HORNBY PLC

ANNUAL REPORT AND ACCOUNTS 2020

Company Number: 01547390

Hornby PLC

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

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Highlights 2020

"Our performance continues to improve despite the challenges of the Global Pandemic that hit our shores earlier this year. We are custodians of incredible brands which have survived World Wars and economic crises. We are well placed to achieve a secure and profitable future."

Lyndon Davies, Chief Executive

Revenue
(2019: £32.8m)

£37.8m

Operating loss
(2019: £(5.2)m loss)

£(2.8)m

Reported loss before taxation
(2019: £(5.3)m loss)

£(3.4)m

Underlying[1] loss before taxation
(2019: £(4.4)m loss)

£(3.2)m

Reported loss after taxation
(2019: £(5.3)m loss)

£(3.4)m

Reported loss per share
(2019: (4.24)p loss)

(2.67)p

Underlying basic loss per share
(2019: (3.65)p basic loss)

(2.56)p

Net cash/(debt)
(2019: £(1.8)m) (see note 28)

£5.9m

1 Underlying figures are before amortisation of intangibles (brand names and customer lists), and net unrealised foreign exchange movements on intercompany loans and exceptional items (see pages 10 and 11).

Non-Executive Chairman's Report

The Strategic Report comprises the Non-Executive Chairman's Report, the CEO Report, the Director's Section 172 statement and the Operating and Financial Review of the Year and Our Key Performance Indicators ('KPIs').

I report to shareholders during an extremely challenging period for our Company and the entire world economy due to COVID-19.

Revenue in the year of £37.8 million (2019: £32.8 million) was 15% above the previous year. The reported loss before tax reduced significantly to £(3.4) million (2019: £(5.3) million) as we continue to implement our turnaround strategy.

In the year we have made further considerable progress within the Group. Measures implemented to cease deep discounting has helped stabilise the market, particularly new releases, and the benefit is evident in the improved gross margin. We have reviewed elements of our customer base and trading terms to make sure we support the right routes to market.

The product development cycle has been further improved and investment has been increased to have more new releases – the lifeblood of any model company. We are innovating more and have identified opportunities in existing ranges to incorporate technology such as wireless vehicle control from a smart phone in both Hornby and Scalextric. We also have a highly collectible range of products to celebrate Hornby's Centenary.

Overheads increased by 8% mainly due to sales related costs and planned increase in headcount. Cost savings were achieved in many areas including further rationalisation in logistics to suit our business size and reduced rent achieved in returning to our ancestral home in Margate.

SHARE PLACING AND OPEN OFFER

On 12 March 2020 the Company successfully raised £15 million (£14.7 million net of costs) through the placing and open offer of new shares. The main reasons to raise new capital were:

- accelerate product development;
- build modern online routes to market;
- upgrade central systems and processes;
- improve balance sheet strength and efficiency; and
- potential opportunistic acquisitions.

In the short-term our balance sheet is very strong and we believe it will support the Company during the current global economic uncertainty.

COVID-19

COVID-19 has completely changed the landscape for every company in the world. We were confronted by the effects of the virus very early during January at our Far East suppliers and Hong Kong office and devoted much time in developing procedures to help us deal with the risks and disruption. Our main priorities are to keep our employees safe and ensure our survival as an organisation.

All our offices in Europe, Hong Kong and America formulated lockdown plans that were implemented in line with the relevant government policies. UK staff vacated the Margate offices almost immediately after the announcement of the lock-down on 23 March 2020 and the majority of staff were able to work from home. I would like to thank the incredible efforts of all employees to implement the change which involved installing significant electronic infrastructure to facilitate home working and subsequently juggling the complications of combining home and work commitments. Everyone has continued to work very efficiently in this new environment and maintained their enthusiasm and good spirits.

A limited number of employees have been furloughed where their function is temporarily curtailed or not possible to be fulfilled at home.

Fortunately, our warehouse in the UK has remained operational under strict distancing protocols and we continue to despatch goods at a good rate.

GOVERNANCE

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

BREXIT

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

SHAREHOLDERS

We will hold our Annual General Meeting in September.

John Stansfield
Chairman
16 June 2020

CEO's Statement

INTRODUCTION

It has been such a sad and difficult time for so many people. Business interruption is a minor issue compared with the human disaster that has affected lives throughout the world. I will address our performance and try and explain how COVID-19 has affected our business.

The points I will cover are as follows:

Key Performance Indicators (KPIs)
Variable costs, fixed costs, gross profit and operating profit.

New Key Performance Indicators: Costs
How and why our cost levels are what they are.

Key Performance Indicator 1: Capital Expenditure Productivity
Gross profit in relation to essential capital expenditure.

Key Performance Indicator 2: Inventory
The importance of the inventory balance in relation to sales.

The Global Pandemic
Our actions and responses to COVID-19.

Current Trading & Outlook
The new capital injection, growth in direct online sales, and the future.

KEY PERFORMANCE INDICATORS (KPIs)

I want to start each year with a little introduction to the basic economics of our business. This is to help those who are new to the business. Apologies, therefore, for the repetition if you are a regular reader of our shareholder communications, and also if you are a highly sophisticated business person, but it is important that everyone understands the situation, no matter how inexperienced they may be in these matters.

I like to think how I would explain it to my grandfather. He was smart and numerate, but he did not have any formal business experience or training. He worked from his instincts, for which he was awarded an MBE for his services during the Second World War. The citation reads "during the period of acute enemy air activity at Swansea... in spite of injury to his wife and damage to his house...". During these past few months I have drawn strength from my memories of his calmness whilst all around seemed chaotic.

The KPIs discussed here should be seen against the background of the pandemic impacting on our business in the first quarter of calendar 2020 (January to March). The best way to think about our business is in terms of fixed costs and variable costs. You will find these in the Statement of Comprehensive Income (SOCI) on page 32.

When we sell our products there are variable costs directly related to individual items. This includes such elements as the materials used to make the products and the costs our manufacturers charge us to turn the raw materials into an exciting model, a tub of paint, a diecast car or any other complex end product. These costs are variable because they vary with how many products we sell. You will see these called 'Cost of Sales' in the SOCI.

When we add up all our sales and take away the variable costs, the resulting amount is called the 'Gross Profit'. Our Gross Profit has to exceed our fixed costs in order to leave some profits for shareholders and our employee bonus scheme.

Our fixed costs are not completely fixed in the academic definition, but I think of them as all the overheads we need to get our product to market in the right way. As well as the normal things like wages for the finance team or the electricity bill for the headquarters, these fixed costs include such items as the cost of sending samples to magazines and influencers. In the SOCI you will find these fixed costs under the headings 'Distribution costs, Selling & Marketing, Administrative and Other'.

In 2020, we did not generate enough gross profit to cover our fixed costs:

	2020 £'000	2019 £'000	2018 £'000
Sales	37,842	32,759	35,651
Variable Costs	(21,140)	(19,348)	(21,900)
Gross Profit	16,702	13,411	13,751
Fixed Costs	(19,444)	(18,041)	(21,329)
Operating Loss	(2,742)	(4,630)	(7,578)

When you take our fixed costs away from the gross profit, you get the Operating Profit (or Loss). We were £2,742,000 short of covering our costs. Whilst losses are narrowing rapidly, a loss is still a loss, and it has been paid for by shareholders. I will not rest until we reach sustainable profitability; I live and breathe for that moment and beyond.

It is essential that we reach profitability as soon as possible, and that will be achieved in part by improving our KPIs. I set these out in the last Annual Report and have brought them up to date below. I have also added a new one to help you further understand our journey.

NEW KPI: COSTS

Making profits results from maximising revenue and minimising costs, so here are some more insights into how our costs are unfolding and why.

An important element of the current stage of the *turnaround plan is to reduce both* the fixed costs and variable costs as a percentage of our sales.

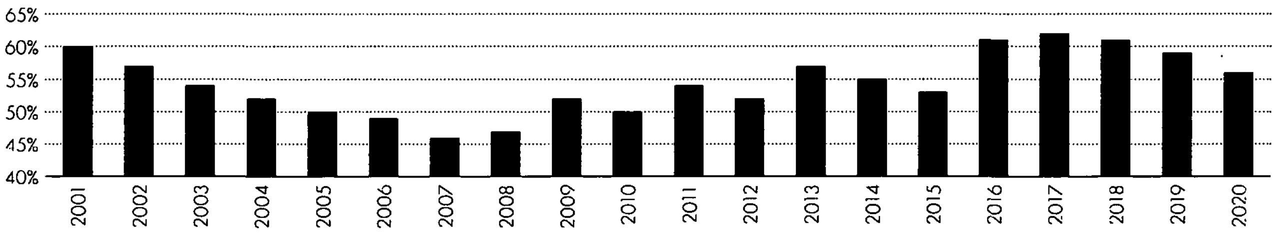
Variable Costs

We can reduce variable costs in several ways. For example, if we are able to produce a wonderful new product that has very wide appeal, then we can order large quantities of it. When we order a lot of this new wonder product, our manufacturers are able to spread the cost of production across the larger order quantity. This results in a lower cost per item to us, which brings the variable costs down as a percentage of sales.

Reducing our reliance on middlemen (distributors etc.) in our routes to market also helps to reduce the variable costs.

Here is a graph which shows our variable costs as a percentage of sales since 2001:

Variable Costs as a Percentage of Sales



Our variable costs have reduced as a percentage of sales this year, but they are still quite high compared to where they used to be when the Group was profitable.

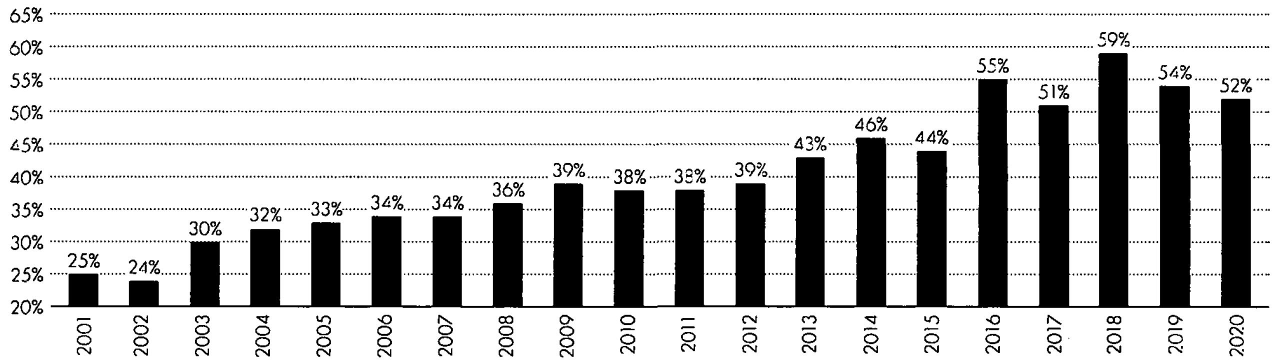
Our products must be affordable and they must offer great value for money, so just increasing the price would lead to lower sales volumes, and thus to higher product costs. We also have inflationary cost pressures that must be offset. It is a difficult balance, but we think there are ways to continue to reduce variable costs as a percentage of sales and we will report on our progress each year.

Fixed Costs

It always seems that there is relatively little that can be done to reduce fixed costs. I stated in the last Annual Report that our current fixed cost base could service a business bringing in £45 million to £50 million of sales. If we can increase our sales, but maintain our fixed costs at much the same level, fixed costs will be a smaller percentage of sales, and will leave more gross profit to cover (and ideally exceed) our fixed costs.

Here is a graph to show how our fixed costs have varied as a percentage of sales since 2001:

Fixed Costs as a Percentage of Sales



Our fixed costs as a percentage of sales have been going in the wrong direction for a long time. Now that we no longer offer discounts on our products, and we have managed to get sales growing again, these fixed costs have begun to shrink as a percentage of sales.

Our aim is to keep increasing sales volumes so that the fixed cost percentage will be lower with each subsequent report. Our culture of frugality has offered some interesting ways to reduce our fixed costs. I will also report to you next year in this section regarding our cost reduction efforts.

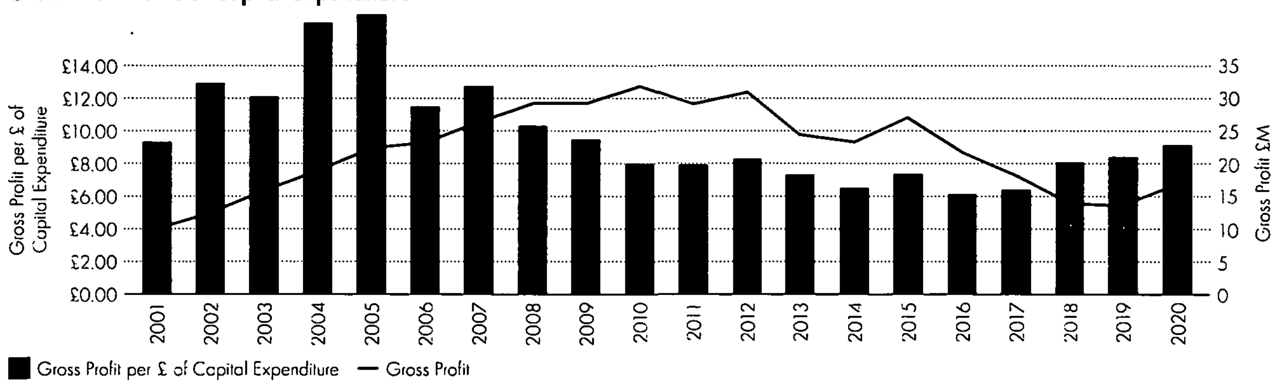
KPI NO. 1: CAPITAL EXPENDITURE PRODUCTIVITY

We need to invest in tooling to produce new, innovative and exciting models. You will find the money we put into these endeavours in note 10 of the Financial Statements.

As you will see, this year, we spent £2,400,000 on Product Tooling. The important thing to remember about this capital expenditure is that the money we spend in any given year is, roughly speaking, used to manufacture tooling for models and products that will be sold in firstly in the following year and then for several more years. We thus have a time lag between expenditure and revenue. Our failures to invest in 2016/17, impacted on us in these last few years. Our increased expenditure now will have positive impacts on the results for many years to come.

A good measure of how good a job we are doing is to check the amount of Capex we are incurring in one year and comparing it to the gross profit we are generating in the *following* year. If you divide the gross profit generated in a year by the Capex in the previous year, it will tell you how many pounds of gross profit we generated per pound of capital expenditure. The aim is to get this number as high as possible. Let's call it 'Capex Productivity'.

Gross Profit Per £ of Capital Expenditure



We expect the trend to keep improving for many years to come. We know which products bring the quickest sell through on the lowest levels of CAPEX, equally we know the higher cost CAPEX projects that take longer to develop but can bring in richer rewards.

Apologies, for the jargon, but this is a good example of how we are focusing the business on 'return on investment', which we think is a key driver for shareholder value creation. It is my intention to add a Group return on investment KPI once we get back to profitability and beyond.

KPI NO. 2: INVENTORY

Here is the table of inventory as a percentage of sales I showed you last year, with the latest year added:

Year End Inventory as a Percentage of Sales

In an ideal situation, if we made the right products we would start the year with very little inventory, then sell out of most of it as it arrives in the UK, only leaving a small inventory balance at the end of the year.

Unfortunately, this rarely happens in reality. It is normal in our industry for some products to take a couple of years to sell through. Even when the business is firing on all cylinders, there is likely to be some inventory left at the end of the year. It is important to keep this remaining inventory balance as low as possible.

The best way to think about that inventory balance at the end of the year is as a percentage of our sales for that year. This puts the inventory balance in context against the sales volume of the business. If our remaining inventory doubled in value, you might think that was a bad thing. However, if the sales were ten times higher with *only* a doubled inventory balance, then that would be a great result.

As you can see from the table our year-end inventory balance relative to our sales ended up higher than the previous year, despite a 15% increase in sales this year. In fact, relative to our sales, our inventory balance is the highest it has ever been, by quite a large margin.

This is partly due to accelerated inventory purchases ahead of Chinese New Year and growing concerns over impact of COVID-19 on our suppliers. However ultimately the reduction in inventory this year was one of our main objectives and we have failed. It is very important that cash is not tied up unnecessarily in inventory; we must do a lot better in future on this measure.

We will be finalising our order quantities soon for the rest of the financial year and we will be using the lessons we have learned to improve how we decide what to order and when.

The Global Pandemic

In the past when the country has experienced a crisis, I have found that people often turn inwards, to find things of comfort from things they know and love. I have also observed that people crave things to keep themselves challenged and stimulated.

There are very few brands and products which satisfy these desires, but we are fortunate to have some of them. Hornby, Scalextric, Airfix, Corgi, Humbrol and our international brands have a level of familiarity and goodwill associated with them that our competitors can only dream for.

Hornby has become a synonym for model railways and in January 2020 at toy fairs across the world we announced one of the strongest releases of products for many years. It is the 100th anniversary since Frank Hornby introduced his clockwork train and railway system in 1920, and oh boy have *we put a range together to make him proud.*

To celebrate the classics from the past we announced a raft of new products carrying other iconic names which sit in our archives. The return of Triang Railways, Hornby Dublo and even Rovex, have added some truly nostalgic fire power to our product line up. With the engine of our Company repaired and our product planning horizons advanced we were able to release the first of these items, the Stephenson's Rocket, early. It subsequently sold out within days of release!

Then the Global Pandemic hit. We ensured first that we were able to survive the crisis physically, emotionally and financially. During this time we have found many new and returning customers purchasing our products. Families have been building plastic kits together, bringing out their old railway systems and dusting off their slot car racing sets. People have come back and have started to stoke the fire of the hobby in the younger generation again. A lot of these customers have come back to find us online, and it is now up to us to keep them engaged.

After we had dealt with our own business challenges, we then looked for ways to help others. Our main focus was on supporting the National Health Service, offering discounts to NHS and Emergency Service operatives. As the situation developed, and our employees suffered the loss of their loved ones throughout March and April in our offices around the world, we felt that we had to do more.

CEO's Statement continued

The wonderful fundraising effort by Captain Tom Moore inspired us to design a model diesel locomotive named after him, with the proceeds going straight to the NHS. We experienced overwhelming demand and we sold out within hours of release, raising approximately £140,000 for NHS Charities Together, which we will donate on the release of the model, later this year. https://www.hornby.com/uk-en/captain_tom

Alongside our deep concern about everyone who has been affected during the Pandemic, it is also essential that we safely navigate all the current difficulties, so that we retain a profitable business to support our employees and shareholders for many decades to come.

Before the Coronavirus impacted our markets, we had already raised some more capital from shareholders, and we were a little over two years into a long-term plan to rebuild our brands. In the results, you will see that our sales in FY 19/20 bounced back strongly from the previous year, growing by around 15%. Losses also narrowed significantly, but there is still much more work to do.

Despite the impending Brexit uncertainty and the current COVID-19 situation, we are still working through *Stage 3* of the turnaround programme which I have described in detail in previous Annual Reports. This is *Getting the Group back to sustainable profitability and beyond.*

CURRENT TRADING & OUTLOOK

When we raised new capital at the start of the year, two of the key uses of this new money were to:

- invest in digital marketing, in order to more efficiently find customers and to establish a platform to build relationships with customers; and
- upgrade central systems building a scalable operating platform for future growth.

We have been very busy on both of these initiatives; we have hired new technical resource directly, and we have been engaging in some rapid development programmes with a new digital partner to get us where we want to be as quickly as possible. It is too early to discuss progress in detail, but I expect these projects will have begun to yield profitable results by the time of the next Annual Report.

Since the end of March, our sales have been in line with expectations, with a greater weighting towards customers finding us on the web directly. This skew towards customers shopping with us direct online has given us higher gross margins than we were expecting.

There has been a noticeable growth in traffic to our website. Retail customers have had more time to spend on their hobbies during lockdown, and others that know and love our brands have seen this period as a chance to re-engage with our products. We have managed to keep our warehouse and supply chain open to service those customers, and we have had a solid start to the year as a result.

Despite this, we are wary of how the government's responses to the virus will affect consumer confidence and spending. This is the Centenary year for our main brand, Hornby, and we will be delivering a very strong product range, but we remain cautious about how consumers will behave post the lockdown.

We have a strong balance sheet with net cash of £5,921,000 and we appreciate the strong support from our customers and shareholders. Throughout the pandemic our wonderful staff have adapted and risen to the challenges they faced which has minimised the impact on our business.

We are custodians of incredible brands which have survived World Wars and previous economic crises. I think our management team have rekindled the passion (Hwyl) that got this business through previous crises and we are well placed to achieve a profitable future.

Lyndon Davies
Chief Executive Officer
16 June 2020

Section 172 Statement

For the year ended 31 March 2020

As required by Section 172 of the Companies Act, a director of a company must act in the way he or she considers, in good faith, would likely promote the success of the company for the benefit of the shareholders. In doing so, the director must have regard, amongst other matters, to the following issues:

- likely consequences of any decisions in the long term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers/customers and others;
- impact of the company's operations on the community and environment;
- the company's reputation for high standards of business conduct; and
- need to act fairly between members of the company.

CULTURE

Our values and leadership behaviours are a vital part of our culture to ensure that through good governance, our conduct and decision making we do the right thing for the business and our stakeholders.

The Board acknowledges that every decision it makes will not necessarily result in a positive short-term outcome for all of the Group's stakeholders. We believe in creating solid foundations for the future, so there is a balance between short-term success and longer-term prosperity.

SHAREHOLDERS

The primary mechanism for engaging with our shareholders is through the Company's AGM and also through the publication of the Group's financial results for the half year and full year. Further information is disclosed in the Corporate Governance Statement on pages 14 to 18. At the AGM we encourage our shareholders to ask questions and participate in debate about our performance and products.

CUSTOMERS

Understanding our customers and what matters to them is key to the success of Hornby. We listen and talk to them using all of the tools at our disposal. Our customers operate in a global, but niche market, we interact with them either directly, or via our retailers, wholesalers and distributors.

SUPPLIERS

We have long-standing close relationships with our suppliers overseas, who we would normally visit on a regular basis. During the pandemic we have communicated via video conferencing, working together with a common goal, giving them visibility, sharing our plans allowing them to plan their factories capacity well into the future.

EMPLOYEES

A key to the Group's renewed success has been its engaged workforce. The Group's Directors, alongside our executive management teams, work hard to provide a positive working environment. As a well-respected local employer within each of the communities we operate, it is important for us to provide opportunities for all of our staff to allow them to grow and achieve their potential. More detail can be found in note 24.

COMMUNITY AND ENVIRONMENT

We are proud to employ people in the communities that we operate. The strength of our brands allow us to promote both local and national charitable causes. We have product standards, policies and guidance covering the products we make to help ensure that they are manufactured safely, legally and to the required quality standards.

Operating and Financial Review of the Year

FINANCIAL REVIEW

	2020	2019
Revenue	£37.8m	£32.8m
Gross profit	£16.7m	£13.4m
Gross profit margin	44.1%	40.9%
Overheads	£19.4m	£18.0m
Exceptionals	£0.1m	£0.6m
Reported loss before tax	£(3.4)m	£(5.3)m
Underlying loss before tax*	£(3.2)m	£(4.4)m
Reported loss after tax	£(3.4)m	£(5.3)m
Basic loss per share	(2.67)p	(4.24)p
Underlying basic loss per share*	(2.56)p	(3.65)p
Net (debt)/cash	£5.9m	£(1.8)m
Undrawn Facilities	£14.2m	£5.5m

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

PERFORMANCE ON A STATUTORY BASIS

Consolidated revenue for the year ended 31 March 2020 was £37.8 million, an increase of 15% compared to the previous year's £32.8 million due to improved efficiency in product development and supply chain. The revenue in the second half of the year of £21.7 million was ahead of previous year which was £19.0 million. Gross profit margin was slightly higher, at 44% (2019: 41%) due to cessation of stock discounting and more desirable product lines and improved efficiencies within supply chains.

Overheads increased year-on-year by 8% from £18.0 million to £19.4 million predominantly as a result of planned recruitment of additional heads and selling related costs linked to higher revenues. UK distribution costs reduced by £0.4 million due to continued close management of costs. Sales and marketing costs increased by £1.3 million year-on-year due to planned increase in headcount in sales, customer support and product development along with various customer support initiatives. Administration costs were £0.9 million higher due to increased headcount with IT and finance departments and the impact of IFRS 16. Other operating income in the year of £0.2 million (2019: £0.2 million expense) include foreign exchange gains netted against the amortisation of brand names.

Exceptional costs totalling £0.1 million (2019: £0.6 million) are predominantly restructuring costs incurred in the UK.

PERFORMANCE ON AN UNDERLYING BASIS

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

	Group	
	2020 £'000	2019 £'000
Statutory Loss before taxation	(3,395)	(5,312)
Adjustments:		
Net foreign exchange impact on intercompany loans	(148)	90
Amortisation of intangibles – brands and customer lists	227	227
Exceptional items:		
Restructuring costs	71	49
COVID-19 support	(3)	–
Refinancing costs	7	172
Relocation costs	–	373
Underlying loss before taxation	(3,232)	(4,401)

The underlying loss before taxation above was £3.2 million (2019: loss of £4.4 million).

The basic loss per share calculated on underlying loss before taxation (hereafter referred to as underlying basic loss per share) was (2.56)p (2019: (3.65)p).

The income tax credit for the year is £nil (2019: £nil).

Reported pre-tax loss was £3.4 million (2019: loss of £5.3 million) and reported basic loss per share was (2.67)p (2019: (4.24)p loss per share).

Segmental analysis

Third party sales by the UK business of £28.6 million increased by 11% in the year as a result of improvements in the choice of products on offer and improved design and supply chain processes. The loss before taxation of £2.0 million compared to £3.9 million loss last year reflects the continued focus on getting products to market and out the door to end customers without discounting.

Sales by the European businesses of £6 million increased by 50% in the year reflecting the year's increased product range and investment in new product for the European market. The loss before tax was £0.3 million compared to £0.5 million loss last year.

Sales in the US business of £3.3 million increased by 14%. The trading loss of £1 million in the US was a result of investment in promotion and increased spend in Sales and Marketing. We expect sales to increase in this key market in the longer term and overheads to reduce.

Statement of Financial Position

Property, plant and equipment increased year-on-year by £0.4 million from £3.8 million as a result of increased expenditure in tooling for new products. Group inventories increased from £10.9 million to £14.2 million due to earlier arrival of stock to ensure we had sufficient stocks ahead of Chinese New Year and growing coronavirus reports in the far east. In addition, we had to increase production on Quickbuild products to enable us to move production to India. Trade and other receivables decreased by 9% largely due to an improvement in debtor days outstanding at year end. Trade and other payables decreased by £0.6 million due to the reductions of accruals and deferred revenue. Overall investment in new tooling, new intangible computer software and other capital expenditure was £2.7 million (2019: £2.7 million).

Dividend

The Group is still in the turnaround phase and there will not be a dividend payment this year (2019: £nil). The Board continues to keep the dividend policy under review.

Capital structure

A Placing and Open Offer of 41,666,666 new ordinary shares at a price of 36p each, raising £14.7 million net of costs, was completed on 12 March 2020 with the funds being used to accelerate product development and additional capital expenditure, to invest in digital marketing, upgrade central systems and strengthen the Group's balance sheet.

Financing

At 31 March 2020 the UK had a £12 million Asset Based Lending facility with PNC Credit Limited ('PNC') and a £9 million loan facility with Phoenix Asset Management Partners.

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

The Phoenix Facility is a £9 million facility with a rolling three-year term and attracts interest at a margin of 5% over LIBOR on funds drawn. Undrawn funds attract a non-utilisation fee of the higher of 1% or LIBOR.

Borrowings in the year ended 31 March 2020 peaked in March 2020 at £10.2 million.

Net cash at 31 March 2020 was £5.9 million compared with net debt of £(1.8) million at 31 March 2019.

Our Key Performance Indicators ('KPIs')

The Directors are of the opinion that the financial KPIs are revenues, gross margins, underlying (loss)/profit before tax and (loss)/earnings per share, the information for which is available in these Financial Statements and summarised on the financial highlights section earlier in this report. We additionally think that moving forward Capex Productivity, Inventory and Fixed Costs as percentage of Sales should be monitored. We provide current and historical analysis in the CEO Report on pages 04 to 08 and will continue to report in future Annual Reports. The Board monitors progress against plan on a regular basis adjusting future objectives annually in line with current circumstances.

IDENTIFICATION OF PRINCIPAL RISKS AND UNCERTAINTIES

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

PRINCIPAL RISKS AND UNCERTAINTIES

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

Risk	Description	Impact/Sensitivity	Mitigation/Comment
Capital allocation	New tooling is important to support the production of new products.	The risk is that the Group has insufficient capital to fund new tooling or invests ineffectively in the wrong products.	The new business plan includes significant capital expenditure to fund suitable products to underpin the implementation of the New Business plan strategy of the Group. This process will be underpinned by a robust capital allocation process aligned to brand strategies and brand delivery targets.
Product compliance	The Group's products are subject to compliance with toy safety legislation around the world.	Failure to comply could lead to a product recall resulting in damage to Company and brand reputation along with an adverse impact on the Group's results.	Robust internal processes and procedures, active monitoring of proposed legislation and involvement in policy debate and lobbying of the relevant authorities.
Liquidity	Insufficient financing to meet the needs of the business.	Without the appropriate level of financing it would be increasingly difficult to execute the Group's business plans.	A new share issue in March 2020 raised £15 million of additional funding for the Group. In addition, the Group has a £12.0 million ABL facility with PNC and a £9.0 million revolving loan facility with Phoenix Asset Management Partners. The Group's policy on liquidity risk is to maintain adequate facilities to meet the future needs of the business.
System and cyber risk	The Group continues to invest in the development of its website and implemented a new ERP system in 2015.	This exposes the business to greater risk of financial loss, disruption or damage to the reputation of an organisation from a failure of its information technology systems.	The Group has invested significant time and cost in the new website and ERP system in the last three years. The Group has dedicated web and ERP teams to monitor and maintain the Group's systems and holds appropriate insurance policies to minimise material risk. A new website is currently being developed which will have even higher security than the existing system. We are also working on upgrading the current ERP system.
Talent and skills	Recruitment, development and retention of talented people are the key to the success of any business.	The Group fails to retain the necessary skills and talent to deliver the Group's plans.	Management team to encourage and empower employees. Key lost talent has been reacquired and brought back into the Company. An all employee scheme was announced last year where all employees will participate in profits of the Group.
Brexit	Leaving the EU without suitable trade deals in place.	As the UK government continues its negotiations, uncertainty remains as to the extent to which our operations and financial performance will be affected in the longer term.	At a Group and business level, we have continued to prepare for changes in legislation, trade agreements and working practices in order to mitigate risk. We have contributed to government led consultations on the potential changes and their likely impact on businesses and markets to help inform the exit strategy.
COVID-19	Further outbreaks in the UK.	The Government may issue instructions that result in our warehouse being unable to transport goods in or out.	The Group is currently working predominantly from home locations. Our warehousing is a third-party supplier who follows stringent safe working rules. Should the warehouse be closed we have sufficient funding to weather the storm.

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. Performance against budget is monitored and where any significant deviations are identified appropriate action is taken.

The Strategic Report has been signed on behalf of the Board

KGould

Kirstie Gould

Chief Finance Officer

16 June 2020

Corporate Governance Report

CORPORATE GOVERNANCE

For the year ended 31 March 2020, and up to the date of this report, the Company has applied the main principles of the Code and complied with its detailed provisions throughout the period under review. Full details of our approach to governance are set out below and, as a Board, we continue to be committed to good standards in governance practices and will continue to review the governance structures in place, to ensure that the current practices are appropriate for our current shareholder base and that, where necessary, changes are made.

The key governance principles and practices are described in the statement below, together with the Audit and Nomination and Remuneration Committees' reports on pages 19 to 22 and the Directors' Report on pages 24 to 27.

BOARD OF DIRECTORS

JOHN STANSFIELD

Independent Non-Executive Chairman

Aged 65

John Stansfield was appointed Non-Executive Chairman in August 2018. Prior to that, he had been a Non-Executive Director of the Company, having been appointed in January 2018.

John is a Fellow of the Chartered Institute of Management Accountants and spent 31 years with the Group, 12 years of which he was Group Finance Director.

He re-joined the Company, after having left in 2013.

John helped to deliver some of the Group's most profitable years and has a wealth of experience in the toy and hobby sectors.

John is also Chair of the Audit Committee and a member of the Remuneration and Nomination Committee.

LYNDON DAVIES

Chief Executive Officer

Aged 59

Lyndon joined the Board as Chief Executive in October 2017.

He is a highly-experienced model and hobby professional with 40 years' experience in the industry. He has built Oxford Diecast into a successful international business over the past two decades, focusing on Diecast vehicles, aircraft and, more recently, rail-based products.

Lyndon is also Chairman of Oxford Diecast ('Oxford'), a business founded in 1993. He remains the majority shareholder of LCD Enterprises Limited, the ultimate owner of the Oxford Diecast brands.

KIRSTIE GOULD

Chief Finance Officer & Company Secretary

Aged 47

Kirstie Gould was appointed as Chief Finance Officer of the Company in January 2018 after spending over 2 years with Hornby as a consultant in the finance department. Kirstie also acts as Company Secretary.

Kirstie is a Fellow of the Institute of Chartered Accountants in England and Wales, qualifying with PricewaterhouseCoopers in 1997 and has since held senior management and directorship roles across a number of high growth SME firms including Affini Technology Limited (part of the TTG Group) and Gamma Communications plc.

JAMES WILSON

Independent Non-Executive Director

Aged 34

James Wilson was appointed as a Non-Executive Director in August 2017.

James is a partner at Phoenix Asset Management which controls the funds that own 74.7% of the ordinary shares of Hornby Plc.

James is a Chartered Financial Analyst.

James is Chair of the Remuneration and Nomination Committee and a member of the Audit Committee.

Our Board and Committees Membership

Board Audit Remuneration and Nomination Chair

COMPOSITION AND INDEPENDENCE OF THE BOARD

The Board is comprised of two Executive Directors and two Non-Executive Directors, (including the Independent Non-Executive Chairman). During the year, the Board is of the opinion that the composition of the Board, continues to represent an appropriate balance between executive and Non-Executive Directors, given our size and our operations. John Stansfield is considered independent due to the time elapsed since his employment with the Group originally. James Wilson is considered independent as he has no control over the voting shares of Phoenix Asset Management.

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

Details of each Directors' background and experience are set out in the table on page 14.

APPOINTMENTS TO THE BOARD AND RE-ELECTION

The Board takes decisions regarding the appointment of new Directors as a whole following the recommendations of its Remuneration and Nomination Committee. The task of searching for appropriate candidates and assessing potential candidates' skills and suitability for the role has been delegated to the Remuneration and Nomination Committee. Further information on the roles of the Remuneration and Nomination Committee and also the Audit Committee of the Board can be found on pages 19 to 22.

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

DIVISION OF RESPONSIBILITIES

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

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

EXECUTIVE DIRECTORS

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

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

NON-EXECUTIVE DIRECTORS

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

Corporate Governance Report continued

SUCCESSION PLANNING

During the year, the Remuneration and Nomination Committee was delegated with the task of formulating succession plans for the business, identifying areas where there is a skills shortage, extending the area of focus to senior management level and ensuring that the plans cover several years.

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

HOW THE BOARD OPERATES

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

The Board is responsible for:

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

The Board met 12 times during the year.

THE MAIN ACTIVITIES OF THE BOARD DURING THE YEAR

Key Board activities this year included:

- new equity share issue to raise £15 million;
- dealing with the impact of COVID-19;
- discussing strategic priority;
- reviewing feedback from our institutional shareholders following our full and half year results; and
- input into implementing the next phase of the Turnaround Plan.

THE BOARD COMMITTEES

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

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

We have made some improvements in our governance arrangements including introducing reporting by the Remuneration and Nomination Committee as well as the Audit Committee in our Annual Report and Accounts. These reports can be found on pages 19 to 22.

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

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

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

EXTERNAL ADVISORS

The Board makes use of the expertise of external advisors where necessary, to enhance knowledge or gain access to particular skills or capabilities. Areas where external advisors are used include and are not limited to: diligence work on major contracts; recruitment; and Company secretarial and corporate governance. The list of external advisors is set out on page 23.

DIRECTORS' INDUCTION, DEVELOPMENT, INFORMATION AND SUPPORT

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

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

Directors keep their skillset up to date through a combination of attendance at industry events, individual professional development and experience gained from other Board roles. The Company Secretary ensures that the Board is aware of any applicable regulatory changes and updates as and when relevant. The Board is also given an annual refresher in AIM Rules and this was last provided in January 2020 by its Nominated Advisors, Liberum Capital Limited. This refresher is designed to enable Directors keep abreast of corporate governance developments.

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

CONFLICTS OF INTEREST

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

LCD Enterprises Limited owns Oxford Diecast Limited and Oxford Diecast (HK) Limited. Both companies provide service and/or goods to the Group at arms-length pricing. Details can be found in note 29.

PERFORMANCE EVALUATION

The Chairman considers the operation of the Board and performance of the Directors on an ongoing basis as part of his duties and will bring any areas of improvement he considers are needed to the attention of the Board. However, the Board recognises the need to put in place an annual formal evaluation process for the Board, its Committees and individual Directors.

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

ACCOUNTABILITY

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

FINANCIAL AND BUSINESS REPORTING

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

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

Corporate Governance Report continued

BUSINESS ETHICS

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

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

WHISTLEBLOWING

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

SHAREHOLDERS

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

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

Audit Committee Report

As Chair of the Audit Committee ('the Committee'), I am pleased to present our Audit Committee Report for the year ended 31 March 2020.

MEMBERSHIP

The Audit Committee comprises two members, James Wilson and myself, John Stansfield. Both of us are independent Non-Executive Directors of the Company. I am the member of the Committee, who with the background as a chartered management accountant has significant, recent and relevant financial experience. Our biographies are set out on page 14.

MEETINGS AND ATTENDANCE

The Committee met three times during the year ended 31 March 2020. All members of the Committee at the time of each meeting were present at the meetings. At least one of these meetings was with the external auditor, without the executive Board members present. Lyndon Davies and Kirstie Gould also attended meetings by invitation.

DUTIES:

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

- external Audit;
- financial Reporting;
- internal Control and Risk Management;
- internal Audit; and
- reporting on activities of the Committee.

The Terms of Reference for the Committee are reviewed annually and approved by the Board.

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

- a review of the year-end audit plan, consideration of the scope of the audit, the consistency in the application of accounting policies and the external auditor's fees;
- consideration and approval of the external audit report and management representation letter;
- a review of the Annual Report and Financial Statements, including consideration of the significant accounting issues relating to the Financial Statements, and the going concern review;
- a review and approval of the internal financial statement; and
- approving revised borrowing and credit facilities.

EXTERNAL AUDITOR

The Committee has the primary responsibility for recommending the appointment of the external auditor and reviewing the findings of the auditor's work. The Company's external auditor was PricewaterhouseCoopers LLP, however during the year we reviewed auditors and felt that it would be an appropriate time to change. As a result the new auditors are Crowe U.K. LLP. There will be ongoing dialogue between the Committee and the auditor on actions to improve the effectiveness of the external audit process.

Having reviewed the auditor's independence and performance to date, the Committee has recommended to the Board that they be reappointed for the 2021 audit. A resolution to reappoint Crowe U.K. LLP as the Company's auditor is to be proposed at the forthcoming Annual General Meeting (AGM) in September 2020.

POLICIES FOR NON-AUDIT SERVICES

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

AUDIT PROCESS

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

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

Audit Committee Report continued

INTERNAL AUDIT

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

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

The Committee also reviews the effectiveness of control policies and procedures in place to deal with the risks mentioned. Further details on the business risks identified and the actions being taken are set out on pages 10 to 11 of the Operating and Financial Review Report.

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

John Stansfield
Chairman of the Audit Committee
16 June 2020

Remuneration and Nomination Committee Report

As Chairman of the Remuneration and Nomination Committee ('the Committee'), I am pleased to present our report for the year ended 31 March 2020 which sets out details of the composition, structure and activities of the Committee and remuneration paid to Directors during the year.

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

MEMBERSHIP

The Committee currently comprises two independent Non-Executive Directors, John Stansfield and myself, James Wilson, whose biographies are set out on page 14.

MEETINGS AND ATTENDANCE

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

DUTIES

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

Remuneration

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

Nomination

- regularly review the structure, size and composition, (including the skills, experience, knowledge and diversity) of the Board and make recommendations to the Board as to any changes necessary;
- give full consideration to succession planning for Directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Company and the skills and expertise needed on the Board in the future;
- lead the process for all potential appointments to the Board and making recommendations to the Board in relation to them; and
- evaluate the balance of skills, experience, independence and knowledge on the Board; and following any evaluation, identify and nominate for approval by the Board, potential candidates to fill Board vacancies as and when they arise.

PRINCIPAL ACTIVITIES DURING THE YEAR

The Committee considered:

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

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

DIVERSITY

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

The Board recognises the benefits of diversity, including gender diversity, on the Board, although it believes that all appointments should be made on merit, while ensuring there is an appropriate balance of skills and experience within the Board. The Board currently consists of 25% (one) female and 75% (three) male Board members. The Board's age demographic ranges from 34 to 65. The business consists of 66% male employees and 34% female employees.

Remuneration and Nomination Committee Report continued

REMUNERATION POLICY

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

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

EXECUTIVE DIRECTORS

Base salary

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

Annual bonus

Executive Directors do not receive annual bonuses.

Long-Term Incentive Plan

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

Other benefits

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

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

Service agreements and termination payments

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

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

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

Employees' pay

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

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

NON-EXECUTIVE DIRECTORS

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

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

Terms of appointment

Each of the Non-Executive Directors signed a letter of appointment for an initial period of two years which can be terminated by either party giving to the other prior written notice of three month(s). John Stansfield signed a letter on 2 January 2018 and James Wilson signed his on 1 August 2017. The contract continues as long as the Non-Executive Directors are re-elected at the AGM. Both John Stansfield and myself were re-elected at the last AGM in September 2019.

James Wilson

Chairman of the Remuneration and Nomination Committee

16 June 2020

Directors and Corporate Information

DIRECTORS

John Stansfield
Non-Executive Chairman

Lyndon Davies
Chief Executive

Kirstie Gould
Chief Finance Officer

James Wilson
Non-Executive Director

Kirstie Gould
Company Secretary

The full details of all Directors who served in the year ended 31 March 2020 can be found on page 14.

REGISTERED OFFICE

Enterprise Road
Westwood Industrial Estate
Margate
Kent CT9 4JX

COMPANY REGISTERED NUMBER

Registered in England Number: 01547390

INDEPENDENT AUDITORS

Independent Auditors
Crowe U.K. LLP
Riverside House
40–46 High Street
Maidstone
Kent ME14 1JH

SOLICITORS

Taylor Wessing LLP
5 New Street Square
London EC4A 3TW

PRINCIPAL BANKERS

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

FINANCIAL ADVISORS AND BROKERS

Liberum Capital Limited
Ropemaker Place
25 Ropemaker Street
London EC2Y 9LY

REGISTRARS AND TRANSFER AGENTS

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Directors' Report

The Directors present their Annual Report together with the audited consolidated and Company Financial Statements for the year ended 31 March 2020.

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

PRINCIPAL ACTIVITIES

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

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

RESULTS AND DIVIDENDS

The results for the year ended 31 March 2020 are set out in the Group Statement of Comprehensive Income. Revenue for the year was £37.8 million compared to £32.8 million last year. The loss for the year attributable to equity holders amounted to £3.4 million (2019: £5.3 million loss). The position of the Group and Company is set out in the Group and Company Statements of Financial Position. Future developments are set out within the CEO Statement.

No interim dividend was declared in the year (2019: £nil) and the Directors do not recommend a final dividend (2019: £nil).

GOING CONCERN

The Group has in place a £12.0 million Asset Based Lending (ABL) facility with PNC Credit Limited through to June 2023. The PNC Covenants are customary operational covenants applied on a monthly basis. In addition, the Group entered a committed £9.0 million loan facility with Phoenix Asset Management Partners Limited (the Group's largest shareholder) if it should be required which is a three-year rolling facility.

A Placing and Open Offer of 41,666,666 new ordinary shares at a price of 36p each, raising £14.7 million net of costs, was completed on 12 March 2020 with the funds being used to accelerate product development and additional capital expenditure, to invest in digital marketing, upgrade central systems and strengthen the Group's balance sheet.

The Group has prepared trading and cash flow forecasts for a period of three years, which have been reviewed and approved by the Board. On the basis of these forecasts, the facilities with PNC and Phoenix, the recent equity raise of £14.7 million and after a detailed review of trading, financial position and cash flow models (taking COVID-19 into account), the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the annual Financial Statements.

RESEARCH AND DEVELOPMENT

The Board considers that research and development into products continues to play an important role in the Group's success. R&D costs of £1.2 million (see note 4) incurred in the year have been charged to the Statement of Comprehensive Income as these costs all relate to research activities.

DIRECTORS' INDEMNITIES

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

SUBSTANTIAL SHAREHOLDINGS

The Company has been notified that at close of business on 15 June 2020 the following parties were interested in 3% or more of the Company's ordinary share capital.

Shareholder	Number of ordinary shares	Percentage held
Phoenix Asset Management	124,634,330	74.66
Artemis Fund Managers Limited	27,551,350	16.50

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the Financial Statements;

- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

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

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

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

DIRECTORS' CONFIRMATIONS

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

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

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

FINANCIAL INSTRUMENTS

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

The Group also enters into derivatives transactions (principally forward foreign currency contracts). The purpose of such transactions is to manage the currency risks arising from the Group's operations. It is, and has been throughout the period under review, the Group's policy that no speculative trading in financial instruments shall be undertaken.

FINANCIAL RISK MANAGEMENT

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

PERSONNEL POLICIES

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

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

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

Our commitments are:

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

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

ARTICLES OF ASSOCIATION

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

Directors' Report continued

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. Ordinary shareholders are entitled to receive notice and to attend and speak at general meetings.

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

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

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

AUTHORITY TO PURCHASE OWN SHARES

The Company was authorised by shareholder resolution at the 2019 Annual General Meeting to purchase up to 10% of its issued share capital. A resolution will be proposed at the forthcoming Annual General Meeting and authority sought to purchase up to 10% of its issued share capital. Under this authority, any shares purchased must be held as treasury shares or, otherwise, cancelled resulting in a reduction of the Company's issued share capital.

No shares were purchased by the Company during the year.

CHANGE OF CONTROL – SIGNIFICANT AGREEMENTS

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

POLITICAL DONATIONS

The Company has made no political donations during the year.

INDEPENDENT AUDITORS

During the year a decision was made to change auditors from PricewaterhouseCoopers LLP to Crowe U.K. LLP. A resolution to reappoint the auditors, Crowe U.K. LLP, will be proposed at the forthcoming Annual General Meeting.

ANNUAL GENERAL MEETING

The Annual General Meeting is to be scheduled for 23 September 2020. Due to the COVID-19 outbreak and our duty to our employees we will be holding a virtual AGM this year. A notice of the Annual General Meeting will be sent out to shareholders separately to this Annual Report and Accounts.

DIRECTORS' REMUNERATION

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

The following table summarises the total salary and pension contributions received by Directors for 2019-20 and 2018–19 in line with the Companies Act 2006 requirement:

AUDITED

	Year ended 31 March 2020			Year ended 31 March 2019		
	Basic salary, allowances and fees £'000	Pension contributions £'000	Total salary and pension contributions £'000	Basic salary, allowances and fees £'000	Pension contributions £'000	Total salary and pension contributions £'000
L Davies (Appointed 5 October 2017)	222	–	222	226	–	226
K Gould (Appointed 4 January 2018)	136	25	161	136	25	161
J Wilson (Appointed 1 August 2017)	–	–	–	–	–	–
J Stansfield (Appointed 4 January 2018)	70	–	70	56	–	56
M George[1] (Resigned 9 November 2018)	–	–	–	32	–	32
Total	428	25	453	450	25	475

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

Performance Share Plan awards outstanding (Audited)

At 31 March 2020, there are no schemes in place.

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

Benefits and Pension (Unaudited)

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

Executive Directors' service contracts (Unaudited)

Executive Directors do not have fixed period contracts.

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

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

DIRECTORS' INTERESTS

Interests in shares (Audited)

Interests of the Directors in the shares of the Company at 31 March 2020 and 31 March 2019 were:

	At 31 March 2020 number	At 31 March 2019 number
Executive Directors		
L Davies	795,144	596,670
K Gould	55,006	41,276
Non-Executive Directors		
M George	–	–
J Wilson	41,311	31,000
J Stansfield	85,358	64,052

All the interests detailed above are beneficial. Apart from the interests disclosed above no Directors were interested at any time in the year in the share capital of any other Group Company. James Wilson is also a partner at Phoenix Asset Management Partners Limited who hold a substantial shareholding in Hornby PLC.

On behalf of the Board

K Gould

Kirstie Gould

Chief Finance Officer

Westwood
Margate
CT9 4JX

16 June 2020

Independent Auditors' Report to the Members of Hornby PLC

OPINION

We have audited the financial statements of Hornby Plc (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 March 2020 which comprise:

- the Group and parent company statements of comprehensive income for the year ended 31 March 2020;
- the Group and parent company statements of financial position as at 31 March 2020;
- the Group and parent company statements of cash flows for the year then ended;
- the Group and parent company statements of changes in equity for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2020 and of the Group's and Parent's loss for the period then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

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

OVERVIEW OF OUR AUDIT APPROACH

Materiality

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified.

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be £215,000 (FY19 £310,000), based on loss before tax.

Overall company materiality was set at £200,000 based on net assets, restricted so as not to exceed group materiality.

Subsidiary materiality (covering Hornby Hobbies and the European sales offices and US trading subsidiaries) was set at £180,000.

We use a different level of materiality ('performance materiality') to determine the extent of our testing for the audit of the financial statements. Performance materiality is set based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment.

Where considered appropriate performance materiality may be reduced to a lower level, such as, for related party transactions and directors' remuneration.

We agreed with the Audit Committee to report to it all identified errors in excess of £10,000 (2019: £10,000). Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

OVERVIEW OF THE SCOPE OF OUR AUDIT

We performed an audit of the complete financial information of two full scope components, Hornby Plc and Hornby Hobbies Limited. The European sales offices and US trading subsidiary were audited using a component materiality level of £180,000 for the purposes of the consolidation only. No separate audit opinion will be issued on these entities.

KEY AUDIT MATTERS

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

This is not a complete list of all risks identified by our audit.

Key audit matter	How the scope of our audit addressed the key audit matter
Carrying value of goodwill and intangibles The group holds goodwill at a carrying value of £4.5m and brand relations at a carrying value of £1.7m. The parent company also holds significant investments and debtor balances with group companies. Recovery of these assets is dependent upon future cash flows which are required to be discounted. There is a risk that forecasts for these future cash flows are not met or that the cash flows have not been discounted at an appropriate rate. If the cash flows do not meet expectations the assets may become impaired.	We reviewed management's impairment review which includes impairment reviews for investments, goodwill and intangible assets. The reviews relied on forecasts of future cash flows based on board approved forecasts. We challenged management on the assumptions made, including the forecast growth rate, profitability and terminal growth rates applied. We also challenged management on the discount rate applied to these forecasts. This review was conducted with the support of our valuations team. As part of our review we *benchmarked assumptions such as the terminal growth rate and inputs into the* calculation of the cost of capital (discount rate). We also considered the recoverability of intercompany debt in the parent company financial statements.
Inventory provisioning The group was holding £14.2m of inventory at the year end. There was considered to be a risk that old inventory may become difficult to sell and thereby become impaired.	We obtained the aged inventory reports and recalculated the provision. We reviewed assumptions made in comparison to the prior year and challenged management where assumptions had either changed or no longer appeared appropriate. We compared the aging of stock year on year to consider if stock was getting older and questioned management on the increase in stock from the prior year. For a sample of inventory items we reviewed sales post year end to consider if any items were being valued below cost.

Independent Auditors' Report to the Members of Hornby PLC continued

Key audit matter	How the scope of our audit addressed the key audit matter
Going concern Due to the losses generated by the group and the emergence of Coronavirus there was considered to be a risk that the group and company are unable to continue as a going concern.	We reviewed the cash flow model provided by management and challenged the assumptions made. Management are forecasting continued growth along with a return to profitability in future periods. Our assessment therefore considered if this was feasible in light of past losses and recent economic conditions. In making our assessment we considered the accuracy of past budgeting since the new management team took over, as well as a review of the April numbers against forecast. We also considered the cash position of the business noting the £15m share issue received in March 2020, part of which has been made to repay debt.
Revenue recognition Auditing standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. We do not consider it appropriate to rebut this presumption given the level of revenue is material to the group.	We reviewed the revenue recognition process and found the policy to be in accordance with IFRS 15. We performed detailed testing by selecting a sample of sales made in the year and agreeing these through to invoices, despatch records and ultimately cash received. We tested a sample of sales around the year end to ensure that cut off was working appropriately.

Our audit procedures in relation to these matters were designed in the context of our audit opinion as a whole. They were not designed to enable us to express an opinion on these matters individually and we express no such opinion.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion based on the work undertaken in the course of our audit

- 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 directors' report and strategic report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the directors' responsibilities statement set out on page 24 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

USE OF OUR REPORT

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Sisson

Mark Sisson (Senior Statutory Auditor)
for and on behalf of Crowe U.K. LLP
Riverside House
40-46 High Street
Maidstone
Kent ME14 1JH

16 June 2020

Group and Company Statements of Comprehensive Income

for the Year Ended 31 March 2020

		Group		Company	
	Note	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Revenue	2	37,842	32,759	1,065	1,104
Cost of sales		(21,140)	(19,348)	–	–
Gross profit		16,702	13,411	1,065	1,104
Distribution costs		(5,787)	(6,177)	–	–
Selling and marketing costs		(8,153)	(6,826)	–	–
Administrative expenses		(5,685)	(4,812)	(1,069)	(1,078)
Other operating expenses	4	181	(226)	–	–
Operating (loss)/profit before Exceptional items	4	(2,742)	(4,630)	(4)	26
Exceptional items	4	(75)	(593)	(6,051)	(103)
Operating loss	2	(2,817)	(5,223)	(6,055)	(77)
Finance income	3	3	7	175	175
Finance costs	3	(615)	(177)	(217)	(217)
Net finance expense	3	(612)	(170)	(42)	(42)
Share of profit of investments accounted for using the equity method	11	34	81	34	81
Loss before taxation	4	(3,395)	(5,312)	(6,063)	(38)
Income tax credit	5	–	–	–	–
Loss for the year after taxation		(3,395)	(5,312)	(6,063)	(38)
Other comprehensive income					
Items that may be subsequently reclassified to profit or loss:					
Cash flow hedges, net of tax		247	292	–	–
Currency translation (losses)/gains		(332)	(45)	(119)	77
Other comprehensive (loss)/income for the year, net of tax		(85)	247	(119)	77
Total comprehensive (loss)/income for the year		(3,480)	(5,065)	(6,182)	39
Loss per ordinary share					
Basic	7	(2.67)p	(4.24)p		
Diluted	7	(2.67)p	(4.24)p		

All results relate to continuing operations.

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

Group and Company Statements of Financial Position

as at 31 March 2020

		Group		Company	
	Note	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Assets					
Non-current assets					
Goodwill	8	4,564	4,563	–	–
Intangible assets	9	2,824	3,190	–	–
Property, plant and equipment	10	4,165	3,783	–	–
Investments	11	1,730	1,696	23,415	23,381
Right of Use Assets	12	2,573	–	–	–
Deferred tax assets	20	2,030	2,030	–	–
		17,886	15,262	23,415	23,381
Current assets					
Inventories	13	14,235	10,860	–	–
Trade and other receivables	14	6,525	7,180	48,454	33,506
Derivative financial instruments	19	116	25	–	–
Cash and cash equivalents	15	5,921	704	2	1
		26,797	18,769	48,456	33,507
Liabilities					
Current liabilities					
Borrowings	18	–	(1,893)	–	–
Trade and other payables	16	(4,889)	(5,472)	(6,596)	(265)
Lease liabilities	17	(384)	–	–	–
Derivative financial instruments	19	–	(156)	–	–
		(5,273)	(7,521)	(6,596)	(265)
Net current assets		21,524	11,248	41,860	33,242
Non-current liabilities					
Borrowings	18	–	(561)	(5,907)	(5,759)
Lease liabilities	17	(2,255)	–	–	–
Deferred tax liabilities	20	(150)	(150)	–	–
		(2,405)	(711)	(5,907)	(5,759)
Net assets		37,005	25,799	59,368	50,864
Equity attributable to owners of the parent					
Share capital	21	1,669	1,253	1,669	1,253
Share premium		52,857	38,587	52,857	38,587
Capital redemption reserve	23	55	55	55	55
Translation reserve	23	(1,802)	(1,470)	(1,262)	(1,143)
Hedging reserve	23	116	(131)	–	–
Other reserves	23	1,688	1,688	19,145	19,145
Accumulated losses		(17,578)	(14,183)	(13,096)	(7,033)
Total equity		37,005	25,799	59,368	50,864

The notes on page 36 to 67 form part of these accounts. The Financial Statements on pages 32 to 67 were approved by the Board of Directors on 16 June 2020 and were signed on its behalf by:

K Gould

K Gould

Director

Registered Company Number: 01547390

Group and Company Statements of Changes in Equity

for the Year Ended 31 March 2020

GROUP	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Translation reserve £'000	Hedging reserve £'000	Other reserves £'000	Retained earnings/ (accumulated losses) £'000	Total equity £'000
Balance at 31 March 2018 and 1 April 2018	1,253	38,587	55	(1,425)	(423)	1,688	(8,871)	30,864
Loss for the year	–	–	–	–	–	–	(5,312)	(5,312)
Other comprehensive expense for the year	–	–	–	(45)	292	–	–	247
Total comprehensive (expense)/income for the year	–	–	–	(45)	292	–	(5,312)	(5,065)
Balance at 31 March and 1 April 2019	1,253	38,587	55	(1,470)	(131)	1,688	(14,183)	25,799
Loss for the year	–	–	–	–	–	–	(3,395)	(3,395)
Other comprehensive (expense)/income for the year	–	–	–	(332)	247	–	–	(85)
Total comprehensive (expense)/income for the year	–	–	–	(332)	247	–	(3,395)	(3,480)
Transactions with owners								
Net proceeds from issue of ordinary shares	416	14,270	–	–	–	–	–	14,686
Total transactions with owners	416	14,270	–	–	–	–	–	14,686
Balance at 31 March 2020	1,669	52,857	55	(1,802)	116	1,688	(17,578)	37,005

COMPANY	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Translation reserve £'000	Other reserves £'000	Retained earnings/ (accumulated losses) £'000	Total equity £'000
Balance at 31 March 2018 and 1 April 2018	1,253	38,587	55	(1,220)	19,145	(6,995)	50,825
Loss for the year	–	–	–	–	–	(38)	(38)
Other comprehensive expense for the year	–	–	–	77	–	–	77
Total comprehensive (expense)/income for the year	–	–	–	77	–	(38)	39
Balance at 31 March and 1 April 2019	1,253	38,587	55	(1,143)	19,145	(7,033)	50,864
Loss for the year	–	–	–	–	–	(6,063)	(6,063)
Other comprehensive income for the year	–	–	–	(119)	–	–	(119)
Total comprehensive income/(expense) for the year	–	–	–	(119)	–	(6,063)	(6,182)
Transactions with owners							
Net proceeds from issue of ordinary shares	416	14,270	–	–	–	–	14,686
Total transactions with owners	416	14,270	–	–	–	–	14,686
Balance at 31 March 2020	1,669	52,857	55	(1,262)	19,145	(13,096)	59,368

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

Group and Company Cash Flow Statements

for the Year Ended 31 March 2020

		Group		Company	
	Note	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Cash flows from operating activities					
Cash (used in)/generated from operations	27	(3,241)	(2,805)	(14,672)	52
Interest paid		(446)	(116)	(217)	(217)
Interest element of lease payments		(169)	–	–	–
Net cash (used in) operating activities		(3,856)	(2,921)	(14,889)	(165)
Cash flows from investing activities					
Purchase of property, plant and equipment	10	(2,481)	(2,144)	–	–
Purchase of intangible assets	9	(237)	(512)	–	–
Interest received		3	7	175	175
Net cash (used in)/generated from investing activities		(2,715)	(2,649)	175	175
Cash flows from financing activities					
Proceeds from issuance of ordinary shares		15,000	–	15,000	–
Share issue costs		(314)	–	(314)	–
Net (repayments to)/proceeds from ABL facility		(1,893)	1,893	–	–
Proceeds from shareholder loan		7,776	500	–	–
Repayment of shareholder loan		(8,337)	–	–	–
Payment of lease liability		(462)	–	–	–
Advances to subsidiary undertakings		–	–	29	(13)
Net cash generated from/(used in) financing activities		11,770	2,393	14,715	(13)
Net increase/(decrease) in cash and cash equivalents		5,199	(3,177)	1	(3)
Cash and cash equivalents at the beginning of the year		704	3,878	1	4
Effect of exchange rate movements		18	3	–	–
Cash and cash equivalents		5,921	704	2	1
Cash and cash equivalents consist of:					
Cash and cash equivalents	15	5,921	704	2	1
Cash and cash equivalents at the end of the year		5,921	704	2	1

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

Accounting policies for the year ended 31 March 2020

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 Statements are presented in Sterling, which is the Parent's functional currency and the Group's presentation currency. The figures shown in the Financial Statements are rounded to the nearest thousand pounds.

The financial information for the year ended 31 March 2020 has been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU'), IFRS Interpretations Committee ('IFRS-IC') interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated Group and Parent Company Financial Statements have been prepared on a going concern basis and under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

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

Going concern

The Group has in place a £12.0 million Asset Based Lending (ABL) facility with PNC Credit Limited through to June 2023. The PNC Covenants are customary operational covenants applied on a monthly basis. In addition, the Group entered a committed £9.0 million loan facility with Phoenix Asset Management Partners Limited (the Group's largest shareholder) if it should be required which is a three-year rolling facility.

A Placing and Open Offer of 41,666,666 new ordinary shares at a price of 36p each, raising £14.7 million net of costs, was completed on 12 March 2020 with the funds being used to accelerate product development and additional capital expenditure, to invest in digital marketing, upgrade central systems and strengthen the Group's balance sheet.

The Group has prepared trading and cash flow forecasts for a period of three years, which have been reviewed and approved by the Board. On the basis of these forecasts, the facilities with PNC and Phoenix, the recent equity raise of £14.7 million and after a detailed review of trading, financial position and cash flow models (taking COVID-19 into account), the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the annual Financial Statements.

Basis of consolidation

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

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

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

Adoption of new and revised standards

The Group applies for the first time IFRS 16 'Leases'.

IFRS 16 'Leases' (effective date 1 January 2019)

The Group has adopted IFRS 16 'Leases' as of 1 April 2019. The modified retrospective approach was applied on transition. Prior period comparatives have not been restated, and there was no adjustment to equity on transition.

IFRS 16 requires the capitalisation of operating leases, such as the Group's building and vehicle leases, as right-of-use leased assets with an offsetting financial liability. The Group has elected to measure the right-of-use leased assets at an amount equal to the lease liabilities. Right-of-use assets and liabilities are presented separately in the Statement of Financial Position. On transition to IFRS 16 the weighted average incremental borrowing rate used to measure lease liabilities was 5.96%.

In the Group Statement of Comprehensive Income the previous rental charge has been replaced with a combination of depreciation from the right-of-use leased assets and an interest charge from the lease liabilities. Further details on the right-of-use assets and liabilities are in notes 12 and 17 respectively.

The impact on transition is as follows:

GROUP	£'000
Total operating lease commitments as disclosed 31 March 2019	3,692
Adjustments to commitments disclosure	723
Right of use lease liability before discounting	4,415
Discount using incremental borrowing rate	(1,406)
Right of use lease liabilities recognised at 1 April 2019	3,009

The adjustments to commitments disclosure above relates to the incorrect calculation of operating lease commitments for properties in the prior year accounts.

The effect on the year end 31 March 2020 is as follows:

GROUP	£'000
Rental lease charges under IAS 17	631
Depreciation of right of use leased assets	(528)
Increase in operating profit due to IFRS 16	103
Interest charge on right of use liabilities	(169)
Decrease in profit before tax due to IFRS 16	(66)
Decrease in earnings per share due to IFRS 16	(0.05p)

In the year of adoption operating profit increases, but profit before tax decreases, and earnings per share is reduced. Assuming no further changes to the Group's leases, the increase in operating profit will endure, however in future years the interest charge will reduce as the discount unwinds.

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

Notes to the Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition

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

Revenue is recognised as follows:

(a) Sale of goods

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

(b) Royalty income

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

(c) Sales returns

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

(d) Hornby Visitor Centre

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

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

Exceptional items

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

Operating segments

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

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

Business combinations

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

Associate with equity accounting

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

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

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

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

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

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

Goodwill

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

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

Intangibles

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

(a) Brand names

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

(b) Customer lists

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

(c) Computer software

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

Property, plant and equipment

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

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

Plant and equipment	– 5 to 10 years
Motor vehicles	– 4 years

Tools and moulds are depreciated at varying rates in line with the related product production 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 in associates are recognised using the equity method of accounting, where the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the profits or losses of the investee. Dividend income is shown separately in the Statement of Comprehensive Income.

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 comprise item cost, freight and any product specific development costs.

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

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

Financial instruments

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

Trade receivables

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

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 12 months before 31 March 2020 and the corresponding historical credit losses experienced within this period.

Financial liabilities and equity

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

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

Refund liability

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

Cash and cash equivalents

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

Borrowing costs

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

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

Trade payables

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

Taxation including deferred tax

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

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

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

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

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

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

Employee benefit costs

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

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

Further information on pension costs and the scheme arrangements is provided in note 25.

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

Notes to the Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES continued

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.

Financial risk management

Financial risk factors

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

(a) Foreign exchange risk

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

(b) Interest rate risk

The Group finances its operations through a mixture of retained profits, Asset Based lending facilities and shareholder loans. The Group borrows, principally in Sterling, at floating rates of interest to meet short-term funding requirements. At the year end the Group's borrowings comprised a revolving credit facility, bank overdrafts and a fixed-term loan agreement.

(c) Credit risk

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

(d) Liquidity risk

At 31 March 2020 the UK had a £12 million Asset Based Lending facility with PNC Credit Limited and a £9 million loan facility with Phoenix Asset Management Partners. The funding needs are determined by monitoring forecast and actual cash flows. The Group regularly monitors its performance against its banking covenants to ensure compliance.

Derivative financial instruments

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

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

(a) Cash flow hedge

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

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

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

(b) Derivatives that do not qualify for hedge accounting

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

Fair value estimation

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

The fair values of the derivative financial instruments used for hedging purposes are disclosed in note 19.

Foreign currency

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

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

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

Dividend distribution

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

Critical estimates and judgements in applying the accounting policies

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

Critical accounting estimates and assumptions:

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

Notes to the Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES continued

(a) Impairment of goodwill, intangibles and investments

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

Other estimates and assumptions:

(a) Inventory provision

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

(b) Receivables provision

The Group reviews the amount of credit loss associated with its trade receivables, intercompany receivables and other receivables based on forward looking estimates that consider current and forecast credit conditions as opposed to relying on past historical default rates.

(c) Fair value of derivatives

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

(d) Refund liability

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

(e) IFRS 16 Estimates

The Group makes judgement to estimate the incremental borrowing rate used to measure lease liabilities based on expected third party financing costs when the interest rate implicit in the lease cannot be readily determined. This is explained further in the Leases accounting policy. Where leases include break dates the management have made a judgement these will not be exercised.

Critical judgements in applying the Group's accounting policies:

(a) Recognition of deferred tax on losses

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

(b) Going concern

The Directors apply judgement to assess whether it is appropriate for the Group to be reported as a going concern by considering the business activities and the Group's principal risks and uncertainties. Details of the consideration made are included within the Directors' Report (page 24) and the basis of preparation (page 36).

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

Other judgements in applying the Group's accounting policies:

(a) Equity accounting for LCD Enterprises Limited

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

2. SEGMENTAL REPORTING

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

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

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

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

Year ended 31 March 2020

		UK £'000	USA £'000	Spain £'000	Italy £'000	Rest of Europe £'000	Total Reportable Segments £'000	Intra Group £'000	Group £'000
Revenue	– External	28,622	3,263	1,199	1,469	3,289	37,842	–	37,842
	– Other segments	3,088	–	–	–	–	3,088	(3,088)	–
Operating (loss)/profit		(1,794)	(1,015)	(18)	11	(1)	(2,817)	–	(2,817)
Finance income	– External	3	–	–	–	–	3	–	3
	– Other segments	605	–	–	130	–	735	(735)	–
Finance costs	– External	(579)	(29)	(2)	(3)	(2)	(615)	–	(615)
	– Other segments	(303)	–	(217)	(142)	(73)	(735)	735	–
Share of profit of investments accounted for using the equity method		34	–	–	–	–	34	–	34
(Loss) before taxation		(2,034)	(1,044)	(237)	(4)	(76)	(3,395)	–	(3,395)
Taxation								–	
(Loss) for the year		(2,034)	(1,044)	(237)	(4)	(76)	(3,395)	–	(3,395)
Segment assets		56,516	2,913	6,101	(128)	4,374	69,776	–	69,776
Less intercompany receivables		(17,484)	(63)	(5,968)	(29)	(3,579)	(27,123)	–	(27,123)
Add tax assets		2,095	–	–	(65)	–	2,030	–	2,030
Total assets		41,127	2,850	133	(222)	795	44,683	–	44,683
Segment liabilities		(15,552)	(6,841)	(5,163)	(744)	(6,651)	(34,951)	–	(34,951)
Less intercompany payables		8,655	6,347	5,064	524	6,533	27,123	–	27,123
Add tax liabilities		150	–	–	–	–	150	–	150
Total liabilities		(6,747)	(494)	(99)	(220)	(118)	(7,678)	–	(7,678)
Other segment items									
Capital expenditure		2,461	16	1	3	–	2,481	–	2,481
Depreciation		2,076	15	6	3	–	2,100	–	2,100
Net foreign exchange on intercompany loans		(148)	–	–	–	–	(148)	–	(148)
Amortisation of intangible assets		603	–	–	–	–	603	–	603

All transactions between Group companies are on normal commercial terms.

Notes to the Financial Statements continued

2. SEGMENTAL REPORTING continued

Year ended 31 March 2019

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

All transactions between Group companies are on normal commercial terms.

3. NET FINANCE EXPENSE

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Finance costs:				
Interest expense on borrowings	(165)	(116)	–	–
Interest expense on shareholder loan	(281)	(61)	–	–
Interest element of leases	(169)	–	–	–
Interest expense on intercompany borrowings	–	–	(217)	(217)
	(615)	(177)	(217)	(217)
Finance income:				
Bank interest	3	7	–	–
Interest income on intercompany loans	–	–	175	175
	3	7	175	175
Net finance expense	(612)	(170)	(42)	(42)

4. LOSS BEFORE TAXATION

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
The following items have been included in arriving at loss before taxation:				
Staff costs (note 24)	8,014	7,042	513	514
Inventories:				
– Cost of inventories recognised as an expense (included in cost of sales)	18,240	15,464	–	–
– Increase in stock provision	186	35	–	–
Depreciation of property, plant and equipment:				
– Owned assets	2,100	2,855	–	–
– Leased assets	528	–	–	
Profit/(loss) on disposal of fixed assets	–	1	–	–
Other operating lease rentals payable:				
– Plant and machinery	–	93	–	–
– Property	–	773	–	–
Repairs and maintenance expenditure on property, plant and equipment	75	71	–	–
Research and development expenditure	1,244	1,011	–	–
Increase in impairment of trade receivables	(118)	(290)	–	–
Other operating expenses/(income):				
– Foreign exchange on trading transactions	(260)	(120)	–	–
– Net impact of foreign exchange on intercompany loans	(148)	(90)	–	–
– Amortisation of intangible assets – brands and customer lists	227	227	–	–

Notes to the Financial Statements continued

4. LOSS BEFORE TAXATION continued

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Exceptional items comprise:				
– Restructuring costs	71	49	24	26
– Refinancing	7	172	–	–
– Relocation	–	372	7	77
– Coronavirus impact	(3)	–	–	–
– Impairment of receivable	–	–	6,020	–
	75	593	6,051	103

The exceptional items totalling £75,000 (2019: £593,000) include restructuring costs relating to redundancy costs and professional fees relating to refinance of the Group.

The Company's exceptional items include £6,020,000 (2019: nil). Hornby Plc have issued a guarantee against intercompany debts due to Hornby Hobbies Limited. A liability has been recognised for the expected cash outflow in order to settle these debts. The expense has been recorded as an exceptional cost.

Services provided by the Company's auditors and network firms

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

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Fees payable to the Company's auditors for the audit of Parent Company and consolidated accounts	30	62	10	10
Fees payable to the Company's auditors and its associates for other services:				
– The auditing of accounts of the Company's subsidiaries	36	26	–	–
– Audit-related assurance services	–	5	–	–
	66	93	10	10

Prior year fees relate to the previous auditors, PricewaterhouseCoopers. Current year subsidiary fees relate to Hornby Italia s.r.l.. The audit of Hornby Hobbies Limited is included with the £66,000 and not separately split out.

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

5. INCOME TAX (CREDIT)/CHARGE

Analysis of tax (credit)/charge in the year

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Current tax	–	–	–	–
Deferred tax (note 20)	–	–	–	–
Origination and reversal of temporary differences	221	–	–	–
Effect of tax rate change on opening balance	(221)	–	–	–
Total tax credit to the loss before tax	–	–	–	–

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

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Loss before taxation	(3,395)	(5,312)	(43)	(38)
Loss on ordinary activities multiplied by rate of Corporation tax in UK of 19% (2018: 19%)	(645)	(1,009)	(8)	(7)
Effects of:				
Permanent differences	20	(3)	–	–
Non-taxable income	(6)	(15)	(6)	(15)
Difference on overseas rates of tax	(33)	(49)	–	–
Deferred tax not recognised	885	1,069	14	22
Remeasurement of deferred tax	(221)	7	–	–
Total taxation	–	–	–	–

The Company's profits for this accounting year are taxed at an effective rate of 19%. The UK corporation tax rate was due to decrease further to 17% on 1 April 2020 however the rate has been kept at 19%, being substantively enacted on 17 March 2020.

UK deferred tax balances have been restated in these accounts and carried forward at a rate of 19% from 1 April 2020.

Unrecognised deferred tax relates to UK and overseas subsidiaries and is not recognised except to the extent of the movement in the change in tax rate noted above. This is due to the Directors taking the view that it would be inappropriate to recognise further deferred tax assets relating to losses until taxable profits are being delivered by the Group. More detail can be found in note 20.

6. DIVIDENDS

No interim or final dividends were paid in relation to the year ended 31 March 2019 and no interim dividend has been paid in relation to the year ended 31 March 2020. The Directors are not proposing a final dividend in respect of the financial year ended 31 March 2020.

7. LOSS PER SHARE

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

For diluted loss per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares that have satisfied the appropriate performance criteria at 31 March 2020. For the year ended 31 March 2020, there was no difference in the weighted average number of shares used for basic and diluted net loss because there are no outstanding share options.

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

Notes to the Financial Statements continued

7. LOSS PER SHARE continued

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

	2020			2019		
	(Loss)/ earnings £'000	Weighted average number of shares '000s	Per-share amount pence	(Loss)/ earnings £'000	Weighted average number of shares '000s	Per-share amount pence
REPORTED						
Basic loss per share						
Loss attributable to ordinary shareholders	(3,395)	127,196	(2.67)	(5,312)	125,261	(4.24)
Effect of dilutive securities	–	–	–	–	–	–
Diluted loss per share	(3,395)	127,196	(2.67)	(5,312)	125,261	(4.24)
UNDERLYING						
Loss attributable to ordinary shareholders	(3,395)	127,196	(2.67)	(5,312)	125,261	(4.24)
Amortisation of intangibles	184	–	0.14	184	–	0.15
Restructuring costs	58	–	0.05	40	–	0.03
Coronavirus impact	(2)	–	0.00	–	–	–
Refinancing	6	–	0.00	140	–	0.11
Relocation	–	–	–	302	–	0.24
Net foreign exchange translation adjustments	(120)	–	(0.09)	73	–	0.06
Underlying basic loss/EPS	(3,270)	127,196	(2.57)	(4,573)	125,261	(3.65)
Underlying diluted loss/EPS	(3,270)	127,196	(2.57)	(4,573)	125,261	(3.65)

The above numbers used to calculate the EPS for the year ended 31 March 2020 and 31 March 2019 have been tax effected at the rate of 19%.

8. GOODWILL

GROUP	£'000
COST	
At 1 April 2019	13,054
Exchange adjustments	1
At 31 March 2020	13,055
AGGREGATE IMPAIRMENT	
At 1 April 2019 and 31 March 2020	8,491
Net book amount at 31 March 2020	4,564
COST	
At 1 April 2018	13,055
Exchange adjustments	(1)
At 31 March 2019	13,054
AGGREGATE IMPAIRMENT	
At 1 April 2018 and 31 March 2019	8,491
Net book amount at 31 March 2019	4,563
Net book amount at 31 March 2018	4,564

The Company has no goodwill.

The goodwill has been allocated to cash-generating units and a summary of carrying amounts of goodwill by geographical segment (representing cash-generating units) at 31 March 2020 and 31 March 2019 is as follows:

GROUP	UK £'000	USA £'000	France £'000	Germany £'000	Total £'000
At 31 March 2020	3,992	10	364	198	4,564
At 31 March 2019	3,992	9	364	198	4,563

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

Impairment tests for goodwill

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

The relative risk adjusted (or 'beta') discount rate applied reflects the risk inherent in hobby based product companies. In determining this discount rate, management has applied an adjustment for risk of such companies in the industry on average determined using the betas of comparable hobby based product companies. The 31 March 2020 forecasts are based on a four-year business plan for the years ending 31 March 2021 to 31 March 2024. The 31 March 2019 forecasts are based on a three-year business plan for the years ending 31 March 2020 to 31 March 2022. Cash flows beyond these years are extrapolated using an estimated 2.0% year on year growth rate. The cash flows were discounted using a pre-tax discount rate of 9.9% (2019: 12.3%) which management believes is appropriate for all territories.

The key assumptions used for value-in-use calculations for the year ended 31 March 2020 are as follows:

GROUP	UK (Corgi)	UK (Airfix & Humbrol)	France	Spain	Italy	Germany
Gross Margin[1]	61.0%	61.1%	58.7%	n/a	n/a	54.6%
Growth rate to perpetuity[2]	2.0%	2.0%	2.0%	n/a	n/a	2.0%

1 Average of the variable yearly gross margins used over the period 20'21 to 27'28.

2 Weighted average growth rate used to extrapolate cash flows beyond the budget period reflecting the long-term future growth rate of the economy.

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

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

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

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

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

For the UK CGU, the recoverable amount calculated based on value in use exceeded carrying value by £13.9 million. A reduction of the average gross margin to respectively 56.9% for Corgi and 53.7% for Airfix/Humbrol, or a rise in discount rate to respectively 14.6% for *Corgi and 27.7% for Airfix/Humbrol would remove the remaining headroom.*

For the France CGU, the recoverable amount calculated based on value in use exceeded carrying value by £14.3 million. A reduction of the average gross margin to 16.4%, or a rise in discount rate to 240.0% would remove the remaining headroom.

For the Germany CGU, the recoverable amount calculated based on value in use exceeded carrying value by £7.7 million. A reduction of the average gross margin to 15.1%, or a rise in discount rate to 328.0% would remove the remaining headroom.

Notes to the Financial Statements continued

9. INTANGIBLE ASSETS

GROUP	Brand names £'000	Customer lists £'000	Computer Software £'000	Total £'000
INTANGIBLE ASSETS				
COST				
At 1 April 2019	4,914	1,415	3,213	9,542
Additions	–	–	237	237
At 31 March 2020	4,914	1,415	3,450	9,779
ACCUMULATED AMORTISATION				
At 1 April 2019	2,985	1,415	1,952	6,352
Charge for the year	227	–	376	603
At 31 March 2020	3,212	1,415	2,328	6,955
Net book amount at 31 March 2020	1,702	–	1,122	2,824

GROUP	Brand names £'000	Customer lists £'000	Computer Software £'000	Total £'000
INTANGIBLE ASSETS				
COST				
At 1 April 2018	4,914	1,415	2,701	9,030
Additions	–	–	512	512
At 31 March 2019	4,914	1,415	3,213	9,542
ACCUMULATED AMORTISATION				
At 1 April 2018	2,758	1,415	1,489	5,662
Charge for the year	227	–	463	690
At 31 March 2019	2,985	1,415	1,952	6,352
Net book amount at 31 March 2019	1,929	–	1,261	3,190

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

10. PROPERTY, PLANT AND EQUIPMENT

GROUP	Plant and equipment £'000	Motor Vehicle £'000	Tools and moulds £'000	Total £'000
COST				
At 1 April 2019	1,575	54	65,077	66,706
Exchange adjustments	26	1	–	27
Additions at cost	81	–	2,400	2,481
Disposals	(153)	–	–	(153)
At 31 March 2020	1,529	55	67,477	69,061
ACCUMULATED DEPRECIATION				
At 1 April 2019	1,046	37	61,840	62,923
Exchange adjustments	24	1	–	25
Charge for the year	319	4	1,777	2,100
Disposals	(152)	–	–	(152)
At 31 March 2020	1,237	42	63,617	64,896
Net book amount at 31 March 2020	292	13	3,860	4,165

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

GROUP	Plant and equipment £'000	Motor Vehicles £'000	Tools and moulds £'000	Total £'000
COST				
At 1 April 2018	1,567	34	63,252	64,853
Exchange adjustments	11	1	–	12
Additions at cost	300	19	1,825	2,144
Disposals	(303)	–	–	(303)
At 31 March 2019	1,575	54	65,077	66,706
ACCUMULATED DEPRECIATION				
At 1 April 2018	1,175	34	59,155	60,364
Exchange adjustments	6	1	–	7
Charge for the year	168	2	2,685	2,855
Disposals	(303)	–	–	(303)
At 31 March 2019	1,046	37	61,840	62,923
Net book amount at 31 March 2019	529	17	3,237	3,783
Net book amount at 31 March 2018	392	–	4,097	4,489

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

Notes to the Financial Statements continued

11. INVESTMENTS

The Group holds a direct investment in LCD Enterprises Limited ('LCD'), holding 49% of ordinary shares. The company is based in South Wales registered at Unit 6 119 Ystrad Road, Fforestfach, Swansea, Wales, SA5 4JB. This investment is included in the consolidated Financial Statements using the equity method. The last accounts were of LCD were drawn up to 31 December. As an associate it does not have the same accounting year end.

	2020 £'000	2019 £'000
Summarised Financial Information of LCD		
As at 31 March 2020		
Current Assets	2,277	1,741
Non-current assets	2,244	2,542
Current Liabilities	(2,182)	(2,083)
For the period ended 31 March		
Revenues	3,024	3,369
Profit after tax	70	165

Group

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

	Interests in associated undertakings at valuation £'000
At 1 April 2018	1,615
Share of profit of investments accounted for using the equity method	81
At 31 March and 1 April 2019	1,696
Share of profit of investments accounted for using the equity method	34
At 31 March 2020	1,730

Company

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

	Interests in subsidiary undertakings at valuation £'000	Interests in associate undertakings at valuation £'000	Loans to subsidiary undertakings at cost £'000	Total £'000
At 1 April 2019	17,336	1,696	4,349	23,381
Share of profit of investments accounted for using the equity method	–	34	–	34
At 31 March 2020	17,336	1,730	4,349	23,415
At 1 April 2018 (restated)	17,336	1,615	4,349	23,300
Share of profit of investments accounted for using the equity method	–	81	–	81
At 31 March 2019 (restated)	17,336	1,696	4,349	23,381

The split between investments and long-term intercompany balances has been amended to reflect a historical allocation difference.

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

Loans are unsecured and exceed five years' maturity.

Group subsidiary undertakings

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

	Country of incorporation, registration and business	Description of shares held	Proportion of nominal value of issued shares held Group %	Company %
Hornby Hobbies Limited	Westwood, Margate, Kent CT9 4JX, UK	Ordinary shares	100	100
Hornby America Inc.	4620 95th St SW suite a, Lakewood, WA 98499, United States	Ordinary shares	100	100
Hornby España S.A.	C/Federico Chueca, S/N, E28806 ALCALA DE HENARES Spain	Ordinary shares	100	100
Hornby Italia s.r.l.	Viale dei Caduti, 52/A6 25030 Castel Mella (Brescia), Italy	Ordinary shares	100	100
Hornby France S.A.S.	31 Bis rue des Longs Pres, 92100 Boulogne, Billancourt, France	Ordinary shares	100	100
Hornby Deutschland GmbH	Koppelsdorfer Strasse 226, Sonneberg 96515, Germany	Ordinary shares	100	100
Hornby Industries Limited	Westwood, Margate, Kent CT9 4JX, UK	Ordinary shares	100	100
H&M (Systems) Limited	Westwood, Margate, Kent CT9 4JX, UK	Ordinary shares	100	100

12. RIGHT OF USE ASSETS

GROUP	Property £'000	Motor Vehicles £'000	Fixtures, Fittings and Equipment £'000	Total £'000
COST				
At 1 April 2019	2,893	105	11	3,009
Additions at cost	5	87	–	92
At 31 March 2020	2,898	192	11	3,101
ACCUMULATED DEPRECIATION				
At 1 April 2019	–	–	–	–
Charge for the year	445	76	7	528
At 31 March 2020	445	76	7	528
Net book amount at 31 March 2020	2,453	117	4	2,573

13. INVENTORIES

	Group 2020 £'000	Group 2019 £'000	Company 2020 £'000	Company 2019 £'000
Finished goods	14,235	10,860	–	–
	14,235	10,860	–	–

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

	2020 £'000	2019 £'000
At 1 April	993	958
Provision for inventory impairment	180	96
Inventory written off during the year	–	(60)
Exchange adjustments	6	(1)
At 31 March	1,179	993

Notes to the Financial Statements continued

14. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
CURRENT:				
Trade receivables	5,194	5,740	–	–
Less: loss allowance for receivables	(1,050)	(1,168)	–	–
Trade receivables – net	4,144	4,572	–	–
Other receivables	997	1,565	–	–
Prepayments	1,384	1,043	28	24
Amounts owed by subsidiary undertaking	–	–	48,426	33,482
	6,525	7,180	48,454	33,506

We initially recognise trade and other receivables at fair value, which is usually the original invoices amount. They are subsequently carried at amortised cost using the effective interest method. The carrying amount of these balances approximates to fair value due to the short maturity of amounts receivable.

We provide goods to consumer and business customers, mainly on credit terms. We know that certain debts due to us will not be paid through the default of a small number of customers. Because of this, we recognise an allowance for doubtful debts on initial recognition of receivables, which is deducted from the gross carrying amount of the receivable. The allowance is calculated by reference to credit losses expected to be incurred over the lifetime of the receivable. In estimating a loss allowance we consider historical experience and informed credit assessment alongside other factors such as the current state of the economy and particular industry issues. We consider reasonable and supportive information that is relevant and available without undue cost.

Once recognised, trade receivables are continuously monitored and updated. Allowances are based on our historical loss experiences for the relevant aged category as well as forward-looking information and general economic conditions.

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

Gross trade receivables can be analysed as follows:

	2020 £'000	2019 £'000
Fully performing	3,500	3,077
Past due	644	1,495
Fully impaired	1,050	1,168
Trade receivables	5,194	5,740

As of 31 March 2020, trade receivables of £644,000 (2019: £1,495,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

As of 31 March 2020, trade receivables of £1,050,000 (2019: £1,168,000) were impaired and provided for in full.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

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

	2020 £'000	2019 £'000
At 1 April	1,168	1,458
(Decrease)/increase in loss allowance	(5)	(279)
Receivables written-off during the year as uncollectible	(136)	(8)
Exchange adjustments	23	(3)
At 31 March	1,050	1,168

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

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

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

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Sterling Intercompany	–	–	48,426	33,482
Sterling	3,143	3,180	–	–
Euro	931	1,452	–	–
US Dollar	1,067	1,249	–	–
	5,141	5,881	48,426	33,482

15. CASH AND CASH EQUIVALENTS

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Cash at bank and in hand	5,921	704	2	1

Cash at bank of £5,921,000 (2019: £704,000) is with financial institutions with a credit rating of A3 per Moody's rating agency.

16. TRADE AND OTHER PAYABLES

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
CURRENT:				
Trade payables	2,501	2,763	–	–
Other taxes and social security	394	336	32	30
Other payables	123	101	386	150
Refund liability	206	165	–	–
Accruals and deferred revenue	1,665	2,107	158	85
Group receivables guarantee (note 4)	–	–	6,020	–
	4,889	5,472	6,596	265

Notes to the Financial Statements continued

17. RIGHT OF USE LEASE LIABILITIES

The movement in the right of use lease liability over the year was as follows:

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
As at 1 April 2019	3,009	–	–	–
New leases	93	–	–	–
Interest payable	168	–	–	–
Repayment of lease liabilities	(631)	–	–	–
As at 31 March 2020	2,639	–	–	–
Lease liability less than one year	384	–	–	–
Lease liability greater than one year and less than five years	799	–	–	–
Lease liability greater than five years	1,456	–	–	–
Total Liability	2,639	–	–	–

Maturity analysis of contracted undiscounted cashflows is as follows:

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Lease liability less than one year	531	–	–	–
Lease liability greater than one year and less than five years	1,222	–	–	–
Lease liability greater than five years	2,133	–	–	–
Total Liability	3,886	–	–	–
Finance charges included above	(1,247)	–	–	–
	2,639	–	–	–

18. BORROWINGS

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Secured borrowing at amortised cost				
Asset Based Lending facility	–	1,893	–	–
Shareholder Loan	–	561	–	–
Loan from subsidiary undertakings	–	–	5,907	5,759
	–	2,454	5,907	5,759
Total borrowings				
Amount due for settlement within 12 months	–	1,893	–	–
Amount due for settlement after 12 months	–	561	5,907	5,759
	–	2,454	5,907	5,759

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

Analysis of borrowings by currency:

GROUP	Sterling £'000	USD £'000	Euros £'000	Total £'000
31 March 2020				
Asset Based Lending Facility	–	–	–	–
Shareholder Loan	–	–	–	–
31 March 2019				
Asset Based Lending Facility	1,525	38	330	1,893
Shareholder Loan	561	–	–	561
	2,086	38	330	2,454

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

At 31 March 2020 the UK had a £12 million Asset Based Lending facility with PNC Credit Limited and a £9 million loan facility with Phoenix Asset Management Partners.

The £12 million facility with PNC extends until June 2023 and carries a margin of 2.5–3% over LIBOR. The PNC Facility has a fixed and floating charge on the assets of the Group. The Company is expected to provide customary operational covenants to PNC on a monthly basis.

The Phoenix Facility is a £9 million facility with a rolling three-year term and attracts interest at a margin of 5% over LIBOR on funds drawn. Undrawn funds attract a non-utilisation fee of the higher of 1% or LIBOR.

Undrawn borrowing facilities

At 31 March 2020, the Group had available £14,235,284 (2019: £5,500,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. The facility from PNC Credit Limited has limits based on the Group's asset position, including a £3,000,000 minimum headroom against the facility until March 2021.

19. FINANCIAL INSTRUMENTS

Classification and measurement

Under IAS 39 'Financial Instruments: Recognition and Measurement' the Group previously classified and measured its financial instruments as follows:

- derivative financial instruments: classified and measured at fair value through profit or loss;
- all other financial assets: classified as receivables and measured at amortised cost; and
- all other financial liabilities: classified as other liabilities and measured at amortised cost.

Under IFRS 9 the Group's basis for classifying and measuring derivative financial instruments and other financial liabilities has remained unchanged. In accordance with IFRS 9 the Group has performed an assessment on its non-derivative financial assets to ascertain the appropriate accounting treatment. Under this assessment all such financial assets have been assessed as being held under the 'hold to collect' business model, and the related cash flows have been assessed as representing 'solely payments of principal and interest' ('SPPI'). On this basis, this group of financial assets have continued to be classified and measured at amortised cost on adoption of IFRS 9.

Carrying value and fair value of financial assets and liabilities

	Amortised Cost		Held at Fair Value		
	Financial Assets £'000	Financial Liabilities £'000	Cash flow hedges £'000	Carrying value £'000	Fair value £'000
At 31 March 2020					
Trade and other receivables	5,141	–	–	5,141	5,141
Trade and other payables	–	(2,624)	–	(2,624)	(2,624)
Derivative Financial instruments	–	–	116	116	116
Cash and cash equivalents	5,921	–	–	5,921	5,921
Lease liabilities	–	(2,639)	–	(2,639)	(2,639)

Notes to the Financial Statements continued

19. FINANCIAL INSTRUMENTS continued

	Amortised Cost		Held at Fair Value		
	Financial Assets £'000	Financial Liabilities £'000	Cash flow hedges £'000	Carrying value £'000	Fair value £'000
At 31 March 2019					
Trade and other receivables	6,137	–	–	6,137	6,137
Trade and other payables	–	(2,864)	–	(2,864)	(2,864)
Derivative Financial instruments	–	–	(131)	(131)	(131)
Cash and cash equivalents	704	–	–	704	704
Lease liabilities	–	–	–	–	–

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

	Assets		Liabilities	
GROUP	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Carrying values of derivative financial instruments				
Forward foreign currency contracts – cash flow hedges	116	25	–	(156)

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 2020 are recognised in the Statement of Comprehensive Income first in the period or periods during which the hedged forecast transaction affects the Statement of Comprehensive Income, which is within 12 months from the balance sheet date.

At 31 March 2020 and 31 March 2019, the gross value of forward currency contracts was as follows:

	2020 '000	2019 '000
US Dollar	8,750	20,791

The net fair value for the forward foreign currency contracts is an asset of £116,000 (2019: £131,000 liability) of which £116,000 asset (2019: £131,000 net liability) represents an effective hedge at 31 March 2020 and has therefore been credited to Other Comprehensive Income.

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

The Company has no derivative financial instruments.

Maturity of financial liabilities

GROUP	2020 £'000	2019 £'000
Less than one year	2,624	2,864
Between one and two years	–	2,454
Between two and five years	–	–
More than five years	–	–
	2,624	5,318

COMPANY	2020 Intercompany Debt £'000	2019 Intercompany Debt £'000
More than five years (note 18)	5,907	5,759

Hierarchy of financial instruments

The following tables present the Group's assets and liabilities that are measured at fair value at 31 March 2020 and 31 March 2019. 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); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

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

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

Financial Instruments

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Derivatives used for hedging	–	116	–	116
Total assets as at 31 March 2020	–	116	–	116
Liabilities				
Derivatives used for hedging	–	–	–	–
Total liabilities at 31 March 2020	–	–	–	–

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

Interest rate sensitivity

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

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

The effect on both income and equity based on exposure to borrowings at the balance sheet date for a 1% increase in interest rates is £nil (2019: £17,000) 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.

Notes to the Financial Statements continued

19. FINANCIAL INSTRUMENTS continued

Foreign currency sensitivity in respect of financial instruments

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

	Comprehensive Income and Equity Sensitivity	
	2020 £'000	**2019 £'000**
US Dollars	1,252	823
Euros	384	1,143
	1,636	1,966

Capital risk management

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

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

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

	2020 £'000	2019 £'000
Total borrowings (note 18)	–	2,454
Less:		
Total cash and cash equivalents (note 15)	(5,921)	(704)
Net debt/(cash)	(5,921)	1,750
Total equity	37,005	25,799
Total capital	31,084	27,549
Gearing	(19%)	6%

20. DEFERRED TAX

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

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

	Group		Company	
	2020 £'000	**2019 £'000**	**2020 £'000**	**2019 £'000**
At 1 April	(1,880)	(1,880)	–	–
At 31 March	(1,880)	(1,880)	–	–

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

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

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

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

Deferred tax liabilities	Acquisition intangibles £'000	Total £'000
At 1 April 2019	150	150
Charge to Statement of Comprehensive Income	–	–
At 31 March 2020	150	150
At 1 April 2018	150	150
Charge to Statement of Comprehensive Income	–	–
At 31 March 2019	150	150

	Group			Company	
Deferred tax assets	Acquisition intangibles £'000	Other £'000	Total £'000	Short-term incentive plan £'000	Total £'000
At 1 April 2019		2,030	2,030	–	–
Credit to Statement of Comprehensive Income	–	–	–	–	–
At 31 March 2020	–	–	–	–	–
At 1 April 2018		2,030	2,030	–	–
Charge to Statement of Comprehensive Income	–	–	–	–	–
At 31 March 2019	–	–	–	–	–
Net deferred tax (liability)/asset					
At 31 March 2020	(150)	2,030	1,880	–	–
At 31 March 2019	(150)	2,030	1,880	–	–

	2020		2019	
GROUP	Recognised £'000	Not recognised £'000	Recognised £'000	Not recognised £'000
Deferred tax comprises:				
Depreciation in excess of capital allowances	1,891	1,626	1,891	217
Other temporary differences – UK	(11)	3,032	(11)	3,463
Other temporary differences – overseas	–	3,182	–	2,938
Deferred tax asset	1,880	7,840	1,880	6,618

The UK deferred tax asset not recognised of £3,032k primarily relates to unrecognised losses in Hornby Hobbies Limited of £14,342k (potential deferred tax asset of £2,724k) and Hornby Plc of £1,306k (potential deferred tax asset of £247k). It also relates to an unrecognised temporary difference of £61,000.

The deferred tax asset not recognised in respect of overseas losses carried forward of £3,182k relates to losses carried forward of £1,565k in respect of Hornby España S.A. (potential deferred tax asset of £391k), £2,520k in respect of Hornby France S.A.S. (potential deferred tax asset of £837k), £1,924k in respect of Hornby Deutschland GmbH (potential deferred tax asset of £619k), £3,888k in respect of Hornby Italia s.r.l. (potential deferred tax asset of £933k) and £1,916k in respect of Hornby America Inc. (potential deferred tax asset of £402k).

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

Notes to the Financial Statements continued

20. DEFERRED TAX continued

COMPANY	2020 Recognised £'000	2020 Not recognised £'000	2019 Recognised £'000	2019 Not recognised £'000
Deferred tax comprises:				
Other timing differences	–	(247)	–	(208)
Deferred tax (asset)/liability	–	(247)	–	(208)

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

21. SHARE CAPITAL

Group and Company

Allotted, issued and fully paid:

	2020 Number of shares	2020 £'000	2019 Number of shares	2019 £'000
Ordinary shares of 1p each:				
At 1 April	125,261,172	1,253	125,261,172	1,253
Issue of ordinary shares	41,666,666	416	–	–
At 31 March	166,927,838	1,669	125,261,172	1,253

22. SHARE-BASED PAYMENTS ('PSP')

There were no share-based performance plans in place at 31 March 2020 (2019: There were no awards outstanding at 31 March 2019 where awards either vested or lapsed during the year).

23. RESERVES

Group

Capital Redemption Reserve

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

Translation Reserve

The translation reserve represents the foreign exchange movements arising from the translation of Financial Statements in foreign currencies.

Hedging Reserve

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

Other Reserves

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

Company

Capital Redemption Reserve

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

Translation Reserve

The translation reserve represents the foreign exchange movements arising from the translation of Financial Statements in foreign currencies.

Other Reserves

This reserve represents the revaluation of investments in subsidiaries as allowable under previous UK GAAP. The reserve was frozen on transition to IFRS in 2006.

24. EMPLOYEES AND DIRECTORS

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Staff costs for the year:				
Wages and salaries	6,867	6,049	430	431
Social security costs	732	654	58	58
Other pension costs (note 25)	365	300	25	25
Redundancy and compensation for loss of office	50	39	–	–
	8,014	7,042	513	514

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	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Operations	69	66	–	–
Sales, marketing and distribution	88	73	–	–
Administration	34	33	3	4
	191	172	3	4

Key management compensation:

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Salaries and short-term employee benefits	981	910	358	362
Other pension costs	33	33	25	25
Redundancy and compensation for loss of office	39	–	–	–
	1,053	943	383	387

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

A detailed numerical analysis of Directors' remuneration and share options showing the highest paid Director, number of Directors accruing benefits under money purchase pension schemes, is included in the Directors' Report on pages 24 to 27 and forms part of these Financial Statements.

25. PENSION COMMITMENTS

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

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

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

The Group pension cost for the year was £365,000 (2019: £300,000) representing the actual contributions payable in the year and certain scheme administration costs. The Company pension cost for the year was £25,000 (2019: £25,000). No contributions were outstanding at the year end of 31 March 2020.

Notes to the Financial Statements continued

26. FINANCIAL COMMITMENTS

GROUP	2020 £'000	2019 £'000
At 31 March capital commitments were:		
Contracted for but not provided	1,845	1,155

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.

27. CASH (USED IN)/GENERATED FROM OPERATIONS

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Loss before taxation	(3,395)	(5,312)	(6,063)	(38)
Interest payable	446	177	217	217
Interest paid on Lease liabilities	169	–	–	–
Interest receivable	(3)	(7)	(175)	(175)
Share of profit of Minority Interest	(34)	(81)	(34)	(81)
Amortisation of intangible assets	603	690	–	–
Depreciation	2,100	2,855	–	–
Depreciation on right of use assets	528	–	–	–
Profit on disposal of property, plant and equipment	–	1	–	–
(Decrease)/increase in provisions	–	(9)	–	–
Increase/(Decrease) in guarantee	–	–	6,020	–
(Increase) in inventories	(3,277)	(750)	–	–
Decrease/(increase) in trade and other receivables	680	(1,163)	(14,948)	23
(Decrease)/increase in trade and other payables	(1,058)	794	311	106
Cash (used in)/generated from operations	(3,241)	(2,805)	(14,672)	52

28. NET FUNDS/(DEBT) RECONCILIATION

	2020 £'000	2019 £'000
Cash and cash equivalents	5,921	704
Borrowings – repayable within one year	–	(1,893)
Borrowings – repayable after one year	–	(561)
Net Funds/(Debt)	5,921	(1,750)
Cash and liquid investments	5,921	704
Gross debt – variable interest rates	–	(2,454)
Net Funds/(Debt)	5,921	(1,750)

29. RELATED PARTY DISCLOSURES

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

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

Company	Transactions £	Balance at year end £
Oxford Diecast Limited	159,201	10,961
Oxford Diecast (HK) Limited	5,052	–
	164,253	10,961

Phoenix Asset Management Partners who own the majority shareholding in Hornby PLC have also provided a funding facility to the Group (see note 18).

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

The Company received management fees from subsidiaries of £1,065,000 (2019: £1,104,000), interest of £175,000 (2019: £175,000) and incurred interest of £217,000 (2019: £217,000) on intercompany borrowings.

30. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The Group is 74.66% owned by Phoenix Asset Management. Artemis Fund Managers Limited hold 16.5%. The remaining 8.84% of the shares are widely held. As a result of these arrangements, there is no ultimate parent undertaking, and the funds managed by Phoenix Asset Management are therefore the controlling party.

31. EVENTS AFTER THE END OF THE REPORTING PERIOD

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

Shareholders' Information Service

Hornby welcomes contact with its shareholders.

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

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