Hornby PLC

Interim Report

CONDENSED CONSOLIDATED

HALF-YEARLY FINANCIAL REPORT

SIX MONTHS TO 30 SEPTEMBER 2012

Contents

Interim Management Report

The Group issued a trading update on 25 September 2012, which specified three major factors that would constrain Group performance in the current financial year:

1. Very substantial disruption to supplies caused by a major rationalisation programme being implemented by one of our largest suppliers in China.
2. Disappointing sales of London 2012 merchandise.
3. General weakness in demand in our major markets – particularly the UK.

Our broad spread of categories and brands provide a solid basis from which to work through the current challenges and secure a long-term future. However, as previously announced, the result for this financial year is likely to be approximately break-even, primarily due to the supply chain disruption mentioned above.

Financials

During the period, turnover was £27.0 million, a decrease of 5% compared to the corresponding period last year. Our European businesses were heavily constrained as a result of the supply chain disruption mentioned above and sales fell by 30%. This was particularly frustrating as demand for our products in Europe continues to be encouraging. Sales in the UK business increased by 3% over the corresponding period last year, although this year sales benefited from £3.5 million relating to London 2012 products. Stripping out London 2012 sales from both years, sales fell by 15% compared to the corresponding period last year.

Gross margins fell as a result of product and market mix as sales of model railway products in Europe decreased. Lower margins were realised on sales of London 2012 products and we have made provisions against remaining London 2012 inventory. A loss before tax of £0.3 million was incurred (2011 – profit £1.2 million) before amortisation of intangibles and net foreign exchange adjustments on intercompany loans (hereafter referred to as underlying loss before tax). Statutory loss before tax was £0.5 million (2011 – profit £1.0 million).

The Group has banking facilities of £16.0 million in the UK. These facilities comprise a £6.0 million term loan which expires in July 2014 and a £10.0 million Secured Money Market Loan which expires in August 2015. The Group also has additional facilities of £2.5 million in place in its European subsidiaries. Net debt as at 30 September 2012 was £6.5 million compared to £12.8 million as at September 2011. The significant reduction in net debt year on year reflects cash generated from a planned programme of working capital reduction. The Group is currently operating within its banking covenants. To ensure that management's expected borrowing requirements continue to deliver sufficient operating headroom within covenants for the duration of the current facilities, the Group has been offered amended UK facility terms by its principal banker Barclays Bank Plc, which the Board expects to approve shortly.

Interim Management Report (continued)

Dividend

The full year dividend for the year to 31 March 2012, due to be paid on 21 December 2012 will be paid as announced.

In view of the difficult trading outlook for the full year, the Board is not proposing to pay an interim dividend (2011 – dividend paid 1.7p). It is the Board's intention that future dividend payments should be resumed as soon as trading performance allows.

Operating Review

UK

Turnover of £21.1 million was above the previous year (2011 – £20.5 million). Underlying profit before tax of £0.6 million was below the previous year (2011 – £1.4 million) and included the provisions against London 2012 inventory referred to above. Whilst overall sales were above the previous year, the core business excluding London 2012 merchandise was down. A combination of continued reluctance amongst retailers to take in stocks ahead of demand, coupled with supply chain constraints in model railways, has resulted in reduced order intake from all channels of distribution. We are expecting that this pattern will continue through the Christmas period and we are therefore cautious in our expectations for the second half of the financial year. However we have been encouraged by the rate of sale of a number of our lower priced product ranges recently introduced into mass market outlets as a result of the London 2012 legacy of gaining broader mass market distribution for our brands. In particular we are pleased with the rate of sale of our Airfix Starter Sets, retailing from £7.99 and also our Corgi 'Toys' range retailing from £2 and upwards. The Corgi Toys range has recently won its third award this year. The 'Toytalk' Awards named the Corgi Toys range the winner in 'best new toy car' category for 2012.

In Hornby, model railway products sales were constrained to an extent by shortage of deliveries from China. However demand for model railways in the UK has been lower than in the previous year. We are continuing to develop locomotives and rolling stock to our revised 'design clever' specification. This approach enables us to offer excellent value for money on products developed and priced at a slightly lower specification than our high detail products, whilst maintaining margins. This approach, already proven in the marketplace will enable us to accommodate, to an extent, the continuing trend of increased labour costs at our vendors in China.

Sales of Scalextric were slightly lower than last year and this trend is likely to continue into the second half. For 2013 we will be launching new ranges of Scalextric products offering improved play features at competitive prices. Sales of Airfix grew in the first half, and we are expecting this brand, which is not constrained by supply issues, to demonstrate further growth in the second half. A combination of increased listings in major retailers for our Starter Set products, retailing at keen prices, coupled with a positive reaction from the markets to our continued introductions of new products aimed at the adult hobbyist give confidence that we will be able to continue to grow sales of Airfix.

Sales of Corgi products grew in the half and we expect this trend to continue, based on sales of our Corgi Toys range and continued introductions in the Collector ranges.

Our online and direct marketing sales continue to show encouraging growth. By Christmas this year we expect to have completed the redesign and relaunch of all our websites to provide cross-selling facilities and 'single-basket' shopping across all our brands.

Continental Europe

Sales in our continental European subsidiaries were particularly badly affected by the model railway supply chain disruption, as the proportion of sales represented by model railways in our European subsidiaries is significantly higher than in the UK. As a result of this, turnover was £4.8 million compared to £6.9 million last year. Underlying loss before tax of £0.8 million was adverse to the previous year (2011 – £0.2 million loss). We expect the disruption to continue during the second half. However we continue to make good progress in bringing additional suppliers on stream in China and we expect to be able to work through the process of diversifying our supply base over the next twelve months. In doing so we expect to be able to arrive at a more balanced supply base for the future.

USA

Turnover of £1.1 million was slightly above the £1.0 million achieved in the corresponding period last year. The underlying loss before tax was similar to last year. Our US subsidiary is exposed only to a small extent to the model railway market and therefore has been largely unaffected by the supply chain issues affecting other subsidiaries.

Current Trading

In the UK, as indicated above, sales in the second half are expected to be below the previous year. However, we are encouraged that sales to the consumer via our chain of in-store concessions continue at a higher level than last year. The retail landscape continues to undergo a period of significant change in the UK. The swing towards e-commerce sales of our products, via the sites of specialist on-line retailers as well as the e-commerce sites of our 'bricks and mortar' retailers, continues. Our own e-commerce sites are trading well and we will continue to develop this channel of distribution. Trading in Continental Europe will continue to be adversely affected by product shortages. However demand for our products in Europe continues to be strong and we expect to be able to fulfil this demand in the future as our new sources of supply continue to increase output.

Board Changes

The appointment of Roger Canham to the Board, as a non-executive director, was announced on 6 November 2012. Roger has extensive experience of innovation and profitable development of similar scale businesses to Hornby. He is well known and respected by a number of our major shareholders, and is keen to become fully engaged in the business. I have announced my intention to retire from the Board on 1 February 2013. On that date Roger Canham will succeed me as Chairman. We welcome Roger to the Board and look forward to a long and mutually successful relationship.

Interim Management Report (continued)

Outlook

We enter the second half of the year focused on managing the supply chain challenge that has now come to a head. For a number of years, Group performance has been periodically constrained as a result of problems with our largest supplier in China. Our dependence on that supplier has already been significantly reduced. This process will continue as our new suppliers increase their capacities and our largest supplier continues to work through its rationalisation process.

Against this background, we have redoubled our efforts in innovation and product development, building on our core brand strengths and also extending our reach based on newly developed technologies. At the same time we are implementing a rigorous cost control regime in order to align overheads more closely with our future business.

In conclusion, whilst we face some significant short-term challenges, we are working hard to address these and in so doing, establish a base from which the Group can grow more securely in the future.

Neil A Johnson
Chairman

9 November 2012

Statement of Comprehensive Income

for the six months ended 30 September 2012

	Notes	Six months to 30 September 2012 (unaudited) £'000	Six months to 30 September 2011 (unaudited) £'000	Twelve months to 31 March 2012 (audited) £'000
REVENUE	4	**26,962**	28,353	64,447
Cost of Sales		**(15,430)**	(14,543)	(33,290)
GROSS PROFIT		**11,532**	13,810	31,157
Distribution costs		**(1,114)**	(1,163)	(2,571)
Selling and marketing costs		**(5,745)**	(6,160)	(13,761)
Administrative expenses		**(4,304)**	(4,618)	(9,029)
Other operating expenses		**(634)**	(526)	(1,054)
OPERATING (LOSS)/PROFIT		**(265)**	1,343	4,742
Finance income		**4**	21	26
Finance costs		**(280)**	(405)	(779)
(LOSS)/PROFIT BEFORE TAXATION	4	**(541)**	959	3,989
Analysed as:				
Underlying (loss)/profit before taxation		**(288)**	1,201	4,526
Net foreign exchange impact on intercompany loans		**(62)**	(45)	(145)
Amortisation of intangible assets		**(191)**	(197)	(392)
(LOSS)/PROFIT BEFORE TAXATION	4	**(541)**	959	3,989
Taxation	8	**134**	(438)	(825)
(LOSS)/PROFIT FOR THE PERIOD AFTER TAXATION		**(407)**	521	3,164
OTHER COMPREHENSIVE (LOSS)/INCOME				
Cash flow hedges, net of tax		**(90)**	564	300
Currency translation differences		**(19)**	2	(16)
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX		**(109)**	566	284
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		**(516)**	1,087	3,448
EARNINGS PER ORDINARY SHARE				
Basic		**(1.04)p**	1.36p	8.19p
Diluted		**(1.04)p**	1.34p	8.12p

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 2012

	Notes	**30 September 2012 (unaudited) £'000**	30 September 2011 (unaudited) £'000	31 March 2012 (audited) £'000
ASSETS				
NON-CURRENT ASSETS				
Goodwill		**12,837**	13,228	13,059
Intangible assets		**4,106**	4,587	4,350
Property, plant and equipment		**9,784**	10,736	10,022
Deferred income tax assets		**639**	109	538
		27,366	28,660	27,969
CURRENT ASSETS				
Inventories		**17,791**	19,980	17,867
Trade and other receivables		**14,993**	17,934	13,169
Derivative financial investments		**31**	450	104
Current tax assets		**276**	303	61
Cash and cash equivalents		**692**	375	1,952
		33,783	39,042	33,153
LIABILITIES				
CURRENT LIABILITIES				
Borrowings	7	**(3,823)**	(6,772)	(3,474)
Derivative financial instruments		**(1,615)**	(2,514)	(2,155)
Trade and other payables		**(12,189)**	(13,822)	(9,822)
Provisions		**(359)**	(449)	(324)
Current tax liabilities		**(355)**	(502)	(705)
		(18,341)	(24,059)	(16,480)
NET CURRENT ASSETS		**15,442**	14,983	16,673
NON-CURRENT LIABILITIES				
Borrowings	7	**(3,326)**	(6,434)	(4,888)
Deferred tax liabilities		**(610)**	(343)	(573)
		(3,936)	(6,777)	(5,461)
NET ASSETS		**38,872**	36,866	39,181
SHAREHOLDERS' EQUITY				
Share capital	6	**392**	385	392
Share premium		**6,180**	5,643	6,180
Capital redemption reserve		**55**	55	55
Translation reserve		**(564)**	(527)	(545)
Hedging reserve		**(277)**	77	(187)
Other reserves		**1,688**	1,688	1,688
Retained earnings		**31,398**	29,545	31,598
TOTAL EQUITY		**38,872**	36,866	39,181

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 2012

	Share capital (unaudited) £'000	Share premium (unaudited) £'000	Capital redemption reserve (unaudited) £'000	Translation reserve (unaudited) £'000	Hedging reserve (unaudited) £'000	Other reserves (unaudited) £'000	Retained earnings* (unaudited) £'000	Total equity (unaudited) £'000
Balance at 1 April 2012	**392**	**6,180**	**55**	**(545)**	**(187)**	**1,688**	**31,598**	**39,181**
Exchange adjustment offset in reserves	–	–	–	(19)	–	–	–	(19)
Cash flow hedges	–	–	–	–	(90)	–	–	(90)
Net income recognised directly in reserves	–	–	–	(19)	(90)	–	–	(109)
Loss for the period	–	–	–	–	–	–	(407)	(407)
Total comprehensive loss for the period	–	–	–	(19)	(90)	–	(407)	(516)
Transactions with owners								
Share-based payments	–	–	–	–	–	–	117	117
Shares vested from Short Term Incentive Plan	–	–	–	–	–	–	90	90
	–	–	–	–	–	–	207	207
Balance at 30 September 2012	**392**	**6,180**	**55**	**(564)**	**(277)**	**1,688**	**31,398**	**38,872**
Balance at 1 April 2011	**385**	**5,643**	**55**	**(529)**	**(487)**	**1,688**	**30,014**	**36,769**
Exchange adjustment offset in reserves	–	–	–	2	–	–	–	2
Cash flow hedges	–	–	–	–	564	–	–	564
Net income recognised directly in reserves	–	–	–	2	564	–	–	566
Profit for the period	–	–	–	–	–	–	521	521
Total comprehensive income for the period	–	–	–	2	564	–	521	1,087
Transactions with owners								
Share-based payments	–	–	–	–	–	–	188	188
Shares vested from Short Term Incentive Plan	–	–	–	–	–	–	90	90
Dividends	–	–	–	–	–	–	(1,268)	(1,268)
	–	–	–	–	–	–	(990)	(990)
Balance at 30 September 2011	**385**	**5,643**	**55**	**(527)**	**77**	**1,688**	**29,545**	**36,866**

* Retained earnings includes amounts that are not distributable including £613,000 at 30 September 2012 (2011 – £630,000) 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 2012

	Six months to 30 September 2012 (unaudited) £'000	Six months to 30 September 2011 (unaudited) £'000	Twelve months to 31 March 2012 (audited) £'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(utilised in) operations	**1,850**	(2,646)	5,856
Interest received	**4**	21	26
Interest paid	**(280)**	(405)	(779)
Tax paid	**(495)**	(515)	(656)
Net cash generated from/(utilised in) operating activities	**1,079**	(3,545)	4,447
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment	**28**	1	1
Purchase of property, plant and equipment	**(1,543)**	(2,065)	(3,787)
Net cash generated from/(utilised in) investing activities	**(1,515)**	(2,064)	(3,786)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of ordinary shares	**–**	–	544
Repayments of loans	**(1,542)**	(1,038)	(2,577)
Finance lease capital payments	**(38)**	(14)	(29)
Dividends paid to Company's shareholders	**–**	(1,268)	(1,932)
Net cash utilised in financing activities	**(1,580)**	(2,320)	(3,994)
Effect of exchange rate movements	**389**	256	527
Net decrease in cash and cash equivalents	**(1,627)**	(7,673)	(2,806)
Cash, cash equivalents and bank overdrafts at beginning of period	**1,591**	4,397	4,397
CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS AT END OF PERIOD	**(36)**	(3,276)	1,591
CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS CONSIST OF:			
Cash and cash equivalents	**692**	375	1,952
Bank overdrafts	**(728)**	(3,651)	(361)
CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS AT END OF PERIOD	**(36)**	(3,276)	1,591

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 2012

Cash flows from operating activities

	Six months to 30 September 2012 (unaudited) £'000	Six months to 30 September 2011 (unaudited) £'000	Twelve months to 31 March 2012 (audited) £'000
(Loss)/profit before taxation	**(541)**	959	3,989
Interest payable	**280**	405	779
Interest receivable	**(4)**	(21)	(26)
Amortisation of intangible assets	**191**	197	392
Depreciation	**1,834**	1,672	3,914
Share-based payments	**117**	188	262
Gain on financial derivatives	**(19)**	(116)	(18)
Increase/(decrease) in provisions	**35**	36	(89)
Decrease/(increase) in inventories	**76**	(3,767)	(1,654)
(Increase)/decrease in trade and other receivables	**(1,824)**	(4,272)	479
Increase/(decrease) in trade and other payables	**1,705**	2,073	(2,172)
CASH GENERATED FROM/(UTILISED IN) OPERATIONS	**1,850**	(2,646)	5,856

Notes to Condensed Consolidated Half-yearly Financial Report

1. GENERAL INFORMATION

The Company is a public limited liability company incorporated and domiciled in the UK. The address of the registered office is 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 9 November 2012.

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 2012 were approved by the Board of Directors on 8 June 2012 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 2012 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The half-yearly condensed consolidated financial report should be read in conjunction with the annual financial statements for the year ended 31 March 2012 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, show that the Group should be able to operate within its amended banking facilities. 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 2012, 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.

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 2012.

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 interim 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 2012.

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 2012.

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 2013 that have a material impact on the Group's results.

Notes (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, US, 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 2012						
Total revenue	22,570	1,051	3,319	1,568	2,121	**30,629**
Inter-segment revenue	(1,467)	–	(2,191)	(9)	–	**(3,667)**
Revenue (from external customers)	**21,103**	**1,051**	**1,128**	**1,559**	**2,121**	**26,962**
Underlying profit/(loss) before taxation	555	(60)	(477)	(113)	(193)	**(288)**
Foreign exchange on intercompany loans including impact of foreign exchange collar	(62)	–	–	–	–	**(62)**
Amortisation of intangible assets	(131)	–	–	(44)	(16)	**(191)**
Profit/(loss) before taxation	**362**	**(60)**	**(477)**	**(157)**	**(209)**	**(541)**
Six months ended 30 September 2011						
Total revenue	22,028	983	4,632	2,682	2,764	33,089
Inter-segment revenue	(1,562)	–	(3,159)	(15)	–	(4,736)
Revenue (from external customers)	20,466	983	1,473	2,667	2,764	28,353
Underlying profit/(loss) before taxation	1,424	(42)	(160)	44	(65)	1,201
Foreign exchange on intercompany loans including impact of foreign exchange collar	(45)	–	–	–	–	(45)
Amortisation of intangible assets	(131)	–	–	(49)	(17)	(197)
Profit/(loss) before taxation	1,248	(42)	(160)	(5)	(82)	959

Hornby Hobbies Limited, the Group's UK trading subsidiary, has granted Euro denominated intercompany loans to sister subsidiary companies that are translated to Sterling at statutory period ends thereby creating exchange gains or losses. In order to mitigate the exchange exposure, Hornby Hobbies Limited has entered a foreign exchange collar contract to sell an equal number of Euros in October 2013 that will be revalued by an approximately similar but opposite Sterling value at each period end.

The foreign exchange collar is for a principal amount of Euro 16.0 million (2011 – Euro 16.5 million) and is in place to minimise exposure to Euro denominated intercompany loans.

The amount shown in the table above comprises losses on translation of intercompany loans of £600,000 (2011 – loss of £401,000), offset by a gain on marking to market the foreign exchange collar of £538,000 (2011 – gain of £356,000).

Beneficial cumulative profit impact of the collar from inception to 3 October 2013 is expected to be a minimum of £330,000 if the exchange rate exceeds the strike rate of €1.4300:£, increasing to a maximum of £676,000 at the participation cap rate of €1.3870:£ compared to the intercompany loans Sterling valuation at 31 March 2007 (€1.4734:£).

As at 30 September 2012 the profit impact is a gain of £606,000. Therefore in the period 1 October 2012 to 30 September 2013 there will be an adjustment to the Statement of Comprehensive Income between a £70,000 profit and £276,000 charge.

The fluctuation of foreign exchange and resultant impact on intercompany loans and foreign exchange collar is set out below:

Date		Foreign exchange rate € : £	Intercompany Euro loan in Sterling £'000	Gain/(loss) on loan £'000	Fair value collar £'000	Net gain/ (loss) in profit before tax £'000
06 Aug 2007	Transaction	1.47	11,199	–	–	–
31 Mar 2008		1.25	13,156	1,957	(1,346)	611
31 Mar 2009		1.08	15,288	4,089	(3,270)	208
31 Mar 2010		1.12	14,722	3,523	(2,774)	(70)
31 Mar 2011		1.13	14,606	3,407	(2,552)	106
31 Mar 2012		1.20	13,750	2,551	(1,821)	(125)
30 Sep 2012		1.25	12,748	1,889	(1,283)	(124)
Total gain to profit before tax						**606**

Prior to expiry in October 2013 Hornby Hobbies Limited intends to enter a new one year foreign exchange collar contract that will include the current collar mark-to-market valuation and have no cash impact.

5. TANGIBLE, INTANGIBLE AND GOODWILL ASSETS

Six months ended 30 September 2012	**Tangible, intangible and goodwill assets (unaudited) £'000**
Opening book amount 1 April 2012	**27,431**
Exchange adjustment	**(407)**
Additions	**1,757**
Disposals	**(29)**
Depreciation, amortisation and impairment	**(2,025)**
Closing net book amount 30 September 2012	**26,727**

The additions relate to new product tooling (£1,677,000) and property, plant and equipment (£80,000).

Six months ended 30 September 2011	Tangible, intangible and goodwill assets (unaudited) £'000
Opening book amount 1 April 2011	28,400
Exchange adjustment	(254)
Additions	2,275
Disposals	(1)
Depreciation, amortisation and impairment	(1,869)
Closing net book amount 30 September 2011	28,551

CAPITAL COMMITMENTS	**2012 (unaudited) £'000**	2011 (unaudited) £'000
At 30 September commitments were:		
Contracted for but not provided for	**2,266**	1,442

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 2012 and 30 September 2012 (2011 – £384,641).

No employee share options were exercised during the first half to 30 September 2012 (2011 – nil share options).

7. BORROWINGS

	30 September 2012 (unaudited) £'000	30 September 2011 (unaudited) £'000	31March 2012 (audited) £'000
CURRENT:			
Bank overdrafts	**728**	3,651	361
Bank loans	**3,049**	3,051	3,051
Finance lease obligations	**46**	70	62
	3,823	6,772	3,474
NON-CURRENT:			
Bank loans	**3,311**	6,390	4,851
Finance lease obligations	**15**	44	37
	3,326	6,434	4,888

At 30 September 2012 the Group had a £10,000,000 revolving credit facility expiring August 2015 (2011 – £10,000,000) that attracts interest at 2.5% above Libor and a fixed-term loan of £6,000,000 with payments scheduled to July 2014 (2011 – £11,000,000) that attracts interest at 3.6% above Libor.

In the period to 30 September 2012 loan repayments were £1,542,000 (2011 – £1,038,000).

The drawdown amount on the revolving credit facility amounted to £nil (2011 – £3,100,000) is included within bank overdrafts.

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

8. TAXATION

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

Notes (continued)

9. EARNINGS PER SHARE

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

	30 September 2012 (unaudited)	30 September 2011 (unaudited)	31 March 2012 (audited)
Earnings per share for profit from continuing operations attributable to the equity of the Company			
– basic	**(1.04)p**	1.36p	8.19p
– diluted	**(1.04)p**	1.34p	8.12p

10. DIVIDENDS

The final dividend that related to the financial year ended 31 March 2012 amounted to £783,000 (2011 – £1,268,000) is to be paid on 21 December 2012.

No interim dividend (2011 – 1.7p) has been declared for the interim period ended 30 September 2012 (2011 – £654,000).

11. CONTINGENT LIABILITIES

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

HMRC are currently performing a review of Hornby Hobbies Limited's previously agreed accelerated capital allowances for product tooling. The review is ongoing, however were HMRC to overturn the previously agreed treatment there would as at 30 September 2012 be a maximum £1.1 million cash outflow.

12. RELATED-PARTY TRANSACTIONS

Key management compensation amounted to £1,067,000 for the six months to 30 September 2012 (2011 – £1,161,000).

	30 September 2012 (unaudited) £'000	30 September 2011 (unaudited) £'000	31 March 2012 (audited) £'000
Salaries and other short-term benefits	**1,067**	1,161	2,002
Post-employment benefits	**108**	110	261
Share-based payments	**117**	188	244
	1,292	1,459	2,507

There are no other related-party transactions.

13. EVENTS OCCURING AFTER THE BALANCE SHEET DATE

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

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 17 and 18 of the Group's Annual report for the year ended 31 March 2012 provide a description of each risk along with the associated impact and mitigating actions. The issues surrounding supply chain, liquidity, market conditions and London 2012 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 2012 sales represented 42% (2011 – 45%) of the annual sales for the year ended 31 March 2012.

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 years; and

- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The directors of Hornby PLC are listed in the Hornby PLC Annual Report for 31 March 2012. A list of current directors is maintained on the Hornby PLC website: www.hornby.com.

By order of the Board

Frank Martin
Chief Executive

9 November 2012

Andrew Morris
Finance Director

9 November 2012

Independent Review Report to Hornby PLC

INTRODUCTION

We have been engaged by the Company to review the condensed consolidated half-yearly financial information in the condensed consolidated half-yearly financial report for the six months ended 30 September 2012 which comprises the statement of comprehensive income, the balance sheet, the statement of changes in equity, the statement of cash flows, the note to the statement of cash flows and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated half-yearly financial information.

DIRECTORS' RESPONSIBILITIES

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

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

OUR RESPONSIBILITY

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated half-yearly financial information in the half-yearly financial report for the six months ended 30 September 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
Gatwick
9 November 2012

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 half-yearly financial information since it was initially presented on the website.

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

SHAREHOLDERS' INFORMATION SERVICE

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

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

Designed and produced by **Emperor Design Consultants Ltd**
Telephone **+44 (0)20 7729 9090 www.emperordesign.co.uk**

Hornby PLC
Westwood,
Margate,
Kent
CT9 4JX
www.hornby.com