Hornby PLC Annual Report and Accounts 2018

HORNBY PLC

ANNUAL REPORT AND ACCOUNTS 2018

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.

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Highlights 2018

"In the first seven months that I have been at Hornby, we have assessed our position and confronted the reality of the situation in which we find ourselves. Tough decisions have now been taken and we are currently laying down the foundations for our future success. There is a new energy in the business and I am excited with our plans as we re-engage across both domestic and international markets with these well-loved brands."

Lyndon Davies, Chief Executive

Revenue
(2017: £47.4m)
£35.7m

Operating loss
(2017: £(9.2)m loss)
£(9.9)m

Reported loss before taxation
(2017: £(9.5)m loss)
£(10.1)m

Underlying[1] loss before taxation
(2017: £(6.3)m loss)
£(7.6)m

Reported loss after taxation
(2017: £(9.7)m loss)
£(9.9)m

Reported loss per share
(2017: (12.65)p loss)
(10.13)p

Underlying basic loss per share
(2017: (9.26)p basic loss)
(8.05)p

Net cash
(2017: £1.5m)
£3.9m

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

Executive Chairman's Report

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

As I write this message to you I have been a Hornby employee for seven months, but I have both worked for and adjacent to the brands you own for 40 years. I started on the production line at the old Corgi factory in Wales when I was 16 and have been in the industry ever since.

I do not wish to dwell on the mistakes of the past, but please do not think I take them lightly. I have drawn on all my experience in assessing Hornby's current position and formulating my views on the future direction. I have a great deal of passion for these iconic brands and it has pained me to see them fall from grace. You, as shareholders, have had to bear the brunt of it, and so I do not feel the need to reopen those wounds you know so well.

My team and I are fully committed to developing a sustainable business that builds on our heritage. My job is to look forward and deliver the results for you. This report is an opportunity for me to give you an honest and humble account of our progress. We need to return this Group to profitability and I need to explain how we intend to do it.

The first step is understanding. The next step is fixing the basic issues once they are understood. The final step is to get us back to profitability with a logical and measured strategy that does not imperil the balance sheet. In doing these things we will build long-term shareholder value in a sustainable way. Some of our brands have lasted for more than 100 years and it is my view that they should thrive for at least 100 more.

The business model

What we do is simple, but not easy. We have an office in Sandwich where most of our hard-working staff come to work every day. We also have a logistics hub approximately ten miles away in Hersden which most of our product will pass through on the way to both retailers and sometimes directly to customers via our own website. Before Sandwich and Hersden, we had all our operations (including manufacturing many years ago) in Margate, but we have now sold this building and retain only the Hornby Visitor Centre where we showcase the wonderful heritage of our brands.

Over the years we have acquired a diverse portfolio of market-leading international brands. These brands are supported by similarly hard-working staff at offices in Italy, France, Spain and Germany. Further afield, we have a warehouse and office in Washington, USA.

We aspire to design high-quality models and accessories for the toy and hobby markets which are not necessarily low priced but provide great value for money. Most of the research and development for our product occurs in the UK, but the manufacturing is predominantly executed in China and India, in conjunction with the engineers and support staff at our satellite office in Hong Kong.

The design and delivery cycles of our products are quite long, sometimes up to two or three years between inception and delivery to the UK. Our customers tend to be quite particular about what they want and so it takes time to make sure that they will be acceptable to them.

The challenge is then to make sure we market our products in such a way as to make them desirable. It is also important to choose the correct retail partners and communication channels that help us cultivate a loyal following of collectors and fans from all age ranges.

Knowing the right products to produce and how many of each product to order requires an in-depth knowledge of the individual brands, the history, the competitive landscape and the various customer bases. We have to order all the products up front and wait for them to arrive to truly see how they sell through. We must take risks in this process and there is an element of uncertainty. Managing the cash flows through this cycle of investment is an extremely important part of the process of protecting and enhancing shareholder value.

If we order too much of an item that nobody wants, we tie cash up in inventory which means we don't have the cash available to deploy into new and exciting models for the following year. If we order too little, then we don't maximise the profitability and therefore shareholder value. It requires great coordination and deep expertise across engineering, development, marketing and sales to make sure this engine ticks over smoothly.

This challenge is made even more difficult by the seasonal element to our business. We are lucky enough to have customers that see our products as worthy of a gift to a friend or family member over the Christmas period. The final three months of the calendar year tend to be very busy for us from a sales perspective and so we have to coordinate the investment in inventory so that it can satisfy this peak in demand.

This cycle of development, manufacturing, marketing and distribution is our business engine. We have some wonderful talent in the Group but the engine as a whole doesn't perform optimally. Based on my in-depth knowledge of this industry and following an initial review, many trips to trade shows, retailers, suppliers, manufacturers and other important partners all over the world, I have now developed the understanding and have taken the first steps towards fixing the engine.

The strategy

Over the last few years our competitors have gained strength in the marketplace. They are stronger and smarter than ever, and we must give ourselves every opportunity to compete successfully with them. In this situation, it is important that our competitors (who I am more than aware read our reports in detail) are not able to pick out, copy and better the moves we make to delight our customers. As a result, I will look to discuss some of the steps we have already taken to fix the engine here, instead of plotting out the battle plan for our competition to follow.

Executive Chairman's Report continued

1. Discounting

From the description of the business model above, hopefully you can see how a business like ours can run into cash flow problems. If we have debt repayments to make and we order too much stock, then the cash that is tied up in the slow-selling stock can create a liquidity problem. This can sometimes force us to hastily liquidate stock at a discount to pay the bills.

Discounting is a very difficult thing to do without materially affecting the perception of a brand or product. Many brand owners, not just in the toy and hobby sector, have fallen victim to choosing discounting to pay bills or to chase arbitrary sales targets, instead of thinking more about the longer-term impact on the brand.

Let us take the collector segment of our customers as an example to illustrate this. If a collector eagerly awaits the launch of the latest locomotive and snaps it up at full price on release day, the likely reason he or she will do this is because they anticipate it will be a desirable item to have, will sell out and will become a store of value over the long term as collectors fight over the few hundred that remain in circulation. If this collector then sees the item on sale for half price a few months after release, not only do they become disillusioned because the scarcity value and desirability seems to not be there, but also, they probably won't buy other products from that brand at the time of release again and will just wait for the inevitable discounts. If you keep following this discounting strategy, you will become more and more reliant on lower and lower prices after every round. You end up never selling anything at the prices you assumed when you made tooling investment and the economics of the business are impaired because the trust is gone in the brand. If you destroy the trust in the brand and collectors no longer see the products as a store of value, they will switch to a collectible that does satisfy their desire.

The discounting has also impacted the trust our retailers have in us too. If you take our independent retailers who generally do a great job of cultivating the hobby on our behalf, these are small businesses who have to choose their stock carefully because they have limited balance sheets to fund it. If we sell them a box of Airfix Sea Harriers at full wholesale price and then sell them at half price on a website, these retailers will not be able to compete on price without taking a loss on the item. The best they can do is sit on the stock until we have sold out. It makes life very difficult for them and it certainly makes them think about wanting to buy items at full price from us. It has pushed some of them to buy from competitors instead.

In both anecdotes, the sales figure the Group would report to you would be higher than otherwise, but the value of the brands over the long term would have reduced. Discounting is a strategy that wins sales in the short term, but history would suggest that the extra sales today does not compensate for the long-term loss of trust in the brands.

The first thing we have done is remove the discounting, which has had the effect of initially reducing sales. The strategy has been welcomed by our retail partners and customers, but this is just the beginning. We are only at the start of the long process of rebuilding trust.

In order to do this, we needed to remove the financial straitjacket. We have worked with our lenders and shareholders over the last six months to restructure the balance sheet and have started the new financial year with a structure that will allow us to hold the line. We will be able to sell our carefully curated and desirable models/accessories at the price that optimises the brand values over the long term and cultivates trust with our customers and retail partners.

2. Supply chain

We are working to improve the infrastructure in our overseas supply chain to make it function more efficiently. We must guarantee that we get the right amount of product to the market at the right time and at the right cost. When this works efficiently we will greatly improve our sales performance.

We have a lack of new product arriving in the UK and therefore can't meet the demand. This is because of two main reasons:

– Order quantities were very low per item because of cash constraints and a lack of understanding about which designs would sell better than others.

– Not only were orders placed late, but the vitally important technical specifications were also supplied late to our manufacturers.

Manufacturers are like sharks – they survive and thrive by moving at pace. We must keep them busy. If we don't, they will look elsewhere for orders, which is what they did, further delaying production of our products.

After the delays in submitting orders and specifications last year, the situation was similar to trying to book a table at a restaurant at the last minute. As you might expect, most of the restaurants were unavailable, so we desperately rang around and booked the best available table we could find.

We then arrived late with less people in the party than we'd promised, we didn't order all of the meals, forgot to tell the kitchen how we wanted our steaks cooked, changed our mind on the side dishes and then complained when we found the restaurant was closing and there was no time for a dessert.

The solution here is to pull forward the planning deadlines by six months and choose the right manufacturing partners for the long run. Considering the complexity of our design and ordering cycles it will take time, but the aim is for the new schedule to be fully operational and firing on all cylinders for the financial year ending 31 March 2020.

3. Knowledge and experience

The skills required to produce the correct products in the right quantities needs decades of knowledge and experience of what the business has done before, what competitors have done before, what has worked, what hasn't worked and the understanding of why in all these scenarios.

We don't sell toothpaste. Our customers don't return once every couple of weeks for a new tube without thinking about it. It is difficult to generalise because the customer base for each brand is unique, but on the whole we have discerning customers who require only very specific models for their layouts, collections, gifts or playrooms. If a product sells well in a particular year, it doesn't necessarily mean the same one will sell well the next year. We are on a constant treadmill of innovation and this needs highly specialised and in-depth knowledge and experience for each of the brands.

Initially, I brought Simon Kohler and Tim Mulhall with me to help manage this turnaround. Simon alone spent 35 years with the Group during Hornby's most profitable years, before parting ways under a previous regime. Tim has a wealth of experience in this industry, bringing in knowledge of the international markets. All three of us together have over 100 years of directly applicable experience. This was a good start, but I realised we needed more. In 2018, we will take on more people who combined will add another 100 years of experience. These roles span all the major functions including sales, marketing, purchasing and operations.

This concerted effort to fill the Group with people who have decades of directly applicable experience to our rather esoteric markets is not limited to outside hires (or re-hires). Allowing the right internal talent to rise up and giving them a voice has started to yield great results too. Several existing employees with years of experience have been returned to their positions that they held during our most successful years.

We are assembling a team of experts who understand the customers and the markets in which each of the brands operate. We also have many stars moving through the ranks who now feel empowered to get on with rebuilding these brands and learn from the more experienced members. It's still only day one and we are rebuilding the foundations, but the early impact on morale and motivation is encouraging.

4. Costs

As I mentioned above, we have good visibility into the costs that we will need to incur to operate throughout the year. The challenge is to make enough gross profit to cover our operating costs and have some net profit left over for shareholders and/or future investment. In the simplest terms; there are two levers we can pull. We can sell more, and we can reduce our costs.

As it currently stands, we need to sell more product if we are to cover our costs. We have reset the business to a more sustainable level of sales without discounting. This has been painful in the short term from a profitability perspective; however, it is the right thing to do to ensure the business has a future. We aim to rebuild sales as the trust returns to our brands, but we are also working tirelessly to do more while spending less.

In the last announcement, we told you of the ongoing operational expenditure we had saved. We have found additional savings since the January update, and these savings are being found while improving service levels and product delivery schedules. We are instilling a culture of frugality which means we are doing more with less. This will be a key part of getting us back to profitability.

Outlook

As I said above, we don't want to give too much away to our competitors, but I can tell you that the changes to the strategy and the way we deal with our customers, suppliers, retailers and manufacturing partners has already yielded many opportunities to save cost, sell more and increase gross margins.

Dominant national retailers who were only a distant memory to the business have proactively re-engaged now the discounting has stopped. Licensors of important trademarks are engaging with us again and wanting to broaden ranges and partnerships. Previously lost talent is coming back to the Group and morale is starting to improve in our staff who will be the real champions of this turnaround.

Whilst there are green shoots starting to appear for the future, at the time of writing this, we have only been in place for seven months. The long design cycles mean that we have a largely inherited line plan for products being delivered this year. Nonetheless, we are at work doing the best with what we have as we seek to return the Group to profitability.

On behalf of the Board

Taff

Lyndon Davies
18 June 2018

Operating and Financial Review of the Year

Financial review

	2018	2017
Revenue	**£35.7m**	£47.4m
Gross profit	**£13.8m**	£18.2m
Gross profit margin	**39%**	38%
Overheads	**£21.3m**	£24.0m
Exceptionals	**£2.3m**	£3.3m
Reported loss before tax	**£(10.1)m**	£(9.5)m
Underlying loss before tax[1]	**£(7.6)m**	£(6.3)m
Reported loss after tax	**£(9.9)m**	£(9.7)m
Basic loss per share	**(10.13)p**	(12.65)p
Underlying basic loss per share[1]	**(8.05)p**	(9.26)p
Net cash	**£3.9m**	£1.5m
Undrawn facilities	**£6.0m**	£7.7m

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

Performance on a statutory basis

Consolidated revenue for the year ended 31 March 2018 was £35.7 million, a decrease of 25% compared to the previous year's £47.4 million as the previous management team's strategy of reducing stock lines and closing European operations took full effect. This strategy was reviewed in October 2017 and moves are underway to reverse these previous decisions. Gross profit margin was slightly higher, at 39% (2017: 38%) due to cessation of stock discounting post October 2017.

Overheads reduced year-on-year by 11% from £24.0 million to £21.3 million as a result of measures taken post October 2017 when the senior management and the Board were restructured. UK distribution costs reduced due to the smaller volume of products being handled through Hersden due to reduction in sales volume. Sales and marketing costs reduced by £2.6 million year-on-year due to the transfer of all trading from European subsidiaries to the UK, enabling the reduction of sales and marketing spend in each continental European location. The exit from concessions reduced concession commissions. Administration costs were £0.3 million higher, largely due to increased depreciation on the writing down of B2B and B2C website investments as we create websites more suited to our customers' needs. Other operating expenses in the year of £0.4 million (2017: £0.4 million income) include foreign exchange costs and the amortisation of certain intangible assets (brand names and customer lists).

Exceptional costs totalling £2.3 million (2017: £3.3 million) include £1.8 million relating to the restructuring of the UK business and Board changes, £0.4 million costs associated with the EGM ('Extraordinary General Meeting') and mandatory offer and costs relating to the 2017 equity issue and bank refinancing (£0.1 million).

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 non-trivial 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 restructuring costs are one-off items and therefore have also been added back in calculating underlying loss before taxation.

	Group	
	2018 £'000	2017 £'000
Statutory loss before taxation	(10,066)	(9,509)
Net foreign exchange impact on intercompany loans	(114)	(410)
Amortisation of intangibles – brands and customer lists	314	344
Exceptional items:		
Restructuring costs	1,823	3,889
EGM and mandatory offer	399	–
Refinancing costs	70	944
Profit on disposal of property	–	(1,530)
Underlying loss before taxation	(7,574)	(6,272)

The underlying loss before taxation above was £7.6 million (2017: loss of £6.3 million).

The basic loss per share calculated on underlying loss before taxation (hereafter referred to as underlying basic loss per share) was (8.05)p (2017: (9.26)p).

The income tax credit for the year is £0.2 million (2017: £0.2 million charge).

Reported pre-tax loss was £10.1 million (2017: loss of £9.5 million) and reported basic loss per share was (10.13)p (2017: (12.65)p loss per share).

Segmental analysis

Third-party sales by the UK business of £28.5 million fell by 24% in the year as a result of reduced investment in tooling and uncertainty in the customer base regarding discounting. The loss before taxation of £9.0 million compared to £11.8 million loss last year reflects the continued reduction in overheads during the latter part of the year.

Sales by the European businesses of £4.7 million fell by 24% 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 £0.6 million.

Sales in the US business of £2.5 million reduced by 30% on translation and by 20% on a constant currency basis. The trading loss of £0.5 million in the US was a result of lack of investment at Group level in product suitable for the US market.

Statement of financial position

Property, plant and equipment decreased year-on-year to £4.5 million from £5.7 million as depreciation of £2.8 million outweighed capital additions of £1.6 million. Group inventories increased slightly during the year due to the cessation of discounting as part of the New Business Plan from £9.7 million to £10.0 million. Trade and other receivables reduced by 36% due to reduced sales and improved sales ledger management. Trade and other payables reduced by £2.4 million largely due to the reduced size of the business. The net effect of these factors was a reduction in working capital of £1.0 million (a reduction of 38%). Overall investment in new tooling, new intangible computer software and other capital expenditure was £1.8 million (2017: £2.0 million).

Dividend

The Group has begun its New Business Plan under the new management team led by Lyndon Davies and so the decision has again been taken not to pay a dividend (2017: £nil). The Board continues to keep the dividend policy under review.

Operating and Financial Review of the Year
continued

Financing and capital structure

A Placing and Open Offer of 40,677,968 new ordinary shares at a price of 29.5 pence each, raising £11.5 million net of costs, was completed on 7 December 2017 with the funds being used to allow the business to pay down debt at that point in time of £7.4 million, acquire 49% of LCD Enterprises Limited for £1.6 million and invest in the New Business Plan.

Borrowings in the year ended 31 March 2018 peaked towards the end of 2017 under the previous Barclays Bank facility at £7.4 million. Since December 2017, the Company has operated without needing to utilise its new Barclays Bank facility, which has a limit of £6 million.

Net cash at 31 March 2018 was £3.9 million compared to net cash of £1.5 million at 31 March 2017, giving undrawn facilities and available cash of £9.9 million at 31 March 2018.

Post the year end, the Group has moved its financing requirements away from Barclays. On 5 June 2018 the Group entered an Asset Based Lending ('ABL') facility of up to £12.0 million with PNC Credit Limited through to June 2023. The PNC covenants are customary operational and financial covenants applied on a monthly basis. In addition, the Group entered a committed £6.0 million loan facility with The Phoenix UK Fund (the Group's largest shareholder) if it should be required, which is a three-year rolling facility.

Our Key Performance Indicators ('KPIs')

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 in the financial highlights section earlier in this report. 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 conditions	The Group has competition in the model railway, slot racing, model kits, die-cast and paint markets. Failure to recruit new customers, 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.	Falling 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 twelve months ahead. It is deemed impractical to hedge exchange rate movements beyond that period.

Our Key Performance Indicators ('KPIs') continued

Risk	Description	Impact/sensitivity	Mitigation/comment
Supply chain	The Group's products are manufactured by specialist labour in China and India.	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. 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.
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 £6.0 million 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 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.
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 re-acquired and brought back into the Company.

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.

Kirstie Gould
Chief Finance Officer
18 June 2018

Directors and Corporate Information

Directors
Lyndon Davies
Executive Chairman and Chief Executive

Kirstie Gould
Chief Finance Officer

James Wilson
Non-Executive Director

Martin George
Non-Executive Director

John Stansfield
Non-Executive Director

Company Secretary
Kirstie Gould

The full details of all Directors who served in the year ended 31 March 2018 can be found on page 13.

Registered office
3rd Floor, The Gateway
Innovation Way
Discovery Park
Sandwich
Kent CT13 9FF

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 advisers 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 2018.

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 2018 are set out in the Group Statement of Comprehensive Income. Revenue for the year was £35.7 million compared to £47.4 million last year. The loss for the year attributable to equity holders amounted to £9.9 million (2017: £9.7 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 Executive Chairman's Report.

No interim dividend was declared in the year (2017: £nil) and the Directors do not recommend a final dividend (2017: £nil).

EVENTS AFTER THE END OF THE REPORTING PERIOD

On 5 June 2018, the Group entered into a £12.0 million Asset Based Lending agreement with PNC Credit Limited for five years ending June 2023. In addition, Phoenix Asset Management Partners Limited, the majority shareholder, has provided an additional £6.0 million of loan to further fund the turnaround as part of the New Business Plan. Further details are given in Note 30.

GOING CONCERN

On 5 June 2018, the Group entered into a £12.0 million Asset Based Lending ('ABL') facility with PNC Credit Limited through to June 2023. The PNC covenants are customary operational and financial 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 Credit Limited 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 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 of all relate to research costs.

DIRECTORS AND SHAREHOLDERS

During 2017 there was much change at the Group. The initial catalyst was an approach by the second-largest shareholder, ROY Nominees Limited, to call a general meeting for the purposes of considering ordinary resolutions to remove Roger Canham from office as a Director of the Company and to appoint a ROY Nominees representative as a Director.

Irrevocable commitments were received from more than 50% of shareholders to vote against the resolution, and so the meeting was adjourned, and Roger Canham remained as a Director.

Following the publication of the Group's final results in June 2017, it was announced that the funds controlled by Phoenix Asset Management Partners ('The Concert Party') had acquired a further 20% of the shares outstanding from ROY Nominees Limited. The City Code on Takeovers and Mergers rules required The Concert Party to submit a formal bid for the rest of the shares outstanding, and as a member of the Phoenix Concert Party, Roger Canham decided to step down from the Board.

The Hornby Board considered the offer and deemed it to undervalue the prospects of the Group. The Board recommended that shareholders reject the offer.

In July, the offer closed and the final level of acceptances elevated the Phoenix stake to 71.5% of the shares outstanding. Shortly after the offer closed, the Board appointed James Wilson, a partner at Phoenix Asset Management Partners, as a Non-Executive Director.

In September, it was mutually agreed that Steve Cooke would step down as CEO. Shortly after this it was announced that Lyndon Davies, a highly experienced model and hobby professional, would join the Group as CEO. Lyndon also brought with him Simon Kohler and Tim Mulhall as operational consultants. Simon Kohler is a highly respected industry veteran in the model and hobby industry, having spent 35 years with Hornby, and Tim Mulhall specialises in building routes to market and strategic sales development. Lyndon, Simon and Tim combined have over 100 years of experience in the industry.

In the interim results announcement in November, the Board outlined a disappointing performance in the first half, a new strategy to maximise the value of the brands and a capital raise to address both the underperformance and provide funds for additional investment.

The Board also announced the acquisition of a 49% stake in LCD Enterprises, the parent company of the Oxford Diecast model and hobby brand. Lyndon Davies, the current Group CEO, is the ultimate owner of LCD Enterprises.

The Placing and Open Offer announced with the interim results was concluded and the Phoenix stake increased to 74.66% of the shares outstanding of the Group.

Towards the end of the year, there were further Board changes. On 31 December, David Adams (Interim Chairman) and David Mulligan (CFO) stepped down.

Kirstie Gould replaced David Mulligan as CFO. Kirstie has spent over two years with Hornby and has stepped up from her previous role as a consultant in the finance department. Kirstie qualified as a chartered accountant with PricewaterhouseCoopers LLP in 1997 and since then has held senior management and directorship roles across a number of high-growth SME firms.

John Stansfield also joined the Board as a Non-Executive Director. John is a qualified accountant and previously spent 31 years with the Group, completing twelve years as Group Finance Director.

Lyndon Davies, the CEO of the Group, became Interim Executive Chairman and CEO until the search for an Independent Non-Executive Chairman is completed.

The potential conflict with Lyndon Davies being CEO (and Interim Chairman) of Hornby PLC and majority shareholder of LCD Limited is mitigated by the fact that the Board is comprised of four other Directors and the Company is ultimately controlled by the major shareholder, Phoenix Asset Management Partners Limited. The Board intends to introduce a list of matters which require consideration of the Board to ensure conflicts of interest, if any, can be managed.

The Directors who served during the year up to the date of signing the financial statements were:

L Davies (Appointed 5 October 2017)
K Gould (Appointed 4 January 2018)
J Wilson (Appointed 1 August 2017)
J Stansfield (Appointed 4 January 2018)
S Cooke (Resigned 3 October 2017)
D Mulligan (Resigned 31 December 2017)
M George (Appointed 22 December 2016)
R Canham (Resigned 21 June 2017)
D Adams (Resigned 31 December 2017)

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 Company 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 2018 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 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 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 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' Report continued

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 performance, business model and strategy.

Each of the Directors, whose names and functions are listed in Annual Report and Accounts 2018, confirm that, to the best of their knowledge:
- the Group and Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group and loss of the Company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

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 is 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.

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 21.

INDEPENDENT AUDITORS

A resolution to re-appoint 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 2018. 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 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 2017–18 and 2016–17 in line with the Companies Act 2006 requirement:

AUDITED

	Year ended 31 March 2018			Year ended 31 March 2017			
	Basic salary, allowances and fees £'000	Pension contributions £'000	Total salary and pension contributions £'000	Basic salary, allowances and fees £'000	Pension contributions £'000	Bonus £'000	Total salary and pension contributions £'000
L Davies (Appointed 5 October 2017)	**100**	**–**	**100**	–	–	–	–
K Gould (Appointed 4 January 2018)	**34**	**6**	**40**	–	–	–	–
J Wilson (Appointed 1 August 2017)	**–**	**–**	**–**	–	–	–	–
J Stansfield (Appointed 4 January 2018)	**9**	**–**	**9**	–	–	–	–
S Cooke[1,4] (Resigned 3 October 2017)	**365[1]**	**38**	**403[4]**	283	51	148	482
D Mulligan[2] (Resigned 31 December 2017)	**218[2]**	**26**	**244**	184	18	65	267
M George (Appointed 22 December 2016)	**49**	**–**	**49**	11	–	–	11
R Canham[3] (Resigned 21 June 2017)	**25[3]**	**–**	**25**	100	–	–	100
D Adams (Resigned 31 December 2017)	**49**	**–**	**49**	40	–	–	40
C Caminada (Resigned 22 December 2016)	**–**	**–**	**–**	106	–	–	106
Total	**849**	**70**	**919**	724	69	213	1,006

1 – Excluded from within this amount is compensation for loss of office totalling £155,652.
2 – Excluded from this amount is compensation for loss of office totalling £174,697.
3 – Excluded from this amount is compensation for loss of office totalling £25,000.
4 – Highest paid Director.

Performance Share Plan ('PSP') awards outstanding (Audited)

At 31 March 2018, outstanding awards to Directors under the PSP were as follows:

Director	Award date	Vesting date	Market price at award date	At 1 April 2017	Awarded during year	Lapsed during year	Vested during year	**At 31 March 2018**
S Cooke	Aug 2015	Aug 2018	105.0p	190,476	–	190,476	–	**–**
	Dec 2016	Mar 2019	29.0p	2,136,752	–	1,914,209	222,543	**–**
R Canham	Dec 2016	Mar 2019	29.0p	170,940	–	153,137	17,803	**–**
D Mulligan	Dec 2016	Mar 2019	29.0p	598,290	–	535,978	62,312	**–**

For the 2015 awards, the outstanding awards lapsed during the year.

For the 2016 awards, these partially vested on 23 June 2017 when there was a change in control and Phoenix Asset Management Partners Limited became the majority shareholder, and the rest lapsed.

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

Directors' Report continued

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 for loss of office and termination payments (Audited)

Payments to past Directors totalled £355,349, made up of payments to Steve Cooke (£155,652), David Mulligan (£174,697) and Roger Canham (£25,000) under their respective settlement agreements. 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. Any outstanding awards under the Company's PSP share scheme are subject to good leaver provisions under the scheme's rules. Under certain circumstances and subject to certain criteria, the Remuneration Committee has the power to determine the vesting of any outstanding awards.

DIRECTORS' INTERESTS

Interests in shares (Audited)

In addition to their interests in shares in the Performance Share Plans, the interests of the Directors in the shares of the Company at 31 March 2018 and 31 March 2017 were:

	At 31 March 2018 number	At 31 March 2017 number
Executive Directors		
L Davies	–	N/A
K Gould	–	N/A
Non-Executive Directors		
M George	–	–
J Wilson	–	N/A
J Stansfield	**64,052**	N/A

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
3rd Floor, The Gateway
Innovation Way
Discovery Park
Sandwich
Kent CT13 9FF

18 June 2018

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 2018 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 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 2018 (the 'Annual Report'), which comprise: the Group and Company statements of financial position as at 31 March 2018; 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.

Our audit approach

Overview

Materiality	• Overall Group materiality: £400,000 (2017: £350,000), based on approximately 5% of underlying loss before tax. • Overall Company materiality: £320,000 (2017: £315,000), based on 1% of total assets, restricted so that it does not exceed Group materiality
Audit Scope	• We performed an audit of the complete financial information of two full scope components, being Hornby PLC and Hornby Hobbies Limited. We also performed desktop reviews over the European sales offices and US trading subsidiary, and audited the consolidation including consolidation adjustments. • Our full scope components provided coverage of 93% of Group revenue (2017: 84%), and 85% of Group underlying loss before tax (2017: 66%), 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.
Key Audit Matters	• Going concern (Group and Company). • Impairment of goodwill, investments and intangibles (Group and Company). • Recording of revenue (Group). • Royalty provision (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.

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 Financial Reporting Council's (FRC's) Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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.

Independent Auditors' Report to the Members of Hornby PLC continued

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 had forecast that it would breach bank covenants associated with a £6 million revolving credit facility at 31 March 2018. These covenants were formerly waived and so no covenant breach occurred. The Group has refinanced these borrowings with a £12 million asset based facility and £6 million drawdown facility. The Directors have prepared a cash flow model to 31 March 2021 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, 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 each assumption, noting that forecast improvements in gross margin are important factors in delivering the plan. We have performed sensitivity analysis to assess whether a reasonably possible change in a key assumption would result in a need for further financing. We have reviewed the covenants within the new 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. 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 £4.6 million of goodwill (31 March 2017: £4.6 million) and £2.2 million of intangible assets (31 March 2017: £2.5 million) relating to brand names and customer lists. Hornby PLC also holds an investment in subsidiaries of £23.3 million (31 March 2017: £22.7 million) in the Company financial statements. Recovery of these amounts is dependent on future cash flows associated with the respective asset and there is a 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 profit 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 as to the appropriateness of the level of aggregation of each cash generating unit ('CGU') and the independence of cash flows from other assets. We considered the reliability of the Directors' historical forecasting for revenue, profit and cash conversion by comparing budgeted results to actual performance. As a result of our work, we determined that it was appropriate that no impairment charge was recognised for goodwill and intangible assets in the Group financial statements and that appropriate disclosures had been made. The Directors identified that an impairment charge of £1.0 million should be recognised in respect of investments in the Hornby PLC financial statements.

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 £35.7 million of revenue (2017: £47.4 million). 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 93% of revenue, we performed a walkthrough of the revenue process to understand how revenue is recognised and 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 was supported by testing a sample of items to price lists and discount agreements, testing a sample of manual journals to supporting documentation and testing sales close to the year end to shipping documentation. We performed analytical procedures on sales for the other territories. Our work did not identify any exceptions.
Royalty provision Refer to note 1 within the Notes to the Financial Statements for further information. The Group has recorded a royalty provision of £0.7 million as at 31 March 2018 (31 March 2017: £0.2 million). This includes amounts in relation to royalties for the sale of licensed goods. We focused 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 royalty accruals in relation to the sale of licensed goods. We reconciled the value used for sales of licensed goods in the calculations back to sales in the year and tested a sample of royalty percentages used to a sample of contacts. We tested payments made during the year to bank statements and considered the Directors' ability to estimate the amount in the prior year. In relation to ongoing discussions with suppliers, we assessed the most likely outcome of these discussions. 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 £10.0 million of inventory as at 31 March 2018 (31 March 2017: £9.7 million). The nature of the Group's business model is to supply toy and hobby products to the global market through a series of brands. There is a risk that aged inventory may be difficult to sell. The completeness of the inventory provision is an area of focus for the audit. *Group*	We obtained an understanding of the methodology used in the inventory provision and agreed the values used in the calculation to the general ledger. For a sample of stock lines, we tested the ageing 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, reviewed the completeness of the provision by assessing aged unprovided inventory balances against the sales plan, and performed some sensitivity analysis to assess whether there was a risk of material misstatement in the provision. Nothing arose from our work to suggest that the provisions recorded were materially misstated.
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 £2.3 million (31 March 2017: £3.3 million) and the Company has recorded exceptional items of £1.9 million (31 March 2017: £5.8 million). 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 were considered to be 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 challenged the Directors on 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. Our testing did not identify any costs that had been inappropriately classified.

Independent Auditors' Report to the Members of Hornby PLC continued

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	£400,000 (2017: £350,000).	£320,000 (2017: £315,000).
How we determined it	Approximately 5% of underlying loss before tax.	1% of total assets, restricted so that it does not exceed Group 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.	The Company is primarily a holding company and we consider that total assets is the most appropriate benchmark for assessing materiality.

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 £320,000 and £380,000.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £12,500 (Group audit) (2017: £12,500) and £12,500 (Company audit) (2017: £12,500) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which 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 twelve months from the date when the financial statements are authorised for issue.

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.

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 2018 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 13, 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

18 June 2018

Group and Company Statements of Comprehensive Income

for the Year Ended 31 March 2018

	Note	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Revenue	2	**35,651**	47,420	**1,493**	1,370
Cost of sales		**(21,900)**	(29,270)	**–**	–
Gross profit		**13,751**	18,150	**1,493**	1,370
Distribution costs		**(7,224)**	(8,419)	**–**	–
Selling and marketing costs		**(7,647)**	(10,294)	**–**	–
Administrative expenses		**(6,021)**	(5,680)	**(1,416)**	(1,264)
Other operating (expenses)/gains		**(437)**	358	**–**	–
Operating (loss)/profit before exceptional items	4	**(7,578)**	(5,885)	**77**	106
Exceptional items		**(2,292)**	(3,303)	**(1,889)**	(5,801)
Operating loss	2	**(9,870)**	(9,188)	**(1,812)**	(5,695)
Finance income	3	**7**	5	**175**	175
Finance costs	3	**(218)**	(326)	**(216)**	(205)
Net finance expense	3	**(211)**	(321)	**(41)**	(30)
Share of profit of investments accounted for using the equity method		**15**	–	**15**	–
Loss before taxation	4	**(10,066)**	(9,509)	**(1,838)**	(5,725)
Income tax credit/(charge)	5	**212**	(157)	**–**	100
Loss for the year after taxation		**(9,854)**	(9,666)	**(1,838)**	(5,625)
Other comprehensive income					
Items that may be subsequently reclassified to profit or loss:					
Cash flow hedges, net of tax		**(353)**	(452)	**–**	–
Currency translation (losses)/gains		**(54)**	15	**(76)**	(390)
Other comprehensive expense for the year, net of tax		**(407)**	(437)	**(76)**	(390)
Total comprehensive loss for the year		**(10,261)**	(10,103)	**(1,914)**	(6,015)
Loss per ordinary share					
Basic	7	**(10.13)p**	(12.65)p		
Diluted	7	**(10.13)p**	(12.65)p		

All results relate to continuing operations.

The notes on pages 26 to 57 form part of these accounts.

Group and Company Statements of Financial Position

as at 31 March 2018

	Note	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Assets					
Non-current assets					
Goodwill	8	**4,564**	4,554	**–**	–
Intangible assets	9	**3,368**	4,214	**–**	–
Property, plant and equipment	10	**4,489**	5,683	**–**	–
Investments	11	**1,615**	–	**23,300**	22,657
Deferred tax assets	20	**2,030**	1,974	**–**	–
		16,066	16,425	**23,300**	22,657
Current assets					
Inventories	12	**10,030**	9,680	**–**	–
Trade and other receivables	13	**5,949**	9,246	**33,529**	24,109
Derivative financial instruments	19	**–**	120	**–**	–
Current tax assets	17	**–**	50	**–**	50
Cash and cash equivalents	14	**3,878**	1,580	**4**	6
		19,857	20,676	**33,533**	24,165
Liabilities					
Current liabilities					
Borrowings	18	**–**	(82)	**–**	–
Trade and other payables	15	**(4,312)**	(6,664)	**(159)**	(27)
Derivative financial instruments	19	**(423)**	(190)	**–**	–
Provisions	16	**(174)**	(196)	**–**	–
Current tax liabilities	17	**–**	(212)	**–**	–
		(4,909)	(7,344)	**(159)**	(27)
Net current assets		**14,948**	13,332	**33,374**	24,138
Non-current liabilities					
Borrowings	18	**–**	–	**(5,849)**	(5,518)
Deferred tax liabilities	20	**(150)**	(94)	**–**	–
		(150)	(94)	**(5,849)**	(5,518)
Net assets		**30,864**	29,663	**50,825**	41,277
Equity attributable to owners of the parent					
Share capital	21	**1,253**	846	**1,253**	846
Share premium		**38,587**	27,445	**38,587**	27,445
Capital redemption reserve	23	**55**	55	**55**	55
Translation reserve	23	**(1,425)**	(1,371)	**(1,220)**	(1,144)
Hedging reserve	23	**(423)**	(70)	**–**	–
Other reserves	23	**1,688**	1,688	**19,145**	19,145
Retained earnings/(accumulated losses)		**(8,871)**	1,070	**(6,995)**	(5,070)
Total equity		**30,864**	29,663	**50,825**	41,277

The Company made a total comprehensive loss for the year of £1,914,000 (2017: £6,015,000).

The notes on pages 26 to 57 form part of these accounts. The financial statements on pages 24 to 58 were approved by the Board of Directors on 18 June 2018 and were signed on its behalf by:

K Gould
Director
Registered Company Number: 01547390

Group and Company Statements of Changes in Equity

for the Year Ended 31 March 2018

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 1 April 2016	550	20,205	55	(1,386)	382	1,688	10,642	32,136
Loss for the year	–	–	–	–	–	–	(9,666)	(9,666)
Other comprehensive income/(expense) for the year	–	–	–	15	(452)	–	–	(437)
Total comprehensive expense for the year	**–**	**–**	**–**	**15**	**(452)**	**–**	**(9,666)**	**(10,103)**
Transactions with owners								
Net proceeds from issue of ordinary shares	296	7,240	–	–	–	–	–	7,536
Share-based payments (note 22)	–	–	–	–	–	–	94	94
Total transactions with owners	**296**	**7,240**	**–**	**–**	**–**	**–**	**94**	**7,630**
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 22)	–	–	–	–	–	–	(87)	(87)
Total transactions with owners	**407**	**11,142**	**–**	**–**	**–**	**–**	**(87)**	**11,462**
Balance at 31 March 2018	**1,253**	**38,587**	**55**	**(1,425)**	**(423)**	**1,688**	**(8,871)**	**30,864**

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 1 April 2016	550	20,205	55	(754)	19,145	461	39,662
Loss for the year	–	–	–	–	–	(5,625)	(5,625)
Other comprehensive expense for the year	–	–	–	(390)	–	–	(390)
Total comprehensive expense for the year	**–**	**–**	**–**	**(390)**	**–**	**(5,625)**	**(6,015)**
Transactions with owners							
Net proceeds from issue of ordinary shares	296	7,240	–	–	–	–	7,536
Share-based payments	–	–	–	–	–	94	94
Total transactions with owners	296	7,240	–	–	–	94	7,630
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 2018	**1,253**	**38,587**	**55**	**(1,220)**	**19,145**	**(6,995)**	**50,825**

The notes on pages 26 to 57 form part of these accounts.

Group and Company Cash Flow Statements

for the Year Ended 31 March 2018

	Note	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Cash flows from operating activities					
Cash (used in)/generated from operations	28	**(5,489)**	91	**(640)**	(1,080)
Interest paid		**(218)**	(326)	**(198)**	(205)
Tax received/(paid)		**50**	118	**50**	(89)
Repayments of loans and cash-settled share-based payments		**(136)**	(188)	**(136)**	–
Net cash (used in)/generated from operating activities		**(5,793)**	(305)	**(924)**	(1,374)
Cash flows from investing activities					
Acquisition of associate	11	**(1,600)**	–	**(1,600)**	–
Proceeds from sale of property, plant and equipment		**4**	3,338	**–**	2,248
Purchase of property, plant and equipment	10	**(1,648)**	(1,756)	**–**	–
Purchase of intangible assets	9	**(146)**	(226)	**–**	–
Interest received		**7**	5	**175**	175
Net cash (used in)/generated from investing activities		**(3,383)**	1,361	**(1,425)**	2,423
Cash flows from financing activities					
Proceeds from issuance of ordinary shares		**12,000**	8,000	**12,000**	8,000
Share issue costs		**(451)**	(464)	**(451)**	(464)
Advances to subsidiary undertakings		**–**	–	**(9,202)**	(8,580)
Net cash generated from/(used in) financing activities		**11,549**	7,536	**2,347**	(1,044)
Net increase/(decrease) in cash and cash equivalents		**2,373**	8,592	**(2)**	5
Cash, cash equivalents and bank overdrafts at beginning of the year		**1,498**	(7,029)	**6**	1
Effect of exchange rate movements		**7**	(65)	**–**	–
Cash, cash equivalents and bank overdrafts at end of year		**3,878**	1,498	**4**	6
Cash, cash equivalents and bank overdrafts consist of:					
Cash and cash equivalents	14	**3,878**	1,580	**4**	6
Bank overdrafts	18	**–**	(82)	**–**	–
Cash, cash equivalents and bank overdrafts at end of year		**3,878**	1,498	**4**	6

The notes on pages 26 to 57 form part of these accounts.

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

Accounting policies for the year ended 31 March 2018

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 2018 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 banking facility with PNC Credit Limited through to June 2023 and available net cash of £3.9 million at 31 March 2018. In addition, the Group has 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 the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase 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, and 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

A number of new standards and amendments to standards and interpretations will be effective for future annual periods beginning after 1 January 2018 and, therefore, have not been applied in preparing these consolidated financial statements. The expected impact of IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases' on the consolidated financial statements of the Group is disclosed below.

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 will be adopted by the Group on 1 April 2018.

IFRS 9 will impact the classification and measurement of the Group's financial instruments and will require certain additional disclosures. The primary changes relate to the assessment of hedging arrangements and provisioning for potential future credit losses on financial assets; the Group is continuing to analyse the impact of these changes which are not currently considered likely to have any major impact on the Group's current accounting treatment or hedging activities. Management has concluded an initial assessment and the impact is not material.

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. The Group has not adopted this standard early. IFRS 15 changes how and when revenue is recognised from contracts with customers. The Group will be required to identify all contracts it has with customers in order to determine whether, how much and when, revenue is recognised. The Group has not identified any revenue streams that will be impacted by the new standard. The Group plans to adopt IFRS 15 in its consolidated financial statements for the year ending 31 March 2019. Management has concluded an initial assessment and the impact is not material.

IFRS 16 'Leases'

IFRS 16 is effective for periods commencing on or after 1 January 2019. The standard was endorsed by the EU during 2017. The Group does not plan to adopt this standard early. IFRS 16 eliminates the classification of leases as either operating leases or finance leases. The Group will be required to recognise all leases with a term of more than twelve months as a right-of-use lease asset on its balance sheet. The Group will also recognise a financial liability representing its obligation to make future lease payments. The Group has conducted an initial quantification of the impact of adopting the standard, based on its existing lease contracts. The most significant impact is in respect of its various office and warehouse premises. The impact using the modified retrospective approach is expected to be the recognition of a lease liability of £1.9 million, with a corresponding right-of-use asset.

Revenue recognition

Revenue is measured at the fair value of the sale of goods net of value added tax, rebates and discounts, royalty income and after eliminating sales within the Group.

Revenue is recognised 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 on an accruals basis in accordance with the substance of the relevant agreements.

(c) Sales returns
The Group establishes a sales returns provision at the period end that reduces revenue in anticipation of customer returns of goods sold in the period.

(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. Management fees are recognised in the Company on an accruals basis in relation to costs incurred on behalf of subsidiary companies.

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.

Notes to the Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES continued

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 investors' 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 CGUs for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs 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 CGU 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 15–20 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	– 5 to 10 years
Motor vehicles	– 4 years

Tools and moulds are depreciated at varying rates in line with the related estimated product sales on an item-by-item basis up to a maximum of 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 (CGUs). 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 revalued using the equity method of valuation prior to the transition to IFRS use this valuation as deemed cost at this date. Dividend income is shown separately in the Statement of Comprehensive Income.

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. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the Statement of Comprehensive Income.

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.

Notes to the Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES continued

Sales returns provisions

Provisions for sales returns are recognised when the Group has a constructive obligation as a result of a past event. Provisions for sales returns are measured at the present value of the expenditure expected to be required to settle the obligation.

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.

Taxations, 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.

Share-based payment

The Group operates the PSP ('Performance Share Plan') for Executive Directors and senior executives. Awards under the scheme are granted in the form of a nil-priced option and are satisfied using market-purchased shares.

The PSP awards that were outstanding at 31 March 2017 only vested if performance conditions were met. Awards granted under the PSP must be exercised within one year of the relevant award vesting date. There were no awards outstanding at 31 March 2018.

On 23 June 2017, Phoenix UK Fund Limited put forward a mandatory unconditional cash offer by Phoenix UK Fund for the Hornby shares not already held by members of the Phoenix Concert Party. As part of the rules of the PSP scheme, this automatically caused the 2016-17 PSP awards to vest. Following on from the change of ownership, and due to the subsequent changes to the Board, no PSP awards have been made in 2018. All the remaining PSP awards have now either vested as a result of the takeover offer or have lapsed.

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 25.

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.

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 Dollar forwards in exchange for Sterling) and looks forward six to 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 the 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 2018 the Group had a credit facility of £6 million (2017: £7.75 million) expiring in December 2019 (2017: December 2019). Borrowings in the year ended 31 March 2018 peaked at £7.4 million. 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. 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 Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of the hedged items.

(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 Other Comprehensive Income. The gain or loss relating to the ineffective portion is recognised immediately in the Statement of Comprehensive Income within operating expenses.

Notes to the Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES continued

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 the 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 19.

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 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 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 CGUs, the forecast margin growth rate, the growth rate in perpetuity of the cash flows and the forecast operating profits of the CGUs. 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

Specific debtors are provided for when there is significant doubt that a repayment of debt will be fulfilled considering specific knowledge of the customer and sales terms of the debt outstanding.

(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.

(d) Sales provision

The provision for sales returns is based on historic returns data applied to sales for the current year and this provision is reviewed by management on an ongoing basis.

(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 and from 1 April 2018 the provisions will be calculated by the ERP system based 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 12) and the basis of preparation (page 28).

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.

Notes to the Financial Statements continued

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 22 and its assets and liabilities given in the Company Statement of Financial Position on page 23. Other Company information is provided in the other notes to the accounts.

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)	**0**
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)/profit before taxation		**(8,965)**	**(538)**	**(340)**	**(26)**	**(197)**	**(10,066)**	**–**	**(10,066)**
Taxation		400	–	(1)	–	(187)	**212**	–	**212**
(Loss)/profit 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		1,619	29	–	–	–	**1,648**	–	**1,648**
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.

Year ended 31 March 2017

		UK £'000	USA £'000	Spain £'000	Italy £'000	Rest of Europe £'000	Total reportable segments £'000	Intra-Group £'000	Group £'000
Revenue	– External	37,720	3,519	1,071	1,622	3,488	47,420	–	47,420
	– Other segments	6,956	–	–	–	–	6,956	(6,956)	–
Operating loss		(11,864)	(323)	2,037	534	428	(9,188)	–	(9,188)
Finance cost	– External	5	–	–	–	–	5	–	5
	– Other segments	594	–	–	–	–	594	(594)	–
Finance income	– External	(324)	–	(2)	–	–	(326)	–	(326)
	– Other segments	(175)	–	(205)	(145)	(69)	(594)	594	–
(Loss)/profit before taxation		(11,764)	(323)	1,830	389	359	(9,509)	–	(9,509)
Taxation		100	(2)	(5)	(218)	(32)	(157)	–	(157)
(Loss)/profit for the year		(11,664)	(325)	1,825	171	327	(9,666)	–	(9,666)
Segment assets		47,277	1,605	6,137	3,858	5,950	64,827	–	64,827
Less intercompany receivables		(17,027)	(65)	(5,884)	(3,280)	(3,495)	(29,751)	–	(29,751)
Add tax assets		2,024	–	–	–	–	2,024	–	2,024
Total assets		32,274	1,540	253	578	2,455	37,100	–	37,100
Segment liabilities		17,966	2,189	4,552	4,544	7,803	37,054	(29,922)	7,132
Less intercompany payables		(12,329)	(2,126)	(4,396)	(4,296)	(6,775)	(29,922)	29,922	–
Add tax liabilities		94	–	–	212	–	306	–	306
Total liabilities		5,731	63	156	460	1,028	7,438	–	7,438
Other segment items									
Capital expenditure		1,834	20	91	37	–	1,982	–	1,982
Depreciation		2,810	20	54	149	3	3,036	–	3,036
Net foreign exchange on intercompany loans		410	–	–	–	–	410	–	410
Amortisation of intangible assets		728	–	–	80	8	816	–	816
Impairment of goodwill		–	–	–	–	–	–	–	–
Share-based payment		94	–	–	–	–	94	–	94

All transactions between Group companies are on normal commercial terms.

3. NET FINANCE EXPENSE

	Group		Company	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Finance costs:				
Interest expense on bank borrowings	**(218)**	(326)	**–**	–
Interest expense on intercompany borrowings	**–**	–	**(216)**	(205)
	(218)	(326)	**(216)**	(205)
Finance income:				
Bank interest	**7**	5	**–**	–
Interest income on intercompany loans	**–**	–	**175**	175
	7	5	**175**	175
Net finance expense	**(211)**	(321)	**(41)**	(30)

Notes to the Financial Statements continued

4. LOSS BEFORE TAXATION

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
The following items have been included in arriving at loss before taxation:				
Staff costs (note 24)	**8,994**	10,587	**1,443**	1,452
Inventories:				
– Cost of inventories recognised as an expense (included in cost of sales)	**17,252**	23,339	**–**	–
– Stock provision	**(44)**	(646)	**–**	–
Depreciation of property, plant and equipment:				
– Owned assets	**2,821**	3,036	**–**	–
(Loss)/profit on disposal of fixed assets	**(9)**	1,439	**–**	926
Other operating lease rentals payable:				
– Plant and machinery	**88**	92	**–**	–
– Property	**717**	719	**–**	–
Repairs and maintenance expenditure on property, plant and equipment	**114**	86	**–**	–
Research and development expenditure	**994**	1,154	**–**	–
Foreign exchange (gains)/losses:				
Impairment of trade receivables	**432**	486	**–**	–
Share-based payment (credit)/charge	**(87)**	110	**202**	76
Other operating expenses/(income):				
– Foreign exchange on trading transactions	**221**	(292)	**–**	–
– Net impact of foreign exchange on intercompany loans	**(114)**	(410)	**–**	–
– Amortisation of intangible assets – brands and customer lists	**314**	344	**–**	–

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Exceptional items comprise:				
– Restructuring costs	**1,823**	3,889	**536**	761
– Refinancing	**70**	944	**–**	191
– Profit on disposal of property	**–**	(1,530)	**–**	(926)
– Costs of EGM and mandatory offer	**399**	–	**381**	–
– Impairment of investment	**–**	–	**972**	5,775
	2,292	3,303	**1,889**	5,801

The exceptional items totalling £2,292,000 (2017: £3,303,000) include restructuring costs relating to redundancy costs and professional fees, relating to the ongoing reorganisation in the UK, and additionally in the prior year the costs of running the Margate site. In addition, there are costs relating to the 2017 equity issue and bank refinancing, plus fees relating to the EGM and the Phoenix mandatory offer for shares.

The Company's exceptional items include £972,000 (2017: £5,775,000) in respect of impairment charges against investments in the Spanish, Italian and German subsidiaries following the restructuring of the senior management team and the associated forecasts.

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	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Fees payable to the Company's auditors for the audit of the Parent Company and consolidated accounts	**55**	50	**10**	10
Fees payable to the Company's auditors and its associates for other services:				
– The auditing of accounts of the Company's subsidiaries	**44**	62	**–**	–
– Audit-related assurance services	**5**	5	**–**	–
– Other advisory work	**–**	95	**–**	–
	104	212	**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. Other advisory work relates to the raising of equity in the year to 31 March 2017.

5. INCOME TAX (CREDIT)/CHARGE

Analysis of tax (credit)/charge in the year

	Group		Company	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Current tax				
– UK taxation	**–**	–	**–**	–
Adjustments in respect of prior years	**–**	–	**–**	–
– Overseas taxation	**–**	212	**–**	–
Adjustments in respect of prior years	**(212)**	45	**–**	–
	(212)	257	**–**	–
Deferred tax (note 20)				
– Current year	**–**	(199)	**–**	(94)
– Overseas taxation	**–**	–	**–**	–
– Adjustments in respect of prior years	**–**	–	**–**	–
– Effect of tax rate change on opening balance	**–**	99	**–**	(6)
	–	(100)	**–**	(100)
Total tax (credit)/charge to the loss before tax	**(212)**	157	**–**	(100)

Notes to the Financial Statements continued

5. INCOME TAX (CREDIT)/CHARGE continued

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	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Loss before taxation	**(10,066)**	(9,509)	**(1,838)**	(5,725)
Loss on ordinary activities multiplied by rate of Corporation tax in UK of 19% (2017: 20%)	**(1,913)**	(1,902)	**(349)**	(1,145)
Effects of:				
Adjustments to tax in respect of prior years	**(212)**	45	**–**	–
Permanent differences	**(19)**	83	**205**	868
Difference on overseas rates of tax	**(131)**	(110)	**–**	–
Deferred tax not recognised	**2,063**	1,942	**144**	183
Remeasurement of deferred tax				
– Change in UK tax rate to 17% (2017: 17%)	**–**	99	**–**	(6)
Total taxation	**(212)**	157	**–**	(100)

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 20.

6. DIVIDENDS

No interim or final dividends were paid in relation to the year ended 31 March 2017 and no interim dividend has been paid in relation to the year ended 31 March 2018. The Directors are not proposing a final dividend in respect of the financial year ended 31 March 2018.

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, excluding those held in the employee share trust (note 22) which are treated as cancelled.

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 2018. For the year ended 31 March 2018, 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.

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

	2018			2017		
	(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	**(9,854)**	**97,288**	**(10.13)**	(9,666)	76,384	(12.65)
Effect of dilutive securities						
Options	**–**	**–**	**–**	–	–	–
Diluted loss per share	**(9,854)**	**97,288**	**(10.13)**	(9,666)	76,384	(12.65)
Underlying						
Loss attributable to ordinary shareholders	**(9,854)**	**97,288**	**(10.13)**	(9,666)	76,384	(12.65)
Amortisation of intangibles	**254**	**–**	**0.26**	275	–	0.36
Restructuring costs	**1,477**	**–**	**1.52**	3,111	–	4.07
Extraordinary General Meeting and mandatory offer	**323**	**–**	**0.33**	–	–	–
Refinancing	**57**	**–**	**0.06**	755	–	0.99
Profit on disposal of property	**–**	**–**	**–**	(1,223)	–	(1.6)
Net foreign exchange translation adjustments	**(93)**	**–**	**(0.10)**	(328)	–	(0.43)
Underlying basic loss/EPS	**(7,836)**	**97,288**	**(8.05)**	(7,076)	76,384	(9.26)
Underlying diluted loss/EPS	**(7,836)**	**97,288**	**(8.05)**	(7,076)	76,384	(9.26)

The above numbers used to calculate the EPS for the year ended 31 March 2018 and 31 March 2017 have been tax effected at the rates of 19% and 20% respectively.

Notes to the Financial Statements continued

8. GOODWILL

Group	£'000
Cost	
At 1 April 2017	13,045
Exchange adjustments	10
At 31 March 2018	**13,055**
Aggregate impairment	
At 1 April 2017	8,491
Charge for the year	–
Exchange adjustments	–
At 31 March 2018	**8,491**
Net book amount at 31 March 2018	**4,564**
Cost	
At 1 April 2016	13,007
Exchange adjustments	38
At 31 March 2017	13,045
Aggregate impairment	
At 1 April 2016	8,491
Charge for the year	–
Exchange adjustments	–
At 31 March 2017	8,491
Net book amount at 31 March 2017	4,554
Net book amount at 31 March 2016	4,516

The Company has no goodwill.

The goodwill has been allocated to CGUs and a summary of carrying amounts of goodwill by geographical segment (representing CGUs) at 31 March 2018 and 31 March 2017 is as follows:

Group	UK £'000	USA £'000	France £'000	Germany £'000	Total £'000
At 31 March 2018	**3,992**	**9**	**365**	**198**	**4,564**
At 31 March 2017	3,992	10	358	194	4,554

Goodwill allocated to the above CGUs 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 2019/ three-year business plan for the year ending 31 March 2021. 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 10.9% (2017: 13%) which management believes is appropriate for all territories.

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 2018–19 to 2022–23.
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 2017 are as follows:

Group	UK (Corgi)	UK (Airfix & Humbrol)	France	Spain	Italy	Germany
EBITDA[1]	38.9%[1]	35.6%[1]	37.4%[2]	n/a	n/a	40.7%[2]
Growth rate to perpetuity[3]	1.0%	1.0%	1.0%	n/a	n/a	1.0%

1. Budgeted contribution: Corgi and Airfix/Humbrol.
2. Budgeted EBITDA: France and Germany.
3. 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 £14.7 million. A reduction of the average gross margin to respectively 56.0% for Corgi and 51.7% for Airfix/Humbrol, or a rise in discount rate to respectively 16.6% for Corgi and 51.9% 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 £11.7 million. A reduction of the average gross margin to 13.5%, or a rise in discount rate to 220.4%, would remove the remaining headroom.

For the Germany CGU, the recoverable amount calculated based on value in use exceeded carrying value by £9.2 million. A reduction of the average gross margin to 15.6%, or a rise in discount rate to 290.7%, would remove the remaining headroom.

9. INTANGIBLE ASSETS

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**

Notes to the Financial Statements continued

9. INTANGIBLE ASSETS continued

Group	Brand names £'000	Customer lists £'000	Computer software £'000	Total £'000
Intangible assets				
Cost				
At 1 April 2016	4,813	1,405	2,329	8,547
Additions	–	–	226	226
Exchange adjustments	101	10	–	111
At 31 March 2017	4,914	1,415	2,555	8,884
Accumulated amortisation				
At 1 April 2016	2,203	1,228	339	3,770
Charge for the year	249	95	472	816
Exchange adjustments	74	10	–	84
At 31 March 2017	2,526	1,333	811	4,670
Net book amount at 31 March 2017	2,388	82	1,744	4,214

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 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**

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 2016	6,806	194	58,801	65,801
Exchange adjustments	51	4	1,172	1,227
Additions at cost	57	–	1,699	1,756
Disposals	(2,032)	–	–	(2,032)
At 31 March 2017	4,882	198	61,672	66,752
Accumulated depreciation				
At 1 April 2016	5,536	194	52,879	58,609
Exchange adjustments	34	1	1,005	1,040
Charge for the year	337	1	2,698	3,036
Disposals	(1,616)	–	–	(1,616)
At 31 March 2017	4,291	196	56,582	61,069
Net book amount at 31 March 2017	591	2	5,090	5,683
Net book amount at 31 March 2016	1,270	–	5,922	7,192

The Company does not hold any assets.

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 2018	**1,615**

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 2017	17,823	4,834	22,657
Acquisition of 49% of LCD Enterprises	1,600	–	1,600
Share of profit of investments accounted for using the equity method	15	–	15
Impairment of investment in subsidiary undertakings	(972)	–	(972)
At 31 March 2018	**18,466**	**4,834**	**23,300**
At 1 April 2016	23,564	4,834	28,398
Capital contribution relating to share-based payment	34	–	34
Net increase in loans to subsidiary undertaking	–	–	–
Impairment of investment in subsidiary undertakings	(5,775)	–	(5,775)
At 31 March 2017	17,823	4,834	22,657

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

Notes to the Financial Statements continued

11. INVESTMENTS continued

Loans are unsecured and exceed five years' maturity.

The impairment of investments in the year relates to a write-down to the investments held in Italy, Germany and Spain. The impairment testing performed is on the same basis as the goodwill impairment tests disclosed in note 8.

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.

			Proportion of nominal value of issued shares held	
	Country of incorporation, registration and business	Description of shares held	Group %	Company %
Hornby Hobbies Limited	Discovery Park, Sandwich, Kent CT13 9FF, 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 Strasse 36, 96472, Rodental, Germany	Ordinary shares	100	100
Hornby Industries Limited	Discovery Park, Sandwich, Kent CT13 9FF, UK	Ordinary shares	100	100
H&M (Systems) Limited	Discovery Park, Sandwich, Kent CT13 9FF, 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	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Finished goods	**10,030**	9,680	**–**	–
	10,030	9,680	**–**	–

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

	2018 £'000	2017 £'000
At 1 April	**796**	1,442
Provision for inventory impairment	**505**	(234)
Inventory written-off during the year	**(340)**	(423)
Exchange adjustments	**(3)**	11
At 31 March	**958**	796

13. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Current:				
Trade receivables	**5,931**	8,884	**–**	–
Less: provision for impairment of receivables	**(1,458)**	(1,026)	**–**	–
Trade receivables – net	**4,473**	7,858	**–**	–
Other receivables	**358**	803	**–**	–
Prepayments	**1,118**	585	**9**	48
Amounts owed by subsidiary undertaking	**–**	–	**33,520**	24,061
	5,949	9,246	**33,529**	24,109

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 provision for receivables impairments is deemed adequate.

Gross trade receivables can be analysed as follows:

	2018 £'000	2017 £'000
Fully performing	**3,131**	4,823
Past due	**1,342**	3,035
Fully impaired	**1,458**	1,026
Trade receivables	**5,931**	8,884

As of 31 March 2018, trade receivables of £1,342,000 (2017: £3,035,000) 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:

	2018 £'000	2017 £'000
1–120 days	**1,077**	2,257
>120 days	**265**	778
	1,342	3,035

As of 31 March 2018, trade receivables of £1,458,000 (2017: £1,026,000) 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:

	2018 £'000	2017 £'000
1–120 days	**356**	233
>120 days	**1,102**	793
	1,458	1,026

Notes to the Financial Statements continued

13. TRADE AND OTHER RECEIVABLES continued

Movements on the Group provision for impairment of trade receivables are as follows:

	2018 £'000	2017 £'000
At 1 April	**1,026**	540
Provision for receivables impairment	**473**	450
Receivables written-off during the year as uncollectible	**(31)**	(53)
Exchange adjustments	**(10)**	89
At 31 March	**1,458**	1,026

The charge relating to the movement in provision has been included in 'administrative expenses' in the Statement of Comprehensive Income.

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

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Sterling intercompany	**–**	–	**33,520**	24,061
Sterling	**3,764**	5,440	**–**	–
Euro	**934**	2,628	**–**	–
US Dollar	**133**	593	**–**	–
HK Dollar	**–**	–	**–**	–
	4,831	8,661	**33,520**	24,061

14. CASH AND CASH EQUIVALENTS

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Cash at bank and in hand	**3,878**	1,580	**4**	6

15. TRADE AND OTHER PAYABLES

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Current:				
Trade payables	**2,245**	3,212	**–**	–
Other taxes and social security	**226**	677	**12**	4
Other payables	**51**	655	**–**	–
Accruals	**1,790**	2,120	**146**	23
	4,312	6,664	**158**	27

16. PROVISIONS

	Group		Company	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Sales returns				
At 1 April	**196**	446	**–**	–
Charge to Statement of Comprehensive Income	**636**	811	**–**	–
Utilised in the year	**(658)**	(1,061)	**–**	–
At 31 March	**174**	196	**–**	–

Provision is made for future sales returns based on historical trends. The provision is expected to be utilised within one year from the balance sheet date.

17. CURRENT TAX ASSETS AND LIABILITIES

	Group		Company	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Current tax assets				
UK corporation tax recoverable	**–**	50	**–**	50
Overseas corporation tax recoverable	**–**	–	**–**	–
	–	50	**–**	50
Current tax liabilities				
UK corporation tax liability	**–**	–	**–**	–
Overseas corporation tax liability	**–**	212	**–**	–
	–	212	**–**	–

18. BORROWINGS

	Group		Company	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Secured borrowing at amortised cost				
Bank overdrafts	**–**	82	**–**	–
Loan from subsidiary undertakings	**–**	–	**5,849**	5,518
	–	82	**5,849**	5,518
Total borrowings				
Amount due for settlement within twelve months	**–**	82	**–**	–
Amount due for settlement after twelve months	**–**	–	**5,849**	5,518
	–	82	**5,849**	5,518

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 twelve months.

Notes to the Financial Statements continued

18. BORROWINGS continued

Analysis of borrowings by currency:

Group	Sterling £'000	Euros £'000	**Total £'000**
31 March 2018			
Bank overdrafts	–	–	**–**
	–	–	**–**
31 March 2017			
Bank overdrafts	82	–	**82**
	82	–	**82**

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

At 31 March 2018, the Group had a revolving credit facility of £6,000,000 expiring December 2019 and the future interest rates on this facility are Libor +3.5%.

The average effective interest rate on bank overdrafts in place during the year to 31 March 2018 approximated 3.95% (2017: 3.95%) per annum and is determined based on 3.5% (2017: 3.5%) above three-month Libor.

Net cash at bank and bank overdrafts of £3,878,000 (2017: £1,498,000) are with financial institutions with a credit rating of A2 per Moody's rating agency.

Undrawn borrowing facilities

At 31 March 2018, the Group had available £6,000,000 (2017: £7,668,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Change in facilities

On 5 June 2018, the Group signed a £12 million Asset Based Lending facility with PNC Credit Limited (ending June 2023) and a £6 million loan facility with Phoenix Asset Management Partners Limited (initial term of three years and then rolling annually).

19. FINANCIAL INSTRUMENTS

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

	Assets		**Liabilities**	
Group	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000
Carrying values of derivative financial instruments				
Forward foreign currency contracts – cash flow hedges	**–**	120	**(423)**	(190)

The hedged forecast transactions denominated in foreign currency are expected to occur at various dates during the next twelve months. Gains and losses recognised in reserves on forward foreign exchange contracts as of 31 March 2018 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 twelve months from the balance sheet date.

At 31 March 2018 and 31 March 2017, the gross value of forward currency contracts was as follows:

	2018 '000	2017 '000
US Dollar	**13,916**	12,718

The net fair value for the forward foreign currency contracts is a liability of £423,000 (2017: £70,000 liability) of which £423,000 net liability (2017: £70,000 net liability) represents an effective hedge at 31 March 2018 and has therefore been debited to Other Comprehensive Income in accordance with IAS 39.

In accordance with IAS 39, 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 2018 and 31 March 2017, 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

	Accounts payable and accruals £'000s	2018 Total £'000
Less than one year	4,312	**4,312**
Between one and two years	–	**–**
Between two and five years	–	**–**
More than five years	–	**–**
	4,312	**4,312**

Company	2018 Intercompany debt £'000	2017 Intercompany debt £'000
More than five years (note 18)	**5,849**	5,518

Hierarchy of financial instruments

The following tables present the Group's assets and liabilities that are measured at fair value at 31 March 2018 and 31 March 2017. 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.

Notes to the Financial Statements continued

19. FINANCIAL INSTRUMENTS continued

Financial instruments

	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)**

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Derivatives used for hedging	–	120	–	120
Total assets as at 31 March 2017	–	120	–	120
Liabilities				
Derivatives used for hedging	–	(190)	–	(190)
Total liabilities at 31 March 2017	–	(190)	–	(190)

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 £3,000 (2017: £41,000) 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 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	
	2018 £'000	2017 £'000
US Dollars	**1,356**	1,308
Euros	**964**	1,163
	2,320	2,471

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.

	2018 £'000	2017 £'000
Total borrowings (note 18)	**–**	82
Less:		
Total cash and cash equivalents (note 14)	**(3,878)**	(1,580)
Net (cash)/debt	**(3,878)**	(1,498)
Total equity	**30,864**	29,663
Total capital	**26,986**	28,165
Gearing	**(14%)**	(5%)

20. 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	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
At 1 April	**(1,880)**	(1,780)	**–**	100
Charge to Statement of Comprehensive Income (note 5) – origination and reversal of temporary differences	**–**	(100)	**–**	(100)
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.

Deferred tax liabilities	Revaluation £'000	Acquisition intangibles £'000
At 1 April 2017	–	94
Charge to Statement of Comprehensive Income	–	56
At 31 March 2018	**–**	**150**
At 1 April 2016	100	111
Credit to Statement of Comprehensive Income	(100)	(17)
At 31 March 2017	–	94

Notes to the Financial Statements continued

20. DEFERRED TAX continued

Deferred tax assets	Group: Acquisition intangibles £'000	Group: Other £'000	Group: **Total £'000**	Company: Short-term incentive plan £'000	Company: Total £'000
At 1 April 2017	–	(1,974)	**(1,974)**	–	**–**
Credit to Statement of Comprehensive Income	–	(56)	**(56)**	–	**–**
At 31 March 2018	**–**	**(2,030)**	**(2,030)**	**–**	**–**
At 1 April 2016	–	(1,991)	(1,991)	–	–
Charge to Statement of Comprehensive Income	–	17	17	–	–
At 31 March 2017	–	(1,974)	(1,974)	–	–
Net deferred tax liability/(asset)					
At 31 March 2018	**150**	**(2,030)**	**(1,880)**	**–**	**–**
At 31 March 2017	94	(1,974)	(1,880)	–	–

Group	**2018 Recognised £'000**	**2018 Not recognised £'000**	2017 Recognised £'000	2017 Not recognised £'000
Deferred tax comprises:				
Depreciation in excess of capital allowances	**(1,891)**	**(514)**	(1,901)	(71)
Other temporary differences – UK	**11**	**(2,539)**	21	(1,510)
Other temporary differences – overseas	**–**	**(2,797)**	–	(2,537)
Deferred tax asset	**(1,880)**	**(5,850)**	(1,880)	(4,118)

The UK deferred tax asset not recognised of £3,053,000 primarily relates to unrecognised losses in Hornby Hobbies Limited of £13,746,000 (potential deferred tax asset of £2,337,000) and Hornby PLC of £1,190,000 (potential deferred tax asset of £202,000). It also relates to a potential deferred tax asset in respect of accelerated capital allowances of £514,000.

The deferred tax asset not recognised in respect of overseas losses carried forward of £2,797,000 relates to losses carried forward of £1,569,000 in respect of Hornby España SA (potential deferred tax asset of £392,000), £2,351,000 in respect of Hornby France SAS (potential deferred tax asset of £784,000), £1,850,000 in respect of Hornby Deutschland GmbH (potential deferred tax asset of £590,000), £3,734,000 in respect of Hornby Italia srl (potential deferred tax asset of £896,000) and £538,000 in respect of Hornby America Inc (potential deferred tax asset of £135,000).

No deferred tax has been recognised on the losses incurred as there is not a high degree of certainty that they will be recovered in the future.

Company	**2018 Recognised £'000**	**2018 Not recognised £'000**	2017 Recognised £'000	2017 Not recognised £'000
Deferred tax comprises:				
Accelerated capital allowances	**–**	**–**	–	–
Other timing differences	**–**	**(202)**	–	(108)
Deferred tax (asset)/liability	**–**	**(202)**	–	(108)

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

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21. SHARE CAPITAL

Group and Company

Allotted, issued and fully paid:

Ordinary shares of 1p each	2018 Number of shares	2018 £'000	2017 Number of shares	2017 £'000
At 1 April	**84,583,204**	**846**	54,953,574	550
Issue of ordinary shares	**40,677,968**	**407**	29,629,630	296
At 31 March	**125,261,172**	**1,253**	84,583,204	846

On 7 December 2017, the Company issued 40,677,968 ordinary 1 pence shares for 29.5 pence per share, for net proceeds totalling £12,000,000. At 31 March 2018 there were no options granted under the Company's share option schemes which remained outstanding.

22. SHARE-BASED PAYMENTS ('PSP')

Hornby PLC operates one share-based payment plan – the Performance Share Plan ('PSP').

Performance Share Plan

The Group operates the Performance Share Plan ('PSP') for Executive Directors and senior executives. Awards under the scheme are granted in the form of a nil-priced option and are satisfied using market-purchased shares.

PSP awards outstanding only vest if performance conditions are met. Awards granted under the PSP must be exercised within one year of the relevant award vesting date.

On 23 June 2017 Phoenix UK Fund Limited put forward a mandatory unconditional cash offer for the Hornby shares not already held by members of the Phoenix Concert Party. As part of the rules of the PSP scheme, this automatically caused the 2016-17 PSP awards to vest. Following on from the change of ownership and due to the subsequent changes to the Board no PSP awards have been made in 2018. All the remaining PSP awards have now either vested as a result of the takeover offer or have lapsed.

There are no awards outstanding at 31 March 2018.

All plans are subject to continued employment. To the extent that such shares in the above plans are awarded to employees below fair value, a charge calculated in accordance with IFRS 2 'Share-based payment' is included within other operating expenses in the Statement of Comprehensive Income. This credit for the Group amounts to £95,000, of which £87,000 has been taken to reserves and £9,000 to accruals, representing the corresponding credit of National Insurance, and the charge for the Company amounted to £202,000 in the year ended 31 March 2018 (2017: £110,000 charge for the Group and the charge for the Company amounted to £16,000).

The following table summarises the key assumptions used for grants during the year:

	2018 PSP[1]	2017 PSP[1]
Fair value (p)	–	11.13p
Options pricing model used	–	Black-Scholes (Stochastic)
Share price at grant date (p)	–	29.0p
Exercise price (p)	–	nil
Expected volatility (%)	–	58.00%
Risk-free rate (%)	–	n/a
Expected option term (years)	–	2.5
Expected dividends (per year, %)	–	0%

1 Assumptions for TSR component only.

Assumptions on expected volatility and expected option term have been made on the basis of historical data, wherever available, for the period corresponding with the vesting period of the option. Best estimates have been used where historical data is not available in this respect.

Notes to the Financial Statements continued

22. SHARE-BASED PAYMENTS ('PSP') continued

At 31 March 2018, outstanding awards to Directors under the Performance Share Plan were as follows:

	Award date	Vesting date	Market price at award date	At 1 April 2017	Awarded during year	Lapsed during year	Vested during year	At 31 March 2018
S Cooke	Aug-15	Aug-18	105.0p	190,476	–	190,476	–	–
	Dec-16	Mar-19	29.0p	2,136,752	–	1,914,209	222,543	–
R Canham	Dec-16	Mar-19	29.0p	170,940	–	153,157	17,803	–
D Mulligan	Dec-16	Mar-19	29.0p	598,290	–	535,978	62,312	–

For the 2015 awards, the outstanding awards lapsed during the year.

For the 2016 awards, the award is subject to a TSR condition which is measured over a period of three financial years from 1 April 2016 to 31 March 2019. For the TSR condition, 25% of the award will vest if Hornby's TSR is equal to 15% compound annual growth each year, 75% vesting for 25% compound annual growth each year, with full vesting for 35% compound annual growth each year, with a sliding scale operating between these points. Additionally, for the award to vest, in the year ending 31 March 2019 operating cash flow has to be positive and profit before tax has to equal or exceed £1.5 million.

23. 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 historic negative goodwill arising prior to the transition to IFRS.

24. EMPLOYEES AND DIRECTORS

	Group		Company	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Staff costs for the year:				
Wages and salaries	**6,935**	8,541	**615**	871
Share-based payments (note 22)	**(87)**	94	**202**	76
Social security costs	**707**	911	**90**	104
Other pension costs (note 25)	**357**	442	**71**	74
Redundancy and compensation for loss of office	**1,082**	599	**388**	327
	8,994	10,587	**1,366**	1,452

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	
	2018 Number	2017 Number	**2018 Number**	2017 Number
Operations	**61**	60	**–**	–
Sales, marketing and distribution	**70**	100	**–**	–
Administration	**32**	30	**3**	3
	163	190	**3**	3

Key management compensation:

	Group		Company	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Salaries and short-term employee benefits	**1,423**	1,688	**720**	917
Share-based payments	**(87)**	110	**202**	76
Other pension costs	**97**	118	**71**	69
Redundancy and compensation for loss of office	**683**	241	**330**	20
	2,116	2,157	**1,323**	1,082

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 and number of Directors accruing benefits under money purchase pension schemes, is included in the Directors' Report on page 15 and forms part of these financial statements.

25. 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 £357,000 (2017: £442,000) representing the actual contributions payable in the year and certain scheme administration costs. The Company pension cost for the year was £71,000 (2017: £74,000). No contributions were outstanding at the year end of 31 March 2018.

26. FINANCIAL COMMITMENTS

Group	**2018 £'000**	2017 £'000
At 31 March capital commitments were:		
Contracted for but not provided	**921**	412

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.

Notes to the Financial Statements continued

27. 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:

	Land and buildings		Other		Total	
Group	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000
Not later than one year	**681**	657	**87**	82	**768**	739
Later than one year but not more than five years	**1,175**	1,238	**80**	123	**1,255**	1,362
More than five years	**107**	166	**–**	–	**107**	166
	1,963	2,061	**167**	205	**2,130**	2,267

In addition to the above, the distribution activities of the business are outsourced to a third party company, DS Logistics. The initial agreement with DS Logistics was for five years to August 2019. This has recently been extended to August 2021. The costs under the contract are approximately £2.4 million a year (2017: £2.9 million).

28. CASH (USED IN)/GENERATED FROM OPERATIONS

	Group		Company	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Loss before taxation	**(10,066)**	(9,509)	**(1,838)**	(5,725)
Interest payable	**218**	326	**198**	205
Interest receivable	**(7)**	(5)	**(175)**	(175)
Share of profit of associate	**(15)**	–	**(15)**	–
Amortisation of intangible assets	**992**	816	**–**	–
Impairment of investment	**–**	–	**972**	5,775
Depreciation	**2,821**	3,036	**–**	–
Profit on disposal of property, plant and equipment	**9**	(1,439)	**–**	(1,179)
Share-based payments credit (non-cash)	**(87)**	94	**(87)**	60
Share-based payments (cash)	**136**	–	**136**	–
Decrease in provisions	**(21)**	(250)	**–**	–
(Increase)/decrease in inventories	**(490)**	4,311	**–**	–
Decrease in trade and other receivables	**3,396**	4,335	**37**	26
(Decrease)/increase in trade and other payables	**(2,375)**	(1,624)	**132**	(67)
Cash (used in)/generated from operating activities	**(5,489)**	91	**(640)**	(1,080)

29. RELATED PARTY DISCLOSURES

Bharat Ahir was Managing Director of Hornby Hobbies Asia and a Director of Hornby Hobbies Limited, a subsidiary of Hornby PLC. 28One Limited, owned by Bharat Ahir, has provided ongoing support to manage product delivery, for which Hornby Hobbies Limited has paid £271,000 (2017: £206,000) in relation to these services in the year. No payments remained outstanding to 28One Limited as at 31 March 2018. Hornby Hobbies Limited no longer uses these services.

Lyndon Davies joined the Group as CEO on 5 October 2017. Hornby Hobbies Limited subsequently purchased £4,346 of stock from Oxford Diecast Limited, a company which is wholly owned by LCD Enterprises Limited, a company which Lyndon Davies owns a controlling 51% share in. Hornby PLC purchased a 49% stake in LCD Enterprises Limited on 7 December 2017. Lyndon Davies remains a Director of Oxford Diecast Limited.

Phoenix Asset Management Partners, who own the majority shareholding in Hornby PLC, have also provided a funding facility to the Group after the financial year end; please see note 30 below.

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 £1,493,000 (2017: £1,369,000), interest of £175,000 (2017: £175,000) and dividends from subsidiaries of £nil (2017: £nil) and incurred interest of £216,000 (2017: £205,000) on intercompany borrowings.

30. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 5 June 2018, the Group entered into a £12 million Asset Based Lending agreement with PNC Credit Limited for five years ending June 2023. In addition, Phoenix Asset Management Partners Limited, the majority shareholder, has provided an additional £6 million facility to further fund the turnaround as part of the New Business Plan. Further details are given in note 18.

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:

K Gould
Chief Finance Officer
Hornby PLC
3rd Floor, The Gateway
Innovation Way
Discovery Park
Sandwich
Kent CT13 9FF
www.hornby.com

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Hornby PLC
3rd Floor
The Gateway
Innovation Way
Discovery Park
Sandwich
Kent CT13 9FF