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Hornby PLC Annual Report and Accounts 2014

ANNUAL REPORT AND ACCOUNTS

2014

Hornby Plc

The Group's principal business is the development, production and supply of hobby and toy products. The Group distributes its products through a network of specialist and multiple retailers throughout the UK and overseas.

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Highlights 2014

"Hornby has been through a difficult period. Whilst I am under no illusion that there will be challenges ahead, I am confident that I can lead the group successfully during this next phase of our development. It is an important time for Hornby as the business strives to reach its full potential."

Revenue
(2013: £57.4m)

£51.6m

Underlying[1] operating loss
(2013: £0 7m profit)

£(0.7)m

Total dividend per share
(2013: 0p)

0p

Underlying[1] loss before taxation
(2013: £0.15m profit)

£(1.1)m

Underlying[1] loss after taxation
(2013: £1 0m profit)

£(1.0)m

Underlying basic loss per share
(2013: 0.5p earnings)

(3.4)p

Reported loss before taxation
(2013: £3.4m loss)

£(4.6)m

Reported loss after taxation (2013: £2.5m loss)

£(4.4)m

Reported loss per share
(2013: 6.4p loss)

(11.4)p

1 Underlying figures are before amortisation of intangibles and net foreign exchange adjustments on intercompany loans, restructuring costs and impairment of goodwill

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Personal perspectives

In April 2013 I took on the role of Executive Chairman and commenced the search for our next business leader. Throughout the year, I have been steadfast in my resolve to find the right person for the role no matter how long that process might take. This was consistent with the commitment to build a long-term platform for growth.

The transformation of Hornby is a challenging, but equally rewarding proposition and I am delighted that we have secured Richard Ames to lead the business through these exciting times Richard has plenty of experience of working in consumer focused businesses As a result of this appointment on 28 April 2014, I have now resumed the role of Non-Executive Chairman

We have also appointed two new Non-Executive Directors, Charlie Caminada and David Adams They have a wealth of relevant experience and they are already making a significant contribution as we manage the Group

- Revenue of £51 6 million (2013 £57.4 million)
- Like for like revenues excluding London 2012 down by 2%
- Underlying loss[1] £1 14 million (2013: £0 15 million profit)
- Net debt at 31 March 2014: £73 million (2013: £2 2 million)
- Renegotiation of banking facilities to end of December 2015
- Statutory loss after tax £4 5 million (2013: £2.5 million loss)

1 Stated before amortisation of intangibles net foreign exchange adjustments on intercompany loans re-structuring costs and impairment of goodwill

From a trading perspective, this year has once again been one dominated by the continued supply chain disruption During the year, we eventually agreed the basis for a managed exit from our principal manufacturer in China The process of recognising the true scale of the issue and then formulating and executing a risk managed plan to conclude that relationship has been lengthy and complex But I am confident that we are now on the other side The corollary of this is the imperative to develop balanced partnerships with a portfolio of manufacturers who have the capacity to support our strategic ambitions over the long term This piece of work is well under way but will take many months to reach a level of maturity such that the supply chain no longer constrains but positively supports the Group's ambitions to return to sales growth

It was clear from the outset that we must focus on doing the very simple things right before making any longer term strategic plans There were some fundamental elements of the business that needed attention if any future strategic plans were to stand on solid foundations In our interim report we referred to the three simple key pillars that we felt were central to this immediate phase of the transformation process

- Success through people
- Success through focused execution
- Success through passion for our brands

I am pleased that we are making progress on all three points, as detailed in Richard's report

The role of the Board

Good corporate governance provides a framework for delivering the objectives of the Company and is fundamental to a sound-decision making process It supports executive management in achieving the maximum performance for the business Maintaining good corporate governance is a key priority and with the exception of a separate CEO and Chairman until 28 April 2014 when Richard Ames joined the Group, I am pleased to say that we were compliant with the UK Corporate Governance Code issued by the Financial Reporting Council in September 2012, throughout the year

In the current uncertain economic environment, management of risk remains a key focus for the Board The Board has in place a robust process for identifying the major risks facing the business and for developing appropriate policies to manage those risks The Board reviews the major risks and any mitigating actions required on a biannual basis Through the Board and the Audit Committee we retain good visibility of the issues and challenges faced by management and the work to address them

Shareholder engagement

I am delighted that once again this year, we will be hosting our Annual General Meeting at the Hornby headquarters in Margate on 10 September 2014 This will be an excellent opportunity for shareholders to see the new products for themselves and to understand the progress that the Company is making Personally I am looking forward to welcoming as many shareholders as possible that are able to attend

I am confident that under Richard's guidance, the Group has the potential to build on the significant progress that has already been made With the steps we have taken to resolve our supply chain issues together with the passion and energy to support our brands, I am hopeful that the future of the business is brighter than it has been for some time

Roger Canham
Chairman
26 June 2014

Strategic Review

Hornby Plc continues to make progress against its vision to be the most successful model, hobby and collectible toy company in the world. Pages 1 to 15 set out the strategic report for the business.

CHIEF EXECUTIVE'S REPORT

May I firstly take this opportunity to say that it is a privilege and a pleasure to be joining the Hornby team I am excited to be arriving at the Company at this key time in its history and development

Having joined Hornby on 28 April 2014, I have spent the first eight weeks visiting the various international sales teams in Europe and spending a week with our Asian sourcing operation and a selection of manufacturers in Hong Kong and China My first impressions of the Group are that we have teams of dedicated and talented people who have been facing significant commercial challenges They have already begun taking difficult decisions and actions to improve the fortunes of the Company There is a real pride in the brands and products that we make and a strong desire to succeed

It is early days, but I am convinced that Hornby can recover and return to profit in the future

Manufacturing supply chain

The challenges that we have faced in our Asian manufacturing and supply chain have been well documented As we have reported previously, we have increased our number of manufacturing sites and we are now bringing the production from these partners to market The complex nature of the model manufacturing process and the length of the supply chains involved has meant that the initiatives, started in 2013, have not delivered results in the financial year However, they have created the foundation upon which improvements in 2014–15 can be built

The Hornby team in Hong Kong has undergone significant change, introducing new processes and taking on a broader range of operational responsibilities The Asian team is now operating a new 'critical path monitor' and a 'manufacturing tool database', both of which are designed to increase Hornby's control over product development This will lead to greater visibility of the new design projects and will enable the Group to communicate more regularly and accurately with suppliers, customers and consumers alike With ongoing investment in the Hornby Asia team, new supplier partnerships and better working practises, we are confident that we approach 2014–15 on a stronger platform to drive profitability

Serving our customers

The production issues that the Company has faced have not only restricted financial performance, but have also risked the Company's relationship with our channel partners and end users This is an extremely important issue, as these are the true fans of the brands It is key that we do not take these fans for granted With my experience of working in consumer focused businesses, I am making this one of my first key objectives

In addition to delivering high quality Hornby products, we must be able to inform and communicate with our partners to enable them to continue to support the brands This communication will come in many forms, including improvements in trade news, social media and the Company's website In recent weeks we have seen a renewed commitment to weekly trade announcements via Corgi News, Hornby News, Airfix News and Scalextric News This is all designed to give retail channels and end users an up to date view of new product releases, stock availability and promotional information New colleagues, now working in the Social Media team, are focused on providing daily updates and interactions with fans and sharing the information that drives the passion for collecting, modelling and driving our products

The new Hornby UK website, launched in June 2014, is another tool designed to give consumers greater access to Company and product information, as well as new initiatives such as Simon Says – a regular blog of the thoughts of industry and Hornby Grandee Simon Kohler All of these initiatives are work in progress, but show a commitment to improving the dialogue and relationship that the Company has with its partners and customers The initial feedback has been very encouraging

At the beginning of 2014, the commercial team in Hornby UK underwent a restructure This reorganisation was designed to provide clearer lines of commercial responsibility within the product, sales and marketing teams based in Margate and to enable greater focus on the actions necessary to grow the business In particular, category management and a more analytical approach to our customer relationships will be the drivers of future growth New roles and responsibilities are now in place, and we will see benefits as a result of improved stock management, sales methods and marketing and promotional communications, flowing through during 2014–15

Improving stock management and distribution

Stock management within the Group is a key area of opportunity In addition to improvements in manufacturing capabilities, the Group is also committed to managing stock in the most effective and efficient way within the sales organisations of Europe and the US The facility in Margate that has housed the Company's UK stock since manufacturing started to move to China in the late 1990's, has been an area of concern for some time A lack of outside space to allow transport access, a lack of IT infrastructure upon which to run modern warehousing systems and a building with significant repair and maintenance issues has led to a review of the site This has concluded with a decision to move to a new, third party warehouse, run by an independent logistics specialist DS Logistics This purpose built facility has modern stock systems and the space to grow with the Company as the turnaround materialises The proximity of the site to Margate, eleven miles from the current building, means that we are able to offer roles to all existing Hornby staff and retain this wealth of experience within the operation This is a key decision for the Company, and one not taken lightly, given the history and tradition of the current site Nevertheless, we are confident that this move will facilitate a significant improvement in the handling and distribution of the Company's product, not only in the UK but also, as we progress, for the broader Group in Europe

The Company has also started a discovery project to ascertain the opportunity to be derived from the creation of a Group-wide ERP system A variety of systems, of differing age and quality exist within the various divisions, with a low level of integration and it is believed that benefits can be gained from running the business on one system This discovery project will make recommendations in late summer at which point any decision to proceed with implementation will be made A Group-wide ERP system would facilitate the creation of an international ecommerce platform Again it is believed that this could present a significant opportunity for the Company to target new and underdeveloped markets with the Group's wide and varied range of products and brands

Outlook for 2014–15

As 2014 continues, we will further review Group performance and capabilities Improvements in manufacturing, new product development processes and sales and marketing capabilities around the Group are priorities and will receive immediate attention As the stock situation that has held back the Group over the last few months is resolved, the opportunity to benefit from improvements in other areas of the business will rise in importance and become integral to our plan to return the Group to profitability This process will continue through 2014/15/16 and we are confident that we have the brands, team and know how to bring the Company back to past levels of financial performance and beyond

Trading in the current year so far is in line with the Board's expectations The focus that is being given to clearing the older elements of stock is progressing, with Group stock currently some £1 million lower than at year end Whilst the delivery of the transformation plan comes with execution risk, the Group has a portfolio of fantastic brands that if managed well offer plenty of potential for long-term growth I am looking forward to updating our shareholders on the progress that we are making

Business Model and Strategy

The Group's principal business is the design, development, production and supply of hobby and toy products. The Group distributes its products through a network of specialist and multiple retailers throughout the UK and overseas.

I am delighted to have joined Hornby Since arriving at the business eight weeks ago, I am more convinced than ever that the group can build on a more solid supply chain and support the demand from our customers for our products

Although it is early days, one decision that I have made is to move our UK warehousing and logistics operations to a new site This is the first step to improve the distribution and stock management, which will enable us to improve our service to our customers.

The Group markets its products under a number of strong brands well known in their respective markets These brands include Hornby, Scalextric, Electrotren, Lima, Jouef, Rivarossi, Arnold, Airfix, Humbrol and Corgi The Company's vision is to be the most successful model, hobby, and collectable toy company in the world

The Group comprises a number of high quality premium brands spread across different product categories within the hobby and collectable toy market The quality and heritage of the brands allows us to re-introduce product lines to the market that we have done over the last few years with Airfix and Pocher We are also continuing to grow the European train brands and to explore opportunities in developing markets

The Group has the opportunity to develop a number of new license properties within the existing brand structure as well as developing other distribution opportunities The nature of the model railway business worldwide is that products are largely country-specific This requires high levels of knowledge and expertise in each individual market This represents a significant barrier to entry However, the Group has this infrastructure in place and is therefore in a strong competitive position Production of model railway items is a labour intensive process The Group sources all of its model railway products from China Although labour rates in China are increasing, the Group continues to operate at a cost advantage to competitors producing in higher cost regions such as Europe Some other product lines are developed outside China where cost effective, such as Airfix in India and we will continue to seek other opportunities to diversify production capacity including bringing it back to the UK

Richard Ames
Chief Executive
26 June 2014

Operational and Financial Review of the Year

Consolidated revenue for the year ended 31 March 2014 was £51.6 million, a decrease of 10.2% compared to the previous year's £57.4 million. 2013 included £4.7 million revenue for London 2012, so excluding this revenue, the decrease is 2%.

Full year gross profit margin was 45% (2013 – 43%) The increase in gross profit margin was primarily a result of the heavy discounting on London 2012 stock in the previous year As discussed below the availability and supply of high end model rail products with higher margins is still well below planned levels Therefore the overall margin is still suppressed when compared to historic levels Before the impact of FX losses and exceptional items overheads decreased year-on-year by 4% Foreign exchange losses

Financial Review

	2014	2013
Revenue	£51 6m	£57 4m
Underlying (loss)/profit before tax*	£(1 14m)	£0 15m
Gross profit margin	45 2%	42 6%
Underlying (loss)/profit before tax margin*	(2 2%)	0 26%
Reported loss before tax margin	(8 8%)	(5 9%)
Underlying basic (loss)/earnings per share*	(3 43)p	0 47p
Statutory basic loss per share	(11 35)p	(6 39)p
Net debt	£7 3m	£2 2m
Statutory loss after tax	£4 5m	£2 5m

* Stated before amortisation of intangibles, net foreign exchange adjustments on intercompany loans restructuring costs and impairment of goodwill

in the year totalled £1 0 million compared to a gain of £0 2 million Sales and marketing costs reduced as the level of commissions paid through our concessions channel reduced following the collapse of Modelzone in July 2013

Pre tax loss before net foreign exchange adjustments on intercompany loans, amortisation of intangibles, restructuring costs and impairment of goodwill (hereafter referred to as underlying pre-tax (loss)/profits) was (£1 14) million (2013 – profit of £0 15 million) (see reconciliation in note 2) Basic earnings per share calculated on underlying pre-tax (loss)/profit (hereafter referred to as underlying basic (loss)/earnings per share) were (3 43)p (2013 – 0 47p) Statutory pre-tax loss was £4 6 million (2013 – loss of £3 4 million) and statutory basic loss per share was 11 35p (2013 – 6 39p loss per share) Taxation at £0 1 million credit (2013 – £0 9 million credit) was 2% of reported loss before tax (2013 – 26%)

Core Group inventories reduced during the year by 3% from £13 6 million to £13 2 million Trade and other receivables also reduced from £9 6 million at the last year end to £9 0 million at 31 March 2014 Trade and other payables decreased by £1 2 million as the management reorganisation provided for last year was implemented and in addition net derivative liabilities reduced by £1 7 million due to the settlement of the historic FX collar arrangement referred to in note 19 offset in part by the reduction in hedged contracts classed as an asset at 31 March 14 Investment in new tooling and other capital expenditure was £4 1 million (2013 – £3 5 million) The net effect of these factors was an increase in working capital requirements and an increase in net debt at 31 March 2014 to £7 3 million, from £2 2 million in 2013

Dividend
This has been another year in which trading has been challenging and therefore the decision has been taken not to pay a dividend (2013 – 0 0p)

Underlying loss
A total of £3 4 million costs in these accounts have been identified as exceptional in nature and classified as outside of our measure of underlying profit as can be seen in note 2 Of this total £2 5 million (2013 – £2 8 million) was the write-off of goodwill in the Italian business described below, amortisation of the intangible assets and the revaluation of intercompany loans, all of which are non-cash costs

Operational and Financial Review of the Year
continued

In the previous year, a restructuring of the senior team below the Board level was announced and a provision of £0 7 million made for the implementation costs which were carried out in the year just ended This work is ongoing and a smaller scale reorganisation of the marketing resources in the UK business was implemented recently at a cost of £0 2 million The changes will allow a stronger focus on our brands and their development as well as being more streamlined and a reduction in overhead costs Restructuring costs also include £0 6 million paid to our long-standing major supplier of model railway product for work in progress, materials and components when the agreement was reached with them to end the relationship As has been described above this was a necessary step in the restructuring of our supply chain but they have little or no immediate value to the business and therefore have been written-off

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The final element is a £0 1 million charge for the bad debt and other costs that arose from the failure of our main concession partner Modelzone that went into administration in July 2013

Impact of supply chain disruptions
Deliveries of model railway product over the year totalled 59% of our budget for the Group as a whole This further deterioration reflects the time taken to reach an agreement with our long-standing major supplier for an orderly exit from our manufacturing relationship and the delays in releasing the tools and moulds that were needed for production in our other suppliers' operations Model rail sales declined further on the back of this to £11 4 million from £14 0 million last year in the UK and decreased from £9 4 million to £9 2 million in continental Europe

Banking facilities
The Group has recently been successful in renegotiating its main banking facilities for a further 18 months At 31 March 2014 the Group had a revolving credit facility of £10 million expiring August 2015 and a five-year fixed term loan agreement of £12 million with outstanding repayments of £1 5 million scheduled to be completed by July 2014 These have now been replaced by a new revolving credit facility of £13 million expiring in December 2015 which is expected to allow sufficient headroom for trading working capital needs in the current year whilst longer term plans and funding requirements are developed The Group also has additional facilities of £5 million in place in its European subsidiaries through bank loans and import credit line facilities of which £3 5m was undrawn at year end Borrowings in the year ended 31 March 2014 peaked at £11 8 million

United Kingdom
Trading conditions in our UK home market were impacted by the largest single customer going into administration Modelzone's financial situation was evident, and all steps were taken to mitigate our risk but the sales line felt the impact There was also considerable operational impact as the concession stock of Hornby and Scalextric product had to be uplifted and returned to our warehouse Despite our best efforts and new ventures with WH Smith, Hawkins Bazaar and other smaller partners we could not make up the full year budgeted shortfall Across all other retail channels there was no significant up tick to replace these lost sales with our Independent sector continuing to decline National Accounts grew, and our export sales improved Our Direct channels continue to improve but still make up a small percentage of our total business

Model railways
Sales of Hornby model railways declined as we wrestled with getting production capability out of the incumbent supplier, and we have renewed optimism now that much of the tooling is within our control We have significant pent up demand so the reduced actual performance is frustrating to both our consumers, and our trade customers but when we fulfil it we anticipate a return to growth Our work with the National Railway Museum ('NRM') and the sponsorship of the 'Great Gathering' remains a key highlight with 6,000 replica locomotives sold out within days of release Hornby sponsored the event and our partnership with the NRM was honoured with the Arts & Business Sponsorship award and was covered extensively in the press and on television Great efforts have been made by all the team to put model railways back into the public domain, and put the hobby back into public discussion This gives the team real encouragement for the future, that when we position our products well, the demand from customers is strong

Slot car product range
Sales of Scalextric were buoyed by our key set 'Demolition Derby', a combination of the product development around our Quick Build concept, and the simple pleasure of 'BASH 'N CRASH' explosive collisions whilst racing TV advertised, and PR supported it was recognised at the London Toy Fair as the Editor's choice, and didn't disappoint as it went on to be our biggest selling Scalextric item The challenge remains to deliver a range of product that works for both newcomers to the hobby, and the 'racers' International performance held up but remains challenging as markets felt global pressures on disposable income

Operational and Financial Review of the Year
continued

Airfix
Sales of Airfix were positive as we continue to re-establish Airfix credentials as the lead brand to a mass audience, and at the same time deliver real credibility as the modeller's model manufacturer The Javelin was a particular hero item together with the celebration of the famous 'Dambusters Lancaster bomber' The introduction of the Quick Build range exceeded initial retailer expectation This further reinforced the right decision to make this product in the United Kingdom as the benefit of being able to increase production to meet significant demand quickly out-weighed the marginal cost increase on this type of product when compared to our production sources in China or India

Corgi models
Corgi sales continued to benefit from our award winning Corgi Toys range Notable support came from Argos, and Tesco in the United Kingdom which demonstrates our ability to work with mass merchant retailers Our heartland of collectors is under pressure from cheaper imitations of the quality Corgi delivers We still manage to deliver strong sales when we match up the sub categories with the right subject matter – best sellers being the Eddie Stobart lorries, and our Lancaster bombers within the Aviation Archive section of the business

Continental Europe
Our subsidiaries have again sustained the most detrimental overall impact to sales as a result of the supply chain disruption as the relative proportion of model railway sales in their businesses is higher This is particularly the case in Italy where a disproportionate share of the supply chain disruption as a whole was borne Furthermore and despite the weakening Euro exchange rate, sales in our European subsidiaries were slightly higher than last year in Sterling terms at £12 2 million from £11 5 million in 2013 This was mainly due to the relaunch of the Pocher brand Our subsidiaries in mainland Europe contributed an underlying loss before tax of £1 3 million in line with that in the previous year Reported loss before tax was £3 4 million (2013 – loss of £3 9 million) including the goodwill impairment charge (see below)

The current macro-economic issues surrounding the Euro zone continue to be a cause for concern, especially in Italy and Spain but also affecting business in France and Germany to a lesser extent Our strong European brands continue to attract increasing support from the model railway communities in each of our key territories and where new product has been available the response has been encouraging In Germany the introduction of new 'N scale' railcars and coaches was very successful and won some industry awards The relaunch of the 1 8 scale Pocher diecast car kits by our Spanish subsidiary succeeded in generating sales in more than 30 countries In France the launch of a new diesel locomotive in five different liveries was voted model of the year by one of the train magazines, a fitting award to mark Jouef's 70th anniversary

Goodwill impairment
The previously mentioned supply chain issues and general economic weakness have impacted Italy disproportionately, depressing short term cash flow and earnings resulting in an impairment charge in the year of £2 1 million to goodwill (see note 8) which arose on the acquisition of assets within the Italian subsidiary in 2004 This non-cash one-off charge has been made to the Statement of Comprehensive Income through Other operating expenses

America
Sales in Hornby America were least impacted by the supply chain issues and increased in the year from £2 7 million to £3 0 million, producing a profit before tax of £0 085 million (2013 – profit £0 01 million) Notable successes included the introduction of a range of Airfix kits into the Barnes and Noble chain and sales through the Independent store channel grew by 15%

By order of the Board

Nick Stone
Group Finance Director
26 June 2014

Our Key Performance Indicators ('KPIs')

The Directors are of the opinion that the KPIs are revenues, gross margins underlying profit before tax, earnings per share and cash generation, the information for which is available in these financial statements and summarised on the financial highlights section at the beginning of this report In light of the work currently being performed on the supply chain and distribution channels, management are currently constructing additional KPIs to monitor progress on these key measures which are considered fundamental to performance going forward The Group maintains a robust planning system with individual targets for subsidiaries in terms of growth and profits 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 has completed a 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 business model of the Group which has been set out on pages 6 and 7

Principal risks and uncertainties

Risk	Description	Impact/Sensitivity	Mitigation/Comment
UK market dependence	The UK market represents a significant part of Group revenue, 71% in 2014 (2013 – 75%)	The Group is exposed to a downturn in the performance of the brands in the UK as well as to a downturn in the UK economy	The Board's strategy continues to be to expand overseas sales The acquisitions of the brands Airfix, Humbrol, Corgi, Electrotren, Rivarossi, Lima, Arnold and Jouef have provided the Group with a significant share of the model railway, model and die-cast markets in continental Europe, with the objective of facilitating further growth
Market conditions	The Group's products are sold in the main to its retail customers The performance of the market is affected by the general economic climate, overall consumer and retailer confidence, and the changing retail landscape	The Group performance is impacted by the global macro economic environment and changes in the wider retail landscape	In reviewing the future forecasts for the business the Directors consider reasonable changes in macro-economic and associated market conditions recognising the potential for a negative impact on the Group's results The Group has credit insurance in place to mitigate against any specific retail customer default
Distribution channels	The retail landscape is changing with the Group's traditional high street independent distribution network under significant commercial pressure from online retailers and discounters	High street failures will reduce traditional customer base sales levels and increase credit risk	The Group formulates its business strategy, including the website and direct to consumer channels, based on the changing retail dynamics An increased focus on direct web based selling, selling directly at exhibitions and other events and expanding own retail concession network are all being developed to protect the brand position
Competing brands	The Group has competition in the model railway, slot racing model kits, die cast and paint markets	Loss of market share to increased competitor activity would have a negative impact on the Group's results	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
Exchange rates	The Group purchases goods in Hong Kong Dollars and 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	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 purchases goods, in the main, from third party Chinese suppliers due to the significant cost advantage when compared to products manufactured in Europe The principal suppliers to the Group are Refined, Talent, Zindart and Micro Plastics (India), all of whom together are expected to contribute 71% in 2014	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 Input cost escalation in China could reduce or remove the Group's pricing advantage and impact margins	The Group is continuing to develop and diversify its supplier portfolio, which includes a supplier in India and more recently in the UK, and closely monitors production through an increased number of locally-based employees (who also ensure the maintenance of quality standards)
Capital Allocation	The Group now holds over 5,000 product lines across its own brand range	Producing smaller quantities of more products puts pressure on gross margins and can lead to increased stock levels	An improved capital allocation process is being developed to deliver a more focused product range in line with consumer demand with robust gross margins
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 fixed term loan agreement expiring in July 2014 of £1 5 million as at 31 March 2014 (£4 5 million at 31 March 2013) and a revolving credit facility of £10 million expiring August 2015 The Group's policy on liquidity risk is to maintain adequate facilities to meet the future needs of the business

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

Corporate social responsibility
The Board considers the social, environmental and ethical matters pertinent to the Group, and will review items of significance where appropriate The risk assessment procedures in place are designed to highlight any key areas of concern including health and safety considerations, employee recruitment and retention and environmental issues, with controls put in place as necessary

The Group is pro-active in working with all suppliers to ensure compliance with the International Council of Toy Industries ('ICTI') Code of Business Practices to include child and forced labour, working conditions, hours of work, pay, non-discrimination and health and safety Compliance is managed through an annual audit process

Hornby Plc acknowledges the UN Guiding Principles on Business and Human Rights and has many policies and initiatives in place to identify, prevent, mitigate and account for how we are addressing key human rights issues We continue to work with stakeholders to understand better and respond to these issues, however there has never been a human rights issue that has had a direct impact on the activities of the business and accordingly the Group has nothing further to disclose

We have a Group employee Code of Conduct which covers a wide range of human rights including discrimination and working conditions The Company also has HR policies, Health & Safety policies, an Anti-Bribery & Corruption Policy and a Whistle-blowing Policy which encompass key human rights

It is the Group's policy to recruit, train, promote and treat all personnel on grounds solely based on individual performance The principles are applied regardless of gender, sexual orientation, religion, age, nationality or ethnic origin

The Group's split between male and female employees as at 31 March 2014 is shown below

	Female	Male	Total
Directors	–	4	4
Senior managers (including Statutory Directors of subsidiary entities)	1	7	8
Employees	109	129	238
Total	110	140	250

Environmental responsibility
The Group believes that protection of the environment is an integral part of good practice and that it should satisfy itself that all of its operations are conducted with reasonable proper regard for the environment It is committed to maintaining, and wherever possible improving, the quality of this environment both for the people who work in the Group, and for the wider community now and in the future The Group seeks to make the most effective and efficient use of all resources, encouraging all members of the Group to develop an ecologically sound approach to their work

Carbon emissions data
The Group has implemented the UK Government's Guidance on measuring and reporting greenhouse gas emissions, in line with DEFRA guidelines We have used the UK Government Environmental Reporting Guidelines (2013), supplemented by the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and emissions factors from UK Government's GHG Conversion factors for Company Reporting 2013

The GHG Protocol defines direct and indirect emissions as follows Direct GHG emissions are emissions from sources that are owned or controlled by the reporting entity, Indirect GHG emissions are emissions that are a consequence of the activities of the reporting entity, but occur at sources owned or controlled by another entity The GHG Protocol further categorizes these direct and indirect emissions to which Hornby has responsibility to report under scope 1 and scope 2 as set out in the following table

- Scope 1 All direct GHG emissions
- Scope 2 Indirect GHG emissions from consumption of purchased electricity, heat or steam

Year ended 31 March 2014	Scope 1 tonnes CO_2e	Scope 2 tonnes CO_2e
UK	641	469
Europe	52	35
Rest of World	27	31
Group revenue (2013–14) £'m		52
Intensity ratio tonnage/£'m of revenue		24

Year ended 31 March 2013	Scope 1 tonnes CO_2e	Scope 2 tonnes CO_2e
UK	814	505
Europe	54	37
Rest of World	19	33
Group revenue (2012–13) £'m		58
Intensity ratio tonnage/£'m of revenue		25

By order of the Board

Nick Stone
Group Finance Director
26 June 2014

Directors and Corporate Information

Directors
R Ames
Chief Executive

R Canham
Executive Chairman

N P Stone
Finance Director

D Adams
Non-Executive Director

C Caminada
Non-Executive Director

Company Secretary
A Stacey

Registered office
Westwood
Margate
Kent CT9 4JX

Company Registered Number
Registered in England Number 01547390

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

Solicitors
Berwin Leighton Paisner LLP
Adelaide House
London Bridge
London EC4R 9HA

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

Financial Advisers and Brokers
Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT

Registrars and Transfer Agents
Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Directors' Report

The Directors submit their Annual Report together with the audited consolidated financial statements for the year ended 31 March 2014 The Corporate Governance Report on pages 20 to 24 forms part of the Directors' Report

The Group's business review along with future developments and the principal risks and uncertainties facing the Group are included in the Strategic review The Group's Corporate Governance Statement is set out in the Corporate Governance Report on pages 20 to 24

PRINCIPAL ACTIVITIES

The Company is a holding company registered in England 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 Espana 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 London Stock Exchange, and incorporated and operating in the United Kingdom Its registered office is set out on page 16

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

RESULTS AND DIVIDENDS

The results for the year ended 31 March 2014 are set out in the Group Statement of Comprehensive Income on page 38 Revenue for the year was £51 6 million compared to £57 4 million last year The loss for the year attributable to equity holders amounted to £4 4 million (2013 – £2 5 million loss) The position of the Group and Company is set out in the Group and Company Balance Sheets on page 39

No interim dividend was declared in the year (2013 – £nil) and the Directors do not recommend a final dividend (2013 – £nil)

POST BALANCE SHEET EVENT

The Group has recently been successful in renegotiating its main banking facilities for a further 18 months At 31 March 2014 the Group had a revolving credit facility of £10 million expiring August 2015 and a five-year fixed-term loan agreement of £12 million with outstanding repayments of £1 5 million scheduled to be completed by July 2014 These have now been replaced by a new revolving credit facility of £13 million expiring in December 2015 which is expected to allow sufficient headroom for trading working capital needs in the current year whilst longer term plans and funding requirements are developed

RESEARCH AND DEVELOPMENT

The Board considers that research and development into products continues to play an important role in the Group's success All R&D costs incurred in the year have been charged to the Statement of Comprehensive Income and are set out in note 4

DIRECTORS

The persons who were Directors during the year and up to the date of signing the financial statements are listed below

Richard Ames, aged 44, was appointed to the Board on 28 April 2014 and has a wealth of experience of leading fast moving consumer facing businesses His most recent role was as a Director of Ladbrokes PLC, where latterly he was Managing Director of their Product Division He joined Ladbrokes in 2005 and had run the UK and Ireland Retail operations where he was responsible for managing a successful retail turnaround strategy Earlier in his career he worked at Dixons Stores Group Plc as Marketing Director in Essentials and prior to this he was the Purchasing Director in Domestic Appliances operations He also helped to lead the consumer electronics divisions at Asda Wal Mart and he started his career at Philips Consumer Electronics

Roger Canham, aged 50, was appointed to the Board on 7 November 2012 and became Chairman on 1 February 2013 Roger has been Chairman of Phoenix Asset Management Partners Limited ('Phoenix') since 2009 and also owns and manages a number of property development companies Prior to that, he was a Non-Executive Director of Goshawk Insurance Holdings PLC from 2007 until the business was acquired in 2008, and a Director of Brake Bros Limited, for a year following its acquisition of W Pauley & Co Limited in 2002 Mr Canham joined W Pauley & Co Limited in 1990 and became Managing Director in 1996

Nick P Stone, aged 50, joined the Group on 14 January 2013 and was appointed Group Finance Director on 1 February 2013 Nick was previously the Operations and Finance Director at KBC Advanced Technologies PLC and earlier in his career was interim Finance Director at Accidentcare Group PLC, Finance Director at Lombert Fenchurch Limited and held positions at Mobil Oil Corporation

David Adams, aged 59, was appointed a Non-Executive Director on 9 January 2014 David is currently a senior Non-Executive Director of Halfords plc and non-executive Chairman of Conviviality Retail plc and Park Cameras Ltd David also chairs Walk the Walk, the breast cancer charity Prior to that, he was also Deputy Chairman and Group Finance Director of House of Fraser and non-executive Chairman of Musto

Charlie Caminada, aged 56, was appointed a Non-Executive Director on 9 January 2014 Charlie was previously Chief Operating Officer of HIT Entertainment, which is now part of Mattel His most recent position was the Founder and Chief Operating Officer of Ludorum, a media investment company that focuses on managing the IP franchises for children's entertainment brands, including Chuggington Charlie led the company's IPO on AIM in 2006

Frank Martin, aged 62, was appointed Chief Executive on 3 January 2001 and Deputy Chairman on 1 April 2013 Frank formally stepped down from the Board with effect from 9 January 2014

Nigel M Carrington, aged 58, was appointed a Non-Executive Director on 1 December 2007 Nigel resigned from the Board on 31 January 2014

Mark E Rolfe, aged 55, was appointed a Non-Executive Director on 1 January 2008 Mark resigned from the Board on 31 January 2014

The interests of the Directors in the shares of the Company and in options granted over such shares are disclosed in the Directors' Remuneration Report on pages 25 to 32

Directors' Report continued

The number of Board meetings held during the year and attendance by the Directors is set out on page 20

DIRECTORS' INDEMNITIES

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

SUBSTANTIAL SHAREHOLDINGS

The Company has been notified that at close of business on 21 June 2014 the following parties were interested in 3% or more of the Company's ordinary share capital

Shareholder	Number of ordinary shares	Percentage held
New Pistoia Income Limited	6,215,401	15 87
Phoenix Asset Management Partners Limited	6,129,323	15 65
Electra Quoted Partners	2,995,150	7 65
P J Wood	2,821,500	7 20
J J Hosking	1,597,234	4 08
Artemis Fund Managers Ltd	1,396,758	3 57
Henderson Global Investors	1,211,523	3 09

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 raise finance for the Group's operations The Group also 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

PERSONNEL POLICIES

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

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

The Group places importance on the contributions to be made by all employees to the progress of the Group and aims to keep them informed by the use of formal and informal meetings One of the Company's incentive scheme includes share scheme options for Directors and senior management further detail of which is covered within the Remuneration Report on pages 25 to 32

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 reappoint the auditors, PricewaterhouseCoopers LLP, will be proposed at the forthcoming Annual General Meeting

ANNUAL GENERAL MEETING

The Annual General Meeting is scheduled for 10 September 2014 A separate notice of the notice of Annual General Meeting will accompany this Annual Report and Accounts when it is sent to shareholders The notice of the Annual General Meeting is important and requires your immediate attention If you are in any doubt as to what action to take in relation to the Annual General Meeting, you should consult appropriate independent advisers The following special resolutions were passed at the last Annual General Meeting and remain in force until the next Annual General Meeting

Resolution 10

Under section 551 of the Companies Act 2006 (the 'Act'), the Directors may allot unissued shares or grant rights over such shares only if authorised to do so by shareholders This resolution gives the Directors authority to allot new ordinary shares in the capital of the Company or grant rights to subscribe for, or convert any security into, shares in the Company, up to an aggregate nominal amount of £130,000, which represents approximately 33% of the Company's issued ordinary capital as at 6 June 2013 (being the latest practicable date prior to the publication of this notice) This authority renews that given at last year's Annual General Meeting and will expire at 12 noon on 24 July 2018 The Directors did not have any present intention of exercising the authority granted by this resolution except in connection with the Company's share schemes However, it is considered prudent to maintain the flexibility that this authority provides

Under the guidelines of the Association of British Insurers on authority to allot shares companies may seek basic authority to allot new shares in an amount of up to one-third of the existing issued share capital and this request will be regarded as routine under guidelines

Resolution 11

It was proposed to renew the authority to the Directors to allot equity securities for cash without first being required to offer such securities to existing members This included the sale for cash on a non-pre-emptive basis of any shares which the Company holds in treasury The authority is limited to the issue of shares for cash up to an aggregate nominal amount of £19,000 representing approximately 5% of the issued ordinary share capital of the Company as at 6 June 2013 (being the latest practicable date prior to the publication of last year's notice) The authority will expire at the conclusion of the next Annual General Meeting of the Company

The Directors do not intend to issue more than 7 5% of the issued ordinary share capital of the Company in any rolling three year period without prior consultation with the Institutional Investment Committee Members will note that this resolution also relates to the sale of treasury shares

Resolution 12
The Company obtained authority to purchase up to approximately 10% of the Company's issued ordinary share capital at, or between, the minimum and maximum prices specified in this resolution As at 6 June 2013 (being the latest practicable date prior to the publication of this notice), the total number of options to subscribe for shares in the Company was 365,809 (approximately 0 9% of the Company's issued ordinary share capital and approximately 2 4% of the Company's issued ordinary share capital if the full authority proposed by resolution 12 was used and the shares purchased were cancelled) This power would be used only after careful consideration by the Directors, having taken into account market conditions prevailing at that time, the investment needs of the Company, its opportunities for expansion and its overall financial position The Directors would exercise the authority to purchase ordinary shares only if they considered it to be in the best interest of the members and they believe that the effect of such purchases will be to increase earnings per share

The Company (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 came into force on 1 December 2003 These regulations allow shares repurchased by the Company to be held as treasury shares rather than being cancelled Treasury shares may be cancelled, resold for cash or used for the purpose of employee share schemes but all rights attaching to them, including voting rights and any right to receive dividends, are suspended whilst they are held in treasury The authority sought by this resolution is intended to apply equally to shares to be held by the Company as treasury shares The Company currently holds no treasury shares

The authority obtained at the Annual General Meeting will expire at the earlier of the date which falls 18 months from the date this resolution is passed and the conclusion of the next Annual General Meeting of the Company

Signed on behalf of the Board

N P Stone
Finance Director
Westwood
Margate
Kent CT9 4JX
26 June 2014

Corporate Governance

UK CORPORATE GOVERNANCE CODE

The Company recognises the importance of maintaining high standards of corporate governance This report has been structured to report corporate governance arrangements and practices against the requirements of the UK Corporate Governance Code issued by the Financial Reporting Council in September 2012

Throughout the year ended 31 March 2014, the Company has been in compliance with the Code provisions except with provision A 2 1 of the UK Corporate Governance Code On 1 April 2013 Frank Martin stood down as Chief Executive and took the role of Deputy Chairman The search for a new Chief Executive was started immediately and for the interim period Roger Canham became Executive Chairman He will revert to a non-executive Chairman role from 1 June 2014 after a transition period with the appointment of the new Chief Executive Mr Richard Ames who joined the Group on 28 April 2014

HOW THE BOARD OPERATES

The Board is responsible for the overall conduct of the Group's business and has the powers and duties set out in the relevant laws of England and Wales and our articles of association The Board is responsible for setting the Group strategy and for the management, direction and performance of our businesses, is accountable to shareholders for the proper conduct of the business, is responsible for the long-term success of the Company, having regard for the interests of all stakeholders, and is responsible for ensuring the effectiveness of and reporting on our system of corporate governance

The Board has a formal schedule of matters reserved for its decision and these include Group strategy and long-term plans, major capital projects, acquisitions or divestments, annual budget and operating plan, Group financial structure, including tax and treasury, annual and half-year financial results and shareholder communications, and system of internal control and risk management The schedule is reviewed annually It was last reviewed in March 2014 when it was decided that no amendments were required

LEADERSHIP

The Board is responsible for the long-term success of the Company and is responsible to shareholders for ensuring that the Group is appropriately managed and achieves its objectives The Board is also responsible for the system of corporate governance, strategy, risk management and financial performance The Company's governance structure is consistent with the leadership principles set out in the Code

The Board believes its current structure is appropriate for the scale of the business and to enable the Group to be managed efficiently

During the year the Board comprised the Executive Chairman, Deputy Chairman (until 9 January 2014), Finance Director, and two to four Non-Executive Directors The third and fourth Non-Executive Directors were a temporary situation from 9 January 2014 till 31 January 2014 when a handover period occurred between the non-executive Directors

Chairman and Chief Executive

In the year to 31 March 2014, the roles of Chairman and Chief Executive were combined for a temporary interim period while a new Chief Executive was recruited With effect from 1 June 2014 after a transition period, the two roles are once again separate with a clear division of responsibility and Roger Canham will return to a Non-Executive Chairman role

Senior Independent Director

The Board has appointed David Adams to the role of Senior Independent Director This role provides a point of contact to those shareholders who wish to raise issues with the Board, other than through the Chairman

The Board monitors the performance of the Group as a whole by,

- Engaging at Board meetings with, and challenging the Chief Executive and Group Finance Director, as appropriate, on the financial and operating performance of the Group and external issues material to the Group's prospects
- Evaluating progress towards the achievement of the Group's financial and business objectives and plans
- Monitoring the significant risks facing the Group

EFFECTIVENESS

Board composition

The Board contains a range of complementary skills, experience and knowledge that is considered appropriate for the scale of the business The biographical details of all Board members are provided on page 17

The Board considers the Non-Executive Directors who served during the year to be independent of management and free from any business or other relationship which could interfere with the exercise of their independent judgement Code provision B 1 2 requires non-FTSE 350 companies to have at least two independent non-executive Directors

This year has been a period of transition for the Board, a year where Roger Canham stepped into an Executive Chairman role while a new Chief Executive was recruited Therefore in line with the UK Corporate Governance Code the Board has reflected on its performance and undertaken a rigorous review of the effectiveness of the performance of the Board based on discussions with other members of the Board, and has concluded that it operated effectively and executed commitment to the roles Following the transition period from 1 June 2014 and in line with the code the senior independent non-executive will carry out this function and perform a detailed evaluation of the Board's ongoing effectiveness over the next year

During the year eleven Board meetings were held All Directors attended all meetings

The Board has adopted a formal schedule of matters specifically reserved to it for decisions including the determination of the strategy, the approval of business plans, budgets, acquisitions and disposals, major capital purchases, Board appointments, accounting policies and treasury arrangements

The Board also delegates specific responsibilities to committees as described below The Board meets monthly and monitors progress against plan at each meeting

The Directors have the authority of the Board to obtain external legal or other independent professional advice in the furtherance of their duties at the Company's expense All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring Board procedures are followed and applicable rules and regulations are complied with The Executive Directors have all received appropriate training for their appointment to the Board of a listed company The Non-Executive Directors bring a broad expertise to the Board David Adams and Charlie Caminada are both experienced company Directors

Appointments to the Board
Nominations Committee
The Nominations Committee comprises the Executive Chairman as well as executive and Non-Executive Directors There were three appointments to the Board during the year ended 31 March 2014, David Adams and Charlie Caminada in January 2014 both to replace existing Directors who were standing down and Richard Ames in February 2014 – who formally joined the Board on 28 April 2014 as Chief Executive Appointments to the Board require the Board's authorisation and are conducted by the Nominations Committee

The duties of the Nominations Committee are available from the terms of reference and include regularly reviewing the structure, size and composition required of the Board and making recommendations to the Board with regard to any changes, giving full consideration to succession planning for Directors and other senior executives, identifying and nominating candidates to fill Board vacancies and evaluating the balance of skills, knowledge and experience on the Board before an appointment is made The terms of reference are available on the Company's website, covering the authority delegated to it by the Board

The potential candidates are interviewed by either the Nominations Committee or a panel appointed by that Committee An appointment requires the final approval of the Board prior to an offer being forwarded

Information and professional development
The Chief Executive is responsible for ensuring that Directors receive accurate, timely and clear information Management has an obligation to provide such information but Directors should seek clarification or amplification where necessary

The Chairman is responsible for ensuring that Directors continually update their skills and the knowledge and familiarity with the Company required to fulfil their role Resources are available on request to develop and update the Directors' knowledge and capabilities

Re-election
The Company's Articles of Association currently require newly appointed Directors to offer themselves for election and one third of the Directors to retire by rotation at each Annual General Meeting Therefore, Richard Ames, David Adams and Charlie Caminada offer themselves for election at the forthcoming Annual General Meeting In accordance with the UK Corporate Governance Code, the non-retiring Directors have conducted a review of their contribution to the Board and can confirm that they continue to be effective Directors and to execute commitment to the role

Audit Committee and Auditors
The Audit Committee comprises David Adams and Charlie Caminada David Adams became Chairman of the Audit Committee on 31 January 2014 He is a Fellow of the Institute of Cost and Management Accountants and is considered by the Board to have recent and relevant financial experience, as required by the Code Charlie Caminada has a wide range of business experience, which is evidenced by his biography set out in the Directors' Report

The Committee meets at least three times a year and the Chairman, Chief Executive, Finance Director, Company Secretary and other managers attend by invitation The Group's Auditors attend meetings and have direct access to the Committee The terms of reference are available on the Company's website, covering the authority delegated to it by the Board

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

REMUNERATION
The Remuneration Committee comprises Charlie Caminada and David Adams Charlie Caminada is the Chairman of the Remuneration Committee Before 9 January 2014 when Charlie and David joined the Board the Remuneration Committee consisted of Nigel Carrington and Mark Rolfe who stepped down on 31 January after a short transition period between 9 and 31 January when all for non-executives were members of the Remuneration Committee

The Committee met three times in total during the year with all members being present The Committee is responsible for establishing formal and transparent procedures for determining policy on executive remuneration and advising the Board on executive remuneration and in particular for ensuring that executive remuneration packages are sufficient to attract, retain and motivate Executive Directors of the required quality whilst avoiding paying more than necessary It also endeavours to establish performance related elements of remuneration which align the interests of the Directors with those of the shareholders No Director is involved in deciding his own remuneration and the Board itself determines the remuneration of the Non-Executive Directors The terms of reference are available on the Company's website, covering the authority delegated to it by the Board Further detail of Directors' remuneration is provided in the Directors Remuneration Report

ACCOUNTABILITY
The Board is committed to providing shareholders with a clear assessment of the Company's financial position and prospects This is achieved through the Annual Report and Accounts and through other periodic financial statements and announcements

Internal Control and Risk Management
The Board is responsible for the operation and effectiveness of the Group's system of internal controls and risk management There is a continuous process for identifying, evaluating and managing the significant risks the Group faces This process has been in place throughout the year under review and up to the date of approval of the Annual Report and Accounts, and complies fully with the Turnbull guidance

Corporate Governance continued

The Audit Committee considered reports from Group financial management on the operation of, and issues arising from the Group's internal control procedures The Audit Committee monitored the effectiveness of the Group's risk management process, which considered the key risks, both financial and non-financial, facing the Group and the effectiveness of the Group's controls to manage and reduce the impact of those risks

The Board regularly reviews the effectiveness of the Group's system of internal control The Board's monitoring covers all key controls, including financial, operational and compliance controls and risk management It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring

The Audit Committee reviews and discusses with management and the external auditor the half-year and annual financial statements focusing on, amongst other matters, the quality and acceptability of accounting policies and practices, the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements, and material areas in which significant judgements have been applied These are discussed further within the Audit Committee report on pages 23 and 24

The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed and by their nature can only provide reasonable but not absolute assurance against misstatement or loss During the year, the Group continued to take action to enhance these control systems, based upon its own process improvement initiatives and auditors' recommendations

The Audit Committee reviews and reports to the Board on the effectiveness of the Group's systems of internal control on an ongoing basis during the year and no significant weaknesses have been identified

RELATIONS WITH SHAREHOLDERS

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

David Adams is the senior independent Non-Executive Director The senior independent Non-Executive Director welcomes direct discussion with shareholders The Executive Directors update major shareholders at institutional visits and analyst presentations immediately after the interim and final announcements

The Board uses the Annual General Meeting as an occasion for communication with its shareholders All proxy votes are counted by the Company's registrars and the voting on each resolution is made available to the meeting Directors of the Company and the UK subsidiary attend the meeting to respond to specific questions

Share Capital

Details of our Share Capital structure can be found on page 18 of the Directors' Report and in Note 21

Going Concern

A review of Group business activities and future outlook are set out on pages 2 to 3 of the Chairman's Statement and within pages 4 to 7 of the Strategic Review The financial position of the Group, its cash flows and liquidity position are shown in the balance sheet, cash flow statement and accompanying notes to the financial statements The principal business risks associated with the business are shown on pages 13 to 14, whilst the risks arising from the Group's financial instruments are covered in note 19

The Directors, in their consideration of going concern, have reviewed the Group's future cash flow forecasts and revenue projections, which they believe are based on a realistic assessment of future business performance

The Group's forecasts and projections, taking account of reasonable possible changes in trading performance, show that the Group should be able to operate within the levels of its agreed facilities Accordingly the Directors believe it appropriate to prepare the financial statements of the Group on a going concern basis

Takeovers Directive

Pursuant to S992 of the Companies Act 2006, which implements the EU Takeovers Directive, the Company is required to disclose certain additional information The following gives those disclosures which are not covered elsewhere in this Annual Report

The Company's Articles of Association (the 'Articles') give the Board power to appoint Directors, but also require Directors to retire and submit themselves for election at the first Annual General Meeting following their appointment A Director who retires in this way is eligible for election but is not taken into account when deciding how many Directors should retire by rotation at the Annual General Meeting The Articles themselves may be amended by special resolution of the shareholders

Pursuant to the Articles, at every Annual General Meeting, one third of the current Directors must retire by rotation

The Board of Directors is responsible for the management of the business of the Company and may exercise all the powers of the Company subject to the provisions of the Company's Memorandum of Association and the Articles

The Articles contain specific provisions and restrictions regarding the Company's power to borrow money Powers relating to the issuing and buying back of shares are also included in the Articles and shareholders are asked to renew such authorities each year at the AGM A copy of the Articles is available on request from the Company Secretary

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company following a takeover, such as commercial contracts, bank agreements, property lease arrangements and employees' share plans None of these are deemed to be significant in terms of their potential impact on the business of the Group as a whole

STRATEGIC REPORT

GOVERNANCE

FINANCIAL STATEMENTS

REPORT OF THE AUDIT COMMITTEE

Statement by the Chairman of the Audit Committee

The Committee's role is to assist the Board by reviewing the Group's financial reporting, the need for an internal audit function and the internal audit reviews conducted, the appropriateness of the Group's internal controls, and compliance with governance, financial and other compliance issues

This year there are new requirements for the Committee to disclose the significant accounting judgements it has examined in the course of its review of the Annual Report, and for the Committee to consider whether the Annual Report is fair, balanced and understandable and to disclose its conclusions on these matters

This report explains how the Audit Committee has discharged its responsibilities, and takes into account the three specific areas highlighted in the revised Corporate Governance Code

- Significant issues considered in relation to the financial statements
- External Audit effectiveness and appointment
- External Audit objectivity and independence and the impact of non-audit work

David Adams
Chairman of the Audit Committee
26 June 2014

MEMBERSHIP OF THE AUDIT COMMITTEE

The Audit Committee comprises David Adams and Charlie Caminada David Adams became Chairman of the Audit Committee on 9 January 2014 He is a Fellow of the Institute of Chartered Accountants in England and Wales and is considered by the Board to have recent and relevant financial experience, as required by the Code Charlie Caminada has a wide range of business experience, which is evidenced by his biography set out in the Directors' Report The previous members of the Audit Committee were Mark Rolfe (Chair) and Nigel Carrington who both stepped down from the Board and Audit Committee on 31 January 2014 after a short handover period The members of the previous Audit Committee also met three times a year

During the year, three Audit Committee meetings were held in line with the Committee's formal timetable All members attended all meetings The Committee also meets privately with representatives of PricewaterhouseCoopers, the Group's external auditors Other employees of the Group may also be invited to attend meetings as deemed appropriate

In two of the meetings held, the approval of announcements for the Group's full year and interim results were considered The Committee considered the financial reporting judgements made which are informed by accounting papers and financial reports prepared by management and reviewed by the Group's external auditors, PricewaterhouseCoopers It also considered whether the announcements were balanced and fair and that the tone of the announcement reflected the results of the Group

SIGNIFICANT ISSUES IN RELATION TO THE FINANCIAL STATEMENTS

There were two main significant judgements that the Committee has reviewed this year These were, assessing the impairment of goodwill and in particular the weighted average cost of capital used within the impairment reviews conducted by management, this included a review of the assumptions used in generating the weighted average cost of capital, and going concern

Following the acquisition of Hornby Italia in 2004, the Group held significant goodwill within the Italian subsidiary With pressure on its revenues there is a risk that the business may not meet either the growth projections anticipated by the business or those necessary to support the carrying value of the goodwill held The Audit Committee has concluded that it is in agreement with management that the remaining goodwill held in Hornby Italia of £2 046 million should be impaired In addition to this the Audit Committee has concluded that the additional net deferred tax asset position generated locally from the impairment is not deemed to be fully recoverable and therefore a significant portion of £1 2 million of this of £1 5 million primarily associated with losses carried forward has not been recognised

Corporate Governance continued

The going concern assumption is inherent to the preparation of the financial statements and the Committee has ensured that the renewal of the facilities for at least the next 18 months with the Group's bankers is complete in concluding on the going concern assumption The Audit Committee has received detailed reports from the Hornby finance team and external advisers addressing this issue and has concluded that it is satisfied with the going concern assumption

The Committee also reported to the Board that it considers, when taken as a whole, the 2014 Annual Report was fair, balanced and understandable and includes the necessary information to assess the performance, business model and strategy of the Company

REMIT OF THE AUDIT COMMITTEE

In addition to its work reviewing the Group's financial statements noted above, the Committee has

- Made recommendations on the appointment and remuneration of the external auditors and monitored their performance
- Reviewed the nature and scope of the work to be performed by the external auditors, the results of their audit work and management's responses to their recommendations
- Monitored the independence of the external auditors and recommended policy for any non-audit services they provide to ensure that their independence is not compromised
- Reviewed and advised the Board on the Company's interim financial statements and related announcements, its accounting policies and on the control and mitigation of its financial and business risks
- Reviewed and advised the Board on the effectiveness of the Company's internal control environment, including its procedures for detecting fraud and 'whistle blowing' and for the prevention of bribery
- Monitored the Company's systems of internal financial control and risk management systems and ensured that these are properly reviewed by Group management on an ongoing basis and in light of changes in the business
- Considered its own effectiveness and made recommendations to the Board where necessary
- Reported to the Board on how it has discharged its responsibilities

EXTERNAL AUDIT

The Committee has adopted a specific policy on auditor independence, setting out restrictions on specific non-audit activities such as bookkeeping, payroll services and advocacy, and procedures and authority levels for audit and non-audit fees

The policy specifies

- The external auditors can be used to provide non-audit services provided their proposal is formally approved by the Audit Committee before contractual arrangements are entered into except for the half year review

In addition the external auditor follows its own ethical guidelines and continually reviews its audit team to ensure independence is not compromised In the current financial year the audit fee fell within the 1 1 ratio and these are set out within note 4

Hornby believes that it receives particular benefit from the external auditors' advice on potential accounting changes and any tax consequences thereof, given its auditors' detailed knowledge of the Group The Board considers alternative providers if practical and seeks confirmation prior to engaging services that independence will not be compromised

To assess the effectiveness of the external auditors, the Committee reviewed their fulfilment of the agreed audit plan, the robustness and perceptiveness of the auditors in their handling of key accounting and audit judgements, the content of their letter to the Audit Committee on control matters and adherence to service standards set out in Hornby's Audit Charter policy There are no contractual restrictions on the choice of the Committee as to external audit and, having considered the services provided by the current external auditors, PricewaterhouseCoopers LLP, their independence and knowledge of the Group, the Committee has recommended to the Board the reappointment of the auditors at the Annual General Meeting in September 2014 In reaching this decision the Committee has taken into account the tenure of the auditors of greater than ten years and considered whether there should be a full tender process The Committee also had regard to the likelihood of a withdrawal of the auditor from the market

INTERNAL AUDIT AND INTERNAL CONTROL

The Committee considered reports from Group financial management on the operation of, and issues arising from the Group's internal control procedures The Committee monitored the effectiveness of the Group's risk management process, which considered the key risks, both financial and non-financial, facing the Group and the effectiveness of the Group's controls to manage and reduce the impact of those risks These principal risks are set out on pages 13 to 14

The Committee considers annually the need for an internal audit function, but currently believes that this is not justified given the size, nature of the Group and a programme of visits to Hornby locations carried out by senior Group financial management

Arrangements exist for staff of the Group to raise concerns, in confidence, about possible improprieties in matters of financial reporting or other matters The Group has a code of conduct outlining the business standards to which all Company personnel must adhere which further reinforces existing whistle-blowing policy and procedures

The Audit Committee's terms of reference include all matters indicated by the UK Corporate Governance Code The terms of reference are considered annually by the Audit Committee and are then referred to the Board for approval The Audit Committee's full terms of reference are available within the investor relations section of the Group's website, www Hornby com

Directors' Remuneration Report
for the Year Ended 31 March 2014

REPORT OF THE REMUNERATION COMMITTEE
Statement by the Chairman of the Remuneration Committee
As a new Chair of the Remuneration Committee, I am pleased to introduce the Directors' Remuneration Report for the year ended 31 March 2014

The Remuneration Committee's remit is to consider and set policies and levels of remuneration to encourage actions by management that are in the long-term interests of the Company and its shareholders

The objective of the Committee is to ensure that the Company's Chairman, Executive Directors and senior management are fairly rewarded for their contributions to the Company's performance and to ensure that their remuneration is commensurate with their duties and responsibilities The Committee will ensure that the Company provides the remuneration packages needed to attract, retain and motivate Directors of the quality required

The Company is now subject to new remuneration reporting requirements (The Large and Medium sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013) (the 'Remuneration Regulations'), and this report therefore takes a different form to previous years In particular, the Remuneration Regulations require the Company to present a forward-looking remuneration policy setting out the Company's future policy on Directors' remuneration The remuneration policy is subject to shareholder approval and a resolution will be proposed at the Company's 2014 AGM to approve the policy The Remuneration Report, excluding the remuneration policy report, remains subject to an advisory shareholder approval as previously

The Committee is responsible for determining
- The framework for the remuneration of the Executive Directors and targets for any performance related elements
- The overall remuneration package of each Executive Director
- The terms of termination of each Executive Director
- The policy and scope of pension arrangements for each Executive Director

During the year the Committee sought to set Executive Directors' remuneration levels to incentivise performance and align this with the long-term interests of the shareholders as well as, in line with Company policy, ensure that a substantial proportion of total remuneration is performance related

ANNUAL REPORT ON REMUNERATION
The Company has established a Remuneration Committee (the 'Committee') which is constituted in accordance with the recommendations of the UK Corporate Governance Code published in September 2012 and other relevant regulation, including the Remuneration Regulations It sets out the Group's remuneration policy and details of Directors' remuneration A resolution to approve this report will be proposed at the Annual General Meeting in September 2014

THE COMMITTEE
The Committee is comprised of independent Non-Executive Directors The previous members of the Committee who served until 31 January 2014 were N M Carrington (Committee Chairman) and M E Rolfe The current members are C Caminada (Committee Chairman) and D Adams both of whom served from 9 January 2014 after a handover period with the previous aforementioned members

The Committee meets as required During the year three Remuneration Committee meetings were held, with both members present at each meeting

Neither of the Committee members has any personal financial interest (other than as shareholders), conflicts of interest arising from cross-Directorships or day-to-day involvement in running the business The Committee makes recommendations to the Board No Director plays a part in any discussion about their remuneration The terms of reference of the Committee are available on the Company website

In determining the Directors' remuneration for 2014–15 the Committee consulted R Canham (Executive Chairman) and R Ames (Chief Executive) about its proposals New Bridge Street ('NBS'), a trading name of Aon Corporation, is the Committee's appointed remuneration adviser and continues to provide advice to the Committee Neither NBS nor Aon Corporation provides any other services to the Company

This part of the remuneration report has been audited

GENERAL REMUNERATION POLICY FOR THE EXECUTIVE DIRECTORS
Executive remuneration packages are designed to attract, motivate and retain Directors of the high calibre needed to maintain the Group's position as a market leader and to reward them for enhancing value to shareholders The performance measurement of the Executive Directors is undertaken by the Committee The Committee is sensitive to pay and conditions in the workforce when determining executive remuneration policy and base salary increases in particular

The Committee is also aware of the potential risk to the business of executive pay structures and is satisfied that the current policy is compatible with risk policies and systems

There are five main elements of the remuneration package for Executive Directors and senior management Base salary, Benefits-in-kind, Pension arrangements, Performance-related annual bonus, Performance Share Plan

The Company's policy is that a substantial proportion of the remuneration of the Executive Directors should be performance related At a target level of performance, approximately 40% – 45% of the total remuneration package is performance-related

Directors' Remuneration Report continued

Executive Directors' base salaries are reviewed annually by the Committee taking into account the responsibilities, skills and experience of each individual, pay and employment conditions within the Company and salary levels within listed companies of a similar size The following table shows the total remuneration of the Executive Directors for the year

Executive Director	Salary and Fees £000	Taxable benefits[7] £000	Pension contributions £000	Annual bonus £000	**Sub-total 2013–14 £'000**	Long-term incentives £000	**Total 2013–14 £'000**
R T Canham[1]	300	–	–	–	**300**	100	**400**
N P Stone	180	8	36	–	**224**	180	**404**
F Martin[2]	100	2	20	–	**122**	–	**122**

1 Roger Canham who has been within the role of executive Chairman for the year will remain in an Executive Director role until the handover period with R Ames who joined the Board on 28 April 2014 is complete and will then revert back to the non-executive position of Chairman on 1 July 2014

2 Frank Martin stepped down as Chief Executive on 28 March 2013 and became Deputy Chairman on that date until stepping down from the Board on 9 January 2014

Executive Director	Salary and Fees £000	Taxable benefits[7] £000	Pension contributions £000	Annual bonus £000	**Sub-total 2012–13 £'000**	Long term incentives £000	**Total 2012–13 £'000**
R T Canham[3]	26	–	–	–	**26**	–	**26**
A J Morris[5]	156	9	32	–	**197**	176[6]	**373**
F Martin[4]	268	15	50	–	**333**	267	**600**
N P Stone[5]	39	1	8	–	**48**	–	**48**

3 Roger Canham became Executive Chairman on 1 April 2013

4 Frank Martin stepped down as Chief Executive on 28 March 2013 and became Deputy Chairman on that date

5 Andrew Morris left the Group on 15 February 2013 and Nick Stone was appointed on 1 February 2013

6 The Long term incentives for Andrew Morris granted within the 2012–13 year noted in the above table lapsed when he left the Group

7 Taxable benefits relate o the provision of a company car health assurance and F Martin pension supplement

Benefits

Policies concerning benefits, including the Group's company car policy, are reviewed periodically Currently, benefits in kind comprise motor cars and private health cover, both of which are non-performance related

Pension

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 The contribution level continues to be 20% of base salary for Executive Directors save that Mr Canham is not a member of the pension scheme and receives no benefits or contributions in respect of pensions Mr Martin will continue to receive a pension contribution until the expiry of his service contract on 30 June 2014 For Mr Martin in 2012–13 the balance of £3,582 pension in excess of the HMRC approved limit was paid by way of a salary supplement included in taxable benefits in the emoluments table

Performance-related annual bonus

For 2013–14 Mr Stone participated in a performance-related bonus scheme which is capped at 75% of salary, Mr Martin was not entitled to a performance-related bonus For 2012–13 Mr Martin participated in the same scheme

Performance targets are designed both to stretch and encourage individuals whilst aligning their interests with those of the Group The performance conditions are divided 80 20 between Group underlying profit before tax and personal objectives For the Group underlying profit before tax condition, a sliding scale range is set around a target level (designed to be stretching but realistically achievable) The personal objectives are set at the start of the year and are designed to be as objective and measurable as possible This mix of targets is considered to provide a good link to the business strategy

With effect from 2011, a provision was incorporated into the Annual Bonus Plan to enable the Company to claw back overpayments in the event of financial misstatement or gross misconduct

The table below shows the targets set for 2013–14

Target	Target at operating level	Target for maximum pay-out	% salary awarded for operating plan achievement	% salary awarded for maximum achievement	Achieved underlying PBT	% of salary awarded
Underlying PBT	100%	130%	30%	60%	£1 139 million underlying loss before tax	0%

In respect of the year ended 31 March 2014 one of the Executive Directors who served during the year was entitled to a bonus The Directors bonus award is based on performance targets The targets are based on Group underlying profit before tax (80%) and personal objectives (20%) Executive Directors achieved nil% (out of a maximum 130%) for the profit before tax element and nil% (out of a maximum 100%) for the personal objectives element The Remuneration Committee took the view that profit delivery in 2012–13 also did not support the payment of bonuses for personal objectives

Performance Share Plan
The Performance Share Plan ('PSP'), which was approved by shareholders at the 2008 AGM, was introduced as the Company's primary long term incentive plan to replace the short-term incentive plan ('STIP') No further awards will be made under the STIP and at 31 March 2014 and 2013 there were no outstanding awards to Directors under the Short-Term Incentive Plan

Under the PSP, awards are made to Executive Directors and selected other executives on the following basis
- The maximum award level is 150% of base salary per annum although awards up to 200% of base salary may be granted to an individual in exceptional circumstances (e g recruitment or retention) The current policy is to grant maximum awards over shares worth 100% of salary
- Performance conditions are reviewed annually, so as to ensure they remain appropriately pitched in relation to the strategy and business cycle, and provide an optimal alignment between the interests of executives and shareholders
- Awards have historically been subject to a total shareholder return ('TSR') condition and a range of normalised underlying earnings per share ('EPS') growth targets, each of the TSR and EPS elements apply to a separate 50% of an award, measured over a period of three financial years
- The TSR condition is based on the Company's underlying performance against the constituents of the FTSE Small Cap (excluding investment trusts) as at the date of grant 25% of this part of the award will vest if the Company's TSR is equal to the TSR of the median company, with full vesting for top quartile performance A sliding scale operates between these points
- In the case of all awards made prior to 2013, for the EPS part of the award, 25% vests for average annual underlying EPS growth of RPI+3% p a , with full vesting for average annual EPS growth of RPI+12% p a A sliding scale operates between these points
- Awards granted during the year to 31 March 2014 have EPS targets based upon underlying profit before tax of £4 million for 25% vesting and will increase straight line to full vesting at £5 million The Committee has set these targets appropriate to the economic outlook prevailing at the time and retains the discretion to adjust the targets if circumstances make a consideration of this necessary The TSR condition will be unchanged
- The Committee is comfortable that the blend of TSR and EPS targets continues to provide a good balance between incentivising and rewarding strong financial performance on the one hand whilst, on the other hand, providing a strong and direct alignment with the interests of institutional shareholders by rewarding stock market outperformance
- Performance conditions are calculated by independent advisers and verified by the Committee
- Executives benefit, in the form of additional cash or shares, from the value of dividends paid over the vesting period, to the extent that awards vest
- It is currently intended that market purchased shares are used to satisfy awards although there is flexibility to use new issue and treasury shares within institutional shareholder dilution limits
- Similar to the bonus plan, with effect from 2011 awards, a provision was incorporated into the PSP to enable the Company to clawback overpayments in the event of misstatement or gross misconduct

Shareholding guidelines
A policy for share ownership guidelines is operated for the Executive Directors and senior executives For the Executive Directors, the required threshold of share ownership is 100% of base salary Until such time as this level of shareholding is achieved, 50% of the net of tax value of awards which vest under the PSP are required to be retained in shares

DIRECTORS' INTERESTS

Interests in shares
The interests of the Directors in the shares of the Company at 31 March 2014 were

	At 31 March 2014 number	At 31 March 2013 number
Executive Directors		
R Canham	**40,000**	40,000
N P Stone	**10,000**	10,000
Non-Executive Directors		
D Adams	–	–
C Caminada	–	–
M Rolfe	–	10,000
N Carrington	–	18,000

All the interests detailed above are beneficial Apart from the interests disclosed above no Directors were interested at any time in the year in the share capital of any other Group company On 3 April 2013 Frank Martin sold 400,000 shares at 0 82p per share There have been no other changes in the interests set out above between 31 March 2014 and 27 June 2014

Directors' Remuneration Report continued

Performance Share Plan

At 31 March 2014, outstanding awards to Directors under the Performance Share Plan were as follows

Director	Award date	Vesting date	Market price at Award date	At 1 April 2013	Awarded during year	Lapsed during year	Vested during year	**At 31 March 2014**
R Canham	July 2013	July 2016	81 5p	–	122,699	–	–	**122,699**
N Stone	July 2013	July 2016	81 5p	–	220,859	–	–	**220,859**

For the awards, 50% of an award is subject to a TSR condition and 50% is subject to an EPS performance condition, both of which are measured over a period of three financial years For the TSR condition, 25% of this part of the award will vest if Hornby's TSR is equal to the TSR of the median company of the constituents of the FTSE Small Cap (struck at the date of grant), with full vesting for top quartile performance, with a sliding scale operating between these points For the profit related part of the award, 25% vests for underlying profit before tax of £4 million, with full vesting for underlying profit before tax of £5 million with a sliding scale operating between these points

Non-Executive Directors

The table below gives the salary and fees of the Non Executive Directors for 2013–14 and 2012–13

	Basic salary and fees 2013–14 £'000
D Adams (appointed 9 January 2014)	**9**
C Caminada (appointed 9 January 2014)	**9**
N M Carrington (Resigned 31 January 2014)	**33**
M E Rolfe (Resigned 31 January 2014)	**33**

	Basic salary and fees 2012–13 £ 000
N M Carrington	40
M E Rolfe	40

The following table summarises the total salary and pension contributions received by Directors for 2013–14 and 2012–13 in line with the Companies Act 2006 requirement

	Year ended 31 March 2014			Year ended 31 March 2013		
	Basic salary and fees £'000	**Pension received £'000**	**Total salary and pension received £'000**	Basic salary and fees £ 000	Pension received £ 000	Total salary and pension received £ 000
R Canham	**300**	–	**300**	26	–	26
N Stone	**180**	**36**	**216**	39	8	47
F Martin (resigned 9 January 2014)	**100**	**20**	**120**	268	50	318
D Adams (appointed 9 January 2014)	**9**	–	**9**	–	–	–
C Caminada (appointed 9 January 2014)	**9**	–	**9**	–	–	–
N M Carrington (Resigned 31 January 2014)	**33**	–	**33**	40	–	40
M E Rolfe (Resigned 31 January 2014)	**33**	–	**33**	40	–	40
A J Morris (Resigned 15 February 2013)	–	–	–	156	32	188
Total	**664**	**56**	**720**	569	90	659

Payments to Directors leaving the Group

No payments (2012–13 £nil) were made during the year ended 31 March 2014, however a payment of £40,000 was made to F Martin on 7 April 2014 in lieu of notice of his service contract to June 2014

STRATEGIC REPORT

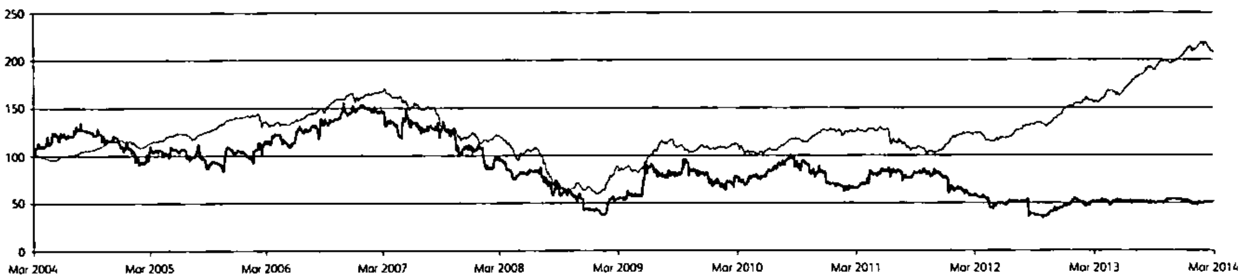
GOVERNANCE

FINANCIAL STATEMENTS

PERFORMANCE GRAPH (UNAUDITED INFORMATION)
The following graph shows the Company's total shareholder return compared to the TSR of the FTSE Small Cap (excluding investment trusts) over the ten-year period to 31 March 2014 This index has been selected given that the Company is a constituent of the FTSE Small Cap

Total shareholder return

Source Thomson reuters (Datastream)



This graph shows the value by 31 March 2014 of £100 invested in Hornby Plc on 31 March 2004 compared with the value of £100 invested in the FTSE Small Cap Index (excluding investment trusts)

—— Hornby Plc —— FTSE Small Cap Index (excluding investment trusts)

The table below shows the total remuneration for the Chief Executive Officer and the percentages of the maximum awards of performance related pay received over the past five years The Variable element reflects the actual bonus paid to the CEO and the long-term incentives relate to the PSP scheme which only pays out when it vests

Year	CEO	Single figure total remuneration £ 000	Annual variable element % of max	Long-term incentives % of max
2013–14	R T Canham	400	n/a	–
2012–13	F Martin	333	0%	–
2011–12	F Martin	326	0%	–
2010–11	F Martin	365	12%	–
2009–10	F Martin	455	31%	–

Relative importance of spend on pay (unaudited)
As required by the Remuneration Regulations, the table below compares total staff remuneration with the amounts paid in dividends to shareholders and the loss after tax of the Group The measure being used of loss after tax represent the statutory financial performance of the Group and acts as a comparative benchmark for future years

Directors' Remuneration Report continued

REMUNERATION POLICY

Executive Directors' service contracts

The Executive Directors do not have fixed period contracts

Richard Ames was appointed to the Board as Chief Executive on 28 April 2014 His service contract includes a notice period of six months to be given by the Company which is extended to one year after six months service and of six months to be given by him In lieu of giving notice the Company may terminate the agreement on payment of a lump sum (subject to tax and national insurance) equal to the salary and other benefits to which he is entitled under this agreement

Roger Canham Mr Canham was appointed non-executive Chairman with effect from 1 February 2013 under a contract dated 7 November 2012 for an initial term of three years subject to termination on three months' notice, to be given by either the Company or himself at a fee of £100,000 p a In lieu of giving notice the Company may terminate the agreement on payment of a lump sum (subject to tax and national insurance) equal to the salary to which he is entitled under the agreement He was appointed executive Chairman on 1 April 2013 Upon becoming executive Chairman, his fees were increased to £300,000 per annum until such time as a new Chief Executive was appointed He will revert to Chairman on 1 July 2014

Nick Stone's service contract dated 1 February 2013 includes a notice period of six months to be given by the Company which is extended to one year after six months service and of six months to be given by him In lieu of giving notice the Company may terminate the agreement on payment of a lump sum (subject to tax and national insurance) equal to the salary and other benefits to which he is entitled under this agreement

Frank Martin stepped down as Chief Executive on 28 March 2013 and became Deputy Chairman before stepping down from the Board on 9 January 2014 The Company agreed the payment (subject to tax and national insurance) equal to the salary and other benefits to which he is entitled under this agreement between the actual termination date and 30 June 2014 which will continue to be paid until this date and includes the £40,000 referred to on the previous page

Non-Executive Directors' contracts

The remuneration of the Non-Executive Directors is determined by the Board (except the Company Chairman's fee, which is set and reviewed by the Remuneration Committee) based on the level of fees paid to Non-Executive Directors of similar companies and by considering independent external advice

David Adams Non-Executive Director, was appointed to the Board on 9 January 2014, and receives fees for his services to the Company of £40,000 per annum effective 1 January 2014 David's service contract dated 9 January 2014 is subject to termination on six months' notice to be given by either the Company or himself In lieu of giving notice the Company may terminate the agreement on payment of a lump sum (subject to tax and national insurance) equal to the fee to which he is entitled under this agreement

Charlie Caminada Non-Executive Director, was appointed to the Board on 9 January 2014, and receives fees for his services to the Company of £40,000 per annum effective 1 January 2014 Charlie's service contract dated 9 January 2014 is subject to termination on six months' notice to be given by either the Company or himself In lieu of giving notice the Company may terminate the agreement on payment of a lump sum (subject to tax and national insurance) equal to the fee to which he is entitled under this agreement

Nigel Carrington, Non-Executive Director, was appointed to the Board on 1 December 2007, and receives fees for his services to the Company of £40,000 per annum effective 1 April 2012 Nigel's service contract dated 3 November 2007 is subject to termination on six months' notice to be given by either the Company or himself In lieu of giving notice the Company may terminate the agreement on payment of a lump sum (subject to tax and national insurance) equal to the fee to which he is entitled under this agreement Nigel stepped down from the Board on 31 January 2014

Mark Rolfe, Non-Executive Director, was appointed to the Board on 1 January 2008, and receives fees for his services to the Company of £40,000 per annum effective 1 April 2012 Mark's service contract dated 22 November 2007 is subject to termination on six months' notice to be given by either the Company or himself In lieu of giving notice the Company may terminate the agreement on payment of a lump sum (subject to tax and national insurance) equal to the fee to which he is entitled under this agreement Mark stepped down from the board on 31 January 2014

None of the Non-Executive Directors receives any pension or performance-related pay from the Company

The Committee's remuneration policy will be subject to a vote at the Annual General Meeting The following pages 31 to 32 in this forward-looking section describe our remuneration policies and potential future outcomes for each Executive Director The policy for rewarding Non-Executive Directors is also described

These Policies and the individual elements of the reward package are reviewed each year to ensure that they remain in line with Governance Code and the Remuneration Regulations

The table below summarises the main components of the existing remuneration package for executive Directors

Remuneration component	Strategic objective	How the component operates	Performance measures applicable	Maximum and minimum payouts
Base salary	To attract and retain executives of high quality	Initial salaries are based upon the level of skill and experience of the individual, the scope of responsibilities and market benchmarks of similar sized quoted businesses	None	None In recent years any base salary awards have been in line with the rise given to all the UK employees
Annual bonus	To incentivise Executive Directors to achieve the short term priorities and to deliver high performance in the current financial year	Performance targets are based on the strategic objectives of the Group and bonus payments are based on the Group's ability to meet its financial targets as a result of the overarching objectives	Financial measures set by the Committee in line with near-term priorities i e Underlying profit	The maximum bonus payable is 130% of salary based entirely on the financial measures The minimum pay out is nil
Benefits	To provide a competitive package for Executive Directors	Benefits comprise a company car or allowance alongside medical health cover benefits	None	n/a
Performance share plan ('PSP')	To sustain the Executive Directors' performance over the longer term in line with shareholder interests	The awards are normally made annually under the Hornby PSP scheme to Executive Directors	Criteria set are designed to challenge the goals set by the Group in line with its three-year strategic plan	The maximum award level is 150% of base salary per annum although awards up to 200% of base salary may be granted to an individual in exceptional circumstances (e g recruitment or retention)
Pensions	To provide a competitive package for Executive Directors	The Executive Directors are provided with a contribution to their retirement savings plans	None	20%

Estimate of the total future potential remuneration

The charts below set out estimates of the potential remuneration for each of the Executive Directors based on the current remuneration packages The assumptions included in each scenario are described below

- The share price of Hornby Plc remains constant
- Consists of base salary, pension and benefits which are all assumed to be in line with 2013–14
- On plan – the Performance share plan will deliver 50% of maximum

Directors' Remuneration Report continued

Policy on Non-Executive Directors
The independent Non Executive Directors receive letters of appointment with six month notice terms and are subject to re-election every three years at the Annual General Meeting The Executive Directors review the Non-Executive Director's fees annually The fee is a fixed annual fee, which reflects their time and commitment to the business and comparatives from similar sized quoted companies Non Executive Directors do not participate in any share scheme, bonus or pension arrangements

The current scale of remuneration is

	£ 000
Chairman	100
Other Non-Executive Directors	40

Recruitment of Directors
When determining the remuneration package and levels for a new Director the Committee will take into consideration all relevant factors including but not limited to, the role, the skills a Director has and the added value they can bring to the business but without paying more than is required to recruit and retain a candidate of the required calibre The Committee will seek to align the package with the framework of the remuneration policy outlined in the previous table above

On recruitment, the Committee may also grant awards to a new Director under the Listing Rule 9 4 2 which allows for the granting of awards, specifically to facilitate, in unusual circumstances, the recruitment or retention of a Director, without seeking prior shareholder approval This discretion will only be used in respect of buyout awards where a new recruit forfeits awards granted by a previous employer

Engagement with shareholders
The Committee considers shareholder feedback received during the AGM and any other shareholder meetings as part of its annual review of its remuneration policy Where the Committee proposes to introduce new long-term incentive plans, the Committee seeks the views of major shareholders prior to seeking general shareholder approval at a general meeting There were no shareholder representations to the Company in 2013–14 in respect of Directors' remuneration

C Caminada
Remuneration Committee Chairman
26 June 2014

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have prepared the Group and Parent 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 the Company and of the profit or loss of the Group and Company for that period In preparing these financial statements, the Directors are required to

- Select suitable accounting policies and then apply them consistently
- Make judgements and accounting estimates that are reasonable and prudent and
- 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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy, at any time, the financial position of the Group and the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation They are also responsible for safeguarding the assets of the Group and the 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

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

Each of the Directors, whose names and functions are listed in the Directors and Corporate Information section, 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 EU, give a true and fair view of the assets, liabilities, financial position and loss of the Group and profit of the Company
- The Strategic Review and Corporate Governance Statement includes a fair review of the true development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces

So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has 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 Company's auditors are aware of that information

By order of the Board

N Stone
Group Finance Director
26 June 2014

Independent Auditors' Report
to the members of Hornby Plc

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2014 and of the group's loss, the company's profit and the group's and the company's cash flows for the year then ended,
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation

This opinion is to be read in the context of what we say in the remainder of this report

What we have audited

The group Financial Statements and company Financial Statements (the "financial statements"), which are prepared by Hornby Plc comprise

- the group and company balance sheets as at 31 March 2014,
- the group and company statements of comprehensive income for the year then ended,
- the group and company cash flow statements for the year then ended,
- the group and company statements of changes in equity for the year then ended, and
- the notes to the Annual report and Accounts, which include a summary of significant accounting policies and other explanatory information

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report and Accounts (the "Annual Report"), rather than in the notes to the financial statements These are cross-referenced from the financial statements and are identified as audited

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)") An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of

- whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed,
- the reasonableness of significant accounting estimates made by the Directors, and
- the overall presentation of the financial statements

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Overview of our audit approach

Materiality

We set certain thresholds for materiality These helped us to determine the nature, timing and extent of our audit procedures and to evaluate 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 group financial statements as a whole to be £126,000 This represents approximately 5% of loss before tax before the exceptional item relating to the impairment of goodwill We believe this represents an appropriate measure of the group's underlying performance

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £5,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons

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Overview of the scope of the audit

The group financial statements are a consolidation of ten reporting units, comprising the group's operating businesses and centralised functions In establishing the overall approach to the group audit, we determined the type of work that needed to be performed at the reporting units by us, as the group engagement team, or component auditors from other PwC network firms operating under our instruction Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the group financial statements as a whole

Accordingly, of the group's ten reporting units, we identified three (representing 76% of Group revenue and 65% of the loss before tax before the exceptional item relating to the impairment of goodwill) based in the UK and Spain which, in our view, required an audit of their complete financial information, either due to their size or risk characteristics Specific audit procedures were performed on a further two reporting units in Italy and the US This, together with additional procedures performed at the group level, gave us the evidence we needed for our opinion on the group financial statements as a whole

Areas of particular audit focus

In preparing the financial statements, the Directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain We primarily focused our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both

We considered the following areas to be those that required particular focus in the current year This is not a complete list of all risks or areas of focus identified by our audit We discussed these areas of focus with the Audit Committee Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 23 and 24

Area of focus	How the scope of our audit addressed the area of focus
Risk of fraud in revenue recognition ISAs (UK & Ireland) require that we consider this We focused on the risk that revenue transactions around the year end were included in the wrong period and that revenue transactions did not occur	We used Computer Assisted Auditing Techniques to test the occurrence of revenue in the UK reporting unit, and performed tests of details on the occurrence of revenue in the Spanish reporting unit, and on the cut off of transactions in both the UK and Spain We also tested the controls over the recording of revenue transactions and checked journal entries posted to revenue to identify unusual or irregular items, obtaining evidence to determine the rationale for the adjustments tested
Going concern We focused on this because the Directors' cash flow forecasts indicated that the group would breach its loan covenants at 31 March 2014 and required the support of its lenders to continue as a going concern An initial waiver of the covenants at 31 March 2014 was therefore obtained from the lenders before the year end Although this addressed the immediate issue, there was still a risk that the group would not be able to continue as a going concern for a period of at least twelve months from the date the financial statements were approved Management has subsequently agreed a new facility with its lenders This facility has revised covenants	We obtained confirmation of the waiver of the loan covenants breached at 31 March 2014 and considered whether, with the revised facility and covenants in place, the group was in a position to continue as a going concern To do this we considered the likelihood of a breach of the revised covenants for a period of at least twelve months from the date the financial statements were approved We considered in detail the approach taken by management and their independent advisers in determining the cash flow forecasts, and whether there was appropriate support for the assumptions used Our conclusion on going concern is below

Independent Auditors' Report continued

Area of focus	How the scope of our audit addressed the area of focus
Goodwill and intangible assets impairment assessment In the prior year, the goodwill relating to the Italian business was partially written off As trading in that business remained challenging in the current year, we needed to consider whether the carrying value of the remaining goodwill and other intangibles was supported by the forecast performance of the business	We evaluated the cash flow model used to check that it was appropriate for the impairment review We challenged management's assumptions used in the model for goodwill and intangible assets, described in note 8 to the financial statements, including specifically the cash flow projections, discount rates, perpetuity rates and sensitivities used, particularly in respect of the Italian operations and concluded that the assumptions were reasonable
Risk of management override of internal controls ISAs (UK & Ireland) require that we consider this	We tested key reconciliations and tested manual journal entries We considered whether there was evidence of bias by the Directors in the significant accounting estimates and judgements relevant to the financial statements We also assessed the overall control environment of the group, including the arrangements for staff to "whistle-blow" inappropriate actions, and discussed with senior management the possibilities for management override of controls

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 22, in relation to going concern We have nothing to report having performed our review

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting The going concern basis presumes that the group and company have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate

However, because not all future events or conditions can be predicted these statements are not a guarantee as to the group's and company's ability to continue as a going concern

Opinions on other matters prescribed by the Companies Act 2006

In our opinion

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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
- the company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns

We have no exceptions to report arising from this responsibility

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made We have no exceptions to report arising from this responsibility

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the company's compliance with nine provisions of the UK Corporate Governance Code ("the Code") We have nothing to report having performed our review

On page 33 of the Annual Report, as required by the Code Provision C 1 1, the Directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the group's and company's performance, business model and strategy On pages 23 and 24, as required by C 3 8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed Under ISAs (UK & Ireland) we are required to report to you if, in our opinion

- the statement given by the Directors is materially inconsistent with our knowledge of the group and company acquired in the course of performing our audit, or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee

We have no exceptions to report arising from this responsibility

Other information in the Annual Report

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion, information in the Annual Report is

- materially inconsistent with the information in the audited financial statements, or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group and company acquired in the course of performing our audit, or
- is otherwise misleading

We have no exceptions to report arising from this responsibility

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 33, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

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

Rosemary Shapland

Rosemary Shapland (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick
26 June 2014

Group and Company Statement of Changes in Equity

Year Ended 31 March 2014 and 31 March 2013

GROUP	Share capital £000	Share premium £000	Capital redemption reserve £000	Translation reserve £000	Hedging reserve £000	Other reserves £000	Retained earnings £000	Total equity £000
Balance at 1 April 2012	392	6,180	55	(545)	(187)	1,688	31,598	39,181
Total loss for the year	–	–	–	–	–	–	(2,501)	(2,501)
Other comprehensive income for the year	–	–	–	(67)	461	–	–	394
Total comprehensive income for the year	**–**	**–**	**–**	**(67)**	**461**	**–**	**(2,501)**	**(2,107)**
Transactions with owners								
Issue of shares								
Share based payments (note 22)	–	–	–	–	–	–	20	20
Shares vested from employee benefit trust	–	–	–	–	–	–	90	90
Dividends							(783)	(783)
Total transactions with owners	**–**	**–**	**–**	**–**	**–**	**–**	**(673)**	**(673)**
	–	–	–	–	–	–	(673)	(673)
Balance at 31 March 2013	**392**	**6,180**	**55**	**(612)**	**274**	**1,688**	**28,424**	**36,401**
Total loss for the year	–	–	–	–	–	–	(4,445)	(4,445)
Other comprehensive income for the year	–	–	–	(146)	(714)	–	–	(860)
Total comprehensive income for the year	**–**	**–**	**–**	**(146)**	**(714)**	**–**	**(4,445)**	**(5,305)**
Transactions with owners								
Share-based payments (note 22)	–	–	–	–	–	–	274	274
Shares vested from employee benefit trust	–	–	–	–	–	–	–	–
Dividends	–	–	–	–	–	–	–	–
Total transactions with owners	**–**	**–**	**–**	**–**	**–**	**–**	**274**	**274**
Balance at 31 March 2014	**392**	**6,180**	**55**	**(758)**	**(440)**	**1,688**	**24,253**	**31,370**

Retained earnings includes £587,000 at 31 March 2014 (2013 – £604,000) which is not distributable and relates to a 1986 revaluation of land and buildings

Group and Company Statement of Comprehensive Income

for the Year Ended 31 March 2014

	Note	Group 2014 £'000	Group 2013 £'000	Company 2014 £'000	Company 2013 £'000
Revenue	2	**51,557**	57,395	**1,456**	1,316
Cost of sales		**(28,230)**	(32,917)	**–**	–
Gross profit		**23,327**	24,478	**1,456**	1,316
Distribution costs		**(2,549)**	(2,408)	**–**	–
Selling and marketing costs		**(11,322)**	(12,768)	**–**	–
Administrative expenses		**(9,811)**	(9,415)	**(994)**	(859)
Other operating expenses		**(3,718)**	(2,726)	**(85)**	(34)
Operating (loss)/profit	2	**(4,073)**	(2,839)	**377**	423
Income from shares in Group undertakings		**–**	–	**–**	783
Finance income	3	**8**	13	**174**	174
Finance costs	3	**(492)**	(561)	**(208)**	(213)
(Loss)/profit before taxation	4	**(4,557)**	(3,387)	**343**	1,167

	Note	Group 2014 £'000	Group 2013 £'000	Company 2014 £'000	Company 2013 £'000
Analysed as					
Underlying (loss)/profit before taxation	1	**(1,139)**	147	**383**	1,216
Net foreign exchange impact on intercompany loans		**(108)**	20	**–**	–
Amortisation of intangibles		**(389)**	(385)	**–**	–
Exceptional items					
Restructuring costs		**(875)**	(723)	**(40)**	(49)
Impairment of goodwill		**(2,046)**	(2,446)	**–**	–
(Loss)/profit before taxation		**(4,557)**	(3,387)	**343**	1,167

	Note	Group 2014 £'000	Group 2013 £'000	Company 2014 £'000	Company 2013 £'000
Income tax income/(expense)	5	**112**	886	**(38)**	390
(Loss)/profit for the year after taxation		**(4,445)**	(2,501)	**305**	1,557
Other comprehensive income					
Items that may be subsequently reclassified to Profit and Loss					
Cash flow hedges, net of tax		**(714)**	461	**–**	–
Currency translation differences		**(146)**	(67)	**101**	(74)
Other comprehensive (loss)/income for the year, net of tax		**(860)**	394	**101**	(74)
Total comprehensive (loss)/income for the year		**(5,305)**	(2,107)	**406**	1,483
Loss per ordinary share					
Basic	7	**(11.35)p**	(6.39)p		
Diluted	7	**(11.35)p**	(6.39)p		

All results relate to continuing operations

The notes on pages 44 to 75 form part of these accounts

Group and Company Balance Sheet
at 31 March 2014

	Note	Group 2014 £'000	Group 2013 £'000	Company 2014 £'000	Company 2013 £'000
Assets					
Non-current assets					
Goodwill	8	**8,530**	10,598	**–**	–
Intangible assets	9	**3,569**	3,978	**–**	–
Property, plant and equipment	10	**10,383**	10,048	**1,241**	1,275
Investments	11	**–**	–	**37,224**	37,165
Deferred tax assets	20	**1,858**	1,714	**–**	–
		24,340	26,338	**38,465**	38,440
Current assets					
Inventories	12	**13,165**	13,637	**–**	–
Trade and other receivables	13	**9,043**	9,603	**628**	33
Derivative financial investments	19	**39**	367	**–**	–
Current tax assets	17	**601**	512	**29**	110
Cash and cash equivalents	14	**619**	3,554	**1**	2
		23,467	27,673	**658**	145
Liabilities					
Current liabilities					
Borrowings	18	**(7,630)**	(3,907)	**–**	–
Derivative financial instruments	19	**(445)**	(2,194)	**–**	–
Trade and other payables	15	**(7,618)**	(8,834)	**(62)**	(68)
Provisions	16	**(238)**	(235)	**–**	–
Current tax liabilities	17	**(128)**	(466)	**(100)**	(105)
		(16,059)	(15,636)	**(162)**	(173)
Net current assets/(liabilities)		**7,408**	12,037	**496**	(28)
Non-current liabilities					
Borrowings	18	**(242)**	(1,815)	**(4,984)**	(5,093)
Deferred tax liabilities	20	**(136)**	(159)	**(126)**	(148)
		(378)	(1,974)	**(5,110)**	(5,241)
Net assets		**31,370**	36,401	**33,851**	33,171
Equity attributable to owners of the parent					
Share capital	21	**392**	392	**392**	392
Share premium		**6,180**	6,180	**6,180**	6,180
Capital redemption reserve		**55**	55	**55**	55
Translation reserve		**(758)**	(612)	**(958)**	(1,059)
Hedging reserve		**(440)**	274	**–**	–
Other reserves		**1,688**	1,688	**19,145**	19,145
Retained earnings		**24,253**	28,424	**9,037**	8,458
Total equity		**31,370**	36,401	**33,851**	33,171

The notes on page 44 to 75 form part of these accounts

The financial statements on pages 38 to 43 were approved by the Board of Directors on 26 June and were signed on its behalf by

N P Stone
Director
Registered Company Number 01547390

COMPANY	Share capital £ 000	Share premium £ 000	Capital redemption reserve £ 000	Translation reserve £ 000	Other reserves £ 000	Retained earnings £ 000	Total equity £ 000
Balance at 1 April 2012	392	6,180	55	(985)	19,145	7,664	32,451
Total income for the year	–	–	–	–	–	1,557	1,557
Other comprehensive income for the year	–	–	–	(74)	–	–	(74)
Total comprehensive income for the year	**–**	**–**	**–**	**(74)**	**–**	**1,557**	**1,483**
Transactions with owners							
Share based payments	–	–	–	–	–	20	20
Dividends	–	–	–	–	–	(783)	(783)
Total transactions with owners	**–**	**–**	**–**	**–**	**–**	**(763)**	**(763)**
	–	–	–	(74)	–	794	720
Balance at 31 March 2013	**392**	**6,180**	**55**	**(1,059)**	**19,145**	**8,458**	**33,171**
Total income for the year	–	–	–	–	–	305	305
Other comprehensive income for the year	–	–	–	101	–	–	101
Total comprehensive income for the year	**–**	**–**	**–**	**101**	**–**	**305**	**406**
Transactions with owners							
Share-based payments	–	–	–	–	–	274	274
Dividends	–	–	–	–	–	–	–
Total transactions with owners	**–**	**–**	**–**	**–**	**–**	**274**	**274**
	–	–	–	101	–	579	680
Balance at 31 March 2014	**392**	**6,180**	**55**	**(958)**	**19,145**	**9,037**	**33,851**

The notes on page 44 to 75 form part of these accounts

Group and Company Cash Flow Statement
for the Year Ended 31 March 2014

	Group		Company	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Cash flows from operating activities				
Cash (used in)/generated from operations	**(76)**	10,407	**516**	918
Interest paid	**(492)**	(561)	**(208)**	(213)
Tax (paid)/received	**(482)**	(1,394)	**16**	(302)
Net cash (used in)/generated from operating activities	**(1,050)**	8,452	**324**	403
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment	**–**	97	**–**	–
Purchase of property, plant and equipment	**(4,059)**	(3,457)	**–**	–
Interest received	**8**	13	**174**	174
Dividends received	**–**	–	**–**	783
Net cash (used in)/generated from investing activities	**(4,051)**	(3,347)	**174**	957
Cash flows from financing activities				
Repayments of loans	**(3,060)**	(3,046)	**–**	–
Finance lease capital payments	**(3)**	(62)	**–**	–
Dividends paid to Company's shareholders	**–**	(783)	**–**	(783)
Advances to subsidiary undertakings	**–**	–	**(4,767)**	–
Repayments to subsidiary undertakings	**–**	–	**4,268**	(578)
Net cash used in financing activities	**(3,063)**	(3,891)	**(499)**	(1,361)
Net (decrease)/increase in cash and cash equivalents	**(8,164)**	1,214	**(1)**	(1)
Cash, cash equivalents and bank overdrafts at beginning of the year	**2,725**	1,591	**2**	2
Effect of exchange rate movements	**(17)**	(80)	**–**	1
Cash, cash equivalents and bank overdrafts at end of year	**(5,456)**	2,725	**1**	2
Cash, cash equivalents and bank overdrafts consist of:				
Cash and cash equivalents	**619**	3,554	**1**	2
Bank overdrafts	**(6,076)**	(829)	**–**	–
Cash, cash equivalents and bank overdrafts at end of year	**(5,456)**	2,725	**1**	2

The notes on page 44 to 75 form part of these accounts

Notes to the Cash Flow Statements

Group and Company Cash Flows from Operating Activities

	Group		Company	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
(Loss)/profit before taxation	**(4,557)**	(3,387)	**343**	1,167
Interest payable	**492**	561	**208**	213
Interest receivable	**(8)**	(13)	**(174)**	(174)
Dividend income	**–**	–	**–**	(783)
Amortisation of intangible assets	**389**	385	**–**	–
Impairment of Goodwill	**2,046**	2,446	**–**	–
Depreciation	**3,604**	3,664	**34**	34
Loss on disposal of property, plant and equipment	**22**	8	**–**	–
Share based payments	**274**	20	**85**	34
(Gain)/loss on financial derivatives	**(135)**	58	**–**	–
Increase/(decrease) in provisions	**3**	(89)	**–**	–
Decrease in inventories	**472**	4,230	**–**	–
Decrease in trade and other receivables	**560**	3,566	**26**	–
(Decrease)/increase in trade and other payables	**(1,451)**	(1,042)	**(6)**	427
Decrease in derivate financial instruments	**(1,787)**	–	**–**	–
Cash (used in)/generated from operations	**(76)**	10,407	**516**	918

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

Accounting policies for the year ended 31 March 2014

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 2014 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

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 if incurred prior to the adoption of IFRS 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 minority 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

Adoption of new and revised standards

Interpretations effective in the current year and relevant to the Group

There are no IFRSs or IFRS-IC interpretations that are effective for the first time for the financial year beginning on 1 April 2013 that have a material impact on the Group

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income, the main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income ('OCI') on the basis of whether they are potentially re-classifiable to profit or loss subsequently (reclassification adjustments) The amendments do not address which items are presented in OCI

Amendment to IFRS 7 'Financial instruments Disclosures'

Interpretations effective in the current year but not relevant

The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 April 2013 but are not relevant to the Group's operations in the current year

Amendment to IAS 12 'Income taxes', on deferred tax, subject to endorsement by the EU,

IFRS 13 'Fair value Measurement' provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS's,

IAS 19 'Employee benefits' is effective for periods beginning on or after 1 January 2013

Annual Improvements Project 2011, these annual improvements, address six issues in the 2009–11 reporting cycle, it includes changes to

IFRS 1, First time adoption', IAS 1, 'Financial statement presentation', IAS 16, 'Property, plant and equipment'

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IAS 32, 'Financial instruments, Presentation' and IAS 34, 'Interim financial reporting' The Group is yet to assess the full impact of these annual improvements and intends to adopt them no later than the accounting period beginning on 1 April 2014

Amendment to IAS 32 'Financial instruments Presentation', on asset and liability offsetting The Group is yet to IAS 32 amendment's full impact and intends to adopt it no later than the accounting period beginning on 1 April 2014

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 April 2014 or later periods, but the Group has not early adopted them

IFRS 7 'Financial instruments Assets and liability offsetting' issued in December 2011, amended the required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position

IFRS 9 'Financial Instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities IFRS 9 was issued in November 2009 and October 2010 It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments IFRS 9 requires financial assets to be classified into two measurement categories those measured as at fair value and those measured at amortised cost The determination is made at initial recognition The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument For financial liabilities, the standard retains most of the IAS 39 requirements The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2018, subject to endorsement by the EU The Group will also consider the impact of the remaining phases of IFRS9 when completed by the Board

IFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the Parent Company The standard provides additional guidance to assist in the determination of control where this is difficult to assess The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on 1 April 2014

IFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on 1 April 2014

IFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs The requirements, which are largely aligned between IFRSs, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs The Group is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on 1 April 2014

IAS 36 'Impairment of assets' (amendment) the amendments reverse the unintended requirement in IFRS 13 disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated Under the amendments, recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed The Group is yet to IAS 36 amendment's full impact and intends to adopt it no later than the accounting period beginning on 1 April 2014

IFRIC 21 'Levies', IAS 27 (revised 2011) 'separate financial statements and IAS 39, 'Financial instruments Recognition and measurement', on novation of derivatives The Group is yet to assess IFRIC 21, IAS 27 (revised 2011) and IAS 39's full impact and intends to adopt them no later than the accounting period beginning on 1 April 2014

IFRS 11 'Joint arrangements' requires joint arrangements to be accounted for as a joint operation or as a joint venture depending on the rights and obligation of each party to the arrangement Proportionate consolidation for joint ventures will be eliminated and equity accounting will be mandatory The Group does not expect this standard to be relevant to the Group

IAS 28 (revised 2011) 'Associates and joint ventures' The Group does not expect this standard to be relevant to the Group

There are no other IFRSs or IFRS-IC interpretations that are not yet effective that would be expected to have a material impact on the Group

Notes to the Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES continued

RECONCILIATION OF STATUTORY TO NON STATUTORY INFORMATION IN THE CHAIRMAN'S STATEMENT AND OPERATING AND FINANCIAL REVIEW

Underlying profit before taxation is shown to present a clearer view of the trading performance of the business Management has identified the following non-trivial adjustments, whose inclusion in earnings could distort underlying trading performance net foreign exchange gains/losses on intercompany loans which are dependent on exchange rates from time to time and can be volatile and amortisation of intangibles which result from historic acquisitions Additionally exceptional items, restructuring costs and impairments to goodwill, add volatility and these are considered to be one-off items and therefore have also been added back in calculating underlying profit before taxation

	Group	
	2014 £'000	2013 £'000
Loss before taxation	**(4,557)**	(3,387)
Foreign exchange on intercompany loans including impact of foreign exchange collar	**108**	(20)
Amortisation of intangibles (note 9)	**389**	385
Impairment of goodwill (note 8)	**2,046**	2,446
Restructuring costs	**875**	723
Underlying (loss)/profit before taxation	**(1,139)**	147

The Statement of Comprehensive Income discloses foreign exchange movements, amortisation of intangibles and impairment of goodwill within other operating expenses Restructuring costs are disclosed within administrative expenses Restructuring costs include £555,000 associated with the exit agreement with our principal model rail supplier It also includes the write-off of bad debt of a £147,000 associated with one of our largest concessions, Modelzone, which went into administration within the year The balance of £173,000 is associated with the restructuring costs in the Hong Kong office and in the UK

The amount shown above comprises loss (2013 – gain) on translation of intercompany loans of £108,000 (2013 – gain of £199,000), offset by a loss on marking to market the foreign exchange collar of £nil (2013 – loss of £179,000)

Reconciliation of net debt

	Group	
	2014 £'000	2013 £'000
Cash (note 14)	**619**	3,554
Total borrowings (note 18)	**(7,872)**	(5,722)
Net debt	**(7,253)**	(2,168)

Cash of £619,000 above includes restricted cash of £348,055 held within an Escrow account that relates to the exit payment to our previous principal model railway supplier as mentioned within the Financial and Operating Review

REVENUE RECOGNITION

Revenue comprises 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 despatched 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 income 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

GOODWILL
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses Impairment losses on goodwill are not reversed Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold Goodwill is allocated to cash-generating units for the purpose of impairment testing The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment

INTANGIBLES
(a) Brand names
Brand names 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 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) Research and development
Research expenditure is recognised as an expense as incurred Costs incurred on development projects (relating to the design and testing of new products) are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably Other development expenditures are recognised as an expense as incurred

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

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

Freehold land is not depreciated

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

Notes to the Financial Statements continued

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

INVESTMENTS
In the Company's financial statements, investments in subsidiary undertakings are stated at cost less any impairment Investments 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 balance sheet when the Group or Company becomes a party to the contractual provisions of the instrument

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

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

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

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

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

STRATEGIC REPORT

GOVERNANCE

FINANCIAL STATEMENTS

TAXATION INCLUDING DEFERRED TAX

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

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

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

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

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

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

CRITICAL JUDGEMENTS IN APPLYING THE ACCOUNTING POLICIES

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 may have an element of risk causing an adjustment to the carrying amounts of assets and liabilities within the next financial year include provisions for stock obsolescence, customer returns, doubtful debts, impairment reviews, fair values of share-based payments, fair values of derivatives and recoverability of deferred tax assets All of the above are estimated with reference to historical data, expectation of future events and reviewed regularly

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

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

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

The critical areas of judgement applied within the impairment reviews conducted include the weighted average cost of capital used in discounting the cash flows of the cash generating units, the assessment of the initial growth rate used and the growth rate in perpetuity of the cash flows The judgments used within this assessment are set out within note 8

The critical areas of judgment used in the share based payment charge for the year include the assessment of the fair value of the option along with the expected volatility and option term These are based on historical data where this is available and best estimates where historical data is not available Further details in relation to share-based payments in note 22

Liabilities and provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated The expense relating to any liability or provision is presented in the Statement of Comprehensive Income net of any reimbursement but only if reimbursement is virtually certain and will be settled simultaneously

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date If material, provisions are determined by discounting the expected future cash flows of the Group at rates that reflect current market assessments of the time value of money

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

Notes to the Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES continued

SHARE-BASED PAYMENT

Hornby Plc operates three share-based payment plans
- Share Option Scheme
- Short Term Incentive Plan
- Performance Share Plan

The Group issues equity-settled share-based payments to certain employees Equity-settled share based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity

Share Option Scheme

Fair value is measured by use of the Black-Scholes model The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations

Short-Term Incentive Plan

The Short Term Incentive Plan ('STIP') investment is carried at the cost of the shares held This investment in own shares is presented as a deduction from shareholders' funds

The matched element of the STIP which has a condition of employment attached to it is recorded at fair value and spread over the vesting period of the shares and recognised in the Statement of Comprehensive Income over this period The STIP scheme become dormant as at 31 March 2013

Performance Share Plan

Awards are granted to Executive Directors in shares worth 100% of salary, with lower levels of grant for less senior executives

The Performance Share Plan ('PSP') incorporates two three-year performance conditions
- Total Shareholder Return ('TSR')
- Earnings per share ('EPS') growth targets

each applying to a separate 50% of the award and vest on the third anniversary of grant as appropriate

The TSR fair value and the projected EPS award fair value are spread over the vesting period of the shares and recognised in the Statement of Comprehensive Income in the appropriate year

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 24

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 and finance leases

Assets held under finance leases are initially reported at the fair value of the asset with an equivalent liability categorised as appropriate under current and non-current payables The assets are depreciated over the shorter of the lease term and their useful economic lives Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of return on the outstanding balance Rentals are apportioned between finance charges and the reduction of the liability and allocated to net interest

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 Hong Kong Dollars and US Dollars It enters into forward currency contracts to hedge the cash flows of its product sourcing operation (i e it buys Hong Kong Dollars forward in exchange for Sterling) and looks forward six–twelve months on a rolling basis at forecasted purchase volumes The policy framework requires hedging between 70% and 100% of anticipated import purchases that are denominated in Hong Kong Dollars The Group 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 of 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

(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 finance leases, a revolving credit facility, bank overdrafts and a fixed term loan agreement An interest rate hedge is in place to protect the Group against future interest rate rises

(c) Credit risk

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

(d) Liquidity risk

At 31 March 2014 the Group had a revolving credit facility of £10 million expiring August 2015 and a five-year fixed-term loan agreement of £12 million with outstanding repayments of £1 5 million scheduled to be completed by July 2014 These have now been replaced by a new revolving credit facility of £13 million expiring in December 2015 which is expected to allow sufficient headroom for trading working capital needs in the current year whilst longer term plans and funding requirements are developed The Group also has additional facilities of £5 million in place in its European subsidiaries through bank loans and import credit line facilities of which £3 5 million was undrawn at year end Borrowings in the year ended 31 March 2014 peaked at £11 8 million The 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 to manage interest rate risk, the Group uses an interest rate swap, 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

Notes to the Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES continued

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

Amounts accumulated in equity 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 equity are transferred from equity 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 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 that was reported in equity 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 be 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 in equity 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 relating to foreign currency loans and other foreign exchange adjustments are included within operating profit and shown separately as part of other operating expenses

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 the Statement of Changes in Equity

DIVIDEND DISTRIBUTION

Final dividends are recorded in the Statements 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

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, US, 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 38 and its assets and liabilities given in the Company Balance Sheet on page 39 Other Company information is provided in the other notes to the accounts

Year ended 31 March 2014

	UK £000	USA £000	Spain £000	Italy £000	Rest of Europe £000	Total Reportable Segments £000	Intra Group £000	Group £000
Revenue – External	36,413	2,966	2,885	2,952	6,341	51,557	–	51,557
– Other segments	2,877	–	5,238	402	–	8,517	(8,517)	–
Operating (loss)/profit	**(1,335)**	**85**	**(115)**	**(2,431)**	**(277)**	**(4,073)**	**–**	**(4,073)**
Finance cost – External	(375)	–	(87)	(1)	(29)	(492)	–	(492)
– Other segments	(175)	–	(208)	(191)	(98)	(672)	672	–
Finance income – External	7	–	–	1	–	8	–	8
– Other segments	672	–	–	–	–	672	(672)	–
(Loss)/profit before taxation	**(1,206)**	**85**	**(410)**	**(2,622)**	**(404)**	**(4,557)**	**–**	**(4,557)**
Analysed as								
Underlying profit/(loss) before taxation	41	85	(410)	(483)	(372)	(1,139)	–	(1,139)
Net foreign exchange impact on intercompany loans	(108)	–	–	–	–	(108)	–	(108)
Amortisation of intangibles	(264)	–	–	(93)	(32)	(389)	–	(389)
Restructuring costs	(875)	–	–	–	–	(875)	–	(875)
Impairment of goodwill	–	–	–	(2,046)	–	(2,046)	–	(2,046)
(Loss)/profit before taxation	**(1,206)**	**85**	**(410)**	**(2,622)**	**(404)**	**(4,557)**	**–**	**(4,557)**
Taxation	338	(4)	13	(291)	56	112	–	112
(Loss)/profit for the year	**(868)**	**81**	**(397)**	**(2,913)**	**(348)**	**(4,445)**	**–**	**(4,445)**
Segment assets	40,430	1,329	10,678	4,214	3,879	60,530	(15,182)	45,348
Less intercompany receivables	(14,052)	(91)	(697)	(304)	(38)	(15,182)	15,182	–
Add tax assets	1,936	–	29	318	176	2,459	–	2,459
Total assets	**28,314**	**1,238**	**10,010**	**4,228**	**4,017**	**47,807**	**–**	**47,807**
Segment liabilities	22,398	1,259	9,635	4,361	3,783	41,436	(25,263)	16,173
Less intercompany payables	(10,220)	(1,173)	(7,034)	(3,844)	(2,992)	(25,263)	25,263	–
Add tax liabilities	226	3	35	–	–	264	–	264
Total liabilities	**12,404**	**89**	**2,636**	**517**	**791**	**16,437**	**–**	**16,437**
Other segment items								
Capital expenditure	2,247	7	1,594	192	19	4,059	–	4,059
Depreciation	2,520	22	966	76	20	3,604	–	3,604
Net foreign exchange on intercompany loans	108	–	–	–	–	108	–	108
Amortisation of intangible assets	264	–	–	92	33	389	–	389
Impairment of goodwill	–	–	–	2,046	–	2,046	–	2,046
Share based payment	274	–	–	–	–	274	–	274

All transactions between Group companies are on normal commercial terms and an arm's length basis

Notes to the Financial Statements continued

2. SEGMENTAL REPORTING continued
Year ended 31 March 2013

		UK £000	USA £000	Spain £000	Italy £000	Rest of Europe £000	Total Reportable Segments £000	Intra Group £000	Group £000
Revenue	– External	43,195	2,696	2,655	3,234	5,615	57,395	–	57,395
	– Other segments	2,936	–	3,617	99	–	6,652	(6,652)	–
Operating (loss)/profit		**337**	**12**	**(132)**	**(2,754)**	**(302)**	**(2,839)**	**–**	**(2,839)**
Finance cost	– External	(478)	–	(50)	(1)	(32)	(561)	–	(561)
	– Other segments	–	(2)	(213)	(271)	(100)	(586)	586	–
Finance income	– External income	11	–	–	2	–	13	–	13
	– Other segments	586	–	–	–	–	586	(586)	–
Profit/(loss) before taxation		456	10	(395)	(3,024)	(434)	(3,387)	–	(3,387)

	UK £000	USA £000	Spain £000	Italy £000	Rest of Europe £000	Total Reportable Segments £000	Intra Group £000	Group £000
Analysed as								
Underlying profit before taxation	1,370	10	(395)	(435)	(403)	147	–	147
Net foreign exchange impact on intercompany loans	20	–	–	–	–	20	–	20
Amortisation of intangibles	(264)	–	–	(90)	(31)	(385)	–	(385)
Reorganisation costs	(670)	–	–	(53)	–	(723)	–	(723)
Impairment of goodwill	–	–	–	(2,446)	–	(2,446)	–	(2,446)
Profit/(loss) before taxation	**456**	**10**	**(395)**	**(3,024)**	**(434)**	**(3,387)**	**–**	**(3,387)**

	UK £000	USA £000	Spain £000	Italy £000	Rest of Europe £000	Total Reportable Segments £000	Intra Group £000	Group £000
Taxation	(284)	–	148	936	86	886	–	886
Profit/(loss) for the year	**172**	**10**	**(247)**	**(2,088)**	**(348)**	**(2,501)**	**–**	**(2,501)**
Segment assets	48,938	1,482	10,459	6,829	3,069	70,777	(18,992)	51,785
Less intercompany receivables	(17,530)	–	(1,273)	(189)	–	(18,992)	18,992	–
Add tax assets	1,315	–	129	637	145	2,226	–	2,226
Total assets	**32,723**	**1,482**	**9,315**	**7,277**	**3,214**	**54,011**	**–**	**54,011**
Segment liabilities	13,571	1,449	9,439	6,823	4,695	35,977	(18,992)	16,985
Less intercompany payables	–	(1,286)	(7,806)	(6,236)	(3,664)	(18,992)	18,992	–
Add tax liabilities	539	–	86	–	–	625	–	625
Total liabilities	**14,110**	**163**	**1,719**	**587**	**1,031**	**17,610**	**–**	**17,610**
Other segment items								
Capital expenditure	2,337	26	1,377	31	9	3,780	–	3,780
Depreciation	2,774	20	713	126	31	3,664	–	3,664
Net foreign exchange on intercompany loans	(20)	–	–	–	–	(20)	–	(20)
Amortisation of intangible assets	264	–	–	90	31	385	–	385
Impairment of goodwill	–	–	–	2,446	–	2,446	–	2,446
Share based payment	20	–	–	–	–	20	–	20

All transactions between Group companies are on normal commercial terms and on arm's length basis

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3. FINANCE COSTS

	Group		Company	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Finance costs:				
Interest expense on bank borrowings	**(492)**	(558)	–	–
Interest expense on intercompany borrowings	–	–	**(208)**	(213)
Interest expense on finance leases	–	(3)	–	–
	(492)	(561)	**(208)**	(213)
Finance income				
Bank interest	**8**	13	–	–
Interest income on intercompany loans	–	–	**174**	174
	8	13	**174**	174
Net finance costs	**(484)**	(548)	**(34)**	(39)

4. (LOSS)/PROFIT BEFORE TAXATION

	Group		Company	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
The following items have been included in arriving at (loss)/profit before taxation				
Staff costs (note 23)	**10,463**	10,274	**1,151**	737
Inventories				
– Cost of inventories recognised as an expense (included in cost of sales)	**25,891**	26,793	–	–
– Stock provision	**(443)**	762	–	–
Depreciation of property, plant and equipment			–	
– Owned assets	**3,602**	3,649	**34**	34
– Under finance leases	**2**	15	–	–
Loss on disposal of assets	**22**	8	–	–
Other operating lease rentals payable				
– Plant and machinery	**139**	172	–	–
– Property	**433**	444	–	–
Repairs and maintenance expenditure on property, plant and equipment	**142**	170	–	–
Research and development expenditure	**1,713**	1,507	–	–
Foreign exchange (losses)/gains				
– On trading transactions and ineffective hedges	**35**	(105)	–	–
Impairment of trade receivables	**250**	260	–	–
Restructuring costs (excluding £173,000 redundancy costs)	**702**	723	–	49
Other operating expenses				
– Foreign exchange on trading transactions	**1,032**	(163)	–	–
– Net impact of foreign exchange on intercompany loans	**108**	(20)	–	–
– Movement on fair value of ineffective hedge	**135**	58	–	–
– Share-based payment charge	**274**	20	**85**	34
– Amortisation of intangible assets	**389**	385	–	–
– Impairment of goodwill assets	**2,046**	2,446	–	–
– Other	**(266)**	–	–	–
	3,718	2,726	**85**	34

Notes to the Financial Statements continued

4 (LOSS)/PROFIT BEFORE TAXATION continued
Restructuring costs of £875,000 relate to redundancies and compensation for loss of office as well as the associated legal costs, a full accrual for these costs is made from the point at which employees have been notified It also includes the payment to our principal model rail supplier as explained in note 2 These costs are considered to be exceptional in nature Additionally the goodwill impairment charge of £2,046,000 is classed as an exceptional item, further analysis of which can be found in note 8 of these financial statements

Services provided by the Company's auditor 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	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Fees payable to the Company's auditors for the audit of Parent Company and consolidated accounts	**97**	92	**15**	15
Fees payable to the Company's auditors and its associates for other services				
– The auditing of accounts of the Company's subsidiaries	**42**	38	**–**	–
– Audit related assurance services	**25**	32	**25**	24
– Tax advisory services	**19**	17	**–**	8
– Tax compliance services	**14**	12	**5**	5
	197	191	**45**	52

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

5 TAXATION
Analysis of tax charge in the year

	Group		Company	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Current tax				
– UK taxation	**(248)**	286	**100**	106
adjustments in respect of prior years	**(17)**	951	**–**	–
– overseas taxation	**(8)**	(440)	**(42)**	(45)
adjustments in respect of prior years	**207**	–	**2**	(447)
	(66)	797	**60**	(386)
Deferred tax (note 20)				
– current year	**(75)**	(15)	**(22)**	(4)
– overseas taxation	**29**	(730)	**–**	–
– adjustments in respect of prior years	**–**	(938)	**–**	–
	(46)	(1,683)	**(22)**	(4)
Total tax (credit)/charge to the profit before tax	**(112)**	(886)	**38**	(390)

The tax for the year differs to the standard rate of corporation tax in the UK (23%) Any differences are explained below

	Group 2014 £'000	Group 2013 £'000	Company 2014 £'000	Company 2013 £'000
(Loss)/profit before taxation	**(4,557)**	(3,387)	**343**	1,167
(Loss)/profit on ordinary activities multiplied by rate of				
Corporation tax in UK of 23% (2013 – 24%)	**(1,048)**	(813)	**79**	280
Effects of				
Adjustments to tax in respect of prior years	**191**	13	**2**	(447)
Income not taxable	**–**	–	**–**	(188)
Difference on overseas rates of tax	**(127)**	(198)	**14**	5
Impact of overseas losses not recognised	**922**	21	**–**	–
Remeasurement of deferred tax				
– change in UK tax rate to 20%	**(214)**	(51)	**2**	6
Other	**164**	142	**(59)**	(46)
Total taxation	**(112)**	(886)	**38**	(390)

During the year, the UK main corporation tax rate was reduced from 24% to 23% This was substantially enacted on 3 July 2012 and became effective from 1 April 2013 As a result of this, a rate of 23% has been used to calculate tax payable on taxable income in the year

In addition to the changes in rates of Corporation tax disclosed above, further changes to the UK Corporation tax rates were substantively enacted as part of the Finance Bill 2013 on 2 July 2013 These included reductions to the main rate to 21% from 1 April 2014 and to 20% from 1 April 2015 UK deferred tax is therefore recognised at the reduced rate of 20%

6 DIVIDENDS

	Group and Company 2014 £'000	Group and Company 2013 £'000
£nil final paid per share in relation to year ended 31 March 2013 (2013 – 2 0p paid in relation to year ended 31 March 2012)	**–**	783
£nil interim paid per share in relation to year ended 31 March 2014 (2013 – £nil)	**–**	–
	–	783

The Directors are not proposing a final dividend in respect of the financial year ended 31 March 2014

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 2014 For the year ended 31 March 2014, there was no difference in the weighted average number of shares used for basic and diluted net loss per ordinary share as the effect of all potentially dilutive ordinary shares was anti-dilutive

Notes to the Financial Statements continued

7 LOSS PER SHARE continued

Reconciliations of the (loss)/earnings and weighted average number of shares used in the calculations are set out below

	2014			2013		
	Loss £'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	**(4,445)**	**39,152**	**(11 35)**	(2,501)	39,152	(6 39)
Effect of dilutive securities						
Options	–	–	–	–	–	–
Diluted loss per share	**(4,445)**	**39,152**	**(11 35)**	(2,501)	39,152	(6 39)
UNDERLYING						
Earnings attributable to ordinary shareholders	**(4,445)**	**39,152**	**(11 35)**	(2,501)	39,152	(6 39)
Amortisation of intangibles	**300**	–	**0 77**	293	–	0 75
Impairment of goodwill	**2,046**	–	**5.22**	1,859	–	4 75
Restructuring costs	**674**	–	**1.72**	549	–	1 40
Net foreign exchange translation adjustments	**83**	–	**0.21**	(15)	–	(0 04)
Underlying basic (loss)/EPS	**(1,342)**	**39,152**	**(3 43)**	185	39,152	0 47
Underlying diluted (loss)/EPS	**(1,342)**	**39,152**	**(3 43)**	185	39,152	0 47

The above numbers used to calculate the EPS for the year ended 31 March 2014 and 31 March 2013 have been tax effected at the rate of 23% and 24% respectively with the exception of Hornby Italia where the net deferred tax asset associated with the impairment has not been recognised

8 GOODWILL

GROUP	£'000
COST	
At 1 April 2013	13,135
Exchange adjustments	(108)
At 31 March 2014	**13,027**
AGGREGATE IMPAIRMENT	
At 1 April 2013	2,537
Charge for the year	2,046
Exchange adjustments	(86)
At 31 March 2014	**4,497**
Net book amount at 31 March 2014	**8,530**
COST	
At 1 April 2012	13,059
Exchange adjustments	76
At 31 March 2013	13,135
At 1 April 2012	–
Charge for the year	2,446
Exchange adjustments	91
At 31 March 2013	2,537
Net book amount at 31 March 2013	10,598
Net book amount at 31 March 2012	13,059

The Company had no goodwill

The goodwill has been allocated to cash-generating units and a summary of carrying amounts of goodwill by geographical segment (representing cash-generating units) at 31 March 2014 is as follows

GROUP	UK £ 000	USA £ 000	Spain £ 000	Italy £ 000	Rest of Europe £ 000	**Total £'000**
At 31 March 2014	3,992	8	3,990	0	542	**8,532**
At 31 March 2013	3,992	8	3,990	2,056	552	**10,598**

Goodwill allocated to the above cash generating units of the Group has been measured based on synergies 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 growth was based on expected levels of activity given results to date, together with growth based upon internal improvements, marketing initiatives, and expected economic and market conditions Budgeted operating profit was calculated based upon management's expectation of operating costs appropriate to the growing business

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 2015 Subsequent cash flows for the following three years have been increased in line with expectation of 3% growth Cash flows beyond the four-year period are extrapolated using the estimated growth rates stated below The cash flows were discounted using a pre tax discount rate of 10% (2013 – 10 8%) which management believes is appropriate for all territories

The key assumptions used for value-in-use calculations for the year ended 31 March 2014 are as follows

GROUP	UK (Corgi)	UK (Humbrol)	France	Spain	Italy	Germany
Gross Margin[1]	30 3%	47 0%	40 3%	31 0%	32 4%	34 8%
Growth rate to perpetuity[2]	3 0%	3 0%	3 0%	3 0%	3 0%	3 0%

The key assumptions used for value-in-use calculations for the year ended 31 March 2013 are as follows

GROUP	UK (Corgi)	UK (Humbrol)	France	Spain	Italy	Germany
Gross Margin[1]	31 1%	43 1%	38 6%	33 9%	32 6%	32 6%
Growth rate to perpetuity[2]	3 0%	3 0%	3 0%	2 0%	1 7%	3 0%

1 Budgeted gross margin
2 Weighted average growth rate used to extrapolate cash flows beyond the budget period

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

The carrying value of Hornby Italy has been reduced through the recognition of an impairment loss against goodwill of £2,046,000 This charge has been included within exceptional items in the Statement of Comprehensive Income During 2013–4 Hornby Italy again experienced a difficult year of trading with results falling short of management's expectations, primarily due to the restriction in supply from the Far East and local economic conditions, and as a consequence forecasts have been revised resulting in an impairment charge arising

Following this decision, the Group reassessed the depreciation policies of its property, plant and equipment in Italy and estimated that their useful lives would not be affected No class of asset other than goodwill was impaired In France, the recoverable amount calculated based on value in use exceeded carrying value by £275,000 A reduction in operating margin of 7%, or a rise in discount rate to 10 6% would remove the remaining headroom

Notes to the Financial Statements continued

9. INTANGIBLE ASSETS

GROUP	Brand names £'000	Customer lists £'000	Total £'000
ACQUIRED INTANGIBLE ASSETS			
COST			
At 1 April 2013	4,923	1,432	**6,355**
Exchange adjustments	(36)	(9)	**(45)**
At 31 March 2014	4,887	1,423	**6,310**
ACCUMULATED AMORTISATION			
At 1 April 2013	1,526	851	**2,377**
Charge for the year	246	143	**389**
Exchange adjustments	(16)	(9)	**(25)**
At 31 March 2014	1,756	985	**2,741**
Net book amount at 31 March 2014	**3,131**	**438**	**3,569**

GROUP	Brand names £'000	Customer lists £'000	Total £'000
ACQUIRED INTANGIBLE ASSETS			
COST			
At 1 April 2012	4,899	1,426	**6,325**
Exchange adjustments	24	6	**30**
Disposals	–	–	**–**
At 31 March 2013	4,923	1,432	**6,355**
ACCUMULATED AMORTISATION			
At 1 April 2012	1,271	704	**1,975**
Charge for the year	243	142	**385**
Exchange adjustments	12	5	**17**
At 31 March 2013	1,526	851	**2,377**
Net book amount at 31 March 2013	3,397	581	**3,978**
Net book amount at 31 March 2012	3,628	722	**4,350**

All amortisation charges in the year have been charged in other operating expenses

The Company held no intangible assets

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10 PROPERTY, PLANT AND EQUIPMENT

GROUP	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Tools and moulds £'000	**Total £'000**
COST					
At 1 April 2013	3,039	5,908	305	49,758	**59,010**
Exchange adjustments	(13)	(38)	(2)	(219)	**(272)**
Additions at cost	–	364	15	3,680	**4,059**
Disposals	–	(62)	(69)	(41)	**(172)**
At 31 March 2014	3,026	6,172	249	53,178	**62,625**
ACCUMULATED DEPRECIATION					
At 1 April 2013	1,301	4,327	255	43,079	**48,962**
Exchange adjustments	(3)	(28)	(2)	(175)	**(208)**
Charge for the year	48	482	19	3,055	**3,604**
Disposals	–	(62)	(38)	(16)	**(116)**
At 31 March 2014	1,346	4,719	234	45,943	**52,242**
Net book amount at 31 March 2014	**1,680**	**1,453**	**15**	**7,235**	**10,383**

GROUP	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Tools and moulds £'000	**Total £'000**
COST					
At 1 April 2012	3,030	6,008	401	46,960	**56,399**
Exchange adjustments	9	23	2	132	**166**
Additions at cost	–	202	–	3,578	**3,780**
Disposals	–	(325)	(98)	(912)	**(1,335)**
At 31 March 2013	3,039	5,908	305	49,758	**59,010**
ACCUMULATED DEPRECIATION					
At 1 April 2012	1,252	4,123	270	40,732	**46,377**
Exchange adjustments	2	21	1	127	**151**
Charge for the year	47	508	37	3,072	**3,664**
Disposals	–	(325)	(53)	(852)	**(1,230)**
At 31 March 2013	1,301	4,327	255	43,079	**48,962**
Net book amount at 31 March 2013	1,738	1,581	50	6,679	**10,048**
Net book amount at 31 March 2012	1,778	1,885	131	6,228	**10,022**

Freehold land amounting to £786,000 (2013 – £786,000) has not been depreciated

Assets held by the Group under finance leases have the following net book amount

	2014 £'000	2013 £'000
Cost	–	69
Aggregate depreciation	–	(33)
Net book amount	–	36

Notes to the Financial Statements continued

10. PROPERTY, PLANT AND EQUIPMENT continued
Assets held by the Group under finance leases were motor vehicles

The Group has taken advantage of the exemption under IFRS 1 to use the valuation of certain land and buildings at the date of transition to IFRS as deemed cost All other assets are stated at cost

COMPANY	Freehold land and buildings £ 000	Plant and equipment £ 000	**Total £'000**
COST			
At 1 April 2013 and at 31 March 2014	2,428	4	**2,432**
ACCUMULATED DEPRECIATION			
At 1 April 2013	1,153	4	**1,157**
Charge for the year	34	–	**34**
At 31 March 2014	1,187	4	**1,191**
Net book amount at 31 March 2014	**1,241**	**–**	**1,241**

COMPANY	Freehold land and buildings £ 000	Plant and equipment £ 000	**Total £'000**
COST			
At 1 April 2012 and at 31 March 2013	2,428	4	**2,432**
ACCUMULATED DEPRECIATION			
At 1 April 2012	1,119	4	**1,123**
Charge for the year	34	–	**34**
At 31 March 2013	1,153	4	**1,157**
Net book amount at 31 March 2013	1,275	–	**1,275**
Net book amount at 31 March 2012	1,309	–	**1,309**

The Company does not hold any assets under finance leases

Freehold land amounting to £786,000 (2013 – £786,000) has not been depreciated

11 INVESTMENTS
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 2013	28,097	9,068	**37,165**
Capital contribution relating to share-based payment	189	–	**189**
Capitalisation of loans to equity			
Capital contribution to Hornby Italia s r l	2,586	–	**2,586**
Capital contribution to Hornby Deutschland GmbH	2,181	–	**2,181**
Repayment of loans by subsidiary undertakings	–	(4,276)	**(4,276)**
Reclassification of long-term loan with Hornby Hobbies Limited to short-term receivables	–	(621)	**(621)**
At 31 March 2014	**33,053**	**4,171**	**37,224**
At 1 April 2012	28,111	8,490	36,601
Capital reduction relating to share based payment	(14)	–	(14)
Net increase in loans to subsidiary undertakings	–	578	578
At 31 March 2013	28,097	9,068	37,165

Interest was charged on loans to subsidiary undertakings at Sterling three month Libor + 3 6%

Loans are unsecured and exceed five years maturity

PRINCIPAL GROUP SUBSIDIARY UNDERTAKINGS

Details of the undertakings whose results or financial position principally affected the figures shown in the Company's annual accounts, are set out below Hornby Hobbies Limited and Hornby España S A are engaged in the development, design, sourcing and distribution of models Hornby America Inc , Hornby Italia s r l , Hornby France S A S and Hornby Deutschland GmbH are distributors of models

	Country of incorporation	Description of shares held	Proportion of nominal value of issued shares held Group %	Company %
Hornby Hobbies Limited	United Kingdom	Ordinary shares	100	100
Hornby America Inc	USA	Ordinary shares	100	100
Hornby España S A	Spain	Ordinary shares	100	100
Hornby Italia s r l	Italy	Ordinary shares	100	100
Hornby France S A S	France	Ordinary shares	100	100
Hornby Deutschland GmbH	Germany	Ordinary shares	100	100

A full list of subsidiaries is available from the registered office of Hornby Plc, Westwood, Margate Kent, CT9 4JX

12. INVENTORIES

	Group		Company	
	2014 £'000	2013 £ 000	**2014 £'000**	2013 £ 000
Raw materials	**301**	299	–	–
Work in progress	**92**	35	–	–
Finished goods	**12,772**	13,303	–	–
	13,165	13,637	–	–

13. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2014 £'000	2013 £ 000	**2014 £'000**	2013 £ 000
CURRENT				
Trade receivables	**8,148**	8,518	–	–
Less provision for impairment of receivables	**(377)**	(401)	–	–
Trade receivables – net	**7,771**	8,117	–	–
Other receivables	**722**	262	–	–
Prepayments	**550**	1,224	**7**	33
Amounts owed by subsidiary undertaking	–	–	**621**	–
	9,043	9,603	**628**	33

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 are deemed adequate Credit insurance policies are in place in Hornby America Inc , Hornby España S A , Hornby Italia s r l , Hornby France S A S and Hornby Deutschland GmbH covering trade receivables at 31 March 2014 to the value of £6 million (2013 – £6 3 million)

Notes to the Financial Statements continued

13. TRADE AND OTHER RECEIVABLES continued

Gross trade receivables can be analysed as follows

	2014 £'000	2013 £'000
Fully performing	**6,540**	6,341
Past due	**1,231**	1,727
Impaired	**377**	450
Trade receivables	**8,148**	8,518

As of 31 March 2014, trade receivables of £1,231,000 (2013 – £1,727,000) 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

	2014 £'000	2013 £'000
1 – 120 days	**1,085**	1,583
>120 days	**146**	144
	1,231	1,727

As of 31 March 2014, trade receivables of £377,000 (2013 – £450,000) were impaired and provided for The amount of provision was £377,000 (2013 – £401,000) as of 31 March 2014

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 is as follows

	2014 £'000	2013 £'000
1 – 120 days	**13**	56
> 120 days	**364**	394
	377	450

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

	2014 £'000	2013 £'000
At 1 April	**401**	230
Provision for receivables impairment	**250**	260
Receivables written-off during the year as uncollectible	**(268)**	(101)
Exchange adjustments	**(6)**	12
At 31 March	**377**	401

The charge relating to the increase 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 are denominated in the following currencies

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Sterling Intercompany	–	–	**621**	–
Sterling	**4,257**	5,503	**7**	33
Euro	**4,281**	3,440	–	–
US Dollar	**392**	530	–	–
HK Dollar	**113**	130	–	–
	9,043	9,603	**628**	33

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14. CASH AND CASH EQUIVALENTS

	Group		Company	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Cash at bank and in hand	**619**	3,554	**1**	2

Cash of £619,000 above includes restricted cash of £348,055 held within an Escrow account that relates to the exit payment to our previous principal model railway supplier as mentioned within the Financial and operating review

15. TRADE AND OTHER PAYABLES

	Group		Company	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
CURRENT:				
Trade payables	**3,980**	4,098	**–**	1
Other taxes and social security	**924**	854	**19**	15
Other payables	**1,768**	2,159	**–**	–
Accruals	**946**	1,723	**43**	52
	7,618	8,834	**62**	68

16 PROVISIONS

	Group		Company	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Sales returns				
At 1 April	**235**	324	**–**	–
Charge to Statement of Comprehensive Income	**502**	580	**–**	–
Utilised in the year	**(499)**	(669)	**–**	–
At 31 March	**238**	235	**–**	–

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	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Current tax assets				
UK Corporation tax recoverable	**569**	–	**–**	–
Overseas Corporation tax recoverable	**32**	512	**29**	110
	601	512	**29**	110
Current tax liabilities				
UK Corporation tax liability	**100**	391	**100**	105
Overseas Corporation tax liability	**28**	75	**–**	–
	128	466	**100**	105

18 BORROWINGS

	Group 2014 £'000	Group 2013 £'000	Company 2014 £'000	Company 2013 £'000
Secured borrowing at amortised cost				
Bank overdrafts	**6,076**	829	**–**	–
Bank loan	**1,796**	4,856	**–**	–
Finance leases	**–**	37	**–**	–
Loan from subsidiary undertakings		–	**4,984**	5,093
	7,872	5,722	**4,984**	5,093
Total borrowings				
Amount due for settlement within 12 months	**7,630**	3,907	**–**	–
Amount due for settlement after 12 months	**242**	1,815	**4,984**	5,093
	7,872	5,722	**4,984**	5,093

The Group obtained waivers in the year for the following covenants

The Group obtained a waiver in December 2013 for the covenant tested annually of achieving ten consecutive days of no overdraft on the RCF facility within the UK Additionally for the quarterly covenant tests at 31 March 2014 the Group obtained a waiver for the covenant of operating profit remaining three times greater than net financing cost and net borrowing remaining greater than EBITDA by 1 25 times The Group complied with all other loan covenants during the year

The Company borrowings are denominated in Sterling All intercompany borrowings are secured by way of formal 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

Analysis of borrowings by currency

GROUP	Sterling £'000	Euros £'000	Total £'000
31 March 2014			
Bank overdrafts	4,598	1,478	**6,076**
Bank loan	1,500	296	**1,796**
	6,098	1,774	**7,872**
31 March 2013			
Bank overdrafts	–	829	829
Bank loan	4,500	356	4,856
Finance leases	37	–	37
	4,537	1,185	5,722

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

At 31 March 2014 the Group had a revolving credit facility of £10 million expiring August 2015 and a five-year fixed term loan agreement of £12 million with repayments scheduled to July 2014 (£1 5 million as at 31 March 2014) The future interest rates of these facilities are Libor + 3 6% for the revolving credit facility and Libor + 3 6% for the fixed-term loan

The average effective interest rate on bank overdrafts approximated to 4 2% (2013 – 3 34%) per annum and is determined based on 3 6% above three-month Libor from December 2012

Undrawn borrowing facilities
At 31 March 2014, the Group had available £8 9 million (2013 – £10 8 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met Included within this the European subsidiaries had available £2 million (2013 – £1 7 million) of undrawn import credit line facilities that could be obtained with security being given against trade receivables The Group has recently successfully renegotiated its banking facilities for the next 18 months, details of which can be found within note 28 Post balance sheet events

19 FINANCIAL INSTRUMENTS

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

	Assets		Liabilities	
GROUP	**2014 £'000**	2013 £'000	**2014 £'000**	2013 £'000
Carrying values of derivative financial instruments				
Foreign exchange collar	**–**	–	**–**	(2,000)
Forward foreign currency contracts – cash flow hedges	**39**	367	**(432)**	(105)
Interest rate swap – cash flow hedge	**–**	–	**(13)**	(89)
	39	367	**(445)**	(2,194)

The hedged forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months Gains and losses recognised in reserves on forward foreign exchange contracts as of 31 March 2014 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 2014 outstanding forward currency contracts were as follows

	2014 '000s	2013 000s
Hong Kong Dollar	**115,000**	125,926
US Dollar	**11,300**	7,918
Euro	**–**	897

The notional principal amount of the outstanding interest rate swap contract at 31 March 2014 was £0 6 million (2013 – £1 8 million) At 31 March 2014, the interest rate swap fixes the interest rate on £0 6 million of the bank loan disclosed in note 18 to 6 22% The loss recognised in the interest rate swap included in the hedging reserve as of 31 March 2014 will be continuously released to the Statement of Comprehensive Income until the maturity of the swap The £1 5 million (2013 – £2 7 million) remainder of the bank loan disclosed in note 18 incurs interest based on three-month Libor established quarterly in advance

The total net fair value above for forward foreign currency contracts and the interest rate swap comprises £406,000 liability (2013 – £173,000 asset) of which £440,000 liability (2013 – £274,000 asset) has been effectively hedged at 31 March 2014 and therefore charged to Other Comprehensive Income in accordance with IAS 39 The liability balance of £5,000 (2013 – £105,000 liability) was the unhedged portion and was included within operating expenses

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

All derivative financial investments are Level 2 in the Fair Value Hierarchy

Fair values of non-derivative financial assets and liabilities

For the Group and the Company, as at 31 March 2014 and 31 March 2013, 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

The Company has no derivative financial instruments

Notes to the Financial Statements continued

19. FINANCIAL INSTRUMENTS continued

Maturity of financial liabilities

GROUP	Bank loan £'000	Finance leases £'000	2014 Total £'000
Less than one year	1,500	–	**1,500**
Between one and two years	54	–	**54**
Between two and five years	237	–	**237**
More than five years	5	–	**5**
	1,796	–	**1,796**

	Bank loan £'000	Finance leases £'000	2013 Total £'000
Between one and two years	1,556	12	1,568
Between two and five years	178	–	178
More than five years	69	–	69
	1,803	12	1,815

COMPANY	2014 Intercompany Debt £'000	2013 Intercompany Debt £'000
More than five years (note 18)	**4,984**	5,093

The minimum lease payments under finance leases fall due as follows

GROUP	2014 £'000	2013 £'000
Not later than one year	–	26
Later than one year but not more than five	–	12
	–	38
Future finance charges on finance leases	–	(1)
Present value of finance lease liabilities	–	37

HIERARCHY OF FINANCIAL INSTRUMENTS

The following tables present the Group's assets and liabilities that are measured at fair value at 31 March 2014 and 31 March 2013 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 period Level 2 hedging derivatives comprise forward foreign exchange contracts and an interest rate swap 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 foreign exchange collar has not been renewed after it expired on 3 October 2013

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

Financial Instruments

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Trading derivatives	–	–	–	–
Derivatives used for hedging	–	**39**	–	**39**
Available-for-sale financial assets	–	–	–	–
Total assets as at 31 March 2014	–	**39**	–	**39**
Liabilities				
Interest rate swap	–	**13**	–	**13**
Derivatives used for hedging		**432**	–	**432**
Total liabilities at 31 March 2014	–	**445**	–	**445**

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Trading derivatives	–	–	–	–
Derivatives used for hedging	–	367	–	367
Available-for-sale financial assets	–	–	–	–
Total assets at 31 March 2013	–	367	–	367
Liabilities				
Foreign exchange collar	–	2,000	–	2,000
Interest rate swap	–	89	–	89
Derivatives used for hedging	–	105	–	105
Total liabilities at 31 March 2013	–	2,194	–	2,194

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 0% increase in interest rates is £73,000 (2013 – £63,000) before tax A 1% fall in interest rates gives the same but opposite effect 1% is considered an appropriate benchmark given the minimum level of movement in the UK interest rate over recent years and expectation over the next financial year

Foreign currency sensitivity
The Group is primarily exposed to US Dollars, Hong Kong 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	
	2014 £'000	2013 £'000
US and Hong Kong dollars	**418**	109
Euros	**767**	145
	1,185	254

Notes to the Financial Statements continued

19 FINANCIAL INSTRUMENTS continued

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 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

	2014 £'000	2013 £'000
Total borrowings (note 18)	**7,872**	5,722
Less		
Total cash and cash equivalents (note 14)	**(619)**	(3,554)
Net debt	**7,253**	2,168
Total equity	**31,370**	36,401
Total capital	**38,623**	38,569
Gearing	**19%**	6%

20. DEFERRED TAX

Deferred tax is calculated in full on temporary differences under the liability method using a UK tax rate of 20% (2013 – 23%)

The movement on the deferred tax account is as shown below

	Group		Company	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
At 1 April	**(1,555)**	35	**148**	152
Credit to Statement of Comprehensive Income (note 5) – origination and reversal of temporary differences	**(46)**	(1,683)	**(22)**	(4)
Exchange adjustments	**(1)**	(23)	**–**	–
Reclassification from current to deferred tax in Hornby France S A S	**(120)**	–	**–**	–
Utilisation of trading losses against other tax payable	**–**	116	**–**	–
At 31 March	**(1,722)**	(1,555)	**126**	148

Deferred tax assets have been recognised in respect of tax losses in the Group with the exception of Hornby Deutschland and Hornby Italia In Hornby Italia the deferred tax assets recognised have been restricted to the amount expected to be recoverable by profits generated in the entity over the next three years Other temporary differences giving rise to deferred tax assets have been recognised 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	Group Revaluation £'000	Group Accelerated capital allowances £'000	Group Other £'000	Group Total £'000	Company Revaluation £'000	Company Accelerated capital allowances £'000	Company Total £'000
At 1 April 2013	139	9	11	**159**	139	9	**148**
(Credit)/charge to Statement of Comprehensive Income	(22)	–	–	**(22)**	(22)	–	**(22)**
Foreign exchange	(1)	–	–	**(1)**	–	–	**–**
At 31 March 2014	**117**	**9**	**11**	**136**	**117**	**9**	**126**
At 1 April 2012	149	175	249	**573**	149	10	**159**
(Credit)/charge to Statement of Comprehensive Income	(10)	(166)	(235)	**(411)**	(10)	(1)	**(11)**
Foreign exchange	–	–	(3)	**(3)**	–	–	**–**
At 31 March 2013	139	9	11	**159**	139	9	**148**

Of the total deferred tax liability of £137,000, £5,000 was due within one year for the Group (2013 – £5,000) and £5,000 for the Company (2013 – £5,000)

Deferred tax assets	Group Short-term incentive plan £'000	Group Acquisition intangibles £'000	Group Other £'000	Group Total £'000	Company Short-term incentive plan £'000
At 1 April 2013	–	(121)	(1,593)	**(1,714)**	–
Charge/(credit) to Statement of Comprehensive Income	–	(21)	(3)	**(24)**	–
Foreign exchange	–	–	–	**–**	–
Reclassification from current tax in Hornby France	–	–	(120)	**(120)**	–
At 31 March 2014	**–**	**(142)**	**(1,717)**	**(1,858)**	**–**
At 1 April 2012	(15)	(99)	(424)	**(538)**	(7)
Charge/(credit) to Statement of Comprehensive Income	15	(22)	(1,265)	**(1,272)**	7
Foreign exchange	–	–	(20)	**(20)**	–
Deferred tax losses utilised	–	–	116	**116**	–
At 31 March 2013	–	(121)	(1,593)	**(1,714)**	–
Net deferred tax (asset)/liability					
At 31 March 2014				**(1,722)**	126
At 31 March 2013				**(1,555)**	148

The deferred tax liability arising on the revaluation of freehold land and buildings in 1986 cannot be offset against deferred tax assets Therefore, the deferred tax asset of £1,859,000 (2013 – £1,714,000) and deferred tax liability of £137,000 (2013 – £159,000) at 31 March 2014 and 31 March 2013 have been recognised separately

GROUP	**2014 Recognised £'000**	**2014 Not recognised £'000**	2013 Recognised £'000	2013 Not recognised £'000
Deferred tax comprises				
Depreciation in excess of capital allowances	**(805)**	**–**	(824)	–
Other temporary differences – UK	**(437)**	**–**	(343)	–
Other temporary differences – overseas	**(480)**	**(922)**	(388)	(21)
Deferred tax (asset)/liability	**(1,722)**	**(922)**	(1,555)	(21)

The net deferred tax asset not recognised of £922,000 represents the unrecognised losses in Hornby Italia of £867,000 and Hornby Deutschland of £57,000

Notes to the Financial Statements continued

20 DEFERRED TAX continued

COMPANY	2014 Recognised £'000	2014 Not recognised £'000	2013 Recognised £'000	2013 Not recognised £'000
Deferred tax comprises				
Accelerated capital allowances	**9**	**–**	9	–
Other timing differences	**117**	**–**	139	–
Deferred tax liability	**126**	**–**	148	–

21. SHARE CAPITAL
GROUP AND COMPANY
Allotted, issued and fully paid

Ordinary shares of 1p each	2014 Number of shares	2014 £'000	2013 Number of shares	2013 £'000
At 1 April	**39,164,100**	**392**	39,164,100	392
Allotted under share option schemes	**–**	**–**	–	–
At 31 March	**39,164,100**	**392**	39,164,100	392

At 31 March 2014 options granted under the Company's share option schemes were outstanding as follows

Date granted	Number of options 2014	Number of options 2013	Exercise price	Period of option
9 June 2005	**365,809**	365,809	201 0p	June 2008 – June 2015
	365,809	365,809		

The total number of options outstanding as at the date of this document represent approximately 0 9% (2013 – 0 9%) of the issued share capital of the Company

If the respective resolution is passed at the Annual General Meeting and the Company were to exercise the full authority to buy-back approximately 10% of the issued ordinary shares of the Company, the above options would represent 1 0% (2013 – 1 0%) of the issued share capital of the Company

22 SHARE-BASED PAYMENTS
Hornby Plc operates three share based payment plans – Share Option Scheme ('SOS'), Short Term Incentive Plan ('STIP') and Performance Share Plan ('PSP')

SOS awards
The SOS awards are a reward of share options to Executive Directors and senior management that vest after three years and must be exercised in a four or seven year exercise window

The awards issued in previous years were subject to a performance measure of Profits before Interest and Tax ('PBIT') or Profit before Tax ('PBT') as disclosed by the Group's accounts for any of the years ended 31 March 2006, 31 March 2007, 31 March 2008, 31 March 2009 or 31 March 2010 excluding (i) any profit or loss in relation to property transactions, (ii) any restructuring and abortive due diligence costs and (iii) any profits or losses arising from businesses acquired by the Group after the date of grant of the Option Some awards are subject to achieving a PBIT that is equal to or greater than £8 million, or to PBT being equal to or greater than £9 million or aggregate PBT for three years ending 31 March 2008, 2009 and 2010 being equal to or greater than £32 7 million The awards are equity settled

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Activity relating to share options for the years ended 31 March 2014 and 31 March 2013 was as follows

	2014		2013	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at 1 April	**365,809**	**201 0p**	847,500	138 9p
Exercised	**–**	**–**	–	–
Lapsed	**–**	**–**	(481,691)	91 7p
Outstanding at 31 March	**365,809**	**201.0p**	365,809	201 0p

No options were exercised within the financial year (2013 – nil)

The following table summarises information relating to the number of shares under option (SOS awards) and those which were exercisable at 31 March 2014

Range of exercise prices	Total shares under option Number	Weighted average remaining contractual life Months	**Options exercisable at 31 March 2014 Number**	Options exercisable at 31 March 2013 Number	**Exercisable weighted average exercise price for options exercisable at 31 March 2014**
£2 00 – £2 10	365,809	27	**365,809**	365,809	**201.0p**
	365,809		**365,809**		**201.0p**

Performance Share Plan
All Performance Share Plan ('PSP') awards outstanding at 31 March 2014 vest only if performance conditions are met Awards granted under the PSP must be exercised within one year of the relevant award vesting date

The Group operates the 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 The awards vest in full or in part dependent on the satisfaction of specified performance targets 50% of the award vests dependent on TSR performance over a three year performance period, relative to the constituents of the FTSE Small Cap Index (excluding investment trusts) from the time of grant, and the remaining 50% vests dependent on performance against earnings per share targets

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 charge for the Group and Company amounted to £274,000 in the year ended 31 March 2014 (2013 – £20,000 charge for the Group and Company)

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

	2014 SOS	**STIP**	**PSP[1]**	2013 SOS	STIP	PSP[1]
Fair value (p)	**–**	**–**	**51.16p**	–	–	36 68p
Options pricing model used	**–**	**–**	**Stochastic**	–	–	Stochastic
Share price at grant date (p)	**–**	**–**	**81.5p**	–	–	81 0p
Exercise price (p)	**–**	**–**	**n/a**	–	–	n/a
Expected volatility (%)	**–**	**–**	**39 2%**	–	–	36 0%
Risk free rate (%)	**–**	**–**	**n/a**	–	–	n/a
Expected option term (years)	**–**	**–**	**3**	–	–	3
Expected dividends (per year, %)	**–**	**–**	**0%**	–	–	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 continued
STIP awards
The STIP is a reward of shares to Executive Directors and senior management

Vesting of the awards occurred in equal amounts on the second, third and fourth anniversaries of the award date provided that the participant remains employed by the Group These awards are not subject to any performance conditions The awards are equity settled

	2014 £'000	2013 £'000
At 1 April	–	90
Shares vested	–	(90)
At 31 March	–	–

The Employee Benefit Trust acquired no ordinary shares in the year and currently does not hold any shares

On 20 June 2012, the final third of the 2008 allocation (57,766 ordinary shares) vested At 31 March 2014, a total of nil (2013 – nil) ordinary shares are held by the Trust and allotted to the Directors and senior management under the plan The costs of the plan were borne by Hornby Plc

23 EMPLOYEES AND DIRECTORS

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Staff costs for the Group during the year				
Wages and salaries	8,437	7,828	848	552
Share-based payments (note 22)	274	20	85	34
Social security costs	1,053	1,032	122	86
Other pension costs (note 24)	526	668	56	65
Redundancy and compensation for loss of office	173	726	40	–
	10,463	10,274	1,151	737

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	
	2014 Number	2013 Number	2014 Number	2013 Number
Operations	96	101	2	1
Sales, marketing and distribution	114	107	–	1
Administration	40	40	3	3
	250	248	5	5

Key management compensation

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Salaries and short-term employee benefits	1,601	1,977	674	421
Share-based payments	274	20	85	34
Other pension costs	156	249	56	65
Redundancy and compensation for loss of office	40	517	40	–
	2,071	2,763	855	520

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

A detailed numerical analysis of Directors' remuneration and share options showing the highest paid Director, number of Directors accruing benefits under money purchase pension schemes and gains realised on the exercise of share options, is included in the Directors' Remuneration Report on pages 25 to 32 and forms part of these financial statements

24. 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 Company

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

The Group pension cost for the year was £526,000 (2013 – £668,000) representing the actual contributions payable in the year and certain scheme administration costs The Company pension cost for the year was £56,000 (2013 – £65,000) No contributions were outstanding at the year end of 31 March 2014

25 FINANCIAL COMMITMENTS

GROUP	**2014 £'000**	2013 £'000
At 31 March capital commitments were		
Contracted for but not provided	**1,529**	2,100

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

26 OPERATING LEASE COMMITMENTS

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

GROUP	**2014 £'000**	2013 £'000
Not later than one year	**480**	499
Later than one year but not more than five years	**540**	873
More than five years	**–**	–
	1,020	1,372

27. RELATED PARTY DISCLOSURES

There were no 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 was materially interested

The Company received management fees from subsidiaries of £1,456,000 (2013 – £1,316,000), interest of £174,000 (2013 – £174,000) and dividends from subsidiaries of £nil (2013 – £783,000) and incurred interest of £208 000 (2013 – £213,000) on intercompany borrowings

28 POST BALANCE SHEET EVENT

The Group has recently been successful in renegotiating its main banking facilities for a further 18 months At 31 March 2014 the Group had a revolving credit facility of £10 million expiring August 2015 and a five-year fixed-term loan agreement of £12 million with outstanding repayments of £1 5 million scheduled to be completed by July 2014 These have now been replaced by a new revolving credit facility of £13 million expiring in December 2015 which is expected to allow sufficient headroom for trading working capital needs in the current year whilst longer-term plans and funding requirements are developed

Notice of Annual General Meeting (Unaudited)

If you have sold or otherwise transferred all of your ordinary shares in Hornby Plc, please forward this document as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through or to whom the sale or transfer was effected for transmission to the purchaser or transferee of your ordinary shares

NOTICE OF ANNUAL GENERAL MEETING
Notice is hereby given that the thirty-third Annual General Meeting of Hornby Plc (the "Company") will be held at the offices of Hornby Plc, Ramsgate Road, Westwood, Margate, Kent CT9 4JX on Wednesday 10 September 2014 at 12 00 noon for the following purposes

To consider and, if thought fit, to pass the following resolutions, of which numbers 1 to 10 (inclusive) will be proposed as ordinary resolutions and numbers 11 and 12 as special resolutions

ORDINARY RESOLUTIONS

1 To receive and adopt the Company's Annual Report and Accounts for the financial year ended 31 March 2014 together with the Report of the Directors and Auditors

2 To approve the Directors' Remuneration Report, as set out on pages 25 to 32 of the Company's Annual Report and Accounts, for the financial year ended 31 March 2014

3 To re-elect R Ames as a Director

4 To re-elect D Adams as a Director

5 To re-elect C Caminada as a Director

6 To re-elect R Canham, who retires by rotation, as a Director

7 To reappoint PricewaterhouseCoopers LLP, the retiring auditors, as auditors of the Company to hold office from conclusion of the Annual General Meeting to the conclusion of the next meeting at which accounts are laid before the Company

8 To authorise the Directors to agree the auditors' remuneration

9 That, in accordance with section 366 of the Companies Act 2006 (the "**Act**"), the Company and all companies that are its subsidiaries at any time during the period for which this resolution has effect be authorised to

(a) make political donations to political parties and/or independent election candidates, not exceeding £10,000 in total,
(b) make political donations to political organisations, other than political parties, not exceeding £10,000 in total, and
(c) incur political expenditure, not exceeding £10,000 in total,

provided that the aggregate amount of any such donations and expenditure shall not exceed £15,000 during the period beginning with the date of the passing of this resolution and ending on the date of the Company's next Annual General Meeting

For the purpose of this resolution, the terms 'political donations', 'political expenditure', 'independent election candidates', 'political parties' and 'political organisations' shall have the meaning given to them by Part 14 of the Act

10 THAT, in place of the equivalent authority given to the Directors at the last Annual General Meeting (but without prejudice to the continuing authority of the Directors to allot shares pursuant to an offer or agreement made by the Company before the expiry of the authority pursuant to which such offer or agreement was made), the Directors be generally and unconditionally authorised in accordance with section 551 of the Act to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company up to a maximum aggregate nominal amount of £130,000, provided that this authority shall expire on 9 September 2019 but so that the Company may, before the expiry of such period, make an offer or agreement which would or might require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after the expiry of such period and the Directors may allot shares or grant rights to subscribe for or convert securities into shares pursuant to such an offer or agreement as if this authority had not expired

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11 THAT, subject to and conditional on the passing of resolution 10, the Directors be empowered, pursuant to section 570 of the Act, to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority conferred by resolution 10 as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities

(a) in connection with an offer of such securities by way of Rights Issue (defined below), and
(b) otherwise than pursuant to resolution 11 above up to an aggregate nominal amount of £19,000,

and that this authority shall expire at the conclusion of the Company's next Annual General Meeting following the date of the passing of the resolution, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if this power had not expired

This power applies in relation to a sale of treasury shares as if all references in this resolution to an allotment included any such sale and in the first paragraph of the resolution the words "pursuant to the authority conferred by resolution 10" were omitted in relation to such sale

In this resolution, **"Rights Issue"** means an offer of equity securities open for acceptance for a period fixed by the Directors to holders of ordinary shares in the capital of the Company on the register on a record date fixed by the Directors in proportion as nearly as may be to the respective numbers of ordinary shares held by them, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with any treasury shares, fractional entitlements or legal or practical issues arising under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory or any other matter

12 THAT, subject to and in accordance with Article 9 of the Company's articles of association, the Company be generally and unconditionally authorised to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares on such terms as the Directors think fit, and where such shares are held as treasury shares, the Company may use them for the purposes set out in section 727 of the Act, including for the purpose of its employee share schemes, provided that

(a) the maximum number of ordinary shares hereby authorised to be purchased is 3,900,000 being an amount equal to approximately 10% of the ordinary shares in issue as at 25 June 2014 (being the latest practicable date prior to the publication of this notice),
(b) the minimum price, exclusive of any expenses, which may be paid for an ordinary share is 1 pence,
(c) the maximum price, exclusive of any expenses, which may be paid for each ordinary share is an amount equal to the higher of
    (i) 105%, of the average of the middle market quotations for an ordinary share, as derived from the London Stock Exchange Daily Official List, for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased, and
    (ii) the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003, and
(d) the authority hereby conferred shall, unless previously revoked or varied, expire at the conclusion of the Company's next Annual General Meeting following the date of the passing of this resolution, or, if earlier, on the expiry of 18 months from the date of the passing of this resolution (except in relation to the purchase of ordinary shares, the contract for which was concluded before the expiry of this authority and which will or may be executed wholly or partly after such expiry)

By order of the Board

A Stacey
Company Secretary
Dated 26 June 2014
Registered office Westwood, Margate, Kent CT9 4JX
Registered in England and Wales with number 01547390

Notice of Annual General Meeting (Unaudited)
continued

NOTES (UNAUDITED)

1 This notice is being sent to all members and to any person nominated by a member of the Company under section 146 of the Companies Act 2006 to enjoy information rights

2 Only holders of ordinary shares, or their duly appointed representatives, are entitled to attend, vote and speak at the AGM A member so entitled may appoint (a) proxy/(ies), who need not be (a) member(s), to attend, speak and vote on his/her behalf A member may appoint more than one proxy, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him/her A form of proxy is enclosed with this Notice and instructions for its completion are set out on the form

3 Proxies may only be appointed by completing and returning the form of proxy enclosed with this Notice to the Company's Registrars, Capita Registrars Limited PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU

4 To be valid a proxy appointment and any power of attorney or other authority, if any, under which it is signed or a duly certified copy of such power of attorney must reach the office of the Company's Registrars not less than 48 hours (excluding any part of a day which is not a working day) before the time fixed for the AGM or any adjournment thereof Therefore, the form of proxy must be received by the Company's Registrars by 12 00 noon on 8 September 2014

5 Return of the form of proxy will not preclude a member from attending the AGM and voting in person A vote withheld option is provided on the form of proxy to enable you to instruct your proxy to abstain on any particular resolution However, it should be noted that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of votes 'For' and 'Against' a resolution If you select Discretionary' or fail to select any of the options, your proxy can vote as he or she chooses or can decide not to vote Your proxy can also do this on any other resolution that is put to the AGM A shareholder must inform the Company's registrars in writing of any termination of the authority of a proxy

6 The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with section 146 of the Companies Act 2006 ('Nominated Persons') The rights of shareholders in relation to the appointment of proxies can only be exercised by registered shareholders of the Company Nominated Persons may have a right under an agreement with the registered shareholder who hold shares on their behalf to be appointed (or to have someone else appointed) as a proxy Alternatively, if Nominated Persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights

7 The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders on the register of members of the Company as at 12 00 noon on 8 September 2014 (or, if the AGM is adjourned, shareholders on the register of members not later than 48 hours (excluding any part of a day which is not a working day) before the time fixed for the adjourned meeting) are entitled to attend and/or vote at the AGM (or any adjournment thereof) in respect of the number of shares registered in their name at that time Subsequent changes to the register of securities shall be disregarded in determining the rights of any person to attend and vote at the AGM (or any adjournment thereof)

8 Copies of contracts of service and letters of appointment between the Directors and the Company will be available for inspection at the registered offices of the Company and the offices of Berwin Leighton Paisner LLP at Adelaide House, London Bridge, EC4R 9HA during normal business hours on any weekday (Saturdays, Sundays and public holidays excluded) from the date of this Notice until the conclusion of the AGM, and at the place of the AGM for at least 15 minutes prior to the AGM until its conclusion

9 Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares

10 In order to facilitate voting by corporate representatives at the AGM, arrangements will be put in place at the meeting so that (i) if a corporate member has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that member at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions, and (ii) if more than one corporate representative for the same corporate member attends the meeting but the corporate member has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative Corporate members are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – http //www icsa org uk/ for further details of this procedure The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above

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11 Under section 527 Companies Act 2006 members meeting the threshold requirements set out in that section have the right to require the Company to publish on its website a statement setting out any matter relating to (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM, or (ii) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 Companies Act 2006 The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 Companies Act 2006 Where the Company is required to place a statement on a website under section 527 Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website The business which may be dealt with at the AGM includes any statement that the Company has been required under section 527 Companies Act 2006 to publish on a website

12 A copy of this Notice, and other information regarding the meeting, as required by section 311A Companies Act 2006, is available from www hornby com

13 You may not use any electronic address provided in this Notice or in any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated

14 Any member attending the meeting has the right to ask questions The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered

15 As at 25 June 2014 (being the latest practicable date prior to the publication of this Notice), the Company's issued share capital consists of 39,164,100 ordinary shares, carrying one vote each Therefore, the total voting rights in the Company as at 26 June 2014 are 39,164,100

Five Year Summary (Unaudited)

	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Revenue	**51,557**	57,395	64,447	63,372	63,863
(Loss)/Profit on ordinary activities before taxation	**(4,557)**	(3,387)	3,989	4,129	5,215
Taxation	**112**	886	(825)	(1,274)	(1,530)
(Loss)/Profit on ordinary activities after taxation	**(4,445)**	(2,501)	3,164	2,855	3,685
Assets employed					
Non-current assets	**24,340**	26,338	27,969	28,509	28,803
Net current assets	**7,408**	12,037	16,673	16,623	18,653
Non-current borrowings	**(242)**	(1,815)	(4,888)	(8,026)	(10,547)
Deferred tax liabilities	**(136)**	(159)	(573)	(337)	(281)
Net assets	**31,370**	36,401	39,181	36,769	36,628
Total capital employed	**31,370**	36,401	39,181	36,769	36,628
Earnings per share					
– basic	**(11.35)p**	(6 4)p	8 2p	7 5p	9 8p
– diluted	**(11.35)p**	(6 4)p	8 1p	7 4p	9 6p
Dividend per share (net)	**–**	–	3 7p	5 0p	5 0p
Net assets per share	**80.0p**	92 9p	100 0p	95 7p	96 2p

Shareholders' Information Service

Hornby welcomes contact with its shareholders

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

N P Stone, Finance Director
Hornby Plc
Westwood
Margate
Kent CT9 4JX