

HORNBY ANNOUNCES INTERIM RESULTS

‘GOOD PROGRESS WITH TURNAROUND PLAN’

Hornby Plc ("Hornby"), the international hobby products Group, today announces its interim results for the six months ended 30 September 2016. The Company owns a number of iconic brands including Hornby, Scalextric, Airfix, Humbrol and Corgi as well as a number of European model rail brands.

Financial Highlights

- Group revenue of £21.9 million (2015: £22.3 million)
- Underlying Group loss of £3.6 million (2015: loss of £3.4 million)
- Statutory loss for the period of £4.7 million (2015: loss of £4.5 million)
- Net debt of £2.1 million (2015: £5.7 million)
- Refinancing successfully completed with £8.0 million Placing and Open Offer of new shares approved by shareholders on 5 July 2016

Turnaround Plan Progress

- Structural changes progressing with £2.0 million of annualised headcount savings realised
- Re-engaging core customers in the Independent sales channel with new term and conditions issued
- Strategic exit from majority of concessions progressing with around half closed to date and the remainder to close post-Christmas 2016
- Careful allocation of new capital investment this financial year of £1.5 million (2015: £4.6 million), with £1.0 million invested in the period
- 2017 product range focused on smaller number of profitable lines
- Reduction of stock being carefully managed to avoid disruption and cannibalisation of underlying business

Steve Cooke, Hornby Chief Executive commented,

“We are making good progress with the Hornby turnaround. We are delivering the structural changes to reduce business scale and costs and to streamline the European operating model. We are currently focussed on the Christmas trading period as well as ongoing stock reduction initiatives.

“We have listened carefully to our core Independent customers and responded positively to their concerns with new trading terms and a commitment to rebuild our relationship with them.

“The Group has traded steadily during the first half of the year but revenue is expected to decline significantly year on year in the second half as the planned rationalisation of product lines, channels and certain international brands takes effect. We remain confident of meeting the Board’s financial targets for this financial year.”

-ends-

Date: 24 November 2016

For further information contact:

Capital Access Group 020 3763 3400
Scott Fulton

Numis Securities 020 7260 1000
(Nomad & Broker)
Oliver Cardigan
Paul Gillam
Tom Ballard

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

INTERIM REPORT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

At our preliminary results announcement on 22 June 2016, we outlined the Turnaround Plan designed to return the Company to sustainable profit and cash generation. This followed a thorough review of the business' operations, which identified that many core parts of the business were stable, profitable and cash generative driven by iconic brands with strong market positions. We also identified areas that required fundamental change. The key elements of the Turnaround Plan were as follows:

- Reduce business scale and costs to a profitable level
- Maintain key UK brands
- Streamline European operating model and brands
- Focused product ranges
- Refine sales channels strategy and substantially exit concessions
- Careful management of stock down to an appropriate level

Overall we have made good progress with our strategy to deliver the Plan's objectives but much remains to be achieved to restore the business back to profitability and positive cash generation.

Revenue for the six months was £21.9 million (2015: £22.3 million), a decrease of 2% compared with the previous year. The underlying operating loss was £3.6 million (2015: £3.4 million), in line with the Board's expectations.

Net debt for the Group as at 30 September 2016 was £2.1 million (2015: £5.7 million). The drawdown amount on the £10 million UK revolving credit facility as at 30 September 2016 amounted to £5.5 million (2015: £8.0 million).

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

Progress with Turnaround Plan

Overall we are pleased with the progress made to date in delivery of the Turnaround Plan.

Reduce business scale and costs

By focusing on the most profitable and cash generative areas of our business, the intention is to reduce activity levels in order to return to profitability. To date changes to the UK business have realised annualised headcount cost savings of £0.8 million, with changes to the European business realising £1.2 million outlined below. We expect full year revenue to fall by around a quarter year-on-year as a result of this planned reduction in the scale of the business.

Maintain key UK brands

All the key UK brands have been retained and we continue to invest and develop new product lines for the toy and hobby market across our iconic brands (Hornby, Scalextric, Airfix, Humbrol and Corgi). This is supported by around £1.5m of capital investment this financial year (2015: £4.6 million) into new product tooling (£1.2 million) and enhancing our operational IT systems (£0.3 million).

Central to development of the UK brands is a focus on improving customer service to our core hobby customers through the Independent sales channel. During the period, we have spent considerable time visiting and listening to our customers and we have addressed a number of concerns they have raised by launching new trading terms and conditions and committing to improving the relationships we have with them. As part of this commitment to better support our Independent customer base, Hornby is reducing the level of promotional activity direct to consumers via the internet and its own retail operations.

Streamlined European operating model and brands

The Group outlined its intention to focus its European business on its most profitable model rail brands in order to maintain its strong market position in international model rail. Despite there being no tooling capital expenditure in the period, we have maintained a reduced level of new product releases in the period as these were funded by capital expenditure from the last financial year. As a result, we expect that full year revenue from our international operations will fall by around a third as planned over the course of this financial year.

The process to centralise the European operations and product development in the UK is progressing as planned. We expect to conclude this important step by the end of this calendar year, resulting in a significant reduction in the cost base of the European business, realising around £1.2 million of annualised headcount savings. We have expanded the customer and sales support capability in the UK by recruiting a number of multi-lingual, skilled individuals in order to provide pan-European service to our customers.

Focused product range

The Turnaround Plan includes the reduction in the number of individual product lines by approximately 40% during this calendar year resulting in active management of approximately 1,400 profitable product lines in the 2017-18 financial year. We remain on track to deliver this streamlined product range over the coming year.

We have also reviewed the product range under each brand and we have started working with our Independent customers to improve how each range is presented in-store to drive improved sales for both Hornby and our customers.

Refine channel strategy and exit concessions

We have outlined a plan to exit from the majority of the Group's concession arrangements because of the poor returns from trading through this channel. To date around half of the concession sites have been closed. The remainder will trade through the Christmas period and close early in the New Year. Negotiations are ongoing with the concession holders to convert the sales to a firm-sale arrangement, similar to what we have in place with other Independent and National customers.

Careful management of stock

We started this financial year with a higher than necessary level of stock following the failure of the Company to meet sales expectations last Christmas. We continue to reduce the overall level of stock progressively whilst at the same time being very careful not to disrupt underlying sales through existing channels. Stock at September 2016 was £15.0 million (2015: £16.8 million) reflecting the seasonal peak in the build up to Christmas. It is expected the Group's level of stock will fall from this point over the remainder of the financial year as we continue to manage down the level of stock along with the reduced stock resulting from the exit from concessions.

Other developments

As well as delivering the Turnaround Plan, we have made progress across a number of important aspects of the business.

Leadership team

Following Steve Cooke's appointment as Chief Executive in April 2016, there has been a period of reshaping of the leadership team of the business. David Mulligan is now Group Finance Director on a permanent basis following his interim appointment in May. In the UK we have appointed an Interim Sales & Marketing director, who is helping Hornby refocus on a brand-led strategy, strengthening the marketing and forecasting capability, and driving the effectiveness of the sales function in re-establishing strong relationships across our sales' channels.

Impact of 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, particularly following the Brexit vote in June, could have a material effect on the Group's future results. The Group continues to hedge short-term exposures by establishing forward currency purchases using fixed rate and participating forward contracts up to twelve months ahead. In addition, it will be seeking to recover the increased purchasing costs through price increases alongside many other businesses in the industry.

Process improvement

During the period we also reviewed our core business processes and sought to strengthen them in a number of areas, in particular the decision making around new product development, product scheduling and sales forecasting. We have also continued to enhance our ERP system, which is driving improvements in the quality of data provision in the business.

People and performance

Just as the business had lost appropriate focus on some of its key customers, we also recognised that some of the basics of people management required improvement. Company objectives and newly created values have been cascaded down to teams and individuals to provide the necessary framework to ensure that all colleagues are aligned to deliver the Turnaround Plan.

Property update

On 13 June 2016 the Group disposed of its building in Spain for consideration of £1.0 million. The gain on disposal of £0.6 million has been treated as an exceptional item.

Negotiations continue with a preferred bidder with respect to the sale of the Group's site at Margate.

New product launches

During the period we have continued to release new products across all our brands. Hornby saw the release of a Limited Edition Anniversary Pack of the Class 43 British Rail Intercity 125 High Speed Train celebrating 40 years of the iconic train. Corgi's 60th anniversary was celebrated with a special collection of die-cast models including the BAE Hawk Red Arrows advanced jet trainer as well as launching a Commemorative Austin Mini in celebration of the Queens 90th Birthday. Scalextric introduced a number of new sets to its range as well as two additions to the British Touring Car Championship cars. Airfix launched a number of exciting military aircraft including the Curtiss P-40B Warhawk 1:48, which was manufactured in the UK.

Refinancing, placing and open offer

The Placing and Open Offer, which was announced on 22 June 2016, of 29,629,630 new Ordinary Shares at a price of 27 pence each, raising £7.6 million net of costs, was completed on 8 July 2016 with the funds being used to allow the business to pay down existing debt and to invest in the Turnaround Plan.

Financial performance

Group revenue for the six months to September 2016 of £21.9 million was 2% lower than the prior year (2015: £22.3 million). The gross margin for the period was 36% (2015: 41%), which was lower due to the planned sale of excess stock at lower margin and adverse sales mix year-on-year.

Underlying overheads reduced year-on-year by 3%. UK distribution costs increased due to the larger volume of products being handled through Hersden, following the European logistics reorganisation, offset by lower R&D costs reflecting the lower level of new product development going forwards as the number of products are reduced. Sales and marketing costs reduced by £0.8 million year-on-year due to reduced spend on TV advertising. Admin costs reduced by £0.3 million as a result of the structural changes made as part of the Turnaround Plan. Foreign exchange gains on trading transactions in the period totalled £1.1 million compared to losses of £0.2 million in the previous year.

Underlying operating loss, before amortisation of intangibles, charges for net foreign exchange adjustments and other one off costs, for the six months to September 2016 was £3.4 million, in line with the Board's expectations, compared to a loss of £3.2 million for the same period last year. This was due to the year on year decrease in sales and gross margin noted above.

Exceptional costs during the first half year were £1.4 million (2015: £0.9 million) and these included various restructuring costs together with large one-off costs connected with the Company's refinancing offset by the gain on the sale of the property in Spain.

Group loss before tax was £4.7 million (2015: loss of £4.5 million) and was caused by all of the factors identified above. Loss per share on an underlying basis was 5.17p (2015: loss per share of 4.81p) and on a statutory basis a loss per share of 6.89p (2015: loss per share of 6.30p).

Segmental analysis

Third party sales by the UK business reduced by 2% in the period and generated an underlying loss of £2.8 million compared to £2.3 million loss last year. Sales for the first half of 2016 have been steady and broadly in line with the same period last year. The International business' sales fell by 2% in the period and generated an underlying loss of £0.8 million (2015: £1.1 million loss). Trading was constrained by the supply of international model rail during the first half following the changes to production schedules during the early part of this calendar year.

Balance sheet

Group inventories increased during the period by 10% from £13.6 million at March 2016 to £15.0 million due to seasonal build-up of stock in the lead up to the busy Christmas trading period. Good progress has been made with managing down the stock overhang from the previous financial year with a year-on-year reduction of £1.8 million (11%). Trade and other receivables decreased by 9% due to the settlement of large sales orders raised just before the previous year end. Trade and other payables increased by 15% to £8.5 million reflecting the seasonal increase in purchases relating to new product lines. The net effect of these factors was a reduction in working capital requirements by £0.9 million to £18.5 million. Investment in new tooling, new computer software and other capital expenditure was £1.0 million (2015: £2.9 million) reflecting the streamlining of the product range resulting in lower levels of capital expenditure this year.

Outlook and current trading

The current financial year is a period of transition for the Group as we reshape and streamline the business. As previously announced, this is expected to result in full year revenue reducing significantly year on year.

At the half year, Group revenue was 2% lower than last year, reflecting the start of the turnaround rationalisation processes but also proceeds from stock reduction initiatives. Revenue for the 7 weeks to 20 November 2016 was 22% lower than the prior year. This was broadly in line with expectations given the ongoing impact of rationalisation and that there was significant promotional activity last year which is not being repeated this year. Overall, we remain confident of meeting the financial targets set by the Board for this financial year.

STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 30 September 2016

		Six months to 30 September 2016 (unaudited)	Six months to 30 September 2015 (unaudited)	Year to 31 March 2016 (audited)
	Notes	£'000	£'000	£'000
REVENUE	4	21,906	22,296	55,757
Cost of Sales		(13,963)	(13,129)	(33,992)
GROSS PROFIT		7,943	9,167	21,765
Distribution costs		(4,007)	(3,244)	(8,441)
Selling and marketing costs		(4,737)	(5,542)	(12,472)
Administrative expenses		(4,696)	(4,319)	(9,652)
Other operating expenses		900	(280)	(4,324)
OPERATING LOSS		(4,597)	(4,218)	(13,124)
Finance income		4	6	21
Finance costs		(139)	(253)	(429)
LOSS BEFORE TAXATION	4	(4,732)	(4,465)	(13,532)
Analysed as:				
Underlying loss before taxation		(3,553)	(3,438)	(5,683)
Net foreign exchange impact on intercompany loans		439	65	389
Amortisation of intangible assets - brand names and customer lists		(183)	(180)	(384)
Exceptional costs	4	(1,435)	(912)	(7,854)
LOSS BEFORE TAXATION	4	(4,732)	(4,465)	(13,532)
Taxation	9	42	1,001	(182)
LOSS FOR THE PERIOD AFTER TAXATION		(4,690)	(3,464)	(13,714)
OTHER COMPREHENSIVE (LOSS)/INCOME <i>(Items that may be classified subsequently to profit and loss)</i>				
Cash flow hedges, net of tax		65	(248)	20
Currency translation differences		55	(179)	(127)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX		120	(427)	(107)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		(4,570)	(3,891)	(13,821)
LOSS PER ORDINARY SHARE				
Basic		(6.89)p	(6.30)p	(27.87)p
Diluted		(6.89)p	(6.30)p	(27.87)p

All of the activities of the Group are continuing. The notes on pages 11 to 18 form an integral part of this condensed consolidated half-yearly financial information.

BALANCE SHEET

As at 30 September 2016

		30 September 2016 (unaudited)	30 September 2015 (unaudited)	31 March 2016 (audited)
	Notes	£'000	£'000	£'000
ASSETS				
NON-CURRENT ASSETS				
Goodwill	5	4,537	8,471	4,516
Intangible assets	5	4,473	5,049	4,777
Property, plant and equipment	5	6,635	9,150	7,192
Deferred income tax assets		2,029	2,844	1,991
		17,674	25,514	18,476
CURRENT ASSETS				
Property, plant and equipment held	5	1,069	1,191	1,462
Inventories		15,021	16,848	13,637
Trade and other receivables		11,939	14,034	13,192
Derivative financial instruments	8	447	196	394
Current tax assets		141	351	213
Cash and cash equivalents		902	463	677
		29,519	33,083	29,575
LIABILITIES				
CURRENT LIABILITIES				
Borrowings	7	(3,026)	(6,054)	(7,883)
Derivative financial instruments	8	-	(91)	(12)
Trade and other payables		(8,477)	(9,641)	(7,363)
Provisions		(284)	(264)	(446)
Current tax liabilities		-	(31)	-
		(11,787)	(16,081)	(15,704)
NET CURRENT ASSETS				
		17,732	17,002	13,871
NON-CURRENT LIABILITIES				
Borrowings	7	-	(144)	-
Deferred tax liabilities		(211)	(130)	(211)
		(211)	(274)	(211)
NET ASSETS				
		35,195	42,242	32,136
SHAREHOLDERS' EQUITY				
Share capital	6	846	550	550
Share premium		27,567	20,205	20,205
Capital redemption reserve		55	55	55
Translation reserve		(1,331)	(1,438)	(1,386)
Hedging reserve		447	114	382
Other reserves		1,688	1,688	1,688
Retained earnings		5,923	21,068	10,642
TOTAL EQUITY		35,195	42,242	32,136

The notes on pages 11 to 18 form an integral part of this condensed consolidated half-yearly financial information.

STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 September 2016

	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 2016	550	20,205	55	(1,386)	382	1,688	10,642	32,136
Loss for the period	-	-	-	-	-	-	(4,690)	(4,690)
Other comprehensive loss 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
Balance at 1 April 2015	392	6,180	55	(1,259)	362	1,688	24,338	31,756
Loss for the period	-	-	-	-	-	-	(3,464)	(3,464)
Other comprehensive (loss)/income for the period	-	-	-	(179)	(248)	-	-	(427)
Total comprehensive loss for the period	-	-	-	(179)	(248)	-	(3,464)	(3,891)
Transactions with owners								
Share-based payments	-	-	-	-	-	-	194	194
Net proceeds from issue of ordinary shares	158	14,025	-	-	-	-	-	14,183
Balance at 30 September 2015	158	14,025	-	(179)	(248)	-	(3,270)	10,486

* Retained earnings includes amounts that are not distributable including £545,000 at 30 September 2016 (2015 - £562,000) that relates to a 1986 revaluation of land and buildings.

The notes on pages 11 to 18 form an integral part of this condensed consolidated half-yearly financial information.

STATEMENT OF CASH FLOWS

for the six months ended 30 September 2016

	Six months to 30 September 2016 (unaudited)	Six months to 30 September 2015 (unaudited)	Year to 31 March 2016 (audited)
	£'000	£'000	£'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash utilised in operations	(2,532)	(9,489)	(9,632)
Interest paid	(139)	(253)	(429)
Tax received	118	218	204
Net cash utilised in operating activities	(2,553)	(9,524)	(9,857)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment	1,022	-	349
Purchase of property, plant and equipment	(945)	(1,691)	(3,221)
Purchase of intangible assets	(40)	(1,224)	(1,341)
Interest received	4	6	21
Net cash utilised in investing activities	41	(2,909)	(4,192)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of ordinary shares	8,000	15,000	15,000
Share issue and refinancing costs	(342)	(817)	(817)
Repayment of loans	(188)	(21)	(35)
Net cash generated from financing activities	7,470	14,162	14,148
Net increase in cash and cash equivalents	4,958	1,729	99
Cash, cash equivalents and bank overdrafts at beginning of period	(7,029)	(7,247)	(7,247)
Effect of exchange rate movements	(53)	(27)	119
CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS AT END OF PERIOD	(2,124)	(5,545)	(7,029)
CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS CONSIST OF:			
Cash and cash equivalents	902	463	677
Bank overdrafts	(3,026)	(6,008)	(7,706)
CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS AT END OF PERIOD	(2,124)	(5,545)	(7,029)

The notes on pages 11 to 18 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 2016

Cash flows from operating activities

	Six months to 30 September 2016 (unaudited)	Six months to 30 September 2016 (unaudited)	Year to 31 March 2016 (audited)
	£'000	£'000	£'000
Loss before taxation	(4,732)	(4,465)	(13,532)
Interest payable	139	253	429
Interest receivable	(4)	(6)	(21)
Amortisation of intangible assets	413	180	723
Depreciation	1,640	1,768	3,705
Impairment of property, plant and equipment – tooling	-	-	1,158
Impairment of goodwill	-	-	3,990
Profit on disposal of property, plant and equipment	(549)	-	(193)
Share-based payments	(29)	194	18
Loss/(gain) on financial derivatives	65	146	135
(Decrease)/increase in provisions	(162)	9	191
Increase in inventories	(1,113)	(4,373)	(650)
Decrease/(Increase) in trade and other receivables	1,653	(3,528)	(2,351)
Increase/(decrease) in trade and other payables	159	577	(3,212)
Decrease in derivative financial instruments	(12)	(244)	(22)
CASH UTILISED IN OPERATIONS	<u>(2,532)</u>	<u>(9,489)</u>	<u>(9,632)</u>

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 24 November 2016.

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 2016 were approved by the Board of Directors on 22 June 2016 and delivered to the Registrar of Companies. The Report of the Auditors on those accounts was unqualified, but contained an emphasis of matter paragraph 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 2016 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 2016 which have been prepared in accordance with IFRSs as adopted by the European Union.

Going Concern

The Group's forecasts and projections, taking account of reasonable possible changes in trading performance and current, commitments, show that the Group should be able to operate within its banking facilities for the foreseeable future. Accordingly, the Directors believe it appropriate to prepare the financial statements of the Group on a going concern basis.

3. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 March 2016, 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 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 2016.

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 2016.

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 2016. 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 COSTS

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 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
Underlying (loss)/profit before taxation	(2,783)	47	(87)	(367)	(363)	(3,553)
Foreign exchange on intercompany loans	439	-	-	-	-	439
Exceptional costs	(1,986)	-	588	(37)	-	(1,435)
Amortisation of intangible assets	(128)	-	-	(39)	(16)	(183)
(Loss)/profit before taxation	(4,458)	47	501	(443)	(379)	(4,732)
Six months ended 30 September 2015 (unaudited)						
Total revenue	19,532	1,197	2,391	951	2,031	26,102
Inter-segment revenue	(2,406)	-	(1,318)	(82)	-	(3,806)
Revenue (from external customers)	17,126	1,197	1,073	869	2,031	22,296
Underlying loss before taxation	(2,297)	(67)	(108)	(523)	(443)	(3,438)
Foreign exchange on intercompany loans	65	-	-	-	-	65
Exceptional costs	(912)	-	-	-	-	(912)
Amortisation of intangible assets	(132)	-	-	(35)	(13)	(180)
Loss before taxation	(3,276)	(67)	(108)	(558)	(456)	(4,465)

	Six months to 30 September 2016 (unaudited)	Six months to 30 September 2015 (unaudited)	Year to 31 March 2016 (audited)
	£'000	£'000	£'000
Exceptional items comprise:			
Restructuring costs	1,356	475	993
Refinancing	679	334	762
Profit on disposal of property	(600)	-	(223)
Implementation of ERP system	-	103	1,174
Impairment of property, plant and equipment	-	-	1,158
Impairment of goodwill	-	-	3,990
	<u>1,435</u>	<u>912</u>	<u>7,854</u>

5. TANGIBLE AND INTANGIBLE ASSETS AND GOODWILL

Tangible and intangible assets and goodwill (unaudited)	Six months ended 30 September 2016	Six months ended 30 September 2016
	£'000	£'000
Opening net book amount 1 April 2016 and 1 April 2015	16,485	22,795
Exchange adjustment	279	99
Additions	985	2,915
Disposals	(51)	-
Reclassification to assets held for sale	-	(1,191)
Depreciation, amortisation and impairment	(2,053)	(1,948)
Closing net book amount 30 September 2016 and 30 September 2015	<u>15,645</u>	<u>22,670</u>

The additions comprise new product tooling (£890,000), property, plant and equipment (£55,000) and intangible assets – computer software (£40,000).

The Group has performed impairment reviews for goodwill as at 30 September 2016 and consider the carrying value of the assets held to be recoverable. The discount rates and key assumptions used within the assessment at 30 September 2016 have remained consistent with the impairment reviews conducted in March 2016.

At 30 September the Group had a clear intention to sell certain land and buildings held by the Company and remain in a sales process for the site therefore these assets have been classed as current assets under IFRS 5.

CAPITAL COMMITMENTS	2016 (unaudited)	2015 (unaudited)
	£'000	£'000
At 30 September commitments were:		
Contracted for but not provided for	<u>549</u>	<u>1,250</u>

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

6. SHARE CAPITAL

At 31 March 2016 the Group had 54,953,574 ordinary 1p shares in issue with nominal value £549,535 and following the new ordinary share issue on 8 July 2016 has, at 30 September 2016, 84,583,204 ordinary 1p shares in issue with a nominal value of £845,832 (2015 - £549,535).

No employee share options were exercised during the first half to 30 September 2016 (2015 – £nil).

7. BORROWINGS

	30 September 2016 (unaudited)	30 September 2015 (unaudited)	31 March 2016 (audited)
	£'000	£'000	£'000
CURRENT:			
Bank overdrafts	3,026	6,008	7,706
Bank loans	-	46	177
	<u>3,026</u>	<u>6,054</u>	<u>7,883</u>
NON-CURRENT:			
Bank loans	-	144	-
	<u>-</u>	<u>144</u>	<u>-</u>

At 30 September 2016 the UK had a £10,000,000 revolving credit facility expiring December 2019 (2015 - £10,000,000) that attracts interest at 3.5% above Libor. (2015 – 2.9% above Libor).

In the period to 30 September 2016 loan repayments were £188,000 (2015 - £21,000).

The drawdown amount on the revolving credit facility amounted to £5,500,000 (2015 - £8,000,000) 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 2016 and 31 March 2016. 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	-	447	-	447
Total assets as at 30 September 2016	-	447	-	447
Liabilities				
Derivatives used for hedging	-	-	-	-
Total liabilities at 30 September 2016	-	-	-	-
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Assets				
Derivatives used for hedging	-	394	-	394
Total assets at 31 March 2016	-	394	-	394
Liabilities				
Derivatives used for hedging	-	(12)	-	(12)
Total liabilities at 31 March 2016	-	(12)	-	(12)

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 PER SHARE

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

	30 September 2016 (unaudited)	30 September 2015 (unaudited)	31 March 2016 (audited)
Loss per share from continuing operations attributable to the equity of the Company			
- basic	(6.89)p	(6.30)p	(27.87)p
- diluted	(6.89)p	(6.30)p	(27.87)p
- underlying	(5.17)p	(4.81)p	(13.02)p

11. DIVIDENDS

No interim dividend has been declared for the interim period ended 30 September 2016 (2015 - £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 £1,266,000 for the six months to 30 September 2016 (2015 - £1,573,000). Key management include directors and senior management within the organisation. For the period to 30 September 2016 there was a decrease in the salaries compared to the same period last year because of the changes made to the management of the European businesses in 2015.

	30 September 2016 (unaudited)	30 September 2015 (unaudited)	31 March 2016 (audited)
	£'000	£'000	£'000
Salaries and other short-term benefits	1,234	1,213	1,780
Other pension costs	61	166	172
Share-based payments	(29)	194	18
Redundancy and compensation for loss of office	-	-	544
	1,266	1,573	2,514
	=====	=====	=====

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, 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 been invoiced and paid £99,798 (2015 - £37,000) in relation to these services to 28One since 1 April 2016. No outstanding payments remained payable to 28One as at 30 September 2016 (2015 – £ nil). Hornby Hobbies Limited continues to use these services on an ongoing basis. 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 market conditions, delivery of the Turnaround Plan, exchange rates, supply chain, product compliance and liquidity. The disclosures on pages 11 and 12 of the Group's Annual report for the year ended 31 March 2016 provide a description of each risk along with the associated impact and mitigating actions. The issues surrounding supply chain, liquidity, exchange rates 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 2016 sales represented 39% of the annual sales for the year ended 31 March 2016 (2015 - 38% of the annual sales for the year ended 31 March 2015).

By order of the Board

Steve Cooke
Chief Executive
24 November 2016

David Mulligan
Group Finance Director