

**HORNBY
PLC**

INTERIM REPORT
Condensed Consolidated
Half-yearly Financial Report
Six months to
30 September 2015



Contents

Interim Management Report	1
Statement of Comprehensive Income	5
Balance Sheet	6
Statement of Changes in Equity	7
Statement of Cash Flows	8
Note to the Cash Flow Statement	9
Notes to Condensed Consolidated Half-yearly Financial Report	10
Shareholders' Information Service	18

Interim Management Report

Further to the update on trading and the transformation plan given on 10 November 2015, this report provides further detail on the substantial change delivered at Hornby during the first half of the year. This includes the implementation of our new ERP system in the UK together with the acceleration of a major reorganisation in the international businesses. As expected, the changes have caused significant short-term disruption to trading and as a result Group sales in the period to 30 September 2015 were 8% lower compared to the same period last year. Underlying Group loss before tax was £3.44 million compared to a profit of £0.25 million for the same period last year. Our statutory loss before tax for the period was £4.47 million compared to a loss of £0.52 million for the same period last year.

However, during the period we have made strong progress with the transformation of the Group and achieved the following:

- Successful move to a new head office site at Sandwich, Kent and opening of a new, dedicated Group warehouse at Hersden, Kent, run by DS Logistics;
- Implemented a new ERP system in the UK;
- Integrated new ERP system with Red Prairie stock management system;
- Overcome the initial period of business disruption to deliver 9% year-on-year UK revenue growth in September;
- Exchanged contracts to sell part of the old Margate site;
- Major rationalisation of senior management in European subsidiaries ahead of plan;
- Started to roll out ERP system across four further European countries ahead of plan;
- Continued to improve our Far East Supply chain operation;
- Refinanced the group with a successful move to AIM, placing of new shares and negotiation of new banking facility;
- Delivered further exciting new product development.

UK

Following the successful head office move and opening of a new Group warehouse earlier in 2015, the new ERP system went live in the UK on 1 July as planned. This was achieved against a challenging timetable ahead of the summer holiday period and peak trading in the autumn. While there was notable disruption during July and August when year-on-year sales were down 45% and 8% respectively, run rate volumes have since improved considerably with year-on-year revenue growth of 9% during September. The first half was a period of dual running costs primarily because we were operating the new Group warehouse in the UK and multiple sites across Europe. We are currently closing the European warehouses following the Group restructure so the total cost base will reduce in the second half.

We continue to be ahead of planned manufacturing production for trains and Scalextric in the UK and our new warehouse at Hersden is performing well. Key new products for the Christmas trading season include the Hornby Silver Jubilee Collection Limited Edition set and the Scalextric James Bond 'SPECTRE' set.

Property update

In order to maximise the proceeds from the disposal of our former head office and warehouse, we have split the site on the Westwood Industrial Estate into two separate parcels. The smaller parcel represents around 10% of the overall site and is made up of a separate warehouse and yard which is adjacent to the main site. It has been redundant since we vacated last year. In November we exchanged contracts to sell this parcel for a consideration of £350,000. The buyer intends to redevelop the site for commercial premises and the sale is expected to complete by the end of the financial year, subject to planning approval.

We are currently in discussions with the same buyer regarding the sale of the remaining larger element of the Margate site and a further update on these negotiations will be provided in due course.

Interim Management Report continued

The Hornby Visitor Centre currently remains located on the main part of the site. However, as announced previously the Visitor Centre is being relocated to new premises in the heart of Ramsgate's historic harbour area. The new building is currently being built and the Visitor Centre is planned to be opened for Easter 2016.

International

A key element of the Hornby transformation plan is for the new ERP system to enable the new UK head office at Sandwich and new warehouse at Herdsden to serve the whole group, therefore allowing simplification and rationalisation of international operations, including the closure of four international warehouses.

The original plan was to roll-out the ERP system across Europe followed by a reorganisation in several phases. However, we have recently pressed ahead sooner than had been planned with major rationalisation to the organisation structure and systems across Europe, resulting in senior management changes in Italy, France and Spain. These changes have contributed to very significant trading disruption, though they will also result in higher levels of cost savings this year. The ERP system has gone live in Spain during October and has been rolled-out across the other European countries during November.

As previously reported trading has also been impacted by problems with the supply of international model rail for much of the first half. The overall impact on European trading in the period has been considerable but we are confident that by pushing through with the ERP implementation and further organisation changes that the International business will emerge much stronger and will begin to show sustained trading improvement in exactly the same way as can now be seen in the UK business.

Far East supply chain

We have continued to develop and improve our supply chain by working closely with existing suppliers to improve quality control and to optimise our use of existing tooling assets. To help achieve this we are in the process of opening a new tooling warehouse in China which will provide us with greater control and flexibility over use of our tool bank.

In addition, work is continuing to diversify further the supply base both within China and into other countries. While it was disappointing to experience recent problems with international model train products these quality control issues have now been resolved and it is expected that stock levels will return to normal over the next two months. Overall we are making good progress with improvement of the supply chain and it remains a key area of opportunity to drive both quality and cost reduction improvements.

Refinancing, placing and move to AIM

On 12 August 2015, Hornby's Ordinary Shares of 1p each ('Ordinary Shares') were admitted to trading on AIM. The Ordinary Shares have been removed from trading on the Main Market of London Stock Exchange plc and their listing on the Official List has been cancelled. The Placing, which was announced on 18 June 2015, raised net funds of £14.2 million. The funds are being used to allow the business to pay down existing debt and to invest in the change programme.

Product development

Hornby: the first half of the financial year has been strong for Hornby trains and we have delivered a steady stream of new Locomotives, Wagons and Rolling Stock to the market. Notable new arrivals this year have included the Crosti 9F and S15 Locomotives, which were very well received by the market. Further new releases, including the King Class and the Adams Radial, are expected to help Hornby deliver a good result in the second half of the year. Peak trading for Hornby this year will be driven by key products such as 'The Flying Scotsman' set and we have also renewed our license

agreement with 'Thomas the Tank Engine' which is also performing well.

Airfix: we continue to improve our product quality through new tooling and innovative 3D scanning techniques and as a result our kit quality has been winning plaudits across the modelling press. There has also been a steady release of new models such as the Shackleton and Whitley to delight our aviation enthusiasts. In addition we have grown our Quickbuild range (aimed at children and requiring no paint or glue) with the addition of three new Hypercars (Bugatti Veyron, Lamborghini Aventador and McLaren P1) which are supported by an autumn TV advertising campaign.

Scalextric: we have continued to develop Scalextric's ground-breaking ARC technology which combines classic Scalextric racing action with an app which downloads to smartphones and allows sharing of results via social media. Following the addition of a Formula 1 set to the range in summer 2015, new lines and further technology developments will continue throughout the year. In addition, following release of the latest James Bond movie, Scalextric 'SPECTRE' sets are currently on sale, supported by a cinema advert, and are expected to be a key Christmas line for us.

Corgi: at the start of the year James May proclaimed the Corgi 'Goldfinger DB5' his 'car of the century' – and we celebrated this accolade by re-releasing the model for a new generation of consumers. This development is about to be complemented by the launch of the latest James Bond Corgi 'SPECTRE' DB10 which is planned for quarter four. Corgi has maintained strong sales during the first half with new releases across all core categories including Vanguard's, Aviation Archive, Hauliers of Renown and the Original Omnibus Company.

Europe: during FY15/16 to date there have been good sales of the Class 1046 in Arnold N gauge; the new Arnold TT gauge of locos and coaches; the TGV 'La Poste' from Jouef, Electrotren's RENFE 277 electric locomotive and Rivarossi's Gr.940 steam locomotive. All of these

have been very well received by model railway fans in their local markets, with more requested. Looking forward, we are expecting the new Pocher Ducati 1299 Panigale S Superbike. Pre-orders are building at a very encouraging rate across all the major markets, and this kit is setting a new standard of motorcycle modelling.

Financial performance

Group sales for the six months to September 2015 of £22.3 million were 8% lower than the prior year (2014 – £24.2 million). UK revenue of £17.1 million was flat year-on-year (2014 – £17.2 million) but as described earlier in this report UK revenue is currently increasing at near double digit growth rate year-on-year. During the first half sales in the international business fell by 25% compared to the same period last year. As discussed previously, this was due to ongoing European supply chain issues together with significant disruption caused by reorganisation and senior management changes.

The gross margin for the period of 41.1% was lower than last year (2014 – 46.5%). Most of this reduction was due to planned clearance of old stock especially within the European subsidiaries and also due to lack of new, high margin European train stock because of the supply chain problems noted earlier. Now that new European product is arriving it is expected that the gross margin across the Group will be at previously planned levels for the remainder of the year.

Underlying operating loss, before amortisation of intangibles, charges for net foreign exchange adjustments on intercompany loans and other one-off costs, for the six months to September 2015 was £3.4 million compared to a profit of £0.25 million for the same period last year. This was due to the year-on-year decrease in sales and gross margin noted above but also because of planned dual operational running costs. The new warehouse at Hersden has been fully operational during the first half of the year but the various international warehouse operations were also still running during the period.

Interim Management Report continued

Exceptional costs during the first half of the year were £0.9 million (2014 – £0.3 million) and these included various significant restructuring costs together with large one-off costs connected with the refinancing and equity raise.

Group loss before tax was £4.47 million (2014 – loss of £0.52 million). Loss per share on an underlying basis was 4.81p (2014 – earnings per share of 0.24p) and on a statutory basis a loss per share of 6.30p (2014 – loss per share of 1.30p).

Despite the trading disruption and reduction in sales during the period we have pushed ahead to trade through these problems and in particular to ensure that we secured all product required for the peak UK trading period in quarter three. As a result stock has increased from £12.5 million in March 2015 to £16.8 million at the end of September 2015. This stock increase has been a key driver of a significant working capital increase in the period. This increase was higher than planned and has been compounded by other effects of the disruption from the ERP implementation. Although revenue was lower than the previous year during the period, trade debtors increased as we suffered some delays in invoicing certain customers. Since the half year, trade debtors are returning to more normal levels.

Capital expenditure for the first six months of the year was £2.9 million (2014 – £2.4 million). This includes investment in certain restructuring projects including significant investment in the new ERP system. This higher capital expenditure will lead to a greater amortisation charge in future periods. Tooling additions and other property plant and equipment remained at its current run rate since March 2015.

Net debt for the Group as at 30 September 2015 was £5.7 million. The drawdown amount on the £10 million UK revolving credit facility as at 30 September 2015 amounted to £8 million (2014 – £10.25 million). The Group also has additional facilities of £3.1 million (2014 – £4.7 million) in place in its European subsidiaries of which £1.9 million was drawn down as at 30 September 2015 (2014 – £2.2 million).

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.

Current trading and outlook

While UK trading was impacted during July and August, the trend in UK revenue growth since early September has been encouraging. Year-on-year revenue growth was 10% between the beginning of September and 6 December 2015. The UK business is now performing well and it is expected to deliver a result broadly in line with expectations for the full year.

Although it is currently expected that stock levels of European products will recover close to originally planned levels over the next two months, given the significant additional disruption caused by management changes and the expected trading impact of the ERP system roll-out, European sales will now be materially lower than the original plan for the full year.

As a result and as announced on 10 November 2015, it is expected that there will now be an Underlying Group loss before tax for the full financial year of £2.0 million.

Although this is a disappointing short-term development we are fully committed to continue with the transformation programme which will provide a platform for significant growth in the medium term, and we are confident in the trading outlook for the business.

Statement of Comprehensive Income

for the six months ended 30 September 2015

	Notes	Six months to 30 September 2015 (unaudited) £'000	Six months to 30 September 2014 (unaudited) £'000	Year to 31 March 2015 (audited) £'000
Revenue	4	22,296	24,169	58,135
Cost of Sales		(13,129)	(12,940)	(30,961)
Gross Profit		9,167	11,229	27,174
Distribution costs		(3,244)	(2,165)	(5,937)
Selling and marketing costs		(5,542)	(5,007)	(12,246)
Administrative expenses		(4,319)	(3,497)	(7,367)
Other operating expenses		(280)	(819)	(1,303)
Operating Loss		(4,218)	(259)	321
Finance income		6	–	1
Finance costs		(253)	(257)	(506)
Loss Before Taxation	4	(4,465)	(516)	(184)
Analysed as:				
Underlying (loss)/profit before taxation		(3,438)	245	1,622
Net foreign exchange impact on intercompany loans		65	(296)	(618)
Amortisation of intangible assets		(180)	(191)	(377)
Exceptional costs		(912)	(274)	(811)
Loss Before Taxation	4	(4,465)	(516)	(184)
Taxation	9	1,001	7	64
Loss for the period after taxation		(3,464)	(509)	(120)
Other comprehensive (loss)/income				
(Items that may be classified subsequently to profit and loss)				
Cash flow hedges, net of tax		(248)	459	802
Currency translation differences		(179)	(240)	(501)
Other comprehensive (loss)/income for the period, net of tax		(427)	219	301
Total comprehensive (loss)/income for the period		(3,891)	(290)	181
Loss per Ordinary Share				
Basic		(6.30)p	(1.30)p	(0.31)p
Diluted		(6.30)p	(1.30)p	(0.31)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 2015

	Notes	30 September 2015 (unaudited) £'000	30 September 2014 (unaudited) £'000	31 March 2015 (audited) £'000
Assets				
Non-current assets				
Goodwill	5	8,471	8,498	8,464
Intangible assets	5	5,049	3,323	4,071
Property, plant and equipment	5	9,150	10,732	10,260
Deferred income tax assets		2,844	1,961	2,099
		25,514	24,514	24,894
Current assets				
Property, plant and equipment held for sale	5	1,191	–	–
Inventories		16,848	14,790	12,469
Trade and other receivables		14,034	13,469	10,444
Derivative financial instruments	8	196	147	519
Current tax assets		351	546	419
Cash and cash equivalents		463	348	451
		33,083	29,300	24,302
Liabilities				
Current liabilities				
Borrowings	7	(6,054)	(11,126)	(7,747)
Derivative financial instruments	8	(91)	(48)	(24)
Trade and other payables		(9,641)	(10,575)	(9,067)
Provisions		(264)	(259)	(255)
Current tax liabilities		(31)	(198)	(53)
		(16,081)	(22,206)	(17,146)
Net current assets		17,002	7,094	7,156
Non-current liabilities				
Borrowings	7	(144)	(202)	(163)
Deferred tax liabilities		(130)	(251)	(131)
		(274)	(453)	(294)
Net assets		42,242	31,155	31,756
Shareholders' equity				
Share capital	6	550	392	392
Share premium		20,205	6,180	6,180
Capital redemption reserve		55	55	55
Translation reserve		(1,438)	(998)	(1,259)
Hedging reserve		114	19	362
Other reserves		1,688	1,688	1,688
Retained earnings		21,068	23,819	24,338
Total equity		42,242	31,155	31,756

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 2015

	Share capital (unaudited) £'000	Share premium (unaudited) £'000	Capital redemption reserve (unaudited) £'000	Translation reserve (unaudited) £'000	Hedging reserve (unaudited) £'000	Other reserves (unaudited) £'000	Retained earnings ¹ (unaudited) £'000	Total equity (unaudited) £'000
Balance at 1 April 2015	392	6,180	55	(1,259)	362	1,688	24,338	31,756
Loss for the period	–	–	–	–	–	–	(3,464)	(3,464)
Other comprehensive loss for the period	–	–	–	(179)	(248)	–	–	(427)
Total comprehensive loss for the period	–	–	–	(179)	(248)	–	(3,464)	(3,891)
Transactions with owners								
Share-based payments	–	–	–	–	–	–	194	194
Net proceeds from issue of Ordinary Shares	158	14,025	–	–	–	–	–	14,183
Balance at 30 September 2015	550	20,205	55	(1,438)	114	1,688	21,068	42,242
Balance at 1 April 2014	392	6,180	55	(758)	(440)	1,688	24,253	31,370
Loss for the period	–	–	–	–	–	–	(509)	(509)
Other comprehensive (loss)/ income for the period	–	–	–	(240)	459	–	–	219
Total comprehensive (loss)/ income for the period	–	–	–	(240)	459	–	(509)	(290)
Transactions with owners								
Share-based payments	–	–	–	–	–	–	75	75
Balance at 30 September 2014	392	6,180	55	(998)	19	1,688	23,819	31,155

1 Retained earnings includes amounts that are not distributable including £562,000 at 30 September 2015 (2014 – £579,000) 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 2015

	Six months to 30 September 2015 (unaudited) £'000	Six months to 30 September 2014 (unaudited) £'000	Twelve months to 31 March 2015 (audited) £'000
Cash flows from operating activities			
Cash (utilised in)/generated from operations	(9,489)	(1,031)	5,328
Interest paid	(253)	(257)	(506)
Tax received/(paid)	218	(120)	(127)
Net cash (utilised in)/generated from operating activities	(9,524)	(1,408)	4,695
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	–	–	20
Purchase of property, plant and equipment	(1,691)	(2,380)	(4,073)
Purchase of intangible assets	(1,224)	–	(988)
Interest received	6	–	1
Net cash utilised in investing activities	(2,909)	(2,380)	(5,040)
Cash flows from financing activities			
Proceeds from issuance of Ordinary Shares	15,000	–	–
Share issue costs	(817)	–	–
Repayment of loans	(21)	(1,543)	(1,584)
Net cash generated from/(utilised in) financing activities	14,162	(1,543)	(1,584)
Net increase/(decrease) in cash and cash equivalents	1,729	(5,331)	(1,929)
Cash, cash equivalents and bank overdrafts at beginning of period	(7,247)	(5,456)	(5,456)
Effect of exchange rate movements	(27)	60	138
Cash, cash equivalents and bank overdrafts at end of period	(5,545)	(10,727)	(7,247)
Cash, cash equivalents and bank overdrafts consist of:			
Cash and cash equivalents	463	348	451
Bank overdrafts	(6,008)	(11,075)	(7,698)
Cash, cash equivalents and bank overdrafts at end of period	(5,545)	(10,727)	(7,247)

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 2015

Cash flows from operating activities

	Six months to 30 September 2015 (unaudited) £'000	Six months to 30 September 2014 (unaudited) £'000	Twelve months to 31 March 2015 (audited) £'000
Loss before taxation	(4,465)	(516)	(184)
Interest payable	253	257	506
Interest receivable	(6)	–	(1)
Amortisation of intangible assets	180	191	377
Depreciation	1,768	1,799	3,749
Profit on disposal of property, plant and equipment	–	–	(5)
Share-based payments	194	75	205
Loss/(gain) on financial derivatives	146	(46)	(102)
Increase in provisions	9	21	17
(Increase)/decrease in inventories	(4,373)	(1,625)	166
Increase in trade and other receivables	(3,528)	(4,426)	(1,883)
Increase in trade and other payables	577	3,239	1,685
(Decrease)/increase in derivative financial instruments	(244)	–	798
Cash utilised in operations	(9,489)	(1,031)	(5,328)

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 3rd Floor, The Gateway, Innovation Way, Discovery Park, Sandwich, Kent, CT13 9FF. The Group is principally engaged in the development, design, sourcing and distribution of hobby and interactive home entertainment products.

The Company has its primary listing on the Alternative Investment Market and is registered in England No. 01547390.

This condensed consolidated half-yearly financial information was approved for issue on 8 December 2015.

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 2015 were approved by the Board of Directors on 18 June 2015 and delivered to the Registrar of Companies. The Report of the Auditors on those accounts was unqualified, but contained an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

Forward-looking statements

Certain statements in this half-yearly report are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to be correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

We undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

2. BASIS OF PREPARATION

This condensed consolidated half-yearly financial information for the half-year ended 30 September 2015 has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The half-yearly condensed consolidated financial report should be read in conjunction with the annual financial statements for the year ended 31 March 2015 which have been prepared in accordance with IFRS 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 2015, 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 2016 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 2015.

Financial instruments

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The condensed consolidated half-yearly financial report does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 March 2015.

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 2015. Further details of the Group's financial instruments are set out within note 8 of this half-yearly report as required by IFRS 13.

4. SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of the Company that makes strategic decisions.

Operating profit of each reporting segment includes revenue and expenses directly attributable to or able to be allocated on a reasonable basis. Segment assets and liabilities are those operating assets and liabilities directly attributable to or that can be allocated on a reasonable basis.

Management has determined the operating segments based on the reports reviewed by the Board (chief operating decision-maker) that are used to make strategic decisions.

Notes to the Condensed Consolidated Half-yearly Financial Report continued

4. SEGMENT INFORMATION continued

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 £'000	USA £'000	Spain £'000	Italy £'000	Rest of Europe £'000	Total Reportable Segments £'000
Six months ended						
30 September 2015 (unaudited)						
Total revenue	19,532	1,197	2,391	951	2,031	26,102
Inter-segment revenue	(2,406)	–	(1,318)	(82)	–	(3,806)
Revenue (from external customers)	17,126	1,197	1,073	869	2,031	22,296
Underlying loss before taxation	(2,297)	(67)	(108)	(523)	(443)	(3,438)
Foreign exchange on intercompany loans	65	–	–	–	–	65
Exceptional costs	(912)	–	–	–	–	(912)
Amortisation of intangible assets	(132)	–	–	(35)	(13)	(180)
Loss before taxation	(3,276)	(67)	(108)	(558)	(456)	(4,465)
Six months ended						
30 September 2014 (unaudited)						
Total revenue	18,806	1,291	4,886	1,621	2,720	29,324
Inter-segment revenue	(1,560)	–	(3,587)	(8)	–	(5,155)
Revenue (from external customers)	17,246	1,291	1,299	1,613	2,720	24,169
Underlying profit/(loss) before taxation	302	(8)	(198)	194	(45)	245
Foreign exchange on intercompany loans	(296)	–	–	–	–	(296)
Exceptional costs	(274)	–	–	–	–	(274)
Amortisation of intangible assets	(131)	–	–	(44)	(16)	(191)
(Loss)/profit before taxation	(399)	(8)	(198)	150	(61)	(516)

5. TANGIBLE, INTANGIBLE AND GOODWILL ASSETS

	Tangible, intangible and goodwill assets (unaudited) £'000
Six months ended 30 September 2015	
Opening net book amount 1 April 2015	22,795
Exchange adjustment	99
Additions	2,915
Disposals	–
Reclassification to asset held for sale	(1,191)
Depreciation, amortisation and impairment	(1,948)
Closing net book amount 30 September 2015	22,670

The additions comprise new product tooling (£1,533,000), property, plant and equipment (£158,000) and intangible assets – computer software (£1,224,000).

The Group has again performed impairment reviews as at 30 September 2015 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 2015 have remained constant with the impairment reviews conducted in March 2015.

At 30 September, the Group had a clear intention to sell the land and buildings held by the Company and remain in a sales process for the site. Therefore these assets have been reclassified as current assets under IFRS 5. The Group have exchanged contracts on part of the land and buildings held for sale and hopes to complete on this element of the sale by the end of the financial year.

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

	2015 (unaudited) £'000	2014 (unaudited) £'000
CAPITAL COMMITMENTS		
At 30 September commitments were:		
Contracted for but not provided for	1,250	1,822

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

Notes to the Condensed Consolidated Half-yearly Financial Report continued

6. SHARE CAPITAL

At 31 March 2015 the Group had 39,164,100 Ordinary 1p Shares in issue with nominal value £391,641 and following the move to the Alternative Investment Market and simultaneous new Ordinary Share issue on 12 August 2015 has, at 30 September 2015, 54,953,574 Ordinary 1p Shares in issue with a nominal value of £549,535 (2014 – £391,641).

No employee share options were exercised during the first half to 30 September 2015 (2014 – £nil).

7. BORROWINGS

	30 September 2015 (unaudited) £'000	30 September 2014 (unaudited) £'000	31 March 2015 (audited) £'000
Current:			
Bank overdrafts	6,008	11,075	7,698
Bank loans	46	51	49
	6,054	11,126	7,747
Non-current:			
Bank loans	144	202	163
Finance lease obligations	–	–	–
	144	202	163

At 30 September 2015 the UK had a £10,000,000 revolving credit facility expiring June 2019 (2014 – £13,000,000) that attracts interest at 2.9% above Libor. (2014 – 2.5% above Libor).

In the period to 30 September 2015 loan repayments were £21,000 (2014 – £1,543,000).

The drawdown amount on the revolving credit facility amounted to £8,000,000 (2014 – £10,250,000) 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 2015 and 31 March 2015. The table analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

There were no transfers or reclassifications between levels within the period. Level 2 hedging derivatives comprise forward foreign exchange contracts and an interest rate swap and have been fair valued using forward exchange rates that are quoted in an active market. The fair value of the following financial assets and liabilities approximate their carrying amount: Trade and other receivables, other current financial assets, cash and cash equivalents, trade and other payables and bank overdrafts and borrowings.

Fair values are determined by a process involving discussions between the Group finance team and the Audit Committee which occur at least once every six months in line with the Group's reporting dates.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Derivatives used for hedging	–	196	–	196
Total assets as at 30 September 2015	–	196	–	196
Liabilities				
Derivatives used for hedging	–	91	–	91
Total liabilities at 30 September 2015	–	91	–	91

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Derivatives used for hedging	–	519	–	519
Total assets at 31 March 2015	–	519	–	519
Liabilities				
Derivatives used for hedging	–	24	–	24
Total liabilities at 31 March 2015	–	24	–	24

9. TAXATION

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

Notes to the Condensed Consolidated Half-yearly Financial Report continued

10. (LOSS)/EARNINGS PER SHARE

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

	30 September 2015 (unaudited)	30 September 2014 (unaudited)	31 March 2015 (audited)
(Loss)/earnings per share from continuing operations attributable to the equity of the Company			
– basic	(6.30)p	(1.30)p	(0.31)p
– diluted	(6.30)p	(1.30)p	(0.31)p
– underlying	(4.81)p	0.24p	(3.38)p

11. DIVIDENDS

No interim dividend has been declared for the interim period ended 30 September 2015 (2014 – £nil).

12. CONTINGENT LIABILITIES

The Company and its subsidiary undertakings are, from time to time, parties to legal proceedings and claims, which arise in the ordinary course of business. The Directors do not anticipate that the outcome of these proceedings and claims, either individually or in aggregate, will have a material adverse effect upon the Group's financial position.

13. RELATED-PARTY TRANSACTIONS

Key management compensation amounted to £1,573,000 for the six months to 30 September 2015 (2014 – £1,052,000). Key management include Directors and senior management within the organisation. For the period to 30 September 2015 there was an increase in the salaries compared to the same period last year because of the handover period and timing of new Director appointments year-on-year.

	30 September 2015 (unaudited) £'000	30 September 2014 (unaudited) £'000	31 March 2015 (audited) £'000
Salaries and other short-term benefits	1,213	885	1,799
Other pension costs	166	92	171
Share-based payments	194	75	205
	1,573	1,052	2,175

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 £37,000 in relation to these services to 28One since 1 April 2015. No outstanding payments remained payable to 28One as at 30 September 2015. 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 12 and 13 of the Group's Annual Report for the year ended 31 March 2015 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 2015 sales represented 38% of the annual sales for the year ended 31 March 2015 (2014 – 47% of the annual sales for the year ended 31 March 2014).

By order of the Board

Richard Ames

Chief Executive

8 December 2015

Steve Cooke

Group Finance Director

8 December 2015

Shareholders' Information Service

Hornby welcomes contact with its shareholders.

If you have questions or enquiries about the Group or its products, please contact:

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