



**HORNBY
PLC**

ANNUAL REPORT AND ACCOUNTS 2016

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 2016
- 02 Chairman's Statement
- 04 Chief Executive's Report
- 04 Business Model and Strategy
- 08 Operating and Financial Review of the Year
- 11 Our Key Performance Indicators

Governance

- 13 Directors and Corporate Information
- 14 Directors' Report
- 18 Independent Auditors' Report to the Members of Hornby Plc

Financial statements

- 20 Group and Company Statements of Comprehensive Income
 - 21 Group and Company Balance Sheets
 - 22 Group and Company Statements of Changes in Equity
 - 23 Group and Company Cash Flow Statement
 - 24 Notes to the Financial Statements
 - 58 Shareholders' Information Service
-

Highlights 2016

“Last year was difficult and disappointing, as we faced significant challenges during the continued turnaround and improvement of the business. We were pleased with the progress made in modernising many of our systems and processes but much of the change last year resulted in substantial unplanned disruption which had a significant adverse impact on trading performance.

“The Board has now completed a thorough review, which has identified that many core parts of the Group are stable, profitable and cash generative, driven by iconic brands with strong market positions. The review has also identified areas that require fundamental change. The turnaround plan is intended to return the business to sustainable profitability and cash generation.”

Steve Cooke, Chief Executive

Revenue
(2015: £58.1m)

£55.8m

Reported loss before taxation
(2015: £(0.2)m loss)

£(13.5)m

Reported loss per share
(2015: (0.31)p loss)

(27.87)p

Operating loss
(2015: £0.3m profit)

£(13.1)m

Underlying¹ loss before taxation
(2015: £1.6m profit)

£(5.7)m

Underlying basic loss per share
(2015: 3.38p basic earnings)

(13.02)p

Underlying¹ operating loss
(2015: £2.1m profit)

£(5.3)m

Reported loss after taxation
(2015: £(0.1)m loss)

£(13.7)m

Total dividend per share
(2015: nil)

nil

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

Chairman's Statement

Personal perspectives

The last twelve months have been extremely challenging but I am pleased with the progress made with modernising the business. I believe we have in place the right leadership and a pool of talented people to deliver the plan to return the business to sustainable profit and cash generation.



Last year resulted in some strongly contrasting emotions. On the one hand trading was very disappointing with the implementation of the new enterprise resource planning ('ERP') system and reorganisation of our European businesses disrupting our delivery and our ability to service our customers. However, on the other hand, although it is important to focus on the financial underperformance, we achieved much last year and I am pleased with the progress we have made in improving and modernising the business. I believe we have ended the year in a stronger place following the comprehensive review of the business and commitment to a new clear plan to continue the turnaround of the business.

In the UK, as previously announced, sales during the summer of 2015 were disrupted by the implementation of the new ERP system. Trading was then strong during the key Christmas season but weakened dramatically into the new year. Despite the problems, overall external sales increased by 3% year-on-year and this was key to ensuring that we continued to serve our core hobby consumers who underpin the strength of our brands in the UK. In addition, we have addressed the supply chain issues that have historically held back the business with sustained investment in people and strengthening of procurement processes in Hong Kong, where many of our products are manufactured. This leaves the business in an improved position with a leaner operating structure, an ERP system which is helping us to drive improved control, and a supply chain from factory to consumer that has real capability to be scaled as necessary.

In Europe, trading was severely impacted by problems with the supply of international model rail for much of the first half of the financial year. The European operating model was streamlined during the year with supply and logistics now being provided through the UK infrastructure at



- Revenue of £55.8 million (2015: £58.1 million)
- Underlying loss before tax¹ of £5.7 million (2015: £1.6 million profit)
- Net debt at 31 March 2016: £7.2 million (2015: £7.5 million)
- Exceptional items of £7.9 million (2015: £0.8 million) including costs relating to the implementation of the ERP system, restructuring of the business, refinancing, impairment of tooling and goodwill and a profit on the sale of part of the Margate site
- Reported loss after tax £13.7 million (2015: £0.1 million loss)

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

Hersden by a third party provider. The new business plan will focus sales on our strong and profitable brands and as a result I expect the international business will emerge much stronger and will begin to show sustained trading improvement.

Given the challenges we have faced and the resulting disappointing financial performance this year, we have undertaken and completed a comprehensive review of the business, led by Steve Cooke. This has led to the development of a clear plan to turn around the business, to move it back to a position of sustainable profit and cash generation and to identify the necessary investment required. This will result in a smaller, more focused business, concentrated on our major UK brands and a streamlined European operating model which will be run out of the UK. The plan will be implemented during the course of 2016 and I expect to see the impact of the plan from early 2017.

To underpin this plan and to enable the Group to move forward with the appropriate financing structure in place, we have approached investors to raise additional equity funding of £8 million and have also signed a new three-and-a-half year, £10 million facility with the Group's bankers, which is subject to the completion of the 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 will be put to our shareholders on 8 July 2016. I am highly confident that our shareholders will approve the placing but would draw to your attention the fact that if they are not approved there are serious 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 paragraphs in the other statements below.

Board changes

On 15 February 2016, we announced that Richard Ames would be stepping down as Chief Executive and leaving the business. I took up the role of Executive Chairman with immediate effect ahead of a permanent appointment. Further to the announcement on 26 April 2016, I have agreed with the Board to remain Executive Chairman at least until the end of the transition period of the new business plan.

On 26 April 2016, we announced that Group Finance Director, Steve Cooke, was appointed Chief Executive. Steve joined the business in June 2015 and has been making a significant contribution as we continue to make progress with our strategy to drive the Group's turnaround.

On 26 May 2016, the Company announced that David Mulligan had been appointed Interim Group Finance Director. David was formerly Group Finance Director at construction and regeneration

company Morgan Sindall Group plc and has a successful track record of working with companies undergoing change.

Following completion of the transaction, the Board intends to immediately begin the process of identifying an additional Non-Executive Director, to further strengthen the Board and to ensure that it remains suitable for the Company's purposes.

Shareholder engagement

We will hold our Annual General Meeting ('AGM') this summer and this will be an excellent opportunity for shareholders to hear more about the new business plan. Personally I am looking forward to welcoming as many shareholders as possible that are able to attend.

I am confident that under Steve's leadership, the Group has the people and plan to build on the foundations for recovery that we have put in place over the last two years and to return the business to sustainable profit and cash generation. Once we have completed the changes demanded by the new plan this year, the business will be in a position to grow and succeed in the medium term.

Roger Canham
Executive Chairman
22 June 2016

Chief Executive's Report

The recent strategic review identified core parts of the business that are stable and profitable driven by iconic brands.

Strategic review

The recent strategic review identified core parts of the business that are stable and profitable driven by iconic brands. However, fundamental change is required in other areas to deliver sustainable profit and cash generation. Hornby now has in place a clear plan focused on a smaller number of product lines and streamlined operations which will deliver this change. Pages 4 to 11 set out the strategic report for the business.

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 through its online activities and multiple retailers throughout the UK and overseas.

Review and turnaround plan

Last year was difficult and disappointing for Hornby as the business faced into significant challenges during the continued turnaround and improvement of the business. We were pleased with the progress made in modernising product sourcing, improving management of the supply chain, upgrading the logistics, warehousing, stock control processes and accelerating the distribution routes to customers. We also successfully rolled out a new enterprise resource planning ('ERP') system although there were some major early implementation issues. However, these changes, together with a difficult restructuring of the European businesses resulted in substantial unplanned disruption which had a significant adverse impact on trading performance. The resulting underlying loss for the year of £5.7 million, though in line with the Board's revised expectations, was



extremely disappointing. All of our recent attention has been focused on analysing the cause of this underperformance and on creating a new plan for the business to turn around its fortunes.

Thorough review and new business plan

The Board has now completed a thorough review of the business' operations, including its brands, product lines, distribution channels and territories. The review has identified that many core parts of the business are stable, profitable and cash generative, driven by iconic brands with strong market positions. The review has also identified areas of the business that require fundamental change to deliver sustainable profit and cash generation.

The Board intends to refocus the business on existing profitable and cash generative products, channels and geographies. This is expected to result in a contraction of revenue as the number of products, brands and channels are reduced. The Board intends to reduce the cost base of the business to reflect projected revenue and a simplified overall business model. The recent implementation of the ERP system is now complete and is expected to facilitate operational improvements through access to better quality management information.

The new business plan is intended to return the business to sustainable profitability and cash generation through the following key steps:

Reduce business scale and costs

The Group intends to focus on the most profitable and cash generative areas of the business and to make significant cost savings. As a result, it expects to reduce revenue by approximately a quarter.

Maintain key UK brands

All key UK brands will be retained. The Group owns a number of highly recognisable and profitable brands (Hornby, Scalextric, Airfix, Humbrol and Corgi), which are core to the Group's future strategy. The Group sells products into both the hobby market and toy market. The new business plan will be strongly focused on improving service to core hobby customers, especially through the independent sales channel.

Streamline European operating model and brands

The Group intends to refocus its European business on its most profitable European model rail brands. This will allow the business to maintain a strong market position in international model rail. In addition, operations and product development will be centralised in the UK, resulting in a significant reduction in the cost base of the European business. The Group intends to retain its US business given its historic profitability and future growth potential.



Chief Executive's Report continued

Focused product range

Over recent years the product range of the business has expanded significantly. The Board now intends to reduce the number of individual product lines by approximately 40% during the 2016 calendar year, focusing on products which generate higher gross margins. This will reduce business complexity and activity levels which will then allow the cost base to be reduced. In the financial year ended 31 March 2016, approximately 50% of the business' product lines contributed approximately 90% of the gross margin. Even after the planned reduction, the Group will be actively managing approximately 1,400 product lines in the 2017-18 financial year. The product range will be streamlined further in 2017, while continuing to release innovative new products to the market.

Refine channel strategy and exit concessions

In the UK the Group intends to exit a majority of its concession arrangements as it looks to focus on profitable channels to market and improve its customer service. The Board has been pleased with the growing profitability of its independent and internet distribution channels and in particular intends to support and build on the success of the independent channel. The Company's online sales increased by 39% compound annual growth rate between 2013 and 2015 and the Company is keen to improve upon this.

Careful management of stock

The failure to meet sales expectations in the 2015-16 financial year combined with the forthcoming rationalisation of the product range, exit of the concessions channel and contraction of the European business has resulted in a higher than necessary level of stock. The plan is to reduce this in a staged and managed way during the coming year, which will result in cash generation and stock returning to more normal levels.



Implementation of the new business plan is expected to give rise to restructuring costs in the current financial year of approximately £1.7 million across the Group's UK and European operations. Implementation of any changes to the business and product lines will be phased and structured to minimise disruption to the core business.

In the short term, after a period of transition in 2016, the Board expects the new business plan to result in a modest improvement in gross margin in 2017-18 (driven only by the improved mix effect of the product range rationalisation), with variable costs to reduce significantly. Once implemented, the new business plan for 2017-18 is estimated to result in an approximately 33% reduction in fixed costs. Focusing on a reduced number of product lines is expected to reduce the Company's capital expenditure, with a consequent significant positive impact on



its cash generation (EBITDA less capital expenditure). In the medium term, the new business plan targets modest revenue growth, a stabilisation of gross margin and EBITDA improvement driven by operational gearing. Combined with a stable level of capital expenditure this is expected to result in improved cash generation.

Our brands

The start of the year saw James May proclaim the Corgi 'Goldfinger DB5' his 'car of the century' and we celebrated this accolade by re-releasing the model for a new generation of customers. To complement this a dedicated 'SPECTRE' DB10 and a DB5/DB10 twin-pack was issued alongside the Scalextric 'SPECTRE' set, incorporating replicas of the iconic Aston Martin DB10 and Jaguar C-X75, linked to the launch of the latest James



Bond film, which capitalised on the interest surrounding the new James Bond film.

Another highlight of the year was the significant public interest and press coverage of the Flying Scotsman's inaugural journey from King's Cross to York in February, which helped drive sales of Hornby's 'The Flying Scotsman' set. Notable Airfix releases during the year included the 1:72 scale Westland Sea King Helicopter and the Quickbuild



range (aimed at children and requiring no paint or glue), which added three new Hypercars (the Bugatti Veyron, Lamborghini Aventador and McLaren P1) to its lineup.

In Europe, the year also saw strong sales of new lines across the Arnold, Jouef and Rivarossi brands.

Our people

The quality of our products and strength of our brands is due to the passion and commitment of Hornby's talented people. We have continued to attract talented people to the business and have a strong team in place. However, the changes demanded by the new business plan include significant cost reductions and these will inevitably impact people. We will deal with these challenges in a professional and sensitive manner and I am confident that we will be able to build a stronger and profitable Company which will then be in a position to continue to provide high quality products and service to its customers.

Outlook for 2016–17 and current trading

The outlook for the medium term is underpinned by the new equity and debt proposals that are announced today, which we trust will be approved by our shareholders on 8 July 2016. Without the successful conclusion of these funding plans, the new business plan will not be deliverable.

The remainder of the 2016–17 financial year will be a period of transition for the Company as we reshape and streamline the business to deliver the plans outlined above. The year will include the various impacts of refocusing the business including an initial period running with a cost base which is too high, the costs of restructuring and the financial impact of stock reduction, which is expected to result in cash generation and a reduction of stock to normal levels.

For the ten weeks to 12 June 2016 the Group delivered total year-on-year sales growth of 6%. This has been driven largely by the UK, underpinned by the stock reduction programme and the US. The European businesses are trading broadly in line with last year. This level of performance is in line with our expectations and the new business plan. Group net debt as at 12 June 2016 was approximately £8.1 million.

At this early stage, the Board considers the transition to the new plan is progressing well. As a result, the Board is confident that the new business plan can be delivered successfully and that Hornby can return to being a profitable and cash generative business which will progress to delivering shareholder value in the medium term.

Steve Cooke
Chief Executive
22 June 2016

Operating and Financial Review of the Year

Consolidated revenue for the year ended 31 March 2016 was £55.8 million, a decrease of 4% compared to the previous year's £58.1 million.



Performance

Full year gross profit margin was lower, as expected, at 39% (2015: 47%) as a result of the planned clearance of old stock especially within the European subsidiaries and due to a change in the mix towards lower margin racing sets. In addition, there was also a lack of new, high margin European train stock because of the supply chain problems during the year.

Underlying overheads increased year-on-year by 8% in line with an expected increase in volumes and also due to the increase in distribution costs following the disruption to trading during the year and planned duplication of operational running costs. The new warehouse at Hersden was fully operational during the first half of the year but the various international warehouse operations were also still running during the year. Foreign exchange gains on trading transactions in the year totalled £0.8 million compared to losses of £0.2 million in the previous year. Sales and marketing costs increased by £0.3 million due to increased spend on TV advertising and market research.

Pre-tax loss before net foreign exchange movements on intercompany loans, amortisation of intangible brands, restructuring costs, implementation of the new enterprise resource planning ('ERP') system, refinancing costs, profit on disposal of property, impairment of tooling and impairment of goodwill (hereafter referred to as underlying (loss)/profit before taxation) was £(5.7) million (2015: profit of £1.6 million) (see reconciliation in note 1). Basic (loss)/earnings per share calculated on underlying (loss)/profit before taxation (hereafter referred to as underlying basic (loss)/earnings per share) were (13.02)p (2015: 3.38p).

A total of £7.9 million (2015: £1.8 million) of costs in these accounts have been identified as outside our definition of the measure of underlying profit as can be seen



Segmental analysis

Third party sales by the UK business grew by 3% in the year and generated an underlying loss of £2.1 million compared to £1.6 million profit last year. Sales during the summer of 2015 were disrupted by the implementation of the new ERP system. Trading was then strong during the key Christmas season but weakened dramatically into the new year. The international businesses sales fell by 21% in the year and generated an underlying loss of £3.6 million. Trading was severely impacted by problems with the supply of international model rail for much of the first half of the financial year and by the streamlining of supply and logistics.

Balance sheet

Group inventories increased during the year by 9% from £12.5 million to £13.6 million due to the overhang of stock from the overall sales shortfall against expectations during the year. Trade and other receivables increased by 26% due to some large sales orders being fulfilled just before year end, with a fall post the year end to £9.8 million at the end of April (2015: £8.2 million). Trade and other payables reduced by £1.7 million largely due to a year-on-year reduction of stock purchases in the first calendar quarter of 2016. The net effect of these factors was an increase in working capital requirements by £5.6 million (an increase of 41%). Investment in new tooling, new computer software and other capital expenditure was £4.6 million (2015: £5.1 million).

Capital structure

On 12 August 2015, Hornby's ordinary shares of 1 pence each were admitted to trading on the Alternative Investment Market ('AIM'). The ordinary shares were removed from trading on the Main Market of London Stock Exchange plc and their listing on the Official List was cancelled. The placing, which was announced on 18 June 2015, raised net funds of £14.2 million.

in note 1. These costs in the year included the net foreign exchange impact on intercompany loans (gain of £0.4 million), amortisation of intangibles (£0.4 million) and exceptional items totalling £7.9 million. Of this total £5.1 million (2015: £1.0 million) was the amortisation of intangible assets, the revaluation of intercompany loans, impairment of goodwill and impairment of tooling all of which are non-cash costs.

The exceptional items totalling £7.9 million (2015: £0.8 million) include restructuring costs (£1.0 million) relating to the reorganisation of the European management teams and the costs of running the Margate site, impairment of goodwill (£4.0 million) following the decision

to restructure the European businesses, impairment of tooling (£1.1 million) following the decision to discontinue certain product lines as part of the new business plan outlined in the CEO report, costs relating to the implementation of the new ERP system (£1.2 million), costs relating to the 2015 equity issue and bank refinancing (£0.8 million) less the profit on the sale of part of the Margate site (£0.2 million).

Reported pre-tax loss was £13.5 million (2015: loss of £0.2 million) and reported basic loss per share was (27.87p) (2015: 0.31p loss per share). The income tax charge for the year £0.2 million (2015: £0.1 million credit) arises mainly due to prior year adjustments to deferred tax.



Operating and Financial Review of the Year

continued

The funds raised in 2015 have been utilised by the investment in new product tooling, the development of the new ERP system and disappointingly by the cash losses sustained during the year and by the increased working capital requirement.

There was a decrease in net debt at 31 March 2016 to £7.2 million, from £7.5 million at 31 March 2015.

Dividend

The challenges facing the business during the past twelve months have been significant and consequently trading has been impacted. Therefore, the decision has again been taken not to pay a dividend (2015: 0.0p). The Board continues to keep the dividend policy under review.

Banking facilities

At 31 March 2016 the Group had in place a revolving credit facility of £10 million expiring August 2019.

The Group has today announced a proposed placing and open offer of £8 million. Subject to completion of the proposed equity fundraising, the Company has agreed with its main lender, Barclays Bank Plc, to refinance and extend its existing banking facilities with a £10 million revolving credit facility. The new facility will mature on 31 December 2019 and is expected to allow sufficient headroom for trading working capital and capital expenditure needs through to such date. The new facility has a margin of 3.5% over LIBOR and is subject to commitment and utilisation fees dependent on the level of drawings under the facility.

As is customary the facility is subject to financial covenants, which the Group must comply with and which are to be tested quarterly. For the duration of the transition period of the Group's new business plan through to December 2017, such financial covenants shall comprise a minimum EBITDA test and a current asset (stock and receivables) to net debt test. Thereafter, the financial covenants shall revert to customary leverage and interest cover financial covenants.

Financial Review

	2016	2015
Revenue	£55.8m	£58.1m
Gross profit margin	39%	47%
Underlying (loss)/profit before tax ¹	£(5.7m)	£1.6m
Underlying (loss)/profit before tax margin ¹	(10.2%)	2.8%
Loss before tax	£(13.5m)	£(0.2m)
Reported loss before tax margin	(24.3%)	(0.3%)
Reported loss after tax	£(13.7m)	£(0.1m)
Underlying basic (loss)/earnings per share ¹	(13.02)p	3.38p
Basic loss per share	(27.87)p	(0.31)p
Net debt	£7.2m	£7.5m

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

Borrowings in the year ended 31 March 2016 peaked towards the start of the year under the previous bank facility at £12.9 million. Since August 2015 the Company has operated within its new facility limit of £10 million.

Property update

During the year part of the former head office and warehouse site was sold for a consideration of £0.4 million. We are currently in discussions with a potential purchaser regarding the sale of the remainder of the Margate site. The Hornby Visitor Centre remains located on the main part of the site and will require relocation.

In addition, post the year-end, we completed the sale of office premises in Spain for a consideration of €1.3 million.

Going concern

The Group's turnaround plan requires additional investment, so the Group are proposing to raise £8 million of additional equity to enable management to pursue this plan.

The Directors have approached both existing and potential new investors to raise the additional equity funding of £8 million and have also signed a new facility with the Group's bankers through to December 2019, which is conditional on the £8 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 8 July 2016.

The Group has prepared cash flow forecasts on the basis of the additional equity raise and new facility and after a detailed review of these forecasts and cash flow models with external advisors, 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 prior to approval of these financial statements there remains a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern. In the event that the Group does not raise funds as expected, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

Our Key Performance Indicators ('KPIs')

The Directors are of the opinion that the financial KPIs are revenues, gross margins, underlying (loss)/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 undertaken on the new business plan, management will put in place additional KPIs to monitor progress on

the key elements of the plan, which are considered fundamental to performance during the transition period. The Board monitors progress against plan on a regular basis adjusting future objectives annually in line with current circumstances.

Identification of principal risks and uncertainties

The Board has the primary responsibility for identifying the major risks facing the Group

and developing appropriate policies to manage those risks. The Board completes an annual risk assessment programme in order to identify the major risks and has reviewed and determined any mitigating actions required as set out below. The risk assessment has been completed in the context of the overall strategic objectives and the new business plan of the Group which has been set out on pages 4 to 7.

Principal risks and uncertainties

Risk	Description	Impact/Sensitivity	Mitigation/Comment
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.
New business plan	New business plan may not fully achieve the aims outlined in the CEO report.	The reduction in business scale and costs, the reduction of the product lines, the requisite level of stock reduction, headcount reductions and/or the conversion of concession sales currently anticipated is not achieved and the Group does not achieve sustainable profit and cash generation.	The Group has developed clear targets and has contingencies in the plan to put the necessary resources in place to deliver the aims of the plan.
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. The Group will continue to strike a balance between selling direct through its website and through its independent and national customers, which remain important to its core markets.
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 US Dollars and sells in Pounds Sterling, Euros and US Dollars and is therefore exposed to exchange rate fluctuations.	Significant fluctuations in exchange rates to which the Group is exposed could have a material adverse effect on the Group's future results.	The Group continues to hedge short-term exposures by establishing forward currency purchases using fixed rate and participating forward contracts up to twelve months ahead. It is deemed impractical to hedge exchange rate movements beyond that period.

Our Key Performance Indicators ('KPIs') continued

Risk	Description	Impact/Sensitivity	Mitigation/Comment
Supply chain	The Group purchases goods, in the main, from third party Chinese suppliers due to the significant cost advantage when compared to products manufactured in Europe.	The Group does not have exclusive arrangements with its suppliers and there is a risk that competition for manufacturing capacity could lead to delays in introducing new products or servicing existing demand. Input cost escalation in China could reduce or remove the Group's pricing advantage and impact margins.	The Group is continuing to develop and diversify its supplier portfolio, which includes a supplier in India and more recently in the UK. Investment in product sourcing capability in Hong Kong in the last few years has led to an increase in the number of suppliers available to the Group in China. A 26 step critical path analysis tool has been developed to monitor the whole manufacturing process in order to identify and deal with issues as they arise. The Group has its own facilities in China where its tooling is secured and managed.
Capital allocation	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.	The new business plan will significantly reduce the number of product lines and refocus the business on profitable lines which generate higher gross margins. This process will be underpinned by a robust capital allocation process.
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 £10 million expiring December 2019. 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 December 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 its website and has implemented a new ERP system during the year.	This exposes the business to greater risk of financial loss, disruption or damage to the reputation of an organisation from a failure of its information technology systems.	The Group has invested significant time and cost in the new website and ERP system in the last two years. The Group has dedicated web and ERP teams to monitor and maintain the Group's systems and holds appropriate insurance policies to minimise material risk.

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.

Ordinarily, 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. Given the recent challenges the Group has faced, the budget for the current financial year has recently been finalised to reflect the targets in the new business plan.

David Mulligan
Group Finance Director
22 June 2016

Directors and Corporate Information

Directors

S Cooke

Chief Executive

R Canham

Executive Chairman

D Mulligan

Group Finance Director

D Adams

Non-Executive Director

C Caminada

Non-Executive Director

Company Secretary

A Stacey

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Berwin Leighton Paisner LLP

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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 present their Annual Report together with the audited consolidated and Company financial statements for the year ended 31 March 2016.

The Group's business review along with future developments and the principal risks and uncertainties facing the Group are included in the Strategic 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 Alternative Investment Market ('AIM'), and incorporated and operating in the United Kingdom. Its registered office is set out on page 13.

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 2016 are set out in the Group and Company Statements of Comprehensive Income on page 20. Revenue for the year was £55.8 million compared to £58.1 million last year. The loss for the year attributable to equity holders amounted to £13.7 million (2015: £0.1 million loss). The position of the Group and Company is set out in the Group and Company Balance Sheets on page 21. Future developments are set out within the CEO report within the outlook paragraph on page 7.

No interim dividend was declared in the year (2015: £nil) and the Directors do not recommend a final dividend (2015: £nil).

Going concern

The Group's turnaround plan requires additional investment, so the Group are proposing to raise £8 million additional equity to enable management to pursue this plan.

The Directors have approached both existing and potential new investors to raise the additional equity funding of £8 million and have also signed a new facility with the Group's bankers through to December 2019, which is conditional on the £8 million equity raise. After the discussions with existing investors, the Directors have a high degree of confidence that the fundraising 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 8 July 2016.

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 advisors, 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 fundraising 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. In the event that the Group does not raise funds as expected, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

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:

Steve Cooke, aged 50, joined the Board on 13 July 2015 as Finance Director and on 26 April 2016 was appointed Chief Executive. Steve has significant financial and general management experience in both PLC and private environments. Previously, he was Finance Director at LSL Property Services PLC, COO at Bestinvest, CFO at Mapeley and CFO at Energis, where he was part of the successful turnaround team. Having qualified with Coopers & Lybrand, Steve was a strategy consultant with OC&C before spending time in senior financial and general management roles at Sainsbury's, Homebase and B&Q.

David Mulligan, aged 46, was appointed to the Board on 25 May 2016. David was formerly Group Finance Director at construction and regeneration company Morgan Sindall Group plc. Most recently he was Municipal FD at Shanks Group plc. Prior to this he worked at Smiths Group plc and trained as a chartered accountant at Ernst & Young.

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

David Adams, aged 61, 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 Fever-Tree Drinks plc. David chairs the audit committee at Halfords and Fever-Tree 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.

Richard Ames, aged 44, was appointed to the Board on 28 April 2014. Richard resigned on 12 February 2016.

Nick Stone, aged 51, joined the Group on 14 January 2013 and was appointed Group Finance Director on 1 February 2013. Nick Stone left Hornby in October 2015 and was replaced by Steve Cooke who joined the business on 10 June 2015.

The interests of the Directors in the shares of the Company and in options granted over such shares are disclosed later in this Report.

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 17 June 2016 the following parties were interested in 3% or more of the Company's ordinary share capital.

Shareholder	Number of ordinary shares	Percentage held
Phoenix Asset Management Partners Limited	16,257,323	29.58
New Pistoia Income Limited	12,129,000	22.07
Ruffer LLP	7,022,583	12.78
Downing LLP	3,156,437	5.74

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and Accounts 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 Company and Group 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;
- state whether applicable International Financial Reporting Standards ('IFRSs') as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

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 Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group 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.

Disclosure of information to auditors

In the case of each Director in office at the date the Directors' report is approved, that:

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

FINANCIAL INSTRUMENTS

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

FINANCIAL RISK MANAGEMENT

The financial risk is managed by the Group and more information on this can be found within the notes to the financial statements on page 31.

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.

Directors' Report continued

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 later in this Report.

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 ('AGM').

ANNUAL GENERAL MEETING

The AGM is to be scheduled for summer 2016. A notice of the AGM will be sent out to shareholders separately to this Annual Report and Accounts. The notice of the AGM is important and requires your immediate attention. If you are in any doubt as to what action to take in relation to the AGM, you should consult appropriate independent advisers.

DIRECTORS' REMUNERATION

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

The following table summarises the total salary and pension contributions received by Directors for 2015–16 and 2014–15 in line with the Companies Act 2006 requirement:

	Year ended 31 March 2016			Year ended 31 March 2015		
	Basic salary and fees £'000	Pension contributions £'000	Total salary and pension contributions £'000	Basic salary and fees £'000	Pension contributions £'000	Total salary and pension contributions £'000
S Cooke (Joined 10 June 2015)	170	32	202	–	–	–
R Canham	100	–	100	150	–	150
D Adams	40	–	40	40	–	40
C Caminada	40	–	40	40	–	40
R Ames (Joined 28 April 2014, resigned 12 February 2016)	373 ¹	53	426	287	56	343
N Stone (Resigned 10 June 2015)	148 ²	21	169	190	36	226
Total	871	106	977	707	92	799

1 Included within the basic salary and fees is compensation for loss of office totalling £96,000.

2 Included within the basic salary and fees is compensation for loss of office totalling £36,000.

Performance Share Plan ('PSP') awards outstanding

At 31 March 2016, outstanding awards to Directors under the PSP were as follows:

Director	Award date	Vesting date	Market price at award date	At 1 April 2015	Awarded during year	Lapsed during year	Vested during year	At 31 March 2016
S Cooke	Aug 2015	Aug 2018	105.0p	–	190,476	–	–	190,476
R Canham	July 2013	July 2016	81.5p	122,699	–	–	–	122,699
R Ames	Sept 2014	Sept 2017	71.0p	845,070	845,070	(845,070)	–	–
	Aug 2015	Aug 2018	105.0p	–	292,857	(292,857)	–	–
N Stone	July 2013	July 2016	81.5p	220,859	–	(72,883)	–	147,976
	Sept 2014	Sept 2017	71.0p	253,521	253,521	(253,521)	–	–

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 2016, with full vesting for EPS of 12.2p for the year ending 31 March 2017 with a sliding scale operating between these points.

For the 2015 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.

Benefits and pension

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. 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.

Executive Directors' service contracts

The Executive Directors do not have fixed period contracts.

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

No payments were made to past Directors in the year ended 31 March 2016. 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. IFRS 2 leaver provisions are applied to the PSP share scheme based upon the Directors' service contracts.

DIRECTORS' INTERESTS

Interests in shares

The interests of the Directors in the shares of the Company at 31 March 2016 were:

	At 31 March 2016 number	At 31 March 2015 number
Executive Directors		
S Cooke	–	–
Non-Executive Directors		
R Canham	40,000	40,000
D Adams	10,000	–
C Caminada	32,325	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.

On behalf of the Board

David Mulligan Group Finance Director

3rd Floor
The Gateway
Innovation Way
Discovery Park
Sandwich
Kent CT13 9FF
22 June 2016

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 2016 and of the Group's and the Company's loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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's new business plan requires additional investment. The directors plan to raise this through an equity raise of £8 million, subject to shareholder approval on 8 July 2016. In addition, a new bank facility was signed on 22 June 2016, conditional on this equity fundraising. 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, in particular the requirement for shareholder approval of the equity fundraising, 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

The financial statements, included within the Annual Report and Accounts (the "Annual Report"), comprise:

- the Group and Company Balance Sheets as at 31 March 2016;
- the Group and Company Statements of Comprehensive Income for the year then ended;
- the Group and Company Cash Flow Statements for the year then ended;
- the Group and Company Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

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 on page 15, 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 International Standards on Auditing (UK and Ireland) ("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

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

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

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
22 June 2016

Group and Company Statements of Comprehensive Income

for the Year Ended 31 March 2016

	Note	Group		Company	
		2016 £'000	2015 £'000	2016 £'000	2015 £'000
Revenue	2	55,757	58,135	1,453	1,346
Cost of sales		(33,992)	(30,961)	–	–
Gross profit		21,765	27,174	1,453	1,346
Distribution costs		(8,441)	(5,937)	–	–
Selling and marketing costs		(12,472)	(12,246)	–	–
Administrative expenses		(9,652)	(7,367)	(969)	(888)
Other operating expenses		(4,324)	(1,303)	(9,494)	(103)
Operating (loss)/profit	2	(13,124)	321	(9,010)	355
Finance income	3	21	1	174	174
Finance costs	3	(429)	(506)	(181)	(192)
(Loss)/profit before taxation	4	(13,532)	(184)	(9,017)	337
Analysed as:					
Underlying (loss)/profit before taxation	2	(5,683)	1,622	494	337
Net foreign exchange impact on intercompany loans		389	(618)	–	–
Amortisation of intangible assets – brand names and customer lists		(384)	(377)	–	–
Exceptional items	4	(7,854)	(811)	(9,511)	–
(Loss)/profit before taxation		(13,532)	(184)	(9,017)	337
Income tax (charge)/credit	5	(182)	64	(68)	(51)
(Loss)/profit for the year after taxation		(13,714)	(120)	(9,085)	286
Other comprehensive income					
Items that may be subsequently reclassified to profit or loss:					
Cash flow hedges, net of tax		20	802	–	–
Currency translation differences		(127)	(501)	(401)	605
Other comprehensive (expense)/income for the year, net of tax		(107)	301	(401)	605
Total comprehensive (loss)/income for the year		(13,821)	181	(9,486)	891
Loss per ordinary share					
Basic	7	(27.87)p	(0.31)p		
Diluted	7	(27.87)p	(0.31)p		

All results relate to continuing operations.

The notes on pages 24 to 57 form part of these accounts.

Group and Company Balance Sheets

as at 31 March 2016

	Note	Group		Company	
		2016 £'000	2015 £'000	2016 £'000	2015 £'000
Assets					
Non-current assets					
Goodwill	8	4,516	8,464	–	–
Intangible assets	9	4,777	4,071	–	–
Property, plant and equipment	10	7,192	10,260	–	1,207
Investments	11	–	–	28,398	37,326
Deferred tax assets	20	1,991	2,099	–	–
		18,476	24,894	28,398	38,533
Current assets					
Inventories	12	13,637	12,469	–	–
Trade and other receivables	13	13,192	10,444	15,329	983
Derivative financial instruments	19	394	519	–	–
Current tax assets	17	213	419	–	81
Cash and cash equivalents	14	677	451	1	1
Property, plant and equipment held for sale	10	1,462	–	1,069	–
		29,575	24,302	16,399	1,065
Liabilities					
Current liabilities					
Borrowings	18	(7,883)	(7,747)	–	(116)
Trade and other payables	15	(7,363)	(9,067)	(94)	(19)
Derivative financial instruments	19	(12)	(24)	–	–
Provisions	16	(446)	(255)	–	–
Current tax liabilities	17	–	(53)	(39)	–
		(15,704)	(17,146)	(133)	(135)
Net current assets		13,871	7,156	16,266	930
Non-current liabilities					
Borrowings	18	–	(163)	(4,902)	(4,395)
Deferred tax liabilities	20	(211)	(131)	(100)	(121)
		(211)	(294)	(5,002)	(4,516)
Net assets		32,136	31,756	39,662	34,947
Equity attributable to owners of the Parent					
Share capital	21	550	392	550	392
Share premium		20,205	6,180	20,205	6,180
Capital redemption reserve		55	55	55	55
Translation reserve		(1,386)	(1,259)	(754)	(353)
Hedging reserve		382	362	–	–
Other reserves		1,688	1,688	19,145	19,145
Retained earnings		10,642	24,338	461	9,528
Total equity		32,136	31,756	39,662	34,947

The notes on page 24 to 57 form part of these accounts. The financial statements on pages 20 to 57 were approved by the Board of Directors on 22 June 2016 and were signed on its behalf by:

D Mulligan
Director

Registered Company Number: 01547390

Group and Company Statements of Changes in Equity

for the Year Ended 31 March 2016

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 2014	392	6,180	55	(758)	(440)	1,688	24,253	31,370
Loss for the year	-	-	-	-	-	-	(120)	(120)
Other comprehensive (expense)/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 and 1 April 2015	392	6,180	55	(1,259)	362	1,688	24,338	31,756
Loss for the year	-	-	-	-	-	-	(13,714)	(13,714)
Other comprehensive (expense)/income for the year	-	-	-	(127)	20	-	-	(107)
Total comprehensive (loss)/income for the year	-	-	-	(127)	20	-	(13,714)	(13,821)
Transactions with owners								
Net proceeds from issue of ordinary shares	158	14,025	-	-	-	-	-	14,183
Share-based payments (note 22)	-	-	-	-	-	-	18	18
Total transactions with owners	158	14,025	-	-	-	-	18	14,201
Balance at 31 March 2016	550	20,205	55	(1,386)	382	1,688	10,642	32,136

Retained earnings includes £553,000 at 31 March 2016 (2015: £570,000) which is not distributable and relates to a 1986 revaluation of land and buildings. Other reserves of £1,688,000 represent historic negative goodwill arising prior to the transition to IFRS.

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 2014	392	6,180	55	(958)	19,145	9,037	33,851
Profit 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 and 1 April 2015	392	6,180	55	(353)	19,145	9,528	34,947
Loss for the year	-	-	-	-	-	(9,085)	(9,085)
Other comprehensive expense for the year	-	-	-	(401)	-	-	(401)
Total comprehensive loss for the year	-	-	-	(401)	-	(9,085)	(9,486)
Transactions with owners							
Net proceeds from issue of ordinary shares	158	14,025	-	-	-	-	14,183
Share-based payments	-	-	-	-	-	18	18
Total transactions with owners	158	14,025	-	-	-	18	14,201
Balance at 31 March 2016	550	20,205	55	(754)	19,145	461	39,662

The notes on page 24 to 57 form part of these accounts.

Group and Company Cash Flow Statement

for the Year Ended 31 March 2016

	Note	Group		Company	
		2016 £'000	2015 £'000	2016 £'000	2015 £'000
Cash flows from operating activities					
Cash (used in)/generated from operations	27	(9,632)	5,328	294	(194)
Interest paid		(429)	(506)	(181)	(192)
Tax received/(paid)		204	(127)	31	67
Net cash (used in)/generated from operating activities		(9,857)	4,695	144	(319)
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		349	20	342	–
Purchase of property, plant and equipment	10	(3,221)	(4,073)	–	–
Purchase of intangible assets	9	(1,341)	(988)	–	–
Interest received		21	1	174	174
Net cash (used in)/generated from investing activities		(4,192)	(5,040)	516	174
Cash flows from financing activities					
Proceeds from issuance of ordinary shares		15,000	–	15,000	–
Repayments of loans		(35)	(1,584)	–	–
Share issue and refinancing costs		(817)	–	(817)	–
Advances to subsidiary undertakings		–	–	(14,843)	116
Repayments to subsidiary undertakings		–	–	–	29
Net cash generated from/(used in) financing activities		14,148	(1,584)	(660)	145
Net increase/(decrease) in cash and cash equivalents					
		99	(1,929)	–	–
Cash, cash equivalents and bank overdrafts at beginning of the year		(7,247)	(5,456)	1	1
Effect of exchange rate movements		119	138	–	–
Cash, cash equivalents and bank overdrafts at end of year		(7,029)	(7,247)	1	1
Cash, cash equivalents and bank overdrafts consist of:					
Cash and cash equivalents	14	677	451	1	1
Bank overdrafts	18	(7,706)	(7,698)	–	–
Cash, cash equivalents and bank overdrafts at end of year		(7,029)	(7,247)	1	1

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

Accounting policies for the year ended 31 March 2016

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 2016 has been prepared in accordance with International Financial Reporting Standards ('IFRSs') 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 IFRSs. 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. However, with regards to the Group, see below for details of material uncertainty.

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

Going concern

The Group's new business plan requires additional investment, so the Group is proposing to raise £8 million additional equity to enable management to pursue this plan.

The Directors have approached both existing and potential new investors to raise the additional equity funding of £8 million and have also signed a new facility with the Group's bankers through to December 2019, which is conditional on the £8 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 8 July 2016.

The Group has prepared cash flow forecasts on the basis of the additional equity raise and new bank facility and following a detailed review of these forecasts and cash flow models with external advisors, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, the Financial Statements 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 prior to approval of these financial statements there remains a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern. In the event that the Group does not raise funds as expected, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

Basis of consolidation

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

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

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

Adoption of new and revised standards

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 2015, being IFRS 10, IFRS 11, IFRS 16, IAS 7, IAS 12 and amendments to IAS 1, IAS 16, IAS 19, IAS 27, IAS 28 and IAS 38. 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 15 'Revenue from Contracts with Customers'	1 January 2017
IFRS 16 'Leases'	1 January 2019
IAS 7 'Statement of cash flows'	1 January 2017
IAS 12 'Income tax'	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 1 'Presentation of financial statements'	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

With the exception of IFRS 16 'Leases' the Group does not currently expect any of these changes to have a material impact on the results. IFRS 16 will replace the current guidance under IAS 17 and will have a significant impact on the accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 will require lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The adoption of IFRS 16 will have a material effect on the Hornby Plc financial statements.

Reconciliation of statutory to non-statutory information in the Chairman's statement and operating and financial review

Underlying (loss)/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 historical acquisitions. Additionally, exceptional items including 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 (loss)/profit before taxation.

	Group	
	2016 £'000	2015 £'000
Loss before taxation	(13,532)	(184)
Net foreign exchange impact on intercompany loans	(389)	618
Amortisation of intangibles	384	377
Exceptional items:		
Restructuring costs	993	811
Implementation of new ERP system	1,174	-
Refinancing costs	762	-
Profit on disposal of property	(223)	-
Impairment of property, plant and equipment – tooling	1,158	-
Impairment of goodwill	3,990	-
Underlying (loss)/profit before taxation	(5,683)	1,622

Notes to the Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES continued

The Statements of Comprehensive Income discloses foreign exchange movements, amortisation of intangibles and exceptional items. Further detail of the exceptional items is included in note 4.

Revenue recognition

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

Revenue is recognised as follows:

(a) Sale of goods

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

(b) Royalty income

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

(c) Sales returns

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

(d) Hornby Visitor Centre

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

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

Exceptional items

Where items of income and expense included in the Statements 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 IFRSs, 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 ('CGUs') for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment. Goodwill is recorded in the currency of the CGU to which it is allocated.

Intangibles

(a) Brand names

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

(b) Customer lists

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

(c) 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 4–6 years.

Property, plant and equipment

Land and buildings are shown at cost less accumulated depreciation. Assets revalued prior to the transition to IFRSs 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 CGUs. Cash flows used to assess impairment are discounted using appropriate rates taking into account the cost of equity and any risks relevant to those assets.

Investments

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

Notes to the Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES continued

Inventories

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

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

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

Assets held for sale

Individual, formerly non-current assets, which are expected to be sold within the next twelve months, are measured at the lower of their carrying amount at the time they are reclassified and selling price less further costs expected to be incurred to disposal.

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 Statements 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 Statements 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 Statements 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 CGUs, the assessment of the initial growth rate used, the growth rate in perpetuity of the cash flows and the forecast operating profits of the CGUs. The judgements used within this assessment are set out within note 8.

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 Statements 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.

Notes to the Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES continued

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.

Share-based payment

Hornby Plc operates two share-based payment plans:

- Share Option Scheme ('SGS')
- Performance Share Plan ('PSP')

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 models 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 Statements 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 Statements 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 Statements 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 six to twelve months on a rolling basis at forecasted purchase volumes. The policy framework requires hedging between 70% and 100% of anticipated import purchases that are denominated in US Dollars. The Company has granted Euro denominated intercompany loans to subsidiary companies that are translated to Sterling at statutory period ends thereby creating exchange gains or losses. The loans to the subsidiaries, Hornby Deutschland GmbH, Hornby Italia s.r.l and Hornby France S.A.S are classified as long-term loans and therefore the exchange gains and losses on consolidation are reclassified to the translation reserve in Other Comprehensive Income as per IAS 21. The loan to the branch in Spain is classified as a long-term loan however repayable on a shorter timescale than those of the other subsidiaries and therefore the exchange gains or losses are taken to Statements of Comprehensive Income.

(b) Interest rate risk

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

(c) Credit risk

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

(d) Liquidity risk

At 31 March 2016 the Group had a revolving credit facility of £10 million expiring in August 2019. Borrowings in the year ended 31 March 2016 peaked at £12.9 million under the Group's previous revolving credit facility of £13 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 three-and-a-half years. The proposed £8 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 and capital expenditure needs through to December 2019.

Derivative financial instruments

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

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

(a) Cash flow hedge

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

Amounts accumulated in Other Comprehensive Income are recycled in the Statements of Comprehensive Income in the periods when the hedged item affects profit or loss (for instance when the forecast purchase that is hedged takes place). The gain or loss relating to the effective portion of forward foreign exchange contracts hedging import purchases is recognised in the Statements 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.

Notes to the Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES continued

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 Statements of Comprehensive Income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss is immediately transferred to the Statements of Comprehensive Income.

(b) Derivatives that do not qualify for hedge accounting

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

Fair value estimation

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

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

Foreign currency

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

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

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

Dividend distribution

Final dividends are recorded in the 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 Group and Company Statements of Comprehensive Income on page 20 and its assets and liabilities given in the Group and Company Balance Sheets on page 21. Other Company information is provided in the other notes to the accounts.

Year ended 31 March 2016

	UK £'000	USA £'000	Spain £'000	Italy £'000	Rest of Europe £'000	Total Reportable Segments £'000	Intra Group £'000	Group £'000
Revenue – External	42,562	3,080	2,470	2,275	5,370	55,757	–	55,757
– Other segments	6,534	–	2,250	696	822	10,302	(10,302)	–
Operating loss	(3,801)	(4)	(7,214)	(528)	(1,577)	(13,124)	–	(13,124)
Finance cost – External	(379)	–	(38)	(3)	(9)	(429)	–	(429)
– Other segments	(175)	–	(181)	(130)	(56)	(542)	542	–
Finance income – External	21	–	–	–	–	21	–	21
– Other segments	542	–	–	–	–	542	(542)	–
Loss before taxation	(3,792)	(4)	(7,433)	(661)	(1,642)	(13,532)	–	(13,532)
Analysed as:								
Underlying loss before taxation	(2,100)	(4)	(2,017)	(471)	(1,091)	(5,683)	–	(5,683)
Net foreign exchange impact on intercompany loans	389	–	–	–	–	389	–	389
Amortisation of intangibles	(264)	–	–	(71)	(49)	(384)	–	(384)
Restructuring costs	(332)	–	(312)	(15)	(334)	(993)	–	(993)
Implementation of new ERP system	(814)	–	(88)	(104)	(168)	(1,174)	–	(1,174)
Refinancing costs	(762)	–	–	–	–	(762)	–	(762)
Profit on disposal of property	223	–	–	–	–	223	–	223
Impairment of tooling	(132)	–	(1,026)	–	–	(1,158)	–	(1,158)
Impairment of goodwill	–	–	(3,990)	–	–	(3,990)	–	(3,990)
Loss before taxation	(3,792)	(4)	(7,433)	(661)	(1,642)	(13,532)	–	(13,532)
Taxation	(182)	–	–	–	–	(182)	–	(182)
Loss for the year	(3,974)	(4)	(7,433)	(661)	(1,642)	(13,714)	–	(13,714)
Segment assets	55,604	1,704	5,088	3,673	3,696	69,765	(23,918)	45,847
Less intercompany receivables	(20,918)	(53)	(720)	(1,051)	(1,176)	(23,918)	23,918	–
Add tax assets	1,752	–	–	157	295	2,204	–	2,204
Total assets	36,438	1,651	4,368	2,779	2,815	48,051	–	48,051
Segment liabilities	14,036	1,923	11,141	4,414	5,799	37,313	(21,609)	15,704
Less intercompany payables	–	(1,774)	(10,635)	(4,026)	(5,174)	(21,609)	21,609	–
Add tax liabilities	207	–	4	–	–	211	–	211
Total liabilities	14,243	149	510	388	625	15,915	–	15,915
Other segment items								
Capital expenditure	3,393	13	1,113	39	4	4,562	–	4,562
Depreciation	2,447	21	1,059	162	16	3,705	–	3,705
Net foreign exchange on intercompany loans	389	–	–	–	–	389	–	389
Amortisation of intangible assets	603	–	–	71	49	723	–	723
Impairment of goodwill	–	–	3,990	–	–	3,990	–	3,990
Share-based payment	18	–	–	–	–	18	–	18

All transactions between Group companies are on normal commercial terms.

Notes to the Financial Statements continued

2. SEGMENTAL REPORTING continued 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)

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)
(Loss)/profit before taxation	35	125	(154)	166	(356)	(184)	–	(184)
Taxation	262	(39)	(92)	(170)	103	64	–	64
(Loss)/profit for the year	297	86	(246)	(4)	(253)	(120)	–	(120)
Segment assets	41,095	1,538	10,431	4,514	3,517	61,095	(14,417)	46,678
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	29,989	1,534	9,547	4,415	3,711	49,196	–	49,196
Segment liabilities	22,955	1,525	9,133	4,526	3,967	42,106	(24,850)	17,256
Less intercompany payables	(10,524)	(1,391)	(6,446)	(3,303)	(3,186)	(24,850)	24,850	–
Add tax liabilities	122	41	4	17	–	184	–	184
Total liabilities	12,553	175	2,691	1,240	781	17,440	–	17,440
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.

3. FINANCE COSTS

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Finance costs:				
Interest expense on bank borrowings	(429)	(506)	–	–
Interest expense on intercompany borrowings	–	–	(181)	(192)
	(429)	(506)	(181)	(192)
Finance income:				
Bank interest	21	1	–	–
Interest income on intercompany loans	–	–	174	174
	21	1	174	174
Net finance costs	(408)	(505)	(7)	(18)

4. (LOSS)/PROFIT BEFORE TAXATION

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
The following items have been included in arriving at (loss)/profit before taxation:				
Staff costs (note 23)	11,010	10,210	1,147	1,160
Inventories:				
– Cost of inventories recognised as an expense (included in cost of sales)	26,808	25,400	–	–
– Stock provision	(895)	(179)	–	–
Depreciation of property, plant and equipment:	–			
– Owned assets	3,705	3,749	19	34
Profit/(loss) on disposal of fixed assets	193	(5)	223	–
Other operating lease rentals payable:				
– Plant and machinery	125	142	–	–
– Property	1,058	446	–	–
Repairs and maintenance expenditure on property, plant and equipment	171	82	–	–
Research and development expenditure	1,760	1,810	–	–
Foreign exchange (gains)/losses:				
– On trading transactions and ineffective hedges	(135)	135	–	–
Impairment of trade receivables	163	40	–	–
Share-based payment charge	18	205	(48)	103
Other operating expenses:				
– Foreign exchange on trading transactions	(822)	205	–	–
– Net impact of foreign exchange on intercompany loans	(389)	618	–	–
– Movement on fair value of ineffective hedge	135	(102)	–	–
– Amortisation of intangible assets – brands	384	377	–	–

Notes to the Financial Statements continued

4. (LOSS)/PROFIT BEFORE TAXATION continued

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Exceptional items comprise:				
- Restructuring costs	993	811	-	-
- Implementation of ERP system	1,174	-	-	-
- Refinancing	762	-	191	-
- Profit on disposal of property	(223)	-	(223)	-
- Impairment of property, plant and equipment	1,158	-	-	-
- Impairment of goodwill	3,990	-	-	-
- Impairment of investment	-	-	9,543	-
	7,854	811	9,511	-

The exceptional items totalling £7.9 million (2015: £0.8 million) include restructuring costs (£1.0 million) relating to the reorganisation of the European management teams and the costs of running the Margate site, impairment of goodwill (£4.0 million) following the decision to restructure the European businesses, impairment of tooling (£1.1 million) following the decision to discontinue certain product lines as part of the new business plan, costs relating to the implementation of the new ERP system (£1.2 million), costs relating to the 2015 equity issue and bank refinancing (£0.8 million) less the profit on the sale of part of the Margate site (£0.2 million).

Services provided by the Company's auditors and network firms

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

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Fees payable to the Company's auditors for the audit of Parent Company and consolidated accounts	103	99	15	15
Fees payable to the Company's auditors and its associates for other services:				
- The auditing of accounts of the Company's subsidiaries	39	37	39	-
- Audit-related assurance services	5	25	-	25
- Tax advisory services	19	31	-	-
- Tax compliance services	1	28	-	5
- Other advisory work	-	34	-	-
	167	254	54	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 charge/(credit) in the year**

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Current tax				
– UK taxation	–	(7)	89	99
adjustments in respect of prior years	(43)	103	–	–
– overseas taxation	(8)	138	–	(43)
adjustments in respect of prior years	–	–	–	–
	(51)	234	89	56
Deferred tax (note 20)				
– current year	(569)	(216)	(3)	(2)
– overseas taxation	348	60	–	–
– adjustments in respect of prior years	255	(142)	(7)	(3)
– effect of tax rate change on opening balance	199	–	(11)	–
	233	(298)	(21)	(5)
Total tax charge/(credit) to the loss before tax	182	(64)	68	51

The tax for the year differs to the standard rate of corporation tax in the UK of 20%. Any differences are explained below:

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
(Loss)/profit before taxation	(13,532)	(184)	(9,017)	337
(Loss)/profit on ordinary activities multiplied by rate of corporation tax in UK of 20% (2015: 21%)	(2,706)	(39)	(1,803)	71
Effects of:				
Adjustments to tax in respect of prior years	212	(39)	(7)	(5)
Permanent timing differences	1,208	–	1,889	–
Difference on overseas rates of tax	(486)	18	–	(15)
Impact of overseas losses not recognised	1,755	12	–	–
Remeasurement of deferred tax				
– change in UK tax rate to 18%	199	–	(11)	–
Other	–	(16)	–	–
Total taxation	182	(64)	68	51

The standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015. Accordingly, the Company's profits for this accounting period are taxed at an effective rate of 20%. The UK corporation tax rate is due to decrease further to 19% on 1 April 2017 and 17% on 1 April 2020, however, the latter is yet to be substantively enacted.

UK deferred tax balances have been restated in these accounts and carried forward at a rate of 18%, being the current rate substantively enacted for periods from 1 April 2020 onwards.

Notes to the Financial Statements continued

6. DIVIDENDS

No interim or final dividends were paid in relation to the year ended 31 March 2015 and no interim dividend has been paid in relation to the year ended 31 March 2016. The Directors are not proposing a final dividend in respect of the financial year ended 31 March 2016.

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 2016. For the year ended 31 March 2016, 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.

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

	2016			2015		
	(Loss)/ earnings £'000	Weighted average number of shares '000	Per-share amount pence	(Loss)/ earnings £'000	Weighted average number of shares '000	Per-share amount pence
Reported						
Basic loss per share						
Loss attributable to ordinary shareholders	(13,714)	49,200	(27.87)	(120)	39,164	(0.31)
Effect of dilutive securities						
Options	-	-	-	-	-	-
Diluted loss per share	(13,714)	49,200	(27.87)	(120)	39,164	(0.31)
Underlying						
(Loss)/earnings attributable to ordinary shareholders	(13,714)	49,200	(27.87)	(120)	39,164	(0.31)
Amortisation of intangibles	307	-	0.62	302	-	0.77
Restructuring costs	794	-	1.61	649	-	1.66
Implementation of new ERP system	939	-	1.91	-	-	-
Refinancing	610	-	1.24	-	-	-
Profit on disposal of property	(178)	-	(0.36)	-	-	-
Impairment of PPE – tooling	1,158	-	2.36	-	-	-
Impairment of goodwill	3,990	-	8.11	-	-	-
Net foreign exchange translation adjustments	(311)	-	(0.64)	494	-	1.26
Underlying basic (loss)/earnings/EPS	(6,405)	49,200	(13.02)	1,325	39,164	3.38
Underlying diluted (loss)/earnings/EPS	(6,405)	49,200	(13.02)	1,325	39,164	3.38

The above numbers used to calculate the EPS for the year ended 31 March 2016 and 31 March 2015 have been tax effected at the rate of 20% respectively with the exception of Hornby Spain where the net deferred tax asset associated with the impairment in 2016 has not been recognised.

8. GOODWILL

Group	£'000
Cost	
At 1 April 2015	12,973
Exchange adjustments	34
At 31 March 2016	13,007
Aggregate impairment	
At 1 April 2015	4,509
Charge for the year	3,990
Exchange adjustments	(8)
At 31 March 2016	8,491
Net book amount at 31 March 2016	4,516
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
Net book amount at 31 March 2014	8,530

The Company has no goodwill.

The goodwill has been allocated to CGUs and a summary of carrying amounts of goodwill by geographical segment (representing CGUs) at 31 March 2016 is as follows:

Group	UK £'000	USA £'000	Spain £'000	Italy £'000	France £'000	Germany £'000	Total £'000
At 31 March 2016	3,992	8	–	–	337	179	4,516
At 31 March 2015	3,992	8	3,990	–	295	179	8,464

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

Impairment tests for goodwill

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

Notes to the Financial Statements continued

8. GOODWILL continued

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 2017.

Subsequent cash flows for the following two years have been increased in line with expectation of 4% growth based on the three 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 has been reviewed with external advisors 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 13% (2015: 10%) which management believes is appropriate for all territories.

The key assumptions used for value-in-use calculations for the year ended 31 March 2016 are as follows:

Group	UK (Corgil)	UK (Humbrol)	France	Spain	Italy	Germany
Gross Margin ¹	46.2%	46.2%	59.7%	59.7%	59.7%	59.7%
Growth rate to perpetuity ²	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%

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

Group	UK (Corgil)	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%

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.

For the UK CGU, the recoverable amount calculated based on value in use exceeded carrying value by £19.3 million. A reduction in operating profit by 50%, or a rise in discount rate to 29% would remove the remaining headroom. For the France CGU, the recoverable amount calculated based on value in use exceeded carrying value by £317,000. A reduction in operating profit by 24%, or a rise in discount rate to 20% would remove the remaining headroom. For the Germany CGU, the recoverable amount calculated based on value in use exceeded carrying value by £5,000. A reduction in operating profit by 1%, or a rise in discount rate to 14% would remove the remaining headroom.

9. INTANGIBLE ASSETS

Group	Brand names £'000	Customer lists £'000	Computer software £'000	Total £'000
Intangible assets				
Cost				
At 1 April 2015	4,683	1,372	988	7,043
Additions	–	–	1,341	1,341
Exchange adjustments	130	33	–	163
At 31 March 2016	4,813	1,405	2,329	8,547
Accumulated amortisation				
At 1 April 2015	1,897	1,075	–	2,972
Charge for the year	263	121	339	723
Exchange adjustments	43	32	–	75
At 31 March 2016	2,203	1,228	339	3,770
Net book amount at 31 March 2016	2,610	177	1,990	4,777

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
Net book amount at 31 March 2014	3,131	438	–	3,569

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 2015	2,952	6,598	239	55,039	64,828
Exchange adjustments	47	88	6	1,030	1,171
Additions at cost	–	395	–	2,826	3,221
Transfer to current assets held for sale	(2,999)	–	–	–	(2,999)
Disposals	–	(275)	(51)	(94)	(420)
At 31 March 2016	–	6,806	194	58,801	65,801
Accumulated depreciation					
At 1 April 2015	1,371	5,156	230	47,811	54,568
Exchange adjustments	47	75	7	882	1,011
Charge for the year	32	544	–	3,129	3,705
Transfer to current assets held for sale	(1,450)	–	–	–	(1,450)
Impairment	–	–	–	1,158	1,158
Disposals	–	(239)	(43)	(101)	(383)
At 31 March 2016	–	5,536	194	52,879	58,609
Net book amount at 31 March 2016	–	1,270	–	5,922	7,192

The impairment charge in the year relates to tooling held in Hornby España S.A. and Hornby Hobbies Limited, which management no longer intend to use in the medium term operations of the business.

Notes to the Financial Statements continued

10. PROPERTY, PLANT AND EQUIPMENT continued

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
Net book amount at 31 March 2014	1,680	1,453	15	7,235	10,383

Freehold land amounting to £786,000 (2015: £786,000) has not been depreciated. The Group holds no finance leases (2015: none). 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 IFRSs as deemed cost. All other assets are stated at cost.

Company	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 April 2015	2,428	4	2,432
Transfer to current assets held for sale	(2,428)	–	(2,428)
At 31 March 2016	–	4	4
Accumulated depreciation			
At 1 April 2015	1,221	4	1,225
Charge for the year	19	–	19
Transfer to current assets held for sale	(1,240)	–	(1,240)
At 31 March 2016	–	4	4
Net book amount at 31 March 2016	–	–	–

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
Net book amount at 31 March 2014	1,241	–	1,241

The Company does not hold any assets under finance leases. Freehold land amounting to £786,000 (2015: £786,000) has not been depreciated.

Property, plant and equipment held for sale

At 31 March 2016 the Group had a clear intention to sell the land and buildings held by the Company and by its subsidiary Hornby España S.A. and remain in a sales process for both sites. These assets have been reclassified as current assets under IFRS 5. During the year the Group sold part of the land and buildings held for sale.

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Freehold land and buildings				
Cost				
At 1 April 2015	–	–	–	–
Transfer from non-current assets	2,999	–	2,428	–
Disposals	(258)	–	(258)	–
At 31 March 2016	2,741	–	2,170	–
Accumulated depreciation				
At 1 April 2015	–	–	–	–
Transfer from non-current assets	1,418	–	1,240	–
Disposals	(139)	–	(139)	–
At 31 March 2016	1,279	–	1,101	–
Net book amount at 31 March 2016	1,462	–	1,069	–
Net book amount at 31 March 2015	–	–	–	–

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 2015	33,155	4,171	37,326
Capital contribution relating to share-based payment	(48)	–	(48)
Net increase in loans to subsidiary undertaking	–	663	663
Impairment of investment in subsidiary undertakings	(9,543)	–	(9,543)
At 31 March 2016	23,564	4,834	28,398
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

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

Loans are unsecured and exceed five years' maturity.

The impairment of investments in the year relates to a write down to the investments held in Italy, France, Spain and the United Kingdom.

Notes to the Financial Statements continued

11. INVESTMENTS continued

Group subsidiary undertakings

Details of the undertakings whose results or financial position 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. Hornby Industries Limited and H&M (Systems) Limited are dormant companies.

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

12. INVENTORIES

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Raw materials	–	917	–	–
Work in progress	57	101	–	–
Finished goods	13,580	11,451	–	–
	13,637	12,469	–	–

13. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Current:				
Trade receivables	12,303	9,569	–	–
Less: provision for impairment of receivables	(540)	(375)	–	–
Trade receivables – net	11,763	9,194	–	–
Other receivables	103	681	–	–
Prepayments	1,326	569	74	12
Amounts owed by subsidiary undertaking	–	–	15,255	971
	13,192	10,444	15,329	983

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 España S.A., Hornby Italia s.r.l., Hornby France S.A.S. and Hornby Deutschland GmbH covering trade receivables at 31 March 2016 to the value of £1.4 million (2015: £2.3 million).

Gross trade receivables can be analysed as follows:

	2016 £'000	2015 £'000
Fully performing	9,939	7,096
Past due	1,824	2,098
Fully impaired	540	375
Trade receivables	12,303	9,569

As of 31 March 2016, trade receivables of £1,824,000 (2015: £2,098,000) 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:

	2016 £'000	2015 £'000
1-120 days	1,451	1,928
>120 days	373	170
	1,824	2,098

As of 31 March 2016, trade receivables of £540,000 (2015: £375,000) were impaired and provided for. The amount of provision was £540,000 (2015: £375,000) as of 31 March 2016.

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:

	2016 £'000	2015 £'000
1-120 days	57	23
>120 days	483	352
	540	375

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

	2016 £'000	2015 £'000
At 1 April	375	377
Provision for receivables impairment	163	40
Receivables written-off during the year as uncollectible	(23)	(22)
Exchange adjustments	25	(20)
At 31 March	540	375

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

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

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Sterling intercompany	–	–	15,255	971
Sterling	7,648	5,617	–	12
Euro	3,907	4,307	–	–
US Dollar	311	465	–	–
Hong Kong Dollar	–	55	–	–
	11,866	10,444	15,255	983

Notes to the Financial Statements continued

14. CASH AND CASH EQUIVALENTS

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Cash at bank and in hand	677	451	1	1

15. TRADE AND OTHER PAYABLES

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Current:				
Trade payables	5,306	5,114	–	–
Other taxes and social security	797	950	14	19
Other payables	564	1,041	–	–
Accruals	696	1,962	80	–
	7,363	9,067	94	19

16. PROVISIONS

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Sales returns				
At 1 April	255	238	–	–
Charge to Statements of Comprehensive Income	784	597	–	–
Utilised in the year	(593)	(580)	–	–
At 31 March	446	255	–	–

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	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Current tax assets				
UK corporation tax recoverable	168	371	–	50
Overseas corporation tax recoverable	45	48	–	31
	213	419	–	81
Current tax liabilities				
UK corporation tax liability	–	–	39	–
Overseas corporation tax liability	–	53	–	–
	–	53	39	–

18. BORROWINGS

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Secured borrowing at amortised cost				
Bank overdrafts	7,706	7,698	-	-
Bank loan	177	212	-	-
Loan from subsidiary undertakings	-	-	4,902	4,511
	7,883	7,910	4,902	4,511
Total borrowings				
Amount due for settlement within twelve months	7,883	7,747	-	116
Amount due for settlement after twelve months	-	163	4,902	4,395
	7,883	7,910	4,902	4,511

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

The December 2015 and March 2016 quarterly covenant of the ratio of consolidated gross borrowings less consolidated total cash to consolidated EBITDA as well as the annual covenant requirement to clear down the borrowing facility to nil for ten clear days.

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

Analysis of borrowings by currency:

Group	Sterling £'000	Euro £'000	Total £'000
31 March 2016			
Bank overdrafts	7,704	2	7,706
Bank loan	-	177	177
	7,704	179	7,883
31 March 2015			
Bank overdrafts	6,039	1,659	7,698
Bank loan	-	212	212
	6,039	1,871	7,910

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

At 31 March 2016 the Group had a revolving credit facility of £10 million expiring August 2019 and the future interest rates on this facility are LIBOR +2.9%.

The average effective interest rate on bank overdrafts approximated 3.4% (2015: 4.07%) per annum and is determined based on 2.9% (2015: 3.6%) above three-month LIBOR.

Cash at bank and bank overdrafts of £7.0 million (2015: £7.2 million) are with financial institutions with a credit rating of A2 per Moody's rating agency.

Undrawn borrowing facilities

At 31 March 2016, the Group had available £3 million (2015: £9.2 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. Included within this the European subsidiaries had available £0.2 million (2015: £2.3 million) of undrawn import credit line facilities that could be obtained with security being given against trade receivables. The Group has recently renegotiated its banking facilities for the next three-and-a-half years, conditional on the completion of an additional equity raise of £8 million, details of which can be found within note 29 post balance sheet events.

Notes to the Financial Statements continued

19. FINANCIAL INSTRUMENTS

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

Group	Assets		Liabilities	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Carrying values of derivative financial instruments				
Forward foreign currency contracts – cash flow hedges	394	519	(12)	(24)

The hedged forecast transactions denominated in foreign currency are expected to occur at various dates during the next twelve months. Gains and losses recognised in reserves on forward foreign exchange contracts as of 31 March 2016 are recognised in the Statements of Comprehensive Income first in the period or periods during which the hedged forecast transaction affects the Statements of Comprehensive Income, which is within twelve months from the balance sheet date.

At 31 March 2016 the gross value of forward currency contracts was as follows:

	2016 '000	2015 '000
US Dollar	11,800	21,862

The total net fair value above for forward foreign currency contracts comprises £382,000 asset (2015: £495,000 asset) of which £382,000 net asset (2015: £362,000 asset) represents an effective hedge at 31 March 2016 and therefore credited to Other Comprehensive Income in accordance with IAS 39. The balance of £nil (2015: £136,000 asset) was the ineffective 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 2016 and 31 March 2015, there is no difference between the carrying amount and fair value of each of the following classes of financial assets and liabilities, principally due to their short maturity: trade and other receivables, cash at bank and in hand, trade and other payables and current borrowings. Bank deposits attract interest within 1.0% of the ruling market rate. There is no significant difference between the fair value and carrying amount of non-current borrowings as the impact of discounting is not significant.

Maturity of financial liabilities

Group	Bank loan £'000	Overdraft facilities £'000	Accounts payable and accruals £'000	2016 Total £'000
Less than one year	177	7,706	7,363	15,246
Between one and two years	–	–	–	–
Between two and five years	–	–	–	–
More than five years	–	–	–	–
	177	7,706	7,363	15,246

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

Company	2016 Intercompany debt £'000	2015 Intercompany debt £'000
More than five years (note 18)	4,902	4,395

Hierarchy of financial instruments

The following tables present the Group's assets and liabilities that are measured at fair value at 31 March 2016 and 31 March 2015. 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 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	–	394	–	394
Available-for-sale financial assets	–	–	–	–
Total assets as at 31 March 2016	–	394	–	394
Liabilities				
Interest rate swap	–	–	–	–
Derivatives used for hedging	–	(12)	–	(12)
Total liabilities at 31 March 2016	–	(12)	–	(12)

	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)

Notes to the Financial Statements continued

19. FINANCIAL INSTRUMENTS continued

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 £83,000 (2015: £99,000) 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 fluctuations in US Dollars and the Euro. The following table details how the Group's income and equity would increase on a before tax basis, given a 10% revaluation in the respective currencies against Sterling and in accordance with IFRS 7 all other variables remaining constant. A 10% devaluation in the value of Sterling would have the opposite effect. The 10% change represents a reasonably possible change in the specified foreign exchange rates in relation to Sterling.

	Comprehensive income and equity sensitivity	
	2016 £'000	2015 £'000
US Dollar	995	60
Euro	1,067	845
	2,062	905

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.

	2016 £'000	2015 £'000
Total borrowings (note 18)	7,883	7,910
Less:		
Total cash and cash equivalents (note 14)	(677)	(451)
Net debt	7,206	7,459
Total equity	32,136	31,756
Total capital	39,342	39,215
Gearing	18%	19%

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	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
At 1 April	(1,968)	(1,722)	121	126
Charge/(credit) to Statements of Comprehensive Income (note 5) – origination and reversal of temporary differences	233	(298)	(21)	(5)
Exchange adjustments	(45)	52	–	–
At 31 March	(1,780)	(1,968)	100	121

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

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

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

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

	Group					Company		
	Revaluation £'000	Accelerated capital allowances £'000	Acquisition intangibles £'000	Other £'000	Total £'000	Revaluation £'000	Accelerated capital allowances £'000	Total £'000
Deferred tax liabilities								
At 1 April 2015	114	7	–	10	131	114	7	121
(Credit)/charge to Statements of Comprehensive Income	(14)	(7)	–	(10)	(31)	(14)	(7)	(21)
Transferred from deferred tax assets	–	–	111	–	111	–	–	–
At 31 March 2016	100	–	111	–	211	100	–	100
At 1 April 2014	117	9	–	10	136	117	9	126
(Credit)/charge to Statements of Comprehensive Income	(3)	(2)	–	–	(5)	(3)	(2)	(5)
At 31 March 2015	114	7	–	10	131	114	7	121

	Group				Company	
	Short-term incentive plan £'000	Acquisition intangibles £'000	Other £'000	Total £'000	Short-term incentive plan £'000	Total £'000
Deferred tax assets						
At 1 April 2015	–	(161)	(1,938)	(2,099)	–	–
(Credit)/Charge to Statements of Comprehensive Income	–	272	(8)	264	–	–
Foreign exchange	–	–	(45)	(45)	–	–
Transferred to deferred tax liabilities	–	(111)	–	(111)	–	–
At 31 March 2016	–	–	(1,991)	(1,991)	–	–
At 1 April 2014	–	(142)	(1,716)	(1,858)	–	–
(Credit)/Charge to Statements of Comprehensive Income	–	(19)	(274)	(293)	–	–
Foreign exchange	–	–	52	52	–	–
At 31 March 2015	–	(161)	(1,938)	(2,099)	–	–
Net deferred tax (asset)/liability						
At 31 March 2016				(1,780)		100
At 31 March 2015				(1,968)		121

Notes to the Financial Statements continued

20. DEFERRED TAX continued

Group	2016		2015	
	Recognised £'000	Not recognised £'000	Recognised £'000	Not recognised £'000
Deferred tax comprises:				
Depreciation in excess of capital allowances	(1,404)	–	(1,054)	–
Other temporary differences – UK	(376)	–	(546)	–
Other temporary differences – overseas	–	(2,644)	(368)	(934)
Deferred tax (asset)/liability	(1,780)	(2,644)	(1,968)	(934)

The net deferred tax asset not recognised of £2,644,000 represents the unrecognised losses in Hornby Deutschland GmbH of £141,000 (2015: £67,000) and in Hornby Italia s.r.l of £1,361,000 (2015: £867,000), Hornby España S.A. of £431,000 (2015: nil) and Hornby France S.A.S of £711,000 (2015: nil).

Company	2016		2015	
	Recognised £'000	Not recognised £'000	Recognised £'000	Not recognised £'000
Deferred tax comprises:				
Accelerated capital allowances	–	–	7	–
Other timing differences	100	–	114	–
Deferred tax liability	100	–	121	–

21. SHARE CAPITAL Group and Company

Allotted, issued and fully paid:

Ordinary shares of 1p each	2016		2015	
	Number of shares	£'000	Number of shares	£'000
At 31 March	39,164,100	392	39,164,100	392
Issue of ordinary shares	15,789,474	158	–	–
At 1 April	54,953,574	550	39,164,100	392

On 12 August 2015 the Company issued 15,789,474 ordinary 1 pence shares for 95 pence per share, totalling £15 million. At 31 March 2016 there were no options granted under the Company's share option schemes which remained outstanding.

22. SHARE-BASED PAYMENTS

Hornby Plc operates two share-based payment plans – Share Option Scheme ('SOS') 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 2016 and 31 March 2015 was as follows:

	2016		2015	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 April	150,000	201.0p	365,809	201.0p
Exercised	-	-	-	-
Lapsed	(150,000)	201.0p	(215,809)	201.0p
Outstanding at 31 March	-	-	150,000	201.0p

No options were exercised within the financial year (2015: nil).

Performance Share Plan

All Performance Share Plan ('PSP') awards outstanding at 31 March 2016 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 Statements of Comprehensive Income. This charge for the Group amounts to £18,000 and the credit for the Company amounted to £47,000 in the year ended 31 March 2016 (2015: £205,000 charge for the Group amount and the charge for the Company amounted to £102,000).

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

	2016 PSP ¹	2015 PSP ¹
Fair value (p)	68.61p	46.14p
Options pricing model used	Black-Scholes (Stochastic)	Black-Scholes (Stochastic)
Share price at grant date (p)	68.0p	71.0p
Exercise price (p)	nil	nil
Expected volatility (%)	32.4%	34.2%
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.

Notes to the Financial Statements continued

23. EMPLOYEES AND DIRECTORS

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Staff costs for the year:				
Wages and salaries	8,559	8,444	834	855
Share-based payments (note 22)	18	205	(48)	103
Social security costs	1,090	1,131	121	110
Other pension costs (note 24)	555	414	107	92
Redundancy and compensation for loss of office	788	16	133	–
	11,010	10,210	1,147	1,160

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

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

	Group		Company	
	2016 Number	2015 Number	2016 Number	2015 Number
Operations	47	65	1	2
Sales, marketing and distribution	139	140	1	–
Administration	44	47	5	3
	230	252	7	5

Key management compensation:

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Salaries and short-term employee benefits	1,780	1,799	839	855
Share-based payments	18	205	(48)	103
Other pension costs	172	171	107	92
Redundancy and compensation for loss of office	544	–	133	–
	2,514	2,175	1,031	1,050

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

A detailed numerical analysis of Directors' remuneration and share options showing the highest paid Director, number of Directors accruing benefits under money purchase pension schemes, is included in the Directors' Report on pages 14 to 17 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 £555,000 (2015: £414,000) representing the actual contributions payable in the year and certain scheme administration costs. The Company pension cost for the year was £107,000 (2015: £92,000). No contributions were outstanding at the year end of 31 March 2016.

25. FINANCIAL COMMITMENTS

Group	2016 £'000	2015 £'000
At 31 March capital commitments were:		
Contracted for but not provided	414	1,706

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	2016 £'000	2015 £'000
Not later than one year	472	494
Later than one year but not more than five years	1,087	536
More than five years	259	–
	1,818	1,030

The distribution arm of the business continues to be outsourced to a third party company, DS Logistics. The initial agreement with DS Logistics was for five 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.

Notes to the Financial Statements continued

27. GROUP AND COMPANY CASH FLOWS FROM OPERATING ACTIVITIES

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
(Loss)/profit before taxation	(13,532)	(184)	(9,017)	337
Interest payable	429	506	181	192
Interest receivable	(21)	(1)	(174)	(174)
Amortisation of intangible assets	723	377	–	–
Impairment of goodwill	3,990	–	–	–
Impairment of investment	–	–	9,543	–
Depreciation	3,705	3,749	19	34
Impairment of tooling	1,158	–	–	–
(Gain)/loss on disposal of property, plant and equipment	(193)	(5)	(223)	–
Share-based payments	18	205	(48)	103
Loss/(gain) on financial derivatives	135	(102)	–	–
Increase in provisions	191	17	–	–
(Increase)/decrease in inventories	(650)	166	–	–
Increase in trade and other receivables	(2,351)	(1,883)	(62)	(643)
(Decrease)/increase in trade and other payables	(3,212)	1,685	75	(43)
(Decrease)/increase in derivative financial instruments	(22)	798	–	–
Cash (used in)/generated from operations	(9,632)	5,328	294	(194)

28. RELATED PARTY DISCLOSURES

B Ahir is our 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 £176,000 in relation to these services in the year. No payments remained outstanding to 28One as at 31 March 2016. Hornby Hobbies Limited continues to use these services on an ongoing basis.

Additionally, in Hornby France S.A.S the Group leased its French warehouse and office from Mr and Mrs Lanter who were both general managers and statutory Directors of Hornby France S.A.S until January 2016 for approximately €10,000 a month. The Group has since terminated this lease.

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 £1,316,000 (2015: £1,346,000), interest of £174,000 (2015: £174,000) and dividends from subsidiaries of £nil (2015: £nil) and incurred interest of £181,000 (2015: £192,000) on intercompany borrowings. It also received a rental income of £450,000 (2015: £450,000).

29. POST BALANCE SHEET EVENTS

Group refinancing

The announcement today of a proposed £8 million equity placing will allow 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 and capital expenditure needs up to December 2019.

Board changes

On 26 April 2016, we announced that Group Finance Director, Steve Cooke, was appointed Chief Executive. Steve joined the business in June 2015 and has been making a significant contribution as we continue to make progress with our strategy to drive the Group's turnaround.

On 26 May 2016, the Company announced that David Mulligan had been appointed Interim Group Finance Director. David was formerly Group Finance Director at construction and regeneration company Morgan Sindall Group plc and has a successful track record of working with companies undergoing change.

Sale of property, plant and equipment

On 13 June 2016 the Group disposed of its building in Hornby España S.A. for a consideration of €1.3 million.

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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