# HORNBY PLC INTERIM REPORT

CONDENSED CONSOLIDATED
HALF-YEARLY FINANCIAL REPORT
SIX MONTHS TO 30 SEPTEMBER 2009

# Interim Management Report

The period under review has continued to be challenging, yet the outlook for the Group remains positive.

We have made good progress in improving control over our supply chain arrangements. The positive effects of the changes we have made are now being felt. The Group has felt the impact of Sterling weakness but we have limited our forward exposure to foreign exchange movements by currency hedging. Our strategy to broaden our portfolio of hobby brands has given us defensive qualities, at a time when consumer demand has remained fragile. The Board is confident that the worst is now behind us and that we have established a solid platform from which we can grow our business.

## FINANCIALS

During the period, turnover was £25.5 million, an increase of 5% compared to the corresponding period last year. This performance is creditable against a background of a weak global economy and the legacy of disruption to our supply chain. Cash generation was strong and net debt reduced to £14.7 million compared to £17.1 million a year ago. The Group has committed banking facilities of £22.0 million via a five year term loan and a three year revolving credit facility. Operating margins and pre-tax profit have come under pressure, primarily as a result of the weakness of Sterling versus the US and Hong Kong Dollar. As a result of these currency effects and higher ex factory prices our landed costs have increased at a faster rate than we have been able to increase our selling prices. The increase in other operating expenses of £1.2 million compared to the corresponding period last year reflects the adverse exchange rate impact. Pre-tax profit before amortisation of intangibles and net foreign exchange adjustments on intercompany loans (hereafter referred to as underlying pre-tax profits) has therefore reduced to £1.0 million compared to £2.0 million. Statutory pre-tax profit has reduced to £0.7 million compared to £1.8 million. The effects of the weaker Sterling/Dollar rate will continue to be felt during the second half of the current financial year. Looking ahead, we expect to benefit from forward currency purchases at improved exchange rates during the year ending March 2011.

## DIVIDEND

Whilst our balance sheet strength has improved considerably, the Group's profit and cash generation potential has continued to be affected adversely by the weaker Sterling/Dollar exchange rate. The Board has therefore decided not to declare an interim dividend this year (2008 - 2.7p). However it is the Board's intention to return to a progressive dividend payment policy as soon as possible.

## SUPPLY CHAIN

In my report of 11 June 2009, I said that a key focus for management would be to resolve the issues relating to our supply chain. The Group continued to experience disruption following the acquisition in January 2009 of our primary supplier, Sanda Kan, by Kader Holdings, a Hong Kong based company. I am pleased to report that we have diversified our model railway manufacturing base to reduce overall dependence upon a single source. At the same time, we have established an excellent relationship with Kader, such that both parties recognise the long term benefits of working closely together. We now have much greater clarity on the management of the supply chain processes and the volume of shipments from China has been increasing on a weekly basis. This leaves us well placed as we enter the Christmas trading period.

## OPERATING REVIEW

The Group has made encouraging progress to drive the potential within our brands. In particular Airfix and Corgi have performed well in the first half of the financial year. We have also seen encouraging sales growth in Continental Europe. Sales through our chain of over 130 concessions in the UK and through our internet sites have been very encouraging, confirming the continued appeal of our products to the end consumer. Looking forward, we recognise that the consumer environment is likely to continue to be difficult. Therefore we have taken actions to adapt our product ranges to ensure that they are pitched at attractive price points.

# Interim Management Report (continued)

**UK**

In the UK, turnover of £18.0 million was 1.5% higher than the same period last year. Corgi and Airfix have performed well whilst model railway and Scalextric sales fell. This is largely a result of retailers delaying taking inventory ahead of the Christmas period. We are now beginning to see an improvement in year on year orders received. Sales of Scalextric sets priced at the top and lower ends of our range remained robust whilst demand for sets priced in the middle of the range was more muted. We anticipated this trend and we have introduced several new Micro Scalextric sets that have proved popular. In particular the Micro Scalextric 'Need for Speed' and Disney's 'Cars' sets are selling very well.

The recent success of the Brawn Formula One team and Jenson Button's World Championship victory are expected to provide a significant boost to the sales of Scalextric and Micro Scalextric. Hornby holds the exclusive worldwide license to produce slot racing products featuring the Brawn team and Jenson Button. The first products carrying this license will be available in time for Christmas 2009.

Our in-store concessions have continued to deliver excellent sales volumes. This demonstrates that when our products are stocked in depth and displayed well we are able to generate strong consumer demand.

**ITALY**

Turnover in Hornby Italia of £2.3 million was 55% higher than the same period last year. This figure includes sales to the Italian market and also sales to third party distributors. This strong performance reflects improvements in the supply chain performance and growing demand for our products in Italy.

**REST OF CONTINENTAL EUROPE**

Our model train operations have also continued to grow in the rest of Continental Europe. Turnover of £4.0 million was 10% above the corresponding period last year, despite the fact that volumes have continued to be impacted by the legacy of supply chain constraints. With these issues now under control, I am confident that our sales in this region will begin to fulfil their true potential. Our major competitors in Continental Europe have continued to suffer from structural difficulties caused by high local manufacturing costs. The market remains fragmented and there is a significant opportunity for Hornby to improve its position in these markets, especially in Germany.

**USA**

Turnover of £1.1 million was 15% below the same period last year as demand in the US economy continues to be depressed. During the current economic conditions the emphasis will be on the tight control of overheads and cash generation.

**CURRENT TRADING**

Current trading continues to be challenging, but we have the right products and the right distribution network to maximise our performance during these difficult times. Looking to the future, we have an excellent platform from which we can capitalise on the opportunities to drive improvements in performance over the medium term.

A key highlight over the period was the award of the license to produce a wide range of merchandise across our brands for the London 2012 Olympics. We expect this to be a significant opportunity for the Group. The first product in this range, a limited edition of the 'London-Beijing-London handover bus', has recently been launched. This will be followed by collectible ranges across all of our UK brands during 2010.

**OUTLOOK**

After a series of recent challenges, the outlook for Hornby is positive. We have reduced net debt and are focused on cash generation whilst also rebuilding profitability and shareholder value. Our brands are well positioned and enjoy an enduring popularity in their markets. With the effects of our supply chain issues now receding, the Board remains confident in the prospects for the year.

**NEIL A JOHNSON**
Chairman
13 November 2009

# Statement of Comprehensive Income

for the six months ended 30 September 2009

| | Notes | Six months to 30 September 2009 (unaudited) £'000 | Six months to 30 September 2008 (unaudited) £'000 | Twelve months to 31 March 2009 (audited) £'000 |
|---|---|---|---|---|
| REVENUE | 4 | 25,455 | 24,191 | 61,569 |
| Cost of sales | | (12,474) | (11,900) | (32,168) |
| GROSS PROFIT | | 12,981 | 12,291 | 29,401 |
| Distribution costs | | (1,089) | (994) | (2,454) |
| Selling and marketing costs | | (5,881) | (5,565) | (13,641) |
| Administrative expenses | | (3,742) | (3,594) | (7,976) |
| Other operating (expenses)/income | | (1,148) | 40 | 1,569 |
| OPERATING PROFIT | | 1,121 | 2,178 | 6,899 |
| Finance income | | 2 | 22 | 27 |
| Finance costs | | (380) | (391) | (805) |
| PROFIT BEFORE TAXATION | 4 | 743 | 1,809 | 6,121 |
| Analysed as: | | | | |
| Underlying profit before taxation | | 1,013 | 2,031 | 6,331 |
| Net foreign exchange impact on intercompany loans | | (73) | (57) | 535 |
| Amortisation of intangible assets | | (197) | (165) | (370) |
| Restructuring and abortive due diligence costs | | - | - | (375) |
| PROFIT BEFORE TAXATION | 4 | 743 | 1,809 | 6,121 |
| Taxation | 8 | (328) | (633) | (1,909) |
| PROFIT FOR THE PERIOD AFTER TAXATION | | 415 | 1,176 | 4,212 |
| OTHER COMPREHENSIVE INCOME | | | | |
| Cash flow hedges, net of tax | | 183 | 138 | (813) |
| Currency translation differences | | 14 | (114) | (336) |
| OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX | | 197 | 24 | (1,149) |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | | 612 | 1,200 | 3,063 |
| EARNINGS PER ORDINARY SHARE | | | | |
| Basic | | 1.10p | 3.12p | 11.17p |
| Diluted | | 1.08p | 3.06p | 10.98p |

All of the activities of the Group are continuing.

The notes on pages 8 to 14 form an integral part of this condensed consolidated half-yearly financial information.

# Balance Sheet
as at 30 September 2009

| | Notes | 30 September 2009 (unaudited) £'000 | 30 September 2008 (unaudited) £'000 | 31 March 2009 (audited) £'000 |
|---|---|---|---|---|
| ASSETS | | | | |
| NON-CURRENT ASSETS | | | | |
| Goodwill | | 13,548 | 12,785 | 13,624 |
| Intangible assets | | 5,468 | 5,627 | 5,689 |
| Property, plant and equipment | | 10,774 | 10,391 | 10,523 |
| Deferred income tax assets | | 101 | 91 | 67 |
| | | 29,891 | 28,894 | 29,903 |
| CURRENT ASSETS | | | | |
| Inventories | | 17,426 | 16,214 | 14,368 |
| Trade and other receivables | | 15,072 | 15,554 | 13,119 |
| Current tax assets | | 236 | - | 124 |
| Cash and cash equivalents | | 1,241 | 368 | 427 |
| | | 33,975 | 32,136 | 28,038 |
| TOTAL ASSETS | | 63,866 | 61,030 | 57,941 |
| SHAREHOLDERS' EQUITY | | | | |
| Share capital | 6 | 381 | 380 | 380 |
| Share premium | | 5,340 | 5,278 | 5,278 |
| Capital redemption reserve | | 55 | 55 | 55 |
| Translation reserve | | (519) | (311) | (533) |
| Hedging reserve | | (497) | 271 | (680) |
| Other reserves | | 1,688 | 1,688 | 1,688 |
| Retained earnings | | 26,074 | 23,224 | 25,366 |
| TOTAL EQUITY | | 32,522 | 30,585 | 31,554 |
| LIABILITIES | | | | |
| NON-CURRENT LIABILITIES | | | | |
| Borrowings | 7 | 11,594 | 8,259 | 7,181 |
| Deferred tax liabilities | | 328 | 403 | 301 |
| | | 11,922 | 8,662 | 7,482 |
| CURRENT LIABILITIES | | | | |
| Borrowings | 7 | 4,299 | 9,198 | 5,138 |
| Derivative financial instruments | | 3,923 | 1,276 | 3,960 |
| Trade and other payables | | 10,171 | 9,688 | 8,270 |
| Provisions | | 484 | 469 | 538 |
| Current tax liabilities | | 545 | 1,152 | 999 |
| | | 19,422 | 21,783 | 18,905 |
| TOTAL LIABILITIES | | 31,344 | 30,445 | 26,387 |
| TOTAL EQUITY AND LIABILITIES | | 63,866 | 61,030 | 57,941 |

The notes on pages 8 to 14 form an integral part of this condensed consolidated half-yearly financial information.

# Statement of Changes in Equity

for the six months ended 30 September 2008 and 30 September 2009

| | 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) |
|---|---|---|---|---|---|---|---|---|
| GROUP | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Balance at 1 April 2008 | 380 | 5,278 | 55 | (197) | 133 | 1,688 | 24,125 | 31,462 |
| Exchange adjustment offset in reserves | - | - | - | (114) | - | - | - | (114) |
| Cash flow hedges | - | - | - | - | 138 | - | - | 138 |
| Net (expense)/income recognised directly in reserves | - | - | - | (114) | 138 | - | - | 24 |
| Profit for the period | - | - | - | - | - | - | 1,176 | 1,176 |
| Total recognised (expense) /income for the period | - | - | - | (114) | 138 | - | 1,176 | 1,200 |
| Share-based payments | - | - | - | - | - | - | 124 | 124 |
| Purchase of own shares by Short Term Incentive Plan | - | - | - | - | - | - | (284) | (284) |
| Shares vested from Short Term Incentive Plan | - | - | - | - | - | - | 270 | 270 |
| Dividends | - | - | - | - | - | - | (2,187) | (2,187) |
| | - | - | - | - | - | - | (2,077) | (2,077) |
| Balance at 30 September 2008 | 380 | 5,278 | 55 | (311) | 271 | 1,688 | 23,224 | 30,585 |
| Balance at 1 April 2009 | 380 | 5,278 | 55 | (533) | (680) | 1,688 | 25,366 | 31,554 |
| Exchange adjustment offset in reserves | - | - | - | 14 | - | - | - | 14 |
| Cash flow hedges | - | - | - | - | 183 | - | - | 183 |
| Net income recognised directly in reserves | - | - | - | 14 | 183 | - | - | 197 |
| Profit for the period | - | - | - | - | - | - | 415 | 415 |
| Total recognised income for the period | - | - | - | 14 | 183 | - | 415 | 612 |
| Issue of shares | 1 | 62 | - | - | - | - | - | 63 |
| Share-based payments | - | - | - | - | - | - | 122 | 122 |
| Shares vested from Short Term Incentive Plan | - | - | - | - | - | - | 171 | 171 |
| | 1 | 62 | - | - | - | - | 293 | 356 |
| Balance at 30 September 2009 | 381 | 5,340 | 55 | (519) | (497) | 1,688 | 26,074 | 32,522 |

*Retained earnings includes amounts that are not distributable including £664,000 at 30 September 2009 (2008 - £681,000) that relates to a 1986 revaluation of land and buildings.

# Cash Flow Statement

for the six months ended 30 September 2009

| | Six months to 30 September 2009 (unaudited) £'000 | Six months to 30 September 2008 (unaudited) £'000 | Twelve months to 31 March 2009 (audited) £'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash generated from/(utilised in) operations | 140 | (967) | 11,377 |
| Interest received | 2 | 22 | 27 |
| Interest paid | (380) | (391) | (805) |
| Tax paid | (901) | (1,330) | (2,594) |
| Net cash (utilised in)/generated from operating activities | (1,139) | (2,666) | 8,005 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of trade assets and related costs | - | (8,495) | (8,495) |
| Proceeds from sale of property, plant and equipment | 1 | 2 | 2 |
| Purchase of property, plant and equipment | (1,880) | (2,173) | (4,763) |
| Net cash utilised in investing activities | (1,879) | (10,666) | (13,256) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issuance of ordinary shares | 63 | - | - |
| Proceeds of loans | 3,873 | 8,700 | 8,684 |
| Purchase of own shares by Short Term Incentive Plan | - | (284) | (284) |
| Finance lease capital payments | (9) | (8) | (19) |
| Dividends paid to Company's shareholders | - | (2,187) | (3,205) |
| Net cash generated from financing activities | 3,927 | 6,221 | 5,176 |
| Effect of exchange rate movements | 195 | 133 | (1,717) |
| Net increase/(decrease) in cash and cash equivalents | 1,104 | (6,978) | (1,792) |
| Cash, cash equivalents and bank overdrafts at beginning of the period | (3,060) | (1,268) | (1,268) |
| CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS AT END OF PERIOD | (1,956) | (8,246) | (3,060) |
| CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS CONSIST OF: | | | |
| Cash and cash equivalents | 1,241 | 368 | 427 |
| Bank overdrafts | (3,197) | (8,614) | (3,487) |
| CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS AT END OF PERIOD | (1,956) | (8,246) | (3,060) |

The notes on pages 8 to 14 form an integral part of this condensed consolidated half-yearly financial information.

# Notes to the Cash Flow Statement

**Cash flows from operating activities**

| | Six months to 30 September 2009 (unaudited) | Six months to 30 September 2008 (unaudited) | Twelve months to 31 March 2009 (audited) |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Profit before taxation | 743 | 1,809 | 6,121 |
| Interest payable | 380 | 391 | 805 |
| Interest receivable | (2) | (22) | (27) |
| Amortisation of intangible assets | 197 | 165 | 370 |
| Depreciation | 1,763 | 1,528 | 4,315 |
| (Profit)/loss on disposal of tangible fixed assets | (1) | 21 | 25 |
| Share-based payments | 122 | 124 | 224 |
| Loss/(gain) on financial derivatives | 80 | (36) | 6 |
| (Decrease)/increase in provisions | (54) | (31) | 38 |
| Increase in inventories | (3,058) | (3,731) | (1,735) |
| Increase in trade and other receivables | (1,714) | (4,275) | (2,535) |
| Increase in trade and other payables | 1,684 | 3,090 | 3,770 |
| CASH GENERATED FROM/ (UTILISED IN) OPERATIONS | 140 | (967) | 11,377 |

# Notes To Condensed Consolidated Half-Yearly Financial Report

## 1. GENERAL INFORMATION

The Company is a limited liability company incorporated and domiciled in the UK. The address of the registered office is Westwood, Margate, Kent CT9 4JX.

The Company has its primary listing on the London Stock Exchange and is registered in England No. 01547390.

This condensed consolidated half-yearly financial information was approved for issue on 13 November 2009.

These interim financial results do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2009 were approved by the Board of Directors on 11 June 2009 and delivered to the Registrar of Companies. The Report of the Auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 237 of the Companies Act 1985.

### 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 have been 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 2009 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and 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 2009 which have been prepared in accordance with IFRSs as adopted by the European Union.

# Notes (continued)

## 3. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 March 2009, as described in those annual financial statements.

### Adoption of new and revised standards

The following new standards and amendments to standards are mandatory for accounting periods beginning on or after 1 January 2009:

- IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement.

  Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

  The Group has elected to present one statement: a statement of comprehensive income. The interim statements have been prepared under the revised disclosure requirements.

- IFRS 8, 'Operating segments'. IFRS 8 replaces IAS 14, 'Segment reporting'. It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented, as the previously reported rest of Europe segment has been split into Italy and rest of Europe segments.

  Other segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board that makes strategic decisions.

- IFRS 2 (amendment) 'Share-based payment'. This revision of an existing standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions.

The following interpretation to published standards is mandatory for accounting periods beginning on or after 1 January 2009 but is not relevant to the Group's operations:

| | |
|---|---|
| IFRIC 13 | Customer loyalty programmes |
| IFRIC 15 | Agreements for the construction of real estate |
| IFRIC 16 | Hedges of a net investment in a foreign operation |
| IAS 39 (amendment) | Financial instruments: Recognition and measurement |

There has been no impact on the measurement of the Group's assets and liabilities. Comparatives for 2008 have been restated.

### Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published, but the Group has not early adopted them:

| | |
|---|---|
| IFRS 3 | Revised (Business combinations) |
| IAS 23 | Revised (Borrowing costs) |
| IFRIC 17 | Distributions of non-cash assets to owners |
| IFRIC 18 | Transfers of assets from customers |

# Notes (continued)

## 4. SEGMENT INFORMATION

| | UK | USA | Italy | Rest of Europe | Total Reportable Segments |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | **£'000** |
| **Six months ended 30 September 2009** | | | | | |
| Total revenue | 19,479 | 1,114 | 3,404 | 4,383 | **28,380** |
| Inter-segment revenue | (1,476) | - | (1,096) | (353) | **(2,925)** |
| Revenue (from external customers) | 18,003 | 1,114 | 2,308 | 4,030 | **25,455** |
| Underlying profit/(loss) before taxation | 722 | (53) | 209 | 135 | **1,013** |
| Foreign exchange on intercompany loans including impact of foreign exchange collar | (73) | - | - | - | **(73)** |
| Amortisation of intangible assets | (132) | - | (48) | (17) | **(197)** |
| Profit/(loss) before taxation | 517 | (53) | 161 | 118 | **743** |
| **Six months ended 30 September 2008** | | | | | |
| Total revenue | 19,538 | 1,308 | 2,136 | 3,956 | **26,938** |
| Inter-segment revenue | (1,804) | - | (643) | (300) | **(2,747)** |
| Revenue (from external customers) | 17,734 | 1,308 | 1,493 | 3,656 | **24,191** |
| Underlying profit/(loss) before taxation | 2,652 | (26) | (375) | (220) | **2,031** |
| Foreign exchange on intercompany loans including impact of foreign exchange collar | (57) | - | - | - | **(57)** |
| Amortisation of intangible assets | (106) | - | (44) | (15) | **(165)** |
| Profit/(loss) before taxation | 2,489 | (26) | (419) | (235) | **1,809** |
| TOTAL ASSETS | | | | | |
| 30 September 2009 | 10,773 | 1,894 | 10,182 | 9,673 | **32,522** |
| 31 March 2009 | 8,613 | 2,004 | 10,309 | 10,628 | **31,554** |
| 30 September 2008 | 12,198 | 1,720 | 8,001 | 8,666 | **30,585** |

# Notes (continued)

Hornby Hobbies Limited, the Group's UK trading subsidiary, has granted Euro denominated intercompany loans to sister subsidiary companies that are translated to Sterling at statutory period ends thereby creating exchange gains or losses. In order to mitigate the exchange exposure Hornby Hobbies Limited has entered a foreign exchange collar contract to sell an equal number of Euros in October 2011 that will be revalued by an approximately similar but opposite Sterling value at each period end.

The foreign exchange collar is for a principal amount of Euro 16.5 million and is in place to minimise exposure to Euro denominated intercompany loans.

The amount shown above comprises foreign exchange losses on translation of intercompany loans of £246,000 (2008 - loss of £128,000), offset by a gain on marking to market the foreign exchange collar of £173,000 (2008 - gain of £71,000).

Beneficial cumulative profit impact of the collar from inception to 3 October 2011 is expected to be a minimum of £340,000 if the exchange rate exceeds the strike rate of €1.4300:£, increasing to a maximum of £823,000 at the participation cap rate of €1.3725:£ compared to the intercompany loans Sterling valuation at 31 March 2007 (€1.4734:£).

As at 30 September 2009 the profit impact is a gain of £786,000. Therefore in the period 1 October 2008 to 30 September 2011 there will be an adjustment to the Statement of Comprehensive Income between a £37,000 profit and £446,000 charge. The derivative will become an increasingly efficient hedge as the contract approaches maturity.

# Notes (continued)

## 5. TANGIBLE AND INTANGIBLE ASSETS

| Six months ended 30 September 2009 | Tangible and intangible assets (unaudited) £'000 |
|---|---|
| Opening book amount 1 April 2009 | 29,836 |
| Exchange adjustment | (181) |
| Additions | 2,095 |
| Disposals | - |
| Depreciation, amortisation and impairment | (1,960) |
| Closing net book amount 30 September 2009 | 29,790 |

The additions relate to new product tooling (£1,883,000), property, plant and equipment (£167,000) and motor vehicles (£45,000).

| Six months ended 30 September 2008 | Tangible and intangible assets (unaudited) £'000 |
|---|---|
| Opening book amount 1 April 2008 | 20,689 |
| Exchange adjustment | (97) |
| Additions | 2,175 |
| Acquisitions | 7,752 |
| Disposals | (23) |
| Depreciation, amortisation and impairment | (1,693) |
| Closing net book amount 30 September 2008 | 28,803 |

| CAPITAL COMMITMENTS | 2009 (unaudited) £'000 | 2008 (unaudited) £'000 |
|---|---|---|
| At 30 September commitments were: | | |
| Contracted for but not provided for | 1,188 | 1,224 |

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

## 6. SHARE CAPITAL

The Group has 38,064,100 ordinary 1p shares in issue with nominal value £380,641 (2008 - £379,891).

75,000 employee share options were exercised during the first half to 30 September 2009 at an average price of 83.4p (2008 - nil share options).

# Notes (continued)

## 7. BORROWINGS

| | 30 September 2009 (unaudited) £'000 | 30 September 2008 (unaudited) £'000 | 31 March 2009 (audited) £'000 |
|---|---|---|---|
| CURRENT: | | | |
| Bank overdrafts | 3,197 | 8,614 | 3,487 |
| Bank loans | 1,053 | 544 | 1,632 |
| Finance lease obligations | 49 | 40 | 19 |
| | 4,299 | 9,198 | 5,138 |
| NON-CURRENT: | | | |
| Bank loans | 11,520 | 8,156 | 7,068 |
| Finance lease obligations | 74 | 103 | 113 |
| | 11,594 | 8,259 | 7,181 |

The Group has a £10,000,000 3-year revolving credit facility at 30 September 2009 (2008 - £12,000,000 overdraft facility) that attracts interest at 2.85% above Libor and a 5-year fixed term loan of £12,000,000 (2008 - £8,700,000) that attracts interest at 3.6% above Libor.

The drawdown amount on the revolving credit facility is included within bank overdrafts.

The bank loan and revolving credit facility will be secured by a fixed charge over the Group's freehold property in Margate.

## 8. INCOME TAXATION

The tax expense is recognised based on management's latest estimate of the weighted average annual tax rate expected for the full financial year.

## 9. EARNINGS PER SHARE

Earnings per share attributable to equity holders of the Company arise from continuing operations as follows:

| | 30 September 2009 (unaudited) | 30 September 2008 (unaudited) | 31 March 2009 (audited) |
|---|---|---|---|
| Earnings per share for profit from continuing operations attributable to the equity of the Company | | | |
| - basic | 1.10p | 3.12p | 11.17p |
| - diluted | 1.08p | 3.06p | 10.98p |

## 10. DIVIDENDS

No final dividend was paid in respect of the financial year ended 31 March 2009 (2008 - £2,187,000).

No interim dividend has been declared for the interim period ended 30 September 2009 (2008 - £1,018,000).

# Notes (continued)

## 11. 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.

## 12. RELATED-PARTY TRANSACTIONS

Key management compensation amounted to £1,180,000 for the six months to 30 September 2009 (2008 - £1,283,000).

| | **30 September 2009 (unaudited) £'000** | 30 September 2008 (unaudited) £'000 | 31 March 2009 (audited) £'000 |
|---|---|---|---|
| Salaries and other short-term benefits | **978** | 1,068 | 2,071 |
| Post-employment benefits | **93** | 91 | 185 |
| Share-based payments | **109** | 124 | 206 |
| | **1,180** | 1,283 | 2,462 |

The Company received management fees from subsidiaries of £604,000 (2008 - £754,000), interest of £114,000 (2008 - £76,000) and dividends from subsidiaries of £nil (2008 - £4,722,000).

At the year-end balances due from subsidiaries to the Company amounted to £6,179,000 (2008 - £7,020,000) and due to subsidiaries from the Company amounted to £6,358,000 (2008 - £4,990,000).

## 13. EVENTS OCCURING AFTER THE BALANCE SHEET DATE

There have been no significant events since the balance sheet date.

## 14. RISKS AND UNCERTAINTIES

The key risks and uncertainties as disclosed on pages 16 to 18 of the Group's Annual Report for the year ended 31 March 2009 remain valid. The principal risks and uncertainties of the Group for the remaining six months of the current financial year are disclosed in the interim management report for the half year ended 30 September 2009.

## 15. SEASONALITY

Sales are subject to seasonal fluctuations, with peak demand in the October - December quarter. For the six months ended 30 September 2009 sales represented 41% (2008 - 43%) of the annual sales for the year ended 31 March 2009.

# Statement of Director's Responsibilities

The directors confirm that this condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union, and that the interim management report herein includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial years; and
- material related party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The directors of Hornby Plc are listed in the Hornby Plc Annual Report for 31 March 2009. A list of current directors is maintained on the Hornby Plc website: www.hornby.com.

**FRANK MARTIN**
Chief Executive
13 November 2009

**ANDREW MORRIS**
Finance Director
13 November 2009

# Independent Review Report to Hornby Plc

## INTRODUCTION

We have been engaged by the Company to review the condensed consolidated half-yearly financial information in the condensed consolidated half-yearly financial report for the six months ended 30 September 2009 which comprises the statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement, note to cash flow statement and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated half-yearly financial information.

## DIRECTORS' RESPONSIBILITIES

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of consolidated financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

## OUR RESPONSIBILITY

Our responsibility is to express to the Company a conclusion on the condensed consolidated half-yearly financial information in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated half-yearly financial information in the half-yearly financial report for the six months ended 30 September 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

**PRICEWATERHOUSECOOPERS LLP**
**Chartered Accountants**
**Gatwick**
13 November 2009

Notes:

(a) The maintenance and integrity of the Hornby Plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the web site.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

## SHAREHOLDERS' INFORMATION SERVICE

HORNBY WELCOMES CONTACT WITH ITS SHAREHOLDERS.
IF YOU HAVE QUESTIONS OR ENQUIRIES ABOUT THE GROUP
OR ITS PRODUCTS, PLEASE CONTACT:

AJ MORRIS, FINANCE DIRECTOR
HORNBY PLC, WESTWOOD, MARGATE, KENT CT9 4JX