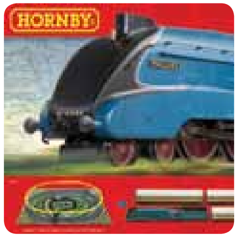
Hornby PLC

Interim Report

Condensed Consolidated Half-yearly Financial Report Six Months to 30 September 2013



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Interim Management Report

The period under review has seen its challenges, but we remain confident that the future for the Group is brighter.

Demand for our product remains good. We have some great brands that we are driving to deliver value for all our shareholders. During the period, we suffered disruption in our concessions sales channel caused by the failure of retailer Modelzone. This is now behind us and indeed we see opportunities from new important concession partners in national retailers WHSmith and Hawkins Bazaar that have both entered the hobby market. The Board is continuing to work with its manufacturing partners to ensure we have a more reliable supply chain. We are making progress on this and when this is rectified the impact on our performance will be positive. Trading in the last couple of months has been strong and looking forward to Christmas, we have some exciting products in the market place supported by a strong promotional push. Overall, I am pleased that looking ahead the future outlook continues to improve.

In the first quarter of the year the board undertook a review of the immediate priorities for the business. It was clear that a significant business transformation was required to create a robust platform for growth. Three key pillars were identified to support this initial phase:

- Success through people
- Success through focused execution
- Success through passion for our brands

People

Hornby has a huge depth of experience amongst its people but its organisational structure and processes require significant realignment to function as a single consumer centric entity. Hornby has acquired a number of fabulous brands and businesses in the recent few years however, the task of fully assimilating these is critical to uniting its people with a singular focus. We have made a start on this and we recognise the journey to transform the culture of Hornby to a single entity, centred on our consumers, is a prerequisite to driving our other two pillars forwards. Great people, operating with complete alignment to our business goals, is the critical ingredient of our transformation.

Execution

The challenges the business has faced in procuring a consistent supply of products, in particular model rail, is well understood and continues to be the principal issue the supply chain team are driving hard to resolve. The ground work has been done in identifying the key steps required to deliver success through focused execution. The team are now well advanced in progressing the migration from our historic manufacturing relationships to balanced strategic partnerships, managing the risk in a way that reflects the Group's longer term objectives.

Passion

I am in no doubt we enjoy extraordinary passion for our iconic brands but it is essential we build on that strength by communicating it effectively to our consumers. The brand teams are broadening our engagement with our enthusiasts who increasingly wish to access the brands through multiple channels. The consumer will decide how they wish to interact with our brands and we must play our part by providing simple and effective multi-channel options, backed up by excellent product choice and customer service.

Results

During the period, turnover was £22.5 million, a decrease of 4.3% compared to the corresponding period last year if sales of Olympic product are excluded and 16.7% in total. Gross margins increased from 42.8% to 47.1%, partially because of the low margins made last year on the Olympic product and from 45.0% on a like-for-like basis. Administrative and other operating expenses have increased due to temporary increases in management resources required to effect the business transformation and foreign exchange losses incurred in marking to market currency held for future product purchases. Those losses are expected to reverse in the second half via an improved gross margin assuming current exchange rates.

Interim Management Report continued

A loss before tax of £0.7 million was incurred (2012 – £0.2 million) before amortisation of intangibles, charges for share based payments and net foreign exchange adjustments on intercompany loans (hereafter referred to as underlying loss before tax). Statutory loss before tax was £1.1 million (2012 – loss £0.5 million). Loss per share on an underlying basis was 1.73p (2012 – 0.32p) and on a statutory basis 2.59p (2012 – 1.04p).

Net debt as at 30 September 2013 was £8.0 million compared to £6.5 million as at September 2012. The increase in net debt year on year reflects the loss made on operating activities and an increased investment in tooling for new products. The contrast in cashflow from operations in the period compared to the year before reflects the high levels of Olympic stock on the balance sheet at 31 March 2012 which was sold in the first half of last year. More usual trading patterns will see the Group investing in stock during the period in the run up to the Christmas season.

The Group has banking facilities of £22 million in the UK. These facilities comprise a £12 million term loan which expires in July 2014 and a £10 million Secured Money Market Loan which expires in August 2015. The Group also has additional facilities of £3.1 million in place in its European subsidiaries. As at 30 September 2013 the amount outstanding on the 5-year fixed-term loan was £3 million (2012 – £6 million). The drawdown amount on the revolving credit facility as at 30 September 2013 amounted to £4.5 million (2012 – £nil). We have obtained a waiver of one of the Group's banking covenants for this period from the Group's principal bankers, Barclays Group Plc. The covenant in question was measured on rolling 12 months EBITDA and was impacted by the loss made in the current period but also the losses made on the Olympic product last year. The waiver is for one quarter only and we expect to be operating within the covenants for the rest of the year.

Post Balance Sheet Event

Following a review of the Group's intercompany loan balances, it was decided not to renew the foreign exchange collar arrangement that was put in place to protect the Sterling value of Euro loans to subsidiaries. This decision will add £2 million net debt in the second half of the year and more detail can be found in note 14 of this report

Dividend

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

Operating Review

During this phase of transformation, trading continues to be challenging, due to both the supply chain difficulties but also weaknesses in some sections of our customer markets. The independent model store sector has been shrinking for several years now and the process continues. There was also a short term impact from the closure of Modelzone during the period which was our largest UK concession. As we have previously stated we do not expect this to have a long term impact on our business and we fully expect to have replaced all of that concession capacity by the end of this calendar year. However there was a necessary period of collection and redistribution of the stock during the second quarter of our year during which sales could not be made. Whilst our distribution channels have been disrupted by these factors there are clear indicators from trading in the last two months that underlying consumer demand for our products remains buoyant.

UK Market

The closure of Modelzone during the second quarter of the current year caused considerable disruption to our business and led to the write-off of debtors of around £0.15 million. However, as we expected at the time, we have been able to replace much of the distribution capacity quickly and have recently reached agreements for our stock to be incorporated in both WHSmith and Hawkins Bazaar stores on a concession basis. WHSmith purchased the Modelzone brand and will be using it in a selection of their stores initially with a view to rolling it out further if successful. We expect to be in more than 35 stores between these two groups by the end of the calendar year. We have also opened our own store in the Swindon McArthurGlen outlet close to the National

Railway Museum. Whilst this is a trial format and aimed at providing a 'consumer brand experience', early indications are that it is performing well.

Model Rail

The model rail brands have again borne the brunt of the supply chain difficulties both in the UK with Hornby and across our other European brands as well. Last year we reported that the Group's historically largest supplier had closed the factory that produced our goods and we had sought to reallocate production from that supplier wherever possible. Whilst this has inevitably caused further supply chain disruption in the first half of this year that will continue into the second half, it is a necessary step to recovering control over our supply chain for the future.

European model rail brands are now forecast to achieve around 80% of budgeted production for the year and for the UK 88%. This compares to 70% last year and despite the continuing difficulties does represent progress. The biggest impact internationally has been felt in Italy and the results reflect this. The markets for model rail products have been resilient in the light of these difficulties, particularly in the UK where product we have been able to deliver has been selling well.

Other Brands

Corgi and Airfix have had strong starts to the year with a consistent flow of product and are both ahead of last year, excluding Olympic sales, despite the loss of Modelzone sales capacity. The launch of the two new QuickBuild products has been encouraging, particularly in the case of the Airfix line where production is currently flat out to satisfy the demand. The exciting relaunch of the new 1:8 scale die cast model kits under the Pocher brand is also imminent with a significant proportion of the first production run already sold. Scalextric sales have been a little disappointing and are behind last year partially due to a weaker supply chain. The US market is performing ahead of expectations mainly due to strong sales of Airfx and Corgi.

Management Succession

The search process is underway for a new Chief Executive. We will update shareholders on the progress that we make in identifying a suitable candidate to lead Hornby in the future. Until that time, my role remains one of Executive Chairman.

Outlook

The team recognise that they are tasked by our owners to manage the tension between meeting the challenges of the current trading position with securing high-quality and sustainable long-term revenue and earnings growth. The immediate outlook continues to be dominated by supply constraints as we work through the strategic restructuring of our supplier base, securing the partners we require to support a long term platform for growth. We are developing breadth and depth to our new strategic partners in order to deliver the continuity and consistency of product supply needed to support the recruitment, reinvigoration and retention of our enthusiasts. The team at Hornby are determined to deliver the business transformation required to create a single consumer centric entity, with a stable of brands thriving in both domestic and international markets.

We expect the second half of the current financial year to be much stronger than the first, partially because of the seasonal impact but also because we will start to put behind us the difficulties of the first half. The supply chain should be more reliable and the concession retail channel is being rebuilt successfully. The extent of this improvement and the precise timing is still subject to risk, particularly on the supply side. However, at this stage, we do expect that the full year results will be in line with market expectations in terms of revenues and profits.

R T Canham
Executive Chairman

13 November 2013

Statement of Comprehensive Income

for the six months ended 30 September 2013

	Notes	**Six months to 30 September 2013 (unaudited) £'000**	Six months to 30 September 2012 (unaudited) £'000	Twelve months to 31 March 2013 (audited) £'000
Revenue	4	**22,457**	26,962	57,395
Cost of Sales		**(11,890)**	(15,430)	(32,917)
Gross Profit		**10,567**	11,532	24,478
Distribution costs		**(1,087)**	(1,114)	(2,408)
Selling and marketing costs		**(4,876)**	(5,745)	(12,768)
Administrative expenses		**(4,728)**	(4,304)	(9,415)
Other operating expenses		**(749)**	(634)	(2,726)
Operating loss		**(873)**	(265)	(2,839)
Finance income		**8**	4	13
Finance costs		**(223)**	(280)	(561)
Loss before taxation	4	**(1,088)**	(541)	(3,387)
Analysed as:				
Underlying (loss)/profit before taxation		**(653)**	(171)	167
Net foreign exchange impact on intercompany loans		**(41)**	(62)	20
Performance share plan charge		**(199)**	(117)	(20)
Amortisation of intangible assets		**(195)**	(191)	(385)
Exceptional items:				
Restructuring costs		**–**	–	(723)
Impairment of goodwill		**–**	–	(2,446)
Loss before taxation	4	**(1,088)**	(541)	(3,387)
Taxation	9	**75**	134	886
Loss for the period after taxation		**(1,013)**	(407)	(2,501)
Other comprehensive (loss)/income *(Items that may be classified subsequently to profit and loss)*				
Cash flow hedges, net of tax		**(488)**	(90)	461
Currency translation differences		**(40)**	(19)	(67)
Other comprehensive loss for the period, net of tax		**(528)**	(109)	394
Total comprehensive loss for the period		**(1,541)**	(516)	(2,107)
Loss per ordinary share				
Basic		**(2.59)p**	(1.04)p	(6.39)p
Diluted		**(2.59)p**	(1.04)p	(6.39)p

All of the activities of the Group are continuing. The notes on pages 10 to 18 form an integral part of this condensed consolidated half-yearly financial information.

Balance Sheet
as at 30 September 2013

	Notes	30 September 2013 (unaudited) £'000	30 September 2012 (unaudited) £'000	31 March 2013 (audited) £'000
ASSETS				
Non-current assets				
Goodwill	5	**10,568**	12,837	10,598
Intangible assets	5	**3,772**	4,106	3,978
Property, plant and equipment	5	**10,617**	9,784	10,048
Deferred income tax assets		**1,949**	639	1,714
		26,906	27,366	26,338
Current assets				
Inventories		**15,389**	17,791	13,637
Trade and other receivables		**13,316**	14,993	9,603
Derivative financial investments	8	**2**	31	367
Current tax assets		**431**	276	512
Cash and cash equivalents		**426**	692	3,554
		29,564	33,783	27,673
LIABILITIES				
Current liabilities				
Borrowings	7	**(8,197)**	(3,823)	(3,907)
Derivative financial instruments	8	**(2,182)**	(1,615)	(2,194)
Trade and other payables		**(10,136)**	(12,189)	(8,834)
Provisions		**(278)**	(359)	(235)
Current tax liabilities		**(203)**	(355)	(466)
		(20,996)	(18,341)	(15,636)
Net current assets		**8,568**	15,442	12,037
Non-current liabilities				
Borrowings	7	**(273)**	(3,326)	(1,815)
Deferred tax liabilities		**(142)**	(610)	(159)
		(415)	(3,936)	(1,974)
Net assets		**35,059**	38,872	36,401
SHAREHOLDERS' EQUITY				
Share capital	6	**392**	392	392
Share premium		**6,180**	6,180	6,180
Capital redemption reserve		**55**	55	55
Translation reserve		**(652)**	(564)	(612)
Hedging reserve		**(214)**	(277)	274
Other reserves		**1,688**	1,688	1,688
Retained earnings		**27,610**	31,398	28,424
Total equity		**35,059**	38,872	36,401

The notes on pages 10 to 18 form an integral part of this condensed consolidated half-yearly financial information.

Statement of Changes in Equity
for the six months ended 30 September 2013

	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 2013	**392**	**6,180**	**55**	**(612)**	**274**	**1,688**	**28,424**	**36,401**
(Items that may be classified subsequently to profit and loss)								
Exchange adjustment offset in reserves	–	–	–	(40)	–	–	–	(40)
Cash flow hedges	–	–	–	–	(488)	–	–	(488)
Net income recognised directly in reserves	–	–	–	(40)	(488)	–	–	(528)
Loss for the period	–	–	–	–	–	–	(1,013)	(1,013)
Total comprehensive loss for the period	–	–	–	(40)	(488)	–	(1,013)	(1,541)
Transactions with owners								
Share-based payments	–	–	–	–	–	–	199	199
Dividends	–	–	–	–	–	–	–	–
Balance at 30 September 2013	**392**	**6,180**	**55**	**(652)**	**(214)**	**1,688**	**27,610**	**35,059**
Balance at 1 April 2012	**385**	**5,643**	**55**	**(529)**	**(487)**	**1,688**	**30,014**	**36,769**
(Items that may be classified subsequently to profit and loss)								
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
Dividends	–	–	–	–	–	–	207	207
Balance at 30 September 2012	**392**	**6,180**	**55**	**(564)**	**(277)**	**1,688**	**31,398**	**38,872**

* Retained earnings includes amounts that are not distributable including £596,000 at 30 September 2013 (2012 - £613,000) that relates to a 1986 revaluation of land and buildings.

The notes on pages 10 to 18 form an integral part of this condensed consolidated half-yearly financial information.

Statement of Cash Flows
for the six months ended 30 September 2013

	30 September 2013 (unaudited) £'000	30 September 2012 (unaudited) £'000	31 March 2013 (audited) £'000
Cash flows from operating activities			
Cash (utilised in)/generated from operations	**(3,267)**	1,850	10,407
Interest paid	**(223)**	(280)	(561)
Tax paid	**(359)**	(495)	(1,394)
Net cash (utilised in)/generated from operating activities	**(3,849)**	1,075	8,452
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	**–**	28	97
Purchase of property, plant and equipment	**(2,095)**	(1,543)	(3,457)
Interest received	**8**	4	13
Net cash utilised in investing activities	**(2,087)**	(1,511)	(3,347)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	**–**	–	–
Repayments of loans	**(1,530)**	(1,542)	(3,046)
Finance lease capital payments	**–**	(38)	(62)
Dividends paid to Company's shareholders	**–**	–	(783)
Net cash utilised in financing activities	**(1,530)**	(1,580)	(3,891)
Effect of exchange rate movements	**38**	389	(80)
Net (decrease)/increase in cash and cash equivalents	**(7,428)**	(1,627)	1,134
Cash, cash equivalents and bank overdrafts at beginning of period	**2,725**	1,591	1,591
Cash, cash equivalents and bank overdrafts at end of period	**(4,703)**	(36)	2,725
Cash, cash equivalents and bank overdrafts consist of:			
Cash and cash equivalents	**426**	692	3,554
Bank overdrafts	**(5,129)**	(728)	(829)
Cash, cash equivalents and bank overdrafts at end of period	**(4,703)**	(36)	2,725

The notes on pages 10 to 18 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 2013

	30 September 2013 (unaudited) £'000	30 September 2012 (unaudited) £'000	31 March 2013 (audited) £'000
Loss before taxation	**(1,088)**	(541)	(3,387)
Interest payable	**223**	280	561
Interest receivable	**(8)**	(4)	(13)
Amortisation of intangible assets	**195**	191	385
Impairment of goodwill	**–**	–	2,446
Depreciation	**1,472**	1,834	3,664
Loss on disposal of property, plant and equipment	**20**	–	8
Share-based payments	**199**	117	20
Loss/(gain) on financial derivatives	**31**	(19)	58
Increase/(decrease) in provisions	**43**	35	(89)
(Increase)/decrease in inventories	**(1,752)**	76	4,230
(Increase)/decrease in trade and other receivables	**(3,713)**	(1,824)	3,566
Increase/(decrease) in trade and other payables	**1,111**	1,705	(1,042)
Cash (utilised in)/generated from operations	**(3,267)**	1,850	10,407

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 13 November 2013.

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 2013 were approved by the Board of Directors on 7 June 2013 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 2013 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The half-yearly condensed consolidated financial report should be read in conjunction with the annual financial statements for the year ended 31 March 2013 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 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 2013, 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.

Notes to Condensed Consolidated Half-yearly Financial Report continued

ADOPTION OF NEW AND REVISED STANDARDS
There are no standards, amendments to standards or interpretations that are both mandatory for the first time for the financial year ending 31 March 2014 and that have a material impact on the Group's results, however the group has included the update to IFRS 13 within note 8 of this interim report which presents the financial instruments held by the Group.

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 2013.

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 2013.

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 2013. Further details of the Group's financial instruments are set out within note 8 of this interim report as required by IFRS 13.

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

The Board considers the business from a geographic perspective. Geographically, management considers the performance in the UK, USA, Spain, Italy and rest of Europe.

Although the US segment does not meet the quantitative thresholds required by IFRS 8, management has concluded that this segment should be reported, as it is closely monitored by the chief operating decision-maker.

	UK £'000	USA £'000	Spain £'000	Italy £'000	Rest of Europe £'000	**Total Reportable Segments £'000**
Six months ended 30 September 2013 (unaudited)						
Total revenue	17,736	1,314	3,413	1,411	2,399	**26,273**
Inter-segment revenue	(1,234)	–	(2,433)	(149)	–	**(3,816)**
Revenue (from external customers)	**16,502**	**1,314**	**980**	**1,262**	**2,399**	**22,457**
Underlying (loss)/profit before taxation	25	15	51	(569)	(175)	**(653)**
Share-based payments	(199)	–	–	–	–	**(199)**
Foreign exchange on intercompany loans including impact of foreign exchange collar	(41)	–	–	–	–	**(41)**
Amortisation of intangible assets	(132)	–	–	(46)	(17)	**(195)**
(Loss)/profit before taxation	**(347)**	**15**	**51**	**(615)**	**(192)**	**(1,088)**
Six months ended 30 September 2012 (unaudited)						
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 (loss)/profit before taxation	672	(60)	(477)	(113)	(193)	(171)
Share-based payments	(117)	–	–	–	–	(117)
Foreign exchange on intercompany loans including impact of foreign exchange collar	(62)	–	–	–	–	(62)
Amortisation of intangible assets	(131)	–	–	(44)	(16)	(191)
(Loss)/profit before taxation	362	(60)	(477)	(157)	(209)	(541)

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 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 (2012 – Euro 16.0 million) and is in place to minimise exposure to Euro denominated intercompany loans.

Notes to Condensed Consolidated Half-yearly Financial Report continued

The amount shown in the table below comprises losses on translation of intercompany loans of £125,000 (2012 – loss of £600,000), offset by a gain on marking to market the foreign exchange collar of £166,000 (2012 – gain of £538,000). As at 30 September 2013 the net profit impact from both sides of the revaluation over the life of this arrangement is a gain of £684,000.

As noted within the interim management report the foreign exchange collar was not renewed on 3 October 2013. As noted this decision has a cash impact of £2 million that will be added to net debt in the second half of the year, but will have no impact on the Income Statement nor on the banking covenants, within which it was already included.

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)
31 Mar 2013		1.18	13,531	2,671	(2,000)	(59)
30 Sep 2013		1.20	13,378	2,518	(1,834)	13
Total gain to profit before tax						**684**

5. TANGIBLE AND INTANGIBLE ASSETS AND GOODWILL

Six months ended 30 September 2013	**Tangible and intangible assets and goodwill (unaudited) £'000**
Opening book amount 1 April 2013	**24,624**
Exchange adjustment	**(78)**
Additions	**2,095**
Disposals	**(18)**
Depreciation, amortisation and impairment	**(1,667)**
Closing net book amount 30 September 2013	**24,957**

The additions include new product tooling (£1,892,000) and property, plant and equipment (£197,000).

Further to the impairment of goodwill within the Italian subsidiary taken in March 2013, the Group have again performed impairment reviews as at 30 September 2013 and consider the carrying value of the assets held to be appropriate. The discount rates and key assumptions used within the updated models at 30 September 2013 have remained constant with the impairment reviews conducted in March 2013.

Six months ended 30 September 2012	**Tangible and intangible assets and goodwill (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

CAPITAL COMMITMENTS	**2013 (unaudited) £'000**	2012 (unaudited) £'000
At 30 September commitments were:		
Contracted for but not provided for	**1,810**	2,266

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 2013 and 30 September 2013 (2012 – £391,641).

No employee share options were exercised during the first half to 30 September 2013 (2012 – £nil share options).

7. BORROWINGS

	30 September 2013 (unaudited) £'000	30 September 2012 (unaudited) £'000	31March 2013 (audited) £'000
CURRENT:			
Bank overdrafts	**5,129**	728	829
Bank loans	**3,053**	3,049	3,053
Finance lease obligations	**15**	46	25
	8,197	3,823	3,907
NON-CURRENT:			
Bank loans	**273**	3,311	1,803
Finance lease obligations	**–**	15	12
	273	3,326	1,815

Notes to Condensed Consolidated Half-yearly Financial Report continued

At 30 September 2013 the Group had a £10,000,000 revolving credit facility expiring August 2015 (2012 – £10,000,000) that attracts interest at 2.5% above Libor and a 5-year fixed-term loan of £12,000,000 with payments scheduled to July 2014 (2012 – £12,000,000) that attracts interest at 3.6% above Libor. As at 30 September 2013 the amount outstanding on the 5-year fixed-term loan was £3,000,000 (2012 – £6,000,000).

In the period to 30 September 2013 loan repayments were £1,530,000 (2012 – £1,542,000).

The drawdown amount on the revolving credit facility amounted to £4,480,000 (2012 – £nil) and 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. FINANCIAL INSTRUMENTS

The following tables present the Group's assets and liabilities that are measured at fair value at 30 September 2013 and 31 March 2013. 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 effects of discounting are generally insignificant for Level 2 derivatives. The valuation of the foreign exchange collar is set out within note 4. The foreign exchange collar has not been renewed after it expired on 3 October 2013. The reasons for this are set out in note 14 events occurring after the balance sheet date.

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 (excluding bank overdrafts), trade and other payables.

The Group finance team reports directly to the Executive Chairman and Audit committee. Discussions of valuation processes and results are held between these teams at least once every 6 months in line with the Group's reporting dates.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Trading derivatives	–	–	–	–
Derivatives used for hedging	–	2	–	2
Available-for-sale financial assets	–	–	–	–
Total assets as at 30 September 2013	–	**2**	–	**2**
Liabilities				
Foreign exchange collar		1,834		1,834
Interest rate swap		43		43
Derivatives used for hedging	–	305	–	305
Total liabilities at 30 September 2013	–	**2,182**	–	**2,182**

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Trading derivatives	–	–	–	–
Derivatives used for hedging	–	367	–	367
Available-for-sale financial assets	–	–	–	–
Total assets at 31 March 2013	–	367	–	367
Liabilities				
Foreign exchange collar	–	2,000	–	2,000
Interest rate swap	–	89	–	89
Derivatives used for hedging	–	105	–	105
Total liabilities at 31 March 2013	–	2,194	–	2,194

9. TAXATION

The tax expense is recognised based on management's latest estimate of the weighted average annual tax rate adjusted for the change in tax rate applicable to deferred tax.

10. LOSS PER SHARE

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

	30 September 2013 (unaudited)	30 September 2012 (unaudited)	31 March 2013 (audited)
Loss per share from continuing operations attributable to the equity of the Company			
– basic	**(2.59)p**	(1.04)p	(6.39)p
– diluted	**(2.59)p**	(1.04)p	(6.39)p
– underlying	**(1.73)p**	(0.32)p*	0.51p*

*Restated for removal of share based payments charge as part of definition of underlying loss before taxation.

Notes to Condensed Consolidated Half-yearly Financial Report continued

11. DIVIDENDS

The directors are not proposing a final dividend in respect of the financial year ended 31 March 2013 (2012 – £783,000).

No interim dividend has been declared for the interim period ended 30 September 2013 (2012 – £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 £1,316,000 for the six months to 30 September 2013 (2012 – £1,292,000). Key management include directors and senior management within the organisation.

	30 September 2013 (unaudited) £'000	30 September 2012 (unaudited) £'000	31 March 2013 (audited) £'000
Salaries and other short-term benefits	**1,034**	1,067	1,977
Post-employment benefits	**83**	108	249
Share-based payments	**199**	117	20
Redundancy and compensation for loss of office	**–**	–	517
	1,316	1,292	2,763

There are no other related-party transactions.

14. EVENTS OCCURING AFTER THE BALANCE SHEET DATE

Following a review of the Group's intercompany loan balances, it was decided not to renew the foreign exchange collar that was put in place to protect the sterling value of Euro loans to subsidiaries. It was put in place in 2007 in the expectation that a significant proportion of the Euro 16 million balance would be repaid over the intervening period. The impact of revaluing the loans and the marking to market of the collar can be seen above in note 4.

However the trading performance of the subsidiaries in question has been weaker than expected and the balances haven't been repaid as expected with an amount outstanding at 30 September 2013 of Euro 13 million. We are in the process of recapitalising those subsidiaries that need it and as a result do not expect a material amount to be repaid over the next two years. We plan to convert the majority of these balances into long term loans or equity capital before the end of the current year. Hence we do not need the foreign exchange protection in the form it was put in place in the past. This decision has a cash outflow of £2 million that will be added to net debt in the second half of the year, but will have no impact on the Income Statement or on the banking covenants, within which it was already included. This is a non-adjusting event per IAS 10 and is therefore not included within the figures for the current period to the 30 September 2013.

15. 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 18 and 19 of the Group's Annual report for the year ended 31 March 2013 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.

16. SEASONALITY

Sales are subject to seasonal fluctuations, with peak demand in the October - December quarter. For the six months ended 30 September 2013 sales represented 39% of the annual sales for the year ended 31 March 2013 (2012 – 42% 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 year; and

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

The directors of Hornby Plc are listed in the Hornby Plc Annual Report for 31 March 2013. A list of current directors is maintained on the Hornby Plc website: www.hornby.com.

By order of the Board

Roger Canham
Executive Chairman

13 November 2013

Nick Stone
Finance Director

13 November 2013

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 2013 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 Conduct 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 Conduct 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.

Independent Review Report to Hornby PLC continued

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 2013 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 Conduct Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
Gatwick
13 November 2013

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
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ITS PRODUCTS, PLEASE CONTACT:

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