



# Hornby PLC

## Interim Report

CONDENSED CONSOLIDATED  
HALF-YEARLY FINANCIAL REPORT  
SIX MONTHS TO 30 SEPTEMBER 2011

# Interim Management Report

Your Board is pleased to update shareholders on the solid progress that the Group is making. During the period under review the Group has made excellent progress in building sales in Continental Europe and has laid the foundations for further strong performance in the United Kingdom. This will be enhanced in the short term by the London 2012 Games opportunity, and underpinned by impressive product development initiatives designed to continue this trend in the future. The Group is in good financial health. Our broad spread of categories and brands, coupled with increasing geographic reach places us in a strong position to continue to drive growth.

## Financials

During the period, turnover was £28.4 million, an increase of 11% compared to the corresponding period last year. Our European businesses grew by 50% as our improved supply chain allowed us to meet more of the demand for our products in Europe. Sales in the more mature UK business increased by 4% over the corresponding period last year. Whilst, in common with most consumer goods markets, our UK retailers are being cautious in placing their orders, our major retail listings are at higher levels than in previous years.

Operating margins have improved as a result of product and market mix as sales of model railway products in Europe have increased. Pre-tax profit before amortisation of intangibles and net foreign exchange adjustments on intercompany loans (hereafter referred to as underlying pre-tax profits) has increased by 80% to £1.2 million (2010 – £0.7 million). Statutory pre-tax profit was £1.0 million (2010 – £0.5 million).

Net debt was £12.8 million compared to £10.8 million as at 30 September 2010 (£6.1 million at 31 March 2011). The cash outflow during the first six months is consistent with the seasonal build in working capital. This year the improved performance of our supply chain, together with an increase of stocks ahead of the London 2012 sales period resulted in higher levels of inventory at the half year, compared to last year.

The Group has recently re-negotiated banking facilities of £19 million in the UK consisting of a £9 million amortising Term Loan which expires in July 2014 and a £10 million Revolving Credit Facility which expires in August 2015.

## Dividend

The Board is proposing to pay a half year dividend of 1.7p, (2010 – 1.7p) in line with previous practice of paying one third of the total prior year dividend as an interim payment. The interim dividend will be paid on 27 January 2012 to shareholders on the register as at 16 December 2011.

## Operating Review

One of the key features of the period has been the improved performance of our major suppliers in China. In particular, supplies to our Continental European businesses have been significantly greater than previously. This has improved our ability to meet the growing demand for our products in Continental Europe. We are particularly pleased with the progress, albeit from a low base, that we have made in Germany. Germany is by far the largest and most discerning model railway market in Europe. We are now demonstrating that our formula of developing products in Europe, and

# Interim Management Report (continued)

manufacturing in China, is capable of success across all the major European markets.

## UK

Sales in the UK have been more muted, increasing by 4%. However sales direct to the consumer via our chain of in-store concessions are showing good year on year growth. We are anticipating a stronger pre-Christmas trading period than last year which was adversely affected by unusually severe weather in the final weeks of the year. Increased exposure prior to Christmas of our London 2012 Olympic and Paralympic Games ranges in a number of major retailers will result in additional sales and should form the basis of broader distribution from the first quarter of 2012.

Sales of Hornby model railway products were higher than last year. In particular, sales of our new "Tornado" locomotive were very encouraging. This locomotive is designed and priced at a slightly lower specification than our high detail products, whilst maintaining margins. In the current economic climate it seems that a proportion of our hobby customers would prefer a slightly less detailed product, available at a more competitive price point. We will bear this in mind in shaping our future product development plans to meet the needs of those customers seeking high detail at higher price points and also those preferring lower price points with slightly less detail.

Sales of Scalextric were lower than last year. This was partly as a result of retailers delaying stock intake until closer to Christmas and also the fact that last year we experienced particularly good sales of our Toy Story 3 products. Scalextric sales to the consumer are skewed towards the final quarter of the

calendar year. Our major account listings are strong and we expect sales to the consumer to pick up as we approach the Christmas period. Development of our range of Star Wars licensed Scalextric products is at an advanced stage and we expect this key competitive advantage to give a significant boost to Scalextric sales around the world from 2012 onwards.

Sales of Airfix continue to grow as we extend our distribution of this product range both in the UK and overseas. The all-in-one gift sets continue to be a major driver of growth. Development of new ranges of 1:48 scale military vehicles, aircraft and figurines based on the equipment currently employed by the British army is nearing completion. We expect this new range to be very successful when it is launched early in 2012.

Sales of Corgi products grew in the half, assisted by sales of our London 2012 merchandise. Development of new Corgi ranges designed to build on the success of our London 2012 range is proceeding according to plan. We have an exciting programme of new product and category launches which will commence early in 2012. We are delighted to have secured worldwide toy manufacturing rights to a new children's television series "Ollie the Little White Van" which is currently airing on Children's ITV. Viewing ratings are very encouraging. We plan to launch our ranges at the London Toy Fair in January and first shipments to the market will commence in June 2012.

Our Airfix and Corgi brands continue to enable us to develop new categories aimed at lower price point mass-market distribution and sales.

Our online presence continues to grow. We have recently launched a new Hornby website which will facilitate e-commerce retailing across all our UK brands. From early 2012 consumers will be able to browse freely for information and make purchases from a single "basket" across our brand portfolio. We continue to develop our online community via our own websites and via social networking sites such as YouTube, Twitter and Facebook.

Our London 2012 range is gaining wide distribution. We are opening new channels of distribution and the rate of sale of our products is encouraging. We expect sales to continue to build, particularly as we enter the year of the Games. We are delighted also to have achieved encouraging distribution in China for our London 2012 products. We have established a trading relationship with the Chinese company that is making the London 2012 pin badges. This company plans to distribute our products in up to 2,000 retail outlets in China, where interest in the London Games is high, following the Beijing Games. We have already made the first shipments and we expect this new market to be an important contributor to our London 2012 sales.

The Hornby Heritage Visitor Centre at our headquarters in Margate, Kent continues to attract large numbers of visitors. Since opening in July 2010 we have welcomed over 45,000 paying visitors. Visitor numbers continue to show healthy year on year growth and revenues are growing in line with this.

### **Continental Europe**

Sales in our continental European subsidiaries were extremely encouraging. Turnover was £6.9 million compared to £4.6 million last year.

Improved supplies from our sources in China enabled our European subsidiaries to meet more of the strong demand for our products. We expect this trend to continue in the second half and beyond. As previously reported our competitors in continental Europe are still suffering with their own structural problems. We believe that the opportunity for Hornby Group to build a substantial and profitable model railway business in Europe continues to be just as great as we foresaw when we embarked on our European growth strategy.

### **USA**

Turnover of £1.0 million was below the £1.2 million achieved in the corresponding period last year. However following the structural review of our organisation in the USA that we carried out last year, net contribution to Group profit improved year on year.

### **Current Trading**

Current trading continues strongly in Continental Europe and we expect a positive outcome for the year. In the UK, sales to the consumer via our chain of in-store concessions continue at a higher level than last year.

The retail landscape is undergoing a period of significant change in the UK. There is a marked 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. This trend will result in sales taking place later in the pre-Christmas cycle as consumers buying on line continue to purchase well into December.

This makes forecasting at this stage of the year more difficult, against a background of trading conditions that are likely to be generally challenging, although our retail listings are

# Interim Management Report (continued)

stronger than ever. However, in the medium term we believe that this trend will play to our strengths as owners of the best known consumer brands in our sector.

## Outlook

We enter the second half of the year with our European businesses performing well and with every expectation of a good performance for the full year. We expect to be able to build upon this in the following years as we continue to establish the Hornby Group as a key supplier of model railways across Europe.

In the UK, over the course of the next twelve months the benefit of our London 2012 sales will help to cushion the Group against challenges in the wider economic environment. For the latter part of 2012 and beyond, we have developed ranges to replace the London 2012 volume and at the same time take advantage of the increased distribution that we have achieved as a result of the Games.

## Neil A Johnson

Chairman

10 November 2011

# Statement of Comprehensive Income

for the six months ended 30 September 2011

	Notes	Six months to 30 September 2011 (unaudited) £'000	Six months to 30 September 2010 (unaudited) £'000	Twelve months to 31 March 2011 (audited) £'000
<b>REVENUE</b>	4	<b>28,353</b>	25,548	63,372
Cost of Sales		<b>(14,543)</b>	(13,861)	(34,095)
<b>GROSS PROFIT</b>		<b>13,810</b>	11,687	29,277
Distribution costs		<b>(1,163)</b>	(1,115)	(2,579)
Selling and marketing costs		<b>(6,160)</b>	(5,391)	(12,882)
Administrative expenses		<b>(4,618)</b>	(4,177)	(8,406)
Other operating expenses		<b>(526)</b>	(146)	(519)
<b>OPERATING PROFIT</b>		<b>1,343</b>	858	4,891
Finance income		<b>21</b>	49	64
Finance costs		<b>(405)</b>	(379)	(826)
<b>PROFIT BEFORE TAXATION</b>	4	<b>959</b>	528	4,129
Analysed as:				
Underlying profit before taxation		<b>1,201</b>	668	4,423
Net foreign exchange impact on intercompany loans		<b>(45)</b>	54	96
Amortisation of intangible assets		<b>(197)</b>	(194)	(390)
<b>PROFIT BEFORE TAXATION</b>	4	<b>959</b>	528	4,129
Taxation	8	<b>(438)</b>	(224)	(1,274)
<b>PROFIT FOR THE PERIOD AFTER TAXATION</b>		<b>521</b>	304	2,855
<b>OTHER COMPREHENSIVE INCOME</b>				
Cash flow hedges, net of tax		<b>564</b>	(920)	(655)
Currency translation differences		<b>2</b>	(22)	(15)
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>		<b>566</b>	(942)	(670)
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>1,087</b>	(638)	2,185
<b>EARNINGS PER ORDINARY SHARE</b>				
Basic		<b>1.36p</b>	0.80p	7.50p
Diluted		<b>1.34p</b>	0.70p	7.43p

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 2011

	30 September 2011 (unaudited) £'000	30 September 2010 (unaudited) £'000	31 March 2011 (audited) £'000
Notes			
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Goodwill	13,228	13,258	13,372
Intangible assets	4,587	4,987	4,820
Property, plant and equipment	10,736	10,112	10,208
Deferred income tax assets	109	137	109
	<b>28,660</b>	28,494	28,509
<b>CURRENT ASSETS</b>			
Inventories	19,980	16,779	16,213
Trade and other receivables	17,934	16,263	13,648
Derivative financial investments	450	59	93
Current tax assets	303	381	282
Cash and cash equivalents	375	2,097	4,952
	<b>39,042</b>	35,579	35,188
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Borrowings	7 (6,772)	(3,388)	(3,136)
Derivative financial instruments	(2,514)	(3,093)	(3,193)
Trade and other payables	(13,822)	(12,302)	(11,259)
Provisions	(449)	(600)	(413)
Current tax liabilities	(502)	(696)	(564)
	<b>(24,059)</b>	(20,079)	(18,565)
<b>NET CURRENT ASSETS</b>	<b>14,983</b>	15,500	16,623
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	7 (6,434)	(9,557)	(8,026)
Deferred tax liabilities	(343)	(284)	(337)
	<b>(6,777)</b>	(9,841)	(8,363)
<b>NET ASSETS</b>	<b>36,866</b>	34,153	36,769
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	6 385	380	385
Share premium	5,643	5,340	5,643
Capital redemption reserve	55	55	55
Translation reserve	(527)	(536)	(529)
Hedging reserve	77	(752)	(487)
Other reserves	1,688	1,688	1,688
Retained earnings	29,545	27,978	30,014
<b>TOTAL EQUITY</b>	<b>36,866</b>	34,153	36,769

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 2011

	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
<b>Balance at 1 April 2011</b>	<b>385</b>	<b>5,643</b>	<b>55</b>	<b>(529)</b>	<b>(487)</b>	<b>1,688</b>	<b>30,014</b>	<b>36,769</b>
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)
<b>Balance at 30 September 2011</b>	<b>385</b>	<b>5,643</b>	<b>55</b>	<b>(527)</b>	<b>77</b>	<b>1,688</b>	<b>29,545</b>	<b>36,866</b>
<b>Balance at 1 April 2010</b>	<b>380</b>	<b>5,340</b>	<b>55</b>	<b>(514)</b>	<b>168</b>	<b>1,688</b>	<b>29,511</b>	<b>36,628</b>
Exchange adjustment offset in reserves	–	–	–	(22)	–	–	–	(22)
Cash flow hedges	–	–	–	–	(920)	–	–	(920)
Net income recognised directly in reserves	–	–	–	(22)	(920)	–	–	(942)
Profit for the period	–	–	–	–	–	–	304	304
Total comprehensive income for the period	–	–	–	(22)	(920)	–	304	(638)
Transactions with owners								
Share-based payments	–	–	–	–	–	–	(86)	(86)
Shares vested from Short Term Incentive Plan	–	–	–	–	–	–	146	146
Dividends	–	–	–	–	–	–	(1,897)	(1,897)
	–	–	–	–	–	–	(1,837)	(1,837)
<b>Balance at 30 September 2010</b>	<b>380</b>	<b>5,340</b>	<b>55</b>	<b>(536)</b>	<b>(752)</b>	<b>1,688</b>	<b>27,978</b>	<b>34,153</b>

\* Retained earnings includes amounts that are not distributable including £630,000 at 30 September 2011 (2010 – £647,000) 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 2011

	Six months to 30 September 2011 (unaudited) £'000	Six months to 30 September 2010 (unaudited) £'000	Twelve months to 31 March 2011 (audited) £'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash (utilised in)/generated from operations	(2,646)	(2,793)	6,072
Interest received	21	49	64
Interest paid	(405)	(379)	(826)
Tax paid	(515)	(748)	(1,750)
Net cash (utilised in)/generated from operating activities	(3,545)	(3,871)	3,560
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of property, plant and equipment	1	32	181
Purchase of property, plant and equipment	(2,065)	(2,069)	(4,499)
Net cash utilised in investing activities	(2,064)	(2,037)	(4,318)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of ordinary shares	–	–	308
Repayments of loans	(1,038)	(540)	(1,554)
Finance lease capital payments	(14)	(41)	(54)
Dividends paid to Company's shareholders	(1,268)	(1,897)	(2,549)
Net cash utilised in financing activities	(2,320)	(2,478)	(3,849)
Effect of exchange rate movements	256	293	125
Net decrease in cash and cash equivalents	(7,673)	(8,093)	(4,482)
Cash, cash equivalents and bank overdrafts at beginning of period	4,397	8,879	8,879
<b>CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS AT END OF PERIOD</b>	(3,276)	786	4,397
<b>CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS CONSIST OF:</b>			
Cash and cash equivalents	375	2,097	4,952
Bank overdrafts	(3,651)	(1,311)	(555)
<b>CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS AT END OF PERIOD</b>	(3,276)	786	4,397

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 2011

## Cash flows from operating activities

	Six months to 30 September 2011 (unaudited) £'000	Six months to 30 September 2010 (unaudited) £'000	Twelve months to 31 March 2011 (audited) £'000
Profit before taxation	959	528	4,129
Interest payable	405	379	826
Interest receivable	(21)	(49)	(64)
Amortisation of intangible assets	197	194	390
Depreciation	1,672	1,709	4,060
Profit on disposal of tangible fixed assets	–	(2)	(2)
Share-based payments	188	(86)	51
(Gain)/loss on financial derivatives	(116)	21	75
Increase in provisions	36	209	22
Increase in inventories	(3,767)	(4,506)	(3,940)
Increase in trade and other receivables	(4,272)	(2,961)	(349)
Increase in trade and other payables	2,073	1,771	874
<b>CASH (UTILISED IN)/GENERATED FROM OPERATIONS</b>	<b>(2,646)</b>	<b>(2,793)</b>	<b>6,072</b>

# 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 11 November 2011.

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 2011 were approved by the Board of Directors on 3 June 2011 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 2011 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 2011 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 reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its condensed consolidated half-yearly financial report.

### **3. ACCOUNTING POLICIES**

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 March 2011, 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 2011.

#### **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 2011.

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 2011.

#### **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 2012 and expected to 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	<b>Total Reportable Segments £'000</b>
<b>Six months ended</b>						
<b>30 September 2011</b>						
Total revenue	22,028	983	4,632	2,682	2,764	<b>33,089</b>
Inter-segment revenue	(1,562)	–	(3,159)	(15)	–	<b>(4,736)</b>
<b>Revenue (from external customers)</b>	<b>20,466</b>	<b>983</b>	<b>1,473</b>	<b>2,667</b>	<b>2,764</b>	<b>28,353</b>
Underlying profit/(loss) before taxation	1,424	(42)	(160)	44	(65)	<b>1,201</b>
Foreign exchange on intercompany loans including impact of foreign exchange collar	(45)	–	–	–	–	<b>(45)</b>
Amortisation of intangible assets	(131)	–	–	(49)	(17)	<b>(197)</b>
<b>Profit/(loss) before taxation</b>	<b>1,248</b>	<b>(42)</b>	<b>(160)</b>	<b>(5)</b>	<b>(82)</b>	<b>959</b>
<b>Six months ended</b>						
<b>30 September 2010</b>						
Total revenue	21,494	1,164	2,071	1,999	1,700	28,428
Inter-segment revenue	(1,726)	–	(878)	(276)	–	(2,880)
<b>Revenue (from external customers)</b>	<b>19,768</b>	<b>1,164</b>	<b>1,193</b>	<b>1,723</b>	<b>1,700</b>	<b>25,548</b>
Underlying profit/(loss) before taxation	1,253	(105)	(539)	296	(237)	668
Foreign exchange on intercompany loans including impact of foreign exchange collar	54	–	–	–	–	54
Amortisation of intangible assets	(132)	–	–	(46)	(16)	(194)
<b>Profit/(loss) before taxation</b>	<b>1,175</b>	<b>(105)</b>	<b>(539)</b>	<b>250</b>	<b>(253)</b>	<b>528</b>

Hornby Hobbies Limited, the Group's UK trading subsidiary, has granted Euro denominated intercompany loans to sister subsidiary companies that are translated to Sterling at statutory period ends thereby creating exchange gains or losses. In order to mitigate the exchange exposure Hornby Hobbies Limited has entered a foreign exchange collar contract to sell an equal number of Euros in October 2011 that will be revalued by an approximately similar but opposite Sterling value at each period end. On 3 October 2011 the Company entered a new foreign exchange collar contract to sell an identical Euro value thereby extending the hedge to October 2012.

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

The £45,000 adverse impact (2010 – £54,000 favourable impact) of the collar shown in the table above comprises foreign exchange losses on translation of intercompany loans of £401,000 (2010 – loss of £445,000), offset by a gain on marking to market the foreign exchange collar of £356,000 (2010 – gain of £499,000).

Beneficial cumulative profit impact of the collar from inception to 3 October 2012 is expected to be a minimum of £340,000 if the exchange rate exceeds the strike rate of €1.4300:£, increasing to a maximum of £767,000 at the participation cap rate of €1.3790:£ compared to the intercompany loans Sterling valuation at 31 March 2007 (€1.4734:£).

As at 30 September 2011 the profit impact is a gain of £815,000. Therefore in the period 1 October 2011 to 30 September 2012 there will be an adjustment to the Statement of Comprehensive Income between a £48,000 charge and £475,000 charge. The derivative will become an increasingly efficient hedge as the contract approaches maturity.

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

Date		Foreign exchange rate € : £	€16.5 million intercompany 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
30 Sep 2011		1.16	14,209	3,010	(2,195)	(40)
<b>Total gain/(loss) to profit before tax</b>						<b>815</b>

# Notes (continued)

## 5. TANGIBLE, INTANGIBLE AND GOODWILL ASSETS

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

The additions relate to new product tooling (£1,862,000) and property, plant and equipment (£413,000).

	Tangible, intangible and goodwill assets (unaudited) £'000
<b>Six months ended 30 September 2010</b>	
Opening book amount 1 April 2010	28,663
Exchange adjustment	(315)
Additions	1,942
Disposals	(30)
Depreciation, amortisation and impairment	(1,903)
<b>Closing net book amount 30 September 2010</b>	<b>28,357</b>

	2011 (unaudited) £'000	2010 (unaudited) £'000
<b>CAPITAL COMMITMENTS</b>		
At 30 September commitments were:		
Contracted for but not provided for	<b>1,442</b>	1,124

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

## 6. SHARE CAPITAL

The Group has 38,464,100 ordinary 1p shares in issue with nominal value £384,641 at 31 March 2011 and 30 September 2011 (2010 – £380,641).

No employee share options were exercised during the first half to 30 September 2011 (2010 – nil share options).

## 7. BORROWINGS

	<b>30 September 2011 (unaudited) £'000</b>	30 September 2010 (unaudited) £'000	31 March 2011 (audited) £'000
CURRENT:			
Bank overdrafts	<b>3,651</b>	1,311	555
Bank loans	<b>3,051</b>	2,050	2,552
Finance lease obligations	<b>70</b>	27	29
	<b>6,772</b>	3,388	3,136
NON-CURRENT:			
Bank loans	<b>6,390</b>	9,443	7,927
Finance lease obligations	<b>44</b>	114	99
	<b>6,434</b>	9,557	8,026

At 30 September 2011 the Group had a £10,000,000 revolving credit facility expiring July 2012 (2010 – £10,000,000) that attracts interest at 2.85% above Libor and a fixed term loan of £9,000,000 with payments scheduled to July 2014 (2010 – £11,000,000) that attracts interest at 3.6% above Libor. Since the balance sheet date the Group has extended the term of the £10,000,000 revolving credit facility to expire August 2015 attracting interest at 2.5% above Libor.

In the period to 30 September 2011 loan repayments were £1,000,000 (2010 – £500,000).

The drawdown amount on the revolving credit facility 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:

	<b>30 September 2011 (unaudited)</b>	30 September 2010 (unaudited)	31 March 2011 (audited)
Earnings per share for profit from continuing operations attributable to the equity of the Company			
– basic	<b>1.36p</b>	0.80p	7.50p
– diluted	<b>1.34p</b>	0.79p	7.43p

## 10. DIVIDENDS

The final dividend that related to the financial year ended 31 March 2011 amounted to £1,268,000 (2010 – £1,897,000) was paid on 19 August 2011.

An interim dividend of 1.7p (2010 – 1.7p) has been declared for the interim period ended 30 September 2011, amounting to £654,000 (2010 – £652,000).

## 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.

## 12. RELATED-PARTY TRANSACTIONS

Key management compensation amounted to £1,161,000 for the six months to 30 September 2011 (2010 - £965,000).

	<b>30 September 2011 (unaudited) £'000</b>	30 September 2010 (unaudited) £'000	31 March 2011 (audited) £'000
Salaries and other short-term benefits	<b>1,161</b>	995	1,893
Post-employment benefits	<b>110</b>	95	100
Share-based payments	<b>188</b>	(46)	199
	<b>1,459</b>	1,044	2,192

There are no other related party transactions.

## 13. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Since the balance sheet date the Group has extended the term of the £10,000,000 revolving credit facility to expire August 2015 (note 7) and entered a new foreign exchange collar extending the hedge to October 2012 (note 4).

#### **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, reliance on overseas suppliers, product compliance, competition and liquidity. The disclosures on pages 17 and 18 of the Group's Annual Report for the year ended 31 March 2011 remain appropriate and provide a description of each risk along with the associated impact and mitigating actions.

#### **15. SEASONALITY**

Sales are subject to seasonal fluctuations, with peak demand in the October – December quarter. For the six months ended 30 September 2011 sales represented 45% (2010 – 40%) of the annual sales for the year ended 31 March 2011.

# 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 2011. A list of current directors is maintained on the Hornby Plc website: [www.hornby.com](http://www.hornby.com).

By order of the Board

**Frank Martin**

Chief Executive

10 November 2011

**Andrew Morris**

Finance Director

10 November 2011

# 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 2011 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 2011 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  
10 November 2011

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**

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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  
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