HORNBY HOBBIES

Half-year Report and Strategy Update - Replacement

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Hornby PLC
17 November 2017

FORMATTING AMENDMENT

The Half Year Report and Strategy Update announcement released on 17/11/2017 at 12.52pm under RNS No 8590W has been reformatted.

All material details remain unchanged.

The full text is shown below.

HORNBY PLC

HORNBY ANNOUNCES INTERIM RESULTS AND NEW STRATEGY

Hornby PLC ("Hornby" or the "Group"), the international models and collectibles group, today announces its interim results for the six months ended 30 September 2017, together with a new strategy and an equity fundraising to support the new strategy and to finance an acquisition.

Interim Results Highlights

- Group revenue of £17.0 million (2016: £21.9 million)
- Statutory loss before taxation for the period of £5.7 million (2016: loss of £4.7 million)
- Group loss before tax and exceptional items of £4.6 million (2016: loss of £3.3 million)
- Net debt of £4.7 million (2016: £2.1 million)

New strategy, equity fundraising and acquisition announced today

- Reinvigorate and grow key brands through an additional £1.0 million investment in capital expenditure to support new product development
- Grow our European brands through improved product offering and engagement with consumers
- As announced on 17 October 2017, to maximise the value of its brands over the longer term, the Group will no longer offer large quantities of stock at a discount
- Further streamline the Group's systems and processes by utilising the industry experience of the new operational management team
- £12.0 million equity placing and open offer to support delivery of the Group's strategic objectives, strengthen the Group's balance sheet and to fund the acquisition
- £1.6 million acquisition of a 49 per cent. non-controlling interest in LCD Enterprises Limited (majority owned by Lyndon Davies), the holding company of Oxford Diecast Limited, subject to shareholder approval
- Renegotiation of existing banking covenants to align them to the new strategy through to 31 December 2019

Lyndon Davies, Hornby Chief Executive, commented:

"The review of the business, operations and its strategy has revealed opportunities to improve performance. The strategy we are announcing today to invest in Hornby's key brands, to instigate a clear pricing policy and to seek additional funds to further strengthen its balance sheet, I believe, will provide the platform for long term sustainable profitability and cash generation. By simplifying and improving basic business process, together with better selection and delivery of the highest quality products, we will re-establish the value of our brands in the eyes of consumers and collectors alike."

-ends-

17 November 2017

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Note:

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulation ("MAR"). Upon the publication of this announcement via Regulatory Information Service ("RIS"), this inside information is now considered to be in the public domain. If you have any queries on this, then please contact David Mulligan, CFO of the Company (responsible for arranging release of this announcement) on 01843 233500.

INTERIM REPORT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

Strategic Review

Since the announcement of his appointment as CEO of Hornby on 3 October 2017, Lyndon Davies has led the Board in undertaking a review of Hornby's strategy. Mr Davies, together with operational consultants Tim Mulhall and Simon Kohler, have used their combined industry experience totalling nearly 100 years to conduct an initial review of the Group's business, operations and its strategy. As a result of that review, the new strategy (as summarised below) has been identified by the Board and has the potential to drive growth and operational efficiency with a view to returning Hornby to sustainable profitability and positive cash generation.

The key elements of the new strategy are as follows.

- Reinvigorate key brands and products
- Grow our European brands
- Maintain appropriate product pricing
- Streamline the Group's systems and processes

Acquisition

Hornby have also today entered into an agreement to acquire a 49 per cent., non-controlling interest, in LCD Enterprises Limited ("LCD") (which is majority owned by Lyndon Davies), the holding company of Oxford Diecast Limited, for a cash consideration of £1.6 million. Given Mr Davies' appointment as CEO of the Company, the acquisition provides an opportunity to align the interests of the Hornby and the Oxford Diecast businesses. The proposed acquisition is subject to approval by the Company's shareholders and completion of the equity fundraising. Further details in relation to the proposed acquisition will be announced this morning.

Equity Fundraise

We have approached investors in relation to the proposed equity fundraising of £12.0 million (before expenses), to be undertaken by way of a placing and open offer, in order to provide the necessary funding to support the new strategy, fund the acquisition consideration and to further strengthen the Company's balance sheet. We have also entered into an agreement with Barclays Bank PLC ("Barclays"), the Group's bankers, to amend the existing revolving credit facility (subject to the completion of the proposed equity fundraising) and to bring the financial covenants in line with management's expected financial performance.

Further details in relation to the proposed equity fundraising and the amendments to the credit facility will be announced this morning. The equity fundraising is being supported by funds managed by Phoenix Asset Management Partners Limited. The proposed equity fundraising is subject to approval by the Company's shareholders.

Performance

Revenue for the six months was £17.0 million (2016: £21.9 million), a decrease of 22 per cent. compared with the previous year. The loss before taxation and exceptional items was £4.6 million (2016: £3.3 million).

Net debt for the Group as at 30 September 2017 was£4.7 million (2016: £2.1 million). The drawdown amount on the £7.75 million UK revolving credit facility as at 30 September 2017 amounted to £7.4 million (2016: £5.5 million).

At this stage in the Group's development the Board believes it is not appropriate to recommence paying dividends. No dividend was paid for the same period last year.

Detail of the New Strategy

Reinvigorate and grow key brands and products

The focus on tight cost control has caused the Group to reduce its expenditure on product development across its key brands. The Group intends to utilise approximately £1.0 million of the proceeds from the proposed equity fundraising to invest in additional capital expenditure over and above the existing level to improve the product offering for its key brands.

In addition, the Group's population of enthusiasts for many of its key brands is ageing. As a result, the Company plans to develop products which are targeted at younger-aged groups to attract a new generation of consumers.

Grow our European brands

The Group owns a number of market leading brands in the European model trains market. However, these brands have suffered from underinvestment as management's time was focused on cost control to improve cash generation. As a result, the Board believes that there is a significant opportunity to drive revenue growth across the Group's European markets by improving the product offering in line with each brand's core values, and through improving the engagement with consumers in these markets.

Maintain appropriate product pricing

As part of the previous turnaround plan, the Group focussed on discounting and promotions in order to drive revenue growth and cash generation. The use of discounting has led to an expectation by retailers that they do not need to acquire new products upon their release as they would shortly be discounted, thereby undermining the value of those product lines and ultimately the brand. This has also had an impact on the Company's relationship with retailers who have acquired stock from Hornby at full price, only to have to write the value of that stock down once discounts are made available.

As announced on 17 October 2017, in order to maximise the value of its brands over the longer term, the Group will no longer offer large quantities of stock at a discount. However, in the short term, this is likely to lead to a reduction in revenue whilst the market adjusts to the Group's new pricing strategy. This reduction in revenue will reduce the Group's cashflows and create a short term working capital requirement, resulting in the need to further strengthen the balance sheet as outlined above.

Streamline the Group's systems and processes

Utilising the industry experience of the new operational management team, several opportunities have been identified to restructure the Group's systems and processes, which should lead to management and cost efficiencies and ultimately further reduce the fixed cost base of the Group.

Outlook and current trading

The current financial year represents a period of change for the Group as the management team looks to reshape the business in line with the new strategy; this will result in full year revenue reducing significantly year on year. At the half year, Group revenue was 22 per cent. lower than the previous year and while this performance reflects the timing of new product releases being more weighted to the second half of this year, it also reflects softer market demand over the summer months and increased competition in the important UK Independent channel.

Revenue for the six weeks to 12 November 2017 was 10 per cent. lower than the previous year. The previous year's figures included the effect of significant discounting and promotional activity. Overall, we remain confident that the changes now being implemented are the correct course of action to protect the value of our brands and build a stronger platform for the future growth of the Company for the benefit of all stakeholders.

Financial review

Performance

Group revenue for the six months to September 2017 of £17.0 million was 22 per cent. lower than the previous year (2016: £21.9 million), for the factors outlined above. The gross margin for the period was 36 per cent. (2016: 36 per cent.), which was consistent with the previous year but is below that expected for the full year as it reflected the product mix being weighted more towards revenue from National retailers, which carry a lower margin than new product sales to our Independent customers.

Underlying overheads (excluding other operating expenses) of £10.1 million reduced year-on-year by 16 per cent. showing the benefit of the structural changes undertaken over the course of the last financial year. Other operating expenses were £0.5m (2016: £0.9m income), which includes foreign exchange losses on trading transactions in the period totalling £0.5 million compared with gains of £0.6 million in the previous year.

The operating loss before exceptional costs for the six months to September 2016 was £4.5 million, compared with a loss of £3.2 million for the same period last year. This was largely due to the year on year decrease in revenue and consequent gross margin noted above and the impact of foreign exchange losses, offset by overhead savings.

Exceptional costs during the first half year were £1.1 million (2016: £1.4 million) and these included the costs relating to the unsuccessful attempt to change the Board composition through a requisitioned General Meeting and the mandatory offer to buy the Company both of which required professional advice including a circular to shareholders and a shareholder meeting. The exceptional costs also include the costs of senior management changes and the further costs of restructuring the business.

Group loss before tax was £5.7 million (2016: loss of £4.7 million) and was caused by all of the factors identified above. The basic loss per share was 6.76p (2016: loss per share of 6.89p).

Segmental analysis

Third party revenue for the UK business reduced by 18 per cent. in the period to £13.7 million and generated an underlying loss before taxation of £3.9 million compared to a loss of £2.8 million last year. Revenue for the first half of 2017 has reduced significantly compared with the same period last year due to the timing of new product releases during the period. The International businesses' revenue fell by a third in the period to £3.3 million and generated an underlying loss of £0.7 million (2015: £0.8m loss). Trading was constrained by some challenges with the supply of international model rail during the first half, which have been delayed until later in this financial year.

Balance sheet

Group inventories reduced year on year by 20 per cent. to £12.0 million (2016: £9.7 million) due to its careful management and by addressing historic stock issues. Trade and other receivables were £9.3 million (2016: £11.9 million), the fall was in line with the overall reduction in revenue. Trade and other payables were £7.6 million (2016: £8.4 million) reflecting the lower level of activity in the business in the first half of this financial year. The net effect of these factors was a year on year reduction in working capital requirements of £4.8 million to £13.7 million. Investment in new tooling, new computer software and other capital expenditure was £0.8 million (2016: £1.0 million) reflecting the streamlining of the product range resulting in lower levels of capital expenditure this year.

Capital structure and banking facilities

The funds raised in 2016 have been utilised by the cost of reorganising and streamlining the business and by the disappointing level of losses sustained during the first half of this financial year.

There was an increase in net debt at 30 September 2017 to £4.7 million, from £1.5 million net cash at 31 March 2017.

As at 30 September 2017 the Group had in place a revolving credit facility of £7.75 million with Barclays, expiring December 2019.

The Company's existing banking facility will still mature on 31 December 2019, but following agreement with Barclays, will be reduced to £6.0 million on completion of the proposed equity fundraising, with a further step-down of the facility on 1 July 2018 to £5.0 million. This is expected to allow sufficient headroom for the Group's trading working capital and capital expenditure needs through to the end of 2019. The facility will have a margin of 3.75 per cent. over LIBOR and is subject to commitment and utilisation fees dependent on the level of drawings under the facility.

The amended financial covenants, which the Group must comply with, are to be tested quarterly. For the duration of the transition period of the Group's new strategy through to March 2019, such financial covenants shall comprise a minimum EBITDA test. Thereafter, the financial covenants shall revert to customary leverage and interest cover financial covenants.

Going concern

The Group today announced that it is proposing to undertake an equity fundraising of £12.0 million (before expenses) to enable management to pursue the Group's new strategy, to fund the acquisition and to further strengthen the balance sheet.

The Directors have already approached both existing and potential new investors to raise the equity funding of £12.0 million and, following discussions with the Company's largest shareholder, the directors have a high degree of confidence that the fundraising will be approved by shareholders and therefore provide new working capital.

The Group has prepared cash flow forecasts on the basis of the additional equity fundraising and after detailed review of these forecasts 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.

Although the proposed placing and open offer has not yet been formally approved by shareholders, it is being supported by funds managed by Phoenix Asset Management Partners Limited. The Board therefore has a high degree of confidence over the Group's ability to continue as a going concern.

STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 30 September 2017

	Six months to 30 September 2017 (unaudited)	Six months to 30 September 2016 (unaudited)	Year to 31 March 2017 (audited)

	Notes	**£'000**	£'000	£'000
REVENUE	4	**17,025**	21,906	47,420
Cost of Sales		**(10,886)**	(13,963)	(29,270)
GROSS PROFIT		**6,139**	7,943	18,150
Distribution costs		**(3,592)**	(4,007)	(8,419)
Selling and marketing costs		**(3,530)**	(4,737)	(10,294)
Administrative expenses		**(2,999)**	(3,261)	(5,680)
Other operating expenses		**(481)**	900	358
OPERATING LOSS BEFORE EXCEPTIONAL		**(4,463)**	(3,162)	(5,885)
Exceptional Items		**(1,126)**	(1,435)	(3,303)
OPERATING LOSS		**(5,589)**	(4,597)	(9,188)
Finance income		**2**	4	5
Finance costs		**(127)**	(139)	(326)
Net finance costs		**(125)**	(135)	(321)
LOSS BEFORE TAXATION	4	**(5,714)**	(4,732)	(9,509)
Taxation	9	**-**	42	(157)
LOSS FOR THE PERIOD AFTER TAXATION		**(5,714)**	(4,690)	(9,666)
OTHER COMPREHENSIVE (LOSS)/INCOME *(Items that may be classified subsequently to profit and loss)*				
Cash flow hedges, net of tax		**(214)**	65	(452)
Currency translation differences		**36**	55	15
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX		**(178)**	120	(437)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(5,892)**	(4,570)	(10,103)
LOSS PER ORDINARY SHARE				
Basic		**(6.76)p**	(6.89)p	(12.65)p
Diluted		**(6.76)p**	(6.89)p	(12.65)p

All of the activities of the Group are continuing. The notes on pages 11 to 19 form an integral part of this condensed consolidated half-yearly financial information.

BALANCE SHEET
As at 30 September 2017

	Notes	**30 September 2017 (unaudited) £'000**	30 September 2016 (unaudited) £'000	31 March 2017 (audited) £'000
ASSETS				
NON-CURRENT ASSETS				
Goodwill	5	**4,568**	4,537	4,554
Intangible assets	5	**3,888**	4,473	4,214
Property, plant and equipment	5	**5,063**	6,635	5,683
Deferred income tax assets		**1,974**	2,029	1,974
		15,493	17,674	16,425
CURRENT ASSETS				
Property, plant and equipment held for sale	5	**-**	1,069	-
Inventories		**12,047**	15,021	9,680
Trade and other receivables		**9,265**	11,939	9,246
Derivative financial instruments	8	**-**	447	120
Current tax assets		**-**	141	50
Cash and cash equivalents		**478**	902	1,580
		21,790	29,519	20,676

LIABILITIES				
CURRENT LIABILITIES				
Borrowings	7	**(5,158)**	(3,026)	(82)
Derivative financial instruments	8	**(284)**	-	(190)
Trade and other payables		**(7,622)**	(8,477)	(6,664)
Provisions		**(207)**	(284)	(196)
Current tax liabilities		**(212)**	-	(212)
		(13,483)	(11,787)	(7,344)
NET CURRENT ASSETS		**8,307**	17,732	13,332
NON-CURRENT LIABILITIES				
Deferred tax liabilities		**(94)**	(211)	(94)
		(94)	(211)	(94)
NET ASSETS		**23,706**	35,195	29,663
SHAREHOLDERS' EQUITY				
Share capital	6	**846**	846	846
Share premium		**27,445**	27,567	27,445
Capital redemption reserve		**55**	55	55
Translation reserve		**(1,335)**	(1,331)	(1,371)
Hedging reserve		**(284)**	447	(70)
Other reserves		**1,688**	1,688	1,688
Retained earnings		**(4,709)**	5,923	1,070
TOTAL EQUITY		**23,706**	35,195	29,663

The notes on pages 11 to 19 form an integral part of this condensed consolidated half-yearly financial information.

STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 September 2017

	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 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/(loss) 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**
Balance at 1 April 2016	**550**	**20,205**	**55**	**(1,386)**	**382**	**1,688**	**10,642**	**32,136**
Loss for the period	-	-	-	-	-	-	(4,690)	(4,690)
Other comprehensive income for the period	-	-	-	55	65	-	-	120
Total comprehensive loss for the period	-	-	-	55	65	-	(4,690)	(4,570)
Transactions with owners								
Share-based payments	-	-	-	-	-	-	(29)	(29)
Net proceeds from issue of ordinary shares	296	7,362	-	-	-	-	-	7,658
Balance at 30 September 2016	**846**	**27,567**	**55**	**(1,331)**	**447**	**1,688**	**5,923**	**35,195**

The notes on pages 11 to 19 form an integral part of this condensed consolidated half-yearly financial information.

STATEMENT OF CASH FLOWS
for the six months ended 30 September 2017

	Six months to 30 September 2017 (unaudited)	Six months to 30 September 2016 (unaudited)	Year to 31 March 2017 (audited)
	£'000	£'000	£'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash utilised in operations	**(5,123)**	(2,532)	91
Interest paid	**(127)**	(139)	(326)
Tax received	**50**	118	118
Net cash utilised in operating activities	**(5,200)**	(2,553)	(117)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment	**-**	1,022	3,338
Purchase of property, plant and equipment	**(725)**	(945)	(1,756)
Purchase of intangible assets	**(99)**	(40)	(226)
Interest received	**2**	4	5
Net cash utilised in investing activities	**(822)**	41	1,361
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of ordinary shares	**-**	8,000	8,000
Cash settled SBP	**(136)**	-	-
Share issue and refinancing costs	**-**	(342)	(464)
Repayment of loans	**-**	(188)	(188)
Net cash generated from financing activities	**(136)**	7,470	7,348
Net increase in cash and cash equivalents	**(6,158)**	4,958	8,592
Cash, cash equivalents and bank overdrafts at beginning of period	**1,498**	(7,029)	(7,029)
Effect of exchange rate movements	**(20)**	(53)	(65)
CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS AT END OF PERIOD	**(4,680)**	(2,124)	1,498
CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS CONSIST OF:			
Cash and cash equivalents	**478**	902	1,580
Bank overdrafts	**(5,158)**	(3,026)	(82)
CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS AT END OF PERIOD	**(4,680)**	(2,124)	1,498

The notes on pages 11 to 19 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 2017

Cash flows from operating activities

	Six months to 30 September 2017 (unaudited)	Six months to 30 September 2016 (unaudited)	Year to 31 March 2017 (audited)
	£'000	£'000	£'000
Loss before taxation	**(5,714)**	(4,732)	(9,509)

Interest payable	**127**	139	326
Interest receivable	**(2)**	(4)	(5)
Amortisation of intangible assets	**425**	413	816
Depreciation	**1,342**	1,640	3,036
Profit on disposal of property, plant and equipment	**-**	(549)	(1,439)
Share-based payments - non cash	**(65)**	(29)	94
Share-based payments - cash	**136**	-	-
Loss/(gain) on financial derivatives	**-**	65	0
(Decrease)/increase in provisions	**11**	(162)	(250)
(Increase)/decrease in inventories	**(2,454)**	(1,113)	4,311
Decrease/(Increase) in trade and other receivables	**3**	1,653	4,335
Increase/(decrease) in trade and other payables	**1,068**	159	(1,624)
Decrease in derivative financial instruments	-	(12)	-
CASH UTILISED IN OPERATIONS	**(5,123)**	(2,532)	91

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 17 November 2017.

This condensed consolidated half-yearly financial information does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2017 were approved by the Board of Directors on 21 June 2017 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 2017 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 2017 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 2017, 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

There are no standards, amendments to standards or interpretations that are both mandatory for the first time for the financial year ending 31 March 2017 and that have a material impact on the Group's results, except for IFRS 16 outlined below.

IFRS 16 will replace the current guidance under IAS 17 and will have a significant impact on the accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 will require lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The adoption of IFRS 16 will have a material effect on the Hornby PLC financial statements by grossing up assets and liabilities by approximately £1.0 million.

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 2017.

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 2017.

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 2017. 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 the US 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 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 2017 (unaudited)						
Total revenue	14,569	1,059	535	513	1,171	**17,846**
Inter-segment revenue	(821)	-	-	-	-	**(821)**
Revenue (from external customers)	13,747	1,059	535	513	1,171	17,025
Operating loss before exceptionals	(3,938)	(452)	(20)	(80)	(98)	**(4,588)**
Exceptional costs	(1,116)	-	-	-	(10)	**(1,126)**
Loss before taxation	**(5,054)**	**(452)**	**(20)**	**(80)**	**(108)**	**(5,714)**

Six months ended 30

September 2016 (unaudited)						
Total revenue	20,477	1,406	911	751	2,080	25,625
Inter-segment revenue	(3,642)	-	(77)	-	-	(3,719)
Revenue (from external customers)	16,835	1,406	834	751	2,080	21,906
Operating (loss)/profit before exceptionals	(2,472)	47	(87)	(406)	(379)	(3,297)
Exceptional costs	(1,986)	-	588	(37)	-	(1,435)
(Loss)/profit before taxation	(4,458)	47	501	(443)	(379)	(4,732)

	Six months to 30 September 2017 (unaudited)	Six months to 30 September 2016 (unaudited)	Year to 31 March 2017 (audited)
	£'000	£'000	£'000
Exceptional items comprise:			
Restructuring costs	**817**	1,356	3,889
Refinancing	**-**	679	944
Profit on disposal of property	**-**	(600)	(1,530)
EGM and Mandatory Offer	**309**	-	-
Legal Provision	**-**	-	-
	1,126	1,435	3,303

5. TANGIBLE AND INTANGIBLE ASSETS AND GOODWILL

The additions comprise new product tooling (£705,000), property, plant and equipment (£20,000) and intangible assets - computer software (£99,000).

The Group has again performed impairment reviews as at 30 September 2017 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 2017 have remained constant with the impairment reviews conducted in March 2017.

Tangible and intangible assets and goodwill (unaudited)	**Six months ended 30 September 2017**	Six months ended 30 September 2016
	£'000	£'000
Opening net book amount 1 April 2017 and 1 April 2016	**14,451**	16,485
Exchange adjustment	**10**	279
Additions	**825**	985
Disposals	**-**	(51)
Depreciation, amortisation and impairment	**(1,767)**	(2,053)
Closing net book amount 30 September 2017 and 30 September 2016	**13,519**	15,645

CAPITAL COMMITMENTS	**2017 (unaudited)**	2016 (unaudited)
	£'000	£'000
At 30 September commitments were:		
Contracted for but not provided for	**420**	549

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

6. SHARE CAPITAL

At 31 March 2017 and 30 September 2017, the Group had 84,583,204 ordinary 1p shares in issue with nominal value £845,832 (2016 - £549,535).

The following employee share options were exercised during the first half to 30 September 2017 (2016 - £nil).

Number of Employees	Number of shares in relation to which the LTIP award vested	Cash settlement amount determined by reference to 32.375 pence per share (plus National Insurance)
4	352,508	£136,430

7. BORROWINGS

	30 September 2017 (unaudited)	30 September 2016 (unaudited)	31 March 2017 (audited)
	£'000	£'000	£'000
CURRENT:			
Bank overdrafts	**(5,158)**	3,026	82
Bank loans	**-**	-	
	(5,158)	3,026	82

At 30 September 2017 the UK had a £7,750,000 revolving credit facility expiring December 2019 (2016 - £10,000,000) that attracts interest at 3.5 per cent above Libor. (2016 - 3.5 per cent above LIBOR).

In the period to 30 September 2017 loan repayments were £nil (2016 - £167,000).

The drawdown amount on the revolving credit facility amounted to £7,400,000 (2016 - £5,500,000) and is included within net bank overdrafts above.

8. FINANCIAL INSTRUMENTS

The following tables present the Group's assets and liabilities that are measured at fair value at 30 September 2017 and 31 March 2017. 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	**-**	**-**	-	**-**
Total assets as at 30 September 2017	**-**	**-**	-	**-**
Liabilities				
Derivatives used for hedging	**-**	**(284)**	-	**(284)**
Total liabilities at 30 September 2017	**-**	**(284)**	**-**	**(284)**

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Assets				
Derivatives used for hedging	-	120	-	120
Total assets at 31 March 2017	-	120	-	120
Liabilities				
Derivatives used for hedging	-	(190)	-	(190)
Total liabilities at 31 March 2017	-	(190)	-	(190)

9. TAXATION

The tax expense is recognised based on management's latest estimate of the estimated full year forecast effective tax rate determined for each territory. Due to the expected incidence of profits in the second half of the year in each entity, the rate for the full year is expected to be in line with the interim rate.

10. (LOSS)/EARNINGS PER SHARE

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

	30 September 2017 (unaudited)	30 September 2016 (unaudited)	31 March 2017 (audited)
(Loss)/earnings per share from continuing operations attributable to the equity of the Company			
- basic	**(6.76)p**	(6.89)p	(12.65)p
- diluted	**(6.76)p**	(6.89)p	(12.65)p
	=======	=======	=======

11. DIVIDENDS

No interim dividend has been declared for the interim period ended 30 September 2017 (2016 - £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 £1,296,000 for the six months to 30 September 2017 (2016 - £1,266,000). Key management include directors and senior management. For the period to 30 September 2017 there was an underlying decrease compared to the same period last year because of the changes and restructuring of the UK business.

Key management and related party	**30 September 2017 (unaudited) £'000**	30 September 2016 (unaudited) £'000	31 March 2017 (audited) £'000
Salaries and other short-term benefits	**888**	1,234	1,688
Other pension costs	**62**	61	118
Share-based payments	**71**	(29)	110
Redundancy and compensation for loss of office	**275**	-	241
	1,296	1,266	2,157

Before appointment as Managing Director of Asia and a director of Hornby Hobbies Limited, a subsidiary of Hornby PLC, Bharat Ahir provided consultancy services to the Group. 28One Limited, not to be confused with companies of a similar name, which is owned by Bharat continues to support the business in relation to providing ongoing support to manage product delivery and Hornby Hobbies has paid £89,330 (2016 - £99,798) in relation to these services to 28One Limited since 1 April 2017. No outstanding payments remained payable to 28One Limited as at 30 September 2017 (2016 - nil). Hornby Hobbies Limited continues to use these services on an ongoing basis.

There are no other related-party transactions during the period.

Subsequent to the period end a significant related party transaction is announced today as detailed in Note 16 below.

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 17 and 18 of the Group's Annual report for the year ended 31 March 2017 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 2017 sales represented 36 per cent of the annual sales for the year ended 31 March 2017 (2016 - 39 per cent of the annual sales for the year ended 31 March 2016).

16. SUBSEQUENT EVENTS

Lyndon Davies was appointed as CEO on 3 October 2017 replacing Steve Cooke.

In addition to the appointment of Mr Davies, the Group plans to acquire 49 per cent. of the share capital of LCD, the holding company of Oxford Diecast Limited, which is owned by Mr Davies. The acquisition is subject to shareholder approval.

The Group is proposing to undertake an equity fundraising of £12.0 million, by way of a placing and open offer, to support delivery of the Group's strategic objectives, to fund the acquisition of shares in LCD and to provide additional working capital. The placing and open offer is subject to shareholder approval.

By order of the Board

Lyndon Davies
Chief Executive
17 November 2017

David Mulligan
Group Finance Director

END

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