ANNUAL REPORT AND ACCOUNTS 2015

Hornby Plc

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

Strategic Report

01 Highlights 2015
02 Chairman's Statement
04 Strategic Review
05 Business Model and Strategy
09 Operational and Financial Review of the Year
12 Our Key Performance Indicators

Governance

15 Directors and Corporate Information
16 Directors' Report
19 Corporate Governance
23 Report of the Audit Committee
25 Directors' Remuneration Report
33 Statement of Directors' Responsibilities
34 Independent auditors' report to the members of Hornby Plc

Financial Statements

40 Group and Company Statement of Comprehensive Income
41 Group and Company Balance Sheet
42 Group and Company Statement of Changes in Equity
44 Group and Company Cash Flow Statement
45 Notes to the Cash Flow Statement
46 Notes to the Financial Statements
78 Five Year Summary (Unaudited)
78 Shareholders' Information Service

Highlights 2015

"After a year of hard work and numerous challenges, Hornby has returned to underlying profit. We are improving product deliveries and quality from our supply chain, and I remain confident that the turnaround plan will continue to deliver further improvements."

Richard Ames, Chief Executive

Revenue
(2014: £51.6m)

£58.1m

Operating profit
(2014: £4.1m loss)

£0.3m

Underlying[1] operating profit
(2014: £0.7m loss)

£2.1m

Reported loss before taxation
(2014: £4.6m loss)

£(0.2)m

Underlying[1] profit before taxation
(2014: £1.1m loss)

£1.6m

Reported loss after taxation
(2014: £4.4m loss)

£(0.1)m

Reported loss per share (2014: 11.4p loss)

(0.3)p

Underlying basic earnings per share
(2014: 3.4p loss)

3.4p

Total dividend per share
(2014: nil)

nil

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

Chairman's Statement

Personal perspectives

Twelve months ago we announced the appointment of Richard Ames as our new CEO and I am delighted with the progress Richard and the team have made in taking the business transformation forwards.

Since I joined Hornby, I have been in no doubt about the exciting opportunities ahead for our iconic stable of brands if we are able to establish the necessary platform for sustained and profitable growth. The challenge that Richard and the team face is constantly one of balancing priorities. We are never short of good ideas but the key is to focus on the three or four that will deliver the biggest strategic impact whilst at the same time cherry picking the tactical plans with the best cost/benefit. Focused execution is key to success.

It is imperative that we do not allow the iconic heritage of our brands to wane but continue to build on the huge passion that is evident amongst our existing enthusiasts and also engage a new audience for our hobby and toy products. This has required discipline in investing scarce resources judiciously within a long-term strategic framework to build coherent, global brand propositions. Retaining and recruiting the very best talent is central to this process and we are resolute in not compromising when assembling the team Hornby requires to meet our future ambitions.

We have continued to redeploy and increase the investment in our supply chain. The team that are managing our manufacturing base continue to evolve as we recruit the right talent, skilled at balancing the competing commercial issues when forging long-term partnerships with existing and new businesses. Whilst this year has not seen the consistency and quality of supply we would ultimately wish for, there is no doubt our investment is starting to bear fruit and our customers are enjoying a sustained improvement.

- Revenue of £58.1 million (2014 – £51.6 million)
- Like-for-like revenues up by 15% at constant exchange rates, 12.8% at reported exchange rates
- Underlying profit before tax[1] of £1.6 million (2014 – £1.1 million loss)
- Net debt at 31 March 2015: £7.5 million (2014 – £7.3 million)
- One-off charges of £0.8 million (2014 – £0.9 million) including both the move of UK warehouse and restructuring in 2015 and restructuring and the exit payment to our principal model rail supplier in 2014
- Statutory loss after tax £0.1 million (2014 – £4.4 million loss)

1 Stated before amortisation of intangibles, net unrealised foreign exchange movements on intercompany loans, restructuring costs and impairment of goodwill.

During the year, the team have worked hard to balance the need to deliver a satisfactory current trading performance against applying the necessary time and energy to the strands of work around the business transformation. It strikes me that delivering just one of these strands in a given year would be a significant undertaking for most businesses, be that the logistics outsourcing, new ERP system implementation or indeed office relocation. I would like to thank the team at Hornby for their unwavering commitment to executing our transformation plans through this year and building our platform for growth.

Over the last couple of months a lot of work has been put into documenting and agreeing Hornby's plans for the next couple of years and the associated investment required. To enable the Group to pursue these plans, we have approached investors to raise additional equity funding of £15 million and have also signed a new four-year facility with the Group's bankers, which is subject to the £15 million equity raise.

I am delighted that we are able to announce today the successful conclusion of these discussions with investors and that the proposed equity raise and a move to AIM will be put to our shareholders on 13 July 2015. I am highly confident that our shareholders will approve the placing and the move to AIM but would draw to your attention the fact that if they are not approved there are concerns over the Group's ability to continue as a going concern. The fact that the placing is yet to be approved by shareholders represents a material uncertainty and more detail can be found in the Going concern section of the Operational and financial review of the Year on page 11.

The role of the Board

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

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

Board changes

As previously announced, Nick Stone will be leaving Hornby later this summer to be replaced by Steve Cooke who joined the business on 10 June 2015. The Board is delighted that Steve has agreed to join Hornby and we are pleased to have secured someone of his calibre. He brings with him extensive PLC experience at a strategic level, as well as excellent experience of retail and logistics operations. I look forward to Steve making a significant contribution as we continue to make encouraging progress with our strategy to drive the Group's turnaround. I wish to take the opportunity on behalf of the Board and my colleagues to thank Nick once again for his contribution during this phase of Hornby's recovery and we wish him all the best for the future.

Shareholder engagement

We will hold our AGM this summer and this continues to be an excellent opportunity for shareholders to see the new products for themselves and to understand the progress that the Company is making. Personally I am looking forward to welcoming as many shareholders as possible that are able to attend.

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

Roger Canham
Chairman
18 June 2015

Strategic Review

Hornby Plc continues to make progress towards its vision to be the most successful model, hobby and collectible toy company in the world.

CHIEF EXECUTIVE'S REPORT

It is pleasing that, after a year of hard work and numerous challenges for the team, we are able to announce that Hornby has returned to profit at the underlying level. Having identified and focused on the key immediate priorities for the organisation, the Company has been able to make significant headway towards delivering value to shareholders, customers and colleagues. There is a long way to go before we will be able to suggest that we are operating to our full potential, but we are now heading in the right direction and many of the foundations for a more profitable future have been laid or are progressing well into development.

Worthy of specific mention are the following:

- We have successfully negotiated renewal of our bank facilities and raised the additional equity we need by way of a move to AIM, subject to shareholder approval on 13 July 2015.
- We are improving product deliveries and product quality from our Far East vendor partners.
- We are operating from a new warehouse and distribution facility in Hersden, Kent run by a new 3PL ('Third Party Logistics') Partner, DS Logistics.
- We have moved to a new head office in Discovery Park, Sandwich.
- We have opened a new e-commerce office in Shoreditch, London; and
- We are preparing to launch a new group-wide ERP IT system starting with the UK in Q2 of the financial year 2015 and rolling out across Europe during 2015–16.

Business Model and Strategy

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

KEY ACTIVITIES

- Research and Development Product Innovation
- Brand Management and Enhancement
- Developing Key Partnerships

KEY RESOURCES

- Our Brands → HERITAGE BRANDS; REINVIGORATION AND EVOLUTION; ENGAGING; FOCUSED
- Our People → KNOWLEDGE; RETENTION; TALENT MANAGEMENT
- Our Supplier Networks → WORLDWIDE; LEADING PRODUCTION TECHNIQUES AND QUALITY; EFFICIENT COST BASE

CONSUMER FOCUSED QUALITY BRANDED PRODUCTS

- High Quality
- Differentiation
- Strong Customer Service and Reputation
- Price Range and Specifications to suit differing market segments

OUR ROUTE TO MARKET

CLUBS, MAGAZINES AND CUSTOMER SUBSCRIPTIONS

E-COMMERCE AND DIRECT MARKETING TO CUSTOMER

DISTRIBUTION AND RETAILERS

- AGENTS (EIRE & SCOTLAND)
- CONCESSIONS (UK)
- INDEPENDENT STORES
- MAJOR RETAILERS
- WHOLESALERS

Creation of business value and reinvestment in brands

Strategic Review continued

Manufacturing supply chain

The challenges that we have faced in our Asian manufacturing and supply chain have been well documented. The second half of 2014–15 saw significant improvements in the volumes and quality of products being produced by our vendor partners, particularly for the Hornby Model Rail brand. This has occurred as a result of the new Critical Path programme and Tooling Database tools deployed during the year, as well as improved scheduling and communication with our vendor network, managed by the team in Hong Kong. There continues to be significant room for improvement and we are focusing on bringing new manufacturers into production and improving Quality Assurance and Control processes to assist in managing the efficiency and effectiveness of our production schedules.

New warehousing solutions

A decision was made early in 2014–15 to enter a new third party warehousing and distribution agreement for the UK business. The Company traded the Christmas 2014 period using this new solution following a smooth transition of stock and resources in the autumn. This new solution will enable the Group to upgrade its stock, merchandising and logistics processes to industry leading systems in 2015 and we are now investigating the opportunity to accommodate our global operations into this model over the coming years.

Move of our head office to Sandwich

Following the exit from the Margate warehouse in October 2014, a decision was made to vacate the building and move the head office team to Discovery Park, Sandwich. The Sandwich site offers a far superior working environment for the UK team and enables the Company to be sited in one open-plan space, facilitating an energetic trading atmosphere and improved inter-departmental communication. The Hornby Visitor Centre remains on the pre-existing Margate site for the short term, but it is the Board's intention to relocate this to a more suitable building within Thanet, Kent and to sell the vacant site in the coming months.

e-commerce office in London

The Company embarked upon an initiative in 2014 to upgrade its e-commerce and social media capabilities in order to engage more closely with consumers and fans of the brands. Communication projects landed this year include:

- four new forums for Hornby, Airfix, Corgi and Scalextric brands allowing fans of the brands to communicate 24/7, 365 days a year;
- new expert blogs Simon Says, The Engine Shed and Aerodrome provide channels through which we can keep consumers updated on new and interesting developments and opinions within the Company and industry; and
- Facebook and Twitter pages for each of the brands allow daily updates for the wider population interested in our hobbies.

These initiatives are operated by the team in London which has been focused primarily on the UK consumer in 2014, but which is now running a website for Hornby USA and will take a more global view of social and e-commerce opportunities in the future. We are also using the tools developed in this office to improve our communications with our trade customers and during the year we have upgraded our Trade News for each brand to ensure that the industry can keep close to our new initiatives and products as and when we launch them.

New ERP system for the Hornby Group

Throughout 2014–15, the Company has been developing a new ERP system designed to go live in the UK during the summer of 2015 before being rolled out to the wider group in 2016. The new system will be based on the Microsoft AX platform and a dedicated team has spent the year rewriting and upgrading Company processes to enable a significant upgrade to the Company's finance, sales, logistics, and data capabilities. Once embedded within the UK operation, these will be rolled out across Europe facilitating better communication and increased efficiencies from operations.

Product range developments

Our consumers are passionate about the products that we produce and the brand development teams continue to create compelling and profitable ranges.

Hornby

Sales of Hornby model railway products grew through FY15 as we improved our delivery performance. Customer numbers and sales both grew in our Independent Model Shop channel aided by the increasing focus on trade communication to improve our relationships and mutual business. We continue to work with the National Railway Museum ('NRM') with the sponsorship of the 'Playing with trains' exhibit. Our efforts to bring new desirable products to market has been recognised by our consumers as they voted us winners of three Model of the Year awards organised by three consumer magazine/internet forums that co-ordinated a consumer poll. This is the best showing by Hornby for a number of years. The 'N' Gauge is a fantastic endorsement for our Group as Hornby Spain co-ordinated this product development on behalf of the UK team. Our website, and social media platforms are allowing us to have a much more engaging relationship with our consumers. Two particular highlights are the 'Simon Says' blog every fortnight by Simon Kohler looking at his memories of the many years of service with Hornby, and the 'Engine Shed' blog where our development team shares how, and what they are working on. Our consumers have an appetite for this information, and we will continue to develop innovative ways to feed this enthusiasm.

Slot car product range

Scalextric had a strong year as we were able to gain good broad retail support with a focus on our opening price point set, Continental Sports Cars. The range hierarchy offered developing skill level and price points to suit a broad retail consumer base. Our retail performance was strong in all channels with a high sell through percentage achieved ahead of the Christmas peak. The TV advertising continued to deliver the desired effect and our launch of Scalextric ARC (App Race Control) was embraced by both enthusiasts and new consumers. During the year product development and consumer research identified clear areas of opportunity and licenses were signed for Mercedes F1 team and James Bond.

Airfix

Airfix continued to grow but the rate slowed this year. The brand continues to benefit from the ongoing enthusiasm for subject matter relating to the major conflicts of the past, and the commemoration of the anniversaries.

In 2014 it was the 70th anniversary of D Day, and our ranges offered the chance to complete dioramas of the landings and for the more experienced modeller a 1:24 scale Typhoon. The team continue to deliver the products our enthusiasts want, and our retooling programme of the starter kits is now complete which further enhances the consumers' first experience of Airfix. Our Quickbuild construction brand, manufactured in the UK, has been further enhanced with the introduction of three supercars; The Lamborghini Aventador, Bugatti Veyron, and the Mclaren P1. These items are now gaining international recognition and we believe will contribute to further growth in the future.

Corgi models

Corgi benefited from a number of significant new releases. Within our Aviation Archive we released the Vulcan model. This iconic aircraft presented a number of engineering challenges with its large delta wing design but the enthusiasts recognise this as one of the finest models of this important aircraft. To celebrate the 50th anniversary of Corgi winning the inaugural Toy of the Year award we re-released the Corgi Aston Martin DB5 toy. This toy replicated the gadget laden Aston Martin DB5 that James Bond drove in the movie Goldfinger. A combination of silver and gold coloured cars ensured a craze and the initial production run sold out immediately.

Strategic Review continued

Hornby can only be as good as its people and we are proud to be the home of some of the best talent in the industry.

New colleagues
Hornby can only be as good as its people and we are proud to be the home of some of the best talent in the industry. In 2014–15 we have complemented our undoubted expertise in product development and consumer knowledge with new commercial experience in UK and French sales, international merchandising and logistics, vendor and commercial management in Hong Kong and e-commerce in London. It is a source of pride and pleasure that we are a Company with a story that can attract great people who want to be a part of the revival of these wonderful brands.

Outlook for 2015–16
The outlook for the next couple of years has been greatly improved by the new equity and debt proposals that have been announced today and that we trust will be approved by our shareholders on 13 July 2015. Without the successful conclusion of these funding plans, the continued investment needed to develop further the plans I have described above would not be possible.

2015–16 will be another year of change for Hornby as we push for further growth and build upon the foundations laid in 2014.

The new ERP system that has been in development for the UK business will be deployed in the summer. This will facilitate improved processes and data provision in the core business and will lead to better planning and efficiencies. Once embedded in the UK organisation, this system will be rolled out to the European subsidiaries later in the financial year and in doing so, will unlock cost savings including a slimmed down distribution and logistics network. We are also looking to share best practice around the Group and have initiated a group sales structure that we believe will open up new customers and markets.

The Group also expects to benefit from further improvements in vendor partnerships and supply chain management as production from new factories begins to come online – particularly for model rail and Scalextric products in the Q3 selling period. Three new projects, involving three new vendor relationships, targeted at high-end model rail, train sets and Scalextric sets are well under way and will continue our push to broaden the supplier base and mitigate production risks across the portfolio.

The development of Hornby's e-commerce platform will continue during the year, with the introduction of new European facing websites, in addition to the work already ongoing on the USA proposition.

The management team will continue to balance the need for structural and organisational change with the opportunities to deliver sales growth and meet the demand that can be seen for our products in target markets around the world.

Current trading
The UK business continues to show steady growth across its Hornby, Scalextric and Airfix businesses. Our European businesses have been impacted by another slow start to model rail production in China since March 2015 and we are working hard to catch up – with particular attention and support being given to two factories in Guang Dong. Group net debt as at 12 June 2015 was £11.5 million, in line with usual seasonal working capital outflows (£9.7 million as at 8 June 2014). Overall, despite the continuing challenges in specific locations, we expect the Group to deliver sales in the first quarter ahead of the same period last year and remain confident in the turnaround plan for the business and the delivery of market expectations for the year as a whole.

Richard Ames
Chief Executive
18 June 2014

Operational and Financial Review of the Year

Consolidated revenue for the year ended 31 March 2015 was £58.1 million, an increase of 13% compared to the previous year's £51.6 million. At constant exchange rates the revenue would have been £59.2 million or an increase of 15%.

Full year gross profit margin was 47% (2014 – 45%) as a result of an increased proportion of higher margin model rail product in the mix and a better exchange rate environment. As discussed below the availability and supply of high end model rail products is still below planned levels although improved from the previous year. Therefore the overall margin is still suppressed when compared to historic levels.

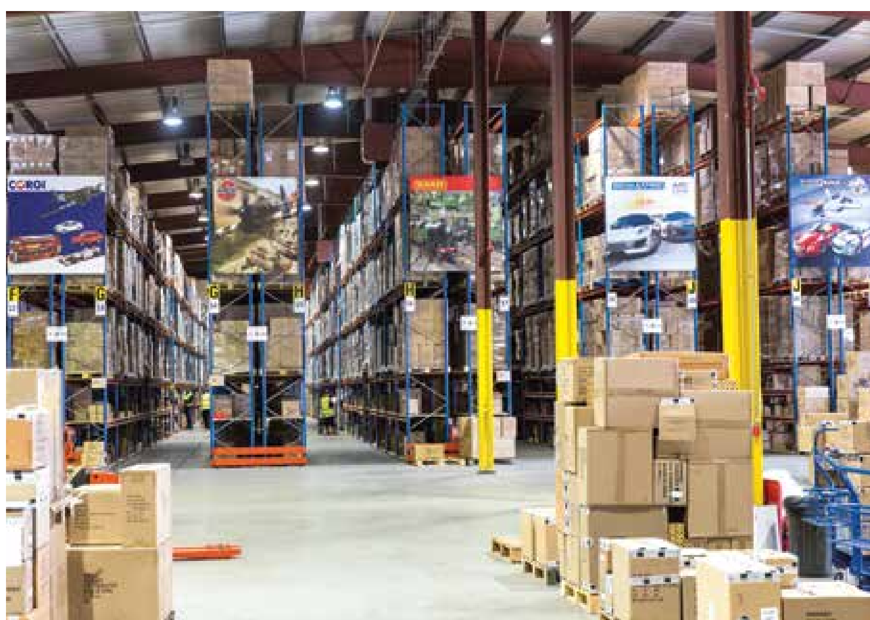
Overheads increased year-on-year by 4% after the add back of one-off and exceptional items due to the increase in distribution costs, which were partially offset by a year-on-year reduction in foreign exchange losses. The distribution costs themselves increased markedly in the year as a result of the transition to the third party managed warehouse and also the one-off costs of the move and close-down of the old warehouse. Sales and marketing costs increased as the level of commissions paid through our concessions channel increased with sales and because of the investment in our e-commerce team. Foreign exchange losses in the year totalled £0.8 million compared to losses of £1.0 million in the previous year, which contributed to the reduction in administrative costs together with the impairment write-off of Goodwill that was taken in the previous year.

Operational and Financial Review of the Year
continued

Pre-tax profit before net foreign exchange movements on intercompany loans, amortisation of intangibles, restructuring costs and impairment of goodwill (hereafter referred to as underlying pre-tax profit/(loss)) was £1.6 million (2014 – loss of £1.1 million) (see reconciliation in note 2).

Basic earnings per share calculated on underlying pre-tax profit/(loss) (hereafter referred to as underlying basic earnings/(loss) per share) were 3.38p (2014 – (3.43)p). Statutory pre-tax loss was £0.1 million (2014 – loss of £4.4 million) and statutory basic loss per share was 0.31p (2014 – 11.35p loss per share). Taxation at £0.06 million credit (2014 – £0.1 million credit) was 35% of reported loss before tax (2014 – 2%).

Group inventories reduced during the year by 5% from £13.2 million to £12.5 million. Trade and other receivables increased by 14% in line with sales from £9.0 million at the last year end to £10.3 million at 31 March 2015. Trade and other payables increased by £1.3 million largely due to the increase in product purchases, particularly in the last quarter of the year. Investment in new tooling and other capital expenditure was £5.1 million (2014 – £4.1 million). The net effect of these factors was a reduction in working capital requirements by 5% and a small increase in net debt at 31 March 2015 to £7.5 million, from £7.3 million at 31 March 2014.



Dividend

This has been another year of transition and as a result trading has been challenging. Therefore the decision has been taken not to pay a dividend (2014 – 0.0p). The Board continues to keep the dividend policy under review and once the reorganisation has been completed and the Group is generating sufficient cash flow, then the Board will look to recommence paying a dividend.

Underlying profit/(loss)

A total of £1.8 million costs in these accounts have been identified as outside of underlying profit as defined in note 2. Of this total £1.0 million (2014 – £2.5 million) was for amortisation of intangible assets and the revaluation of intercompany loans, all of which are non-cash costs. The prior year comparator also includes the write-off of goodwill in the Italian business of £2 million.

The cash restructuring costs of £0.8 million mainly comprise the costs of moving warehouses in the UK to a new warehouse run by our third party provider, DS Logistics but also include elements of redundancy and other one-off items. The prior year charge included payments made to our long-standing major supplier of model railway product for work in progress, materials and components when the agreement was reached with them to end the relationship and a charge for the bad debt and other costs that arose from the failure of our main concession partner Modelzone that went into administration in July 2013.

Financial Review

	2015	2014
Revenue	**£58.1m**	£51.6m
Underlying profit/(loss) before tax[1]	**£1.6m**	£(1.1m)
Gross profit margin	**46.7%**	45.3%
Underlying profit/(loss) before tax margin[1]	**2.8%**	(2.2%)
Reported loss before tax margin	**(0.3%)**	(8.8%)
Underlying basic earnings/(loss) per share[1]	**3.38p**	(3.43)p
Statutory basic loss per share	**(0.31)p**	(11.35)p
Net debt	**£7.5m**	£7.3m
Statutory loss after tax	**£(0.1m)**	£(4.4m)

1 Stated before amortisation of intangibles, net unrealised foreign exchange movements on intercompany loans, restructuring costs and impairment of goodwill.

Impact of supply chain disruptions

Deliveries of model railway product over the year totalled 85% of our budget for the Group as a whole. This represents a significant improvement from the 59% equivalent achieved in the prior year as a result of the investment in our supply chain management resources both in the UK and Hong Kong. However it does show that there is still much work to do before the supply chain is working the way we would like it to, particularly for product bound for the European markets.

Banking facilities

At 31 March 2015 the Group had a revolving credit facility of £13 million expiring December 2015. The announcement today of a proposed £15 million equity placing has allowed us to reduce reliance on debt facilities and we have signed a new revolving credit facility of £10 million with our main UK bankers, Barclays. This facility is conditional on the equity raising being approved by shareholders which is expected to allow sufficient headroom for trading working capital needs for the next four years and expires in August 2019. The Group also has additional facilities of £4 million in place in its European subsidiaries through bank loans and import credit line facilities of which £3.5 million was undrawn at year end. Use of these facilities will be phased out and replaced by credit provided by the UK business using the new Barclays facility. Borrowings in the year ended 31 March 2015 peaked at £13.5 million.

Going concern

As the Group's bank facilities expire in December 2015 and the current plans for the Group's reorganisation require additional investment, the Group are proposing to raise £15 million additional equity to enable Management to pursue these investment plans.

The Directors have approached both existing and potential new investors to raise the additional equity funding of £15 million and have also signed a new four-year facility with the Group's bankers, which is conditional on the £15 million equity raise. After the discussions with existing investors, the Directors have a high degree of confidence that the fundraise will be approved by shareholders and therefore the new working capital facility will become available. However this equity raise is subject to shareholder approval on 13 July 2015.

The Group has prepared three-year cash flow forecasts on the basis of the additional equity raise and new facility and after detailed review of these forecasts and cash flow models with external advisers, the Directors have a reasonable expectation that the Group has 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.

However as the current fundraise has not yet been approved by shareholders there remains a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern.

Segmental analysis

Third party sales by the UK business grew by 14% in the year and generated an underlying profit of £1.6 million compared to £0.04 million last year. The improvement in model rail production reliability was shared across all areas of the business with the UK achieving 82% of planned production and the European business achieving 90%. Sales growth in the UK was derived from this improvement but also an improvement in all other brands, particularly Scalextric and Corgi. The European businesses are dominated by their model rail brands and therefore also benefited significantly from the supply improvement, particularly in Italy where an underlying loss of £0.5 million in the previous year was turned into an underlying profit of £0.3 million by virtue of sales growth of 38%.

By order of the Board

Nick Stone
Group Finance Director
18 June 2015

Our Key Performance Indicators ('KPIs')

The Directors are of the opinion that the financial KPIs are revenues, gross margins, underlying profit before tax, (loss)/earnings per share and cash generation, the information for which is available in these financial statements and summarised on the financial highlights section earlier in this report. In light of the work currently being performed on the supply chain and distribution channels, management are currently constructing additional KPIs to monitor progress on these key measures which are considered fundamental to performance going forward. The Group maintains a robust planning system with individual targets for subsidiaries in terms of growth and profits. The Board monitors progress against plan on a regular basis adjusting future objectives annually in line with current circumstances.

IDENTIFICATION OF PRINCIPAL RISKS AND UNCERTAINTIES

The Board has the primary responsibility for identifying the major risks facing the Group and developing appropriate policies to manage those risks. The Board 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 business model of the Group which has been set out on page 5.

Principal risks and uncertainties

Risk	Description	Impact/Sensitivity	Mitigation/Comment
UK market dependence	The UK market represents a significant part of Group revenue; 79% in 2015 (2014 – 71%).	The Group is exposed to a downturn in the performance of the brands in the UK as well as to a downturn in the UK economy.	The Board's strategy continues to be to expand overseas sales. The acquisitions of the brands Airfix, Humbrol, Corgi, Electrotren, Rivarossi, Lima, Arnold and Jouef have provided the Group with a significant share of the model railway, model and die-cast markets in continental Europe, with the objective of facilitating further growth.
Market conditions	The Group's products are sold in the main to its retail customers. The performance of the market is affected by the general economic climate, overall consumer and retailer confidence, and the changing retail landscape.	The Group performance is impacted by the global macro-economic environment and changes in the wider retail landscape.	In reviewing the future forecasts for the business the Directors consider reasonable changes in macro-economic and associated market conditions recognising the potential for a negative impact on the Group's results and ensure that resources are flexed to maximise the Group's objectives as a result.
Distribution channels	The retail landscape is changing with the Group's traditional high street independent distribution network under significant commercial pressure from online retailers and discounters.	High street failures will reduce traditional customer base sales levels and increase credit risk.	The Group formulates its business strategy, including the website and direct to consumer channels, based on the changing retail dynamics. An increased focus on direct web-based selling, selling directly at exhibitions and other events and expanding own retail concession network are all being developed to protect the brand position.
Competing brands	The Group has competition in the model railway, slot racing, model kits, die cast and paint markets.	Loss of market share to increased competitor activity would have a negative impact on the Group's results.	In many of our markets the Group enjoys a strong market position due to the continued development of our brands. Brands are extremely important in the model sector with market entry costs being prohibitive.
Exchange rates	The Group purchases goods in Hong Kong Dollars and US Dollars and sells in Pounds Sterling, Euros and US Dollars and is therefore exposed to exchange rate fluctuations.	Significant fluctuations in exchange rates to which the Group is exposed could have a material adverse effect on the Group's future results.	The Group continues to hedge short-term exposures by establishing forward currency purchases using fixed rate and participating forward contracts up to twelve months ahead. It is deemed impractical to hedge exchange rate movements beyond that period.

Risk	Description	Impact/Sensitivity	Mitigation/Comment
Supply Chain	The Group purchases goods, in the main, from third party Chinese suppliers due to the significant cost advantage when compared to products manufactured in Europe.	The Group does not have exclusive arrangements with its suppliers and there is a risk that competition for manufacturing capacity could lead to delays in introducing new products or servicing existing demand. Input cost escalation in China could reduce or remove the Group's pricing advantage and impact margins. The Group's tooling is maintained largely in third party premises.	The Group is continuing to develop and diversify its supplier portfolio, which includes a supplier in India and more recently in the UK. Investment in product sourcing capability in Hong Kong in the last two years has led to an increase in the number of suppliers available to the Group in China and investigation of other regions such as Vietnam and Bangladesh is under way. 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 is planning to obtain its own facilities in China where its tooling can be better secured and managed.
Capital Allocation	The Group now holds over 5,000 product lines across its own brand range.	Producing smaller quantities of more products puts pressure on gross margins and can lead to increased stock levels.	An improved capital allocation process is being developed to deliver a more focused product range in line with consumer demand with robust gross margins.
Product compliance	The Group's products are subject to compliance with toy safety legislation around the world.	Failure to comply could lead to a product recall resulting in damage to Company and brand reputation along with an adverse impact on the Group's results.	Robust internal processes and procedures, active monitoring of proposed legislation and involvement in policy debate and lobbying of the relevant authorities.
Liquidity	Insufficient financing to meet the needs of the business.	Without the appropriate level of financing it would be increasingly difficult to execute the Group's business plans.	The Group had a revolving credit facility of £13 million expiring December 2015. The Group's policy on liquidity risk is to maintain adequate facilities to meet the future needs of the business. This has recently been renegotiated on the back of the proposed equity raise and the Group now has a £10 million facility expiring in August 2019, conditional on the equity proposals being approved by shareholders.
System and Cyber Risk	The Group continues to invest in its e-commerce with the expansion and development of the UK Website and a programme of overseas subsidiary websites being rolled out over the com ing months. Additionally the Group is implementing a new 'ERP' system which will also be rolled out across the Group over the coming months.	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 development in the last two years. A new web team and office have been opened and a dedicated ERP implementation team has been established from a mixture of internal and new external resources.

Main control procedures

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

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

Corporate social responsibility

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

Our Key Performance Indicators ('KPIs') continued

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

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

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

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

The Group's split between male and female employees as at 31 March 2015 is shown below:

	Female	Male	Total
Directors	–	5	5
Senior managers (including Statutory Directors of subsidiary entities)	2	8	10
Employees	87	140	227
Total	89	153	242

Environmental responsibility

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

Carbon emissions data

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

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

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

Year ended 31 March 2015		
	Scope 1 tonnes CO_2e	Scope 2 tonnes CO_2e
UK	420	522
Europe	58	36
Rest of World	27	28
Group revenue (2014–15) £'m		58
Intensity ratio tonnage/£'m of revenue:		19

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

By order of the Board

Nick Stone
Group Finance Director
18 June 2015

Directors and Corporate Information

Directors
R Ames
Chief Executive

R Canham
Executive Chairman

N P Stone
Finance Director

D Adams
Non-Executive Director

C Caminada
Non-Executive Director

Company Secretary
A Stacey

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

Company Registered Number
Registered in England Number: 01547390

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

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

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

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

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

Directors' Report

The Directors submit their Annual Report together with the audited consolidated and Company financial statements for the year ended 31 March 2015. The Corporate Governance section on pages 19 to 24 forms part of the Directors' Report.

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

INFORMATION REQUIRED UNDER LISTING RULE

For financial years ended after 31 August 2014 the listing rules require certain specific disclosures. For the purposes of LR 9.8.4CR, details of the Company's long-term incentive schemes are disclosed in the Directors' Remuneration Report on page 25. All other information required to be disclosed by LR 9.8.4R is not applicable for the period under review.

PRINCIPAL ACTIVITIES

The Company is a holding company registered in England No.01547390 with a Spanish branch and has six operating subsidiaries: Hornby Hobbies Limited in the United Kingdom with a branch in Hong Kong, Hornby America Inc. in the US, Hornby 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 London Stock Exchange, and incorporated and operating in the United Kingdom. Its registered office is set out on page 15.

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 2015 are set out in the Group Statement of Comprehensive Income on page 40. Revenue for the year was £58.1 million compared to £51.6 million last year. The loss for the year attributable to equity holders amounted to £0.1 million (2014 – £4.4 million loss). The position of the Group and Company is set out in the Group and Company Balance Sheets on page 41.

No interim dividend was declared in the year (2014 – £nil) and the Directors do not recommend a final dividend (2014 – £nil).

RESEARCH AND DEVELOPMENT

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

DIRECTORS

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

Richard Ames, aged 45, was appointed to the Board on 28 April 2014 and has a wealth of experience of leading fast moving consumer facing businesses. His most recent role was as a Director of Ladbrokes PLC, where latterly he was Managing Director of their Product Division. He joined Ladbrokes in 2005 and had run the UK and Ireland Retail operations where he was responsible for managing a successful retail turnaround strategy. Earlier in his career he worked at Dixons Stores Group Plc as Marketing Director in Essentials and prior to this he was the Purchasing Director in Domestic Appliances operations. He also helped to lead the consumer electronics divisions at Asda WalMart and he started his career at Philips Consumer Electronics.

Roger Canham, aged 51, was appointed to the Board on 7 November 2012 and became Chairman on 1 February 2013. Roger has been Chairman of Phoenix Asset Management Partners Limited ('Phoenix') since 2009 and also owns and manages a number of property development companies. Prior to that, he was a Non-Executive Director of Goshawk Insurance Holdings PLC from 2007 until the business was acquired in 2008, and a Director of Brake Bros Limited, for a year following its acquisition of W. Pauley & Co Limited in 2002. Mr Canham joined W. Pauley & Co Limited in 1990 and became Managing Director in 1996.

Nick Stone, aged 51, joined the Group on 14 January 2013 and was appointed Group Finance Director on 1 February 2013. Nick was previously the Operations and Finance Director at KBC Advanced Technologies PLC and earlier in his career was interim Finance Director at Accidentcare Group PLC, Finance Director at Lambert Fenchurch Limited and held positions at Mobil Oil Corporation. As announced, Nick Stone will be leaving Hornby later this summer to be replaced by Steve Cooke who joined the business on 10 June 2015.

David Adams, aged 60, was appointed a Non-Executive Director on 9 January 2014. David is currently Senior Non-Executive Director of Halfords plc and chairs Conviviality Retail plc, Ecovision Ltd, Park Cameras Ltd, and Walk the walk (a breast cancer charity). In addition, he is a Non-Executive Director of FeverTree Drinks plc. David chairs the Audit Committee at Halfords and FeverTree Drinks. Prior to that he was Executive Chairman of Jessops and Chief Financial Officer and Deputy Chief Executive Officer at House of Fraser plc.

Charlie Caminada, aged 57, was appointed a Non-Executive Director on 9 January 2014. Charlie was previously Chief Operating Officer of HIT Entertainment Plc, which is now part of Mattel. His most recent position was the Founder and Chief Operating Officer of Ludorum, a media investment company that focused on managing IP franchises for children's entertainment brands, including Chuggington. Charlie led the company's IPO on AIM in 2006. He is a Non-Executive Director of Shoe Zone Plc and chairs the Remuneration Committee at the company.

The interests of the Directors in the shares of the Company and in options granted over such shares are disclosed in the Directors' Remuneration Report on page 28.

The number of Board meetings held during the year and attendance by the Directors is set out on page 19.

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 1 June 2015 the following parties were interested in 3% or more of the Company's ordinary share capital.

Shareholder	Number of ordinary shares	Percentage held
New Pistoia Income Limited	9,126,699	23.30
Phoenix Asset Management Partners Limited	6,257,323	15.98
Electra Quoted Partners	2,995,150	7.65
Ruffer LLP	2,437,800	6.22
Artemis Fund Managers Ltd	1,312,079	3.35

FINANCIAL INSTRUMENTS

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

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

PERSONNEL POLICIES

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

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

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

SHARE CAPITAL

The share capital of the Company comprises ordinary shares of 1p each. Each share carries the right to one vote at general meetings of the Company. The issued share capital of the Company, together with movements in the Company's issued share capital is shown in note 21.

INDEPENDENT AUDITORS

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

ANNUAL GENERAL MEETING

The Annual General Meeting is to be scheduled for Summer 2015. A notice of the Annual General Meeting will be sent out to shareholders separately to this Annual Report and Accounts. The notice of the Annual General Meeting is important and requires your immediate attention. If you are in any doubt as to what action to take in relation to the Annual General Meeting, you should consult appropriate independent advisers. The following special resolutions were passed at the last Annual General Meeting and remain in force until the next Annual General Meeting:

Directors' Report continued

Resolution 10

Under section 551 of the Companies Act 2006 (the 'Act'), the Directors may allot unissued shares or grant rights over such shares only if authorised to do so by shareholders. This resolution gives the Directors authority to allot new ordinary shares in the capital of the Company or grant rights to subscribe for, or convert any security into, shares in the Company, up to an aggregate nominal amount of £130,000, which represents approximately 33% of the Company's issued ordinary capital as at 25 June 2014 (being the latest practicable date prior to the publication of this notice). This authority renews that given at last year's Annual General Meeting and will expire at 12 noon on 9 September 2019. The Directors did not have any present intention of exercising the authority granted by this resolution except in connection with the Company's share schemes. However, it is considered prudent to maintain the flexibility that this authority provides.

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

Resolution 11

It was proposed to renew the authority to the Directors to allot equity securities for cash without first being required to offer such securities to existing members. This included the sale for cash on a non-preemptive basis of any shares which the Company holds in treasury. The authority is limited to the issue of shares for cash up to an aggregate nominal amount of £19,000 representing approximately 5% of the issued ordinary share capital of the Company as at 25 June 2014 (being the latest practicable date prior to the publication of last year's notice). The authority will expire at the conclusion of the next Annual General Meeting of the Company.

The Directors do not intend to issue more than 7.5% of the issued ordinary share capital of the Company in any rolling three-year period without prior consultation with the Institutional Investment Committee. Members will note that this resolution also relates to the sale of treasury shares.

Resolution 12

The Company obtained authority to purchase up to approximately 10% of the Company's issued ordinary share capital at, or between, the minimum and maximum prices specified in this resolution. As at 25 June 2014 (being the latest practicable date prior to the publication of this notice), the total number of options to subscribe for shares in the Company was 365,809 (approximately 0.9% of the Company's issued ordinary share capital and approximately 2.4% of the Company's issued ordinary share capital if the full authority proposed by resolution 12 was used and the shares purchased were cancelled). This power would be used only after careful consideration by the Directors, having taken into account market conditions prevailing at that time, the investment needs of the Company, its opportunities for expansion and its overall financial position. The Directors would exercise the authority to purchase ordinary shares only if they considered it to be in the best interest of the members and they believe that the effect of such purchases will be to increase earnings per share.

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

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

Signed on behalf of the Board

N P STONE
Group Finance Director
3rd Floor
The Gateway
Innovation Way
Discovery Park
Sandwich
Kent CT13 9FF
18 June 2015

Corporate Governance

UK CORPORATE GOVERNANCE CODE

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

Throughout the year ended 31 March 2015, the Company has been in compliance with the Code provisions except with provision A.2.1 of the UK Corporate Governance Code. From 1 April 2014 to June 2014, Roger Canham performed the role of Executive Chairman. He reverted to a Non-Executive Chairman role from 1 June 2014 after a transition period with the appointment of the new Chief Executive Mr Richard Ames who joined the Group on 28 April 2014.

HOW THE BOARD OPERATES

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

The Board has a formal schedule of matters reserved for its decision and these include: Group strategy and long-term plans; major capital projects, acquisitions or divestments; annual budget and operating plan; Group financial structure, including tax and treasury; annual and half-year financial results and shareholder communications; and system of internal control and risk management. The schedule is reviewed annually. It was last reviewed in March 2015 when it was decided that no amendments were required.

LEADERSHIP

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

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

During the year the Board comprised the Chief Executive Officer, Chairman, Finance Director and two Non-Executive Directors.

Chairman and Chief Executive

In the year to 31 March 2015, the roles of Chairman and Chief Executive were combined for a temporary interim period while a new Chief Executive was recruited. With effect from 1 June 2014 after a transition period, the two roles are once again separate with a clear division of responsibility and Roger Canham has returned to a Non-Executive Chairman role.

Senior Independent Director

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

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

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

EFFECTIVENESS

Board composition

The Board contains a range of complementary skills, experience and knowledge that is considered appropriate for the scale of the business. The biographical details of all Board members are provided on page 16.

The Board considers David Adams and Charlie Caminada who served during the year to be independent of management and free from any business or other relationship which could interfere with the exercise of their independent judgement. Code provision B.1.2 requires non-FTSE 350 companies to have at least two Independent Non-Executive Directors.

In line with the UK Corporate Governance Code the Board has reflected on its performance and undertaken a rigorous review of the effectiveness of the performance of the Board based on discussions between the Chairman and other members of the Board, and has concluded that it operated effectively and executed commitment to the roles. Following the transition period from 1 June 2014 and in line with the code the senior independent non-executive will carry out this function and perform a detailed evaluation of the Board's ongoing effectiveness over the next year.

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

Corporate Governance continued

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

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

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

Appointments to the Board

Nominations Committee

The Nominations Committee comprises the Executive Chairman as well as executive and Non-Executive Directors. There was one appointment to the Board during the year ended 31 March 2015, Richard Ames who formally joined the Board on 28 April 2014 as Chief Executive. Appointments to the Board require the Board's authorisation and are conducted by the Nominations Committee.

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

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

Information and professional development

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

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

Re-election

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

Audit Committee and Auditors

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

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

Control environment

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

REMUNERATION

The Remuneration Committee comprises Charlie Caminada and David Adams. Charlie Caminada is the Chairman of the Remuneration Committee.

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

ACCOUNTABILITY

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

Internal Control and Risk Management

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

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

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

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

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

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

RELATIONS WITH SHAREHOLDERS

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

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

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

Share Capital

Details of our Share Capital structure can be found on page 17 of the Directors' Report and in note 21.

Going Concern

A review of the Group's business activities and future outlook are set out on pages 2 to 3 of the Chairman's Statement and within pages 4 to 8 of the Strategic Review. The financial position of the Group, its cash flows and liquidity position are shown in the balance sheet, cash flow statement and accompanying notes to the financial statements. The principal business risks associated with the business are shown on pages 12 to 13, whilst the risks arising from the Group's financial instruments are covered in note 19.

Corporate Governance continued

The Directors, in their consideration of going concern, have reviewed the Group's future cash flow forecasts and revenue projections, which they believe are based on a realistic assessment of future business performance. These models have been reviewed with the Group's external advisers to ensure they are robust and the assumptions made within the underlying principles of the model are realistic. As a result discussions were held recently with the larger shareholders and a proposal to raise £15 million of new equity is to be put to a general meeting on 13 July 2015. Conditional on the approval of this new equity raise, a new facility which extends to August 2019 has been agreed with the Group's principal banker.

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

However as the current fundraise and resulting move to AIM has not yet been approved by shareholders there remains a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

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

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

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

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

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

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

REPORT OF THE AUDIT COMMITTEE
STATEMENT BY THE CHAIRMAN OF THE AUDIT COMMITTEE

I am pleased to present the report of the Audit Committee for the financial year ended 31 March 2015. Throughout the year the Committee has continued its work to review the effectiveness of the Group's corporate governance framework. In particular the Committee has reviewed the Group's financial reporting; reviewed the need for an internal audit function and examined the internal audit reviews conducted; the appropriateness of the Group's internal controls; compliance with governance; financial and other compliance issues; shareholder announcements during the period; and to consider whether the Annual Report is fair, balanced and understandable and to disclose its conclusions on these matters.

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

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

DAVID ADAMS
Chairman of the Audit Committee
18 June 2015

MEMBERSHIP OF THE AUDIT COMMITTEE

The Audit Committee comprises David Adams and Charlie Caminada who have been on the Committee throughout the year. David Adams became Chairman of the Audit Committee on 9 January 2014. He is a Fellow of the Institute of Chartered Management Accountants and is considered by the Board to have recent and relevant financial experience, as required by the Code. Charlie Caminada has a wide range of business experience, which is evidenced by his biography set out in the Directors' Report.

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

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

SIGNIFICANT ISSUES IN RELATION TO THE FINANCIAL STATEMENTS

There were several significant judgements that the Committee has reviewed this year. These were:

- the Going Concern of the business in light of its aim to refinance and raise further equity;
- the provisions in place for any obsolete or aged stock;
- the capitalisation of the new ERP system being implemented within the Group and,
- the appropriate treatment and classification of exceptional costs in the accounts.

The going concern assumption is inherent to the preparation of the financial statements and the Committee has ensured that the renewal of the facilities for at least the next 18 months with the Group's bankers and the proposal to shareholders to raise further equity is complete in concluding on the going concern assumption. However it should be noted that the new financing arrangements are dependent on shareholder approval in the general meeting called for 13 July 2015. The Audit Committee has received detailed reports from the Hornby finance team and external advisers addressing this issue and has concluded that it is satisfied with the going concern assumption. Although as the current fundraise has not yet been approved by shareholders there remains a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

The Committee has reviewed a detailed Board paper on both the approach to stock provisions, the accounting treatment and rationale for the treatment and classification of both the capitalisation of the new ERP system and the classification of exceptional costs in the accounts. Each of the respective accounting treatments on these areas of significant judgements represent a consistent approach to previous years for the business.

Corporate Governance continued

The Committee also reported to the Board that it considers, when taken as a whole, the 2015 Annual Report was fair, balanced and understandable and includes the necessary information to assess the performance, business model and strategy of the Company.

REMIT OF THE AUDIT COMMITTEE

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

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

EXTERNAL AUDIT

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

The policy specifies:

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

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

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

To assess the effectiveness of the external auditors, the Committee reviewed their fulfilment of the agreed audit plan; the robustness and perceptiveness of the auditors in their handling of key accounting and audit judgements, the content of their letter to the Audit Committee on control matters and adherence to service standards set out in Hornby's Audit Charter policy. There are no contractual restrictions on the choice of the Committee as to external audit and, having considered the services provided by the current external auditors, PricewaterhouseCoopers LLP, their independence and knowledge of the Group, the Committee has recommended to the Board the reappointment of the auditors at the Annual General Meeting in Summer 2015. In reaching this decision the Committee has taken into account the tenure of the auditors of greater than ten years and considered whether there should be a full tender process. The Committee also had regard to the likelihood of a withdrawal of the auditor from the market.

INTERNAL AUDIT AND INTERNAL CONTROL

The Committee considered reports from Group financial management on the operation of, and issues arising from the Group's internal control procedures. The Committee monitored the effectiveness of the Group's risk management process, which considered the key risks, both financial and non-financial, facing the Group and the effectiveness of the Group's controls to manage and reduce the impact of those risks. These principal risks are set out on pages 12 to 13.

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

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

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

Directors' Remuneration Report

for the Year Ended 31 March 2015

ANNUAL STATEMENT

As Chair of the Remuneration Committee, I am pleased to introduce the Directors' Remuneration Report for the year ended 31 March 2015.

This report sets out how the Committee has operated the shareholder approved Remuneration Policy in the year ended 31 March 2015 and how the policy will be operated for the year ending 31 March 2016.

The Remuneration Committee

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

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

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

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

Performance and reward

Despite the management team making good progress in respect of delivering the Company's turnaround strategy, the threshold underlying PBT target for the annual bonus (80% of potential) was not met. As a result, the Remuneration Committee took the view that the profit performance did not support the payment of a bonus against the personal objectives (20% of potential). Although not held by either of the current Executive Directors, the 2012 PSP awards which had a 2015 vesting date failed to meet the threshold three year EPS and TSR performance targets and will therefore lapse.

Operation of the Policy for 2015–16

No changes will be made to the Remuneration Policy for the year ending 31 March 2016. As such, base salaries will remain at similar levels, the annual bonus will operate on a similar basis to 2014–15 and any PSP awards, to the extent granted to Executive Directors, would be granted on similar terms to those awarded in the past.

Shareholder Approval at the 2015 AGM

As no changes are being made to the Remuneration Policy, this Annual Statement and the Annual Report on Remuneration will be tabled for an advisory vote at the forthcoming AGM although the Remuneration Policy has been repeated in line with best practice and for the benefit of the reader.

ANNUAL REPORT ON REMUNERATION

The Company has established a Remuneration Committee (the 'Committee') which is constituted in accordance with the recommendations of the UK Corporate Governance Code published in September 2012 and other relevant regulation, including the Remuneration Regulations. It sets out the Group's remuneration policy and details of Directors' remuneration.

The Committee

The Committee is comprised of independent Non-Executive Directors. The current members are Charlie Caminada (Committee Chairman) and David Adams both of whom served for the entire financial year under review.

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

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

In determining the Directors' remuneration for 2015–16 the Committee consulted Roger Canham (Executive Chairman) and Richard Ames (Chief Executive) about its proposals. New Bridge Street ('NBS'), a trading name of Aon Corporation, is the Committee's appointed remuneration adviser and continues to provide advice to the Committee. Neither NBS nor Aon Corporation provides any other services to the Company.

This part of the remuneration report has been audited.

Directors' Remuneration Report continued

for the Year Ended 31 March 2015

General remuneration policy for the Executive Directors

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

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

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

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

Executive Directors' base salaries are reviewed annually by the Committee taking into account the responsibilities, skills and experience of each individual, pay and employment conditions within the Company and salary levels within listed companies of a similar size. The following tables shows the total remuneration of the Executive Directors for 2014–15 and 2013–14:

Executive Director	Salary and fees £'000	Taxable benefits[1] £'000	Pension contributions £'000	Annual bonus £'000	Sub-total 2014–15 £'000	Long-term incentives £'000	Total 2014–15 £'000
R Ames	277	10	56	–	343	–	343
N P Stone	180	10	36	–	226	–	226

Executive Director	Salary and fees £'000	Taxable benefits[1] £'000	Pension contributions £'000	Annual bonus £'000	Sub-total 2013–14 £'000	Long-term incentives £'000	Total 2013–14 £'000
R T Canham[2]	300	–	–	–	300	–	300
N P Stone	180	8	36	–	224	–	224
F Martin[3]	100	2	20	–	122	–	122

1 Taxable benefits relate to the provision of a company car, health assurance and F Martin pension supplement.
2 Roger Canham became Executive Chairman on 1 April 2013. Roger then remained in an Executive Director role until the handover period with R Ames, who joined the Board on 28 April 2014 was complete and then reverted back to the non-executive position of Chairman on 1 July 2014.
3 Frank Martin stepped down as Chief Executive on 28 March 2013 and became Deputy Chairman on that date until stepping down from the Board on 9 January 2014.

Benefits

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

Pension

The Executive Directors and senior managers are members of defined contribution pension schemes and annual contributions are calculated by reference to base salaries, with neither annual bonuses nor awards under the share incentive schemes taken into account in calculating the amounts due. The contribution level continues to be 20% of base salary for Executive Directors save that Mr Canham was not a member of the pension scheme and receives no benefits or contributions in respect of pensions.

Policy on payment of loss of office

Notice periods are set under individual service contracts but the Company has a policy for Executive Directors of a notice period of six months to be given by the Company which is extended to one year after six months service and of six months to be given by 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.

Performance-related annual bonus

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

This mix of targets is considered to provide a good link to the business strategy. Claw back provisions are incorporated into the Annual Bonus Plan rules to enable the Company to claw back overpayments in the event of financial misstatement or gross misconduct.

The table below shows the PBT targets set for 2014–15:

Target of Underlying PBT	Target at operating level	Target for maximum pay-out	% salary awarded for operating plan achievement	% salary awarded for maximum achievement	Achieved underlying PBT	% of salary awarded
Richard Ames	100%	120%	40%	80%	£1.6 million underlying PBT	0%
Nick Stone	100%	120%	30%	60%	£1.6 million underlying PBT	0%

In respect of the year ended 31 March 2015 neither of the Executive Directors who served during the year were entitled to a bonus. Executive Directors achieved 0% (out of a maximum 80%) for the profit before tax element and 0% (out of a maximum 20%) for the personal objectives element. The Remuneration Committee took the view that profit delivery in 2014–15 did not support the payment of bonuses for personal objectives.

Performance Share Plan

The Performance Share Plan ('PSP') is the Company's primary long-term incentive plan. Under the PSP, awards are made to Executive Directors and selected other executives on the following basis:

- The maximum award level is 150% of base salary per annum although awards up to 200% of base salary may be granted to an individual in exceptional circumstances (e.g. recruitment or retention).
- Performance conditions are reviewed annually, so as to ensure they remain appropriately pitched in relation to the strategy and business cycle, and provide an optimal alignment between the interests of executives and shareholders.
- Awards are subject to a total shareholder return ('TSR') condition and a range of normalised underlying earnings per share ('EPS') growth targets.
- The Committee is comfortable that a blend of TSR and EPS targets continues to provide a good balance between incentivising and rewarding strong financial performance on the one hand whilst, on the other hand, providing a strong and direct alignment with the interests of institutional shareholders by rewarding stock market outperformance.
- Performance conditions are calculated by independent advisers and verified by the Committee.
- Executives benefit, in the form of additional cash or shares, from the value of dividends paid over the vesting period, to the extent that awards vest.
- Similar to the bonus plan, a claw back provision operates to enable the Company to claw back PSP overpayments in the event of misstatement or gross misconduct.

PSP Awards Granted in the year ended 31 March 2015

On 26 September 2014, Executive Directors were granted the following PSP awards.

Executive Director	Number of PSP awards	Basis	Face value[1]
R Ames	845,070	200% of base salary	£600,000
N Stone	253,521	100% of base salary	£180,000

1. Based on a share price of 71p (the closing share price prior to the grant date).

As agreed between the individual and the Remuneration Committee at the point of recruitment, Richard Ames received a PSP award of shares over 200% of salary following his appointment.

Performance conditions for the awards, which were discussed with the Company's major investors prior to the grant date, are as follows:

- 40% of awards: 25% of this part of the award will vest if Hornby's TSR is equal to the TSR of the median company of the constituents of the FTSE Small Cap (struck at the date of grant), with full vesting for top quartile performance, with a sliding scale operating between these points.
- 60% of awards: For the EPS part of the award, 25% vests for EPS of 5p for the year ending 31 March 2017, with full vesting for EPS of 12.2p for the year ending 31 March 2017 with a sliding scale operating between these points.

Directors' Remuneration Report continued

for the Year Ended 31 March 2015

Shareholding guidelines

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

DIRECTORS' INTERESTS

Interests in shares

The interests of the Directors in the shares of the Company at 31 March 2015 were:

	At 31 March 2015 number	At 31 March 2014 number
Executive Directors		
R Ames	–	–
N P Stone	10,000	10,000
Non-Executive Directors		
R Canham	40,000	40,000
D Adams	–	–
C Caminada	22,325	–

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. Roger Canham is also the Chairman of Phoenix Asset Management Partners who hold a substantial shareholding in Hornby Plc.

J Ames a related party of R Ames held 36,983 shares in Hornby Plc as at 31 March 2015.

Performance Share Plan awards outstanding

At 31 March 2015, outstanding awards to Directors under the Performance Share Plan were as follows:

Director	Award date	Vesting date	Market price at Award date	At 1 April 2014	Awarded during year	Lapsed during year	Vested during year	At 31 March 2015
R Ames	Sept 2014	Sept 2017	71.0p	–	845,070	–	–	845,070
N Stone	July 2013	July 2016	81.5p	220,859	–	–	–	220,859
	Sept 2014	Sept 2017	71.0p	–	253,521	–	–	253,521
R Canham	July 2013	July 2016	81.5p	122,699	–	–	–	122,699

For the 2013 awards, 40% of an award is subject to a TSR condition and 60% is subject to an EPS performance condition, both of which are measured over a period of three financial years. For the TSR condition, 25% of this part of the award will vest if Hornby's TSR is equal to the TSR of the median company of the constituents of the FTSE Small Cap (struck at the date of grant), with full vesting for top quartile performance, with a sliding scale operating between these points. For the EPS part of the award, 25% vests for average annual underlying EPS growth of RPI+3% p.a., with full vesting for average annual EPS growth of RPI+12% p.a. A sliding scale operates between these points.

For the 2014 awards, 40% of an award is subject to a TSR condition and 60% is subject to an EPS performance condition, both of which are measured over a period of three financial years. For the TSR condition, 25% of this part of the award will vest if Hornby's TSR is equal to the TSR of the median company of the constituents of the FTSE Small Cap (struck at the date of grant), with full vesting for top quartile performance, with a sliding scale operating between these points. For the EPS part of the award, 25% vests for EPS of 5p for the year ending 31 March 2017, with full vesting for EPS of 12.2p for the year ending 31 March 2017 with a sliding scale operating between these points.

Non-Executive Directors

The table below gives the salary and fees of the Non-Executive Directors for 2014–15 and 2013–14:

	Basic salary and fees 2014–15 £'000
R Canham	150
D Adams	40
C Caminada	40

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

The following table summarises the total salary and pension contributions received by Directors for 2014–15 and 2013–14 in line with the Companies Act 2006 requirement:

	Year ended 31 March 2015			Year ended 31 March 2014		
	Basic salary and fees £'000	Pension received £'000	Total salary and pension received £'000	Basic salary and fees £'000	Pension received £'000	Total salary and pension received £'000
R Ames (Joined 28 April 2014)	287	56	343	–	–	–
R Canham	150	–	150	300	–	300
N Stone	190	36	226	188	36	224
F Martin (resigned 9 January 2014)	–	–	–	102	20	122
D Adams (appointed 9 January 2014)	40	–	40	9	–	9
C Caminada (appointed 9 January 2014)	40	–	40	9	–	9
N M Carrington (Resigned 31 January 2014)	–	–	–	33	–	33
M E Rolfe (Resigned 31 January 2014)	–	–	–	33	–	33
Total	707	92	799	674	56	730

PERFORMANCE GRAPH (UNAUDITED INFORMATION)

The following graph shows the Company's total shareholder return compared to the TSR of the FTSE Small Cap (excluding investment trusts) over the ten-year period to 31 March 2015. This index has been selected given that the Company is a constituent of the FTSE Small Cap.

Total shareholder return

Source: Thomson Reuters (Datastream)

Directors' Remuneration Report continued

for the Year Ended 31 March 2015

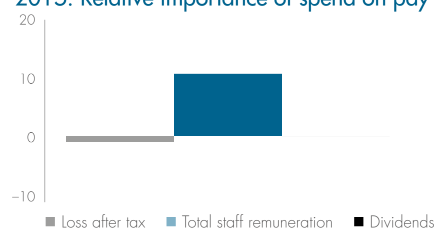
The table below shows the total remuneration for the Chief Executive Officer and the percentages of the maximum awards of performance related pay received over the past six years. The variable element reflects the actual bonus paid to the CEO and the long-term incentives relate to the PSP scheme which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

Year	CEO	Single figure total remuneration £'000	Annual variable element % of max	Long-term incentives % of max
2014–15	R Ames	343	n/a	–
2013–14	R T Canham	300	n/a	–
2012–13	F Martin	333	0%	–
2011–12	F Martin	326	0%	–
2010–11	F Martin	365	12%	–
2009–10	F Martin	455	31%	–

Relative importance of spend on pay (unaudited)

As required by the Remuneration Regulations, the table opposite compares total staff remuneration with the amounts paid in dividends to shareholders and the loss after tax of the Group. The measure being used of loss after tax represent the statutory financial performance of the Group and acts as a comparative benchmark for future years.

2015: Relative importance of spend on pay (unaudited) (£million)



Payments to Past Directors

No payments were made to past Directors in the year ended 31 March 2015.

Termination Payments

No termination payments were made to Directors in the year ended 31 March 2015. IFRS 2 leaver provisions are applied to the PSP share scheme based upon the directors' service contracts.

REMUNERATION POLICY

Executive Directors' service contracts

The Executive Directors do not have fixed period contracts.

Remuneration under termination of contract

Under the Executive Directors contracts they are entitled to receive payment under their notice period, all other non-contractual payments are at the discretion of the Board. For the Performance Share Plan awards issued under the rules of the scheme; these are subject to good and bad leaver provisions redundancy, retirement and death in service constitute examples of good leavers, where the awards would still continue to be held albeit on a prorate basis. Resignation from the Group would constitute an example where the bad leaver rules would apply and the awards would lapse.

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

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

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

Non-Executive Directors' contracts

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

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

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

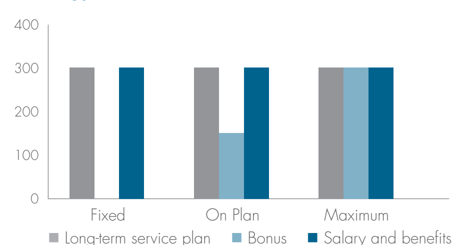
None of the Non-Executive Directors receives any pension or performance-related pay from the Company. The table below summarises the main components of the existing remuneration package for Executive Directors.

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

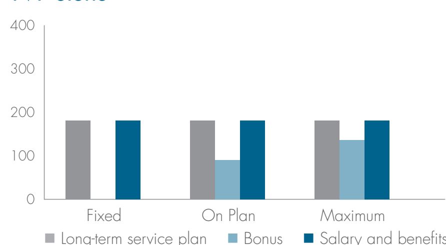
Estimate of the total future potential remuneration
The charts below set out estimates of the potential remuneration for each of the Executive Directors based on the current remuneration packages. The assumptions included in each scenario are described below:

- The share price of Hornby Plc remains constant.
- Consists of base salary, pension and benefits which are all assumed to be in line with 2014–15.
- On plan – the Performance share plan will deliver 50% of maximum.

R Ames



N P Stone



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

The current scale of remuneration is:

	£'000
Chairman	100
Other Non-Executive Directors	40

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

On recruitment, the Committee may also grant awards to a new Director under the Listing Rule 9.4.2 which allows for the granting of awards, specifically to facilitate, in unusual circumstances, the recruitment or retention of a Director, without seeking prior shareholder approval. This discretion will only be used in respect of buyout awards where a new recruit forfeits awards granted by a previous employer.

Engagement with shareholders
The Committee considers shareholder feedback received during the AGM and any other shareholder meetings as part of its annual review of its remuneration policy. Where the Committee proposes to introduce new long-term incentive plans, the Committee seeks the views of major shareholders prior to seeking general shareholder approval at a general meeting. There were no shareholder representations to the Company in 2014–15 in respect of Directors' remuneration.

C CAMINADA
Remuneration Committee Chairman
18 June 2015

Statement of Directors' Responsibilities

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements.

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

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

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

Each of the Directors, whose names and functions are listed in the Directors and Corporate Information section, confirm that, to the best of their knowledge:

- the Group and Company financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and loss of the Group and profit of the Company; and
- the Strategic Review and Corporate Governance Statement includes a fair review of the true development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

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

By order of the Board

N STONE
Group Finance Director
18 June 2015

Independent auditors' report to the members of Hornby Plc

Report on the financial statements

Our opinion

In our opinion, Hornby Plc's group financial statements and company financial statements (the 'financial statements'):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2015 and of the group's loss, the company's profit and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Emphasis of matter – Group – Going concern

In forming our opinion on the group financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the group's ability to continue as a going concern. The group incurred a net loss of £0.1 million during the year ended 31 March 2015 and is currently raising additional equity of £15 million. However, this fundraising is subject to shareholder approval on 13 July 2015. In addition, a new bank facility was signed on 18 June 2015 conditional on the successful equity raise. Both the equity fund raise and the new bank facility are needed in order to finance the group's operations and for it to continue as a going concern for at least the next 12 months. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern. The group financial statements do not include the adjustments that would result if the group was unable to continue as a going concern.

What we have audited

Hornby Plc's financial statements comprise:

- the group and company Balance Sheet as at 31 March 2015;
- the group and company Statement of Comprehensive Income for the year then ended;
- the group and company Statement of Changes in Equity for the year then ended;
- the group and company Cash Flow Statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

Our audit approach

Overview

- Overall group materiality: £62,000 which represents 5% of profit before tax, adjusted for the loss on revaluation of intra-group loans and exceptional restructuring costs.

- Of the group's ten reporting units, we performed full scope audit procedures on three units based in the UK and Spain and specific audit procedures on certain balances in the USA. Overall, this accounted for 96% of group revenue and 100% of group profit before tax adjusted for the loss on revaluation of intra-group loans and exceptional restructuring costs.

- Group's ability to continue as a going concern.
- Carrying value of inventory.
- Capitalisation of costs in respect of ERP system.
- Classification of exceptional items.

THE SCOPE OF OUR AUDIT AND OUR AREAS OF FOCUS

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved

making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Group's ability to continue as a going concern Refer to page 23 of the Audit Committee Report and page 46 of the financial statements. Hornby Plc has bank facilities which expire in December 2015 and based on cash flow forecasts prepared by management, the directors have determined that the group will have insufficient cash to meet its debts as they fall due or to pursue its future strategies, unless the group is able to effect a refinancing before then. Management is currently pursuing a £15 million equity issue to finance the group's operations and has agreed a revised working capital facility with its bankers conditional on the equity raise. At the time of approving the group's financial statements, the equity raise is subject to shareholder approval on 13 July 2015. We consider this matter to be a material uncertainty to the ability of the group to continue as a going concern. This issue is referred to in Note 1 (Basis of Preparation) and our Emphasis of matter paragraph above.	We obtained management's group cash flow forecasts for the period ending 31 December 2016, which reflect the proposed equity raise and revised bank facilities. We evaluated and challenged the composition of the forecasts, and the process by which they were drawn up and evaluated the appropriateness of the key assumptions included in the forecasts. We compared the forecasts against historical performance to gain comfort over the phasing of the cash flows in the forecasts and also that the assumptions were reasonable in light of past performance. In particular we concentrated on the following key assumptions: • Sales growth of 11% in FY2015/16 and 15% in FY2016/17 which management believe is achievable based on an improved supply chain and further investment in internet sales. • Exchange rate of US dollar 1.51 used for purchases which is management's consensus on the estimated long term US dollar rate. For 2015/16, the rate has been adjusted for the forward contracts in place that expire throughout the year. • A successful equity placing of £14.4m (net of costs) in August 2015. Management have received verbal commitments from existing and new shareholders to support the planned £15m equity raise. • Sale of the site in Margate in June 2016. Management has received an indicative offer from a potential buyer which they believe gives support to the sales price being achieved within the timeframe. We also read the Proposed Open Offer Prospectus concerning the equity issue and had detailed discussions with management and their advisers about the proposed equity issue. We obtained a copy of the signed bank facilities and agreed the amount of the proposed facility, and the debt covenants that would apply, to those used in the group cash flow forecasts. Based on our work we agreed with the Directors' assessment that the going concern basis of preparation is appropriate and our conclusion on going concern is below. However we also concur that there is a material uncertainty which may cast significant doubt on the group's ability to continue as a going concern because of the uncertainty over the refinancing. The disclosures in the financial statements appropriately identify this risk.

Independent auditors' report to the members of Hornby Plc continued

Area of focus	How our audit addressed the area of focus
Carrying value of inventory Refer to page 23 of the Audit Committee Report and pages 46, 49 and 65 of the financial statements. Management's provisioning process for finished goods inventory starts by calculating the difference between the sales forecast based on historical sales data, and the level of inventory held for each individual inventory line. This calculation is then adjusted for any known or expected additional sales over and above the initial sales forecast. Management also consider the margins achieved on all product lines to determine if a provision is required to reduce the inventory down to its net realisable value. This was an area of focus for us as the level of provisioning is an important factor in the overall profitability of the business and the calculations involved are manual and based on judgement.	We assessed the accuracy and completeness of the source information used to calculate the inventory provisions by agreeing the detailed listing of inventory included in the provision calculation to the listing we had tested for existence and valuation and reconciled to the general ledger. We also agreed the sales forecast figures to historical sales data, or to planned sales orders where stock items were for newer lines without sales history. We were able to obtain reasonable explanations for adjustments to the initial sales forecast from management which could generally be supported by post year-end sales. We also reperformed the provision calculations, finding no material misstatements, and tested a sample to recent sales to assess whether inventory was being sold above its carrying value. Our testing identified no material misstatements and we found the judgements made by management were reasonable.
Capitalisation of costs in respect of ERP system Refer to page 23 of the Audit Committee Report and pages 48, 49 and 52 of the financial statements. During the year, the group began to implement a new ERP system and external and internal costs totalling £646,000 were capitalised in respect of the project. This was an area of focus for us due to the materiality of the amounts involved and the risk that the relevant costs do not meet the criteria for capitalisation under International Accounting Standard 38 'Intangible assets' ('IAS 38').	We obtained a detailed listing of the costs capitalised and tested a sample to supporting documentation to ensure that they met the criteria for capitalisation under IAS 38. The costs included capitalised salary costs, which we tested by assessing the role of the employee in the project team and agreeing their salary costs to payroll records. Other costs primarily related to contractor costs which we tested by agreement to third party invoices. Our testing identified no material misstatements.
Classification of exceptional items Refer to page 23 of the Audit Committee Report and pages 48 and 57 of the financial statements. During the year the group incurred £811,000 of costs which management believe are one-off in nature and therefore disclosed as exceptional items on the face of the Statement of Comprehensive Income. We included this as an area of focus given the significant focus on the underlying profit figure of the group.	We obtained a detailed listing of the exceptional costs and tested a sample to check that they were one-off in nature and warranted separate disclosure on the face of the Statement of Comprehensive Income. The majority of these costs related to the cost of setting up the new warehouse facility. We were able to confirm from our testing to third party invoices that these were one-off in nature.

HOW WE TAILORED THE AUDIT SCOPE

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the group, the accounting processes and controls, and the industry in which the group operates. The group financial statements are a consolidation of ten reporting units, comprising the group's operating businesses and centralised functions.

In establishing the overall approach to the group audit, we determined the scope of work that needed to be performed at the reporting units by us in the UK, as the group engagement team, or by other PwC network firms operating under our instruction. Where the work was performed by a component auditor, we also determined the level of involvement we needed to have in the audit work of the reporting unit

to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the group financial statements as a whole.

Of the group's ten reporting units, we identified three (two in the UK and one in Spain, accounting for 96% of Group revenue and 100% of group profit before tax adjusted for the loss on revaluation of intra-group loans and exceptional restructuring costs) which in our view, required an audit of their complete financial information due to their size. Specific audit procedures on certain balances were performed on the reporting unit in the USA. This, together with additional procedures performed at group level, gave us the evidence we needed for our opinion on the financial statements as a whole.

The UK and US work was carried out by the group engagement team. The work in Spain was carried out by the Spanish firm and a conference call was held with the Spanish team prior to the commencement of work to discuss the principal areas of risk with them. A conference call was also held following submission of their reporting to discuss their findings.

MATERIALITY

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

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

Overall group materiality	£62,000 (2014: £126,000).
How we determined it	5% of profit before tax, adjusted for the loss on revaluation of intra-Group loans and exceptional restructuring costs. In the prior year materiality was based on 5% of loss before tax before the exceptional item relating to the impairment of goodwill.
Rationale for benchmark applied	We believe that profit before tax adjusted for one-off items provides us with a consistent year on year basis for determining materiality by eliminating the non-recurring disproportionate impact of these items.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £5,000 (2014: £5,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

GOING CONCERN

Under the Listing Rules we are required to review the directors' statement, set out on page 21, in relation to going concern. We have nothing to report having performed our review.

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

As explained in note 1, the group's ability to remain in operation is dependent on successful refinancing. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because further financing is necessary and the raising of it is conditional upon shareholder approval, there is a material uncertainty which may cast significant doubt on the ability of the group to continue as a going concern.

Because not all future events or conditions can be predicted, even if the refinancing plans referred to in note 1 are successful, these statements are not a guarantee as to the group's and parent company's ability to continue as a going concern.

OTHER REQUIRED REPORTING

CONSISTENCY OF OTHER INFORMATION

Companies Act 2006 opinions

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report to the members of Hornby Plc continued

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
Information in the Annual Report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group and company acquired in the course of performing our audit; or • otherwise misleading.	We have no exceptions to report arising from this responsibility.
• the statement given by the directors on page 33, in accordance with provision C.1.1 of the UK Corporate Governance Code ("the Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the group's and company's performance, business model and strategy is materially inconsistent with our knowledge of the group and company acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
• the section of the Annual Report on page 23, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

ADEQUACY OF ACCOUNTING RECORDS AND INFORMATION AND EXPLANATIONS RECEIVED

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

DIRECTORS' REMUNERATION

Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

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

Corporate governance statement

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

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

OUR RESPONSIBILITIES AND THOSE OF THE DIRECTORS

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

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

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

WHAT AN AUDIT OF FINANCIAL STATEMENTS INVOLVES

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

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

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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

ROSEMARY SHAPLAND (SENIOR STATUTORY AUDITOR)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick
18 June 2015

Group and Company Statement of Comprehensive Income

for the Year Ended 31 March 2015

	Note	Group 2015 £'000	Group 2014 £'000	Company 2015 £'000	Company 2014 £'000
Revenue	2	**58,135**	51,557	**1,346**	1,456
Cost of sales		**(30,961)**	(28,230)	**–**	–
Gross profit		**27,174**	23,327	**1,346**	1,456
Distribution costs		**(5,937)**	(2,549)	**–**	–
Selling and marketing costs		**(12,246)**	(11,322)	**–**	–
Administrative expenses		**(7,367)**	(9,811)	**(888)**	(994)
Other operating expenses		**(1,303)**	(3,718)	**(103)**	(85)
Operating profit/(loss)	2	**321**	(4,073)	**355**	377
Finance income	3	**1**	8	**174**	174
Finance costs	3	**(506)**	(492)	**(192)**	(208)
(Loss)/profit before taxation	4	**(184)**	(4,557)	**337**	343
Analysed as:					
Underlying profit/(loss) before taxation	1	**1,622**	(1,139)	**337**	383
Net foreign exchange impact on intercompany loans		**(618)**	(108)	**–**	–
Amortisation of intangibles		**(377)**	(389)	**–**	–
Exceptional items:					
Restructuring costs		**(811)**	(875)	**–**	(40)
Impairment of goodwill		**–**	(2,046)	**–**	–
(Loss)/profit before taxation		**(184)**	(4,557)	**337**	343
Income tax credit/(charge)	5	**64**	112	**(51)**	(38)
(Loss)/profit for the year after taxation		**(120)**	(4,445)	**286**	305
Other comprehensive income					
Items that may be subsequently reclassified to Profit and Loss:					
Cash flow hedges, net of tax		**802**	(714)	**–**	–
Currency translation differences		**(501)**	(146)	**605**	101
Other comprehensive income/(loss) for the year, net of tax		**301**	(860)	**605**	101
Total comprehensive income/(loss) for the year		**181**	(5,305)	**891**	406
Loss per ordinary share					
Basic	7	**(0.31)p**	(11.35)p		
Diluted	7	**(0.31)p**	(11.35)p		

All results relate to continuing operations.

The notes on pages 46 to 77 form part of these accounts.

Group and Company Balance Sheet

at 31 March 2015

		Group		Company	
	Note	**2015 £'000**	2014 £'000	**2015 £'000**	2014 £'000
Assets					
Non-current assets					
Goodwill	8	**8,464**	8,530	**–**	–
Intangible assets	9	**4,071**	3,569	**–**	–
Property, plant and equipment	10	**10,260**	10,383	**1,207**	1,241
Investments	11	**–**	–	**37,326**	37,224
Deferred tax assets	20	**2,099**	1,858	**–**	–
		24,894	24,340	**38,533**	38,465
Current assets					
Inventories	12	**12,469**	13,165	**–**	–
Trade and other receivables	13	**10,444**	9,043	**983**	628
Derivative financial investments	19	**519**	39	**–**	–
Current tax assets	17	**419**	601	**81**	29
Cash and cash equivalents	14	**451**	619	**1**	1
		24,302	23,467	**1,065**	658
Liabilities					
Current liabilities					
Borrowings	18	**(7,747)**	(7,630)	**(116)**	–
Derivative financial instruments	19	**(24)**	(445)	**–**	–
Trade and other payables	15	**(9,067)**	(7,618)	**(19)**	(62)
Provisions	16	**(255)**	(238)	**–**	–
Current tax liabilities	17	**(53)**	(128)	**–**	(100)
		(17,146)	(16,059)	**(135)**	(162)
Net current assets/(liabilities)		**7,156**	7,408	**930**	496
Non-current liabilities					
Borrowings	18	**(163)**	(242)	**(4,395)**	(4,984)
Deferred tax liabilities	20	**(131)**	(136)	**(121)**	(126)
		(294)	(378)	**(4,516)**	(5,110)
Net assets		**31,756**	31,370	**34,947**	33,851
Equity attributable to owners of the parent					
Share capital	21	**392**	392	**392**	392
Share premium		**6,180**	6,180	**6,180**	6,180
Capital redemption reserve		**55**	55	**55**	55
Translation reserve		**(1,259)**	(758)	**(353)**	(958)
Hedging reserve		**362**	(440)	**–**	–
Other reserves		**1,688**	1,688	**19,145**	19,145
Retained earnings		**24,338**	24,253	**9,528**	9,037
Total equity		**31,756**	31,370	**34,947**	33,851

The notes on pages 46 to 77 form part of these accounts. The financial statements on pages 40 to 45 were approved by the Board of Directors on 18 June and were signed on its behalf by:

N P STONE
Director
Registered Company Number: 01547390

Group and Company Statement of Changes in Equity

Year Ended 31 March 2015 and 31 March 2014

GROUP	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Translation reserve £'000	Hedging reserve £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
Balance at 1 April 2013	392	6,180	55	(612)	274	1,688	28,424	36,401
Total loss for the year	–	–	–	–	–	–	(4,445)	(4,445)
Other comprehensive income for the year	–	–	–	(146)	(714)	–	–	(860)
Total comprehensive income for the year	**–**	**–**	**–**	**(146)**	**(714)**	**–**	**(4,445)**	**(5,305)**
Transactions with owners								
Share-based payments (note 22)	–	–	–	–	–	–	274	274
Total transactions with owners	**–**	**–**	**–**	**–**	**–**	**–**	**274**	**274**
Balance at 31 March 2014	**392**	**6,180**	**55**	**(758)**	**(440)**	**1,688**	**24,253**	**31,370**
Total loss for the year							(120)	(120)
Other comprehensive income for the year	–	–	–	(501)	802	–	–	301
Total comprehensive income for the year	**–**	**–**	**–**	**(501)**	**802**	**–**	**(120)**	**181**
Transactions with owners								
Share-based payments (note 22)	–	–	–	–	–	–	205	205
Total transactions with owners	**–**	**–**	**–**	**–**	**–**	**–**	**205**	**205**
Balance at 31 March 2015	**392**	**6,180**	**55**	**(1,259)**	**362**	**1,688**	**24,338**	**31,756**

Retained earnings includes £570,000 at 31 March 2015 (2014 – £587,000) which is not distributable and relates to a 1986 revaluation of land and buildings.

COMPANY	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Translation reserve £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
Balance at 1 April 2013	392	6,180	55	(1,059)	19,145	8,458	33,171
Total income for the year	–	–	–	–	–	305	305
Other comprehensive income for the year	–	–	–	101	–	–	101
Total comprehensive income for the year	**–**	**–**	**–**	**101**	**–**	**305**	**406**
Transactions with owners							
Share-based payments	–	–	–	–	–	274	274
Total transactions with owners	**–**	**–**	**–**	**–**	**–**	**274**	**274**
	–	–	–	101	–	579	680
Balance at 31 March 2014	**392**	**6,180**	**55**	**(958)**	**19,145**	**9,037**	**33,851**
Total income for the year	–	–	–	–	–	286	286
Other comprehensive income for the year	–	–	–	605	–	–	605
Total comprehensive income for the year	**–**	**–**	**–**	**605**	**–**	**286**	**891**
Transactions with owners							
Share-based payments	–	–	–	–	–	205	205
Total transactions with owners	**–**	**–**	**–**	**–**	**–**	**205**	**205**
Balance at 31 March 2015	**392**	**6,180**	**55**	**(353)**	**19,145**	**9,528**	**34,947**

The notes on pages 46 to 77 form part of these accounts.

Group and Company Cash Flow Statement

for the Year Ended 31 March 2015

		Group		Company	
	Note	**2015 £'000**	2014 £'000	**2015 £'000**	2014 £'000
Cash flows from operating activities					
Cash generated/(used in) from operations		**5,328**	(76)	**(194)**	516
Interest paid		**(506)**	(492)	**(192)**	(208)
Tax (paid)/received		**(127)**	(482)	**67**	16
Net cash generated/(used in) from operating activities		**4,695**	(1,050)	**(319)**	324
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		**20**	–	**–**	–
Purchase of property, plant and equipment	10	**(4,073)**	(4,059)	**–**	–
Purchase of intangible assets	9	**(988)**	–	**–**	–
Interest received		**1**	8	**174**	174
Net cash (used in)/generated from investing activities		**(5,040)**	(4,051)	**174**	174
Cash flows from financing activities					
Repayments of loans		**(1,584)**	(3,060)	**–**	–
Finance lease capital payments		**–**	(3)	**–**	–
Advances to subsidiary undertakings		**–**	–	**116**	(4,767)
Repayments to subsidiary undertakings		**–**	–	**29**	4,268
Net cash used in financing activities		**(1,584)**	(3,063)	**145**	(499)
Net decrease in cash and cash equivalents		**(1,929)**	(8,164)	**–**	(1)
Cash, cash equivalents and bank overdrafts at beginning of the year		**(5,456)**	2,725	**1**	2
Effect of exchange rate movements		**138**	(17)	**–**	–
Cash, cash equivalents and bank overdrafts at end of year		**(7,247)**	(5,456)	**1**	1
Cash, cash equivalents and bank overdrafts consist of:					
Cash and cash equivalents	14	**451**	619	**1**	1
Bank overdrafts	16	**(7,698)**	(6,076)	**–**	–
Cash, cash equivalents and bank overdrafts at end of year		**(7,247)**	(5,456)	**1**	1

Notes to the Cash Flow Statements

Group and Company Cash Flows from Operating Activities

	Group		Company	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
(Loss)/profit before taxation	**(184)**	(4,557)	**337**	343
Interest payable	**506**	492	**192**	208
Interest receivable	**(1)**	(8)	**(174)**	(174)
Dividend income	**–**	–	**–**	–
Amortisation of intangible assets	**377**	389	**–**	–
Impairment of Goodwill	**–**	2,046	**–**	–
Depreciation	**3,749**	3,604	**34**	34
(Gain)/Loss on disposal of property, plant and equipment	**(5)**	22	**–**	–
Share-based payments	**205**	274	**103**	85
Gain on financial derivatives	**(102)**	(135)	**–**	–
Increase in provisions	**17**	3	**–**	–
Decrease in inventories	**166**	472	**–**	–
(Increase)/decrease in trade and other receivables	**(1,883)**	560	**(643)**	26
Increase/(decrease) in trade and other payables	**1,685**	(1,451)	**(43)**	(6)
Increase/(decrease) in derivative financial instruments	**798**	(1,787)	**–**	–
Cash generated from/(used in) operations	**5,328**	(76)	**(194)**	516

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

Accounting policies for the year ended 31 March 2015

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

BASIS OF PREPARATION

The financial information for the year ended 31 March 2015 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

As the Group's bank facilities expire in December 2015 and the current business plans require significant investment, the Group are proposing to raise £15 million additional equity to enable the Group to pursue these plans.

Based on the successful completion of discussions with investors to raise the £15 million additional equity, the signing of a new bank facility with the Group's bankers, which is conditional on the equity raise and a detailed review of the Groups forecasts and cash flow models with external advisers, the directors have a reasonable expectation that the Group has 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.

However as the current equity raise has not yet been approved by shareholders there remains a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

BASIS OF CONSOLIDATION

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

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

ADOPTION OF NEW AND REVISED STANDARDS

The Group applied all applicable new standards, interpretations and amendments published by the IASB and as endorsed by the European Union for the year beginning 1 January 2014, being IFRS 10, IFRS 11, IFRS 12 and amendments to IAS 27, IAS 28, IAS 36, IAS 32 and IAS 39. The implementation of these standards and amendments did not have a material effect on the accounts.

The Group did not early adopt any standard, interpretation, or amendments published by the IASB and endorsed by the European Union for which the mandatory application date is after 1 January 2014.

The following new standards, interpretations, and amendments to standards and interpretations have been issued, subject to the EU endorsement, but are not effective for the financial year beginning 1 January 2014 and have not yet been early adopted by the Group:

	Effective date for periods beginning on or after
IFRS 9 'Financial Instruments'	1 January 2018
IFRS 14 'Regulatory Deferral Accounts'	1 January 2016
IFRS 15 'Revenue from Contracts with Customers'	1 January 2017
Amendments to IFRS 10 and IAS 28 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'	1 January 2016
Amendments to IFRS 11 'Accounting for Acquisitions of interests in Joint Operations'	1 January 2016
Amendments to IAS 16 and IAS 41 'Bearer Plants'	1 January 2016
Amendments to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortisation'	1 January 2016
Amendments to IAS 19 'Defined Benefit Plans: Employee Contributions'	1 July 2014
Amendments to IAS 27 'Equity Method in Separate Financial Statements'	1 January 2016

The Group does not currently expect any of these changes to have a material impact on the results.

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

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

	Group	
	2015 £'000	2014 £'000
Loss before taxation	**(184)**	(4,557)
Foreign exchange on intercompany loans	**618**	108
Amortisation of intangibles (note 9)	**377**	389
Impairment of goodwill (note 8)	**–**	2,046
Restructuring costs	**811**	875
Underlying profit/(loss) before taxation	**1,622**	(1,139)

The Statement of Comprehensive Income discloses foreign exchange movements, amortisation of intangibles and impairment of goodwill within other operating expenses. Restructuring costs are disclosed within administrative expenses. Restructuring costs of £0.8 million in the year ended 31 March 2015 comprise mainly the costs of moving warehouses in the UK to the new warehouse run by our third party provider, DS Logistics, but also include elements of redundancy and associated legal fees and other one off items.

Reconciliation of net debt:

	Group	
	2015 £'000	2014 £'000
Cash (note 14)	**451**	619
Total borrowings (note 18)	**(7,910)**	(7,872)
Net debt	**(7,459)**	(7,253)

Cash of £451,000 above includes restricted cash of £98,108 held within an Escrow account that relates to the exit payment to our previous principal model railway supplier mentioned within the previous Annual Report and Accounts for the year ended 31 March 2014.

Notes to the Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES continued

REVENUE RECOGNITION

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

Revenue is recognised as follows:

(a) Sale of goods

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

(b) Royalty income

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

(c) Sales returns

The Group establishes a sales returns provision at the period end that reduces income in anticipation of customer returns of goods sold in the period.

(d) Hornby Visitor Centre

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

Dividend income in the Company is recognised upon receipt. Management fees are recognised in the Company on an accruals basis in relation to costs incurred on behalf of subsidiary companies.

EXCEPTIONAL ITEMS

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

OPERATING SEGMENTS

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

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

BUSINESS COMBINATIONS

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

GOODWILL

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

INTANGIBLES

(a) Brand names

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

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

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

(d) Computer software
Computer software expenditure is capitalised at the value at the date of acquisition and depreciated over a useful economic life of 4 to 6 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:

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

Freehold land is not depreciated.

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

IMPAIRMENT OF NON-CURRENT ASSETS

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

INVESTMENTS

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less any impairment. Investments revalued using the equity method of valuation prior to the transition to IFRS use this valuation as deemed cost at this date. Dividend income is shown separately in the Statement of Comprehensive Income.

INVENTORIES

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

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

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

Notes to the Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES continued

FINANCIAL INSTRUMENTS

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

FINANCIAL LIABILITIES AND EQUITY

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

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

BORROWING COSTS

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

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

SALES RETURNS PROVISIONS

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

TRADE RECEIVABLES

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the Statement of Comprehensive Income.

TRADE PAYABLES

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

TAXATION INCLUDING DEFERRED TAX

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

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

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

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

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

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

CRITICAL JUDGEMENTS IN APPLYING THE ACCOUNTING POLICIES

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have an element of risk causing an adjustment to the carrying amounts of assets and liabilities within the next financial year include provisions for stock obsolescence, customer returns, doubtful debts, impairment reviews, fair values of share-based payments, fair values of derivatives and recoverability of deferred tax assets. All of the above are estimated with reference to historical data, expectation of future events and reviewed regularly.

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

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

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

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

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

The deferred tax assets are assessed based on the current trading performance, expected future cash flows in the specific countries and the nature of the tax base.

The fair value of the financial derivatives is determined by the mark-to-market value at the year end date.

PROVISIONS

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

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

CASH AND CASH EQUIVALENTS

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

Notes to the Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES continued

SHARE-BASED PAYMENT

Hornby Plc operates three share-based payment plans:

- Share Option Scheme.
- Short Term Incentive Plan. (Dormant)
- Performance Share Plan.

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

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

Share Option Scheme

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

Performance Share Plan

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

The Performance Share Plan ('PSP') incorporates two three-year performance conditions:

- Total Shareholder Return ('TSR').
- Earnings per share ('EPS') growth targets.

each applying to a separate 40%:60% of the award respectively and vesting on the third anniversary of grant as appropriate. The method applied in estimating the fair value of the PSP awards is the Black-Scholes model,

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

EMPLOYEE BENEFIT COSTS

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

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

Further information on pension costs and the scheme arrangements is provided in note 24.

SHARE CAPITAL AND SHARE PREMIUM

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

LEASES

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

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

FINANCIAL RISK MANAGEMENT

Financial risk factors

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

(a) Foreign exchange risk

The Group is exposed to foreign exchange risks against Sterling primarily on transactions in 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 6 to 12 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 Group has granted Euro denominated intercompany loans to subsidiary companies that are translated to Sterling at statutory period ends thereby creating exchange gains or losses. The loans to the subsidiaries, Hornby Deutschland GmbH, Hornby Italia s.r.l and Hornby France S.A.S are classified as long-term loans and therefore the exchange gains and losses on consolidation are reclassified to the translation reserve in Other Comprehensive Income as per IAS 21. The loan to the branch in Spain is classified as a long-term loan however repayable on a shorter timescale than those of the other subsidiaries and therefore the exchange gains or losses are taken to the Income Statement.

(b) Interest rate risk

The Group finances its operations through a mixture of retained profits and bank borrowings. The Group borrows, principally in Sterling, at floating rates of interest to meet short-term funding requirements. At the year end the Group's borrowings comprised a revolving credit facility, bank overdrafts and a fixed-term loan agreement. An interest rate hedge is in place to protect the Group against future interest rate rises.

(c) Credit risk

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

(d) Liquidity risk

At 31 March 2015 the Group had a revolving credit facility of £13 million expiring in December 2015. The Group also has additional facilities of £4 million in place in its European subsidiaries through bank loans and import credit line facilities of which £2.3 million was undrawn at year end. Borrowings in the year ended 31 March 2015 peaked at £13.5 million. The needs are determined by monitoring forecast and actual cash flows. The Group regularly monitors its performance against its banking covenants to ensure compliance.

The Group has recently been successful in renegotiating its main UK banking facilities for a further 4 years. The proposed £15 million equity placing has allowed us to reduce reliance on debt facilities and we have signed a new revolving credit facility of £10 million with our main UK bankers Barclays. This facility is conditional on the equity raising being approved by shareholders which is expected to allow sufficient headroom for trading working capital needs for the next four years and expires in August 2019. The Group also continues to have additional facilities of £4 million in place in its European subsidiaries through bank loans and import credit line facilities.

DERIVATIVE FINANCIAL INSTRUMENTS

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

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of the hedged items.

Notes to the Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES continued

(a) Cash flow hedge

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

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

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

(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 Income Statement, and changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognised immediately in the Income Statement.

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 Income Statement, except when deferred 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 Income Statement.

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

On consolidation, the Income Statement 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 Statements of Changes in Equity in the period in which they are approved by the Company's shareholders. Interim dividends are recorded in the period in which they are approved and paid.

2. SEGMENTAL REPORTING

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

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

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

The Company is a holding company operating in the UK with its results given in the Company Statement of Comprehensive Income on page 40 and its assets and liabilities given in the Company Balance Sheet on page 41. Other Company information is provided in the other notes to the accounts.

Year ended 31 March 2015

		UK £'000	USA £'000	Spain £'000	Italy £'000	Rest of Europe £'000	Total Reportable Segments £'000	Intra Group £'000	Group £'000
Revenue	– External	41,477	3,349	2,836	4,079	6,394	58,135	–	58,135
	– Other segments	3,028	–	6,093	200	–	9,321	(9,321)	–
Operating profit/(loss)		**46**	**125**	**111**	**315**	**(276)**	**321**	**–**	**321**
Finance cost	– External	(406)	–	(72)	(12)	(16)	(506)	–	(506)
	– Other segments	–	–	(193)	(137)	(64)	(394)	394	–
Finance income	– External	1	–	–	–	–	1	–	1
	– Other segments	394	–	–	–	–	394	(394)	–
(Loss)/profit before taxation		**35**	**125**	**(154)**	**166**	**(356)**	**(184)**	**–**	**(184)**

	UK £'000	USA £'000	Spain £'000	Italy £'000	Rest of Europe £'000	Total Reportable Segments £'000	Intra Group £'000	Group £'000
Analysed as:								
Underlying profit/(loss) before taxation	1,566	125	(154)	265	(180)	1,622	–	1,622
Net foreign exchange impact on intercompany loans	(618)	–	–	–	–	(618)	–	(618)
Amortisation of intangibles	(264)	–	–	(83)	(30)	(377)	–	(377)
Restructuring costs	(649)	–	–	(16)	(146)	(811)	–	(811)
Impairment of goodwill	–	–	–	–	–	–	–	–
(Loss)/profit before taxation	**35**	**125**	**(154)**	**166**	**(356)**	**(184)**	**–**	**(184)**

	UK £'000	USA £'000	Spain £'000	Italy £'000	Rest of Europe £'000	Total Reportable Segments £'000	Intra Group £'000	Group £'000
Taxation	262	(39)	(92)	(170)	103	64	–	64
(Loss)/profit for the year	**297**	**86**	**(246)**	**(4)**	**(253)**	**(120)**	**–**	**(120)**
Segment assets	40,995	1,538	10,431	4,514	3,517	60,995	(14,417)	46,578
Less intercompany receivables	(13,198)	(4)	(915)	(238)	(62)	(14,417)	14,417	–
Add tax assets	2,092	–	31	139	256	2,518	–	2,518
Total assets	**29,889**	**1,534**	**9,547**	**4,415**	**3,711**	**49,096**	**–**	**49,096**
Segment liabilities	22,855	1,525	9,133	4,526	3,967	42,006	(24,850)	17,156
Less intercompany payables	(10,524)	(1,391)	(6,446)	(3,303)	(3,186)	(24,850)	24,850	–
Add tax liabilities	122	41	4	17	–	183	–	184
Total liabilities	**12,453**	**175**	**2,691**	**1,240**	**781**	**17,340**	**–**	**17,340**
Other segment items								
Capital expenditure	3,563	19	1,243	234	2	5,061	–	5,061
Depreciation	2,550	22	1,020	141	16	3,749	–	3,749
Net foreign exchange on intercompany loans	618	–	–	–	–	–	–	618
Amortisation of intangible assets	264	–	–	83	30	–	–	377
Impairment of goodwill	–	–	–	–	–	–	–	–
Share-based payment	205	–	–	–	–	–	–	205

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

Notes to the Financial Statements continued

2. SEGMENTAL REPORTING continued

Year ended 31 March 2014

	UK £'000	USA £'000	Spain £'000	Italy £'000	Rest of Europe £'000	Total Reportable Segments £'000	Intra Group £'000	Group £'000
Revenue – External	36,413	2,966	2,885	2,952	6,341	51,557	–	51,557
– Other segments	2,877	–	5,238	402	–	8,517	(8,517)	–
Operating (loss)/profit	**(1,335)**	**85**	**(115)**	**(2,431)**	**(277)**	**(4,073)**	**–**	**(4,073)**
Finance cost – External	(375)	–	(87)	(1)	(29)	(492)	–	(492)
– Other segments	(175)	–	(208)	(191)	(98)	(672)	672	–
Finance income – External	7	–	–	1	–	8	–	8
– Other segments	672	–	–	–	–	672	(672)	–
(Loss)/profit before taxation	**(1,206)**	**85**	**(410)**	**(2,622)**	**(404)**	**(4,557)**	**–**	**(4,557)**

Analysed as:								
Underlying profit/(loss) before taxation	41	85	(410)	(483)	(372)	(1,139)	–	(1,139)
Net foreign exchange impact on intercompany loans	(108)	–	–	–	–	(108)	–	(108)
Amortisation of intangibles	(264)	–	–	(93)	(32)	(389)	–	(389)
Restructuring costs	(875)	–	–	–	–	(875)	–	(875)
Impairment of goodwill	–	–	–	(2,046)	–	(2,046)	–	(2,046)
(Loss)/profit before taxation	**(1,206)**	**85**	**(410)**	**(2,622)**	**(404)**	**(4,557)**	**–**	**(4,557)**

	UK £'000	USA £'000	Spain £'000	Italy £'000	Rest of Europe £'000	Total Reportable Segments £'000	Intra Group £'000	Group £'000
Taxation	338	(4)	13	(291)	56	112	–	112
(Loss)/profit for the year	**(868)**	**81**	**(397)**	**(2,913)**	**(348)**	**(4,445)**	**–**	**(4,445)**
Segment assets	40,430	1,329	10,678	4,214	3,879	60,530	(15,182)	45,348
Less intercompany receivables	(14,052)	(91)	(697)	(304)	(38)	(15,182)	15,182	–
Add tax assets	1,936	–	29	318	176	2,459	–	2,459
Total assets	**28,314**	**1,238**	**10,010**	**4,228**	**4,017**	**47,807**	**–**	**47,807**
Segment liabilities	22,398	1,259	9,635	4,361	3,783	41,436	(25,263)	16,173
Less intercompany payables	(10,220)	(1,173)	(7,034)	(3,844)	(2,992)	(25,263)	25,263	–
Add tax liabilities	226	3	35	–	–	264	–	264
Total liabilities	**12,404**	**89**	**2,636**	**517**	**791**	**16,437**	**–**	**16,437**
Other segment items								
Capital expenditure	2,247	7	1,594	192	19	4,059	–	4,059
Depreciation	2,520	22	966	76	20	3,604	–	3,604
Net foreign exchange on intercompany loans	108	–	–	–	–	108	–	108
Amortisation of intangible assets	264	–	–	92	33	389	–	389
Impairment of goodwill	–	–	–	2,046	–	2,046	–	2,046
Share-based payment	274	–	–	–	–	274	–	274

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

3. FINANCE COSTS

	Group		Company	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Finance costs:				
Interest expense on bank borrowings	**(506)**	(492)	**–**	–
Interest expense on intercompany borrowings	**–**	–	**(192)**	(208)
	(506)	(492)	**(192)**	(208)
Finance income:				
Bank interest	**1**	8	**–**	–
Interest income on intercompany loans	**–**	–	**174**	174
	1	8	**174**	174
Net finance costs	**(505)**	(484)	**(18)**	(34)

4. (LOSS)/PROFIT BEFORE TAXATION

	Group		Company	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
The following items have been included in arriving at (loss)/profit before taxation:				
Staff costs (note 23)	**10,210**	10,463	**1,051**	1,151
Inventories:				
– Cost of inventories recognised as an expense (included in cost of sales)	**25,400**	25,891	**–**	–
– Stock provision	**(179)**	(443)	**–**	–
Depreciation of property, plant and equipment:			**–**	–
– Owned assets	**3,749**	3,602	**34**	34
– Under finance leases	**–**	2	**–**	–
(Profit)/loss on disposal of assets	**(5)**	22	**–**	–
Other operating lease rentals payable:				
– Plant and machinery	**142**	139	**–**	–
– Property	**446**	433	**–**	–
Repairs and maintenance expenditure on property, plant and equipment	**82**	142	**–**	–
Research and development expenditure	**1,810**	1,713	**–**	–
Foreign exchange gains/(losses):				
– On trading transactions and ineffective hedges	**135**	35	**–**	–
Impairment of trade receivables	**40**	250	**–**	–
Restructuring costs (2015 – excluding £16,000 redundancy costs, 2014 – £173,000)	**795**	702	**–**	–
Other operating expenses:				
– Foreign exchange on trading transactions	**205**	1,032	**–**	–
– Net impact of foreign exchange on intercompany loans	**618**	108	**–**	–
– Movement on fair value of ineffective hedge	**(102)**	135	**–**	–
– Share-based payment charge	**205**	274	**103**	85
– Amortisation of intangible assets	**377**	389	**–**	–
– Impairment of goodwill	**–**	2,046	**–**	–
– Other	**–**	(266)	**–**	–
	1,303	3,718	**103**	85

Restructuring costs of £0.8 million for the year ended 31 March 2015 comprise mainly the costs of moving warehouses in the UK, to the new warehouse run by our third party provider, DS Logistics, but also include elements of redundancy and other one off items.

Notes to the Financial Statements continued

4. (LOSS)/PROFIT BEFORE TAXATION continued

Services provided by the Company's auditor and network firms

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

	Group		Company	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Fees payable to the Company's auditors for the audit of Parent Company and consolidated accounts	**99**	97	**15**	15
Fees payable to the Company's auditors and its associates for other services:				
– The auditing of accounts of the Company's subsidiaries	**37**	42	**–**	–
– Audit-related assurance services	**25**	25	**25**	25
– Tax advisory services	**31**	19	**–**	–
– Tax compliance services	**28**	14	**5**	5
– Other advisory work	**34**	–	**–**	–
	254	197	**45**	45

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. TAXATION

Analysis of tax (credit)/charge in the year

	Group		Company	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Current tax				
– UK taxation	**(7)**	(248)	**99**	100
– adjustments in respect of prior years	**103**	(17)	**–**	–
– overseas taxation	**138**	(8)	**(43)**	(42)
– adjustments in respect of prior years	**–**	207	**–**	2
	234	(66)	**56**	60
Deferred tax (note 20)				
– current year	**(216)**	(75)	**(2)**	(22)
– overseas taxation	**60**	29	**–**	–
– adjustments in respect of prior years	**(142)**	–	**(3)**	–
	(298)	(46)	**(5)**	(22)
Total tax (credit)/charge to the profit before tax	**(64)**	(112)	**51**	38

The tax for the year differs to the standard rate of corporation tax in the UK of 21%. Any differences are explained below:

	Group		Company	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £ '000
(Loss)/profit before taxation	**(184)**	(4,557)	**440**	343
(Loss)/profit on ordinary activities multiplied by rate of Corporation tax in UK of 21% (2014 – 23%)	**(39)**	(1,048)	**92**	79
Effects of:				
Adjustments to tax in respect of prior years	**(39)**	190	**(5)**	2
Income not taxable	**–**	–	**–**	–
Difference on overseas rates of tax	**18**	(128)	**(17)**	14
Impact of overseas losses not recognised	**12**	922	**–**	–
Remeasurement of deferred tax				
– change in UK tax rate to 20%	**–**	(214)	**–**	2
Other	**(16)**	164	**(19)**	(59)
Total taxation	**(64)**	(112)	**51**	38

During the year, the UK main corporation tax rate was reduced from 23% to 21%. This was substantively enacted on 2 July 2013 and became effective from 1 April 2014. As a result of this, a rate of 21% has been used to calculate tax payable on taxable income in the year.

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

6. DIVIDENDS

No interim of final dividends were paid in relation to the year ended 31 March 2014 and no interim dividend has been paid in relation to the year ended 31 March 2015. The Directors are not proposing a final dividend in respect of the financial year ended 31 March 2015.

7. (LOSS)/EARNINGS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding those held in the employee share trust (note 22) which are treated as cancelled.

For diluted loss per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares that have satisfied the appropriate performance criteria at 31 March 2015. For the year ended 31 March 2015, there was no difference in the weighted average number of shares used for basic and diluted net loss per ordinary share as the effect of all potentially dilutive ordinary shares was nil as both the outstanding options and PSP awards have not vested.

Notes to the Financial Statements continued

7. (LOSS)/EARNINGS PER SHARE continued

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

	2015			2014		
	(Loss)/ earnings £'000	Weighted average number of shares '000s	Per-share amount pence	Loss £'000	Weighted average number of shares '000s	Per-share amount pence
REPORTED						
Basic loss per share						
Loss attributable to ordinary shareholders	**(120)**	**39,164**	**(0.31)**	(4,445)	39,152	(11.35)
Effect of dilutive securities						
Options	**–**	**–**	**–**	–	–	–
Diluted loss per share	**(120)**	**39,164**	**(0.31)**	(4,445)	39,152	(11.35)
UNDERLYING						
(Loss)/earnings attributable to ordinary shareholders	**(120)**	**39,164**	**(0.31)**	(4,445)	39,152	(11.35)
Amortisation of intangibles	**302**	**–**	**0.77**	300	–	0.77
Impairment of goodwill	**–**	**–**	**–**	2,046	–	5.22
Restructuring costs	**649**	**–**	**1.66**	674	–	1.72
Net foreign exchange translation adjustments	**494**	**–**	**1.26**	83	–	0.21
Underlying basic earnings/(loss)/EPS	**1,325**	**39,164**	**3.38**	(1,342)	39,152	(3.43)
Underlying diluted earnings/(loss)/EPS	**1,325**	**39,164**	**3.38**	(1,342)	39,152	(3.43)

The above numbers used to calculate the EPS for the year ended 31 March 2015 and 31 March 2014 have been tax effected at the rate of 20% and 23% respectively with the exception of Hornby Italia where the net deferred tax asset associated with the impairment in 2014 has not been recognised.

8. GOODWILL

GROUP	£'000
COST	
At 1 April 2014	13,027
Exchange adjustments	(54)
At 31 March 2015	**12,973**
AGGREGATE IMPAIRMENT	
At 1 April 2014	4,497
Charge for the year	–
Exchange adjustments	12
At 31 March 2015	**4,509**
Net book amount at 31 March 2015	**8,464**
COST	
At 1 April 2013	13,135
Exchange adjustments	(108)
At 31 March 2014	13,027
AGGREGATE IMPAIRMENT	
At 1 April 2013	2,537
Charge for the year	2,046
Exchange adjustments	(86)
At 31 March 2014	4,497
Net book amount at 31 March 2014	8,530
Net book amount at 31 March 2013	10,598

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 2015 is as follows:

GROUP	UK £'000	USA £'000	Spain £'000	Italy £'000	Rest of Europe £'000	**Total £'000**
At 31 March 2015	3,992	8	3,990	–	474	**8,464**
At 31 March 2014	3,992	8	3,990	–	542	**8,532**

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 growth was based on expected levels of activity given results to date, together with growth based upon internal improvements, marketing initiatives, and expected economic and market conditions. Budgeted operating profit was calculated based upon management's expectation of operating costs appropriate to the growing business.

The relative risk adjusted (or 'beta') discount rate applied reflects the risk inherent in hobby-based product companies. In determining this discount rate, management has applied an adjustment for risk of such companies in the industry on average determined using the betas of comparable hobby based product companies. The forecasts are based on approved budgets for the year ending 31 March 2016. Subsequent cash flows for the following two years have been increased in line with expectation of 5% growth based on the 3 year working capital model adopted by the business which incorporates the Group's strategy to integrate the European operations, reducing costs and opening up new revenue opportunities, particularly through e-commerce. This model and its associated document have been reviewed with external advisers as part of the recent refinancing process. Cash flows beyond the four-year period are extrapolated using the estimated growth rates stated below. The cash flows were discounted using a pre-tax discount rate of 10% (2014 – 10%) which management believes is appropriate for all territories.

The key assumptions used for value-in-use calculations for the year ended 31 March 2015 are as follows:

GROUP	UK (Corgi)	UK (Humbrol)	France	Spain	Italy	Germany
Gross Margin[1]	30.3%	47.0%	37.9%	22.62%	32.4%	26.06%
Growth rate to perpetuity[2]	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%

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

GROUP	UK (Corgi)	UK (Humbrol)	France	Spain	Italy	Germany
Gross Margin[1]	30.3%	47.0%	40.3%	31.0%	32.4%	34.8%
Growth rate to perpetuity[2]	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

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

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

In France, the recoverable amount calculated based on value in use exceeded carrying value by £119,000. A reduction in operating margin to 24%, or a rise in discount rate to 13.5% 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 2014	4,887	1,423	–	**6,310**
Additions	–	–	988	**988**
Exchange adjustments	(204)	(51)	–	**(255)**
At 31 March 2015	4,683	1,372	988	**7,043**
ACCUMULATED AMORTISATION				
At 1 April 2014	1,756	985	–	**2,741**
Charge for the year	240	137	–	**377**
Exchange adjustments	(99)	(47)	–	**(146)**
At 31 March 2015	1,897	1,075	–	**2,972**
Net book amount at 31 March 2015	**2,786**	**297**	**988**	**4,071**

The Computer equipment has yet to be depreciated as it has not been put into use by the Group at the balance sheet date.

GROUP	Brand names £'000	Customer lists £'000	**Total £'000**
INTANGIBLE ASSETS			
COST			
At 1 April 2013	4,923	1,432	**6,355**
Exchange adjustments	(36)	(9)	**(45)**
At 31 March 2014	4,887	1,423	**6,310**
ACCUMULATED AMORTISATION			
At 1 April 2013	1,526	851	**2,377**
Charge for the year	246	143	**389**
Exchange adjustments	(16)	(9)	**(25)**
At 31 March 2014	1,756	985	**2,741**
Net book amount at 31 March 2014	3,131	438	**3,569**
Net book amount at 31 March 2013	3,397	581	**3,978**

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	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Tools and moulds £'000	**Total £'000**
COST					
At 1 April 2014	3,026	6,172	249	53,178	**62,625**
Exchange adjustments	(74)	(93)	(10)	(1,455)	**(1,632)**
Additions at cost	–	531	–	3,542	**4,073**
Disposals	–	(12)	–	(226)	**(238)**
At 31 March 2015	2,952	6,598	239	55,039	**64,828**
ACCUMULATED DEPRECIATION					
At 1 April 2014	1,346	4,719	234	45,943	**52,242**
Exchange adjustments	(22)	(73)	(8)	(1,097)	**(1,200)**
Charge for the year	47	522	4	3,176	**3,749**
Disposals	–	(12)	–	(211)	**(223)**
At 31 March 2015	1,371	5,156	230	47,811	**54,568**
Net book amount at 31 March 2015	**1,581**	**1,442**	**9**	**7,228**	**10,260**

GROUP	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Tools and moulds £'000	Total £'000
COST					
At 1 April 2013	3,039	5,908	305	49,758	59,010
Exchange adjustments	(13)	(38)	(2)	(219)	(272)
Additions at cost	–	364	15	3,680	4,059
Disposals	–	(62)	(69)	(41)	(172)
At 31 March 2014	3,026	6,172	249	53,178	62,625
ACCUMULATED DEPRECIATION					
At 1 April 2013	1,301	4,327	255	43,079	48,962
Exchange adjustments	(3)	(28)	(2)	(175)	(208)
Charge for the year	48	482	19	3,055	3,604
Disposals	–	(62)	(38)	(16)	(116)
At 31 March 2014	1,346	4,719	234	45,943	52,242
Net book amount at 31 March 2014	1,680	1,453	15	7,235	10,383
Net book amount at 31 March 2013	1,738	1,581	50	6,679	10,048

Freehold land amounting to £786,000 (2014 – £786,000) has not been depreciated. The Group holds no finance leases (2014 – nil).

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

Notes to the Financial Statements continued

10. PROPERTY, PLANT AND EQUIPMENT continued

COMPANY	Freehold land and buildings £'000	Plant and equipment £'000	**Total £'000**
COST			
At 1 April 2014 and at 31 March 2015	2,428	4	**2,432**
ACCUMULATED DEPRECIATION			
At 1 April 2014	1,187	4	**1,191**
Charge for the year	34	–	**34**
At 31 March 2015	1,221	4	**1,225**
Net book amount at 31 March 2015	**1,207**	**–**	**1,207**

COMPANY	Freehold land and buildings £'000	Plant and equipment £'000	**Total £'000**
COST			
At 1 April 2013 and at 31 March 2014	2,428	4	**2,432**
ACCUMULATED DEPRECIATION			
At 1 April 2013	1,153	4	**1,157**
Charge for the year	34	–	**34**
At 31 March 2014	1,187	4	**1,191**
Net book amount at 31 March 2014	1,241	–	**1,241**
Net book amount at 31 March 2013	1,275	–	**1,275**

The Company does not hold any assets under finance leases.

Freehold land amounting to £786,000 (2014 – £786,000) has not been depreciated.

11. INVESTMENTS

COMPANY

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

	Interests in subsidiary undertakings at valuation £'000	Loans to subsidiary undertakings at cost £'000	**Total £'000**
At 1 April 2014	33,053	4,171	**37,224**
Capital contribution relating to share-based payment	102	–	**102**
At 31 March 2015	**33,155**	**4,171**	**37,326**
At 1 April 2013	28,097	9,068	**37,165**
Capital contribution relating to share-based payment	189	–	**189**
Capitalisation of loans to equity:			
Capital contribution to Hornby Italia s.r.l	2,586	–	**2,586**
Capital contribution to Hornby Deutschland GmbH	2,181	–	**2,181**
Repayment of loans by subsidiary undertakings	–	(4,276)	**(4,276)**
Reclassification of long-term loan with Hornby Hobbies Limited to short-term receivables	–	(621)	**(621)**
At 31 March 2014	33,053	4,171	**37,224**

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

Loans are unsecured and exceed five years maturity.

PRINCIPAL GROUP SUBSIDIARY UNDERTAKINGS

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

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

A full list of subsidiaries is available from the registered office of Hornby Plc; 3rd Floor, The Gateway, Innovation Way, Discovery Park, Sandwich Kent, CT13 9FF

12. INVENTORIES

	Group		Company	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Raw materials	**917**	301	**–**	–
Work in progress	**101**	92	**–**	–
Finished goods	**11,451**	12,772	**–**	–
	12,469	13,165	**–**	–

13. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
CURRENT:				
Trade receivables	**9,569**	8,148	**–**	–
Less: provision for impairment of receivables	**(375)**	(377)	**–**	–
Trade receivables – net	**9,114**	7,771	**–**	–
Other receivables	**681**	722	**–**	–
Prepayments	**569**	550	**12**	7
Amounts owed by subsidiary undertaking	**–**	–	**971**	621
	10,444	9,043	**983**	628

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated and therefore the provision for receivables impairments are deemed adequate. Credit insurance policies are in place in Hornby America Inc., Hornby España S.A., Hornby Italia s.r.l., Hornby France S.A.S. and Hornby Deutschland GmbH covering trade receivables at 31 March 2015 to the value of £2.3 million (2014 – £6 million).

Gross trade receivables can be analysed as follows:

	2015 £'000	2014 £'000
Fully performing	**7,096**	6,540
Past due	**2,098**	1,231
Fully impaired	**375**	377
Trade receivables	**9,569**	8,148

13. TRADE AND OTHER RECEIVABLES continued

As of 31 March 2015, trade receivables of £2,098,000 (2014 – £1,231,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2015 £'000	2014 £'000
1 – 120 days	**1,928**	1,085
>120 days	**170**	146
	2,098	1,231

As of 31 March 2015, trade receivables of £375,000 (2014 – £377,000) were impaired and provided for. The amount of provision was £375,000 (2014 – £377,000) as of 31 March 2015.

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

The ageing of these receivables is as follows:

	2015 £'000	2014 £'000
1 – 120 days	**23**	13
> 120 days	**352**	364
	375	377

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

	2015 £'000	2014 £'000
At 1 April	**377**	401
Provision for receivables impairment	**40**	250
Receivables written-off during the year as uncollectible	**(22)**	(268)
Exchange adjustments	**(20)**	(6)
At 31 March	**375**	377

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

The carrying amounts of the Group and Company trade and other receivables are denominated in the following currencies:

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Sterling Intercompany	**–**	–	**971**	621
Sterling	**5,617**	4,257	**12**	7
Euro	**4,307**	4,281	**–**	–
US Dollar	**465**	392	**–**	–
HK Dollar	**55**	113	**–**	–
	10,444	9,043	**983**	628

14. CASH AND CASH EQUIVALENTS

	Group		Company	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Cash at bank and in hand	**451**	619	**1**	1

Cash of £451,000 above includes restricted cash of £98,000 held within an Escrow account that relates to the exit payment to our previous principal model railway supplier as mentioned within the Financial and operating review.

15. TRADE AND OTHER PAYABLES

	Group		Company	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
CURRENT:				
Trade payables	**5,114**	3,980	**–**	–
Other taxes and social security	**950**	924	**19**	19
Other payables	**1,041**	1,768	**–**	–
Accruals	**1,962**	946	**–**	43
	9,067	7,618	**19**	62

16. PROVISIONS

	Group		Company	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Sales returns				
At 1 April	**238**	235	**–**	–
Charge to Statement of Comprehensive Income	**597**	502	**–**	–
Utilised in the year	**(580)**	(499)	**–**	–
At 31 March	**255**	238	**–**	–

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

17. CURRENT TAX ASSETS AND LIABILITIES

	Group		Company	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Current tax assets				
UK Corporation tax recoverable	**371**	569	**50**	–
Overseas Corporation tax recoverable	**48**	32	**31**	29
	419	601	**81**	29
Current tax liabilities				
UK Corporation tax liability	**–**	100	**–**	100
Overseas Corporation tax liability	**53**	28	**–**	–
	53	128	**–**	100

Notes to the Financial Statements continued

18. BORROWINGS

	Group		Company	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Secured borrowing at amortised cost				
Bank overdrafts	**7,698**	6,076	**–**	–
Bank loan	**212**	1,796	**–**	–
Finance leases	**–**	–	**–**	–
Loan from subsidiary undertakings	**–**	–	**4,511**	4,984
	7,910	7,872	**4,511**	4,984
Total borrowings				
Amount due for settlement within 12 months	**7,747**	7,630	**116**	–
Amount due for settlement after 12 months	**163**	242	**4,395**	4,984
	7,910	7,872	**4,511**	4,984

The Group obtained a covenant reset in the year for the following covenant:

The December 2014 quarterly covenant of the ratio of consolidated gross borrowings less consolidated total cash to consolidated EBITDA.

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

Analysis of borrowings by currency:

GROUP	Sterling £'000	Euros £'000	**Total £'000**
31 March 2015			
Bank overdrafts	6,039	1,659	**7,698**
Bank loan	–	212	**212**
	6,039	1,871	**7,910**
31 March 2014			
Bank overdrafts	4,598	1,478	6,076
Bank loan	1,500	296	1,796
	6,098	1,774	7,872

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

At 31 March 2015 the Group had a revolving credit facility of £13 million expiring December 2015 and the future interest rates on this facility are Libor + 3.6%.

The average effective interest rate on bank overdrafts approximated 4.07% (2014 – 4.2%) per annum and is determined based on 3.6% above three-month Libor from December 2012.

Undrawn borrowing facilities

At 31 March 2015, the Group had available £9.2 million (2014 – £8.9 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. Included within this the European subsidiaries had available £2.3 million (2014 – £2 million) of undrawn import credit line facilities that could be obtained with security being given against trade receivables. The Group has recently successfully renegotiated its banking facilities for the next 4 years, conditional on the successful additional equity raise of £15 million, details of which can be found within note 28 Post balance sheet events.

19. FINANCIAL INSTRUMENTS

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

	Assets		Liabilities	
GROUP	**2015 £'000**	2014 £'000	**2015 £'000**	2014 £'000
Carrying values of derivative financial instruments				
Forward foreign currency contracts – cash flow hedges	**519**	39	**(24)**	(432)
Interest rate swap – cash flow hedge	**–**	–	**–**	(13)
	519	39	**(24)**	(445)

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 2015 are recognised in the Income Statement first in the period or periods during which the hedged forecast transaction affects the Income Statement, which is within twelve months from the balance sheet date.

At 31 March 2015 outstanding forward currency contracts were as follows:

	2015 '000s	2014 '000s
Hong Kong Dollar	**–**	115,000
US Dollar	**21,862**	11,300
Euro	**–**	–

The total net fair value above for forward foreign currency contracts (and the interest rate swap in 2014) comprises £495,000 asset (2014 – £406,000 liability) of which £362,000 asset (2014 – £440,000 liability) has been effectively hedged at 31 March 2015 and therefore credited to Other Comprehensive Income in accordance with IAS 39. The asset balance of £136,000 (2014 – £5,000 liability) was the unhedged portion and was included within operating expenses.

In accordance with IAS 39, the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. No embedded derivatives have been identified.

The Company has no derivative financial instruments.

Fair values of non-derivative financial assets and liabilities

For the Group and the Company, as at 31 March 2015 and 31 March 2014, there is no difference between the carrying amount and fair value of each of the following classes of financial assets and liabilities, principally due to their short maturity: trade and other receivables, cash at bank and in hand, trade and other payables and current borrowings. Bank deposits attract interest within 1.0% of the ruling market rate. There is no significant difference between the fair value and carrying amount of non-current borrowings as the impact of discounting is not significant.

Notes to the Financial Statements continued

19. FINANCIAL INSTRUMENTS continued

Maturity of financial liabilities

GROUP	Bank loan £'000	Overdraft facilities £'000	Accounts payable and accruals £'000	2015 Total £'000
Less than one year	49	7,698	8,967	**16,714**
Between one and two years	49	–	–	**49**
Between two and five years	114	–	–	**114**
More than five years	–	–	–	**–**
	212	7,698	8,967	**16,877**

	Bank loan £'000	Overdraft facilities £'000	Accounts payable and accruals £'000	2014 Total £'000
Less than one year	1,500	6,076	7,618	15,194
Between one and two years	54	–	–	54
Between two and five years	237	–	–	237
More than five years	5	–	–	5
	1,796	6,076	7,618	15,490

COMPANY	2015 Intercompany debt £'000	2014 Intercompany debt £'000
More than five years (note 18)	**4,395**	4,984

HIERARCHY OF FINANCIAL INSTRUMENTS

The following tables present the Group's assets and liabilities that are measured at fair value at 31 March 2015 and 31 March 2014. The table analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

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

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

Financial Instruments	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Trading derivatives	–	–	–	–
Derivatives used for hedging	–	519	–	519
Available-for-sale financial assets	–	–	–	–
Total assets as at 31 March 2015	–	519	–	519
Liabilities				
Interest rate swap	–	–	–	–
Derivatives used for hedging	–	24	–	24
Total liabilities at 31 March 2015	–	24	–	24

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

Interest rate sensitivity

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

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

The effect on both income and equity based on exposure to borrowings at the balance sheet date for a 1.0% increase in interest rates is £99,000 (2014 – £73,000) before tax. A 1% fall in interest rates gives the same but opposite effect. 1% is considered an appropriate benchmark given the minimum level of movement in the UK interest rate over recent years and expectation over the next financial year.

Foreign currency sensitivity

The Group is primarily exposed to US Dollars, 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	
	2015 £'000	2014 £'000
US dollars	**60**	418
Euros	**845**	767
	905	1,185

Capital risk management

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

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

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

	2015 £'000	2014 £'000
Total borrowings (note 18)	**7,910**	7,872
Less:		
Total cash and cash equivalents (note 14)	**(451)**	(619)
Net debt	**7,459**	7,253
Total equity	**31,756**	31,370
Total capital	**39,215**	38,623
Gearing	**19%**	19%

Notes to the Financial Statements continued

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	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
At 1 April	**(1,722)**	(1,555)	**126**	148
Credit to Statement of Comprehensive Income (note 5) – origination and reversal of temporary differences	**(298)**	(46)	**(5)**	(22)
Exchange adjustments	**52**	(1)	**–**	–
Reclassification from current to deferred tax in Hornby France S.A.S	**–**	(120)	**–**	–
At 31 March	**(1,968)**	(1,722)	**121**	126

Deferred tax assets have been recognised in respect of tax losses in the Group with the exception of Hornby Deutschland and Hornby Italia. In Hornby Italia the deferred tax assets recognised have been restricted to the amount expected to be recoverable by profits generated in the entity over the next three years. Other temporary differences giving rise to deferred tax assets have been recognised where it is probable that those assets will be recovered.

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

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

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

	Group				Company		
Deferred tax liabilities	Revaluation £'000	Accelerated capital allowances £'000	Other £'000	**Total £'000**	Revaluation £'000	Accelerated capital allowances £'000	**Total £'000**
At 1 April 2014	117	9	10	**136**	117	9	**126**
(Credit)/charge to Statement of Comprehensive Income	(3)	(2)	–	**(5)**	(3)	(2)	**(5)**
At 31 March 2015	**114**	**7**	**10**	**131**	**114**	**7**	**121**
At 1 April 2013	139	9	11	**159**	139	9	**148**
(Credit)/charge to Statement of Comprehensive Income	(22)	–	–	**(22)**	(22)	–	**(22)**
Foreign exchange	(1)	–	–	**(1)**	–	–	**–**
At 31 March 2014	117	9	11	**136**	117	9	**126**

Of the total deferred tax liability of £131,000, £5,000 was due within one year for the Group (2014 – £5,000) and £5,000 for the Company (2014 – £5,000).

Deferred tax assets	Group Short-term incentive plan £'000	Group Acquisition intangibles £'000	Group Other £'000	Group **Total £'000**	Company Short-term incentive plan £'000	Company **Total £'000**
At 1 April 2014	–	(142)	(1,716)	**(1,858)**	–	**–**
(Credit)/charge to Statement of Comprehensive Income	–	(19)	(274)	**(293)**	–	**–**
Foreign exchange	–	–	52	**52**	–	**–**
At 31 March 2015	**–**	**(161)**	**(1,938)**	**(2,099)**	–	**–**
At 1 April 2013	–	(121)	(1,593)	**(1,714)**	–	**–**
Charge/(credit) to Statement of Comprehensive Income	–	(21)	(3)	**(24)**	–	**–**
Reclassification from current tax in Hornby France	–	–	(120)	**(120)**	–	**–**
At 31 March 2014	–	(142)	(1,717)	**(1,858)**	–	**–**
Net deferred tax (asset)/liability						
At 31 March 2015				**(1,968)**	–	**121**
At 31 March 2014				**(1,722)**	–	**126**

The deferred tax liability arising on the revaluation of freehold land and buildings in 1986 cannot be offset against deferred tax assets. Therefore, the deferred tax asset of £2,099,000 (2014 – £1,858,000) and deferred tax liability of £131,000 (2014 – £136,000) at 31 March 2015 and 31 March 2014 have been recognised separately.

GROUP	**2015 Recognised £'000**	**2015 Not recognised £'000**	2014 Recognised £'000	2014 Not recognised £'000
Deferred tax comprises:				
Depreciation in excess of capital allowances	**(1,054)**	**–**	(805)	–
Other temporary differences – UK	**(546)**	**–**	(437)	–
Other temporary differences – overseas	**(368)**	**(934)**	(480)	(922)
Deferred tax (asset)/liability	**(1,968)**	**(934)**	(1,722)	(922)

The net deferred tax asset not recognised of £934,000 represents the unrecognised losses in Hornby Deutschland of £67,000 (2014 – £55,000) and in Hornby Italia of £867,000 (2014 – £867,000).

COMPANY	**2015 Recognised £'000**	**2015 Not recognised £'000**	2014 Recognised £'000	2014 Not recognised £'000
Deferred tax comprises:				
Accelerated capital allowances	**7**	**–**	9	–
Other timing differences	**114**	**–**	117	–
Deferred tax liability	**121**	**–**	126	–

Notes to the Financial Statements continued

21. SHARE CAPITAL

GROUP AND COMPANY

Allotted, issued and fully paid:

Ordinary shares of 1p each	2015 Number of shares	2015 £'000	2014 Number of shares	2014 £'000
At 1 April and 31 March	**39,164,100**	**392**	39,164,100	392

At 31 March 2015 options granted under the Company's share option schemes were outstanding as follows:

Date granted	Number of options 2015	Number of options 2014	Exercise price	Period of option
9 June 2005	**150,000**	365,809	201.0p	June 2008 – June 2015
	150,000	365,809		

The total number of options outstanding as at the date of this document represent approximately 0.9% (2014 – 0.9%) of the issued share capital of the Company.

If the respective resolution is passed at the Annual General Meeting and the Company were to exercise the full authority to buy-back approximately 10% of the issued ordinary shares of the Company, the above options would represent 1.0% (2014 – 1.0%) of the issued share capital of the Company.

22. SHARE-BASED PAYMENTS

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

SOS awards

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

The awards issued in previous years were subject to a performance measure of Profit before Interest and Tax ('PBIT') or Profit before Tax ('PBT') as disclosed by the Group's accounts for any of the years ended 31 March 2006, 31 March 2007, 31 March 2008, 31 March 2009 or 31 March 2010 excluding (i) any profit or loss in relation to property transactions, (ii) any restructuring and abortive due diligence costs and (iii) any profits or losses arising from businesses acquired by the Group after the date of grant of the Option. Some awards are subject to achieving a PBIT that is equal to or greater than £8 million, or to PBT being equal to or greater than £9 million or aggregate PBT for three years ending 31 March 2008, 2009 and 2010 being equal to or greater than £32.7 million. The awards are equity settled.

Activity relating to share options for the years ended 31 March 2015 and 31 March 2014 was as follows:

	2015 Number	2015 Weighted average exercise price	2014 Number	2014 Weighted average exercise price
Outstanding at 1 April	**365,809**	**201.0p**	365,809	201.0p
Exercised	**–**	**–**	–	–
Lapsed	**(215,809)**	**201.0p**	–	–
Outstanding at 31 March	**150,000**	**201.0p**	365,809	201.0p

No options were exercised within the financial year (2014 – nil).

The following table summarises information relating to the number of shares under option (SOS awards) and those which were exercisable at 31 March 2015.

Range of exercise prices	Total shares under option Number	Weighted average remaining contractual life Months	**Options exercisable at 31 March 2015 Number**	Options exercisable at 31 March 2014 Number	**Exercisable weighted average exercise price for options exercisable at 31 March 2015**
£2.00 – £2.10	150,000	2	**150,000**	365,809	**201.0p**
			150,000	365,809	**201.0p**

Performance Share Plan

All Performance Share Plan ('PSP') awards outstanding at 31 March 2015 vest only if performance conditions are met. Awards granted under the PSP must be exercised within one year of the relevant award vesting date.

The Group operates the PSP for Executive Directors and senior executives. Awards under the scheme are granted in the form of a nil-priced option, and are satisfied using market-purchased shares. The awards vest in full or in part dependent on the satisfaction of specified performance targets. 40% of the award vests dependent on TSR performance over a three year performance period, relative to the constituents of the FTSE Small Cap Index (excluding investment trusts) from the time of grant, and the remaining 60% vests dependent on performance against earnings per share targets.

All plans are subject to continued employment. To the extent that such shares in the above plans are awarded to employees below fair value, a charge calculated in accordance with IFRS 2 'Share-based payment' is included within other operating expenses in the Statement of Comprehensive Income. This charge for the Group amount to £205,000 and the charge for the Company amounted to £102,000 in the year ended 31 March 2015 (2014 – £274,000 charge for the Group and Company).

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

	2015 PSP[1]	2014 PSP[1]
Fair value (p)	**46.14p**	51.16p
Options pricing model used	**Black-Scholes (Stochastic)**	Black-Scholes (Stochastic)
Share price at grant date (p)	**71.0p**	81.5p
Exercise price (p)	**n/a**	n/a
Expected volatility (%)	**34.2%**	39.2%
Risk-free rate (%)	**n/a**	n/a
Expected option term (years)	**3**	3
Expected dividends (per year, %)	**0%**	0%

1 Assumptions for TSR component only.

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

23. EMPLOYEES AND DIRECTORS

	Group		Company	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Staff costs for the year:				
Wages and salaries	**8,444**	8,437	**855**	848
Share-based payments (note 22)	**205**	274	**103**	85
Social security costs	**1,131**	1,053	**110**	122
Other pension costs (note 24)	**414**	526	**92**	56
Redundancy and compensation for loss of office	**16**	173	**–**	40
	10,210	10,463	**1,160**	1,151

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

Notes to the Financial Statements continued

23. EMPLOYEES AND DIRECTORS continued

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

	Group		Company	
	2015 Number	2014 Number	**2015 Number**	2014 Number
Operations	**65**	96	**2**	2
Sales, marketing and distribution	**140**	114	**–**	–
Administration	**47**	40	**3**	3
	252	250	**5**	5

Key management compensation:

	Group		Company	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Salaries and short-term employee benefits	**1,799**	1,601	**855**	674
Share-based payments	**205**	274	**103**	85
Other pension costs	**171**	156	**92**	56
Redundancy and compensation for loss of office	**–**	40	**–**	40
	2,175	2,071	**1,050**	855

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' Remuneration Report on pages 25 to 32 and forms part of these financial statements.

24. PENSION COMMITMENTS

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

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

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

The Group pension cost for the year was £414,000 (2014 – £526,000) representing the actual contributions payable in the year and certain scheme administration costs. The Company pension cost for the year was £92,000 (2014 – £56,000). No contributions were outstanding at the year end of 31 March 2015.

25. FINANCIAL COMMITMENTS

GROUP	**2015 £'000**	2014 £'000
At 31 March capital commitments were:		
Contracted for but not provided	**1,706**	1,529

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

The Company does not have any capital commitments.

Contingent liabilities

The Company and its subsidiary undertakings are, from time to time, parties to legal proceedings and claims, which arise in the ordinary course of business. The Directors do not anticipate that the outcome of these proceedings and claims, either individually or in aggregate, will have a material adverse effect upon the Group's financial position.

26. OPERATING LEASE COMMITMENTS

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

GROUP	2015 £'000	2014 £'000
Not later than one year	**494**	480
Later than one year but not more than five years	**536**	540
More than five years	**–**	–
	1,030	1,020

As mentioned in the Chief Executive's report and Operating and Financial review this year Hornby took the decision to outsource the distribution arm of the business to a 3PL Company, DS Logistics. The initial agreement with DS Logistics is 5 years from August 2014 and approximate costs under the contract if it were to be terminated early are approximately £1 million a year for the remainder of the term.

27. RELATED PARTY DISCLOSURES

During the year, B Ahir was appointed as Managing Director of Hornby Hobbies Asia and a Director of Hornby Hobbies Limited, a subsidiary of Hornby Plc. 28One, not to be confused with companies of a similar name, owned by B Ahir has provided ongoing support to manage product delivery for which Hornby Hobbies has paid £46,000 in relation to these services since 8 August 2014. No payments remained outstanding to 28One as at 31 March 2015. Hornby Hobbies Limited continues to use these services on an ongoing basis.

Additionally, in Hornby France S.A.S the Group currently leases its French warehouse and office from Mr and Mrs Lanter who are both general managers and statutory directors of Hornby France S.A.S for approx. €10,000 a month. Termination of this lease requires 6 months notice.

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 materially interested. There are no other related-party transactions.

The Company received management fees from subsidiaries of £1,346,000 (2014 – £1,456,000), interest of £174,000 (2014 – £174,000) and dividends from subsidiaries of £nil (2014 – £ nil) and incurred interest of £192,000 (2014 – £208,000) on intercompany borrowings.

28. POST BALANCE SHEET EVENTS

Group refinancing

The announcement today of a proposed £15 million equity placing has allowed us to reduce reliance on debt facilities and we have signed a new revolving credit facility of £10 million with our main UK bankers Barclays. This facility is conditional on the additional equity raise being approved by shareholders and is expected to allow sufficient headroom for trading working capital needs for the next four years up to August 2019.

Move of head office to Discovery Park, Sandwich

Additionally, and as also previously mentioned within this report, the Group moved its head office site to Sandwich in April 2015, benefiting from reduced business rates and an initial rent free period at the Enterprise Zone of Discovery Park, from its historic site at Margate which was no longer fit for purpose. The term of this contract is 10 years with a break clause after 5 years. The lease cost is approximately £314,000 a year.

As a result of this office move the Company is now in negotiations with a potential purchaser for the Margate site. Based on negotiations conducted to date, the directors have a reasonable expectation that the sale will proceed successfully.

Board change

Nick Stone has informed the Board of his decision to leave Hornby later this summer and will be replaced by Steve Cooke who joined the business on 10 June 2015.

Five Year Summary (Unaudited)

	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Revenue	**58,135**	51,557	57,395	64,447	63,372
(Loss)/Profit on ordinary activities before taxation	**(184)**	(4,557)	(3,387)	3,989	4,129
Taxation	**64**	112	886	(825)	(1,274)
(Loss)/Profit on ordinary activities after taxation	**(120)**	(4,445)	(2,501)	3,164	2,855
Assets employed:					
Non-current assets	**24,894**	24,340	26,338	27,969	28,509
Net current assets	**7,156**	7,408	12,037	16,673	16,623
Non-current borrowings	**(163)**	(242)	(1,815)	(4,888)	(8,026)
Deferred tax liabilities	**(131)**	(136)	(159)	(573)	(337)
Net assets	**31,756**	31,370	36,401	39,181	36,769
Total capital employed	**31,756**	31,370	36,401	39,181	36,769
Earnings per share					
– basic	**(0.31)p**	(11.35)p	(6.4)p	8.2p	7.5p
– diluted	**(0.31)p**	(11.35)p	(6.4)p	8.1p	7.4p
Dividend per share (net)	**–**	–	–	3.7p	5.0p
Net assets per share	**81.1p**	80.0p	92.9p	100.0p	95.7p

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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