Half-year Report

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Hornby PLC
22 November 2018

HORNBY ANNOUNCES INTERIM RESULTS

Hornby Plc ("Hornby"), the international hobby products Group, today announces its interim results for the six months ended 30 September 2018.

Interim Results Highlights

- Group revenue of £13.8 million (2017: £17.0 million)
- Underlying Group loss before tax* of £3.0 million (2017: loss of £4.6 million)
- Statutory loss before taxation for the period of £3.2 million (2017: loss of £5.7 million)
- Net debt of £1.8 million (2017: £4.7 million)

* Stated before exceptional items.

Continued delivery of our plans to transform the Group

- A removal of the aggressive discounting strategy, favouring the long-term health of the brands over the short-term sales number
- Nearly 200 years of combined model and hobby experience added to the brand teams to optimise product selection and pricing architecture across the ranges
- Line plans for next year are now in place 6 months ahead of last year to give us the best chance of getting products to market in the right quantities at the right time
- A relentless focus on frugality, making sure we squeeze the maximum amount of benefit out of every penny of cost we incur

Lyndon Davies, Hornby Chief Executive, commented:

"Having slammed on the brakes as hard as we could to prevent further damage to the brands from discounting, the trust in the supply chain is starting to move in the right direction.

Perhaps most importantly, our loyal employees are beginning to believe in the business again. There are some incredible products in the pipeline that will finally get us back on the front foot and give us the ability to take back the market share that we have given away.

Motivation and alignment has been an issue in the past for the business, especially for staff below the board level who have not had their fair share of the rewards. As a result, I am proud to announce a profit share scheme for our employees. Employees at ALL levels who contribute to the success of the business will share in the rewards.

The scheme is one of the most generous you will find; and will see a one-off 5% bonus given for getting to break even and c.15% of operating profit shared between employees thereafter.

We want to attract the best talent, keep them and make sure they are aligned with shareholders' interests. I think this scheme achieves that aim."

-ends-

22 November 2018

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Hornby Plc ("Hornby" or "the Group")

INTERIM REPORT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

At our preliminary results announcement on 19 June 2018, I advised you that the team and I are working tirelessly to execute a strategy that builds on our heritage and maximises the value of our brands over the long term.

This update sets out our progress to date and important messages about the principles we are working from:

Discounting

The restructuring of our balance sheet earlier this year has allowed us to reinforce our policy of not providing discounted items to meet short term objectives. This has resulted in lower sales, but we have benefited with higher margins.

There is still a large amount of stock at retailers that was sold at aggressively discounted prices. Some of the large blocks of stock of "bread-and-butter" items that were sold represented more than a year's supply for our entire market. An example of this is track for our "00" railway business. This means that there is still an overhang of incredibly low-priced track being sold that needs to clear before our sales rates return to more normal levels.

The removal of these discounts has allowed us to start to regain the trust with our retail partners and customers which in turn will allow us to rebuild our sales over the long term. An important part of this process is making sure all our retailers can compete on a level playing field. We are in the process of peeling back the strategy of offering lower pricing to larger retailers as an easy way to inflate short term sales.

Some of these retailers have begun to use the price advantage and associated customer traffic we handed them to produce models that compete directly with our own. We do not think it is beneficial in the long term to provide an advantage to those businesses that seek to compete directly with us.

Another benefit of avoiding discounting is the smoother profile to our inventory and working capital needs. We should be able to maintain less volatile working capital balances and provide greater visibility to our manufacturers, which is an important part of our strategy to rebuild the trust in every part of our supply chain.

Knowledge & Experience

If we want to produce the best possible products, then we need the best people selecting and designing them. We are continuing to assemble a team of experts who understand the customers and the markets in which each of the brands operate.

We are organising the business into brand focussed teams that are better able to determine the right product and marketing strategies for the specific customer sets they serve. Whilst each brand can share the benefit of some of our central functions, it is important we understand that the brands are not homogenous and give the teams the autonomy to optimise how, where and what to sell.

We are achieving this through a combination of empowering existing experienced staff that had been overlooked, harnessing the energy of some less experienced colleagues, and the return of seasoned employees that left the company under previous management.

We are truly long term in our thinking, making sure we have the right mix of experience and new blood for the next few decades.

Licensing

A key part of our business is building trust and mutually beneficial relationships with the right licensing partners.

The heritage and "share of mind" we have in the brands we own is an important part of our competitive advantage, but there are many ways to turbo charge the appeal of our products if we can pair the right products up with the right brand partners on the right licensing terms.

Licensing is another area where we have let ourselves down in the past and it has become apparent that we had also lost the trust of our licencing partners.

For example, we need licensing partners like Jaguar Land Rover, BMW or Paddington Bear to allow us to exhibit their designs on both our Scalextric & Hornby sets or our Corgi & Oxford collectibles. If we don't, then it restricts our ability to produce the most attractive models and products for our customers.

The global licencing agreement with Warner Bros. Consumer Products ("WBCP") signed in September 2018 is not just a great deal for both participants, it shows the licensing world we are open for business again and is another important step on the road to rebuilding trust with the supply chain.

The Warner Bros. and DC franchises will give us access to a wide variety of intellectual property that we can pair up with our owned brands across the board. It is a very exciting deal that we felt was important to announce, but it is really only the beginning. There is so much opportunity with licensing on both the hobby and toy frontiers.

These licensing deals and product development are starting to draw in more capital expenditure on tooling. This is a good thing as the previous financial straight jacket had left the business underinvested over the last few years and the development pipeline was in desperate need of new and exciting products with broader appeal.

Supply Chain & Line Plan

We must ensure that we get the right amount of product to market at the right time and at the right cost. When we do this, it means we fulfil market demand for our products and make the margins and sell-through to achieve the required return on the capital we employ.

The previous decision-making processes on the engineering side between the UK and our factories meant we ordered product very late last year. This means that we are having trouble getting product to market still and it has materially affected our sales performance. Put simply, we did not have the product which has meant we couldn't sell it.

The planning process has been completely overhauled and we now have clear accountability and much better cooperation between our engineers in the UK and the Far East. We are 6 months ahead of last year and expect to complete the ordering process for the 2019 product range far earlier enabling the supply chain to improve on-time product availability.

Costs

Shareholders should be wary of a business that has intermittent cost cutting initiatives. We don't think such behaviour is the optimal way to maximise shareholder value, remain competitive and stay solvent.

We think it is better to embed a culture of frugality into the DNA of the business at all levels. We are asking our employees to evaluate every penny of spend with a framework that gives stakeholders the maximum amount of benefit. There is still much to do on this front, both in eliminating costs that provide no benefit and making sure we have the right suppliers and infrastructure partners that give us the best scalability and value for money.

We are introducing a Group bonus scheme which is based on operating profit, which we believe will help to make sure every person in the organisation is both focussed on growing the sales line to a profitable level, but also making sure we keep costs as low as possible.

An example of our frugality is our approach to property. Our offices in Hong Kong are being relocated to a more cost-effective area with no detriment to the operations and we will relocate our Corporate Office from Sandwich to return to our ancestral home in Margate. Our colleagues at the Hornby Visitor Centre have remained in Margate since we left 3 years ago. This move back will both save money and bring us all together in a place that means something to the business.

Outlook

Our move away from discounting and the continued supply chain problems caused by orders being placed late last year has impacted sales more than we expected. However, the hardworking people in the business have done a great job choosing suppliers that provide a better service for less cost as well as eliminating costs that don't ultimately benefit the business and/or the customer. This has meant our operating losses have reduced compared to the prior year and are in line with our expectations for the half year despite the lower than expected sales.

It is too early to tell what the key Christmas trading period holds for us. The first few weeks of the second half of our financial year have somewhat mirrored the trend in the first half. Sales are behind budget, but we continue to do a great job on the cost side to keep the operating profit and cash flow in line with management's expectations.

Financial review

Performance

Group revenue for the six months to September 2018 of £13.8 million was 19% lower than the prior year (2017: £17.0 million). The gross margin for the period was 39% (2017: 36%), which is an improvement on the prior year and reflects the cessation of discounting stock to achieve higher short term sales.

Underlying overheads reduced year-on-year from £10.1 million to £8.5m, or by 16% showing the benefit of the structural changes undertaken over the course of the latter part of the last financial year and the attention being applied to spending. Foreign exchange gains on trading transactions in the period totalled £0.1 million compared to losses of £0.5 million in the previous year.

The operating loss before exceptional costs for the six months to September 2018 was £3.0 million, compared to a loss of £4.5 million for the same period last year. This improvement was largely due to the year on year increase in gross margin noted above and the impact of lower overheads.

Exceptional costs during the first half year were £0.2 million (2017: £1.1 million) and these mainly comprised refinancing costs relating to the PNC and Phoenix facilities.

Group loss before tax was £3.2 million (2017: loss of £5.7 million). The basic loss per share was 2.62p (2017: loss per share of 6.76p).

Segmental analysis

Third party revenue for the UK business reduced by 18% in the period and generated an underlying loss before taxation of £2.3 million compared to £3.9 million loss last year. Revenue for the first half of 2018 has reduced significantly compared with the same period last year due to the timing of new product releases and a high level of stock in the retailer network.

The International segment revenue fell by 25% in the period and generated an underlying loss of £0.7 million (2017: £0.7m loss). Trading was constrained by some challenges with the supply of international model rail product during the first half, which has been delayed until later in this financial year.

Balance sheet

Group inventories increased during the period by 22% from £10.0 million at March 2018 to £12.2 million due to seasonal build-up of stock in the lead-up to the busy Christmas trading period. Inventory levels are similar level to the same point last year.

Trade & other receivables and trade & other payables were in line with the start of the year but both are significantly lower year-on-year due to lower sales in the period and lower spending on overheads.

Investment in new tooling, new computer software and other capital expenditure was £1.1 million (2017: £0.8 million) reflecting the increased focus on investing in our infrastructure and new products.

Capital structure

There was an increase in net debt compared to 31 March 2018. The period end net debt balance stood at £1.8 million, from £3.9 million of net cash at the end of the last financial year. This is due to spending on stocks and tooling ahead of Christmas trading and 2019 Line Plans. However, this figure is £2.9m less than prior year.

Banking facilities

At 30 September 2018 the UK had a £12 million Asset Based Lending facility with PNC Credit Limited and a £6 million loan facility with Phoenix Asset Management Partners.

The £12 million facility with PNC extends for 5 years and carries a margin of 2.5-3.0% over LIBOR. The PNC Facility has a fixed and

floating charge on the assets of the Group. The Company reports customary operational and financial covenants to PNC on a monthly basis, and the amount of funding available at any time varies depending on accounts receivable balances and stock levels.

The Phoenix Facility is £6 million 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.

Going concern

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, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

STATEMENT OF COMPREHENSIVE INCOME

	Notes	**Six months to 30 September 2018 (unaudited)**	Six months to 30 September 2017 (unaudited)	Year to 31 March 2018 (audited)
		£'000	£'000	£'000
REVENUE	4	**13,801**	17,025	35,651
Cost of Sales		**(8,424)**	(10,886)	(21,900)
GROSS PROFIT		**5,377**	6,139	13,751
Distribution costs		**(3,032)**	(3,592)	(7,224)

Selling and marketing costs		**(3,162)**	(3,530)	(7,647)
Administrative expenses		**(2,256)**	(2,999)	(6,021)
Other operating expenses		**35**	(481)	(437)
OPERATING LOSS BEFORE EXCEPTIONAL		**(3,038)**	(4,463)	(7,578)
Exceptional Items		**(184)**	(1,126)	(2,292)
OPERATING LOSS		**(3,222)**	(5,589)	(9,870)
Finance income		**5**	2	7
Finance costs		**(65)**	(127)	(218)
Net finance costs		**(60)**	(125)	(211)
Share of profit of investments accounted for using the equity method		**48**	-	15
LOSS BEFORE TAXATION	4	**(3,234)**	(5,714)	(10,066)
Taxation	9	**-**	-	212
LOSS FOR THE PERIOD AFTER TAXATION		**(3,234)**	(5,714)	(9,854)
OTHER COMPREHENSIVE INCOME/(LOSS) *(Items that may be classified subsequently to profit and loss)*				
Cash flow hedges, net of tax		**558**	(214)	(353)
Currency translation differences		**(87)**	36	(54)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX		**471**	(178)	(407)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(2,763)**	(5,892)	(10,261)
LOSS PER ORDINARY SHARE				
Basic		**(2.58)p**	(6.76)p	(10.13)p
Diluted		**(2.58)p**	(6.76)p	(10.13)p

All of the activities of the Group are continuing. The notes form an integral part of this condensed consolidated half-yearly financial information.

BALANCE SHEET
As at 30 September 2018

		Six months to 30 September 2018 (unaudited)	Six months to 30 September 2017 (unaudited)	Year to 31 March 2018 (audited)
	Notes	**£'000**	£'000	£'000
ASSETS				
NON-CURRENT ASSETS				
Goodwill	5	**4,564**	4,568	4,564
Intangible assets	5	**3,111**	3,888	3,368
Property, plant and equipment	5	**4,026**	5,063	4,489
Investments		**1,663**		1,615
Deferred income tax assets		**2,030**	1,974	2,030
		15,394	15,493	16,066
CURRENT ASSETS				
Inventories		**12,222**	12,047	10,030
Trade and other receivables		**6,574**	9,265	5,949
Derivative financial instruments	8	**154**	-	0
Current tax assets			-	0
Cash and cash equivalents		**637**	478	3,878

	Note			
		19,587	21,790	19,857
LIABILITIES				
CURRENT LIABILITIES				
Borrowings	7	**(2,420)**	(5,158)	0
Derivative financial instruments	8	**(19)**	(284)	(423)
Trade and other payables		**(4,131)**	(7,622)	(4,312)
Provisions		**(160)**	(207)	(174)
Current tax liabilities		**0**	(212)	0
		(6,730)	(13,483)	(4,909)
NET CURRENT ASSETS		**12,857**	8,307	14,948
NON-CURRENT LIABILITIES				
Deferred tax liabilities		**(150)**	(94)	(150)
		(150)	(94)	(150)
NET ASSETS		**28,101**	23,706	30,864
SHAREHOLDERS' EQUITY				
Share capital	6	**1,253**	846	1,253
Share premium		**38,587**	27,445	38,587
Capital redemption reserve		**55**	55	55
Translation reserve		**(1,512)**	(1,335)	(1,425)
Hedging reserve		**135**	(284)	(423)
Other reserves		**1,688**	1,688	1,688
Retained earnings		**(12,105)**	(4,709)	(8,871)
TOTAL EQUITY		**28,101**	23,706	30,864

The notes form an integral part of this condensed consolidated half-yearly financial information.

STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 September 2018

	Share capital (unaudited) £'000	Share premium (unaudited) £'000	Capital redemption reserve (unaudited) £'000	Translation reserve (unaudited) £'000	Hedging reserve (unaudited) £'000	Other reserves (unaudited) £'000	Retained earnings (unaudited) £'000	Total equity (unaudited) £'000
Balance at 1 April 2018	**1,253**	**38,587**	**55**	**(1,425)**	**(423)**	**1,688**	**(8,871)**	**30,864**
Loss for the period	-	-	-	-	-	-	(3,234)	(3,234)
Other comprehensive income/(loss) for the period	-	-	-	(87)	558	-	-	471
Total comprehensive loss for the period	-	-	-	(87)	558	-	(3,234)	(2,763)
Transactions with owners								
Share-based payments	-	-	-	-	-	-	-	-
Net proceeds from issue of ordinary shares	-	-	-	-	-	-	-	-
Balance at 30 September 2018	**1,253**	**38,587**	**55**	**(1,512)**	**135**	**1,688**	**(12,105)**	**28,101**
Balance at 1 April 2017	846	27,445	55	(1,371)	(70)	1,688	1,070	29,663
Loss for the period	-	-	-	-	-	-	(5,714)	(5,714)

Other comprehensive income for the period	-	-	-	36	(214)	-	-	(178)
Total comprehensive loss for the period	-	-	-	36	(214)	-	(5,714)	(5,892)
Transactions with owners								
Share-based payments	-	-	-	-	-	-	-	-
Net proceeds from issue of ordinary shares	-	-	-	-	-	-	(65)	(65)
Balance at 30 September 2017	**846**	**27,445**	**55**	**(1,335)**	**(284)**	**1,688**	**(4,709)**	**23,706**

The notes form an integral part of this condensed consolidated half-yearly financial information.

STATEMENT OF CASH FLOWS

for the six months ended 30 September 2018

	Six months to 30 September 2018 (unaudited)	**Six months to 30 September 2017 (unaudited)**	**Year to 31 March 2018 (audited)**
	£'000	£'000	£'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash utilised in operations	**(4,560)**	(5,123)	(5,489)
Interest paid	**(65)**	(127)	(218)
Tax received	**-**	50	50
Repayments of loans and cash-settled share-based payments	**-**	(136)	(136)
Net cash utilised in operating activities	**(4,625)**	(5,336)	(5,793)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of associate	-	-	(1,600)
Proceeds from sale of property, plant and equipment	**-**	-	4
Purchase of property, plant and equipment	**(947)**	(725)	(1,648)
Purchase of intangible assets	**(107)**	(99)	(146)
Interest received	**5**	2	7
Net cash utilised in investing activities	**(1,049)**	(822)	(3,383)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of ordinary shares	**-**	-	12,000
Share issue and refinancing costs	**-**	-	(451)
Repayment of loans	**-**	-	-
Net cash generated from financing activities	**-**	**-**	11,549
Net increase in cash and cash equivalents	**(5,674)**	(6,158)	2,373
Cash, cash equivalents and bank overdrafts at beginning of period	**3,878**	1,498	1,498
Effect of exchange rate movements	**13**	(20)	7

CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS AT END OF PERIOD	**(1,783)**	(4,680)	3,878
CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS CONSIST OF:			
Cash and cash equivalents	**637**	478	3,878
Bank overdrafts	**(2,420)**	(5,158)	-
CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS AT END OF PERIOD	**(1,783)**	(4,680)	3,878

The notes form an integral part of this condensed consolidated half-yearly financial information.

NOTE TO THE CASH FLOW STATEMENT

for the six months ended 30 September 2018

Cash flows from operating activities

	Six months to 30 September 2018 (unaudited)	Six months to 30 September 2017 (unaudited)	Year to 31 March 2018 (audited)
	£'000	£'000	£'000
Loss before taxation	**(3,234)**	(5,714)	(10,066)
Interest payable	**65**	127	218
Interest receivable	**(5)**	(2)	(7)
Share of profit of associate	**(48)**	-	(15)
Amortisation of intangible assets	**364**	425	992
Depreciation	**1,414**	1,342	2,821
Profit on disposal of property, plant and equipment	**-**	-	9
Share-based payments - non cash	**-**	(65)	(87)
Share-based payments - cash	**-**	136	136
(Decrease)/increase in provisions	**(14)**	11	(21)
(Increase)/decrease in inventories	**(2,117)**	(2,454)	(490)
(Increase)/decrease in trade and other receivables	**(397)**	3	3,396
(Decrease)/increase in trade and other payables	**(588)**	1,068	(2,375)
CASH UTILISED IN OPERATIONS	**(4,560)**	(5,123)	(5,489)

NOTES TO CONDENSED CONSOLIDATED HALF-YEARLY FINANCIAL REPORT

1. GENERAL INFORMATION

The Company is a public limited liability company incorporated and domiciled in the UK. The address of the registered office is 3rd Floor, The Gateway, Innovation Way, Discovery Park, Sandwich, Kent, CT13 9FF. The Group is principally engaged in the development, design, sourcing and distribution of hobby and interactive home entertainment products.

The Company has its primary listing on the Alternative Investment Market and is registered in England No. 01547390.

This condensed consolidated half-yearly financial information was approved for issue on 21 November 2018.

This condensed consolidated half-yearly financial information does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006 and is unaudited. Statutory accounts for the year ended 31 March 2018 were approved by the Board of Directors on 18 June 2018 and delivered to the Registrar of

Companies. The Report of the Auditors on those accounts was unqualified and did not contain any statement under Section 498 of the Companies Act 2006.

Forward Looking Statements

Certain statements in this half-yearly report are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to be correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

We undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

2. BASIS OF PREPARATION

This condensed consolidated half-yearly financial information for the half-year ended 30 September 2018 has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The half-yearly condensed consolidated financial report should be read in conjunction with the annual financial statements for the year ended 31 March 2018 which have been prepared in accordance with IFRSs as adopted by the European Union.

3. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 March 2018, as described in those annual financial statements with the exception of tax which is accrued using the tax rate that would be applicable to expected total annual earnings.

Adoption of new and revised standards

IFRS 9 'Financial Instruments'

IFRS 9 "Financial Instruments" was issued in July 2014 to replace IAS 39 "Financial Instruments: Recognition and Measurement" and has been endorsed by the EU.

The primary changes relate to the assessment of hedging arrangements and provisioning for potential future credit losses on financial assets. The group has adopted IFRS 9 in its consolidated financial statements for the year ending 31 March 2019. Adoption has not impacted on the valuation of financial assets within these interim results.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 is effective for periods commencing on or after 1 January 2018. The standard was endorsed by the EU during 2016. IFRS 15 changes how and when revenue is recognised from contracts with customers. The Group has reviewed all contracts it has with customers in order to determine whether, how much and when revenue is recognised. The Group has not identified any revenue streams that will be impacted by the new standard. The group has adopted IFRS 15 in its consolidated financial statements for the year ending 31 March 2019.

IFRS 16 'Leases'

IFRS 16 is effective for periods commencing on or after 1 January 2019. The standard was endorsed by the EU during 2017. The Group does not plan to adopt this standard early. IFRS 16 eliminates the classification of leases as either operating leases or finance leases. The Group will be required to recognise all leases with a term of more than 12 months as a right-of-use lease asset on its balance sheet. The Group will also recognise a financial liability representing its obligation to make future lease payments. The Group has conducted an initial quantification of the impact of adopting the standard, based on its existing lease contracts. The most significant impact is in respect of its various office and warehouse premises. The impact using the modified retrospective approach is expected to be the recognition of a lease liability of £1.9 million, with a corresponding right-of-use asset.

Judgements and Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated half-yearly financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2018.

Financial instruments

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The condensed consolidated half-yearly financial report does not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 March 2018.

There have been no changes in the risk management policies since year end.

The Group's financial instruments, measured at fair value, are all classed as level 2 in the fair value hierarchy, which is unchanged from 31 March 2018. Further details of the Group's financial instruments are set out within note 8 of this half-yearly report as required by IFRS 13.

4. SEGMENT INFORMATION AND EXCEPTIONAL ITEMS

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.

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 rest of Europe. Although these segments do not meet the quantitative thresholds required by IFRS 8, management has concluded that these segments should be reported, as it is closely monitored by the chief operating decision-maker.

	UK	USA	Spain	Italy	Rest of Europe	**Total Reportable Segments**
	£'000	£'000	£'000	£'000	£'000	**£'000**
Six months ended 30 September 2018 (unaudited)						
Total revenue	12,841	1,081	246	431	717	**15,316**
Inter-segment revenue	(1,515)	-	-	-	-	**(1,515)**
Revenue (from external customers)	11,326	1,081	246	431	717	**13,801**
Operating loss before exceptionals	(2,346)	(461)	(69)	(74)	(88)	**(3,038)**
Exceptional costs	(184)	-	-	-	-	**(184)**
Loss before taxation	**(2,530)**	**(461)**	**(69)**	**(74)**	**(88)**	**(3,222)**
Six months ended 30 September 2017 (unaudited)						
Total revenue	14,569	1,059	535	513	1,171	**17,847**
Inter-segment revenue	(822)	-	-	-	-	**(822)**
Revenue (from external customers)	13,747	1,059	535	513	1,171	**17,025**
Operating (loss)/profit before exceptionals	(3,813)	(452)	(20)	(80)	(98)	**(4,463)**
Exceptional costs	(1,116)	-	-	-	(10)	**(1,126)**
(Loss)/profit before taxation	**(4,929)**	**(452)**	**(20)**	**(80)**	**(108)**	**(5,589)**

	Six months to 30 September	**Six months to 30 September**	**Year to 31 March**

	2018 (unaudited)	2017 (unaudited)	2018 (audited)
	£'000	£'000	£'000
Exceptional items comprise:			
Restructuring costs	**10**	817	1,823
Refinancing	**174**	-	70
EGM and Mandatory Offer	-	309	399
	184	1,126	2,292

5. TANGIBLE AND INTANGIBLE ASSETS AND GOODWILL

The additions comprise new product tooling (£947,000), property, plant and equipment (£44,000) and intangible assets - computer software (£107,000).

The Group has again performed impairment reviews as at 30 September 2018 and consider the carrying value of the assets held to be recoverable. The discount rates and key assumptions used within the updated models at 30 September 2018 have remained constant with the impairment reviews conducted in March 2018.

Tangible and intangible assets and goodwill (unaudited)	**Six months ended 30 September 2018**	Six months ended 30 September 2017
	£'000	£'000
Opening net book amount 1 April 2018 and 1 April 2017	**12,421**	14,451
Exchange adjustment	**2**	10
Additions	**1,054**	824
Disposals	-	1
Depreciation, amortisation and impairment	**(1,776)**	(1,767)
Closing net book amount 30 September 2018 and 30 September 2017	**11,701**	13,519
	2018	2017

CAPITAL COMMITMENTS	**2018 (unaudited)**	2017 (unaudited)
	£'000	£'000
At 30 September commitments were:		
Contracted for but not provided for	**813**	420

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

6. SHARE CAPITAL

At 31 March 2018 and 30 September 2018 the Group had 125,261,172 ordinary 1p shares in issue with nominal value £1,252,617 (2017 - £845,832).

No employee share options were exercised during the first half to 30 September 2018 (2017 - £136,430). No employee share option schemes were in place between 1 April and 30 September 2018.

7. BORROWINGS

	30 September 2018 (unaudited)	30 September 2017 (unaudited)	31 March 2018 (audited)

	£'000	£'000	£'000
CURRENT:			
Bank overdrafts	-	-	-
ABL Facility	**-**	-	
	0	0	0
NON-CURRENT:			
Bank loans	**-**	**-**	-
	-	**-**	**-**

At 30 September 2018 the UK had a £12 million Asset Based Lending facility with PNC Credit Limited and a £6 million loan facility with Phoenix Asset Management Partners.

The £12 million facility with PNC extends for 5 years and carries a margin of 2.5-3.0% over LIBOR. The PNC Facility has a fixed and

floating charge on the assets of the Group. The Company will be expected to provide customary operational and financial covenants to PNC on a monthly basis.

The Phoenix Facility is a £6 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.

In the period to 30 September 2018 loan repayments were £nil (2017 - £nil).

8. FINANCIAL INSTRUMENTS

The following tables present the Group's assets and liabilities that are measured at fair value at 30 September 2018 and 31 March 2018. The table analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

There were no transfers or reclassifications between levels within the period. Level 2 hedging derivatives comprise forward foreign exchange contracts and an interest rate swap and have been fair valued using forward exchange rates that are quoted in an active market. The 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, trade and other payables and bank overdrafts and borrowings.

Fair values are determined by a process involving discussions between the Group finance team and the Audit Committee which occur at least once every 6 months in line with the Group's reporting dates.

	Level 1	**Level 2**	**Level 3**	**Total**
	£'000	£'000	£'000	£'000
Assets				
Derivatives used for hedging	**-**	**154**	-	**154**
Total assets as at 30 September 2018	**-**	**154**	-	**154**
Liabilities				
Derivatives used for hedging	**-**	**(19)**	-	**(19)**
Total liabilities at 30 September 2018	**-**	**(19)**	**-**	**(19)**

	Level 1	**Level 2**	**Level 3**	**Total**
	£'000	£'000	£'000	£'000

Assets				
Derivatives used for hedging	-	-	-	0
Total assets at 31 March 2018	-	-	-	0
Liabilities				
Derivatives used for hedging	-	(423)	-	(423)
Total liabilities at 31 March 2018	-	(423)	-	(423)

9. TAXATION

There is no tax credit in the interim figures as the Group has elected not to recognise deferred tax assets on the half year losses at this time.

10. (LOSS)/EARNINGS PER SHARE

(Loss)/earnings per share attributable to equity holders of the Company arises from continuing operations as follows:

	30 September 2018 (unaudited)	30 September 2017 (unaudited)	31 March 2018 (audited)
Loss per share from continuing operations attributable to the equity of the Company			
- basic	**(2.58)p**	**(6.76)p**	(10.13)p
- diluted	**(2.58)p**	**(6.76)p**	(10.13)p

11. DIVIDENDS

No interim dividend has been declared for the interim period ended 30 September 2018 (2017 - £nil).

12. 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.

13. RELATED-PARTY TRANSACTIONS

Key management compensation amounted to £541,000 for the six months to 30 September 2018 (2017 - £1,044,000). Key management include directors and senior management. For the period to 30 September 2018 there was a significant decrease compared to the same period last year because of the changes and restructuring of the UK business particularly at senior levels.

	30 September 2018 (unaudited)	Restated * 30 September 2017 (unaudited)	Restated * 31 March 2018 (audited)
	£'000	£'000	£'000
Salaries and other short-term benefits	**525**	636	1,236
Other pension costs	**16**	62	84
Share-based payments	-	71	(87)
Redundancy and compensation for loss of office	-	275	795
	541	1,044	2,028

* Amounts relating to the 31 March 2018 and 30 September 2017 have been restated to correct an error as a result of the incorrect classification of compensation

for loss of office and bonuses paid in the year ended 31 March 2018 being included in the disclosure for the year ended 31 March 2018

Hornby Hobbies Limited purchased £7,837 of inventory from Oxford Diecast Limited, a company which is wholly owned by LCD Enterprises Limited, a Company in which L Davies owns a controlling 51% share. Hornby PLC purchased a 49% stake in LCD Enterprises Limited on 7 December 2017. L Davies remains a director of Oxford Diecast Limited.

Phoenix Asset Management Partners who own the majority shareholding in Hornby PLC have also provided a funding facility to the Group. During the period non utilisation fees of £20,000 were accrued and remain unpaid at 30 September 2018.

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.

14. RISKS AND UNCERTAINTIES

The Board has reviewed the principal risks and uncertainties and have concluded that the key risks continue to be UK market dependence, market conditions, exchange rates, supply chain, product compliance and liquidity. The disclosures on pages 9 and 10 of the Group's Annual report for the year ended 31 March 2018 provide a description of each risk along with the associated impact and mitigating actions. The issues surrounding supply chain, liquidity, and market conditions are covered in more detail within the interim management report itself. The Board will continue to focus on risk mitigation plans to address these areas.

15. SEASONALITY

Sales are subject to seasonal fluctuations, with peak demand in the October - December quarter. For the six months ended 30 September 2018 sales represented 39 per cent of the annual sales for the year ended 31 March 2018 (2017 - 36 per cent of the annual sales for the year ended 31 March 2017).

16. SUBSEQUENT EVENTS

It was announced on 9 November 2018 that Martin George, Non-Executive Director, would be standing down with immediate effect from his position on the Board of Hornby PLC to focus on his role as customer director at Waitrose which is taking up the majority of his time.

It is the Board's intention to recruit an additional independent Director

By order of the Board

Lyndon Davies
Chief Executive
21 November 2018

Kirstie Gould
Chief Finance Officer

END

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