

28 November 2019

HORNBY ANNOUNCES INTERIM RESULTS

Hornby Plc ("Hornby"), the international hobby products Group, today announces its interim results for the six months ended 30 September 2019.

Interim Results Highlights

- Group revenue of £15.9 million (2018: £13.8 million) an increase of 15% on prior year
- Operating Group loss before tax* of £2.4 million (2018: loss of £3.0 million)
- Statutory loss before taxation for the period of £2.5 million (2018: loss of £3.2 million)
- Net debt of £8.4 million (2018: £1.8 million)

* Stated before exceptional items.

Lyndon Davies, Hornby Chief Executive, commented:

"Revenue is growing, losses are narrowing and we are shifting gears in our journey back to profitability and beyond".

-ends-

28 November 2019

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

INTERIM REPORT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

This update sets out our progress to date:

The Turnaround

Reflecting on the last couple of years has been a useful process. As you will see from all our updates; pulling the handbrake on discounting was much more painful than we expected and it is good to be through the worst of it now with trust returning, channels selling through on a more normal cadence and previous customers re-engaging.

Whilst sales are up materially from our trough year ended 31 March 2018, we must not pat ourselves on the back because we are still not standing on a platform of profitability. I believe the path we are travelling is correct and all our efforts are now on moving towards profitability and beyond.

As I said to you in the annual report, we have fixed the engine which is now purring nicely. Product development is staffed by a great mix of experienced and enthusiastic professionals and we are getting product to market when we want it. The thinking now is about tuning the engine and ideally adding a couple of superchargers.

The parts we have been working on recently are:

- How we can be more relevant to existing customers so that they buy even more of our wonderful products
- How we make sure both current and prospective customers are aware of and excited about our products
- How we recruit new customers and collectors

Routes to Market

We have been thinking a lot about how we reach customers. It has changed significantly over the last 20 years and I am not sure we have taken advantage of all the opportunities on offer.

Back in time when I was manufacturing products at Mettoy there were (by my approximate calculations) 44,000 toy & model shops in the country. Each shop would take 6 of each item we produced without much thought, and so manufacturing runs would sell out quickly and were normally well over 240,000 for each production run, making the cost per item very low and the return on the tooling very high; even if items didn't sell out. Most of those numbers have jumped to the other end of the spectrum now. We have very very few toy and model shops, manufacturing runs are orders of magnitude smaller and we have to be very smart and efficient to make good returns on the tooling capital expenditures we make.

The impact of online retail makes life very difficult for a lot of our physical retailers who are an important part of our supply chain. The internet enormously improves price transparency and so sales have become concentrated at a much smaller number of retailers, some of whom are willing to race to the bottom on price. This is the free market working and it is not something we will ever look to interfere with. In fact, we like customers being able to get our products at the lowest possible cost. What makes them happy, makes us happy.

What we have strived to do is provide a level playing field for all our retailers so that they can compete fairly. High retail standards, service and after sales support are very important to our customers and we want to make sure those retailers that invest in this side of the customer journey can survive. We are getting close to repairing that part of the strategy which looks to have created a more stable marketplace.

A more stable channel with happy retailers helps us organise our supply chain and keep our manufacturers happy. When our manufacturers are happy, we get products on time and keep our costs down. This is an equation we need to keep optimising forever, but we have made a lot of progress over the last couple of years.

Now we need to think more about investing in supporting the retail channels with some razor-sharp marketing. We must embrace the many cost-effective options that the new digital age presents as well as continuing to support traditional channels. Whilst the internet has caused our physical retailers some problems, we think it will become an important way for us to reach our customers and get them excited about our product pipeline. We want to engage more with our existing customers and recruit new ones.

An important part of this is our digital shop front. People can transact on our website, but we don't necessarily think that should be its primary purpose. It is the face of our business and we should put our best face forward. Just like a physical model shop, it should be a place where customers want to come to learn about our current and future products. It should be a rich platform for images and videos both generated by ourselves and our customers.

Online platforms are increasingly the place where our customers go to learn from each other and gain information about products in our industry. Again, like our physical shops, we think it is important to make sure people know it is there and that we provide a delightful platform which digital customers can enjoy hanging around.

As it currently stands, our digital shopfront has a lot of dusty old faded boxes in the window, a few cobwebs, can only handle a small amount of custom and has very little information or attractive merchandising. This is not a criticism of our current staff. It is a matter of resources and technical expertise. It needs a complete refurbishment.

We will need to invest in our digital platform to make sure we are generating demand for our products. This includes engagement with our customers through social media too. We need our digital presence to support our retailers and customers. Over time as we learn the best ways to do this, we think it will add a supercharger to the economic engine of the business and speed up our journey back to profitability.

Overheads

Kirstie, our Chief Financial Officer, has spent a great deal of time working with our significant suppliers to develop the best long-term future for our needs in the UK and Europe. There is lots of technology we can use to help our hardworking staff become more efficient and Kirstie is exploring the best ways to do this. I have enormous confidence that our suppliers will continue to get more efficient.

International & Product Development

Our COO, Tim Mulhall, has been managing our international brands which, if you were judging by peak to trough, has undergone the most difficult transformation of any of our business units. The job which Tim took on in this respect was incredibly difficult. He is managing multiple brands, across multiple countries in multiple languages with significantly lower order quantities per item and much larger and well organised competitors in Europe. Put simply, he must work twice as hard to get the same return on tooling expenditures.

Tim has spent a great deal of time putting vital people and infrastructure back in place. These things were needed to engage with retailers and get our products on the shelves that matter. With help from our new local experts in each of our international brands, he has put the previously non-existent pipeline of new products back together too.

It has taken a mammoth effort from Tim and his team, but they are just at the start of monetising all that hard work. Since the trough was lower for the international business as they were being fixed, we are cautiously optimistic about the potential that remains to be tapped in our international brands. We have some incredible international brands with decades of heritage. We stand on the shoulders of giants like Mr. Jaime Gonzalez Forellach, who created Electrotren and unfortunately passed away at the start of October, to his family I say - te doy mi más sentido pésame.

Marketing and Product Development

Simon Kohler our Marketing & Product Development Director has worked tirelessly to stabilise the Hornby and Scalextric brands. These are our biggest brands, but they are also under the most pressure as competitors tend to go after the best bits first.

Simon is customer obsessed and has travelled extensively across our key markets, both domestically and internationally, not only delivering the message of what is happening at Hornby, but also listening and learning. The insight he comes back with allows us to stay close to what our customers are asking for. It gives us the confidence to take the right risks and the insight to protect against competitive threats.

It has been a long and difficult process, but Simon has now put in the structure and talent that allows us to plan well into the future for these brands. It takes time to develop new ideas, figure them out technically and then wrap the right marketing around them. The plan is to bring these brands into the 21st Century whilst celebrating the heritage.

Outlook

We are heading into our key Christmas trading period and so it is difficult to tell what the outcome will be for the full year results at the moment. Our sales continue to be above where they were last year but the last few years of general retail data shows that customers are leaving gift buying later and later each year as delivery companies and online retailers improve their services. I don't have a crystal ball but what I can promise shareholders is that we will hurry towards profitability as quickly as we can. I will provide a more comprehensive analysis of the year and our KPIs in our final results announcement next year.

Financial review

Performance

Group revenue for the six months to September 2019 of £15.9 million was 15% higher than the prior year (2018:£13.8 million). The gross margin for the period was 41% (2018: 39%), which is an improvement on prior year and reflects the cessation of discounting stock to achieve sales and improved production processes.

Underlying overheads increased year-on-year from £8.5 million to £9.1m, or by 8% reflecting an increase in investment in R&D and new product development across the brands and the net impact of applying IFRS 16 for the first time of £0.1m. Foreign exchange gains on trading transactions in

the period totalled £0.01 million compared to gains of £0.1 million in the previous year.

The operating loss before exceptional costs (including IFRS 16) for the six months to September 2019 was £2.5 million, compared to a loss of £3.0 million for the same period last year. This improvement was largely due to the year on year increase in sales and gross margin noted above offset by the impact of slightly higher overheads.

Exceptional costs during the first half year were £0.02 million (2018: £0.2 million) and these comprised one off legal expenses.

Group loss before tax was £2.8 million (2018: loss of £3.2 million). The basic loss per share was 2.18p (2018: loss per share of 2.58p).

Segmental analysis

Third party revenue for the UK business increased by 4% in the period and generated an underlying loss before taxation of £2.2 million compared to £2.5 million loss last year. Revenue for the first half of 2019 has increased compared with the same period last year due to the work invested in creating desirable products and receiving them on time from suppliers.

The International segment revenue increased by 63% in the period and generated an underlying loss of £0.5 million (2018: £0.7m loss). Increase in revenue is due to the time and effort invested in creating suitable products for the International markets and the work carried out by Tim Mulhall as mentioned earlier.

Balance sheet

Group inventories increased during the period by 36% from £10.9 million at March 2019 to £14.8 million due to seasonal build-up of stock in the lead-up to the busy Christmas trading period plus improved delivery timescales from suppliers.

Trade & other receivables and trade & other payables are higher than the start of the year due to seasonality of the business but both are in line with the same time in previous year.

Investment in new tooling, new computer software and other capital expenditure was £1.2 million (2018: £1.1 million) reflecting the increased focus on getting new tooling into the product range.

Capital structure

There was an increase in net debt compared to 31 March 2019. The period end net debt balance stood at £8.4 million, from £1.7 million of net debt at the end of the last financial year. This is due to spending on stocks and tooling ahead of Christmas trading and 2020 Line Plans and is in line with budgets.

Banking facilities

At 30 September 2019 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 2.53.0% over LIBOR. The PNC Facility has a fixed and floating charge on the assets of the Group. The Company provide 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

for the six months ended 30 September 2019

	Notes	Six months to 30 September 2019 (unaudited) £'000	Six months to 30 September 2018 (unaudited) £'000	Year to 31 March 2019 (audited) £'000
REVENUE	4	15,862	13,801	32,759
Cost of Sales		(9,376)	(8,424)	(19,348)
GROSS PROFIT		6,486	5,377	13,411
Distribution costs		(2,732)	(3,032)	(6,177)
Selling and marketing costs		(3,435)	(3,162)	(6,826)
Administrative expenses		(2,926)	(2,256)	(4,812)
Other operating expenses		126	35	(226)
OPERATING LOSS BEFORE EXCEPTIONAL		(2,481)	(3,038)	(4,630)
Exceptional Items		(24)	(184)	(593)
OPERATING LOSS		(2,505)	(3,222)	(5,223)
Finance income		-	5	7
Finance costs		(253)	(65)	(177)
Net finance costs		(253)	(60)	(170)
Share of profit of investments accounted for using the equity method		48	48	81
LOSS BEFORE TAXATION	4	(2,710)	(3,234)	(5,312)

Taxation	10	-	-	-
LOSS FOR THE PERIOD AFTER TAXATION		(2,710)	(3,234)	(5,312)
OTHER COMPREHENSIVE INCOME/(LOSS) <i>(Items that may be classified subsequently to profit and loss)</i>				
Cash flow hedges, net of tax		654	558	292
Currency translation differences		(215)	(87)	(45)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX		439	471	247
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(2,271)	(2,763)	(5,065)
LOSS PER ORDINARY SHARE				
Basic		(2.18)p	(2.58)p	(4.24)p
Diluted		(2.18)p	(2.58)p	(4.24)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 2019

		Six months to 30 September 2019 (unaudited)	Six months to 30 September 2018 (unaudited)	Year to 31 March 2019 (audited)
	Notes	£'000	£'000	£'000
ASSETS				
NON-CURRENT ASSETS				
Goodwill	5	4,564	4,564	4,563
Intangible assets	5	2,987	3,111	3,190
Property, Plant and equipment	5	3,615	4,026	3,783
Right of Use Lease Asset	6	2,437	-	-
Investments		1,745	1,663	1,696
Deferred income tax assets		2,030	2,030	2,030
		17,378	15,394	15,262
CURRENT ASSETS				
Inventories		14,804	12,222	10,860
Trade and other receivables		7,735	6,574	7,180
Derivative financial instruments	9	523	154	25
Cash and cash equivalents		769	637	704
		23,831	19,587	18,769
LIABILITIES				
CURRENT LIABILITIES				
Borrowings	8	(3,487)	(2,420)	(1,893)
Derivative financial instruments	9	-	(19)	(156)
Trade and other payables		(5,906)	(4,291)	(5,472)
Lease Liabilities	6	(610)	-	-
		(10,003)	(6,730)	(7,521)
NET CURRENT ASSETS				
		13,828	12,857	11,248
NON-CURRENT LIABILITIES				
Borrowings	8	(5,666)	-	(561)
Lease Liabilities	6	(1,862)	-	-
Deferred tax liabilities		(150)	(150)	(150)
		(7,678)	(150)	(711)
NET ASSETS				
		23,528	28,101	25,799
SHAREHOLDERS' EQUITY				
Share capital	7	1,253	1,253	1,253
Share premium		38,587	38,587	38,587
Capital redemption reserve		55	55	55
Translation reserve		(1,685)	(1,512)	(1,470)
Hedging reserve		523	135	(131)
Other reserves		1,688	1,688	1,688
Retained earnings		(16,893)	(12,105)	(14,183)
		23,528	28,101	25,799

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 2019

	Share capital (unaudited)	Share premium (unaudited)	Capital redemption reserve (unaudited)	Translation reserve (unaudited)	Hedging reserve (unaudited)	Other reserves (unaudited)	Retained earnings (unaudited)	Total equity (unaudited)
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	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 April 2019	1,253	38,587	55	(1,470)	(131)	1,688	(14,183)	25,799
Loss for the period	-	-	-	-	-	-	(2,710)	(2,710)
Other comprehensive income/(loss) for the period	-	-	-	(215)	654	-	-	439
Total comprehensive loss for the period	-	-	-	(215)	654	-	(2,710)	(2,271)
Balance at 30 September 2019	1,253	38,587	55	(1,685)	523	1,688	(16,893)	23,528
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)
Balance at 30 September 2018	1,253	38,587	55	(1,512)	135	1,688	(12,105)	28,101

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 2019

	Six months to 30 September 2019 (unaudited) £'000	Six months to 30 September 2018 (unaudited) £'000	Year to 31 March 2019 (audited) £'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash utilised in operations	(4,695)	(4,560)	(2,805)
Interest paid	(253)	(65)	(116)
Net cash utilised in operating activities	(4,948)	(4,625)	(2,921)
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(1,123)	(947)	(2,144)
Purchase of intangible assets	(108)	(107)	(512)
Interest received	1	5	7
Net cash utilised in investing activities	(1,230)	(1,049)	(2,649)
CASH FLOW FROM FINANCING ACTIVITIES			
Net proceeds from ABL facility	1,594	2,420	1,893
Proceeds from shareholder loan	5,105	-	500
Payment of lease liability	(477)	-	-
Net cash generated from financing activities	6,222	2,420	2,393
Net decrease in cash and cash equivalents	44	(3,254)	(3,177)
Cash, cash equivalents and bank overdrafts at beginning of period	704	3,878	3,878
Effect of exchange rate movements	21	13	3
CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS AT END OF PERIOD	769	637	704

CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS CONSIST OF:			
Cash and cash equivalents	<u>769</u>	<u>637</u>	<u>704</u>
CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS AT END OF PERIOD	<u>769</u>	<u>637</u>	<u>704</u>

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 2019

Cash flows from operating activities

	Six months to 30 September 2019 (unaudited) £'000	Six months to 30 September 2018 (unaudited) £'000	Year to 31 March 2019 (audited) £'000
Loss before taxation	(2,710)	(3,234)	(5,312)
Interest payable	253	65	177
Interest receivable	(1)	(5)	(7)
Share of profit of associate	(48)	(48)	(81)
Amortisation of intangible assets	311	364	690
Depreciation	1,295	1,400	2,846
Depreciation on Right of Use Asset	429	-	-
Loss on disposal of property, plant and equipment	-	-	1
(Increase)/decrease in inventories	(3,830)	(2,117)	(750)
(Increase)/decrease in trade and other receivables	(783)	(397)	(1,163)
(Decrease)/increase in trade and other payables	<u>389</u>	<u>(588)</u>	<u>794</u>
CASH UTILISED IN OPERATIONS	<u>(4,695)</u>	<u>(4,560)</u>	<u>(2,805)</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 Enterprise Road, Westwood Industrial Estate, Margate, CT9 4JX. 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 30 October 2019.

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 2019 were approved by the Board of Directors on 12 June 2019 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 2019 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 2019 which have been prepared in accordance with IFRSs as adopted by the European Union.

The amendments relating to the IFRS 16 'Leases' standard are mandatory for the first time for the financial year beginning 1 April 2019. Please see note 6 for further information.

3. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 March 2019, 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 and IFRS 16 as detailed in note 6.

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 2019.

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 2019.

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 2019. Further details of the Group's financial instruments are set out within note 9 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 £'000	USA £'000	Spain £'000	Italy £'000	Rest of Europe £'000	Total Reportable Segments £'000
Six months ended 30 September 2019 (unaudited)						
Total revenue	13,529	1,586	511	637	1,314	17,577
Inter-segment revenue	(1,715)	-	-	-	-	(1,715)
Revenue (from external customers)	11,814	1,586	511	637	1,314	15,862
Operating loss before exceptionals	(1,966)	(457)	(23)	(16)	(19)	(2,481)
Exceptionals	(24)	-	-	-	-	(24)
Operating loss	(1,990)	(457)	(23)	(16)	(19)	(2,505)
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)
Exceptionals	(184)	-	-	-	-	(184)
Operating loss	(2,530)	(461)	(69)	(74)	(88)	(3,222)

	Six months to 30 September 2019 (unaudited) £'000	Six months to 30 September 2018 (unaudited) £'000	Year to 31 March 2019 (audited) £'000
Exceptional items comprise:			
Restructuring costs	-	10	49
Refinancing costs	-	174	172
Legal costs	24	-	372
	24	184	593

5. TANGIBLE AND INTANGIBLE ASSETS AND GOODWILL

The additions comprise new product tooling (£1,085,000), property, plant and equipment (£34,000) and intangible assets - computer software (£108,000).

The Group has again performed impairment reviews as at 30 September 2019 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 2019 have remained constant with the impairment reviews conducted in March 2019.

Tangible and intangible assets and goodwill (unaudited)	Six months ended 30 September 2019	Six months ended 30 September 2018
	£'000	£'000
Opening net book amount 1 April 2018 and 1 April 2017	11,536	12,421
Exchange adjustment	5	2
Additions	1,231	1,054
Disposals	-	-
Depreciation, amortisation and impairment	(1,606)	(1,776)
Closing net book amount 30 September 2019 and 30 September 2018	11,166	11,701
	2019	2018
CAPITAL COMMITMENTS	(unaudited)	(unaudited)
	£'000	£'000
At 30 September commitments were:		
Contracted for but not provided for	1,709	813

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

6. IFRS 16 'LEASES' ACCOUNTING POLICY, INITIAL APPLICATION AND 2019 IMPACT

IFRS 16, which was endorsed by the EU on 9 November 2017, provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 supersedes the current lease guidance including IAS 17 Leases and the related interpretations and became effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Group is 1 April 2019.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and are replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The lease liability is measured initially at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. The Group has chosen to value the opening right-of-use asset at the same amount as the lease liability as allowed by IFRS 16. Furthermore, the classification of cash flows is also affected because operating leases under IAS 17 are presented as operating cash flows, whereas under the IFRS 16 model, the lease payments are split into a principal and interest portion, which is presented as operating and financing cash flows respectively.

All of the Group's leasing arrangements have been reviewed in light of the new rules in IFRS 16 and they will primarily affect the accounting for the Group's operating leases. The Group has adopted IFRS 16 from 1 April 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, at the lessee's incremental borrowing rate. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 6%.

As at the 1 April 2019, the Group had non-cancellable operating lease commitments of £3.7 million. The Group recognised right-of-use assets of £2.9 million on 1 April 2019 and lease liabilities of £2.9 million, overall there was a £nil impact on net assets. The net impact on retained earnings was £nil.

	£'000
Operating lease commitments disclosed under IAS 17 at 1 April 2019	(3,692)
Discounted using the lessee's incremental borrowing rate of 6%	852
FX adjustments	(25)
Lease liability at 1 April 2019	(2,865)

The movement in the lease liability in the period is as follows:

	£'000
Lease liability	
Lease liability at 1 April 2019	2,865
Additions	3
Interest	81
Lease payments	(477)
Lease liability at 30 September 2019	2,472

Right of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 March 2019

The recognised right-of-use assets relate to the following type of assets:

	30 September	1 April
	2019	2019
	£'000	£'000
Property	2,371	2,760
Motor vehicles and equipment	66	105

Total	2,437	2,865
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The movement in the right-of-use asset in the period is as follows:

Right of use asset	£'000
Lease liability at 1 April 2019	2,865
Additions	1
Depreciation	(429)
Lease liability at 30 September 2019	2,437

7. SHARE CAPITAL

At 31 March 2019 and 30 September 2019 the Group had 125,261,172 ordinary 1p shares in issue with nominal value £1,252,617 (2018 - £1,252,617).

No employee share options were exercised during the first half to 30 September 2019 (2018 - £nil). No employee share option schemes were in place between 1 April and 30 September 2019.

8. BORROWINGS

	30 September 2019 (unaudited) £'000	30 September 2018 (unaudited) £'000	31 March 2019 (audited) £'000
SECURED BORROWING AT AMORTISED COST			
Asset Based Lending facility	3,487	2,420	1,893
Stakeholder loan	5,666	-	561
	9,153	2,420	2,454
Total borrowings			
Amount due for settlement within 12 months	3,487	2,420	1,893
Amount due for settlement after 12 months	5,666	-	561
	9,153	2,420	2,454

At 30 September 2019 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 2.53.0% 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 2019 loan repayments were £nil (2018 - £nil).

9. FINANCIAL INSTRUMENTS

The following tables present the Group's assets and liabilities that are measured at fair value at 30 September 2019 and 31 March 2019. 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	-	523	-	523
Total assets as at 30 September 2019	-	523	-	523
Liabilities				
Derivatives used for hedging	-	-	-	-
Total liabilities at 30 September 2019	-	-	-	-
	Level 1	Level 2	Level 3	Total

	£'000	£'000	£'000	£'000
Assets				
Derivatives used for hedging	-	25	-	25
Total assets at 31 March 2019	-	25	-	25
Liabilities				
Derivatives used for hedging	-	(156)	-	(156)
Total liabilities at 31 March 2019	-	(156)	-	(156)

10. 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.

11. (LOSS)/EARNINGS PER SHARE

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

	30 September 2019 (unaudited)	30 September 2018 (unaudited)	31 March 2019 (audited)
Loss per share from continuing operations attributable to the equity of the Company			
- basic	(2.18)	(2.58)p	(4.24)p
- diluted	(2.18)	(2.58)p	(4.24)p

12. DIVIDENDS

No interim dividend has been declared for the interim period ended 30 September 2019 (2018 - £nil).

13. 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.

14. RELATED-PARTY TRANSACTIONS

Key management compensation amounted to £498,000 for the six months to 30 September 2019 (2018 - £541,000). Key management include directors and senior management. For the period to 30 September 2019 there was a decrease compared to the same period last year because of the reduction in number of Non-executive directors on the Board.

	30 September 2019 (unaudited) £'000	30 September 2018 (unaudited) £'000	31 March 2019 (audited) £'000
Salaries and other short-term benefits	482	525	910
Other pension costs	16	16	33
	498	541	943

Hornby Hobbies Limited purchased £8,316 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 interest and non-utilisation fees of £105,000 were accrued and remain unpaid at 30 September 2019.

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.

15. 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 10 and 11 of the Group's Annual report for the year ended 31 March 2019 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.

16. SEASONALITY

Sales are subject to seasonal fluctuations, with peak demand in the October - December quarter. For the six months ended 30 September 2019 sales represented 48 per cent of the annual sales for the year ended 31 March 2019 (2018 - 39 per cent of the annual sales for the year ended 31 March 2018).

17. SUBSEQUENT EVENTS

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

By order of the Board

Lyndon Davies
Chief Executive
27 November 2019

Kirstie Gould
Chief Finance Officer

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