors.</p> <p>John is also Chair of the Audit Committee and a member of the Remuneration and Nomination Committee.</p>	<p>LYNDON DAVIES Chief Executive Officer Aged 58</p> <p>C</p> <p>Lyndon joined the Board as Chief Executive in October 2017.</p> <p>He is a highly-experienced model and hobby professional with 40 years experience in the industry. He has built Oxford Diecast into a successful international business over the past two decades, focusing on Diecast vehicles, aircraft and, more recently, rail-based products.</p> <p>Lyndon is also Chairman of Oxford Diecast ('Oxford'), a business founded in 1993. He remains the majority shareholder of LCD Enterprises Limited, the ultimate owner of the Oxford Diecast brands.</p>	<p>KIRSTIE GOULD Chief Finance Officer & Company Secretary Aged 46</p> <p>C</p> <p>Kirstie Gould replaced David Mulligan as Chief Finance Officer of the Company in January 2018 after spending over two years with Hornby as a consultant in the finance department. Kirstie also acts as Company Secretary.</p> <p>Kirstie is a Fellow of the Institute of Chartered Accountants in England and Wales, qualifying with PricewaterhouseCoopers in 1997 and has since held senior management and directorship roles across a number of high growth SME firms including Affini Technology Limited (part of the TTG Group) and Gamma Communications plc.</p>	<p>JAMES WILSON Independent Non-Executive Director Aged 32</p> <p>C C C</p> <p>James Wilson was appointed as a Non-Executive Director in August 2017.</p> <p>James is a partner at Phoenix Asset Management which controls the funds that own 74.7% of the ordinary shares of Hornby Plc.</p> <p>James has a Master's degree in Engineering from Durham University and is a Chartered Financial Analyst.</p> <p>James is Chair of the Remuneration and Nomination Committee and a member of the Audit Committee.</p>
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Our Board and Committees Membership

C Board **C** Audit **C** Remuneration and Nomination **C** Chair

COMPOSITION AND INDEPENDENCE OF THE BOARD

The Board is comprised of two Executive Directors and two Non-Executive Directors, (including the independent Non-Executive Chairman). During the year, Martin George stepped down from his position as Non-Executive Director to focus on his role as Customer Director at Waitrose. The Board is of the opinion that the resulting composition of the Board continues to represent an appropriate balance between Executive and Non-Executive Directors, given our size and our operations. John Stansfield is considered independent due to the time elapsed since his employment with the Group originally. James Wilson is considered independent as he has no control over the voting shares of Phoenix Asset Management.

The Board members collectively have skills and expertise embracing a range of areas including finance, auditing, engineering, manufacturing, design, general management and innovation. The Chairman and Chief Executive in particular, have extensive, directly applicable experience of working within the toy and hobby products industry. That said, we intend to carry out periodic reviews of the composition of the Board to ensure that its skillset and experience are appropriate for the effective leadership and long-term success of the business as it develops. These reviews will give due consideration to having more diversity on the Board, as well as to other priorities.

Details of each Directors' background and experience are set out in their biographies on page 12.

APPOINTMENTS TO THE BOARD AND RE-ELECTION

The Board takes decisions regarding the appointment of new Directors as a whole following the recommendations of its Remuneration and Nomination Committee. The task of searching for appropriate candidates and assessing potential candidates' skills and suitability for the role has been delegated to the Remuneration and Nomination Committee. Further information on the roles of the Remuneration and Nomination Committee and also the Audit Committee of the Board can be found on pages 17 to 20.

During the year, John Stansfield was appointed independent Non-Executive Chairman from his role as Non-Executive Director as Lyndon Davies stepped down from the Interim Chairman position. Martin George resigned as Non-Executive Director to focus on other executive roles.

The Company's Articles of Association require that one-third of Directors (excluding any Directors who have been appointed since the last Annual General Meeting (AGM)), retire by rotation at each AGM. In accordance with best practice in corporate governance, all the Directors will offer themselves for re-election.

DIVISION OF RESPONSIBILITIES

There is a formal schedule of matters reserved for the Board which is set out in detail on the Hornby Plc corporate website at <http://www.hornby.plc.uk/> and summarised further on in this report.

The Board is responsible for the formulating of the overall business strategy and the Executive team is responsible for managing of the business to realise this strategy. Following Lyndon Davies stepping down as Interim Chairman, the roles of Chairman and Chief Executive Officer are now separate and clearly-defined, in line with the recommendations of the QCA Corporate Governance Code. Responsibility for overseeing the Board is the responsibility of the Chairman and the Chief Executive Officer is responsible for overseeing the implementation of the Company's strategy and its operational performance.

EXECUTIVE DIRECTORS

The Executive Directors, as with the Non-Executive Directors, are encouraged to use their independent judgement in the discharging of their duties. They are responsible for the day-to-day management of the business, including its trading, financial and operational performance. Issues and progress made are reported to the Board by the Chief Executive Officer.

Executive Directors are full-time employees of the Company and have entered into service agreements with the Company. Directors' contracts are available for inspection at the Company's registered office and at the Annual General Meeting.

NON-EXECUTIVE DIRECTORS

The Board considers the Non-Executive Directors to be sufficiently competent. They provide objectivity and substantial input to the activities of the Board, from their various areas of expertise.

Corporate Governance Report continued

June 2019

SUCCESSION PLANNING

During the year, the Remuneration and Nomination Committee was delegated with the task of formulating succession plans for the business, identifying areas where there is a skills shortage, extending the area of focus to senior management level and ensuring that the plans cover several years. This work is on-going and details of the plans will be communicated in our next Annual Report.

The Board also recognises that diversity is a key element in strengthening the contribution made to Board deliberations and in the course of our search for suitable candidates, due regard is given to this, in addition to the skills and experience a potential candidate brings.

HOW THE BOARD OPERATES

The Board retains control of certain key decisions through the Schedule of Matters reserved for the Board. Other matters, responsibilities and authorities have been delegated to its Audit Committee and Remuneration and Nomination Committee and these are documented in the terms of reference of each of those Committees, which can be found on the Company's corporate website at <http://www.hornby.plc.uk/>.

The Board is responsible for:

- overall management of the business;
- developing the Company's strategy, business planning, budgeting and risk management;
- monitoring performance against agreed objectives;
- setting the business' values, standards and culture;
- internal control and risk management;
- remuneration;
- membership and chairmanship of Board and Board Committees;
- relationships with shareholders and other stakeholders;
- determining the financial and corporate structure of the business;
- major investment and divestment decisions, for example the strategic global partnership with Warner Bros;
- the Company's compliance with relevant legislations and regulations; and
- other ad hoc matters such as the approval of the Company's principal advisors.

The Board met eight times during the year. In addition, the Board attended certain strategy meetings where the Executive leadership team and senior managers presented operational strategies.

THE MAIN ACTIVITIES OF THE BOARD DURING THE YEAR

Key Board activities this year included:

- appointment of John Stansfield as new independent Non-Executive Chairman;
- approval of new borrowing and credit facilities;
- discussing strategic priorities;
- reviewing feedback from our institutional shareholders following our full and half year results; and
- input into implementing the next phase of the Turnaround Plan.

THE BOARD COMMITTEES

The Board delegates authority to two committees: the Audit Committee and the Remuneration and Nomination Committee, to assist in meeting its business objectives. The Committees meet independently of Board meetings.

Each Committee has terms of reference setting out their responsibilities, which were reviewed and approved by the Board during the year. These are available on the Company's corporate website <http://www.hornby.plc.uk/>.

We have made some improvements in our governance arrangements including introducing reporting by the Remuneration and Nomination Committee as well as the Audit Committee in our Annual Report and Accounts. These reports can be found on pages 17 to 20.

The Audit Committee comprises the independent Non-Executive Directors of the Company and met three times during the year. The Chief Executive Officer, Chief Finance Officer and other managers attend by invitation. The external auditors attend meetings and have direct access to the Committee.

The Remuneration and Nomination Committee meet at least once a year with all members being present. The members are all Non-Executive Directors, including the Chairman. The Committee is responsible for establishing and reporting to the Board, procedures for determining policy on executive remuneration and also the performance-related elements of remuneration, which align the interest of the Directors with those of the shareholders.

Its remit also includes matters of nomination and succession planning for Directors and senior key executives, with the final approval for appointments resting with the Board. Directors excuse themselves from meetings where the matter under discussion is their own succession, when appropriate.

EXTERNAL ADVISORS

The Board makes use of the expertise of external advisors where necessary, to enhance knowledge or gain access to particular skills or capabilities. Areas where external advisors are used include and are not limited to: diligence work on major contracts; recruitment; and Company secretarial and corporate governance. The list of external advisors is set out on page 21.

DIRECTORS' INDUCTION, DEVELOPMENT, INFORMATION AND SUPPORT

The Board considers all Directors to be effective and committed to their roles.

All Directors receive regular and timely information on the business' operational and financial performance. Ahead of the Board and Committee meetings, papers are circulated to all Directors to ensure that they are fully informed and can participate fully in discussions.

Directors keep their skillset up to date through a combination of attendance at industry events, individual professional development and experience gained from other board roles. The Company Secretary ensures that the Board is aware of any applicable regulatory changes and updates as and when relevant. The Board is also given an annual refresher in AIM Rules and this was last provided in January 2019 by its Nominated Advisors, Liberum Capital Limited. This refresher is designed to enable Directors to keep abreast of corporate governance developments.

Directors are also able to take independent professional advice in the furtherance of their duties, if necessary, at the Company's expense. Directors also have direct access to the advice and services of the Company Secretary. The Company Secretary supports the Chairman in ensuring that the Board receives the information and support it needs to carry out its roles.

CONFLICTS OF INTEREST

Outside interests and commitments of Directors, and changes to these commitments are reported to and agreed by the Board. Lyndon Davies' potential conflict of interest as a majority shareholder in LCD Enterprises Limited is mitigated by the fact that he is one of four Directors on the Hornby Plc Board and also by the fact that the Board has effective procedures in place to monitor and manage conflicts of interests. In addition, no one member of the Board has unfettered powers to make decisions.

LCD Enterprises Limited owns Oxford Diecast Limited and Oxford Diecast (HK) Limited. Both companies provide service and/or goods to the Group at arms-length pricing. Details can be found in note 28.

PERFORMANCE EVALUATION

The Chairman considers the operation of the Board and performance of the Directors on an ongoing basis as part of his duties and will bring any areas of improvement he considers are needed to the attention of the Board. However, the Board recognises the need to put in place an annual formal evaluation process for the Board, its Committees and individual Directors. Therefore with effect from 2019, the Board intends to carry out a formal evaluation in respect of its performance over the previous year.

The effectiveness of the Board, its Committees and Directors will be reviewed on an annual basis.

ACCOUNTABILITY

Although the Board delegates authority to its committees and also the day-to-day management of the business to the Executive Directors, it is accountable for the overall leadership, strategy and control of the business in order to achieve its strategic aims in accordance with good corporate governance principles.

RISK MANAGEMENT AND INTERNAL CONTROL

Mitigating the risks that a company faces as it seeks to create long-term value for its shareholders, is the positive by-product of applying good corporate governance. At Hornby, all employees are responsible for identifying and monitoring risks across their areas. However, the Board sets the overall risk strategy for the business. The business maintains a Risk Register and a Fraud Register, which are presented and considered at the Audit Committee meetings.

FINANCIAL AND BUSINESS REPORTING

In our half-year, final and any other ad hoc reports and other information provided by the Company, the Board seeks to present a fair, balanced and understandable assessment of the business' position and prospects. The Board receives a number of reports, including those from the Audit Committee, to enable it to monitor and clearly understand the business' financial position.

The Board considers that this Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Corporate Governance Report continued

June 2019

BUSINESS ETHICS

Our commitment to our customers and having a people-oriented ethos is central to the success of achieving our strategy. We value the skills of our employees and it is through the efforts of these dedicated people that we are able to grow our customer base.

We endeavour to conduct our business affairs in a way that reflects our values. Our suppliers are audited to ensure that their policies and procedures comply with the Modern Slavery and Human Trafficking Act, which ensures that workplace and conditions of employment for their employees are of an acceptable standard. We reinforce our expectations to achieve and maintain these standards. Our Statement on Modern Slavery and Human Trafficking can be found on our corporate website <http://www.hornby.plc.uk/>.

WHISTLEBLOWING

The business has procedures in place for detecting fraud and for whistleblowing to ensure that arrangements are in place for all employees to raise concerns in confidence, about possible irregularities and non-compliance in matters of financial reporting or other matters. These procedures and policies are reviewed by the Audit Committee.

SHAREHOLDERS

The Board values the views of our shareholders and recognises their interest in our strategy and performance. We endeavour to update shareholders on the Board's expectations for the outlook of the business and as and when this changes. As much as possible, we try to provide information that is relevant to our shareholders on our corporate website; in our Annual Report and Accounts; and through regulatory news announcements throughout the year.

We also believe in knowing and understanding our shareholders. We encourage our shareholders to attend our Annual General Meetings (AGMs) and we welcome questions from them. At our AGMs, we provide the platform for robust discussions with our shareholders, during which the participants, both Directors and shareholders alike, are engaged with the proceedings, so much so that last year's meeting had to be extended. We believe this reflects the connection to the business which we have cultivated and continue to cultivate in our shareholders. In addition, the review of investor relations activity and analysis of our shareholder register is a standing item at each board meeting. Our corporate website <http://www.hornby.plc.uk/> also includes the outcomes of shareholder votes cast at the AGMs, as well as Annual and Interim Reports from previous years.

Audit Committee Report

As Chair of the Audit Committee ('the Committee'), I am pleased to present our Audit Committee Report for the year ended 31 March 2019.

MEMBERSHIP

The Audit Committee comprises two members, James Wilson and myself. Both of us are independent Non-Executive Directors of the Company. Martin George, also an independent Non-Executive Director, was a member of the Committee until his resignation in November 2018. I am the member of the Committee, who with the background as a chartered management accountant has significant, recent and relevant financial experience. Our biographies are set out on page 12.

MEETINGS AND ATTENDANCE

The Committee met three times during the year ended 31 March 2019. All members of the Committee at the time of each meeting were present at the meetings, with the exception of one meeting where Martin George was unable to attend. At least one of these meetings was with the external auditor, without the executive Board members present. Lyndon Davies and Kirstie Gould also attended meetings by invitation.

DUTIES:

The full list of the Committee's responsibilities is set out in its terms of reference, which is available on the Company's website at <http://www.hornby.plc.uk/> and is summarised below as follows:

- External Audit;
- Financial Reporting;
- Internal Control and Risk Management;
- Internal Audit; and
- Reporting on activities of the Committee.

The terms of reference for the Committee are reviewed annually and approved by the Board.

The main items of business considered by the Committee during the year included:

- a review of the year-end audit plan, consideration of the scope of the audit, the consistency in the application of accounting policies and the external auditor's fees;
- consideration and approval of the external audit report and management representation letter;

- a review of the Annual Report and financial statements, including consideration of the significant accounting issues relating to the financial statements, and the going concern review;
- a review and approval of the internal financial statement; and
- approving revised borrowing and credit facilities.

EXTERNAL AUDITOR

The Committee has the primary responsibility for recommending the appointment of the external auditor and reviewing the findings of the auditor's work. The Company's external auditor is PricewaterhouseCoopers LLP. There is ongoing dialogue between the Committee and the auditor on actions to improve the effectiveness of the external audit process.

Having reviewed the auditor's independence and performance to date, the Committee has recommended to the Board that they be reappointed for the 2020 audit. A resolution to reappoint PricewaterhouseCoopers LLP as the Company's auditor is to be proposed at the forthcoming Annual General Meeting (AGM) on 25 September 2019.

POLICIES FOR NON-AUDIT SERVICES

In addition to the audit services they provide, PricewaterhouseCoopers LLP may also be engaged to carry out non-audit services for the business however no such engagement has happened in the year.

AUDIT PROCESS

The external auditor prepares an audit plan setting out how the auditor will review the interim and audit the full-year financial statements. The audit plan is reviewed, agreed in advance and overseen by the Committee. The plan includes the proposed scope of the work, the approach to be taken with the audit and also describes the auditor's assessment of the principal risks facing the business.

Prior to approval of the financial statements, the external auditor presents its findings to the Committee, highlighting areas of significant financial judgement for discussion.

INTERNAL AUDIT

The Audit Committee has considered the need for an internal audit function during the year and is of the view that, given the size and nature of the Company's operations and finance team, there is no current requirement to establish a separate internal audit function.

Audit Committee Report continued

RISK MANAGEMENT AND INTERNAL CONTROLS

Through the work of the Committee, the Board carries out an annual risk assessment programme to identify the principal risks to the business and these include:

- UK market dependence and conditions;
- the New Business Plan;
- the status of the model/hobby market;
- exchange rates;
- the supply chain function;
- capital allocation;
- product compliance;
- liquidity;
- systems and cyber risks;
- talent and skills; and
- Brexit.

The Committee also reviews the effectiveness of control policies and procedures in place to deal with the risks mentioned. Further details on the business risks identified and the actions being taken are set out on pages 08 to 09 of the Operating and Financial Review Report.

The process of risk management in the business is continually reviewed.

WHISTLEBLOWING

The business has procedures in place for detecting fraud and for whistleblowing to ensure that arrangements are in place for all employees to raise concerns in confidence, about possible irregularities and non-compliance in matters of financial reporting or other matters. These procedures and policies are reviewed by the Committee.

John Stansfield

Chairman of the Audit Committee

12 June 2019

Remuneration and Nomination Committee Report

As Chairman of the Remuneration and Nomination Committee ('the Committee'), I am pleased to present our report for the year ended 31 March 2019 which sets out details of the composition, structure and activities of the Committee and remuneration paid to Directors during the year.

The Board has taken the decision to expand the schedule of matters it has delegated to its Remuneration Committee, to include matters which are typically within the remit of a nomination committee. Its terms of reference were revised accordingly and the Committee was renamed the Remuneration and Nomination Committee.

MEMBERSHIP

The Committee currently comprises two independent Non-Executive Directors, John Stansfield and myself, James Wilson, whose biographies are set out on page 12. Martin George, a Non-Executive Director, was a member of the Committee until his resignation in November 2018.

MEETINGS AND ATTENDANCE

The Committee meets at least once a year and at such other times during the year as is necessary to discharge its duties. During the year, the Committee met once. Only members of the Committee have the right to attend meetings, although other individuals, such as the Chief Executive Officer and external advisers, may be invited to attend for all or part of any meeting.

DUTIES

The Committee works closely with the Board to formulate remuneration policy and consider succession plans and possible internal candidates for future Board roles, having regard to the views of shareholders. The main duties of the Committee are set out in its Terms of Reference, which are available on the Company's website (<http://www.hornby.plc.uk/>) and include the following key responsibilities:

REMUNERATION

- set remuneration policy for all Executive Directors (including pension rights and any compensation payments), and in the process, review and give due consideration to pay and employment conditions throughout the Company, especially when determining annual salary increases;
- approve the design of, and determine targets for any performance-related pay schemes operated by the Company;
- recommend and monitor the level and structure of remuneration for senior management; and
- review the design of all share incentive plans for approval by the Board and shareholders.

NOMINATION

- regularly review the structure, size and composition, (including the skills, experience, knowledge and diversity) of the Board and make recommendations to the Board as to any changes necessary;

- give full consideration to succession planning for Directors and other Senior Executives in the course of its work, taking into account the challenges and opportunities facing the Company and the skills and expertise needed on the Board in the future;
- lead the process for all potential appointments to the Board and making recommendations to the Board in relation to them; and
- evaluate the balance of skills, experience, independence and knowledge on the Board; and following any evaluation, identify and nominate for approval by the Board, potential candidates to fill Board vacancies as and when they arise.

PRINCIPAL ACTIVITIES DURING THE YEAR

The Committee undertook a search for a new independent Non-Executive Chairman to lead the Board, taking into account Board balance and diversity. We were pleased to welcome John Stansfield to this role in August 2018. His fee on appointment was agreed by Committee and approved by the Board.

The Committee also considered:

- Executive Directors' bonuses and salaries;
- performance criteria for the new LTIP and future awards under the LTIP;
- succession planning and the search for an additional Non-Executive Director;
- election and re-election of Directors at the AGM; and
- a review of the Committee's terms of reference.

The Committee considers business strategy when recommending the appointment of Directors and setting and reviewing remuneration.

DIVERSITY

It is the Board's view and commitment that recruitment, promotion and any other selection exercises are conducted on the basis of merit against objective criteria that avoid discrimination. No individual should be discriminated against on the ground of race, colour, ethnicity, religious belief, political affiliation, gender, age or disability, and this extends to Board appointments.

The Board recognises the benefits of diversity, including gender diversity, on the Board, although it believes that all appointments should be made on merit, while ensuring there is an appropriate balance of skills and experience within the Board. The Board currently consists of 25% (one) female and 75% (three) male Board members. The Board's age demographic ranges from 32 to 64. The business consists of 66% male employees and 34% female employees.

Remuneration and Nomination Committee Report continued

REMUNERATION POLICY

The objective of the remuneration policy is to promote the long-term success of the Company, giving due regard to the views of shareholders and stakeholders. In formulating remuneration policy for the Executive Directors, the Committee:

- considers Directors' experience and the nature and complexity of their work in order to pay a competitive salary, (in line with comparable companies), that attracts and retains Directors of the highest quality;
- considers pay and employment conditions within the Company and salary levels within listed companies of a similar size;
- considers Directors' personal performance; and
- links individual remuneration packages to the business' long-term performance and continued success of the business through the award of annual bonuses and share-based incentive schemes.

EXECUTIVE DIRECTORS

Base salary

Executive Directors' base salaries are reviewed annually by the Committee, taking into account the responsibilities, skills and experience of each individual, pay and employment conditions within the Company and the salary levels within listed companies of a similar size.

Annual bonus

Executive Directors do not receive annual bonuses.

Long Term Incentive Plan

A new Long Term Incentive Plan, ('LTIP') award is currently being created.

Other benefits

Policies concerning benefits are reviewed periodically. Currently taxable benefits comprise company car allowance or a travel allowance and private health cover. The Committee also retains the discretion to offer additional benefits as appropriate.

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

Service agreements and termination payments

Details of the Executive Directors' service agreements are set out below.

Director	Date of Contract	Unexpired Term	Notice period by Company	Notice period by Director
Lyndon Davies	5 October 2017	Rolling contract	9 months	6 months
Kirstie Gould	21 December 2017	Rolling contract	9 months	6 months

Compensation for loss of office is based on the base salary of the Director.

Employees' pay

Employees' pay and conditions throughout the business are considered when reviewing remuneration policy for Executive Directors.

The Board approved a profit share scheme for all employees (excluding Executive Directors), whereby a one-off bonus of 5% of salary is paid out when the Company breaks even and 15% of operating profit is shared among employees proportionately thereafter. This is a mechanism aimed at addressing issues of motivation of employees below Board level. It is also to ensure that the Company attracts and retains the best talent and that their interests align with that of shareholders.

NON-EXECUTIVE DIRECTORS

The remuneration payable to Non-Executive Directors (other than the Non-Executive Chairman) is decided by the Chairman and Executive Directors. The remuneration payable to the Non-Executive Chairman is decided by the other Board members.

Fees are designed to ensure the Company attracts and retains high calibre individuals. They are reviewed on an annual basis and account is taken of the level of fees paid by other companies of a similar size and complexity. Non-Executive Directors do not participate in any annual bonus, share options or pension arrangements. The Company repays the reasonable expenses that Non-Executive Directors incur in carrying out their duties as Directors.

Terms of appointment

Each of the Non-Executive Directors signed a letter of appointment for a period of two years which can be terminated by either party giving to the other prior written notice of three month(s). John Stansfield signed a letter on 2 January 2018 and James Wilson signed his on 1 August 2017.

James Wilson

Chairman of the Remuneration and Nomination Committee

12 June 2019

Directors and Corporate Information

DIRECTORS

John Stansfield

Non-Executive Chairman

Lyndon Davies

Chief Executive Officer

Kirstie Gould

Chief Finance Officer

James Wilson

Non-Executive Director

Kirstie Gould

Company Secretary

The full details of all Directors who served in the year ended 31 March 2019 can be found on page 24.

REGISTERED OFFICE

Enterprise Road
Westwood Industrial Estate
Margate
Kent CT9 4JX

COMPANY REGISTERED NUMBER

Registered in England Number: 01547390

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors
The Portland Building
25 High Street
Crawley
West Sussex RH10 1BG

SOLICITORS

Taylor Wessing LLP

5 New Street Square
London EC4A 3TW

PRINCIPAL BANKERS

Barclays Bank PLC

9 St George's Street
Canterbury
Kent CT1 2JX

FINANCIAL ADVISORS AND BROKERS

Liberum Capital Limited

Ropemaker Place
25 Ropemaker Street
London EC2Y 9LY

REGISTRARS AND TRANSFER AGENTS

Link Asset Services

The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Directors' Report

The Directors present their Annual Report together with the audited consolidated and Company financial statements for the year ended 31 March 2019.

The Group's business review along with future developments and the principal risks and uncertainties facing the Group are included in the Strategic Report.

PRINCIPAL ACTIVITIES

The Company is a holding company, limited by shares, registered (and domiciled) in England Reg. No. 01547390 with a Spanish branch and has six operating subsidiaries: Hornby Hobbies Limited in the United Kingdom with a branch in Hong Kong, Hornby America Inc. in the US, Hornby España S.A. in Spain, Hornby Italia s.r.l. in Italy, Hornby France S.A.S. in France and Hornby Deutschland GmbH in Germany. Hornby PLC is a public limited company which is listed on the Alternative Investment Market ('AIM') and incorporated and operating in the United Kingdom.

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

RESULTS AND DIVIDENDS

The results for the year ended 31 March 2019 are set out in the Group Statement of Comprehensive Income. Revenue for the year was £32.8 million compared to £35.7 million last year. The loss for the year attributable to equity holders amounted to £5.3 million (2018: £9.9 million loss). The position of the Group and Company is set out in the Group and Company Statements of Financial Position. Future developments are set out within the CEO Statement.

No interim dividend was declared in the year (2018: £nil) and the Directors do not recommend a final dividend (2018: £nil).

GOING CONCERN

On 5 June 2018 the Group entered a £12.0 million Asset Based Lending (ABL) facility with PNC Credit Limited through to June 2023. The PNC Covenants are customary operational covenants applied on a monthly basis. In addition, the Group entered a committed £6.0 million loan facility with Phoenix Asset Management Partners Limited (the Group's largest shareholder) if it should be required which is a three-year rolling facility.

The Group has prepared trading and cash flow forecasts for a period of three years, which have been reviewed and approved by the Board. On the basis of these forecasts, the facilities with PNC and Phoenix and after a detailed review of trading, financial position and cash flow models, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

RESEARCH AND DEVELOPMENT

The Board considers that research and development into products continues to play an important role in the Group's success. R&D costs of £1.0 million (see note 4) incurred in the year have been charged to the Statement of Comprehensive Income as these costs all relate to research activities.

DIRECTORS' INDEMNITIES

The Company maintained liability insurance for its Directors and officers during the financial year and up to the date of approval of the Annual Report and Accounts. The Company has also provided an indemnity for its Directors and the secretary, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006.

SUBSTANTIAL SHAREHOLDINGS

The Company has been notified that at close of business on 12 June 2019 the following parties were interested in 3% or more of the Company's ordinary share capital.

Shareholder	Number of ordinary shares	Percentage held
Phoenix Asset Management	93,524,498	74.66
Artemis Fund Managers Limited	18,242,460	14.56

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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

DIRECTORS' CONFIRMATIONS

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's position and performance, business model and strategy.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditors are aware of that information.

FINANCIAL INSTRUMENTS

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

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 speculative trading in financial instruments shall be undertaken.

FINANCIAL RISK MANAGEMENT

The financial risk is managed by the Group and more information on this can be found within the Notes to the financial statements.

PERSONNEL POLICIES

Hornby is committed to eliminating discrimination and encouraging diversity amongst our workforce. Our aim is that our workforce will be truly representative of all sections of society and each employee feels respected and able to give of their best.

To that end the purpose of personnel policies are to provide equality and fairness for all in our employment and not to discriminate on grounds of gender, marital status, race, ethnic origin, colour, nationality, national origin, disability, sexual orientation, religion or age. We oppose all forms of unlawful and unfair discrimination.

All employees, whether part time, full time or temporary, are treated fairly and with respect. Selection for employment, promotion, training or any other benefit is on the basis of aptitude and ability. All employees are helped and encouraged to develop their full potential and the talents and resources of the workforce are fully utilised to maximise the efficiency of the organisation.

Our commitments are:

- to create an environment in which individual differences and the contributions of all our staff are recognised and valued;
- every employee is entitled to a working environment that promotes dignity and respect to all. No form of intimidation, bullying or harassment is tolerated;
- training, development and progression opportunities are available to all staff;
- equality in the workplace is good management practice and makes sound business sense;
- to regularly review all our employment practices and procedures to ensure fairness;
- breaches of our equality policy are regarded as misconduct and may lead to disciplinary proceedings; and
- these policies will be monitored and reviewed on a regular basis.

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

ARTICLES OF ASSOCIATION

The rules governing the appointment and replacement of Directors are set out in the Company's Articles of Association. The Articles of Association may be amended by a special resolution of the Company's shareholders.

SHARE CAPITAL

The share capital of the Company comprises ordinary shares of 1p each. Each share carries the right to one vote at general meetings of the Company. The issued share capital of the Company, together with movements in the Company's issued share capital is shown in note 19. Ordinary shareholders are entitled to receive notice and to attend and speak at general meetings.

Each shareholder present in person or by proxy (or by duly authorised corporate representatives) has, on a show of hands, one vote. On a poll, each shareholder present in person or by proxy has one vote for each share held.

Other than the general provisions of the Articles (and prevailing legislation) there are no specific restrictions of the size of a holding or on the transfer of the ordinary shares.

The Directors are not aware of any agreements between holders of the Company's shares that may result in the restriction of the transfer of securities or on voting rights. No shareholder holds securities carrying any special rights or control over the Company's share capital.

Directors' Report continued

AUTHORITY TO PURCHASE OWN SHARES

The Company was authorised by shareholder resolution at the 2018 Annual General Meeting to purchase up to 10% of its issued share capital. A resolution will be proposed at the forthcoming Annual General Meeting and authority sought to purchase up to 10% of its issued share capital. Under this authority, any shares purchased must be held as treasury shares or, otherwise, cancelled resulting in a reduction of the Company's issued share capital.

No shares were purchased by the Company during the year.

CHANGE OF CONTROL – SIGNIFICANT AGREEMENTS

There are a number of agreements that may take effect, alter or terminate on a change of control of the Company. None of these are considered to be significant in their likely impact on the business as a whole.

POLITICAL DONATIONS

The Company has made no political donations during the year.

INDEPENDENT AUDITORS

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

ANNUAL GENERAL MEETING

The Annual General Meeting is to be scheduled for late September 2019 at the Company's head office in Margate, Kent. A notice of the Annual General Meeting will be sent out to shareholders separately to this Annual Report and Accounts.

DIRECTORS' REMUNERATION

Executive Directors' base salaries are reviewed annually by the Remuneration and Nomination Committee taking into account the responsibilities, skills and experience of each individual, pay and employment conditions within the Company and salary levels within listed companies of a similar size.

The following table summarises the total salary and pension contributions received by Directors for 2018–19 and 2017–18 in line with the Companies Act 2006 requirement:

AUDITED

	Year ended 31 March 2019			Year ended 31 March 2018 (restated) ¹		
	Basic salary, allowances and fees £'000	Pension contributions £'000	Total salary and pension contributions £'000	Basic salary, allowances and fees £'000	Pension contributions £'000	Total salary and pension contributions £'000
L Davies (Appointed 5 October 2017)	226	–	226	100	–	100
K Gould (Appointed 4 January 2018)	136	25	161	34	6	40
J Wilson (Appointed 1 August 2017)	–	–	–	–	–	–
J Stansfield (Appointed 4 January 2018)	56	–	56	9	–	9
S Cooke (Resigned 3 October 2017)	–	–	–	153	25	178
D Mulligan (Resigned 31 December 2017)	–	–	–	153	26	179
M George ² (Resigned 9 November 2018)	32	–	32	49	–	49
R Canham (Resigned 21 June 2017)	–	–	–	25	–	25
D Adams (Resigned 31 December 2017)	–	–	–	49	–	49
Total	450	25	475	572	57	629

¹ The prior period is restated due to an error as a result of bonuses paid in the year ended 31 March 2018 being included in the disclosure for the year ended 31 March 2018, however these related to the year ended 31 March 2017, and a misclassification between compensation for loss of office and basic salary.

² Excluded from within this amount is compensation for loss of office totalling £26,000.

Performance Share Plan awards outstanding (Audited)

At 31 March 2019, there are no schemes in place.

Future incentive schemes are currently being formalised for the new management team.

Benefits and Pension (Unaudited)

Policies concerning benefits, including the Group's company car policy, are reviewed periodically. Currently, benefits in kind comprise motor cars or a travel allowance and private health cover, both of which are non-performance related. The Executive Directors and senior managers are members of defined contribution pension schemes and annual contributions are calculated by reference to base salaries, with neither annual bonuses nor awards under the share incentive schemes taken into account in calculating the amounts due.

Executive Directors' service contracts (Unaudited)

Executive Directors do not have fixed period contracts.

Payments to past Directors, policy on payment of loss of office and termination payments (Audited)

Payments to past Directors totalled £26,000 to Martin George for payment in lieu of notice. There were no other payments to past Directors made during the year. Notice periods are set under individual service contracts but the Company has a policy for Executive Directors of a notice period of nine months to be given by the Company and of six months to be given by the individual. The compensation for loss of office is based upon the respective service contracts and the components are based on the base salary of the Director.

DIRECTORS' INTERESTS

Interests in shares (Audited)

Interests of the Directors in the shares of the Company at 31 March 2019 and 31 March 2018 were:

	At 31 March 2019 number	At 31 March 2018 number
Executive Directors		
I Davies	596,670	–
K Gould	41,276	–
Non-Executive Directors		
M George	–	–
J Wilson	31,000	–
J Stansfield	64,052	64,052

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. James Wilson is also a partner at Phoenix Asset Management Partners Limited who hold a substantial shareholding in Hornby PLC.

On behalf of the Board

Kirstie Gould Chief Finance Officer

Westwood
Margate
CT9 4JX

12 June 2019

Independent Auditors' Report to the Members of Hornby PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion, Hornby PLC's Group financial statements and Company financial statements (the 'financial statements'):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2019 and of the Group's and the Company's loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts 2019 (the 'Annual Report'), which comprise: the Group and Company statements of financial position as at 31 March 2019; the Group and Company Statements of Comprehensive Income, the Group and Company statements of changes in equity, and the Group and Company cash flow statements for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview



- Overall Group materiality: £310,000 (2018: £400,000), based on 5% of three year average underlying loss before tax.
- Overall Company materiality: £243,500 (2018: £320,000), based on 1% of total assets, restricted so that it does not exceed Group overall materiality.
- We performed an audit of the complete financial information of two full scope components, being Hornby PLC and Hornby Hobbies Limited. We also performed review procedures over the European sales offices and US trading subsidiary, and audited consolidation entries.
- Our full scope components provided coverage of 92% of Group revenue (2018: 93%), and 74% of Group underlying loss before tax (2018: 85%), increasing to 100% coverage for both revenue and underlying loss before tax when review and consolidation procedures are included.
- All entities are managed from one central location in the UK. All audit work was undertaken by the UK engagement team.
- Going concern (Group and Company).
- Impairment of goodwill, investments and intangibles (Group and Company).
- Recording of revenue (Group).
- Royalty accrual (Group).
- Inventory provisioning (Group).
- Classification of exceptional items (Group and Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter

How our audit addressed the key audit matter

Going concern

Refer to Note 1 within the Notes to the Financial Statements for further information.

Due to the recent trading performance of the Group, there is a risk of the Group and Company being unable to continue as a going concern.

The Group completed a refinancing with a £12m asset based facility and £6m drawdown facility in June 2018.

The Directors have prepared a cash flow model to 31 March 2022 which incorporates the strategy of the new CEO, and the expected impact of the strategy on trading results including revenue growth, margin improvement, and cost savings. This model shows that there is cash headroom throughout the forecast period, that covenants associated with the new financing agreements will not be breached, and indicates that the Group will be able to continue as a going concern.

Group and Company

We have tested the cash flow model for mathematical accuracy. We have discussed the key assumptions in the cash flow model with the Directors and assessed the reasonableness of key assumptions, noting that forecast improvements in revenue and gross margin are important factors in delivering the plan. We have performed sensitivity analysis to assess whether a reasonably possible change in key assumptions would result in a need for further financing. We have reviewed the covenants within the financing agreements and ensured that these are not breached based on the cash flow model. We have also reviewed the post-year end performance of the Group, and considered the adequacy of the related disclosures in the financial statements and found them to be appropriate.

Please see our conclusion within the 'Conclusions relating to going concern' section.

Impairment of goodwill, investments and intangibles

Refer to Note 8, Note 9 and Note 11 within the Notes to the Financial Statements for further information.

The Group has £4.6m of goodwill (31 March 2018: £4.6m) and £1.9m of intangible assets (31 March 2018: £2.2m) relating to brand names. Hornby PLC also holds an investment in subsidiaries of £23.4m (31 March 2018: £23.3m) in the Company financial statements.

Recovery of these amounts is dependent on future cash flows associated with the respective asset and there is risk that if these cash flows do not meet the Group's expectations then assets might be impaired.

Group and Company

We have reviewed the Directors' impairment assessments for goodwill, investments and intangibles for reasonableness.

We have considered the Directors' assessments, which contain a number of judgements and estimates including growth in revenue and gross margins, and use assumptions for long-term growth rates and discount rates.

We assessed the mathematical accuracy of the Directors' cash flow model and agreed the underlying forecasts to Board approved budgets and assessed how these budgets were compiled. With the support of our valuations experts, we assessed the terminal growth rates and discount rates applied by the Directors to third party information and applied our independent view of more appropriate rates to the Directors' forecast.

We challenged the Directors' assessment by recalculation of the Enterprise Value (EV) of the Group at year end which provides an indication of the fair value at 31 March 2019. EV equals Market capitalisation less cash and cash equivalents plus total borrowings less anticipated transaction costs.

Market capitalisation at 31 March 2019 was £46.35 million. Using an assumed transaction cost at the higher end of the 3–5% of EV range results in an EV of £45.7m. Allocation of the EV across each CGU based on the percentage of contribution to Group Revenue or Gross Margin indicates comparable headroom to the Directors' assessment using the future cash flow model.

As a result of our work, we determined that it was appropriate that no impairment charge was recognised for goodwill, or intangible assets in the Group financial statements and that appropriate disclosures had been made. Similarly, we determined that it was appropriate that no impairment charge was recognised for investments in the Company financial statements.

We considered the related disclosures provided in the financial statements and found them to be appropriate.

Independent Auditors' Report to the Members of Hornby PLC continued

Key audit matter

How our audit addressed the key audit matter

Recording of revenue

Refer to Note 1 within the Notes to the Financial Statements for further information.

The Group has recorded £32.8m of revenue (2018: £35.7m). There is a risk that revenue may be fraudulently recorded and may not exist.

Group

We reviewed the revenue recognition policy and found the policy to be appropriate and consistent with the prior year. For Hornby Hobbies Limited, representing 92% of revenue, we performed a walkthrough of the revenue process to understand how revenue is recognised. We performed detailed testing by selecting a sample of transactions and agreed them to despatch notes and cash receipts to gain assurance over the occurrence of revenue. This test was performed at a high level of assurance to address the risk of fraud and gain comfort over the occurrence of the recorded sales transactions. This was supported by testing a sample of items to price lists and discount agreements to gain evidence over the accuracy of amounts recorded. We tested sales close to the year end to shipping documentation to confirm cut off was appropriate. We tested a sample of manual journals with unusual account combinations to supporting documentation at a high level of assurance to address the risk of fraud through journals. We performed analytical procedures on sales for the other territories. Our work did not identify any exceptions.

Royalty accrual

Refer to Note 1 within the Notes to the Financial Statements for further information.

The Group has recorded a liability of £0.6m as at 31 March 2019 (31 March 2018: £0.7m) in relation to royalties for the sale of licensed goods. We focussed on this area as it is a material provision and there is judgement in assessing the amount of the provision.

Group

We obtained an understanding of the methodology used by the Group for determining the accrual for royalties in relation to the sale of licensed goods. We agreed the royalty rate used in the calculations to royalty agreements and agreed the quantities of goods to which the royalty rate was applied to sales data. We tested payments made during the year to bank statements. We assessed the appropriateness of the methodology applied by assessing the prior year accrual against royalty payments and outcomes from royalty audits during the current year. No issues arose from our work to suggest that the provision was materially misstated.

Inventory provisioning

Refer to Note 12 within the Notes to the Financial Statements for further information.

The Group held £10.9m of inventory as at 31 March 2019 (31 March 2018: £10.0m). There is a risk that aged inventory may be difficult to sell.

Group

We obtained an understanding of the methodology used in the inventory provision and agreed the values used in the calculation to the aged inventory listing reconciled to the general ledger. For a sample of stock lines, we tested the aging and that they had been appropriately categorised for the purposes of calculating the provision. We then recomputed the inventory provision based on the provisioning methodology, and reviewed the completeness of the provision by assessing a sample of inventory aged over one year and un-provided inventory stock lines balances against the sales plan for those lines. We found that, although some unprovided product lines were slow-moving, in each case sales plans had been developed and were being implemented.

In view of the evidence of the execution of sales plans against the aged inventory, we concluded that the established provisions are appropriate.

Classification of exceptional items

Refer to Note 4 within the Notes to the Financial Statements for further information.

The Group has recorded exceptional items of £0.6m (31 March 2018: £2.3m) and the Company has recorded exceptional items of £0.1m (31 March 2018: £1.9m). These items are considered to be one-off and exceptional in nature. We focused on this area because the classification of items as exceptional requires judgement.

Group and Company

We discussed with the Directors and understood the events in the year which gave rise to items being classified as exceptional. We considered whether the classification of items was consistent with the Group's accounting policy and treatment in prior years. We tested a sample of items to third party support, and based on the nature of the item, considered whether it might be more appropriate to reflect the costs in the underlying results. We considered whether the Group has taken a balanced approach to this area, and reviewed for potential one-off items of income which would require treatment consistent with one-off items of cost. We also considered the adequacy of disclosures relating to exceptional items in the financial statements and found them to be appropriate.

Our testing did not identify any costs that had been inappropriately classified.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group's business model is to supply toy and hobby products to the global market through a series of brands. The majority of operations are performed within the UK trading subsidiary, Hornby Hobbies Limited. There is also a trading Company in the US and sales offices in France, Germany, Italy and Spain. All entities are managed from one central location in the UK. The scope of our audit includes a full scope audit of the financial information of Hornby PLC and Hornby Hobbies Limited. Analytical review procedures have been performed on the US Company and European sales offices. We have also audited consolidation entries. All audit work was performed by the UK audit team.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£310,000 (2018: £400,000).	£243,500 (2018: £320,000).
How we determined it	5% of three year average underlying loss before tax.	1% of total assets, restricted so that it does not exceed Group overall materiality.
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report, underlying loss before tax is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark on the basis that the exceptional items are non-recurring and do not reflect the underlying performance of the business. This amount has been volatile in recent years with the level of losses decreasing as management look to improve business performance. We consider that using a materiality based on an average of underlying loss before tax is appropriate for users of the accounts, as they are interested in trends in underlying performance.	The Company is primarily a holding Company and we believe that total assets is the primary measure used by the shareholders in assessing the performance of the entity.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £294,500 and £243,500.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £15,000 (Group audit) (2018: £12,500) and £15,000 (Company audit) (2018: £12,500) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's and Company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.

Independent Auditors' Report to the Members of Hornby PLC continued

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 22, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

OTHER REQUIRED REPORTING

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Graham Lambert (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors
Gatwick

12 June 2019

Group and Company Statements of Comprehensive Income

for the Year Ended 31 March 2019

	Note	Group		Company	
		2019 £'000	2018 £'000	2019 £'000	2018 £'000
Revenue	2	32,759	35,651	1,104	1,493
Cost of sales		(19,348)	(21,900)	–	–
Gross profit		13,411	13,751	1,104	1,493
Distribution costs		(6,177)	(7,224)	–	–
Selling and marketing costs		(6,826)	(7,647)	–	–
Administrative expenses		(4,812)	(6,021)	(1,078)	(1,416)
Other operating expenses		(226)	(437)	–	–
Operating (loss)/profit before Exceptional items	4	(4,630)	(7,578)	26	77
Exceptional items		(593)	(2,292)	(103)	(1,889)
Operating loss	2	(5,223)	(9,870)	(77)	(1,812)
Finance income	3	7	7	175	175
Finance costs	3	(177)	(218)	(217)	(216)
Net finance expense	3	(170)	(211)	(42)	(41)
Share of profit of investments accounted for using the equity method		81	15	81	15
Loss before taxation	4	(5,312)	(10,066)	(38)	(1,838)
Income tax credit	5	–	212	–	–
Loss for the year after taxation		(5,312)	(9,854)	(38)	(1,838)
Other comprehensive income					
Items that may be subsequently reclassified to profit or loss:					
Cash flow hedges, net of tax		292	(353)	–	–
Currency translation (losses)/gains		(45)	(54)	77	(76)
Other comprehensive income/(loss) for the year, net of tax		247	(407)	77	(76)
Total comprehensive (loss)/income for the year		(5,065)	(10,261)	39	(1,914)
Loss per ordinary share					
Basic	7	(4.24)p	(10.13)p		
Diluted	7	(4.24)p	(10.13)p		

All results relate to continuing operations.

The notes on pages 36 to 67 form part of these accounts.

Group and Company Statements of Financial Position

as at 31 March 2019

	Note	Group		Company	
		2019 £'000	2018 £'000	2019 £'000	2018 £'000
Assets					
Non-current assets					
Goodwill	8	4,563	4,564	–	–
Intangible assets	9	3,190	3,368	–	–
Property, plant and equipment	10	3,783	4,489	–	–
Investments	11	1,696	1,615	23,381	23,300
Deferred tax assets	18	2,030	2,030	–	–
		15,262	16,066	23,381	23,300
Current assets					
Inventories	12	10,860	10,030	–	–
Trade and other receivables	13	7,180	5,949	33,506	33,529
Derivative financial instruments	17	25	–	–	–
Cash and cash equivalents	14	704	3,878	1	4
		18,769	19,857	33,507	33,533
Liabilities					
Current liabilities					
Borrowings	16	(1,893)	–	–	–
Trade and other payables	15	(5,472)	(4,486)	(265)	(159)
Derivative financial instruments	17	(156)	(423)	–	–
		(7,521)	(4,909)	(265)	(159)
Net current assets					
		11,248	14,948	33,242	33,374
Non-current liabilities					
Borrowings	16	(561)	–	(5,759)	(5,849)
Deferred tax liabilities	18	(150)	(150)	–	–
		(711)	(150)	(5,759)	(5,849)
Net assets					
		25,799	30,864	50,864	50,825
Equity attributable to owners of the parent					
Share capital	19	1,253	1,253	1,253	1,253
Share premium		38,587	38,587	38,587	38,587
Capital redemption reserve	21	55	55	55	55
Translation reserve	21	(1,470)	(1,425)	(1,143)	(1,220)
Hedging reserve	21	(131)	(423)	–	–
Other reserves	21	1,688	1,688	19,145	19,145
Accumulated losses		(14,183)	(8,871)	(7,033)	(6,995)
Total equity					
		25,799	30,864	50,864	50,825

The Company made a total comprehensive profit for the year of £39,000 (2018: £1,914,000 loss).

The notes on page 36 to 67 form part of these accounts. The financial statements on pages 34 to 67 were approved by the Board of Directors on 12 June and were signed on its behalf by:

Kirstie Gould

Director

Registered Company Number: 01547390

Group and Company Statements of Changes in Equity

for the Year Ended 31 March 2019

Group	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Translation reserve £'000	Hedging reserve £'000	Other reserves £'000	Retained earnings/ (accumulated losses) £'000	Total equity £'000
Balance at 31 March 2017 and 1 April 2017	846	27,445	55	(1,371)	(70)	1,688	1,070	29,663
Loss for the year	-	-	-	-	-	-	(9,854)	(9,854)
Other comprehensive expense for the year	-	-	-	(54)	(353)	-	-	(407)
Total comprehensive expense for the year	-	-	-	(54)	(353)	-	(9,854)	(10,261)
Transactions with owners								
Net proceeds from issue of ordinary shares	407	11,142	-	-	-	-	-	11,549
Share-based payments (note 20)	-	-	-	-	-	-	(87)	(87)
Total transactions with owners	407	11,142	-	-	-	-	(87)	11,462
Balance at 31 March and 1 April 2018	1,253	38,587	55	(1,425)	(423)	1,688	(8,871)	30,864
Loss for the year	-	-	-	-	-	-	(5,312)	(5,312)
Other comprehensive (expense)/income for the year	-	-	-	(45)	292	-	-	247
Total comprehensive (expense)/income for the year	-	-	-	(45)	292	-	(5,312)	(5,065)
Balance at 31 March 2019	1,253	38,587	55	(1,470)	(131)	1,688	(14,183)	25,799

Company	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Translation reserve £'000	Other reserves £'000	Retained earnings/ (accumulated losses) £'000	Total equity £'000
Balance at 31 March 2017 and 1 April 2017	846	27,445	55	(1,144)	19,145	(5,070)	41,277
Loss for the year	-	-	-	-	-	(1,838)	(1,838)
Other comprehensive expense for the year	-	-	-	(76)	-	-	(76)
Total comprehensive expense for the year	-	-	-	(76)	-	(1,838)	(1,914)
Transactions with owners							
Net proceeds from issue of ordinary shares	407	11,142	-	-	-	-	11,549
Share-based payments	-	-	-	-	-	(87)	(87)
Total transactions with owners	407	11,142	-	-	-	(87)	11,462
Balance at 31 March and 1 April 2018	1,253	38,587	55	(1,220)	19,145	(6,995)	50,825
Loss for the year	-	-	-	-	-	(38)	(38)
Other comprehensive income for the year	-	-	-	77	-	-	77
Total comprehensive income/(expense) for the year	-	-	-	77	-	(38)	39
Balance at 31 March 2019	1,253	38,587	55	(1,143)	19,145	(7,033)	50,864

The notes on page 36 to 67 form part of these accounts.

Group and Company Cash Flow Statements

for the Year Ended 31 March 2019

	Note	Group		Company	
		2019 £'000	2018 £'000	2019 £'000	2018 £'000
Cash flows from operating activities					
Cash (used in)/generated from operations	26	(2,805)	(5,489)	52	(640)
Interest paid		(116)	(218)	(217)	(198)
Tax received		–	50	–	50
Repayments of loans and cash settled Share Based Payments		–	(136)	–	(136)
Net cash (used in)/generated from operating activities		(2,921)	(5,793)	(165)	(924)
Cash flows from investing activities					
Acquisition of associate	11	–	(1,600)	–	(1,600)
Proceeds from sale of property, plant and equipment		–	4	–	–
Purchase of property, plant and equipment	10	(2,144)	(1,648)	–	–
Purchase of intangible assets	9	(512)	(146)	–	–
Interest received		7	7	175	175
Net cash (used in)/generated from investing activities		(2,649)	(3,383)	175	(1,425)
Cash flows from financing activities					
Proceeds from issuance of ordinary shares		–	12,000	–	12,000
Share issue costs		–	(451)	–	(451)
Advances to subsidiary undertakings		–	–	(13)	(9,202)
Net proceeds from ABL facility		1,893	–	–	–
Proceeds from shareholder loan		500	–	–	–
Net cash generated from/(used in) financing activities		2,393	11,549	(13)	2,347
Net (decrease)/increase in cash and cash equivalents		(3,177)	2,373	(3)	(2)
Cash and cash equivalents at the beginning of the year		3,878	1,498	4	6
Effect of exchange rate movements		3	7	–	–
Cash and cash equivalents		704	3,878	1	4
Cash and cash equivalents consist of:					
Cash and cash equivalents	14	704	3,878	1	4
Cash and cash equivalents at the end of the year		704	3,878	1	4

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

Accounting policies for the year ended 31 March 2019

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

Basis of preparation

The financial information for the year ended 31 March 2019 has been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU'), IFRS Interpretations Committee ('IFRS-IC') interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated Group and Parent Company financial statements have been prepared on a going concern basis and under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

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

Going concern

The Group has in place a £12 million asset based lending facility with PNC through June 2023 and a rolling three year £6 million loan facility available with its main shareholder Phoenix Asset Management Partners Limited.

The Group has prepared trading and cash flow forecasts for a period of three years, which have been reviewed and approved by the Board. On the basis of these forecasts, the facilities described above and after detailed review of trading, financial position and cash flow models, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Basis of consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity where the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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

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

Adoption of new and revised standards

The Group applies for the first time IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers'.

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' was issued in July 2014 to replace IAS 39 'Financial Instruments: Recognition and Measurement' and has been endorsed by the EU. The standard is effective for accounting periods beginning on or after 1 January 2018 and has been adopted by the Group. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

In adopting IFRS 9, the only changes made from the previous reporting period is in relation to the impairment of financial assets. The Group now reviews the amount of credit loss associated with its trade receivables, intercompany receivables and other receivables based on forward looking estimates that consider current and forecast credit conditions as opposed to relying on past historical default rates. The standard was adopted retrospectively however there was no quantitative impact arising from adoption as at 31 March 2018 or 31 March 2019.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 is effective for periods commencing on or after 1 January 2018. The standard was endorsed by the EU during 2016. IFRS 15 changes how and when revenue is recognised from contracts with customers. The Group has adopted IFRS 15 in accounting for sales returns and records a refund liability and a returns asset. This resulted in a reclass of £165,000 (2018: £174,000) from Provisions to Trade and other payables.

IFRS 16 'Leases'

The new leasing standard will be adopted with effect from 1 April 2019. IFRS 16 replaces IAS 17 'Leases', with the key change being that lessee accounting will eliminate the IAS 17 distinction between operating leases and finance leases, treating most leases in the same manner as finance leases under IAS 17.

Where an arrangement meets the IFRS 16 definition of a lease and we act as a lessee, at commencement a loan obligation for future lease payables will be recognised together with an equal value non-current asset representing the right to use the leased item. This will have no impact on net assets at the commencement date on 1 April 2019, but due to the different methods of unwinding the asset and liability, over time, a difference will arise.

Lease costs will be recognised in the form of depreciation of the right-of-use asset and interest on the lease liability, which may impact the phasing of operating profit and profit before tax, compared to the cost profiles and presentation in the income statement under IAS 17. This will also impact the classification of associated cash flows in the Consolidated Cash Flow Statement.

We intend to apply the modified retrospective basis when adopting the standard, meaning that the carrying amount of the initial right-of-use assets will equal the respective lease liabilities for all leases entered into before 1 April 2019; therefore, no restatement of prior years is required. The impact of the change in accounting standard on each line item in the financial statements will be provided.

If we had implemented IFRS 16 on 1 April 2018, using estimated discount rates based on lease specific incremental borrowing rates, the impact of applying the modified retrospective basis would be as follows:

Income statement

Administrative expenses would be broadly consistent, as a result of the lease expense of £810,000 being replaced by depreciation on the right-of-use asset of £733,000. Finance costs would increase by £141,000 to reflect the current year unwind of the discounted lease liability.

Balance sheet

At 31 March 2019, a right-of-use asset of £2.9 million would be recognised as a non-current asset, along with a lease liability of the same amount.

Cash flow statement

The lease payments would be reclassified from operating activities to financing activities.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods.

Revenue recognition

IFRS 15 establishes a new comprehensive framework that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Group's revenue is mostly from product sales. Revenue recognition has not been impacted by the adoption of IFRS 15 and method of recognition is detailed as follows:

(a) Sale of goods

Sales of goods are recognised when a Group entity has delivered products to the customer. The customer is either a trade customer or the consumer when sold through Hornby concessions in various retail outlets, or via the internet.

(b) Royalty income

Royalty income is recognised at the later of when the performance obligation is satisfied and when the sales or usage occurs.

Notes to the Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES continued

(c) Sales returns

The Group establishes a refund liability (included in trade and other payables) at the period end that reduces revenue in anticipation of customer returns of goods sold in the period. The Group also recognises a right to the returned goods (included in other current assets) for the products expected to be returned. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method).

(d) Hornby Visitor Centre

Revenue is generated from the ticket and product sales at our Visitor Centre in Margate and recognised at the point of sale.

Dividend income in the Company is recognised upon receipt. Revenue from management services are recognised in the accounting period in which the services are rendered.

Exceptional items

Where items of income and expense included in the Statement of Comprehensive Income are considered to be material and exceptional in nature, separate disclosure of their nature and amount is provided in the financial statements. These items are classified as exceptional items. The Group considers the size and nature of an item both individually and when aggregated with similar items when considering whether it is material, for example impairment of intangible assets or restructuring costs.

Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of the Company that makes strategic decisions.

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

Business combinations

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

Associate with equity accounting

The investment in December 2017 in 49% of LCD Enterprises Limited is included in these accounts using the Equity Method.

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit and loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of associates' in the income statement.

Gains resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Any dilution gains and losses arising in investments in associates are recognised in the income statement.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment. Goodwill is recorded in the currency of the cash generating unit to which it is allocated.

Intangibles

Other intangibles include brands, customer lists and computer software. They are recognised initially at fair value determined in accordance with appropriate valuation methodologies and subjected to amortisation and annual impairment reviews, as follows:

(a) Brand names

Brand names, acquired as part of a business combination, are capitalised at fair value as at the date of acquisition. They are carried at their fair value less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the fair value of brand names over their estimated economic life of 15 to 20 years. Brand names have been valued on a 'relief from royalty' basis.

(b) Customer lists

Customer lists, acquired as part of a business combination, are capitalised at fair value as at the date of acquisition. They are carried at their fair value less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the fair value of customer relationships over their estimated economic life of ten years. Customer lists have been valued according to discounted incremental operating profit expected to be generated from each of them over their useful lives.

(c) Computer software

Computer software expenditure is capitalised at the value at the date of acquisition and depreciated over a useful economic life of four to six years.

Property, plant and equipment

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

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

Plant and equipment	– five to ten years
Motor vehicles	– four years

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

Impairment of non-current assets

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

Investments

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less any impairment. Investments in associates are recognised using the equity method of accounting, where the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the profits or losses of the investee. Dividend income is shown separately in the Statement of Comprehensive Income.

Notes to the Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES continued

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is predominantly determined using the first-in, first-out ('FIFO') method. Alternative methods may be used when proven to generate no material difference. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).

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

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

Financial instruments

Financial assets and financial liabilities are recognised in the Group and Company's statements of financial position when the Group or Company becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment. To establish the provision for impairment, the Group applies IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivable.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 12 months before 31 March 2019 and the corresponding historical credit losses experienced within this period.

Financial liabilities and equity

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

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

Refund liability

Provisions for sales returns are recognised for the products expected to be returned. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method).

Cash and cash equivalents

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

Borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs and subsequently amortised over the life of the facility. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Trade payables

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

Taxation including deferred tax

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

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

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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

Employee benefit costs

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

Contributions to defined contribution pension schemes are charged to the Statement of Comprehensive Income according to the year in which they are payable.

Further information on pension costs and the scheme arrangements is provided in note 23.

The Group also announced a profit share scheme for all employees below Executive level. This scheme commences with a 5% bonus for all when the Group breaks even. Thereafter, 15% of all Group operating profit will be shared between the employees every year.

Share capital and share premium

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

Leases

The Group enters into operating leases only. Leases classed as operating leases are expensed on a straight-line basis to the Statement of Comprehensive Income over the lease term.

Notes to the Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES continued

Financial risk management

Financial risk factors

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

(a) Foreign exchange risk

The Group is exposed to foreign exchange risks against sterling primarily on transactions in US dollars. It enters into forward currency contracts to hedge the cash flows of its product sourcing operation (i.e. it buys US dollars forwards in exchange for sterling) and looks forward six–twelve months on a rolling basis at forecasted purchase volumes. The policy framework requires hedging between 70% and 100% of anticipated import purchases that are denominated in US dollars. The Company has granted euro denominated intercompany loans to subsidiary companies that are translated to sterling at statutory period ends thereby creating exchange gains or losses. The loans to the subsidiaries, Hornby Deutschland GmbH, Hornby Italia s.r.l. and Hornby France S.A.S. are classified as long-term loans and therefore the exchange gains and losses on consolidation are reclassified to the translation reserve in Other Comprehensive Income as per IAS 21. The loan to the branch in Spain is classified as a long-term loan however repayable on a shorter timescale than those of the other subsidiaries and therefore the exchange gains or losses are taken to Statement of Comprehensive Income.

(b) 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's borrowings comprised a revolving credit facility, bank overdrafts and a fixed-term loan agreement.

(c) Credit risk

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

(d) Liquidity risk

At 31 March 2019 the UK had a £12 million Asset Based Lending facility with PNC Credit Limited and a £6 million loan facility with Phoenix Asset Management Partners. The funding needs are determined by monitoring forecast and actual cash flows. The Group regularly monitors its performance against its banking covenants to ensure compliance.

Derivative financial instruments

To manage exposure to foreign currency risk, the Group uses foreign currency forward contracts, also known as derivative financial instruments.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at the end of each reporting period. The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so the nature of the item being hedged.

(a) Cash flow hedge

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

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

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

(b) Derivatives that do not qualify for hedge accounting

Certain derivative instruments are not considered effective and do not qualify for hedge accounting. Such derivatives are classified at fair value through the Statement of Comprehensive Income and changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognised immediately in the Statement of Comprehensive Income.

Fair value estimation

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

The fair values of the derivative financial instruments used for hedging purposes are disclosed in note 17.

Foreign currency

Transactions denominated in foreign currencies are recorded in the relevant functional currency at the exchange rates ruling at the date of the transaction. Foreign exchange gains and losses resulting from such transactions are recognised in the Statement of Comprehensive Income, except when deferred and disclosed in Other Comprehensive Income as qualifying cash flow hedges. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date and any exchange differences are taken to the Statement of Comprehensive Income.

Foreign exchange gains/losses recognised in the Statement of Comprehensive Income relating to foreign currency loans and other foreign exchange adjustments are included within operating profit.

On consolidation, the Statement of Comprehensive Income and cash flows of foreign subsidiaries are translated into sterling using average rates that existed during the accounting period. The balance sheets of foreign subsidiaries are translated into sterling at the rates of exchange ruling at the balance sheet date. Gains or losses arising on the translation of opening and closing net assets are recognised in Other Comprehensive Income.

Dividend distribution

Final dividends are recorded in the Statement of Changes in Equity in the period in which they are approved by the Company's shareholders. Interim dividends are recorded in the period in which they are approved and paid.

Critical estimates and judgements in applying the accounting policies

The Group's estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions:

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Impairment of goodwill, intangibles and investments

The Group tests annually whether any goodwill, investment or intangible asset has suffered any impairment. The recoverable amounts of cash-generating units (CGUs) have been determined based on value-in-use calculations. The critical areas of estimation applied within the impairment reviews conducted include the weighted average cost of capital used in discounting the cash flows of the cash generating units, the forecast margin growth rate, the growth rate in perpetuity of the cash flows and the forecast operating profits of the cash generating units. The judgements used within this assessment are set out within note 8.

Other estimates and assumptions:

(a) Inventory provision

Whenever there is a substantiated risk that an item of stock's sellable value may be lower than its actual stock value, a provision for the difference between the two values is made. Management review the stock holdings on a regular basis and consider where a provision for excess or obsolete stock should be made based on expected demand for the stock and its condition.

(b) Debtors provision

In adopting IFRS 9, the only changes made from the previous reporting period is in relation to the impairment of financial assets. The Group now reviews the amount of credit loss associated with its trade receivables, intercompany receivables and other receivables based on forward looking estimates that consider current and forecast credit conditions as opposed to relying on past historical default rates.

Notes to the Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES continued

(c) Fair value of derivatives

The fair value of the financial derivatives is determined by the mark to market value at the year end date with any movement in fair value going through Other Comprehensive Income.

(d) Refund liability and refund asset

The refund liability is based on accumulated experience of returns at the time of sale at a portfolio level (expected value method). Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date. The right to the returned goods is measured by reference to the carrying amount of the goods.

(e) Provisions for royalty payments

The provision for royalty payments is based on an estimate of royalty payments due as a percentage of total sales. This estimate is checked on a regular basis for accuracy against the ERP system which calculates royalties due on actual sales of licensed product at the point of sale.

Critical judgements in applying the Group's accounting policies:

(a) Recognition of deferred tax on losses

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

(b) Going concern

The Directors apply judgement to assess whether it is appropriate for the Group to be reported as a going concern by considering the business activities and the Group's principal risks and uncertainties. Details of the consideration made are included within the Directors' Report (page 22) and the basis of preparation (page 36).

A number of assumptions and estimates are involved in arriving at this judgement including management's projections of future trading performance and expectations of the external economic environment.

Other judgements in applying the Group's accounting policies:

(a) Equity accounting for LCD Enterprises Limited

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the Group's share of the change in net assets of LCD Enterprises Limited since the date of the acquisition.

2. SEGMENTAL REPORTING

Management has determined the operating segments based on the reports reviewed by the Board (chief operating decision-maker) that are used to make strategic decisions.

The Board considers the business from a geographic perspective. Geographically, management considers the performance in the UK, USA, Spain, Italy and the rest of Europe.

Although the USA segment does not meet the quantitative thresholds required by IFRS 8, management has concluded that this segment should be reported, as it is closely monitored by the Board as it is outside Europe.

The Company is a holding company operating in the UK with its results given in the Company Statement of Comprehensive Income on page 32 and its assets and liabilities given in the Company Statement of Financial Position on page 33. Other Company information is provided in the other notes to the accounts.

Year ended 31 March 2019

	UK £'000	USA £'000	Spain £'000	Italy £'000	Rest of Europe £'000	Total Reportable Segments £'000	Intra Group £'000	Group £'000
Revenue – External	25,867	2,867	903	872	2,250	32,759	–	32,759
– Other segments	2,753	–	–	–	–	2,753	(2,753)	–
Operating (loss)/profit	(4,142)	(883)	38	(138)	(98)	(5,223)	–	(5,223)
Finance income – External	7	–	–	–	–	7	–	7
– Other segments	620	–	–	141	–	761	(761)	–
Finance costs – External	(177)	–	–	–	–	(177)	–	(177)
– Other segments	(316)	–	(217)	(154)	(74)	(761)	761	–
Share of profit of investments accounted for using the equity method	81	–	–	–	–	81	–	81
(Loss) before taxation	(3,927)	(883)	(179)	(151)	(172)	(5,312)	–	(5,312)
Taxation	–	–	–	–	–	–	–	–
(Loss) for the year	(3,927)	(883)	(179)	(151)	(172)	(5,312)	–	(5,312)
Segment assets	47,871	1,973	5,925	3,357	4,419	63,545	–	63,545
Less intercompany receivables	(18,721)	(60)	(5,808)	(3,567)	(3,644)	(31,800)	–	(31,800)
Add tax assets	2,060	–	–	(64)	34	2,030	–	2,030
Total assets	31,210	1,913	117	(274)	809	33,775	–	33,775
Segment liabilities	20,022	4,321	4,778	4,214	6,588	39,923	–	39,923
Less intercompany payables	(12,344)	(4,236)	(4,716)	(4,019)	(6,482)	(31,797)	–	(31,797)
Add tax liabilities	(150)	–	–	–	–	(150)	–	(150)
Total liabilities	7,528	85	62	195	106	7,976	–	7,976
Other segment items								
Capital expenditure	2,620	27	3	6	–	2,656	–	2,656
Depreciation	2,857	15	(20)	3	–	2,855	–	2,855
Net foreign exchange on intercompany loans	(90)	–	–	–	–	(90)	–	(90)
Amortisation of intangible assets	690	–	–	–	–	690	–	690

All transactions between Group companies are on normal commercial terms.

Notes to the Financial Statements continued

2. SEGMENTAL REPORTING continued

Year ended 31 March 2018

		UK £'000	USA £'000	Spain £'000	Italy £'000	Rest of Europe £'000	Total Reportable Segments £'000	Intra Group £'000	Group £'000
Revenue	– External	28,497	2,461	940	1,118	2,635	35,651	–	35,651
	– Other segments	1,326	–	–	–	–	1,326	(1,326)	–
Operating loss		(9,084)	(538)	(124)	(1)	(123)	(9,870)	–	(9,870)
Finance cost	– External	7	–	–	–	–	7	–	7
	– Other segments	618	–	–	128	–	746	(746)	–
Finance income	– External	(218)	–	–	–	–	(218)	–	(218)
	– Other segments	(303)	–	(216)	(153)	(74)	(746)	746	–
Share of profit of investments accounted for using the equity method		15	–	–	–	–	15	–	15
(Loss) before taxation		(8,965)	(538)	(340)	(26)	(197)	(10,066)	–	(10,066)
Taxation		400	–	(1)	–	(187)	212	–	212
(Loss) for the year		(8,565)	(538)	(341)	(26)	(384)	(9,854)	–	(9,854)
Segment assets		48,573	1,072	6,066	3,433	4,655	63,799	–	63,799
Less intercompany receivables		(16,691)	(55)	(5,901)	(3,640)	(3,799)	(30,086)	–	(30,086)
Add tax assets		2,230	–	–	(65)	45	2,210	–	2,210
Total assets		34,112	1,017	165	(272)	901	35,923	–	35,923
Segment liabilities		17,145	2,080	4,743	4,148	6,702	34,818	–	34,818
Less intercompany payables		(12,769)	(2,017)	(4,655)	(4,066)	(6,578)	(30,085)	–	(30,085)
Add tax liabilities		326	–	–	–	–	326	–	326
Total liabilities		4,702	63	88	82	124	5,059	–	5,059
Other segment items									
Capital expenditure		1,765	29	–	–	–	1,794	–	1,794
Depreciation		2,767	12	23	7	12	2,821	–	2,821
Net foreign exchange on intercompany loans		114	–	–	–	–	114	–	114
Amortisation of intangible assets		992	–	–	–	–	992	–	992
Share-based payment		(87)	–	–	–	–	(87)	–	(87)

All transactions between Group companies are on normal commercial terms.

3. NET FINANCE EXPENSE

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Finance costs:				
Interest expense on borrowings	(116)	(218)	–	–
Interest expense on shareholder loan	(61)	–	–	–
Interest expense on intercompany borrowings	–	–	(217)	(216)
	(177)	(218)	(217)	(216)
Finance income:				
Bank interest	7	7	–	–
Interest income on intercompany loans	–	–	175	175
	7	7	175	175
Net finance expense	(170)	(211)	(42)	(41)

4. LOSS BEFORE TAXATION

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
The following items have been included in arriving at loss before taxation:				
Staff costs (note 24)	7,042	8,994	519	1,366
Inventories:				
– Cost of inventories recognised as an expense (included in cost of sales)	15,464	17,252	–	–
– Stock provision	35	(44)	–	–
Depreciation of property, plant and equipment:				
– Owned assets	2,855	2,821	–	–
Profit/(loss) on disposal of fixed assets	1	(9)	–	–
Other operating lease rentals payable:				
– Plant and machinery	93	88	–	–
– Property	773	717	–	–
Repairs and maintenance expenditure on property, plant and equipment	71	114	–	–
Research and development expenditure	1,011	994	–	–
Impairment of trade receivables	(290)	432	–	–
Share-based payment (credit)/charge	–	(87)	–	202
Other operating expenses/(income):				
– Foreign exchange on trading transactions	(120)	221	–	–
– Net impact of foreign exchange on intercompany loans	90	(114)	–	–
– Amortisation of intangible assets – brands and customer lists	227	314	–	–

Notes to the Financial Statements continued

4. LOSS BEFORE TAXATION continued

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Exceptional items comprise:				
– Restructuring costs	49	1,823	26	536
– Refinancing	172	70	–	–
– Relocation	372	–	77	–
– Costs of EGM and Mandatory Offer	–	399	–	381
– Impairment of investment	–	–	–	972
	593	2,292	103	1,889

The exceptional items totalling £593,000 (2018: £2,292,000) include restructuring costs relating to redundancy costs and exit of Non-Executive Director, professional fees relating to refinance of the Group and relocation costs relating to the move back to the Margate site.

Services provided by the Company's auditors and network firms

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

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Fees payable to the Company's auditors for the audit of Parent Company and consolidated accounts	62	55	10	10
Fees payable to the Company's auditors and its associates for other services:				
– The auditing of accounts of the Company's subsidiaries	26	44	–	–
– Audit-related assurance services	5	5	–	–
	93	104	10	10

In the current financial year the level of non-audit fees was within the 1:1 ratio to audit fees as per Audit Committee policy.

5. INCOME TAX (CREDIT)/CHARGE

Analysis of tax (credit)/charge in the year

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Current tax				
Adjustments in respect of prior years	–	(212)	–	–
	–	(212)	–	–
Deferred tax (note 18)	–	–	–	–
Total tax credit to the loss before tax	–	(212)	–	–

The tax for the year differs to the standard rate of corporation tax in the UK of 19%. Any differences are explained below:

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Loss before taxation	(5,312)	(10,066)	(38)	(1,838)
Loss on ordinary activities multiplied by rate of Corporation tax in UK of 19% (2018: 19%)	(1,009)	(1,913)	(7)	(349)
Effects of:				
Adjustments to tax in respect of prior years	–	(212)	–	–
Permanent differences	(3)	(19)	–	205
Non taxable income	(15)	–	(15)	–
Difference on overseas rates of tax	(49)	(131)	–	–
Deferred tax not recognised	1,069	2,063	22	144
Remeasurement of deferred tax	7	–	–	–
Total taxation	–	(212)	–	–

The Company's profits for this accounting year are taxed at an effective rate of 19%. The UK corporation tax rate is due to decrease further to 17% on 1 April 2020.

UK deferred tax balances have been restated in these accounts and carried forward at a rate of 17%, being the current rate substantively enacted for periods from 1 April 2020 onwards.

Unrecognised deferred tax relates to UK and overseas subsidiaries and is not recognised due the Directors taking the view that it would be inappropriate to recognise further deferred tax assets relating to losses until taxable profits are being delivered by the Group. More detail can be found in Note 18.

6. DIVIDENDS

No interim or final dividends were paid in relation to the year ended 31 March 2018 and no interim dividend has been paid in relation to the year ended 31 March 2019. The Directors are not proposing a final dividend in respect of the financial year ended 31 March 2019.

7. LOSS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

For diluted loss per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares that have satisfied the appropriate performance criteria at 31 March 2019. For the year ended 31 March 2019, there was no difference in the weighted average number of shares used for basic and diluted net loss per ordinary because their inclusion would be anti-dilutive.

The underlying loss per share is shown to present a clearer view of the trading performance of the business. Management identified the following items, whose inclusion in performance distorts underlying trading performance: net foreign exchange (gains)/losses on intercompany loans which are dependent on exchange rate fluctuations and can be volatile, and the amortisation of intangibles which result from historical acquisitions. Additionally, exceptional items including relocation, refinancing and restructuring costs are one off items and therefore have also been added back in calculating underlying loss per share.

Notes to the Financial Statements continued

7. LOSS PER SHARE continued

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

	2019			2018		
	(Loss)/ earnings £'000	Weighted average number of shares '000s	Per-share amount pence	(Loss)/ earnings £'000	Weighted average number of shares '000s	Per-share amount pence
Reported						
Basic loss per share						
Loss attributable to ordinary shareholders	(5,312)	125,261	(4.24)	(9,854)	97,288	(10.13)
Effect of dilutive securities						
Diluted loss per share	(5,312)	125,261	(4.24)	(9,854)	97,288	(10.13)
Underlying						
Loss attributable to ordinary shareholders	(5,312)	125,261	(4.24)	(9,854)	97,288	(10.13)
Amortisation of intangibles	184	–	0.15	254	–	0.26
Restructuring costs	40	–	0.03	1,477	–	1.52
Extraordinary General Meeting and Mandatory Offer	–	–	–	323	–	0.33
Refinancing	140	–	0.11	57	–	0.06
Relocation	302	–	0.24	–	–	–
Net foreign exchange translation adjustments	73	–	0.06	(93)	–	(0.10)
Underlying basic loss/EPS	(4,573)	125,261	(3.65)	(7,836)	97,288	(8.05)
Underlying diluted loss/EPS	(4,573)	125,261	(3.65)	(7,836)	97,288	(8.05)

The above numbers used to calculate the EPS for the year ended 31 March 2019 and 31 March 2018 have been tax effected at the rate of 19%.

8. GOODWILL

Group	£'000
Cost	
At 1 April 2018	13,055
Exchange adjustments	(1)
At 31 March 2019	13,054
Aggregate impairment	
At 1 April 2018 and 31 March 2019	8,491
Net book amount at 31 March 2019	4,563
Cost	
At 1 April 2017	13,045
Exchange adjustments	10
At 31 March 2018	13,055
Aggregate impairment	
At 1 April 2017 and 31 March 2018	8,491
Net book amount at 31 March 2018	4,564
Net book amount at 31 March 2017	4,554

The Company has no goodwill.

The goodwill has been allocated to cash-generating units and a summary of carrying amounts of goodwill by geographical segment (representing cash-generating units) at 31 March 2019 and 31 March 2018 is as follows:

Group	UK £'000	USA £'000	France £'000	Germany £'000	Total £'000
At 31 March 2019	3,992	9	364	198	4,563
At 31 March 2018	3,992	9	365	198	4,564

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

Impairment tests for goodwill

Management reviews the business performance based on geography. Budgeted revenue was based on expected levels of activity given results to date, together with expected economic and market conditions. Budgeted operating profit was calculated based upon management's expectation of operating costs appropriate to the business as reflected in the New Business Plan.

The relative risk adjusted (or 'beta') discount rate applied reflects the risk inherent in hobby based product companies. In determining this discount rate, management has applied an adjustment for risk of such companies in the industry on average determined using the betas of comparable hobby based product companies. The forecasts are based on approved budgets for the year ending 31 March 2020/three year business plan for the year ending 31 March 2022. Cash flows beyond the three-year period are extrapolated using an estimated 2% year on year growth rate. The cash flows were discounted using a pre-tax discount rate of 12.3% (2018: 10.9%) which management believes is appropriate for all territories.

The key assumptions used for value-in-use calculations for the year ended 31 March 2019 are as follows:

Group	UK (Corgi)	UK (Airfix & Humbrol)	France	Spain	Italy	Germany
Gross Margin ¹	61.3%	62.8%	62.6%	n/a	n/a	57.2%
Growth rate to perpetuity ²	2.0%	2.0%	2.0%	n/a	n/a	2.0%

1 Average of the variable yearly gross margins used over the period 19'20 to 25'26.

2 Weighted average growth rate used to extrapolate cash flows beyond the budget period.

The key assumptions used for value-in-use calculations for the year ended 31 March 2018 are as follows:

Group	UK (Corgi)	UK (Airfix & Humbrol)	France	Spain	Italy	Germany
Gross Margin ¹	61.1%	63.3%	62.2%	n/a	n/a	56.9%
Growth rate to perpetuity ²	2.0%	2.0%	2.0%	n/a	n/a	2.0%

1 Average of the variable yearly gross margins used over the period 18'19 to 22'23.

2 Weighted average growth rate used to extrapolate cash flows beyond the budget period.

These assumptions have been used for the analysis of each CGU within the operating segments.

For the UK CGU, the recoverable amount calculated based on value in use exceeded carrying value by £16.4 million. A reduction of the average gross margin to respectively 55.6% for Corgi and 51.0% for Airfix/Humbrol, or a rise in discount rate to respectively 19.7% for Corgi and 58.0% for Airfix/Humbrol would remove the remaining headroom.

For the France CGU, the recoverable amount calculated based on value in use exceeded carrying value by £9.5 million. A reduction of the average gross margin to 13.9%, or a rise in discount rate to 200.2% would remove the remaining headroom.

For the Germany CGU, the recoverable amount calculated based on value in use exceeded carrying value by £7.5 million. A reduction of the average gross margin to 16.2%, or a rise in discount rate to 263.7% would remove the remaining headroom.

Notes to the Financial Statements continued

9. INTANGIBLE ASSETS

Group	Brand names £'000	Customer lists £'000	Computer software £'000	Total £'000
Intangible assets				
Cost				
At 1 April 2018	4,914	1,415	2,701	9,030
Additions	–	–	512	512
At 31 March 2019	4,914	1,415	3,213	9,542
Accumulated amortisation				
At 1 April 2018	2,758	1,415	1,489	5,662
Charge for the year	227	–	463	690
At 31 March 2019	2,985	1,415	1,952	6,352
Net book amount at 31 March 2019	1,929	–	1,261	3,190

Group	Brand names £'000	Customer lists £'000	Computer software £'000	Total £'000
Intangible assets				
Cost				
At 1 April 2017	4,914	1,415	2,555	8,884
Additions	–	–	146	146
At 31 March 2018	4,914	1,415	2,701	9,030
Accumulated amortisation				
At 1 April 2017	2,526	1,333	811	4,670
Charge for the year	232	82	678	992
At 31 March 2018	2,758	1,415	1,489	5,662
Net book amount at 31 March 2018	2,156	–	1,212	3,368

All amortisation charges in the year have been charged in other operating expenses. The Company held no intangible assets.

10. PROPERTY, PLANT AND EQUIPMENT

Group	Plant and equipment £'000	Motor Vehicles £'000	Tools and moulds £'000	Total £'000
Cost				
At 1 April 2018	1,567	34	63,252	64,853
Exchange adjustments	11	1	–	12
Additions at cost	300	19	1,825	2,144
Disposals	(303)	–	–	(303)
At 31 March 2019	1,575	54	65,077	66,706
Accumulated depreciation				
At 1 April 2018	1,175	34	59,155	60,364
Exchange adjustments	6	1	–	7
Charge for the year	168	2	2,685	2,855
Disposals	(303)	–	–	(303)
At 31 March 2019	1,046	37	61,840	62,923
Net book amount at 31 March 2019	529	17	3,237	3,783

Depreciation is charged in the Group's Statement of Comprehensive Income within Administrative expenses.

Group	Plant and equipment £'000	Motor Vehicles £'000	Tools and moulds £'000	Total £'000
Cost				
At 1 April 2017	4,882	198	61,672	66,752
Exchange adjustments	(14)	(4)	–	(18)
Additions at cost	57	–	1,591	1,648
Disposals	(3,358)	(160)	(11)	(3,529)
At 31 March 2018	1,567	34	63,252	64,853
Accumulated depreciation				
At 1 April 2017	4,291	196	56,582	61,069
Exchange adjustments	(8)	(2)	–	(10)
Charge for the year	237	–	2,584	2,821
Disposals	(3,345)	(160)	(11)	(3,516)
At 31 March 2018	1,175	34	59,155	60,364
Net book amount at 31 March 2018	392	–	4,097	4,489
Net book amount at 31 March 2017	591	2	5,090	5,683

The Company does not hold any property, plant and equipment.

Notes to the Financial Statements continued

11. INVESTMENTS

Group

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

	Interests in subsidiary undertakings at valuation £'000
At 1 April 2017	–
Acquisition of 49% of LCD Enterprises	1,600
Share of profit of investments accounted for using the equity method	15
At 31 March and 1 April 2018	1,615
Share of profit of investments accounted for using the equity method	81
At 31 March 2019	1,696

Company

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

	Interests in subsidiary undertakings at valuation £'000	Loans to subsidiary undertakings at cost £'000	Total £'000
At 1 April 2018	18,466	4,834	23,300
Share of profit of investments accounted for using the equity method	81	–	81
At 31 March 2019	18,547	4,834	23,381
At 1 April 2017	17,823	4,834	22,657
Capital contribution relating to share-based payment	1,600	–	1,600
Net increase in loans to subsidiary undertaking	15	–	15
Impairment of investment in subsidiary undertakings	(972)	–	(972)
At 31 March 2018	18,466	4,834	23,300

Interest was charged on loans to subsidiary undertakings at sterling three-month Libor + 3.6%.

Loans are unsecured and exceed five years' maturity.

Group subsidiary undertakings

Details of the subsidiaries of the Group are set out below. Hornby Hobbies Limited, is engaged in the development, design, sourcing and distribution of models. Hornby America Inc., Hornby Italia s.r.l., Hornby France S.A.S., Hornby España S.A. and Hornby Deutschland GmbH are distributors of models. Hornby Industries Limited and H&M (Systems) Limited are dormant companies. All subsidiaries are held directly by Hornby PLC.

	Country of incorporation, registration and business	Description of shares held	Proportion of nominal value of issued shares held	
			Group %	Company %
Hornby Hobbies Limited	Westwood, Margate, Kent CT9 4JX, UK	Ordinary shares	100	100
Hornby America Inc.	3900 Industry Dr E, Fife, WA 98424, USA	Ordinary shares	100	100
Hornby España S.A	C/Federico Chueca, S/N, E28806 ALCALA DE HENARES Spain	Ordinary shares	100	100
Hornby Italia s.r.l.	Viale dei Caduti, 52/A6 25030 Castel Mella (Brescia), Italy	Ordinary shares	100	100
Hornby France S.A.S.	31 Bis rue des Longs Pres, 92100 Boulogne, Billancourt, France	Ordinary shares	100	100
Hornby Deutschland GmbH	Oeslauer StraBe 36, 96472, Rodental, Germany	Ordinary shares	100	100
Hornby Industries Limited	Westwood, Margate, Kent CT9 4JX, UK	Ordinary shares	100	100
H&M (Systems) Limited	Westwood, Margate, Kent CT9 4JX, UK	Ordinary shares	100	100

The Group also holds a direct investment in LCD Enterprises Limited, holding 49% of ordinary shares. This investment is accounted for as an associate and is a trading company registered at Unit 6 119 Ystrad Road, Fforestfach, Swansea, Wales, SA5 4JB.

12. INVENTORIES

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Finished goods	10,860	10,030	–	–
	10,860	10,030	–	–

Movements on the Group provision for impairment of inventory is as follows:

	2019 £'000	2018 £'000
At 1 April	958	796
Provision for inventory impairment	96	505
Inventory written off during the year	(60)	(340)
Exchange adjustments	(1)	(3)
At 31 March	993	958

Notes to the Financial Statements continued

13. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Current:				
Trade receivables	5,740	5,931	–	–
Less: loss allowance for receivables	(1,168)	(1,458)	–	–
Trade receivables – net	4,572	4,473	–	–
Other receivables	1,565	358	–	–
Prepayments	1,043	1,118	24	9
Amounts owed by subsidiary undertaking	–	–	33,482	33,520
	7,180	5,949	33,506	33,529

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated and therefore the loss allowance for trade receivables is deemed adequate. Other receivables include deposits paid to suppliers for tooling.

Gross trade receivables can be analysed as follows:

	2019 £'000	2018 £'000
Fully performing	3,077	3,131
Past due	1,495	1,342
Fully impaired	1,168	1,458
Trade receivables	5,740	5,931

As of 31 March 2019, trade receivables of £1,495,000 (2018: £1,342,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2019 £'000	2018 £'000
1 – 120 days	1,364	1,077
>120 days	131	265
	1,495	1,342

As of 31 March 2019, trade receivables of £1,168,000 (2018: £1,458,000) were impaired and provided for in full.

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

The ageing of these receivables, based on due date, is as follows:

	2019 £'000	2018 £'000
1 – 120 days	57	356
> 120 days	1,111	1,102
	1,168	1,458

Movements on the Group loss allowance for trade receivables is as follows:

	2019 £'000	2018 £'000
At 1 April	1,458	1,026
(Decrease)/increase in loss allowance	(279)	473
Receivables written-off during the year as uncollectible	(8)	(31)
Exchange adjustments	(3)	(10)
At 31 March	1,168	1,458

The decrease in loss allowance has been included in 'administrative expenses' in the Statement of Comprehensive Income.

Amounts owed to the Company by subsidiary undertakings are repayable on demand, unsecured and interest bearing.

The carrying amounts of the Group and Company trade and other receivables except prepayments and amounts owed by subsidiary undertaking are denominated in the following currencies:

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Sterling Intercompany	–	–	33,482	33,520
Sterling	3,180	3,764	–	–
Euro	1,452	934	–	–
US dollar	1,249	133	–	–
	5,881	4,831	33,482	33,520

14. CASH AND CASH EQUIVALENTS

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Cash at bank and in hand	704	3,878	1	4

Cash at bank of £704,000 (2018: £3,878,000) is with financial institutions with a credit rating of A3 per Moody's rating agency.

15. TRADE AND OTHER PAYABLES

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Current:				
Trade payables	2,763	2,245	–	–
Other taxes and social security	336	226	30	12
Other payables	101	225	150	–
Refund liability	165	–	–	–
Accruals and deferred revenue	2,107	1,790	85	147
	5,472	4,486	265	159

Notes to the Financial Statements continued

16. BORROWINGS

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Secured borrowing at amortised cost				
Asset Based Lending facility	1,893	–	–	–
Shareholder loan	561	–	–	–
Loan from subsidiary undertakings	–	–	5,759	5,849
	2,454	–	5,759	5,849
Total borrowings				
Amount due for settlement within 12 months	1,893	–	–	–
Amount due for settlement after 12 months	561	–	5,759	5,849
	2,454	–	5,759	5,849

The Company borrowings are denominated in sterling. All intercompany borrowings are formalised by way of loan agreements. The loans can be repaid at any time however the Company has received confirmation from its subsidiary that they will not require payment within the next 12 months.

Analysis of borrowings by currency:

Group	Sterling £'000	USD £'000	Euros £'000	Total £'000
31 March 2019				
Asset Based Lending facility	1,525	38	330	1,893
Shareholder loan	561	–	–	561
	2086	38	330	2,454

There were no bank borrowings at 31 March 2018.

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

At 31 March 2019 the UK had a £12 million Asset Based Lending facility with PNC Credit Limited and a £6 million loan facility with Phoenix Asset Management Partners.

The £12 million facility with PNC extends for five years and carries a margin of 2.5-3% over LIBOR. The PNC Facility has a fixed and floating charge on the assets of the Group. The Company is expected to provide customary operational covenants to PNC on a monthly basis.

The Phoenix Facility is a £6 million facility with a rolling three year term and attracts interest at a margin of 5% over LIBOR on funds drawn. Undrawn funds attract a non-utilisation fee of the higher of 1% or LIBOR.

Undrawn borrowing facilities

At 31 March 2019, the Group had available £5,500,000 (2018: £6,000,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. The facility from PNC Credit Limited has limits based on the Group's asset position, including a £3,000,000 minimum headroom against the facility until March 2021.

17. FINANCIAL INSTRUMENTS

The Group's policies and strategies in relation to risk and financial instruments are detailed in note 1.

Group	Assets		Liabilities	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Carrying values of derivative financial instruments				
Forward foreign currency contracts – cash flow hedges	25	–	(156)	(423)

The hedged forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months. Gains and losses recognised in reserves on forward foreign exchange contracts as of 31 March 2019 are recognised in the Statement of Comprehensive Income first in the period or periods during which the hedged forecast transaction affects the Statement of Comprehensive Income, which is within 12 months from the balance sheet date.

At 31 March 2019 and 31 March 2018, the gross value of forward currency contracts was as follows:

	2019 '000s	2018 '000s
US dollar	20,791	13,916

The net fair value for the forward foreign currency contracts is a liability of £131,000 (2018: £423,000 liability) of which £131,000 net liability (2018: £423,000 net liability) represents an effective hedge at 31 March 2019 and has therefore been debited to Other Comprehensive Income.

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

The Company has no derivative financial instruments.

Fair values of non-derivative financial assets and liabilities

For the Group and the Company, as at 31 March 2019 and 31 March 2018, there is no difference between the carrying amount and fair value of each of the following classes of financial assets and liabilities, principally due to their short maturity: trade and other receivables, cash at bank and in hand, trade and other payables and current borrowings. Bank deposits attract interest within 1.0% of the ruling market rate. There is no significant difference between the fair value and carrying amount of non-current borrowings as the impact of discounting is not significant.

Maturity of financial liabilities

Group	2019 £'000	2018 £'000
Less than one year	2,864	2,296
Between one and two years	2,454	–
Between two and five years	–	–
More than five years	–	–
	5,318	2,296

Company	2019 Intercompany Debt £'000	2018 Intercompany Debt £'000
More than five years (note 16)	5,759	5,849

Notes to the Financial Statements continued

17. FINANCIAL INSTRUMENTS continued

Hierarchy of financial instruments

The following tables present the Group's assets and liabilities that are measured at fair value at 31 March 2019 and 31 March 2018. The table analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

There were no transfers or reclassifications between Levels within the year. Level 2 hedging derivatives comprise forward foreign exchange contracts and have been fair valued using forward exchange rates that are quoted in an active market. The effects of discounting are generally insignificant for Level 2 derivatives.

The fair value of the following financial assets and liabilities approximate their carrying amount: Trade and other receivables, other current financial assets, cash and cash equivalents (excluding bank overdrafts), trade and other payables.

Financial Instruments

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Derivatives used for hedging	–	25	–	25
Total assets as at 31 March 2019	–	25	–	25
Liabilities				
Derivatives used for hedging	–	(156)	–	(156)
Total liabilities at 31 March 2019	–	(156)	–	(156)

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Derivatives used for hedging	–	–	–	–
Total assets as at 31 March 2018	–	–	–	–
Liabilities				
Derivatives used for hedging	–	(423)	–	(423)
Total liabilities at 31 March 2018	–	(423)	–	(423)

Interest rate sensitivity

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

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

The effect on both income and equity based on exposure to borrowings at the balance sheet date for a 1% increase in interest rates is £17,000 (2018: £3,000) before tax. A 1% fall in interest rates gives the same but opposite effect. 1% is considered an appropriate benchmark given the minimum level of movement in the UK interest rate over recent years and expectation over the next financial year.

Foreign currency sensitivity in respect of financial instruments

The Group is primarily exposed to fluctuations in US dollars, and the euro. The following table details how the Group's income and equity would increase on a before tax basis, given a 10% revaluation in the respective currencies against sterling and in accordance with IFRS 7 all other variables remaining constant. A 10% devaluation in the value of sterling would have the opposite effect. The 10% change represents a reasonably possible change in the specified foreign exchange rates in relation to sterling.

	Comprehensive Income and Equity Sensitivity	
	2019 £'000	2018 £'000
US dollars	823	1,356
Euros	1,143	964
	1,966	2,320

Capital risk management

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

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

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

	2019 £'000	2018 £'000
Total borrowings (note 16)	2,454	–
Less:		
Total cash and cash equivalents (note 14)	(704)	(3,878)
Net debt/(cash)	1,750	(3,878)
Total equity	25,799	30,864
Total capital	27,549	26,986
Gearing	6%	(14%)

18. DEFERRED TAX

Deferred tax is calculated in full on temporary differences under the liability method.

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

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
At 1 April	(1,880)	(1,880)	–	–
At 31 March	(1,880)	(1,880)	–	–

Deferred tax assets have been recognised in respect of certain UK timing differences only. Temporary differences giving rise to deferred tax assets have been recognised in the UK where it is probable that those assets will be recovered.

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

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

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

Notes to the Financial Statements continued

18. DEFERRED TAX continued

	Acquisition intangibles £'000	Total £'000
Deferred tax liabilities		
At 1 April 2018	150	150
Charge to Statement of Comprehensive Income	–	–
At 31 March 2019	150	150
At 1 April 2017	94	94
Credit to Statement of Comprehensive Income	56	56
At 31 March 2018	150	150

	Group			Company	
	Acquisition intangibles £'000	Other £'000	Total £'000	Short-term incentive plan £'000	Total £'000
Deferred tax assets					
At 1 April 2018	–	2,030	2,030	–	–
Credit to Statement of Comprehensive Income	–	–	–	–	–
At 31 March 2019	–	2,030	2,030	–	–
At 1 April 2017	–	1,974	1,974	–	–
Charge to Statement of Comprehensive Income	–	56	56	–	–
At 31 March 2018	–	2,030	2,030	–	–
Net deferred tax (liability)/asset					
At 31 March 2019	(150)	2,030	1,880	–	–
At 31 March 2018	(150)	2,030	1,880	–	–

Group	2019		2018	
	Recognised £'000	Not recognised £'000	Recognised £'000	Not recognised £'000
Deferred tax comprises:				
Depreciation in excess of capital allowances	1,891	217	1,891	514
Other temporary differences – UK	(11)	3,463	(11)	2,539
Other temporary differences – overseas	–	2,938	–	2,797
Deferred tax asset	1,880	6,618	1,880	5,850

The UK deferred tax asset not recognised of £3,680,000 primarily relates to unrecognised losses in Hornby Hobbies Limited of £18,780,000 (potential deferred tax asset of £3,193,000) and Hornby PLC of £1,223,000 (potential deferred tax asset of £208,000). It also relates to a potential deferred tax asset in respect of accelerated capital allowances of £217,000 and unrecognised temporary difference of £62,000.

The deferred tax asset not recognised in respect of overseas losses carried forward of £2,938,000 relates to losses carried forward of £1,561,000 in respect of Hornby España SA (potential deferred tax asset of £390,000), £2,450,000 in respect of Hornby France S.A.S. (potential deferred tax asset of £817,000), £1,924,000 in respect of Hornby Deutschland GmbH (potential deferred tax asset of £614,000), £3,885,000 in respect of Hornby Italia s.r.l. (potential deferred tax asset of £932,000) and £883,000 in respect of Hornby America Inc. (potential deferred tax asset of £185,000).

No deferred tax assets will be recognised on these losses incurred until the business is profit making.

Company	2019		2018	
	Recognised £'000	Not recognised £'000	Recognised £'000	Not recognised £'000
Deferred tax comprises:				
Other timing differences	–	(208)	–	(202)
Deferred tax (asset)/liability	–	(208)	–	(202)

These unrecognised assets relate to tax losses carried forward in Hornby PLC.

19. SHARE CAPITAL

Group and Company

Allotted, issued and fully paid:

	2019		2018	
	Number of shares	£'000	Number of shares	£'000
Ordinary shares of 1p each:				
At 1 April	125,261,172	1,253	84,583,204	846
Issue of ordinary shares	–	–	40,677,968	407
At 31 March	125,261,172	1,253	125,261,172	1,253

20. SHARE-BASED PAYMENTS ('PSP')

There were no share-based performance plans in place at 31 March 2019 (2018: There were no awards outstanding at 31 March 2018 where awards either vested or lapsed during the year).

21. RESERVES

Capital Redemption Reserve

This reserve records the nominal value of shares repurchased by the Company.

Translation Reserve

The translation reserve represents the foreign exchange movements arising from the translation of financial statements in foreign currencies.

Hedging Reserve

The hedging reserve comprises the effective portion of changes in the fair value of forward foreign exchange contracts that have not yet occurred.

Other Reserves

This reserve represents historical negative goodwill arising prior to the transition to IFRS.

Notes to the Financial Statements continued

22. EMPLOYEES AND DIRECTORS

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Staff costs for the year:				
Wages and salaries	6,049	6,935	431	615
Share-based payments (note 20)	–	(87)	–	202
Social security costs	654	707	58	90
Other pension costs (note 23)	300	357	25	71
Redundancy and compensation for loss of office	39	1,082	–	388
	7,042	8,994	514	1,366

The redundancy costs form part of the restructuring costs in the year classified as exceptional items.

Average monthly number of people (including Executive Directors) employed by the Group:

	Group		Company	
	2019 Number	2018 Number	2019 Number	2018 Number
Operations	66	61	–	–
Sales, marketing and distribution	73	70	–	–
Administration	33	32	4	3
	172	163	4	3

Key management compensation:

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Salaries and short-term employee benefits	910	1,423	362	720
Share-based payments	–	(87)	–	202
Other pension costs	33	97	25	71
Redundancy and compensation for loss of office	–	683	–	330
	943	2,116	387	1,323

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

A detailed numerical analysis of Directors' remuneration and share options showing the highest paid Director, number of Directors accruing benefits under money purchase pension schemes, is included in the Directors' Report on pages 24 and 25 and forms part of these financial statements.

23. PENSION COMMITMENTS

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

Alexander Forbes International is appointed as Independent Financial Adviser to work in liaison with the Group.

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

The Group pension cost for the year was £300,000 (2018: £357,000) representing the actual contributions payable in the year and certain scheme administration costs. The Company pension cost for the year was £25,000 (2018: £71,000). No contributions were outstanding at the year end of 31 March 2019.

24. FINANCIAL COMMITMENTS

Group	2019 £'000	2018 £'000
At 31 March capital commitments were:		
Contracted for but not provided	1,155	921

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

The Company does not have any capital commitments.

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.

25. OPERATING LEASE COMMITMENTS

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

Group	Land & Buildings		Other		Total	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Not later than one year	732	681	79	87	811	768
Later than one year but not more than five years	1,408	1,175	50	80	1,458	1,255
More than five years	1,423	107	–	–	1,423	107
	3,563	1,963	129	167	3,692	2,130

In addition to the above the distribution activities of the business are outsourced to a third party company, Global Freight Management & Logistics ('GFM'). The initial agreement with GFM was for five years to August 2019, this was later extended to August 2021. The approximate costs under the contract are approximately £2.2million a year (2018: £2.4 million).

Notes to the Financial Statements continued

26. CASH (USED IN)/GENERATED FROM OPERATIONS

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Loss before taxation	(5,312)	(10,066)	(38)	(1,838)
Interest payable	177	218	217	198
Interest receivable	(7)	(7)	(175)	(175)
Share of profit of associate	(81)	(15)	(81)	(15)
Amortisation of intangible assets	690	992	–	–
Impairment of Investment	–	–	–	972
Depreciation	2,855	2,821	–	–
Loss on disposal of property, plant and equipment	1	9	–	–
Share-based payments credit (non cash)	–	(87)	–	(87)
Share-based payments (cash)	–	136	–	136
Decrease in provisions	(9)	(21)	–	–
(Increase)/decrease in inventories	(750)	(490)	–	–
(Increase)/decrease in trade and other receivables	(1,163)	3,396	23	37
Increase/(decrease) in trade and other payables	794	(2,375)	106	132
Cash (used in)/generated from Operating activities	(2,805)	(5,489)	52	(640)

27. NET DEBT RECONCILIATION

	2019 £'000	2018 £'000
Cash and cash equivalents	704	3,898
Borrowings – repayable within one year	(1,893)	–
Borrowings – repayable after one year	(561)	–
Net Debt	(1,750)	3,898
Cash and liquid investments	704	3,898
Gross debt – variable interest rates	(2,454)	–
Net Debt	(1,750)	3,898

28. RELATED PARTY DISCLOSURES

Hornby Hobbies Limited purchased various items of stock for resale plus services from two companies that are part of the LCD Enterprises Limited group, a company in which Lyndon Davies, a Director of the Company, owns a controlling 51% share and Hornby PLC the remaining 49%.

Therefore transactions between the parties are related party transactions and disclosed below:

Company	Transactions £	Balance at year end £
Oxford Diecast Limited	47,114	24,402
Oxford Diecast (HK) Limited	3,744	–
	50,858	24,402

Phoenix Asset Management Partners who own the majority shareholding in Hornby PLC have also provided a funding facility to the Group (see note 16).

There were no other contracts with the Company or any of its subsidiaries existing during or at the end of the financial year in which a Director of the Company or any of its subsidiaries was interested. There are no other related-party transactions.

The Company received management fees from subsidiaries of £1,104,000 (2018: £1,493,000), interest of £175,000 (2018: £175,000) and incurred interest of £217,000 (2018: £216,000) on intercompany borrowings.

29. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The Group is 74.66% owned by Phoenix Asset Management. Artemis Fund Managers Limited hold 14.56%. The remaining 10.78% of the shares are widely held. As a result of these arrangements, there is no ultimate parent undertaking, and the funds managed by Phoenix Asset Management are therefore the controlling party.

30. EVENTS AFTER THE END OF THE REPORTING PERIOD

No other significant events have occurred between the end of the reporting period and the date of signature of the Annual Report and Accounts.

Shareholders' Information Service

Hornby welcomes contact with its shareholders.

If you have questions or enquiries about the Group or its products, please contact:

Kirstie Gould

Chief Finance Officer

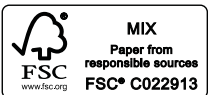
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