HORNBY PLC

ANNUAL REPORT AND ACCOUNTS 2021

Hornby PLC

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

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Highlights 2021

"Much of my time at Hornby has been about the turnaround and laying down the foundations for the future. In this last year we have returned to profit, the foundations have now been laid and we are excited with the opportunities that lie ahead. I cannot thank our employees enough for their commitment and strength as they battled through the last year."

Lyndon Davies, Chief Executive

Revenue
(2020: £37.8m)

£48.5m

Operating profit
(2020: £(2.8)m loss)

£0.6m

Reported profit before taxation
(2020: £(3.4)m loss)

£0.3m

Underlying[1] profit before taxation
(2020: £(3.2)m loss)

£1.5m

Reported profit after taxation
(2020: £(3.4)m loss)

£1.4m

Reported profit per share
(2020: (2.67)p loss)

0.82p

Underlying[2] basic profit per share
(2020: (2.57)p basic loss)

1.36p

Net cash
(2020: 5.9m) (see Note 28)

£4.7m

1 Underlying profit before taxation is before amortisation of intangibles (brand names and customer lists), and net unrealised foreign exchange movements on intercompany loans, exceptional items and share-based payments (see page 11).

2 Underlying basic profit per share is before amortisation of intangibles (brand names and customer lists), and net unrealised foreign exchange movements on intercompany loans, exceptional items and share-based payments (see Note 7).

Non-Executive Chairman's Report

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

I am pleased report to shareholders that despite the many challenges, our Company had a very satisfactory year and returned to profit.

Revenue in the year of £48.5 million (2020: £37.8 million) was 28% above the previous year. Underlying profit before tax increased significantly to £1.5 million (2020: £3.2 million loss). Reported profit before tax increased to £0.3 million (2020: £(3.4) million) as we continue to implement our turnaround strategy. Despite the many challenges to the Company caused by COVID-19 the old adage that people turn to hobbies in times of recession proved correct and sales increased across almost all channels and brands except concessions that were closed due to lockdowns for the majority of the year.

In the year we have made further considerable progress within the Group. We continue to maintain market prices and again the gross margin has improved. Following the review of our customer base, trading terms have been aligned to the collaborative support provided. The new product development cycle is now established and we have already started work on the development of 2023 product ranges. New product investment continues to increase and we are developing significantly more new releases and ranges. We have continued to develop opportunities in existing ranges to incorporate technology such as wireless vehicle control from a smart phone in both Hornby and Scalextric.

Overheads have increased by 8% mainly due to sales volume related costs such as dispatch costs, digital marketing spend and commissions.

COVID-19

COVID-19 has impacted the Group this year. Our main priorities are to keep our employees safe and protect the Group to survive the crisis. All our offices in Europe, Hong Kong and America formulated lockdown plans that were implemented in line with the relevant government policies. UK staff vacated the Margate offices almost immediately after the announcement of the lockdown on 23 March 2020 and the majority of staff were able to work from home. After some false starts staff have been gradually returning to the office on at least a part-time basis since January 2021. I would again like to thank the incredible efforts of all employees to implement the change which involved installing significant I.T. infrastructure to facilitate home working and subsequently juggling the complications of combining home and work commitments. Everyone has continued to work very efficiently and incredibly hard in this new environment and maintained their enthusiasm and good spirits. A limited number of employees were furloughed where their function was temporarily curtailed or not possible to be fulfilled at home but all have now returned to work.

Our supply partners are mainly located in the Far East. Whilst manufacturing was greatly affected by COVID-19 and the, much publicised, delays caused by shipping container shortages, they have managed to satisfy the majority of our requirements.

Fortunately, a proportion of our product sales were already via e-commerce and we have been able to strengthen the channel as our logistic facility has remained operational under strict distancing protocols and we continue to dispatch goods. Similarly, our retail customers have implemented e-commerce systems and were better prepared to trade in later lockdowns.

GOVERNANCE

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

BREXIT

At the eleventh hour a Brexit trade deal was reached with the EU. Nevertheless countless importation difficulties to the EU arose which have taken time to resolve. We have migrated to a multi-carrier interface which is now fully implemented and operational but fourth quarter sales into Europe were affected.

SHAREHOLDERS

We will hold our Annual General Meeting on Wednesday 15th September and will provide further details nearer the time.

John Stansfield
Chairman
9 June 2021

CEO's Statement

INTRODUCTION

As we entered the last quarter of the 2019/20 financial year, we expected Brexit to dominate the landscape. We were looking forward to the first wave of new products that we had been working on over the previous two years. We expected them to make an impact on our trading performance. Like everyone else we were unprepared for the pandemic, and we found ourselves continually revaluating our operations, the trading landscape and just trying to keep the business functioning.

Our new items were well-received and the changing landscape meant that many found comfort in our products. We gained a lot of new customers, and our existing customers spent more on the hobbies they enjoy. Hornby returned to profit, following a trend of improved performance over the last few years, and the turnaround accelerated.

The points I will cover in my statement are as follows:

Key Performance Indicators (KPIs)

Variable costs, fixed costs, gross profit and operating profit.

Key Performance Indicator 1: Costs

How and why our cost levels are what they are.

Key Performance Indicator 2: Capital Expenditure Productivity

Gross profit in relation to essential capital expenditure.

Key Performance Indicator 3: Inventory

The importance of the inventory balance in relation to sales.

The Global Pandemic

Our actions and responses to COVID-19 over the financial year.

Brexit

How it has impacted our business.

Staff Profit Share Scheme

Return to profit means our employees benefit.

Our Employees

Current Trading & Outlook

KEY PERFORMANCE INDICATORS (KPIs)

We think about our business in terms of fixed costs and variable costs, you will find these in the Statement of Comprehensive Income (SOCI) on page 33.

When we sell our products there are variable costs, which are directly related to individual items. This includes such elements as the materials used to make the products and the costs which our manufacturers charge us to turn the raw materials into a railway locomotive, a plastic kit, a tub of paint, a diecast car or any number of other complex end products. These costs are variable because they vary with how many products we sell and how we get our products to our end customers. You will see these described in "Cost of Sales" in the SOCI.

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

In 2021, we generated enough gross profit to cover our fixed costs for the first time in many years.

	2021 (£'000)	2020 (£'000)	2019 (£'000)	2018 £'000
Sales	48,549	37,842	32,759	35,651
Variable Costs	(26,795)	(21,140)	(19,348)	(21,900)
Gross Profit	21,754	16,702	13,411	13,751
Fixed Costs	(20,976)	(19,444)	(18,041)	(21,329)
Operating Profit/(Loss)	778	(2,742)	(4,630)	(7,578)

When you subtract our fixed costs away from the Gross Profit, you get the Operating Profit (or Loss). Our shareholders have for many years had to pay for losses, but in the financial year ending 2021 we made a profit of £778,000. We must now ensure that this is sustainable and growing. We will achieve this by improving our KPIs.

KPI NO. 1: COSTS

An important element of the turnaround was to reduce both the fixed costs and variable costs as a percentage of our sales.

We obsess about our customers and we want to do more of the things that delight them. Therefore, we will rely less on channels that don't bring value to them or the hobby. There will be a reluctance from some to accept this change, but we must adapt for the turnaround to prove successful. This will cause a disruption to a small number of our retailers, but not those that support the hobby, our brands, and the end customers of our products. The result of this change (including a new tier system that has been implemented for retailers) is that Hornby can better serve our customers and the business can move to a more sustainable footing that clearly benefits the whole industry.

Selling direct has different economics to selling to trade. Selling direct will result in higher revenue from the same volume of goods sold. Therefore, a shift to this channel will positively impact the denominator in both the variable cost ratio and the fixed cost ratio reported below. However, certain costs are higher when fulfilling direct orders from our websites. We have higher expenditures on logistics, fulfillment, marketing, customer services and technology. These will negatively impact the numerator in the ratios reported below.

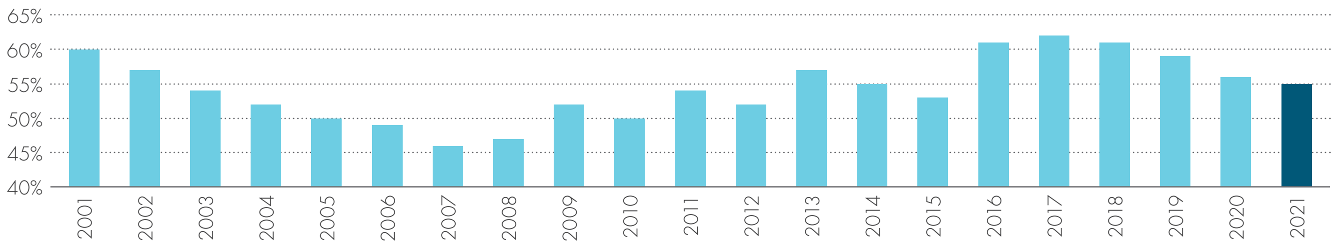
Variable Costs

These have reduced further, but I would have liked to have seen a few more percentage point drops, but difficult trading conditions meant that we incurred more costs than I had anticipated, particularly related to the importation of our products.

In late 2020 we benefited when the automated packing machines went live in our warehouse, further automation is planned in 2021/22.

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

Variable Costs as a Percentage of Sales



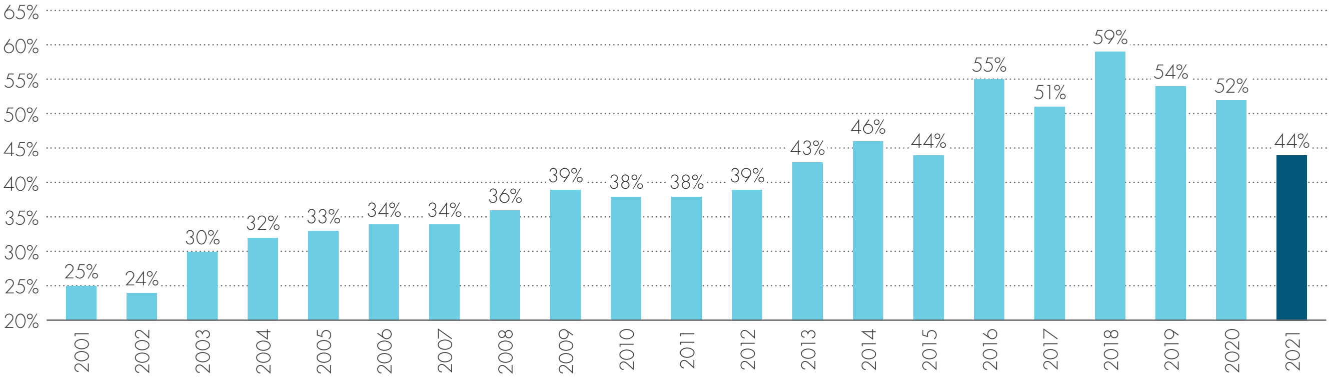
CEO's Statement continued

Fixed Costs

In the last Annual Report, I reported that our current fixed cost base could service a business bringing in £45m to £50m of sales. I am now of the belief that the service base we currently have could support £50m to £55m. We need to get the fixed costs as a percentage of sales below 40%.

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

Fixed Costs as a Percentage of Sales



Our aim is to keep increasing revenues so that the fixed cost percentage will be lower with each subsequent report.

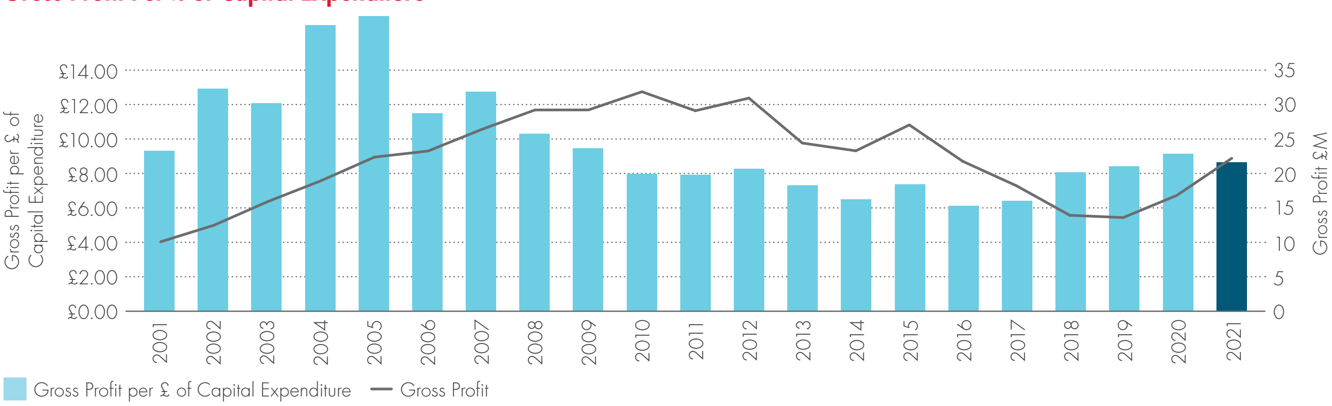
KPI NO. 2: CAPITAL EXPENDITURE PRODUCTIVITY

We need to invest in tooling to produce new, innovative and exciting models. You will find the money we put into these endeavours in Note 10 of the financial statements. Over the last three years we have invested in engineering talent and that means we can design more products.

This year, we spent £4,124,000 on Product Tooling, the highest level for over 10 years. The important thing to remember about this capital expenditure is that the money we spend in any given year is, roughly speaking, used to manufacture tooling for models and products that will be sold firstly in the following year and then for several more years. We thus have a time lag between expenditure and revenue. The increased expenditure now will have positive impacts on the results for many years to come.

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

Gross Profit Per £ of Capital Expenditure

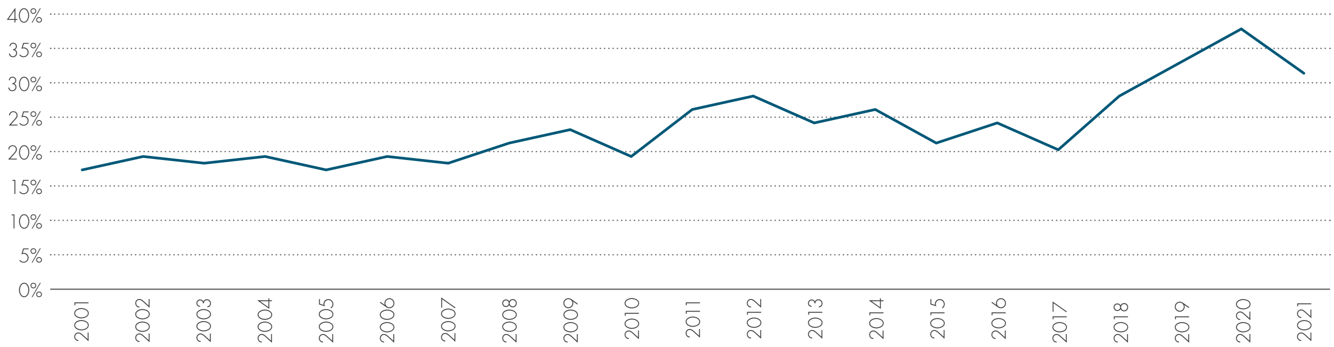


We expect the trend to keep improving for many years to come. Next year I will now start reporting on the Group return on investment KPI.

KPI NO. 3: INVENTORY

Holding inventory in the market we serve is not a bad thing, without stocks in this last year we would have been unable to support the sales growth. Furthermore, for our websites to become the go-to destination for our customers we need to make sure we maintain stock availability. Our systems for how we hold our stocks and the channels they support have changed in order to better balance how our products reach our customers.

Year End Inventory as a Percentage of Sales



Our year-end inventory balance relative to our sales ended up lower than the previous year.

It is very important that cash is not tied up unnecessarily in inventory, but on the other hand recent events have shown us that stock support is important to cushion us in times of crisis. Most of the products we produce, with the exception of a few licensed products, are not 'fashion accessories' that go out of style. With cautious commitments to production volumes slower moving items will always sell through eventually.

The Global Pandemic

The last year has been incredibly stressful for many of our employees. As we entered April 2020, we had all adapted to new ways of working, which turned out to be easier for some employees, but more difficult for others. Throughout the year my deep concern was about our employees and the personal challenges that they were facing. Equally it was essential to navigate through and ensure that the business survived to support our employees and shareholders.

Our online sales increased as much of the population returned to hobbies they had enjoyed in the past, where they found comfort. We also found new people who discovered what we had to offer. Despite the easing of lockdowns the demand continues.

There are still shipping delays from our supply chain with container shortages. Shipping costs from our factories are three times what they were previously. It would appear that the shipping companies favour these higher prices; they are in no rush for a return to past pricing levels. We anticipate that some normality will return in 2022.

Brexit

In late 2020 Hornby took a decision to stop shipments to EU countries. This was in anticipation of uncertainties in regard to paperwork, interface concerns with our logistic partners and a lack of information about how each EU country would respond at the point of entry. In recent weeks shipments have resumed, but there are still delays in certain countries whose procedures are unnecessarily rigid.

Staff Profit Share Scheme

Our loyal employees believe in our business and there are some wonderful products in the pipeline. In November 2018 we highlighted the issue that our staff below Board level in the past had not received a fair share of the rewards. We announced a profit share scheme for all of our employees who contribute to the success of our business. I am delighted to announce that our return to profit means the first part of this scheme now kicks in, with a one-off 5% bonus given to each employee, for getting to us back into profit. The second part of the scheme shares 15% of the operating profit with them as we move forward.

We want to attract the best talent, keep that talent and ensure that they are aligned with our shareholders' interests.

Our Employees

In this last year Hornby has lost some incredible employees; our employees have also lost family members in the most tragic of ways. I will never forget them, Hornby will never forget them.

Business is about great people, great products and great relationships – the rest is mist. I thank all of our wonderful employees for their enthusiasm and backing over the last year, they have supported me throughout.

CEO's Statement continued

Current Trading & Outlook

It seems that the UK is emerging from the worst of COVID-19 due to the vaccination roll-out but the worldwide issues will continue for some time. We will remain alert and flexible to react as necessary. The fundamentals of the Company are strong and I remain excited by our proposed ranges in the coming years as we reap the benefits of management's efforts to offer spectacular new products and technology throughout the year to continue the turnaround of the Group.

Since the end of March, our sales have been in line with expectations. The engine at the heart of the Company is firing and we anticipate a stronger demand for our products, with more online direct sales.

We have a strong balance sheet with net cash of £4,700,000 and we appreciate the strong support from our customers and shareholders.

Lyndon Davies
Chief Executive Officer
9 June 2021

Section 172 Statement and Stakeholder Engagement

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

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

CULTURE

Our values and leadership behaviours are a vital part of our culture to ensure that through good governance, our conduct and decision making we do the right thing for the business and our stakeholders. The Board acknowledges that every decision it makes will not necessarily result in a positive short-term outcome for all of the Group's stakeholders. We believe in creating solid foundations for the future, so there is a balance between short term success and longer-term prosperity.

SHAREHOLDERS

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

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

The primary mechanism for engaging with our shareholders is through the Company's AGM and also through the publication of the Group's financial results for the half year and full year. Further information is disclosed in the Corporate Governance Report on pages 14 to 17. The Board reviews feedback received from institutional investors following publication of our financial results. At the AGM we encourage our shareholders to ask questions and participate in debate about our performance and products. Last year, as we held a closed meeting due to COVID-19 restrictions, we asked for questions to be submitted prior to the AGM and these together with the Company's responses were published on the Company's website.

CUSTOMERS

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

SUPPLIERS

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

EMPLOYEES

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

COMMUNITY AND ENVIRONMENT

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

Operating and Financial Review of the Year

FINANCIAL REVIEW

	2021	2020
Revenue	£48.5m	£37.8m
Gross profit	£21.8m	£16.7m
Gross profit margin	44.9%	44.1%
Overheads	£21.0m	£19.4m
Exceptionals	£0.2m	£0.1m
Reported profit/(loss) before tax	£0.3m	£(3.4)m
Underlying profit/(loss) before tax*	£1.5m	£(3.2)m
Reported profit/(loss) after tax	£1.4m	£(3.4)m
Basic profit/(loss) per share	0.82p	(2.67)p
Underlying basic profit/(loss) per share*	1.36p	(2.56)p
Net cash	£4.7m	£5.9m
Undrawn facilities	£14.4m	£14.2m

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

PERFORMANCE ON A STATUTORY BASIS

Consolidated revenue for the year ended 31 March 2021 was £48.5 million, an increase of 28% compared to the previous year's £37.8 million due to improved efficiency in product development and supply chain. The revenue in the second half of the year of £27.4 million was ahead of previous year which was £21.7 million. Gross profit margin was slightly higher, at 44.9% (2020: 44.1%).

Overheads increased year-on-year by 8% from £19.4 million to £21.0 million predominantly as a result of planned recruitment of additional heads and selling related costs linked to higher revenues, especially direct sales. UK distribution costs increased by £1.0 million due to continued increased delivery costs in line with increased parcel volumes. Sales and marketing costs decreased by £0.3 million year-on-year due to cost savings related to non-participation in trade shows due to COVID-19. Administration costs were £0.4 million higher due to increased ERP system costs in line with bringing the system back from Europe and hosted in the UK. Other operating expense in the year of £0.2 million (2020: £0.2 million income) include foreign exchange losses and amortisation of brand names.

Exceptional costs totalling £0.2 million (2020: £0.1 million) are predominantly restructuring costs in Europe and dilapidation costs incurred in the UK.

PERFORMANCE ON AN UNDERLYING BASIS

The underlying profit before taxation is shown to present a clearer view of the trading performance of the business. Management identified the following items, whose inclusion in performance distorts underlying trading performance: share-based payments and the amortisation of intangibles which result from historical acquisitions. Additionally, exceptional items including refinance, relocation and restructuring costs are one off items and therefore have also been added back in calculating the underlying profit before taxation.

	Group	
	2021 £'000	2020 £'000
Statutory Profit/(Loss) before taxation	345	(3,395)
Adjustments:		
Net foreign exchange impact on intercompany loans	–	(148)
Amortisation of intangibles – brands and customer lists	227	227
Share-based payments	673	–
Exceptional items:		
Restructuring costs	136	71
COVID-19 support	–	(3)
Refinancing costs	–	7
Relocation costs	75	–
Underlying profit/(loss) before taxation	1,456	(3,241)

SEGMENTAL ANALYSIS

Third party sales by the UK business of £37.4 million increased by 31% in the year as a result of improvements in the choice of products on offer and a significant increase in direct sales via the website. The profit before taxation of £1.0 million compared to £2.0 million loss last year reflects the continued focus on getting products released to end customers and improvements within the direct sales channel.

Sales by the European businesses of £5.9 million decreased by 1% in the year reflecting the difficulties the Group faced shipping into Europe post Brexit. The loss before tax was £0.5 million compares to £0.3 million loss last year.

Sales in the US business of £5.2 million increased by 60%. The trading loss of £0.3 million compares to £1.0 million loss in last year. We expect sales to increase in this key market in the longer term and overheads to reduce.

STATEMENT OF FINANCIAL POSITION

Property, plant and equipment increased year-on-year by £2.5 million to £6.7 million as a result of increased expenditure in tooling for new products and technologies. Group inventories increased from £14.2 million to £15.1 million due to earlier arrival of stock to ensure we had sufficient stocks ahead of Chinese New Year and growing coronavirus reports in the far east. Trade and other receivables increased by £0.7 million or 11% largely due the increase in sales compared to prior year. Trade and other payables increased by £2.2 million due to the increased tooling spend and the change in timing of import VAT since Brexit. Overall investment in new tooling, new intangible computer software and other capital expenditure was £5.0 million (2020: £2.7 million).

DIVIDEND

The Group is still in the turnaround phase and there will not be a dividend payment this year (2020: £nil). The Board continues to keep the dividend policy under review.

FINANCING

At 31 March 2021 the UK had a £12 million Asset Based Lending facility with PNC Credit Limited ('PNC') and a £9 million loan facility with Phoenix Asset Management Partners.

The facility with PNC is a floating facility based on the current asset position capped at £12 million ends June 2023 and carries a margin of 2.5–3% over LIBOR. The PNC Facility has a fixed and floating charge on the assets of the Group. The Company provides customary operational and financial covenants to PNC on a monthly basis.

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

Borrowings in the year ended 31 March 2021 were zero. (2020: £10.2 million peak borrowings).

Net cash at 31 March 2021 was £4.7 million compared with net cash of £5.9 million at 31 March 2020.

Our Key Performance Indicators ('KPIs')

The Directors are of the opinion that the financial KPIs are revenues, gross margins, underlying (loss)/profit before tax and (loss)/earnings per share, the information for which is available in these financial statements and summarised on the financial highlights section earlier in this report. We additionally think that moving forward Capex Productivity, Inventory and Fixed Costs as percentage of Sales should be monitored. We provide current and historical analysis in the CEO's Statement on pages 4 to 8 and will continue to report in future Annual Reports. The Board monitors progress against plan on a regular basis adjusting future objectives annually in line with current circumstances.

IDENTIFICATION OF PRINCIPAL RISKS AND UNCERTAINTIES

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

PRINCIPAL RISKS AND UNCERTAINTIES

Risk	Description	Impact/Sensitivity	Mitigation/Comment
Market competition	The Group has competition in the model railway, slot racing, model kits, die cast and paint markets. Loss of market share to increased competitor activity or alternative hobbies would have a negative impact on the Group's results. Failure to evolve and innovate products may lead to brands becoming less relevant in the marketplace.	The Group performance is impacted by the actions of competitors and changes in the wider retail landscape.	In many of our markets the Group still enjoys a strong market position due to the continued development of our brands. We will strive to further improve the strength of our brands. Production of high-quality products which customers want is a key mitigating factor.
The Business Plan	The Business Plan may not fully achieve the aims of returning the Group to positive cash generation in 2021/22.	The increase in business scale and reduction of costs and the re-conversion of concession sales currently anticipated is not achieved and the Group does not achieve sustainable profit and cash generation.	The Group has developed clear targets and has cost saving contingencies in the plan being actioned to put the necessary resources in place to deliver the aims of the plan.
Hobby market	Overall decline in the hobby market could lead to greater levels of competition in the medium term, which could have a negative impact on the Group's results.	Failing interest in traditional hobbies may impact our core Independent and National retailers and have a consequent impact upon the Group's performance.	In many of our markets the Group enjoys a strong market position due to the continued development of our brands. Brands are extremely important in the model sector with market entry costs being prohibitive. In the short-term there is an opportunity to regain market share lost through previous underperformance.
Exchange rates	The Group purchases goods in US Dollars and sells in Pounds Sterling, Euros and US Dollars and is therefore exposed to exchange rate fluctuations.	Significant fluctuations in exchange rates to which the Group is exposed could have a material adverse effect on the Group's future results. In particular the negative impact on Sterling of Brexit and the continuing uncertainties could make the US Dollar purchase of its goods more expensive.	The Group continues to hedge short-term exposures by establishing forward currency purchases using fixed rate and participating forward contracts up to 12 months ahead. It is deemed impractical to hedge exchange rate movements beyond that period.
Supply chain	The Group's products are manufactured by specialist labour in China and India.	The Group does not have exclusive arrangements with its suppliers and there is a risk that competition for manufacturing capacity could lead to delays in introducing new products or servicing existing demand.	The Group is continuing to develop and review its vendor portfolio and has started diversifying the supplier base. A 26-step critical path analysis tool has been developed to monitor the whole manufacturing process to identify and deal with issues as they arise. The Group has its own storage facilities in China where its tooling is secured and managed.

Risk	Description	Impact/Sensitivity	Mitigation/Comment
Capital allocation	New tooling is important to support the production of new products.	The risk is that the Group has insufficient capital to fund new tooling or invests ineffectively in the wrong products.	The business plan includes significant capital expenditure to fund suitable products to underpin the implementation of the business plan strategy of the Group. This process will be underpinned by a robust capital allocation process aligned to brand strategies and brand delivery targets.
Product compliance	The Group's products are subject to compliance with toy safety legislation around the world.	Failure to comply could lead to a product recall resulting in damage to Company and brand reputation along with an adverse impact on the Group's results.	Robust internal processes and procedures, active monitoring of proposed legislation and involvement in policy debate and lobbying of the relevant authorities.
Liquidity	Insufficient financing to meet the needs of the business.	Without the appropriate level of financing, it would be increasingly difficult to execute the Group's business plans.	The Group has a £12.0 million ABL facility with PNC and a £9.0 million revolving loan facility with Phoenix Asset Management Partners. The Group's policy on liquidity risk is to maintain adequate facilities to meet the future needs of the business.
System and cyber risk	The Group continues to invest in the development of its website and ERP systems.	This exposes the business to greater risk of financial loss, disruption or damage to the reputation of an organisation from a failure of its information technology systems.	The Group has invested significant time and cost in the new website and ERP system in the last three years. The Group has dedicated web and ERP teams to monitor and maintain the Group's systems and holds appropriate insurance policies to minimise material risk. A new website went live in January 2021 which has even higher security than the existing system. We are also working on upgrading the current ERP system.
Talent and skills	Recruitment, development and retention of talented people are the key to the success of any business.	The Group fails to retain the necessary skills and talent to deliver the Group's plans.	Management team to encourage and empower employees. Key lost talent has been reacquired and brought back into the Company. An employee scheme was announced last year where all employees will participate in profits of the Group.
COVID-19	Further outbreaks in the UK, US and Europe and within our supply chain.	The Government may issue instructions that result in our warehouses being unable to transport goods in or out.	The ongoing situation is being monitored and direction is taken from the Department of Business and Central Government as the situation evolves.

MAIN CONTROL PROCEDURES

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

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

The Strategic Report has been signed on behalf of the Board.

Kirstie Gould
Chief Finance Officer
9 June 2021

Corporate Governance Report

CORPORATE GOVERNANCE

For the year ended 31 March 2021, and up to the date of this report, the Company has applied the main principles of the QCA Corporate Governance Code (the Code) and complied with its detailed provisions throughout the period under review. Full details of our approach to governance are set out below and, as a Board, we continue to be committed to good standards in governance practices and will continue to review the governance structures in place, to ensure that the current practices are appropriate for our current shareholder base and that, where necessary, changes are made.

The key governance principles and practices are described in the statement below, together with the Audit and Nomination and Remuneration Committees' reports on pages 18 to 21 and the Directors' Report on pages 23 to 27.

BOARD OF DIRECTORS

JOHN STANSFIELD

Independent Non-Executive Chairman

Aged 66

Board (Chair), Audit (Chair), Remuneration and Nomination

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

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

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

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

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

LYNDON DAVIES

Chief Executive Officer

Aged 60

Board

Lyndon joined the Board as Chief Executive in October 2017.

He is a highly-experienced model and hobby professional with 45 years' experience in the industry. He has built Oxford Diecast into a successful international business over the past two decades, focusing on Diecast vehicles, aircraft and, more recently, rail-based products.

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

KIRSTIE GOULD

Chief Finance Officer & Company Secretary

Aged 48

Board

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

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

DANIEL CARTER

Independent Non-Executive Director

Aged 26

Board, Audit, Remuneration and Nomination (Chair)

Daniel Carter was appointed as a Non-Executive Director in July 2020.

Daniel is an Investment Analyst at Phoenix Asset Management which controls the funds that own 74.7% of the ordinary shares of Hornby PLC.

Daniel studied Economics at The University of Bath.

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

Our Board and Committees Membership

Board | Audit | Remuneration and Nomination | C Chair

COMPOSITION AND INDEPENDENCE OF THE BOARD

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

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

Details of each Director's background and experience are set out in the table opposite.

APPOINTMENTS TO THE BOARD AND RE-ELECTION

The Board takes decisions regarding the appointment of new directors as a whole following the recommendations of its Remuneration and Nomination Committee. The task of searching for appropriate candidates and assessing potential candidates' skills and suitability for the role has been delegated to the Remuneration and Nomination Committee. Further information on the roles of the Remuneration and Nomination Committee and also the Audit Committee of the Board can be found on pages 18 to 21.

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

DIVISION OF RESPONSIBILITIES

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

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

EXECUTIVE DIRECTORS

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

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

NON-EXECUTIVE DIRECTORS

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

Non-Executive Directors are contracted to work no less than 15 days per year.

Corporate Governance Report continued

SUCCESSION PLANNING

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

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

HOW THE BOARD OPERATES

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

The Board is responsible for:

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

The Board met twelve times during the year. All Directors attended all twelve meetings.

THE MAIN ACTIVITIES OF THE BOARD DURING THE YEAR

Key Board activities this year included:

- dealing with the impact of COVID-19;
- dealing with the impact of Brexit;
- discussing strategic priorities;
- reviewing feedback from our institutional shareholders following our full and half year results; and
- input into implementing the next phase of the Turnaround Plan.

THE BOARD COMMITTEES

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

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

We have made some improvements in our governance arrangements including introducing reporting by the Remuneration and Nomination Committee as well as the Audit Committee in our Annual Report and Accounts. These reports can be found on pages 20 to 27.

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

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

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

EXTERNAL ADVISORS

The Board makes use of the expertise of external advisors where necessary, to enhance knowledge or gain access to particular skills or capabilities. Areas where external advisors are used include and are not limited to: diligence work on major contracts; recruitment; and Company secretarial and corporate governance. The list of external advisors is set out on page 22.

DIRECTORS' INDUCTION, DEVELOPMENT, INFORMATION AND SUPPORT

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

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

Directors keep their skillset up to date through a combination of attendance at industry events, individual professional development and experience gained from other Board roles. The Company Secretary ensures that the Board is aware of any applicable regulatory changes and updates as and when relevant. The Board is also given an annual refresher in AIM Rules and this was last provided in January 2021 by its Nominated Advisors, Liberum Capital Limited. This refresher is designed to enable Directors to keep abreast of corporate governance developments.

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

CONFLICTS OF INTEREST

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

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

PERFORMANCE EVALUATION

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

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

ACCOUNTABILITY

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

FINANCIAL AND BUSINESS REPORTING

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

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

BUSINESS ETHICS

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

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

WHISTLEBLOWING

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

Audit Committee Report

As Chair of the Audit Committee ('the Committee'), I am pleased to present our Audit Committee Report for the year ended 31 March 2021.

MEMBERSHIP

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

MEETINGS AND ATTENDANCE

The Committee met three times during the year ended 31 March 2021. All members of the Committee at the time of each meeting were present at the meetings. At least one of these meetings was with the external auditor, without the executive Board members present. Lyndon Davies and Kirstie Gould also attended meetings by invitation.

DUTIES:

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

- External Audit;
- Financial Reporting;
- Internal Control and Risk Management;
- Internal Audit; and
- Reporting on activities of the Committee.

The terms of reference for the Committee are reviewed annually and approved by the Board.

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

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

EXTERNAL AUDITOR

The Committee has the primary responsibility for recommending the appointment of the external auditor and reviewing the findings of the auditor's work. The Company's external auditor is Crowe U.K. LLP. There will be ongoing dialogue between the Committee and the auditor on actions to improve the effectiveness of the external audit process.

Having reviewed the auditor's independence and performance to date, the Committee has recommended to the Board that they be reappointed for the 2022 audit. A resolution to reappoint Crowe U.K LLP as the Company's auditor is to be proposed at the forthcoming Annual General Meeting (AGM) in September 2021.

POLICIES FOR NON-AUDIT SERVICES

In addition to the audit services they provide, Crowe U.K. LLP will prepare and submit our tax computations but will only commence work on this assignment after the financial statements have been signed.

AUDIT PROCESS

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

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

INTERNAL AUDIT

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

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

The Committee also reviews the effectiveness of control policies and procedures in place to deal with the risks mentioned. Further details on the business risks identified and the actions being taken are set out on pages 12 to 13 of the Operating and Financial Review Report.

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

John Stansfield
Chairman of the Audit Committee
9 June 2021

Remuneration and Nomination Committee Report

As Chairman of the Remuneration and Nomination Committee ('the Committee'), I am pleased to present our report for the year ended 31 March 2021 which sets out details of the composition, structure and activities of the Committee and remuneration paid to Directors during the year.

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

MEMBERSHIP

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

MEETINGS AND ATTENDANCE

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

DUTIES

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

REMUNERATION

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

NOMINATION

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

PRINCIPAL ACTIVITIES DURING THE YEAR

The Committee considered:

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

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

DIVERSITY

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

The Board recognises the benefits of diversity, including gender diversity, on the Board, although it believes that all appointments should be made on merit, while ensuring there is an appropriate balance of skills and experience within the Board. The Board currently consists of 25% (one) female and 75% (three) male Board members. The Board's age demographic ranges from 26 to 66. The business consists of 66% male employees and 34% female employees.

REMUNERATION POLICY

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

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

EXECUTIVE DIRECTORS

Base salary

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

Annual bonus

Executive Directors do not receive annual bonuses.

Long-term Incentive Plan

A new Long Term Incentive Plan, ('LTIP') was awarded during the year.

Other benefits

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

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

Service agreements and termination payments

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

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

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

Employees' pay

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

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

NON-EXECUTIVE DIRECTORS

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

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

Terms of appointment

Each of the Non-Executive Directors signed a letter of appointment for an initial period of two years which can be terminated by either party giving to the other prior written notice of three month(s). John Stansfield signed a letter on 2 January 2018 and Daniel Carter signed his on 16 July 2020. The contract continues as long as the Non-Executive Directors are re-elected at the AGM. Both John Stansfield and myself will stand for re-election at the next AGM in September 2021.

Daniel Carter

Chairman of the Remuneration and Nomination Committee

9 June 2021

Directors and Corporate Information

DIRECTORS

The full details of all directors who served in the year ended 31 March 2021 can be found below.

John Stansfield

Non-Executive Chairman

Lyndon Davies

Chief Executive

Kirstie Gould

Chief Finance Officer

Daniel Carter

Non-Executive Director

Kirstie Gould

Company Secretary

REGISTERED OFFICE

Enterprise Road
Westwood Industrial Estate
Margate
Kent CT9 4JX

COMPANY REGISTERED NUMBER

Registered in England Number: 01547390

INDEPENDENT AUDITORS

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

SOLICITORS

Taylor Wessing LLP
5 New Street Square
London EC4A 3TW

PRINCIPAL BANKERS

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

NOMINATED ADVISOR AND BROKERS

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

REGISTRARS AND TRANSFER AGENTS

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

Directors' Report

The Directors present their Annual Report together with the audited consolidated and Company financial statements for the year ended 31 March 2021.

STATUTORY INFORMATION CONTAINED ELSEWHERE IN THE ANNUAL REPORT

Information required to be part of the Directors' Report can be found elsewhere in this document, as indicated, and is incorporated into this report by reference:

The Group's business review is set out in the Strategic Report on pages 10 to 11.

The Corporate Governance Report on page 14 to 17.

Details of the salaries, bonuses, benefits and share interests of Directors on pages 26 to 27.

Section 172 statement, the key issues and stakeholder considerations discussed by the Board during the year and how the Company engages with its stakeholders are set out on page 9 of the Strategic Report.

Directors' responsibility statements on page 24.

Likely future events are disclosed within the CEO's Statement on page 8.

Post balance sheet events are set out in Note 31.

PRINCIPAL ACTIVITIES

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

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

RESULTS AND DIVIDENDS

The results for the year ended 31 March 2021 are set out in the Group Statement of Comprehensive Income. Revenue for the year was £48.5 million compared to £37.8 million last year. The profit for the year attributable to equity holders amounted to £0.3 million (2020: £3.4 million loss). The position of the Group and Company is set out in the Group and Company Statements of Financial Position. Future developments are set out within the CEO Statement.

No interim dividend was declared in the year (2020: £nil) and the Directors do not recommend a final dividend (2020: £nil).

GOING CONCERN

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

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

RESEARCH AND DEVELOPMENT

The Board considers that research and development into products continues to play an important role in the Group's success. R&D costs of £1.3 million (see Note 4) incurred in the year have been charged to the Statement of Comprehensive Income as these costs all relate to research activities.

DIRECTORS' INDEMNITIES

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

STREAMLINED ENERGY AND CARBON REPORTING (SECR)

Streamlined Energy and Carbon Reporting (SECR) is the UK Government's name for energy and carbon reporting and taxation. SECR came into force on 1 April 2019.

As a largely office-based business, the Group has a relatively low carbon presence. Under the SECR requirements we are reporting energy use and business mileage for all our UK operations. As this is the first reporting period where SECR requirements apply there is no comparative information.

Directors' Report continued

Scope	Activity	2021 Consumption kWh	2021 Consumption (tCO_2e)	2020 Consumption kWh	2020 Consumption (tCO_2e)
Scope 1	Business Mileage	38,263	9.3	–	–
Scope 2	Purchased Electricity	446,069	104.0	–	–
	Purchased Gas	493,767	100.6	–	–
		978,099	213.9	–	–

Intensity metric

An intensity metric of tCO_2e per £m revenue has been applied for the annual total consumption.

	2021	2020
tCO_2e/£m Revenue	4.22	–

During the reporting year, the Group has started a transition for the car fleet to hybrid cars. A pre-COVID strategic investment in video conferencing and other computer system developments enabled staff to effectively work from home during the pandemic, and further facilitated in a reduction in business miles travelled.

SUBSTANTIAL SHAREHOLDINGS

The Company has been notified that at close of business on 28 May 2021 the following parties were interested in 3% or more of the Company's ordinary share capital.

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

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

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

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

Directors' confirmations

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

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

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

FINANCIAL INSTRUMENTS

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

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

FINANCIAL RISK MANAGEMENT

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

PERSONNEL POLICIES

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

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

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

Our commitments are:

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

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

ARTICLES OF ASSOCIATION

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

SHARE CAPITAL

The share capital of the Company comprises ordinary shares of 1p each. Each share carries the right to one vote at general meetings of the Company. The issued share capital of the Company, together with movements in the Company's issued share capital is shown in Note 21. Ordinary shareholders are entitled to receive notice and to attend and speak at general meetings.

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

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

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

AUTHORITY TO PURCHASE OWN SHARES

The Company was authorised by shareholder resolution at the 2020 Annual General Meeting to purchase up to 10% of its issued share capital. A resolution will be proposed at the forthcoming Annual General Meeting and authority sought to purchase up to 10% of its issued share capital. Under this authority, any shares purchased must be held as treasury shares or, otherwise, cancelled resulting in a reduction of the Company's issued share capital.

No shares were purchased by the Company during the year.

Directors’ Report continued

CHANGE OF CONTROL – SIGNIFICANT AGREEMENTS

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

POLITICAL DONATIONS

The Company has made no political donations during the year.

INDEPENDENT AUDITOR

A resolution to reappoint the auditor Crowe U.K. LLP, will be proposed at the forthcoming Annual General Meeting.

ANNUAL GENERAL MEETING

The Annual General Meeting is to be scheduled for 15 September 2021. A notice of the Annual General Meeting will be sent out to shareholders separately to this Annual Report and Accounts.

DIRECTORS’ REMUNERATION

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

The following table summarises the total salary and pension contributions received by Directors for 2020–21 and 2019–20 in line with the Companies Act 2006 requirement:

AUDITED

	Year ended 31 March 2021			Year ended 31 March 2020		
	Basic salary, allowances and fees £’000	Pension contributions £’000	Total salary and pension contributions £’000	Basic salary, allowances and fees £’000	Pension contributions £’000	Total salary and pension contributions £’000
L Davies (Appointed 5 October 2017)	222	–	222	222	–	222
K Gould (Appointed 4 January 2018)	151	28	179	136	25	161
J Wilson (Resigned 16 July 2020)	–	–	–	–	–	–
D Carter (Appointed 16 July 2020)	–	–	–	–	–	–
J Stansfield (Appointed 4 January 2018)	71	–	71	70	–	70
Total	**444**	**28**	**472**	**428**	**25**	**453**

Performance Share Plan awards outstanding (Audited)

At 31 March 2021, outstanding awards to Directors under the PSP were as follows:

Director	Award date	Vesting date	Market price at award date	At 1 April 2020	Awarded during the year	As at 31 March 2021
Lyndon Davies	Nov 2020	June 2022	54p	–	2,670,846	2,670,846
Kirstie Gould	Nov 2020	June 2022	54p	–	2,670,846	2,670,846

Under the terms of the LTIP, awards are subject to strict vesting criteria. These are linked to the Company’s performance over pre-established dates.

The potential level of vesting will be determined by the level of Operating Profit announced in the 2021/22 Group results, expected on or around June 2022, the maximum aggregate number of 10,683,384 options vesting if the maximum Operating Profit hurdle is achieved by the Company and a pro-rata per cent of the maximum level of options vesting if certain reduced Operating Profit hurdles are achieved.

Under the terms of the LTIP, the total equity pool under option in a cumulative ten-year period (including shares already issued in relation to previous option exercises), shall not exceed 15%. Following implementation of the LTIP, 6.4% of the Company’s total issued share capital will be held under option.

Benefits and Pension (Unaudited)

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

Executive Directors' service contracts (Unaudited)

Executive Directors do not have fixed period contracts.

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

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

DIRECTORS' INTERESTS

Interests in shares

Interests of the Directors in the shares of the Company at 31 March 2021 and 31 March 2020 were:

	At 31 March 2021 number	At 31 March 2020 number
Executive Directors		
L Davies	795,144	795,144
K Gould	55,006	55,006
Non-Executive Directors		
J Wilson	–	41,311
D Carter	–	–
J Stansfield	85,358	85,358

All the interests detailed above are beneficial. Two of the Directors also have share options as detailed in Note 22. 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. Daniel Carter is also an employee at Phoenix Asset Management Partners Limited who hold a substantial shareholding in Hornby PLC.

On behalf of the Board

Kirstie Gould

Chief Finance Officer

Westwood
Margate
CT9 4JX

9 June 2021

Independent Auditors' Report to the Members of Hornby PLC

OPINION

We have audited the financial statements of Hornby PLC (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2021 which comprise:

- the Group and Parent Company statements of comprehensive income for the year ended 31 March 2021;
- the Group and Parent Company statements of financial position as at 31 March 2021;
- the Group and Parent Company statements of cash flows for the year then ended;
- the Group and Parent Company statements of changes in equity for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2021 and of the Group's profit and Parent Company's loss for the period then ended;
- have been properly prepared in accordance with international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

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

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the entity's ability to continue to adopt the going concern basis of accounting included:

- reviewing the cash flow model provided by management and challenging the assumptions made;
- reviewing management's forecasts which show continued growth in both revenue and profitability. Our assessment therefore considered if this will be feasible in light of past losses and recent economic conditions;
- considering the accuracy of past budgeting since the new management team took over, as well as a review of the April management accounts compared to forecast; and
- considering the cash position of the business along with current facilities available for drawdown.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

OVERVIEW OF OUR AUDIT APPROACH

Materiality

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

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be £215,000 (FY20 £215,000), based on turnover and the profitability of the business.

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

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

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

We agreed with the Audit Committee to report to it all identified errors in excess of £10,000 (2020: £10,000). Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

OVERVIEW OF THE SCOPE OF OUR AUDIT

We performed an audit of the complete financial information of two full scope components, Hornby PLC and Hornby Hobbies Limited. The European sales offices and US trading subsidiary were audited using a component materiality level of £180,000 for the purposes of the consolidation only.

KEY AUDIT MATTERS

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

We considered going concern to be a key audit matter. Our observations on this area are set out in the Conclusions relating to Going Concern section of the audit report.

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

Key audit matter	How the scope of our audit addressed the key audit matter
Carrying value of goodwill and intangibles The Group holds goodwill at a carrying value of £4.5m and brand relations at a carrying value of £1.5m. The Parent Company also holds significant investments and debtor balances with Group companies. Recovery of these assets is dependent upon future cash flows which are required to be discounted. There is a risk that forecasts for these future cash flows are not met or that the cash flows have not been discounted at an appropriate rate. If the cash flows do not meet expectations the assets may become impaired.	We reviewed management's impairment review which includes impairment reviews for investments, goodwill and intangible assets. The reviews relied on forecasts of future cash flows based on Board approved forecasts. We challenged management on the assumptions made, including the forecast growth rate, profitability, terminal growth rates applied and discount rate applied. This review was conducted with the support of our valuations team. As part of our review we benchmarked assumptions such as the terminal growth rate and inputs into the calculation of the cost of capital (discount rate). We also considered the recoverability of intercompany debt in the Parent Company financial statements.
Inventory provisioning The Group was holding £15.1m of inventory at the year end. There was considered to be a risk that old inventory may become difficult to sell and thereby become impaired.	We obtained the aged inventory reports and recalculated the provision. We reviewed assumptions made in comparison to the prior year and challenged management where assumptions had either changed or no longer appeared appropriate. We compared the aging of stock year on year to consider if stock was getting older and questioned management on the increase in stock from the prior year. For a sample of inventory items we reviewed sales post year end to consider if any items were being valued below cost.

Independent Auditors' Report to the Members of Hornby PLC continued

Key audit matter	How the scope of our audit addressed the key audit matter
Long Term Incentive Plan The Company introduced a Long Term Incentive Plan (LTIP) for certain employees during the year. The options are linked to the profitability of the Company for the year ended 31 May 2022. We considered there to be a risk that the assumptions used in calculating the charge for the year were incorrect.	We reviewed the share option calculations provided by management and checked the inputs and assumptions into the model. The number of options that vest depends on meeting certain profit targets and therefore we ensured that the options expected to vest were consistent with the forecast profit for the year ended 31 May 2022.
Revenue recognition Revenue is recognised in accordance with the accounting policy set out in the financial statements. We focus on the risk of material misstatement in the recognition of revenue, as a result of both fraud and error, because revenue is material and is an important determinant of the Group's profitability.	We reviewed the revenue recognition process and found the policy to be in accordance with IFRS 15. We performed detailed testing by selecting a sample of sales made in the year and agreeing these through to invoices, despatch records and ultimately cash received. We tested a sample of sales around the year end to ensure that cut off was working appropriately.

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

OTHER INFORMATION

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

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

We have nothing to report in this regard.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

EXTENT TO WHICH THE AUDIT IS CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We identified and assessed the risks of material misstatement of the financial statements from irregularities, whether due to fraud or error, and discussed these between our audit team members. We then designed and performed audit procedures responsive to those risks, including obtaining audit evidence sufficient and appropriate to provide a basis for our opinion.

We obtained an understanding of the legal and regulatory frameworks within which the Company operates, focusing on those laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements. The laws and regulations we considered in this context were the Companies Act 2006 and Taxation legislation.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any.

We identified the greatest risk of material impact on the financial statements from irregularities, including fraud, to be the override of controls by management and the recognition of revenue. Our audit procedures to respond to these risks included:

- enquiry of management about the Group's policies, procedures and related controls regarding compliance with laws and regulations and if there are any known instances of non-compliance;
- examining supporting documents for all material balances, transactions and disclosures;
- review of the Board meeting minutes;
- enquiry of management and review and inspection of relevant correspondence with any legal firms;
- evaluation of the selection and application of accounting policies related to subjective measurements and complex transactions;
- detailed testing of a sample of sales made during the year and around the year and agreeing these through to invoices and despatch records;
- testing the appropriateness of a sample of significant journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; and
- review of accounting estimates for biases.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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

Independent Auditors' Report to the Members of Hornby PLC continued

USE OF OUR REPORT

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

Mark Sisson

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

9 June 2021

Group and Company Statements of Comprehensive Income

for the Year Ended 31 March 2021

		Group		Company	
	Note	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Revenue	2	48,549	37,842	933	1,065
Cost of sales		(26,795)	(21,140)	–	–
Gross profit		21,754	16,702	933	1,065
Distribution costs		(6,798)	(5,787)	–	–
Selling and marketing costs		(7,804)	(8,153)	–	–
Administrative expenses		(6,133)	(5,685)	(1,315)	(1,069)
Other operating (expenses)/income	4	(241)	181	–	–
Operating profit/(loss) before Exceptional items	4	778	(2,742)	(382)	(4)
Exceptional items	4	(211)	(75)	–	(6,051)
Operating profit/(loss)	2	567	(2,817)	(382)	(6,055)
Finance income	3	3	3	175	175
Finance costs	3	(334)	(615)	(220)	(217)
Net finance expense	3	(331)	(612)	(45)	(42)
Share of profit of investments accounted for using the equity method	11	109	34	109	34
Profit/(Loss) before taxation	4	345	(3,395)	(318)	(6,063)
Income tax credit	5	1,018	–	–	–
Profit/(Loss) for the year after taxation		1,363	(3,395)	(318)	(6,063)
Other comprehensive income					
Items that may be subsequently reclassified to profit or loss:					
Cash flow hedges, net of tax		(597)	247	–	–
Currency translation (losses)/gains		(187)	(332)	246	(119)
Other comprehensive (loss)/income for the year, net of tax		(784)	(85)	246	(119)
Total comprehensive (loss)/income for the year		579	(3,480)	(72)	(6,182)
Profit/(loss) per ordinary share					
Basic	7	0.82p	(2.67)p		
Diluted	7	0.80p	(2.67)p		

All results relate to continuing operations.

The notes on pages 37 to 70 form part of these accounts.

Group and Company Statements of Financial Position

as at 31 March 2021

		Group		Company	
	Note	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Assets					
Non-current assets					
Goodwill	8	4,561	4,564	–	–
Intangible assets	9	3,017	2,824	–	–
Property, plant and equipment	10	6,680	4,165	–	–
Investments	11	1,839	1,730	23,860	23,415
Right of Use Assets	12	2,690	2,573	–	–
Deferred tax assets	20	2,956	2,030	–	–
		21,743	17,886	23,860	23,415
Current assets					
Inventories	13	15,152	14,235	–	–
Trade and other receivables	14	7,247	6,525	48,518	48,454
Derivative financial instruments	19	32	116	–	–
Cash and cash equivalents	15	4,685	5,921	2	2
		27,116	26,797	48,520	48,456
Liabilities					
Current liabilities					
Borrowings	18	–	–	–	–
Trade and other payables	16	(7,131)	(4,889)	(6,722)	(6,596)
Lease liabilities	17	(365)	(384)	–	–
Derivative financial instruments	19	(513)	–	–	–
		(8,009)	(5,273)	(6,722)	(6,596)
Net current assets		19,107	21,524	41,798	41,860
Non-current liabilities					
Borrowings	18	–	–	(5,689)	(5,907)
Lease liabilities	17	(2,443)	(2,255)	–	–
Deferred tax liabilities	20	(150)	(150)	–	–
		(2,593)	(2,405)	(5,689)	(5,907)
Net assets		38,257	37,005	59,969	59,368
Equity attributable to owners of the parent					
Share capital	21	1,669	1,669	1,669	1,669
Share premium		52,857	52,857	52,857	52,857
Capital redemption reserve	23	55	55	55	55
Translation reserve	23	(1,989)	(1,802)	(1,016)	(1,262)
Hedging reserve	23	(481)	116	–	–
Other reserves	23	1,688	1,688	19,145	19,145
Accumulated losses		(15,542)	(17,578)	(12,741)	(13,096)
Total equity		38,257	37,005	59,969	59,368

The notes on pages 37 to 70 form part of these accounts. The financial statements on pages 33 to 70 were approved by the Board of Directors on 9 June 2021 and were signed on its behalf by:

K Gould

Director

Registered Company Number: 01547390

Group and Company Statements of Changes in Equity

for the Year Ended 31 March 2021

GROUP	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Translation reserve £'000	Hedging reserve £'000	Other reserves £'000	Retained earnings/ (accumulated losses) £'000	Total equity £'000
Balance at 31 March 2019 and 1 April 2019	1,253	38,587	55	(1,470)	(131)	1,688	(14,183)	25,799
Loss for the year	–	–	–	–	–	–	(3,395)	(3,395)
Other comprehensive (expense)/income for the year	–	–	–	(332)	247	–	–	(85)
Total comprehensive (expense)/income for the year	–	–	–	(332)	247	–	(3,395)	(3,480)
Transactions with owners								
Net proceeds from issue of ordinary shares	416	14,270	–	–	–	–	–	14,686
Total transactions with owners	416	14,270	–	–	–	–	–	14,686
Balance at 31 March and 1 April 2020	1,669	52,857	55	(1,802)	116	1,688	(17,578)	37,005
Profit for the year	–	–	–	–	–	–	1,363	1,363
Other comprehensive expense for the year	–	–	–	(187)	(597)	–	–	(784)
Share-based payments (Note 22)	–	–	–	–	–	–	673	673
Total comprehensive (expense)/income for the year	–	–	–	(187)	(597)	–	2,036	1,252
Balance at 31 March 2021	1,669	52,857	55	(1,989)	(481)	1,688	(15,542)	38,257

COMPANY	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Translation reserve £'000	Other reserves £'000	Retained earnings/ (accumulated losses) £'000	Total Equity £'000
Balance at 31 March 2019 and 1 April 2019	1,253	38,587	55	(1,143)	19,145	(7,033)	50,864
Loss for the year	–	–	–	–	–	(6,063)	(6,063)
Other comprehensive expense for the year	–	–	–	(119)	–	–	(119)
Total comprehensive expense for the year	–	–	–	(119)	–	(6,063)	(6,182)
Transactions with owners							
Net proceeds from issue of ordinary shares	416	14,270	–	–	–	–	14,686
Total transactions with owners	416	14,270	–	–	–	–	14,686
Balance at 31 March and 1 April 2020	1,669	52,857	55	(1,262)	19,145	(13,096)	59,368
Loss for the year	–	–	–	–	–	(318)	(318)
Other comprehensive income for the year	–	–	–	246	–	–	246
Share-based payments (Note 22)	–	–	–	–	–	673	673
Total comprehensive income/(expense) for the year	–	–	–	246	–	355	601
Balance at 31 March 2021	1,669	52,857	55	(1,016)	19,145	(12,741)	59,969

The notes on pages 37 to 70 form part of these accounts.

Group and Company Cash Flow Statements

for the Year Ended 31 March 2021

	Note	Group		Company	
		2021 £'000	2020 £'000	2021 £'000	2020 £'000
Cash flows from operating activities					
Cash generated from/(used in) operations	27	4,372	(3,241)	45	(14,672)
Interest paid		(75)	(446)	(220)	(217)
Interest element of lease payments		(165)	(169)	–	–
Tax received/(paid)		90	–	–	–
Net cash generated from/(used in) operating activities		4,222	(3,856)	(174)	(14,889)
Cash flows from investing activities					
Purchase of property, plant and equipment	10	(4,249)	(2,481)	–	–
Purchase of intangible assets	9	(726)	(237)	–	–
Interest received		3	3	175	175
Net cash (used in)/generated from investing activities		(4,972)	(2,715)	175	175
Cash flows from financing activities					
Proceeds from issuance of ordinary shares		–	15,000	–	15,000
Share issue costs		–	(314)	–	(314)
Net (repayments to)/proceeds from ABL facility		–	(1,893)	–	–
Proceeds from shareholder loan		–	7,776	–	–
Repayment of shareholder loan		–	(8,337)	–	
Payment of lease liability		(462)	(462)	–	–
Advances to subsidiary undertakings		–	–	–	29
Net cash (used in)/generated from financing activities		(462)	11,770	–	14,715
Net (decrease)/increase in cash and cash equivalents		(1,212)	5,199	1	1
Cash and cash equivalents at the beginning of the year		5,921	704	1	1
Effect of exchange rate movements		(24)	18	–	–
Cash and cash equivalents		4,685	5,921	2	2
Cash and cash equivalents consist of:					
Cash and cash equivalents	15	4,685	5,921	2	2
Cash and cash equivalents at the end of the year		4,685	5,921	2	2

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

Accounting policies for the year ended 31 March 2021

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

Basis of preparation

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

The financial information for the year ended 31 March 2021 has been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The consolidated Group and Parent Company financial statements have been prepared on a going concern basis and under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

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

Going concern

The Group has in place an Asset Based Lending (ABL) facility with PNC Credit Limited which is a floating facility based on the current asset position capped at £12 million through to June 2023. The PNC Covenants are customary operational covenants applied on a monthly basis. In addition, the Group entered a committed £9.0 million loan facility with Phoenix Asset Management Partners Limited (the Group's largest shareholder) if it should be required which is a three-year rolling facility.

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

Basis of consolidation

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES continued

Adoption of new and revised standards

The following standards and interpretations relevant to the Group are in issue but are not yet effective and have not been applied in the historical financial information. In some cases these standards and guidance have not been endorsed for use.

- IAS 1 Presentation of liabilities as current or non-current
- IAS 1 Disclosure of accounting policies
- IAS 8 definition of accounting estimates

Revenue recognition

The Group's revenue is mostly from product sales and is recognised as follows:

(a) Sale of goods

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

(b) Royalty income

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

(c) Sales returns

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

(d) Hornby Visitor Centre

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

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

Exceptional items

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

Operating segments

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

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

Business combinations

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

Associate with equity accounting

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

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

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

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

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

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

Goodwill

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

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

Intangibles

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

(a) Brand names

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

(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 of 10 years.

(c) Computer software and website costs

Computer software expenditure is capitalised at the value at the date of acquisition and depreciated over a useful economic life of 4–6 years.

1. SIGNIFICANT ACCOUNTING POLICIES continued

Property, plant and equipment

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

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

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

Tools and moulds are depreciated at varying rates in line with the related product production on an item-by-item basis up to a maximum of four years. Tools and moulds purchased but not ready for production are not depreciated.

Impairment of non-current assets

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

Investments

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less any impairment. Investments in associates are recognised using the equity method of accounting, where the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the profits or losses of the investee. Dividend income is shown separately in the Statement of Comprehensive Income.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is predominantly determined using the first-in, first-out ('FIFO') method. Alternative methods may be used when proven to generate no material difference. The cost of finished goods comprise item cost, freight and any product specific development costs.

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

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

Financial instruments

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

Trade receivables

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

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of twelve months before 31 March 2021 and the corresponding historical credit losses experienced within this period.

Financial liabilities and equity

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

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

Refund liability

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

Cash and cash equivalents

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

Borrowing costs

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

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

Trade payables

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

Taxation including deferred tax

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

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

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

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

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

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

Notes to the Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES continued

Employee benefit costs

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

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

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

The Group has a profit share scheme for all employees below Executive level. This scheme commences in 2020/21 with a 5% bonus for all when the Group breaks even. Thereafter, 15% of all Group operating profit will be shared between the employees every year.

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.

Share-based payments

The Group has issued share options to Executive Directors. The fair value of the award granted is recognised as an employee expense within the Income Statement with a corresponding increase in equity. The fair value is measured at the grant date and allocated over the vesting period based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. The fair value of the grants is measured using the Black-Scholes model.

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.

(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 Statement of Comprehensive Income.

(b) Interest rate risk

The Group finances its operations through a mixture of retained profits, Asset Based lending facilities and shareholder loans. The Group borrows, principally in Sterling, at floating rates of interest to meet short-term funding requirements. At the year end the Group's borrowings were zero.

(c) Credit risk

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

(d) Liquidity risk

At 31 March 2021 the UK had a £12 million Asset Based Lending facility with PNC Credit Limited and a £9 million loan facility with Phoenix Asset Management Partners. The funding needs are determined by monitoring forecast and actual cash flows. The Group regularly monitors its performance against its banking covenants to ensure compliance.

Derivative financial instruments

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

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

(a) Cash flow hedge

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

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

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

(b) Derivatives that do not qualify for hedge accounting

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

Fair value estimation

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

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

Foreign currency

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

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

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

Notes to the Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES continued

Dividend distribution

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

Furlough scheme

Hornby PLC has accounted for government furlough grant receivables under IAS 20 and recognised a credit to match the related employee costs as and when they are received. Under IAS 20, it is permissible to present the grant and the expenses on either a gross or net basis. However, any related balance sheet items (i.e. grant receivable and amounts payable to employees) cannot be netted off. Any decision to top up the furlough payments to employees (e.g. by choosing to pay more than the government guaranteed 80% of salary up to a maximum of £2,500 per month) is a voluntary decision and should not be provided for in advance. This is because there is no obligation to make these additional payments and to do so would constitute providing for future operating costs. At year end all furlough payments have been received and no staff are on furlough.

Critical estimates and judgements in applying the accounting policies

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

Critical accounting estimates and assumptions:

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

(a) Impairment of goodwill, intangibles and investments

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

(b) Share-based payment arrangements

Equity-settled share-based payments to Directors and executives measured at the fair value of the equity instruments at the grant date. 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 equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to other reserves.

Other estimates and assumptions:

(a) Inventory provision

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

(b) Receivables provision

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

(c) Fair value of derivatives

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

(d) Refund liability

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

(e) IFRS 16 Estimates

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

Critical judgements in applying the Group's accounting policies:

(a) Recognition of deferred tax on losses

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

(b) Going concern

The Directors apply judgement to assess whether it is appropriate for the Group to be reported as a going concern by considering the business activities and the Group's principal risks and uncertainties. Details of the consideration made are included within the Directors Report (page 23) and the basis of preparation (page 37).

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

Other judgements in applying the Group's accounting policies:

(a) Equity accounting for LCD Enterprises Limited

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

Notes to the Financial Statements continued

2. SEGMENTAL REPORTING

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

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

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

The Company is a holding Company operating in the UK with its results given in the Company Statement of Comprehensive Income on page 33 and its assets and liabilities given in the Company Statement of Financial Position on page 34. Other Company information is provided in the other notes to the accounts.

Year ended 31 March 2021

		UK £'000	USA £'000	Spain £'000	Italy £'000	Rest of Europe £'000	Total Reportable Segments £'000	Intra Group £'000	Group £'000
Revenue	– External	37,428	5,233	1,012	1,719	3,157	48,549	–	48,549
	– Other segments	2,603	–	–	–	–	2,603	(2,603)	–
Operating (loss)/profit		969	(279)	(56)	10	(77)	567	–	567
Finance income	– External	3	–	–	–	–	3	–	3
	– Other segments	486	–	–	–	–	486	(486)	–
Finance costs	– External	(308)	–	(3)	(21)	(2)	(334)	–	(334)
	– Other segments	(176)	–	(220)	(17)	(73)	(486)	486	–
Share of profit of investments accounted for using the equity method		109	–	–	–	–	109	–	109
Profit/(Loss) before taxation		1,083	(279)	(279)	(28)	(152)	345	–	345
Taxation		1,018	–	–	–	–	1,018	–	1,018
Profit/(Loss) for the year		2,101	(279)	(279)	(28)	(152)	1,363	–	1,363
Segment assets		59,490	2,245	5,827	(116)	4,199	71,645	–	71,645
Less intercompany receivables		(16,442)	–	(5,738)	(106)	(3,456)	(25,742)	–	(25,742)
Add tax assets		3,019	–	–	(63)		2,956	–	2,956
Total assets		46,067	2,245	89	(285)	743	48,859	–	48,859
Segment liabilities		(17,628)	(6,235)	(5,213)	(811)	(6,607)	(36,494)	–	(36,494)
Less intercompany payables		8,098	5,687	5,103	503	6,351	25,742	–	25,742
Add tax liabilities		150	–	–	–	–	150	–	150
Total liabilities		(9,380)	(548)	(110)	(308)	(256)	(10,602)	–	(10,602)
Other segment items									
Capital expenditure		4,953	18	–	2	2	4,975	–	4,975
Depreciation		1,701	17	5	(2)	–	1,721	–	1,721
Net foreign exchange on intercompany loans		(148)	–	–	–	–	(148)	–	(148)
Amortisation of intangible assets		533	–	–	–	–	533	–	533

All transactions between Group companies are on normal commercial terms.

Year ended 31 March 2020

		UK £'000	USA £'000	Spain £'000	Italy £'000	Rest of Europe £'000	Total Reportable Segments £'000	Intra Group £'000	Group £'000
Revenue	– External	28,622	3,263	1,199	1,469	3,289	37,842	–	37,842
	– Other segments	3,088	–	–	–	–	3,088	(3,088)	–
Operating (loss)/profit		(1,794)	(1,015)	(18)	11	(1)	(2,817)	–	(2,817)
Finance cost	– External	3	–	–	–	–	3	–	3
	– Other segments	605	–	–	130	–	735	(735)	–
Finance income	– External	(579)	(29)	(2)	(3)	(2)	(615)	–	(615)
	– Other segments	(303)	–	(217)	(142)	(73)	(735)	735	–
Share of profit of investments accounted for using the equity method		34	–	–	–	–	34	–	34
(Loss) before taxation		(2,034)	(1,044)	(237)	(4)	(76)	(3,395)	–	(3,395)
Taxation		–	–	–	–	–	–	–	–
(Loss) for the year		(2,034)	(1,044)	(237)	(4)	(76)	(3,395)	–	(3,395)
Segment assets		56,516	2,913	6,101	(128)	4,374	69,776	–	69,776
Less intercompany receivables		(17,484)	(63)	(5,968)	(29)	(3,579)	(27,123)	–	(27,123)
Add tax assets		2,095	–	–	(65)		2,030	–	2,030
Total assets		41,127	2,850	133	(222)	795	44,683	–	44,683
Segment liabilities		(15,552)	(6,841)	(5,163)	(744)	(6,651)	(34,951)	–	(34,951)
Less intercompany payables		8,655	6,347	5,064	524	6,533	27,123	–	27,123
Add tax liabilities		150	–	–	–	–	150	–	150
Total liabilities		(6,747)	(494)	(99)	(220)	(118)	(7,678)	–	(7,678)
Other segment items									
Capital expenditure		2,698	16	1	3	–	2,718	–	2,718
Depreciation		2,076	15	6	3	–	2,100	–	2,100
Net foreign exchange on intercompany loans		(148)	–	–	–	–	(148)	–	(148)
Amortisation of intangible assets		603	–	–	–	–	603	–	603

All transactions between Group companies are on normal commercial terms.

Notes to the Financial Statements continued

3. NET FINANCE EXPENSE

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Finance costs:				
Interest expense on borrowings	(85)	(165)	–	–
Interest expense on shareholder loan	(84)	(281)	–	–
Interest element of leases	(165)	(169)	–	–
Interest expense on intercompany borrowings	–	–	(220)	(217)
	(334)	(615)	(220)	(217)
Finance income:				
Bank interest	3	3	–	–
Interest income on intercompany loans	–	–	175	175
	3	3	175	175
Net finance expense	(331)	(612)	(45)	(42)

4. PROFIT/(LOSS) BEFORE TAXATION

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
The following items have been included in arriving at loss before taxation:				
Staff costs (Note 24)	9,257	8,014	834	513
Inventories:				
– Cost of inventories recognised as an expense (included in cost of sales)	22,429	18,240	–	–
– Increase in stock provision	27	186	–	–
Depreciation of property, plant and equipment:				
– Owned assets	1,721	2,100	–	–
– Leased assets	492	528	–	–
Repairs and maintenance expenditure on property, plant and equipment	81	75	–	–
Research and development expenditure	1,320	1,244	–	–
Increase in impairment of trade receivables	–	(118)	–	–
Other operating expenses/(income):				
– Foreign exchange on trading transactions	14	(260)	–	–
– Net impact of foreign exchange on intercompany loans	(25)	(148)	–	–
– Amortisation of intangible assets	533	603	–	–

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Exceptional items comprise:				
– Restructuring costs	136	71	–	24
– Refinancing	–	7	–	7
– Relocation	75	–	–	–
– Coronavirus impact	–	(3)	–	–
– Impairment of receivable	–	–	–	6,020
	211	75	–	6,051

The exceptional items totalling £211,000 (2020: £75,000) include restructuring costs relating to redundancy costs and dilapidation costs on movement of Headquarters from Sandwich to Margate. These are classified as exceptional as they are one off, non-recurring costs.

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	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Fees payable to the Company's auditors for the audit of Parent Company and consolidated accounts	31	30	11	10
Fees payable to the Company's auditors and its associates for other services:				
– The auditing of accounts of the Company's subsidiaries	39	36	–	–
– Audit-related assurance services	–	–	–	–
– Tax services	6	–	–	–
	76	66	11	10

Current year subsidiary fees relate to Hornby Italia (£6,000) and Hornby Hobbies Limited (£33,000).

In the current financial year the level of non-audit fees are £6k and related to tax services and was within the 1:1 ratio to audit fees as per Audit Committee policy.

5. INCOME TAX (CREDIT)/CHARGE

Analysis of tax (credit)/charge in the year

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Current tax	–	–	–	–
UK Taxation:				
– Adjustments in respect of prior years	(92)			
Deferred tax (Note 20)	–	–	–	–
Origination and reversal of temporary differences	(926)	221	–	–
Effect of tax rate change on opening balance	–	(221)	–	–
Total tax credit to the loss before tax	(1,018)	–	–	–

Notes to the Financial Statements continued

5. INCOME TAX (CREDIT)/CHARGE continued

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

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Loss before taxation	345	(3,395)	(318)	(43)
Loss on ordinary activities multiplied by rate of Corporation tax in UK of 19% (2020: 19%)	65	(645)	(60)	(8)
Effects of:				
Adjustments to tax in respect of prior years	(92)			
Permanent differences	(138)	20	8	–
Non taxable income	(21)	(6)	(21)	(6)
Difference on overseas rates of tax	(40)	(33)	–	–
Deferred tax not recognised	(792)	885	73	14
Remeasurement of deferred tax	–	(221)	–	–
Total taxation	(1,018)	–	–	–

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

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

The latest corporation tax rate change to 23% announced on the 3 March 2021 Budget has yet to be substantively enacted as at 31 March 2021 and therefore is not reflected in these notes. This rate change, once substantively enacted, does not come into effect until 1 April 2023 and therefore only timing differences expected to reverse after this date will be recognised for Deferred Tax purposes at 23%, those expected to reverse before this date will continue to be recognised at 19%.

Unrecognised deferred tax relates to UK and overseas subsidiaries and is not recognised, except to the extent of the prior year movement in the change in tax rate noted above. This is due to the Directors taking the view that deferred tax should only be recognised to the extent taxable profits are likely to be achieved. More detail can be found in Note 20.

6. DIVIDENDS

No interim or final dividends were paid in relation to the year ended 31 March 2020 and no interim dividend has been paid in relation to the year ended 31 March 2021. The Directors are not proposing a final dividend in respect of the financial year ended 31 March 2021.

7. PROFIT/(LOSS) PER SHARE

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

For diluted profit/(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 2021.

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

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

	2021			2020		
	(Loss)/ earnings £'000	Weighted average number of shares '000s	Per-share amount pence	(Loss)/ earnings £'000	Weighted average number of shares '000s	Per-share amount pence
REPORTED						
Basic profit per share						
Profit attributable to ordinary shareholders	1,363	166,929	0.82	(3,395)	127,196	(2.67)
Effect of dilutive share options	–	4,127	–	–	–	–
Diluted profit per share	1,363	171,056	0.80	(3,395)	127,196	(2.67)
UNDERLYING						
Profit attributable to ordinary shareholders	1,363	166,929	0.82	(3,395)	127,196	(2.67)
Share-based payments	545		0.33			
Amortisation of intangibles	432	–	0.26	184	–	0.14
Restructuring costs	110	–	0.07	58	–	0.05
Refinancing	–	–	–	6	–	0.00
Relocation	61	–	0.04	–	–	–
Net foreign exchange translation adjustments	–	–	–	(123)	–	(0.10)
Underlying basic profit/EPS	2,511	166,929	1.50	(3,270)	127,196	(2.57)
Underlying diluted profit/EPS	2,511	171,056	1.47	(3,270)	127,196	(2.57)

The above numbers used to calculate the EPS for the year ended 31 March 2021 and 31 March 2020 have been tax effected at the rate of 19%.

8. GOODWILL

GROUP	£'000
COST	
At 1 April 2020	13,055
Exchange adjustments	(3)
At 31 March 2021	13,052
AGGREGATE IMPAIRMENT	
At 1 April 2020 and 31 March 2021	8,491
Net book amount at 31 March 2021	4,561
COST	
At 1 April 2019	13,054
Exchange adjustments	1
At 31 March 2020	13,055
AGGREGATE IMPAIRMENT	
At 1 April 2019 and 31 March 2020	8,491
Net book amount at 31 March 2020	4,564
Net book amount at 31 March 2019	4,563

The Company has no goodwill.

Notes to the Financial Statements continued

8. GOODWILL continued

The goodwill has been allocated to cash-generating units and a summary of carrying amounts of goodwill by geographical segment (representing cash-generating units) at 31 March 2021 and 31 March 2020 is as follows:

GROUP	UK £'000	USA £'000	France £'000	Germany £'000	Total £'000
At 31 March 2021	3,992	9	364	196	4,561
At 31 March 2020	3,992	10	364	198	4,564

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

Impairment tests for goodwill

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

The relative risk adjusted (or 'beta') discount rate applied reflects the risk inherent in hobby based product companies. The 31 March 2021 forecasts are based on a 4 year business plan for the years ending 31 March 2022 to 31 March 2025. The 31 March 2020 forecasts are based on a 4 year business plan for the years ending 31 March 2021 to 31 March 2024. Cash flows beyond these years are extrapolated using an estimated 2.0% year on year growth rate. The cash flows were discounted using a pre-tax discount rate of 9.9% (2020: 9.9%) which management believes is appropriate for all territories.

The key assumptions used for value-in-use calculations for the year ended 31 March 2021 are as follows:

GROUP	UK (Corgi)	UK (Airfix & Humbrol)	France	Germany
Gross Margin[1]	63.7%	64.5%	57.0%	56.7%
Growth rate to perpetuity[2]	2.0%	2.0%	2.0%	2.0%

1. Average of the variable yearly gross margins used over the period 21'22 to 28'29.
2. Weighted average growth rate used to extrapolate cash flows beyond the budget period reflecting the long term future growth rate of the economy.

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

1. Average of the variable yearly gross margins used over the period 20'21 to 27'28.
2. Weighted average growth rate used to extrapolate cash flows beyond the budget period.

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 £25.6 million. A reduction of the average gross margin to respectively 53.8% for Corgi and 50.2% for Airfix/Humbrol, or a rise in discount rate to respectively 22.8% for Corgi and 54.9% for Airfix/Humbrol would remove the remaining headroom.

For the France CGU, the recoverable amount calculated based on value in use exceeded carrying value by £18.3 million. A reduction of the average gross margin to 6.2%, or a rise in discount rate to 290.2% would remove the remaining headroom.

For the Germany CGU, the recoverable amount calculated based on value in use exceeded carrying value by £20.7million. A reduction of the average gross margin to 11.8%, or a rise in discount rate to 328.0% would remove the remaining headroom.

9. INTANGIBLE ASSETS

GROUP	Brand names £'000	Customer lists £'000	Computer Software and Website £'000	Total £'000
INTANGIBLE ASSETS				
COST				
At 1 April 2020	4,914	1,415	3,450	9,779
Additions	–	–	726	726
At 31 March 2021	4,914	1,415	4,176	10,505
ACCUMULATED AMORTISATION				
At 1 April 2020	3,212	1,415	2,328	6,955
Charge for the year	227	–	306	533
At 31 March 2021	3,439	1,415	2,634	7,488
Net book amount at 31 March 2021	1,475	–	1,542	3,017

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

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

Notes to the Financial Statements continued

10. PROPERTY, PLANT AND EQUIPMENT

GROUP	Plant and equipment £'000	Motor Vehicles £'000	Tools and moulds £'000	Total £'000
COST				
At 1 April 2020	1,529	55	67,477	69,061
Exchange adjustments	(53)	(1)	–	(54)
Additions at cost	125	–	4,124	4,249
Disposals	(76)	–	–	(76)
At 31 March 2021	1,525	54	71,601	73,180
ACCUMULATED DEPRECIATION				
At 1 April 2020	1,237	42	63,617	64,896
Exchange adjustments	(41)	(1)	–	(41)
Charge for the year	130	4	1,587	1,721
Disposals	(76)	–	–	(76)
At 31 March 2021	1,251	45	65,204	66,500
Net book amount at 31 March 2021	274	9	6,397	6,680

Depreciation is charged in the Group's statement of comprehensive income within Administrative expenses.

GROUP	Plant and equipment £'000	Motor Vehicles £'000	Tools and moulds £'000	Total £'000
COST				
At 1 April 2019	1,575	54	65,077	66,706
Exchange adjustments	26	1	–	27
Additions at cost	81	–	2,400	2,481
Disposals	(153)	–	–	(153)
At 31 March 2020	1,529	55	67,477	69,061
ACCUMULATED DEPRECIATION				
At 1 April 2019	1,046	37	61,840	62,923
Exchange adjustments	24	1	–	25
Charge for the year	319	4	1,777	2,100
Disposals	(152)	–	–	(152)
At 31 March 2020	1,237	42	63,617	64,896
Net book amount at 31 March 2020	292	13	3,860	4,165
Net book amount at 31 March 2019	529	17	3,237	3,783

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

11. INVESTMENTS

The Group holds a direct investment in LCD Enterprises Limited ('LCD'), holding 49% of ordinary shares. The company is based in South Wales registered at Unit 6 119 Ystrad Road, Fforestfach, Swansea, Wales, SA5 4JB. This investment is included in the consolidated financial statements using the equity method. The last accounts were of LCD were drawn up to 31 December 2020. As an associate it does not have the same accounting year end.

	2021 £'000	2020 £'000
Summarised Financial Information of LCD		
As at 31 March 2021		
Current Assets	2,702	2,277
Non-current assets	2,130	2,244
Current Liabilities	(2,268)	(2,182)
For the period ended 31 March		
Revenues	2,237	3,024
Profit after tax	223	70

Group

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

	Interests in associated undertakings at valuation £'000
At 1 April 2019	1,696
Share of profit of investments accounted for using the equity method	34
At 31 March and 1 April 2020	1,730
Share of profit of investments accounted for using the equity method	109
At 31 March 2021	1,839

Company

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

	Interests in subsidiary undertakings at valuation £'000	Interests in associate undertakings at valuation £'000	Loans to subsidiary undertakings at cost £'000	Total £'000
At 1 April 2020	17,336	1,730	4,349	23,415
Share of profit of investments accounted for using the equity method	–	109	–	109
Capital contribution relating to share-based payment	336	–	–	336
At 31 March 2021	17,672	1,839	4,349	23,860
At 1 April 2019 (restated)	17,336	1,696	4,349	23,381
Share of profit of investments accounted for using the equity method	–	34	–	34
At 31 March 2020	17,336	1,730	4,349	23,415

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

Loans are unsecured and exceed five years' maturity.

Notes to the Financial Statements continued

11. INVESTMENTS continued

Group subsidiary undertakings

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

	Country of incorporation, registration and business	Description of shares held	Proportion of nominal value of issued shares held	
			Group %	Company %
Hornby Hobbies Limited	Westwood, Margate, Kent CT9 4JX, UK	Ordinary shares	100	100
Hornby America Inc.	3900 Industry Dr E, Fife, WA 98424, USA	Ordinary shares	100	100
Hornby España S.A	C/Federico Chueca, S/N, E28806 ALCALA DE HENARES Spain	Ordinary shares	100	100
Hornby Italia s.r.l.	Viale dei Caduti, 52/A6 25030 Castel Mella (Brescia), Italy	Ordinary shares	100	100
Hornby France S.A.S.	31 Bis rue des Longs Pres, 92100 Boulogne, Billancourt, France	Ordinary shares	100	100
Hornby Deutschland GmbH	Köppelsdorfer Straße 226, D-96515 Sonneberg, Germany	Ordinary shares	100	100
Hornby Industries Limited	Westwood, Margate, Kent CT9 4JX, UK	Ordinary shares	100	100
H&M (Systems) Limited	Westwood, Margate, Kent CT9 4JX, UK	Ordinary shares	100	100

12. RIGHT OF USE ASSETS

GROUP	Property £'000	Motor Vehicles £'000	Fixtures, Fittings and Equipment £'000	Total £'000
COST				
At 1 April 2020	2,898	192	11	3,101
Additions at cost	478	125	6	609
At 31 March 2021	3,376	317	17	3,710
ACCUMULATED DEPRECIATION				
At 1 April 2020	445	76	7	528
Charge for the year	406	80	6	492
At 31 March 2021	851	156	13	1,020
Net book amount at 31 March 2021	2,525	161	4	2,690

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

13. INVENTORIES

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Finished goods	15,152	14,235	–	–
	15,152	14,235	–	–

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

	2021 £'000	2020 £'000
At 1 April	1,179	993
Provision for inventory impairment	207	180
Inventory written off during the year	(160)	–
Exchange adjustments	(21)	6
At 31 March	1,205	1,179

14. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
CURRENT:				
Trade receivables	6,863	5,194	–	–
Less: loss allowance for receivables	(853)	(1,050)	–	–
Trade receivables – net	6,010	4,144	–	–
Other receivables	270	997	–	–
Prepayments	967	1,384	87	28
Amounts owed by subsidiary undertaking	–	–	48,431	48,426
	7,247	6,525	48,518	48,454

Notes to the Financial Statements continued

14. TRADE AND OTHER RECEIVABLES continued

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

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

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

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

Gross trade receivables can be analysed as follows:

	2021 £'000	2020 £'000
Fully performing	5,320	3,500
Past due	690	644
Fully impaired	853	1,050
Trade receivables	6,863	5,194

As of 31 March 2021, trade receivables of £690,000 (2020: £644,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

As of 31 March 2021, trade receivables of £853,000 (2020: £1,050,000) were impaired and provided for in full.

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

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

	2021 £'000	2020 £'000
At 1 April	1,050	1,168
(Decrease)/increase in loss allowance	(25)	(5)
Receivables written-off during the year as uncollectible	(140)	(136)
Exchange adjustments	(32)	23
At 31 March	853	1,050

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

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

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

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Sterling Intercompany	–	–	48,431	48,426
Sterling	4,396	3,143	–	–
Euro	979	931	–	–
US Dollar	905	1,067	–	–
	6,280	5,141	48,431	48,426

15. CASH AND CASH EQUIVALENTS

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Cash at bank and in hand	4,685	5,921	2	2

Cash at bank of £4,685,000 (2020: £5,921,000) is with financial institutions with a credit rating of A3 per Moody's rating agency.

16. TRADE AND OTHER PAYABLES

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
CURRENT:				
Trade payables	2,833	2,501	–	–
Other taxes and social security	1,294	394	30	32
Other payables	603	123	599	386
Refund liability	231	206	–	–
Accruals and contract liabilities	2,170	1,665	73	158
Group receivables guarantee (Note 4)	–	–	6,020	6,020
	7,131	4,889	6,722	6,596

Contract liabilities relate to payments of £438,308 (2020: £61,648) received upfront for products where delivery is yet to take place. Delivery is expected to take place over the next 3 months. Revenue of £61,648, deferred in 2020, was recognised as income in the year ended 31 March 2021.

Notes to the Financial Statements continued

17. RIGHT OF USE LEASE LIABILITIES

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

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
As at 1 April 2020	2,639	3,009	–	–
New leases	609	93	–	–
Interest payable	165	168	–	–
Repayment of lease liabilities	(605)	(631)	–	–
As at 31 March 2021	2,808	2,639	–	–
Lease liability less than one year	365	384	–	–
Lease liability greater than one year and less than five years	791	799	–	–
Lease liability greater than five years	1,652	1,456	–	–
Total Liability	2,808	2,639	–	–

Maturity analysis of contracted undiscounted cashflows is as follows:

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Lease liability less than one year	522	531	–	–
Lease liability greater than one year and less than five years	1,378	1,222	–	–
Lease liability greater than five years	2,304	2,133	–	–
Total Liability	4,204	3,886	–	–
Finance charges included above	(1,396)	(1,247)	–	–
	2,808	2,639	–	–

18. BORROWINGS

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Secured borrowing at amortised cost				
Asset Based Lending facility	–	–	–	–
Shareholder Loan	–	–	–	–
Loan from subsidiary undertakings	–	–	5,689	5,907
	–	–	5,689	5,907
Total borrowings				
Amount due for settlement within 12 months	–	–	–	–
Amount due for settlement after 12 months	–	–	5,689	5,907
	–	–	5,689	5,907

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

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

At 31 March 2021 the UK had a £12 million Asset Based Lending facility with PNC Credit Limited and a £9 million loan facility with Phoenix Asset Management Partners.

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

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

Undrawn borrowing facilities

At 31 March 2021, the Group had available £14,380,773 (2020: £14,235,284) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. The facility from PNC Credit Limited has limits based on the Group's asset position at any one time.

19. FINANCIAL INSTRUMENTS

Classification and measurement

Under IFRS 9 the Group classifies and measures its financial instruments as follows:

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

Carrying value and fair value of financial assets and liabilities

	Amortised Cost		Held at Fair Value		
	Financial Assets £'000	Financial Liabilities £'000	Cash flow hedges £'000	Carrying value £'000	Fair value £'000
At 31 March 2021					
Trade and other receivables	6,279	–	–	6,279	6,279
Trade and other payables	–	(3,342)	–	(3,342)	(3,342)
Derivative financial instruments	–	–	(481)	(481)	(481)
Cash and cash equivalents	4,685	–	–	4,685	4,685
Lease liabilities	–	(2,808)	–	(2,808)	(2,808)

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

19. FINANCIAL INSTRUMENTS continued

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

	Assets		Liabilities	
GROUP	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Carrying values of derivative financial instruments				
Forward foreign currency contracts – cash flow hedges	32	116	(513)	–

The hedged forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months. Gains and losses recognised in reserves on forward foreign exchange contracts as of 31 March 2021 are recognised in the Statement of Comprehensive Income first in the period or periods during which the hedged forecast transaction affects the Statement of Comprehensive Income, which is within 12 months from the balance sheet date.

At 31 March 2021 and 31 March 2020, the gross value of forward currency contracts was as follows:

	2021 '000s	2020 '000s
US Dollar	22,000	8,750

The net fair value for the forward foreign currency contracts is an asset of £32,000 (2020: £116,000 asset) and a liability of £513,000 (2020: nil) of which £481,000 net liability (2020: £116,000 asset) represents an effective hedge at 31 March 2021 and has therefore been credited to Other Comprehensive Income.

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

The Company has no derivative financial instruments.

Maturity of financial liabilities

GROUP	2021 £'000s	2020 £'000
Less than one year	3,957	3,008
Between one and five years	1,378	799
More than five years	2,304	1456
	7,639	5,263

COMPANY	2021 Intercompany Debt £'000	2020 Intercompany Debt £'000
More than five years (Note 18)	5,689	5,907

Hierarchy of financial instruments

The following tables present the Group's assets and liabilities that are measured at fair value at 31 March 2021 and 31 March 2020. The table analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

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

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

Financial Instruments

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Derivatives used for hedging	–	32	–	32
Total assets as at 31 March 2021	–	32	–	32
Liabilities				
Derivatives used for hedging	–	(513)	–	(513)
Total liabilities at 31 March 2021	–	(513)	–	(513)

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

Interest rate sensitivity

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

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

The effect on both income and equity based on exposure to borrowings at the balance sheet date for a 1% increase in interest rates is £nil (2020: £nil) before tax. A 1% fall in interest rates gives the same but opposite effect. 1% is considered an appropriate benchmark given the minimum level of movement in the UK interest rate over recent years and expectation over the next financial year.

Notes to the Financial Statements continued

19. FINANCIAL INSTRUMENTS continued

Foreign currency sensitivity in respect of financial instruments

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

	Comprehensive Income and Equity Sensitivity	
	2021 £'000	2020 £'000
US dollars	670	1,252
Euros	655	384
	1,325	1,636

Capital risk management

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

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

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

	2021 £'000	2020 £'000
Total borrowings (Note 18)	–	–
Less:		
Total cash and cash equivalents (Note 15)	(4,685)	(5,921)
Net (cash)	(4,685)	(5,921)
Total equity	38,257	37,005
Total capital	33,572	31,084
Gearing	(14%)	(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	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
At 1 April	(1,880)	(1,880)	–	–
At 31 March	(2,806)	(1,880)	–	–

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

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

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

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

Deferred tax liabilities	Acquisition intangibles £'000	Total £'000
At 1 April 2020	150	150
Charge to Statement of Comprehensive Income	–	–
At 31 March 2021	150	150
At 1 April 2019	150	150
Charge to Statement of Comprehensive Income	–	–
At 31 March 2020	150	150

	Group			Company	
Deferred tax assets	Acquisition intangibles £'000	Other £'000	Total £'000	Short-term incentive plan £'000	Total £'000
At 1 April 2020	–	2,030	2,030	–	–
Credit to Statement of Comprehensive Income	–	926	926	–	–
At 31 March 2021	–	2,956	2,956	–	–
At 1 April 2019		2,030	2,030	–	–
Charge to Statement of Comprehensive Income	–	–	–	–	–
At 31 March 2020	–	2,030	2,030	–	–
Net deferred tax (liability)/asset					
At 31 March 2021	(150)	2,956	2,806	–	–
At 31 March 2020	(150)	2,030	1,880	–	–

	2021		2020	
GROUP	Recognised £'000	Not recognised £'000	Recognised £'000	Not recognised £'000
Deferred tax comprises:				
Depreciation in excess of capital allowances	2,817	461	1,891	1,626
Other temporary differences – UK	(11)	3,360	(11)	3,032
Other temporary differences – overseas	–	3,327	–	3,182
Deferred tax asset	2,806	7,148	1,880	7,840

20. DEFERRED TAX continued

COMPANY	2021 Recognised £'000	2021 Not recognised £'000	2020 Recognised £'000	2020 Not recognised £'000
Deferred tax comprises:				
Other timing differences	–	(320)	–	(247)
Deferred tax (asset)/liability	–	(320)	–	(247)

The UK deferred tax asset not recognised of £3,360,000 primarily relates to unrecognised losses in Hornby Hobbies Limited of £14,341,000 (potential deferred tax asset of £2,725,000) and Hornby PLC of £1,306,000 (potential deferred tax asset of £268,000). It also relates to an unrecognised temporary difference of £356,000 related primarily to share options and timing difference on the provision for unrealised profit.

The deferred tax asset not recognised in respect of overseas losses carried forward of £3,327,000 relates to losses carried forward of £1,586,000 in respect of Hornby Espana SA (potential deferred tax asset of £397,000), £2,799,000 in respect of Hornby France SAS (potential deferred tax asset of £933,000), £1,872,000 in respect of Hornby Deutschland GmbH (potential deferred tax asset of £597,000), £3,913,000 in respect of Hornby Italia srl (potential deferred tax asset of £939,000) and £2,196,000 in respect of Hornby America Inc (potential deferred tax asset of £461,000).

21. SHARE CAPITAL

Group and Company

Allotted, issued and fully paid:

	2021 Number of shares	2021 £'000	2020 Number of shares	2020 £'000
Ordinary shares of 1p each:				
At 1 April	166,927,838	1,669	125,261,172	1,253
Issue of ordinary shares	–	–	41,666,666	416
At 31 March	166,927,838	1,669	166,927,838	1,669

22. SHARE-BASED PAYMENTS ('PSP')

All Performance Share Plan ('PSP') awards outstanding at 31 March 2021 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 nominal-priced option, and are satisfied using market-purchased shares. The awards in previous years vest in full or in part dependent on the satisfaction of specified performance targets.

The 2020 awards vest in full or in part dependent on the satisfaction of specified performance targets.

All plans are subject to continued employment. To the extent that such shares in the above plans are awarded to employees below fair value, a charge calculated in accordance with IFRS 2 'Share-based payment' is included within other operating expenses in the Statement of Comprehensive Income. This charge for the Group amounts to £673,000 and the charge for the Company amounted to £337,000 in the year ended 31 March 2021 (2020: nil charge for the Group and Company).

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

	2021 PSP	2020 PSP
Fair Value	53.0p	n/a
Options pricing model used	Black-Scholes (Stochastic)	n/a
Share price at grant date (p)	54.0p	n/a
Exercise price (p)	1.0p	n/a
Risk-free rate (0.5%)	0.5%	n/a
Expected option term (years)	1.5	n/a
Expected dividends (per year, %)	0%	n/a

Assumptions on expected volatility and expected option return have been made on the basis of historical data, wherever available, for the period corresponding with the vesting of the option. Best estimates have been used where historical data is not available in this respect. No reasonable change in volatility would impact on the fair value of the options granted.

23. RESERVES

Group

Capital Redemption Reserve

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

Translation Reserve

The translation reserve represents the foreign exchange movements arising from the translation of financial statements in foreign currencies.

Hedging Reserve

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

Other Reserves

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

Share-based payment reserve

The share-based payment reserve arises from the requirement to value share options in existence at the fair value at the date they are granted.

Company

Capital Redemption Reserve

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

Translation Reserve

The translation reserve represents the foreign exchange movements arising from the translation of financial statements in foreign currencies.

Other Reserves

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

Notes to the Financial Statements continued

24. EMPLOYEES AND DIRECTORS

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Staff costs for the year:				
Wages and salaries	7,514	6,867	408	430
Furlough scheme	(184)	–	–	–
Share-based payments (Note 22)	673	–	337	–
Social security costs	823	732	61	58
Other pension costs (Note 25)	411	365	28	25
Redundancy and compensation for loss of office	20	50	–	–
	9,257	8,014	834	513

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	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Operations	76	69	–	–
Sales, marketing and distribution	83	88	–	–
Administration	34	34	3	3
	193	191	3	3

Key management compensation:

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Salaries and short-term employee benefits	853	981	445	358
Share-based payments	673	–	337	–
Other pension costs	36	33	28	25
Redundancy and compensation for loss of office	–	39	–	–
	1,562	1,053	810	383

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 23 to 27 and forms part of these financial statements.

25. PENSION COMMITMENTS

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

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

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

The Group pension cost for the year was £411,000 (2020: £365,000) representing the actual contributions payable in the year and certain scheme administration costs. The Company pension cost for the year was £28,000 (2020: £25,000). No contributions were outstanding at the year end of 31 March 2021.

26. FINANCIAL COMMITMENTS

GROUP	2021 £'000	2020 £'000
At 31 March capital commitments were:		
Contracted for but not provided	1,847	1,845

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

The Company does not have any capital commitments.

Contingent Liabilities

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

27. CASH (USED IN)/GENERATED FROM OPERATIONS

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Profit/(loss) before taxation	345	(3,395)	(318)	(6,063)
Interest payable	169	446	220	217
Interest paid on Lease liabilities	165	169	–	–
Interest receivable	(3)	(3)	(175)	(175)
Share of profit of Minority Interest	(109)	(34)	(109)	(34)
Amortisation of intangible assets	533	603	–	–
Depreciation	1,721	2,100	–	–
Depreciation on right of use assets	492	528	–	–
Share-base payments (non cash)	673	–	337	–
Increase/(Decrease) in guarantee	–	–	–	6,020
(Increase) in inventories	(1,223)	(3,277)	–	–
(Increase)/Decrease in trade and other receivables	(764)	680	(64)	(14,948)
Increase/(Decrease) in trade and other payables	2,372	(1,058)	154	311
Cash generated from/(used in) operations	4,372	(3,241)	45	(14,672)

Notes to the Financial Statements continued

28. NET FUNDS RECONCILIATION

	2021 £'000	2020 £'000
Cash and cash equivalents	4,685	5,921
Borrowings – repayable within one year	–	–
Borrowings – repayable after one year	–	–
Net Funds	4,685	5,921
Cash and liquid investments	4,685	5,921
Gross debt – variable interest rates	–	–
Net Funds	4,685	5,921

29. RELATED PARTY DISCLOSURES

Hornby Hobbies Limited purchased various items of stock for resale plus services from Oxford Diecast Limited which is part of the LCD Enterprises Limited Group, a Company in which Lyndon Davies, a director of the Company, owns a controlling 51% share and Hornby PLC the remaining 49%.

Hornby Hobbies Limited purchased services from a company called Rawnet Limited which is 100% owned by Phoenix Asset Management, the controlling party of the Group.

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

Company	Transactions £	Balance at year end £
Oxford Diecast Limited	233,614	–
Rawnet Limited	722,252	165,038
	955,866	165,038

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

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

The Company received management fees from subsidiaries of £933,000 (2020: £1,065,000), interest of £175,000 (2020: £175,000) and incurred interest of £220,000 (2020: £217,000) on intercompany borrowings.

Hornby PLC have provided a guarantee of £6.109m against intercompany receivables in Hornby Hobbies. This guarantee is included in liabilities.

30. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

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

31. EVENTS AFTER THE END OF THE REPORTING PERIOD

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

Shareholders' Information Service

Hornby welcomes contact with its shareholders.

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

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