

**INTERIM REPORT**  
Condensed Consolidated Half-yearly  
Financial Report Six Months to  
30 September 2014



# Contents

|   |            |
|---|------------|
| Interim Management Report                                       | <b>1</b>   |
| Statement of Comprehensive Income                               | <b>5</b>   |
| Balance Sheet   | <b>6</b>   |
| Statement of Changes in Equity                                  | <b>7</b>   |
| Statement of Cash Flows   | <b>8</b>   |
| Note to the Cash Flow Statement                                 | <b>9</b>   |
| Notes to Condensed Consolidated<br>Half-yearly Financial Report | <b>10</b>  |
| Statement of Directors' Responsibilities                        | <b>17</b>  |
| Independent Review Report to<br>Hornby PLC                      | <b>18</b>  |
| Shareholders' Information                                       | <b>IBC</b> |

# Interim Management Report

The first half of the year has continued to be a period of change and development at Hornby and we are pleased to have achieved Group-wide sales growth of 8% in the period to 30 September 2014, delivering an underlying Group profit before tax of £0.25 million compared to a loss of £0.85 million for the same period last year. Our statutory loss for the period was £0.52 million compared to a loss of £1.09 million for the same period last year.

During this time, we have:

- successfully moved our UK warehouse operations to DS Logistics in Canterbury;
- embarked upon a Group enterprise resource planning "ERP" project;
- opened a new London office to house our growing E-commerce team;
- attracted a number of important new hires to join the business in the UK, France and Hong Kong; and
- implemented our new Critical Path and Tooling Database systems to improve production and supply chain processes with our vendors and to improve internal forecasting and management.

## New managed warehouse facility

We completed the UK warehouse move to its new facilities in Hersden, Canterbury, which we have outsourced to the specialist firm DS Logistics', after a tender process, who also co-ordinated the move, without any material interruption to our distribution processes. The new warehouse is a state-of-the-art facility comprising 100,000 square feet, 60% of which is fully racked and capable of holding 7,000 pallets. The remaining 40% of the facility is set up as a pick pack operation that includes internet despatch and space for reworks. This facility gives ample scope for future growth in capacity and efficiency.

As a result of the move, the Hornby site in Margate is now partially occupied with only the offices and visitor centre remaining. Consideration is being given to moving the offices and visitor centre to more suitable locations within the local area in order that the whole site can then be redeveloped. Jones Laing Laselle have been appointed to advise on this opportunity.

## ERP project

The Group has embarked on the development of phase 1 of a new enterprise resource planning 'ERP' system which is due to be deployed into the UK organisation from April 2015. Based upon the Microsoft Dynamix AX platform, this will enable the Group to become more efficient in managing its stock, resources and finances in the UK and then at a later stage, across its different territories. With all subsidiaries on one system, this will enable integration of Group initiatives and sharing of best practise. Phase 2 of the project, rolling out the system to the Group subsidiaries, is expected to commence in the summer of 2015.

## London based E-commerce team

We now have a significantly upgraded E-commerce operation running from our recently opened London office utilising the latest in ecommerce technology. Having moved to the Magento platform in June, the business has now partnered with Braintree as our new payment services provider and Dotmailer as our email marketing supplier. These relationships provide enhanced functionality and improve the service and communications that we are able to provide to consumers and fans.

Our efforts to improve our social media content, primarily via Facebook and Twitter, alongside our own websites and the Hornby Forum have led to an increasing dialogue with our consumer base. Such consumer engagement is seen as a key method of gauging customer reaction to our product and marketing initiatives and we are encouraged by the level of interaction. We are now using this medium to market test ideas and concepts at the earliest stages of development.

# Interim Management Report continued

## New talent

As the organisation develops, we are committed to bringing new talent into Hornby to further strengthen the team. In recent months we have been able to attract new hires into the following roles:

- Head of Merchandising.
- Head of Logistics.
- Head of Quality Assurance.
- Head of Sales, UK.
- Head of National Accounts, France.
- Head of Operations, Hong Kong.

We welcome these new colleagues and believe that their experience and expertise will help to drive the business forward in the coming months and years.

## Improved forecasting and management processes

The Group's quality control and production scheduling processes are under review as part of the critical path project. This has already started to result in better visibility of product arrivals and helped plan rapid delivery of long awaited lines into European markets. Overall production schedules continue to be a challenge, as the difficulties of producing complex trains, slot cars and models, to the quality required and at the appropriate time, remain. Our new processes, however, mean that we are improving manufacturing capacity, quality and accuracy with our vendor partners and communicating regularly with our customers and consumers to maximise the opportunities that we have. As these disciplines are further embedded in our organisation and culture, the benefits of linking US, UK, European and Hong Kong operations will drive further commercial benefits.

## Model rail

Sales in Model rail for the Group have increased by 18% on the same period last year. This was triggered by the supply and launch of a range of new products in the UK and Europe, across the Hornby, Arnold, Rivarossi, Lima and Jouef Brands, after a prolonged drought of such opportunities as previously documented. Best-selling UK Model Rail products included the 'P2' and the Flying Scotsman train set. In Europe the 'Mod' coaches in N scale, Eastern German double decker coaches in TT scale and the Henschel-Wegmann train with the new

locomotive 61 002 in HO scale, have been very well received by the market.

That being said, it is still the case that we have a long way to go before we can be satisfied with our manufacturing and supply chain performance on this key product category. We have grown the supplier base this year to 15 vendors. During 2013-14, our product delivery to order ratio ran at 59% for the Hornby brand for the year. For 2014-15 this number was 65% reflecting a slight improvement but not a satisfactory performance and we expect better numbers in the second half. Our customers would prefer a more structured and planned approach to deliveries of model rail product and the teams in Europe and Hong Kong are working hard towards delivering this in 2015.

## Other brands

Sales of other brands including Scalextric, Airfix and diecast collectibles such as Corgi and Pocher are also up on the same period last year by 7%, 4% and 8% respectively. The supply chain for these brands is more reliable and we have achieved over 90% of our budgeted purchases during the first half of the year. Highlights during the period include the launch of the Corgi Avro Vulcan B2, the Scalextric Quickbuild Cops 'n Robbers set and the Airfix 1:24 Hawker Typhoon Mk1b.

The preview season for 2015 has begun and we are pleased with the initial responses from our first appointments with further information on this to be shared in our post-Christmas update.

## Financial performance

Group sales for the six months to September 2014 were up 8% to £24.2 million (compared to £22.4 million for H12013). The UK business saw sales grow by 5% and our international business sales grew by 21% compared to the same period last year. The European growth was shared across all our operations but was particularly strong in Spain, Italy and Germany. At constant exchange rates sales in Europe grew by 30%. Although headline sales fell by 2% in the US they also increased by 6% at constant exchange rates.

The gross margin for the period of 46.5% is marginally lower than the same period last year of 47% primarily as a result of the clearance of old stock. The underlying operating profit, before amortisation of intangibles, charges for net foreign exchange adjustments and other one off costs, for the six months to September 2014 was £0.25 million compared to a loss of £0.85 million for the same period last year. This was primarily due to the increase in sales revenue, but also to lower overheads incurred in the period. Group loss before tax was £0.52 million (2013 – loss of £1.09 million). Earnings per share on an underlying basis was 0.24p (2013 – loss per share of 2.12p) and on a statutory basis a loss per share of 1.30p (2013 – loss per share of 2.59p).

The overheads included within the underlying profit measure were £0.5 million or 4% lower than the same period last year due a renewed focus on cost management across all departmental areas. Due to the warehouse move, internal restructuring and work on our distribution model we have performed work and analysis of our cost base and there is a reclassification for the six months to September 2014 of administrative costs into distribution costs within the Statement of Comprehensive Income as these costs now sit more readily within this category. This has not been restated within the 2013 figures. These costs include warehouse stores, quality control costs and costs associated with our Asian operation which has also recently gone through a restructure and refocus on quality control and sourcing. Had we restated the effect of this reallocation on September 2013 figures would be an increase of £0.8 million to distribution costs and a reduction in the administrative costs by the same amount. One-off costs of £0.3 million were incurred in the transfer of the stock to the new warehouse facility in the UK. The investments that have been made in new people and improved systems and processes will add to the level of overheads in the second half of the year but are at a level consistent with our expectations at the beginning of the year.

Stock has increased since March 2014 from £13.2 million to £14.8 million due to the seasonal stock requirements and an increase in 'goods in transit' as at September 2014 of £0.5 million from March 2014. However it has decreased by £0.6 million since September 2013 due to stock clearance. In the UK business, stock of £2.1 million at 31 March 2014 was identified for clearance of which 53% was cleared by 30 September 2014 and further progress is expected before Christmas.

Net debt for the Group as at 30 September 2014 is £10.98 million. The drawdown amount on the £13 million UK revolving credit facility as at 30 September 2014 amounted to £10.25 million (2013 – £4.5 million). The Group also has additional facilities of £4.7 million (2013 – £3.1 million) in place in its European subsidiaries of which £2.2 million was drawn down as at 30 September 2013 (2013 – £2.5 million).

Although this net debt position has increased since September 2013 by £3 million, this is primarily due to the £2 million repayment of the FX Collar which occurred in the second half of the year ended 31 March 2014.

The current UK banking facilities that expire in December 2015 together with the other Group facilities are expected to allow sufficient headroom for working capital needs over the next 12 months. This is based on a model of the Group's forecast cash flows as adjusted for current commitments and suitable sensitivities. We are now starting to develop longer term plans for next year in order to determine the associated funding requirements.

### **Dividend**

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

## Outlook

During the first half of the year, the team has made material progress in organising the turnaround of the Company. Operationally, we have moved our warehouse to improve logistics processes, cleared aged stock, worked with vendors in Asia to improve supply chain performance and delivered a small profit in the period. Strategically, we have started to invest in a new ERP system, set up an E-commerce team and strengthened the business with key new recruits across a range of functions. We see further operational and strategic challenges ahead of us, but we also see that demand for products is strong and we remain confident that the group can continue to improve performance over the coming months and years.

The final results for the year as a whole depend on the success of the Christmas trading season and current indications are that it will meet the Board's expectations. As a consequence, and despite the additional costs of the ongoing investment in the future of the business, the Board currently expect to meet market expectation for the year as a whole in terms of sales and profits.

# Statement of Comprehensive Income

for the six months ended 30 September 2014

|   | Notes | Six months to<br>30 September<br>2014<br>(unaudited)<br>£'000 | Six months to<br>30 September<br>2013<br>(unaudited)<br>£'000 | Year to<br>31 March<br>2014<br>(audited)<br>£'000 |
|---|-------|---|---|---|
| <b>Revenue</b>  | 4     | <b>24,169</b>   | 22,457  | 51,557  |
| Cost of Sales   |       | <b>(12,940)</b>   | (11,890)  | (28,230)  |
| <b>Gross profit</b>   |       | <b>11,229</b>   | 10,567  | 23,327  |
| Distribution costs  |       | <b>(2,165)</b>  | (1,087)   | (2,549)   |
| Selling and marketing costs   |       | <b>(5,007)</b>  | (4,876)   | (11,322)  |
| Administrative expenses   |       | <b>(3,497)</b>  | (4,728)   | (9,811)   |
| Other operating expenses  |       | <b>(819)</b>  | (749)   | (3,718)   |
| <b>Operating loss</b>   |       | <b>(259)</b>  | (873)   | (4,073)   |
| Finance income  |       | –   | 8   | 8   |
| Finance costs   |       | <b>(257)</b>  | (223)   | (492)   |
| <b>Loss before taxation</b>   | 4     | <b>(516)</b>  | (1,088)   | (4,557)   |
| Analysed as:  |       |   |   |   |
| Underlying (loss)/profit before taxation                                |       | <b>245</b>  | (852)   | (1,139)   |
| Net foreign exchange impact on intercompany loans                       |       | <b>(296)</b>  | (41)  | (108)   |
| Amortisation of intangible assets                                       |       | <b>(191)</b>  | (195)   | (389)   |
| Exceptional items:  |       |   |   |   |
| Restructuring costs   |       | <b>(274)</b>  | –   | (875)   |
| Impairment of goodwill  |       | –   | –   | (2,046)   |
| <b>Loss before taxation</b>   | 4     | <b>(516)</b>  | (1,088)   | (4,557)   |
| Taxation  | 9     | <b>7</b>  | 75  | 112   |
| <b>Loss for the period after taxation</b>                               |       | <b>(509)</b>  | (1,013)   | (4,445)   |
| <b>Other comprehensive income/(loss)</b>                                |       |   |   |   |
| (Items that may be classified subsequently to profit and loss)          |       |   |   |   |
| Cash flow hedges, net of tax  |       | <b>459</b>  | (488)   | (714)   |
| Currency translation differences  |       | <b>(240)</b>  | (40)  | (146)   |
| <b>Other comprehensive income/(loss) for<br/>The period, net of tax</b> |       | <b>219</b>  | (528)   | (860)   |
| <b>Total comprehensive loss for the period</b>                          |       | <b>(290)</b>  | (1,541)   | (5,305)   |
| <b>Earnings per ordinary share</b>                                      |       |   |   |   |
| Basic   |       | <b>(1.30)p</b>  | (2.59)p   | (11.35)p  |
| Diluted   |       | <b>(1.30)p</b>  | (2.59)p   | (11.35)p  |

All of the activities of the Group are continuing. The notes on pages 10 to 17 form an integral part of this condensed consolidated half-yearly financial information.

# Balance Sheet

as at 30 September 2014

|                                  | Notes | 30 September<br>2014<br>(unaudited)<br>£'000 | 30 September<br>2013<br>(unaudited)<br>£'000 | 31 March<br>2014<br>(audited)<br>£'000 |
|----------------------------------|-------|--|--|--|
| <b>ASSETS</b>                    |       |  |  |  |
| <b>Non-current assets</b>        |       |  |  |  |
| Goodwill                         | 5     | 8,498  | 10,568                                       | 8,530                                  |
| Intangible assets                | 5     | 3,323  | 3,772  | 3,569                                  |
| Property, plant and equipment    | 5     | 10,732                                       | 10,617                                       | 10,383                                 |
| Deferred income tax assets       |       | 1,961  | 1,949  | 1,858                                  |
|                                  |       | <b>24,514</b>                                | 26,906                                       | 24,340                                 |
| <b>Current assets</b>            |       |  |  |  |
| Inventories                      |       | 14,790                                       | 15,389                                       | 13,165                                 |
| Trade and other receivables      |       | 13,469                                       | 13,316                                       | 9,043                                  |
| Derivative financial investments | 8     | 147  | 2  | 39                                     |
| Current tax assets               |       | 546  | 431  | 601                                    |
| Cash and cash equivalents        |       | 348  | 426  | 619                                    |
|                                  |       | <b>29,300</b>                                | 29,564                                       | 23,467                                 |
| <b>LIABILITIES</b>               |       |  |  |  |
| <b>Current liabilities</b>       |       |  |  |  |
| Borrowings                       | 7     | (11,126)                                     | (8,197)                                      | (7,630)                                |
| Derivative financial instruments | 8     | (48)   | (2,182)                                      | (445)                                  |
| Trade and other payables         |       | (10,575)                                     | (10,136)                                     | (7,618)                                |
| Provisions                       |       | (259)  | (278)  | (238)                                  |
| Current tax liabilities          |       | (198)  | (203)  | (128)                                  |
|                                  |       | <b>(22,206)</b>                              | (20,996)                                     | (16,059)                               |
| <b>Net current assets</b>        |       | <b>7,094</b>                                 | 8,568  | 7,408                                  |
| <b>Non-current liabilities</b>   |       |  |  |  |
| Borrowings                       | 7     | (202)  | (273)  | (242)                                  |
| Deferred tax liabilities         |       | (251)  | (142)  | (136)                                  |
|                                  |       | <b>(453)</b>                                 | (415)  | (378)                                  |
| <b>Net assets</b>                |       | <b>31,155</b>                                | 35,059                                       | 31,370                                 |
| <b>SHAREHOLDERS' EQUITY</b>      |       |  |  |  |
| Share capital                    | 6     | 392  | 392  | 392                                    |
| Share premium                    |       | 6,180  | 6,180  | 6,180                                  |
| Capital redemption reserve       |       | 55   | 55   | 55                                     |
| Translation reserve              |       | (998)  | (652)  | (758)                                  |
| Hedging reserve                  |       | 19   | (214)  | (440)                                  |
| Other reserves                   |       | 1,688  | 1,688  | 1,688                                  |
| Retained earnings                |       | 23,819                                       | 27,610                                       | 24,253                                 |
| <b>Total equity</b>              |       | <b>31,155</b>                                | 35,059                                       | 31,370                                 |

The notes on pages 10 to 17 form an integral part of this condensed consolidated half-yearly financial information.



# Statement of Changes in Equity

for the six months ended 30 September 2014

|  | Share capital<br>(unaudited)<br>£'000 | Share premium<br>(unaudited)<br>£'000 | Capital redemption<br>reserve<br>(unaudited)<br>£'000 | Translation<br>reserve<br>(unaudited)<br>£'000 | Hedging<br>reserve<br>(unaudited)<br>£'000 | Other<br>reserves<br>(unaudited)<br>£'000 | Retained<br>earnings <sup>1</sup><br>(unaudited)<br>£'000 | Total equity<br>(unaudited)<br>£'000 |
|--|---------------------------------------|---------------------------------------|---|--|--|---|---|--------------------------------------|
| <b>Balance at 1 April 2014</b>                       | <b>392</b>                            | <b>6,180</b>                          | <b>55</b>   | <b>(758)</b>                                   | <b>(440)</b>                               | <b>1,688</b>                              | <b>24,253</b>   | <b>31,370</b>                        |
| Loss for the period                                  | –                                     | –                                     | –   | –  | –  | –   | (509)   | (509)                                |
| Other comprehensive income<br>for the period         | –                                     | –                                     | –   | (240)  | 459  | –   | –   | 219                                  |
| Total comprehensive (loss)/<br>income for the period | –                                     | –                                     | –   | (240)  | 459  | –   | (509)   | (290)                                |
| <b>Transactions with owners</b>                      |                                       |                                       |   |  |  |   |   |                                      |
| Share-based payments                                 | –                                     | –                                     | –   | –  | –  | –   | 75  | 75                                   |
| <b>Balance at<br/>30 September 2014</b>              | <b>392</b>                            | <b>6,180</b>                          | <b>55</b>   | <b>(998)</b>                                   | <b>19</b>                                  | <b>1,688</b>                              | <b>23,819</b>   | <b>31,155</b>                        |
| <b>Balance at 1 April 2013</b>                       | <b>392</b>                            | <b>6,180</b>                          | <b>55</b>   | <b>(612)</b>                                   | <b>274</b>                                 | <b>1,688</b>                              | <b>28,424</b>   | <b>36,401</b>                        |
| Loss for the period                                  | –                                     | –                                     | –   | –  | –  | –   | (1,013)   | (1,013)                              |
| Other comprehensive loss<br>for the period           | –                                     | –                                     | –   | (40)   | (488)                                      | –   | –   | 528                                  |
| <b>Total comprehensive loss<br/>for the period</b>   | <b>–</b>                              | <b>–</b>                              | <b>–</b>  | <b>(40)</b>                                    | <b>(488)</b>                               | <b>–</b>                                  | <b>(1,013)</b>  | <b>(1,541)</b>                       |
| <b>Transactions with owners</b>                      |                                       |                                       |   |  |  |   |   |                                      |
| Share-based payments                                 | –                                     | –                                     | –   | –  | –  | –   | 199   | 199                                  |
| <b>Balance at<br/>30 September 2013</b>              | <b>392</b>                            | <b>6,180</b>                          | <b>55</b>   | <b>(652)</b>                                   | <b>(214)</b>                               | <b>1,688</b>                              | <b>27,610</b>   | <b>35,059</b>                        |

<sup>1</sup> Retained earnings includes amounts that are not distributable including £579,000 at 30 September 2014 (2013 – £596,000) that relates to a 1986 revaluation of land and buildings

The notes on pages 10 to 17 form an integral part of this condensed consolidated half-yearly financial information.

# Statement of Cash Flows

for the six months ended 30 September 2014

|  | Six months to<br>30 September<br>2014<br>(unaudited)<br>£'000 | Six months to<br>30 September<br>2013<br>(unaudited)<br>£'000 | Twelve months<br>to 31 March<br>2014<br>(audited)<br>£'000 |
|--|---|---|--|
| <b>Cash flows from operating activities</b>                        |   |   |  |
| Cash utilised in operations  | (1,031)   | (3,267)   | (76)   |
| Interest paid  | (257)   | (223)   | (492)  |
| Tax paid   | (120)   | (359)   | (482)  |
| Net cash utilised in operating activities                          | (1,408)   | (3,849)   | (1,050)  |
| <b>Cash flows from investing activities</b>                        |   |   |  |
| Purchase of property, plant and equipment                          | (2,380)   | (2,095)   | (4,059)  |
| Interest received  | –   | 8   | 9  |
| Net cash utilised in investing activities                          | (2,380)   | (2,087)   | (4,051)  |
| <b>Cash flows from financing activities</b>                        |   |   |  |
| Repayments of loans  | (1,543)   | (1,530)   | (3,060)  |
| Finance lease capital payments                                     | –   | –   | (3)  |
| Net cash utilised in financing activities                          | (1,543)   | (1,530)   | (3,063)  |
| Net decrease in cash and cash equivalents                          | (5,331)   | (7,466)   | (8,164)  |
| Cash, cash equivalents and bank overdrafts at beginning of period  | (5,455)   | 2,725   | 2,725  |
| Effect of exchange rate movements                                  | 59  | 38  | (16)   |
| <b>Cash, cash equivalents and bank overdrafts at end of period</b> | <b>(10,727)</b>   | (4,703)   | (5,455)  |
| <b>Cash, cash equivalents and bank overdrafts consist of:</b>      |   |   |  |
| Cash and cash equivalents  | 348   | 426   | 619  |
| Bank overdrafts  | (11,075)  | (5,129)   | (6,076)  |
| <b>Cash, cash equivalents and bank overdrafts at end of period</b> | <b>(10,727)</b>   | (4,703)   | (5,455)  |

The notes on pages 10 to 17 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 2014

## Cash flows from operating activities

|  | Six months to<br>30 September<br>2014<br>(unaudited)<br>£'000 | Six months to<br>30 September<br>2013<br>(unaudited)<br>£'000 | Twelve months<br>to 31 March<br>2014<br>(audited)<br>£'000 |
|--|---|---|--|
| Loss before taxation                               | (516)   | (1,088)   | (4,557)  |
| Interest payable                                   | 257   | 223   | 492  |
| Interest receivable                                | –   | (8)   | (8)  |
| Amortisation of intangible assets                  | 191   | 195   | 389  |
| Impairment of goodwill                             | –   | –   | 2,046  |
| Depreciation                                       | 1,799   | 1,472   | 3,604  |
| Loss on disposal of property, plant and equipment  | –   | 20  | 22   |
| Share-based payments                               | 75  | 199   | 274  |
| (Gain)/loss on financial derivatives               | (46)  | 31  | (135)  |
| Increase in provisions                             | 21  | 43  | 3  |
| (Increase)/decrease in inventories                 | (1,625)   | (1,752)   | 472  |
| (Increase)/decrease in trade and other receivables | (4,426)   | (3,713)   | 560  |
| Increase/(decrease) in trade and other payables    | 3,239   | 1,111   | (1,451)  |
| Increase in derivate financial instruments         | –   | –   | (1,787)  |
| <b>Cash utilised in operations</b>                 | <b>(1,031)</b>  | <b>(3,267)</b>  | <b>(76)</b>  |

# Notes to the 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 Westwood, Margate, Kent 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 London Stock Exchange and is registered in England No. 01547390.

This condensed consolidated half-yearly financial information has been reviewed, not audited, and was approved for issue on 20 November 2014.

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 2014 were approved by the Board of Directors on 26 June 2014 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 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 2014 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct 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 2014 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 2014, 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 2014 and that have a material impact on the Group's results.

#### **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 2014.

#### **Financial instruments**

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate 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 2014.

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 2014. Further details of the Group's financial instruments are set out within note 8 of this half-yearly report as required by IFRS 13.

# Notes to the Condensed Consolidated Half-yearly Financial Report continued

## 4. SEGMENT INFORMATION

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<br>£'000   | USA<br>£'000 | Spain<br>£'000 | Italy<br>£'000 | Rest of<br>Europe<br>£'000 | Total<br>Reportable<br>Segments<br>£'000 |
|--|---------------|--------------|----------------|----------------|----------------------------|--|
| <b>Six months ended</b>  |               |              |                |                |                            |  |
| <b>30 September 2014 (unaudited)</b>   |               |              |                |                |                            |  |
| Total revenue  | 18,806        | 1,291        | 4,886          | 1,621          | 2,720                      | <b>29,324</b>                            |
| Inter-segment revenue  | (1,560)       | –            | (3,587)        | (8)            | –                          | <b>(5,155)</b>                           |
| <b>Revenue (from external customers)</b>   | <b>17,246</b> | <b>1,291</b> | <b>1,299</b>   | <b>1,613</b>   | <b>2,720</b>               | <b>24,169</b>                            |
| Underlying profit/(loss) before taxation   | 302           | (8)          | (198)          | 194            | (45)                       | <b>245</b>                               |
| Foreign exchange on intercompany loans   | (296)         | –            | –              | –              | –                          | <b>(296)</b>                             |
| Exceptional costs  | (274)         | –            | –              | –              | –                          | <b>(274)</b>                             |
| Amortisation of intangible assets  | (131)         | –            | –              | (44)           | (16)                       | <b>(191)</b>                             |
| <b>(Loss)/profit before taxation</b>   | <b>(399)</b>  | <b>(8)</b>   | <b>(198)</b>   | <b>150</b>     | <b>(61)</b>                | <b>(516)</b>                             |
| <b>Six months ended</b>  |               |              |                |                |                            |  |
| <b>30 September 2013 (unaudited)</b>   |               |              |                |                |                            |  |
| Total revenue  | 17,736        | 1,314        | 3,413          | 1,411          | 2,399                      | <b>26,273</b>                            |
| Inter-segment revenue  | (1,234)       | –            | (2,433)        | (149)          | –                          | <b>(3,816)</b>                           |
| <b>Revenue (from external customers)</b>   | <b>16,502</b> | <b>1,314</b> | <b>980</b>     | <b>1,262</b>   | <b>2,399</b>               | <b>22,457</b>                            |
| Underlying (loss)/profit before taxation   | (174)         | 15           | 51             | (569)          | (175)                      | <b>(852)</b>                             |
| Foreign exchange on intercompany loans including impact of foreign exchange collar | (41)          | –            | –              | –              | –                          | <b>(41)</b>                              |
| Amortisation of intangible assets  | (132)         | –            | –              | (46)           | (17)                       | <b>(195)</b>                             |
| <b>(Loss)/profit before taxation</b>   | <b>(347)</b>  | <b>15</b>    | <b>51</b>      | <b>(615)</b>   | <b>(192)</b>               | <b>(1,088)</b>                           |

## 5. TANGIBLE, INTANGIBLE AND GOODWILL ASSETS

|  | Tangible,<br>intangible and<br>goodwill assets<br>(unaudited)<br>£'000 |
|--|--|
| <b>Six months ended 30 September 2014</b>        |  |
| Opening book amount 1 April 2014                 | <b>22,482</b>  |
| Exchange adjustment                              | <b>(319)</b>   |
| Additions  | <b>2,380</b>   |
| Disposals  | –  |
| Depreciation, amortisation and impairment        | <b>(1,990)</b>   |
| <b>Closing net book amount 30 September 2014</b> | <b>22,553</b>  |

The additions comprise new product tooling (£1,817,000) and property, plant and equipment (£563,000).

Further to the impairment of goodwill within the Italian subsidiary taken in March 2014, the Group have again performed impairment reviews as at 30 September 2014 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 2014 have remained constant with the impairment reviews conducted in March 2014.

|  | Tangible,<br>intangible and<br>goodwill assets<br>(unaudited)<br>£'000 |
|--|--|
| <b>Six months ended 30 September 2013</b>        |  |
| Opening book amount 1 April 2013                 | 24,624   |
| Exchange adjustment                              | (77)   |
| Additions  | 2,095  |
| Disposals  | (18)   |
| Depreciation, amortisation and impairment        | (1,667)  |
| <b>Closing net book amount 30 September 2013</b> | <b>24,957</b>  |

|                                     | <b>2014<br/>(unaudited)<br/>£'000</b> | 2013<br>(unaudited)<br>£'000 |
|-------------------------------------|---------------------------------------|------------------------------|
| <b>CAPITAL COMMITMENTS</b>          |                                       |                              |
| At 30 September commitments were:   |                                       |                              |
| Contracted for but not provided for | <b>1,822</b>                          | 1,810                        |

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

## 6. SHARE CAPITAL

The Group has 39,164,100 ordinary 1p shares in issue with nominal value £391,641 at 31 March 2014 and 30 September 2014 (2013 – £391,641).

No employee share options were exercised during the first half to 30 September 2014 (2013 – £nil).

# Notes to the Condensed Consolidated Half-yearly Financial Report continued

## 7. BORROWINGS

|                           | <b>30 September<br/>2014<br/>(unaudited)<br/>£'000</b> | 30 September<br>2013<br>(unaudited)<br>£'000 | 31 March<br>2014<br>(audited)<br>£'000 |
|---------------------------|--|--|--|
| <b>CURRENT:</b>           |  |  |  |
| Bank overdrafts           | <b>11,075</b>  | 5,129  | 6,076                                  |
| Bank loans                | <b>51</b>  | 3,053  | 1,796                                  |
| Finance lease obligations | –  | 15   | –                                      |
|                           | <b>11,126</b>  | 8,197  | 7,872                                  |
| <b>NON-CURRENT:</b>       |  |  |  |
| Bank loans                | <b>202</b>   | 273  | 242                                    |
| Finance lease obligations | –  | –  | –                                      |
|                           | <b>202</b>   | 273  | 242                                    |

At 30 September 2014 the UK had a £13,000,000 revolving credit facility expiring December 2015 (2013 -£10,000,000) that attracts interest at 2.5% above Libor.

In the period to 30 September 2014 loan repayments were £1,543,000 (2013 – £1,530,000).

The drawdown amount on the revolving credit facility amounted to £10,250,000 (2012 – £4,480,000) and is included within net bank overdrafts above.

The revolving credit facility is secured by a fixed charge over the UK's freehold property in Margate. The Spanish bank loan is secured over our freehold property in Spain.

## 8. FINANCIAL INSTRUMENTS

The following tables present the Group's assets and liabilities that are measured at fair value at 30 September 2014 and 31 March 2014. 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.



|   | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | Total<br>£'000 |
|---|------------------|------------------|------------------|----------------|
| <b>Assets</b>                                 |                  |                  |                  |                |
| Derivatives used for hedging                  | –                | 147              | –                | 147            |
| <b>Total assets as at 30 September 2014</b>   |                  | <b>147</b>       | <b>–</b>         | <b>147</b>     |
| <b>Liabilities</b>                            |                  |                  |                  |                |
| Interest rate swap                            | –                | –                | –                | –              |
| Derivatives used for hedging                  | –                | 48               | –                | 48             |
| <b>Total liabilities at 30 September 2014</b> | <b>–</b>         | <b>48</b>        | <b>–</b>         | <b>48</b>      |

|   | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | Total<br>£'000 |
|---|------------------|------------------|------------------|----------------|
| <b>Assets</b>                             |                  |                  |                  |                |
| Derivatives used for hedging              | –                | 39               | –                | 39             |
| <b>Total assets at 31 March 2014</b>      | <b>–</b>         | <b>39</b>        | <b>–</b>         | <b>39</b>      |
| <b>Liabilities</b>                        |                  |                  |                  |                |
| Interest rate swap                        | –                | 13               | –                | 13             |
| Derivatives used for hedging              | –                | 432              | –                | 432            |
| <b>Total liabilities at 31 March 2014</b> | <b>–</b>         | <b>445</b>       | <b>–</b>         | <b>445</b>     |

The Group finance team reports directly to the Board and Audit committee. Discussions of valuation processes and results are held between these teams at least once every six months in line with the Group's reporting dates.

## 9. TAXATION

The tax expense is recognised based on management's latest estimate of the weighted average annual tax rate for each of its operating entities. 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 around 44%.

## 10. (LOSS)/EARNINGS PER SHARE

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

|  | 30 September<br>2014<br>(unaudited) | 30 September<br>2013<br>(unaudited) | 31 March<br>2014<br>(audited) |
|--|-------------------------------------|-------------------------------------|-------------------------------|
| (Loss)/earnings per share from continuing operations attributable to the equity of the Company |                                     |                                     |                               |
| – basic  | <b>(1.30)p</b>                      | (2.59)p                             | (11.35)p                      |
| – diluted  | <b>(1.30)p</b>                      | (2.59)p                             | (11.35)p                      |
| – underlying   | <b>0.24p</b>                        | (2.12)p                             | (3.43)p                       |

## 11. DIVIDENDS

No interim dividend has been declared for the interim period ended 30 September 2014 (2013 – £nil).

# Notes to the Condensed Consolidated Half-yearly Financial Report continued

## 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 £1,052,000 for the six months to 30 September 2014 (2013 – £1,316,000). Key management include directors and senior management within the organisation.

|  | 30 September<br>2014<br>(unaudited)<br>£'000 | 30 September<br>2013<br>(unaudited)<br>£'000 | 31 March<br>2014<br>(audited)<br>£'000 |
|--|--|--|--|
| Salaries and other short-term benefits         | 885  | 1,034  | 1,601                                  |
| Other pension costs                            | 92   | 83   | 156                                    |
| Share-based payments                           | 75   | 199  | 274                                    |
| Redundancy and compensation for loss of office | –  | –  | 40                                     |
|  | <b>1,052</b>                                 | 1,316  | 2,071                                  |

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 paid £17k in relation to these services to 28One since 8 August 2014. No outstanding payments remained payable to 28One as at 30 September 2014. 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 UK market dependence, market conditions, exchange rates, supply chain, product compliance and liquidity. The disclosures on pages 13 and 14 of the Group's Annual Report for the year ended 31 March 2014 provide a description of each risk along with the associated impact and mitigating actions. The issues surrounding supply chain, liquidity, and market conditions are covered in more detail within the interim management report itself. The Board will continue to focus on risk mitigation plans to address these areas.

## 15. SEASONALITY

Sales are subject to seasonal fluctuations, with peak demand in the October – December quarter. For the six months ended 30 September 2014 sales represented 47% of the annual sales for the year ended 31 March 2014 (2013 – 39% of the annual sales for the year ended 31 March 2013).

# Statement of Directors' Responsibilities

The directors confirm that, to the best of their knowledge, this condensed consolidated half-yearly report has been prepared in accordance with IAS 34 as adopted by the European Union. The interim management report 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 year; 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 2014. A list of current directors is maintained on the Hornby Plc website: [www.hornby.com](http://www.hornby.com).

By order of the Board

**Richard Ames**

Chief Executive

20 November 2014

**Nick Stone**

Finance Director

20 November 2014

# Independent Review Report to Hornby PLC

## Report on the condensed consolidated interim financial statements

### Our conclusion

We have reviewed the condensed consolidated interim financial statements, defined below, in the condensed consolidated half-yearly financial report of Hornby PLC for the six months ended 30 September 2014. Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial statements are 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 Conduct Authority.

This conclusion is to be read in the context of what we say in the remainder of this report.

### What we have reviewed

The condensed consolidated interim financial statements, which are prepared by Hornby PLC, comprise:

- the balance sheet as at 30 September 2014;
- the statement of comprehensive income for the period then ended;
- the statement of changes in equity for the period then ended;
- the statement of cash flows for the period then ended; and
- the explanatory notes to the condensed consolidated interim financial statements.

As disclosed in note 2, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The condensed consolidated interim financial statements included in the condensed consolidated half-yearly financial report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

### What a review of condensed consolidated financial statements involves

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.

We have read the other information contained in the condensed consolidated half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial statements.

## Responsibilities for the condensed consolidated interim financial statements and the review

### Our responsibilities and those of the directors

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

Our responsibility is to express to the company a conclusion on the condensed consolidated interim financial statements in the condensed consolidated 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 complying with the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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.

### PricewaterhouseCoopers LLP

Chartered Accountants  
Gatwick  
20 November 2014

#### Notes:

- (a) The maintenance and integrity of the Hornby PLC website 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 financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements 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:

N P STONE, FINANCE DIRECTOR  
HORNBY PLC  
WESTWOOD  
MARGATE  
KENT CT9 4JX

**Hornby Plc**  
Westwood  
Margate  
Kent  
CT9 4JX  
[www.hornby.com](http://www.hornby.com)