



INTERIM REPORT

CONDENSED CONSOLIDATED
HALF-YEARLY FINANCIAL REPORT
SIX MONTHS TO 30 SEPTEMBER 2010



Interim Management Report

Your Board is pleased to update shareholders on the encouraging progress that the Group is making. The period under review has seen the Group continue to increase the scale and reach of product distribution throughout the UK and our overseas markets. The Group is in good financial health and has a number of exciting opportunities from which we can continue to drive growth in the future.

Financials

During the period, turnover was £25.5 million, an increase of 2% compared to the corresponding period last year. Whilst order intake in the first half was well above the previous year, we entered the new financial year with low inventories. This, together with some delays to new product introductions, impacted our ability to meet demand fully during the first half. Order intake continues strongly and we therefore expect sales in the second half, traditionally the key trading period, to be ahead of the corresponding period last year.

Operating margins have been under pressure as a result of product mix, market mix and the sale during the period of inventories purchased in the previous year at less favourable Sterling/Dollar exchange rates. Pre-tax profit before amortisation of intangibles and net foreign exchange adjustments on intercompany loans (hereafter referred to as underlying pre-tax profits) has therefore reduced to £0.7 million (2009 – £1.0 million). Statutory pre-tax profit was £0.5 million (2009 – £0.7 million). The reduction in other operating expenses is due primarily to foreign exchange differences.

Net debt was £10.8 million compared to £14.7 million as at 30 September 2009 (£3.2 million as at 31 March 2010). The cash outflow during the

first six months is consistent with the seasonal build in working capital along with the payment of a full year dividend.

The Group has banking facilities of £21.0 million in the UK consisting of an £11.0 million amortising Term Loan which expires in July 2014 and a £10.0 million Secured Money Market Loan which expires in July 2012.

Dividend

Given our confidence in the future prospects for the Group, the Board is proposing to pay a half year dividend of 1.7p, in line with previous practice of paying one third of the total prior year dividend as an interim payment. This reflects our confidence that we will continue to drive the financial performance of the Group. The interim dividend will be paid to shareholders on the register as at 17 December 2010 on 28 January 2011. The Board is committed to maintaining a progressive dividend policy.

Operating Review

Our operations in the UK and continental Europe have all experienced solid demand for our product ranges. However following the global economic uncertainties of recent years all our suppliers experienced shortages in supplies of electronic and other components in the period to September. These shortages were exacerbated within our largest supplier by the implementation of a new enterprise resource planning (ERP) system. This system is now functioning satisfactorily and deliveries of finished products are much improved. We have also continued with our strategy to diversify our supplier base to meet our growing capacity requirements.

Interim Management Report (continued)

UK

Sales in the UK have been encouraging, increasing by 12%. We continue to experience strong order intake across all our brands and distribution channels. Sales direct to the consumer via our chain of in-store concessions are showing good year on year growth.

The new Scalextric Start range has exceeded our expectations. This range of entry level 32nd scale boxed sets has been very well received and we have high hopes for this range over Christmas. This range is sold at price points between £60 and £80. These are more competitive prices than our standard boxed sets and "Start" is a good example of our ability to adapt the product range to appeal to changing market demands.

In Micro Scalextric the top seller has been the Toy Story 3 set. We expect this set to be a particularly strong seller in the run up to Christmas.

In our Hornby range the introduction of the Toy Story 3 train set, licensed from Disney/Pixar has driven high sales value as we expected. This is helping us to fire the enthusiasm of a new, younger generation of model railway enthusiasts.

Airfix continues to grow strongly and we are expanding rapidly the distribution of this product range both in the UK and overseas. The best sellers include the 1:24th scale Mosquito kit aimed at the top end of the hobby market. At the other end of the spectrum the £6.99 Airfix gift sets have achieved wide distribution and strong sales.

Corgi continues to be the subject of an intensive product development programme designed to restore the fortunes of the brand in the same way as we have revitalised Airfix following

a period of under-investment in its previous ownership.

Our online presence is growing well. We now have an active community of enthusiasts and hobbyists engaging with us online and we have stepped up our marketing presence via social networking sites such as YouTube, Twitter and Facebook.

Our London 2012 Olympic range is developing well and currently sales levels are encouraging. Our association with London 2012 is creating a number of opportunities to broaden our distribution and grow our business generally. As an example of this we have recently entered into an agreement with The Royal Mint to distribute its range of 2012 collectable sports coins through our concessions, general retail and mass market outlets. We see this as an excellent opportunity to leverage our distribution strength and create additional sales and profits in the short and medium term. Longer term we expect that there will be further opportunities to work closely with The Royal Mint to produce limited and special edition products combining their unique collectable proposition with our product skills.

In July this year, we opened the Hornby Visitor Centre at our headquarters in Margate, Kent. This has proved to be extremely popular and so far we have recorded over 10,000 visitors. This has helped the profile of our brands and the shop associated with the Visitor Centre has made a useful contribution to sales. We expect to build on this success with more active and focussed marketing in the pre-Christmas period and into 2011.

Continental Europe

Sales in our continental European subsidiaries were particularly affected by the component shortages and product introduction delays mentioned above. Turnover was £4.6 million compared to £6.3 million last year however demand for our products remained strong. We have been working closely with our largest supplier and we are now seeing improved deliveries to our European subsidiaries. We expect that sales in the second half of the financial year will be ahead of the corresponding period in the previous year. Our competitors in continental Europe are still suffering with their own structural problems. The strength in depth of Hornby Group places us in an excellent position to continue to take market share from our competitors.

USA

Turnover of £1.2 million was 4% above the same period last year although demand in the US economy continues to be depressed. We have undertaken a structural review of our organisation in the USA and reduced overheads to match more closely the difficult economic conditions.

Current Trading

Current trading is in line with our projections. Whilst we are conscious that the retail environment remains competitive, our product ranges have an enduring appeal across a broad spectrum of ages. The feedback we are getting from consumers is encouraging. Also our major retail customers are indicating that they have a high regard for our brands, and we continue to broaden our distribution.

Outlook

The second half of the year is dominated by the important Christmas period which remains the peak period of consumer demand. In recent years we have achieved strong sales in the run-up to Christmas and also in the weeks afterwards as consumers buy accessories in the New Year. The volume of deliveries from our suppliers is increasing as is consumer demand. The Group is well positioned with a strong product line up that spans a wide range of price points. Relationships with our retail partners are excellent and we have increased the number of products being stocked by the large retail chains. Whilst we are conscious of the backdrop of a challenging economic environment, we remain optimistic that our strong brand portfolio will continue to perform well.

In summary, the Group is in good shape. Our financial position is robust and we have exciting opportunities for growth. The 2012 Olympic licence is gathering momentum and we are confident that this will boost the profile of our products dramatically.

Neil A Johnson

Chairman

12 November 2010

Statement of Comprehensive Income

for the six months ended 30 September 2010

		Six months to 30 September 2010	Six months to 30 September 2009	Twelve months to 31 March 2010
		(unaudited) £'000	Re-stated* (unaudited) £'000	Re-stated* (audited) £'000
	Notes			
Revenue	4	25,548	25,155	63,863
Cost of sales		(13,861)	(12,450)	(32,587)
Gross profit		11,687	12,705	31,276
Distribution costs		(1,115)	(1,089)	(2,702)
Selling and marketing costs		(5,391)	(5,605)	(12,778)
Administrative expenses		(4,177)	(3,742)	(8,243)
Other operating expenses		(146)	(1,148)	(1,549)
Operating profit		858	1,121	6,004
Finance income		49	2	20
Finance costs		(379)	(380)	(809)
Profit before taxation	4	528	743	5,215
Analysed as:				
Underlying profit before taxation		668	1,013	5,708
Net foreign exchange impact on intercompany loans		54	(73)	(98)
Amortisation of intangible assets		(194)	(197)	(395)
Profit before taxation	4	528	743	5,215
Taxation	8	(224)	(328)	(1,530)
Profit for the period after taxation		304	415	3,685
Other comprehensive income				
Cash flow hedges, net of tax		(920)	183	848
Currency translation differences		(22)	14	19
Other comprehensive income for the period, net of tax		(942)	197	867
Total comprehensive income for the period		(638)	612	4,552
Earnings per ordinary share				
Basic		0.80p	1.10p	9.76p
Diluted		0.79p	1.08p	9.60p

All of the activities of the Group are continuing.

* See note 3.

The notes on pages 9 to 17 form an integral part of this condensed consolidated half-yearly financial information.

Balance Sheet

as at 30 September 2010

	Notes	30 September 2010 (unaudited) £'000	30 September 2009 (unaudited) £'000	31 March 2010 (audited) £'000
Assets				
Non-current assets				
Goodwill		13,258	13,548	13,416
Intangible assets		4,987	5,468	5,227
Property, plant and equipment		10,112	10,774	10,020
Deferred income tax assets		137	101	140
		28,494	29,891	28,803
Current assets				
Inventories		16,779	17,426	12,273
Trade and other receivables		16,263	14,833	13,291
Derivative financial investments		59	239	750
Current tax assets		381	236	175
Cash and cash equivalents		2,097	1,241	8,998
		35,579	33,975	35,487
Liabilities				
Current liabilities				
Borrowings	7	(3,388)	(4,299)	(1,718)
Derivative financial instruments		(3,093)	(3,923)	(3,342)
Trade and other payables		(12,302)	(10,172)	(10,363)
Provisions		(600)	(484)	(391)
Current tax liabilities		(696)	(545)	(1,020)
		(20,079)	(19,423)	(16,834)
Net current assets		15,500	14,552	18,653
Non-current liabilities				
Borrowings	7	(9,557)	(11,594)	(10,547)
Deferred tax liabilities		(284)	(328)	(281)
		(9,841)	(11,922)	(10,828)
Net assets		34,153	32,521	36,628
Shareholders' equity				
Share capital	6	380	380	380
Share premium		5,340	5,340	5,340
Capital redemption reserve		55	55	55
Translation reserve		(536)	(519)	(514)
Hedging reserve		(752)	(497)	168
Other reserves		1,688	1,688	1,688
Retained earnings		27,978	26,074	29,511
Total equity		34,153	32,521	36,628

The notes on pages 9 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 2010

	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 2010	380	5,340	55	(514)	168	1,688	29,511	36,628
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 recognised income for the period	—	—	—	(22)	(920)	—	304	(638)
Share-based payments	—	—	—	—	—	—	(86)	(86)
Shares vested from Short Term Incentive Plan	—	—	—	—	—	—	146	146
Dividends	—	—	—	—	—	—	(1,897)	(1,897)
	—	—	—	—	—	—	(1,837)	(1,837)
Balance at 30 September 2010	380	5,340	55	(536)	(752)	1,688	27,978	34,153
Balance at 1 April 2009	380	5,278	55	(533)	(680)	1,688	25,366	31,554
Exchange adjustment offset in reserves	—	—	—	14	—	—	—	14
Cash flow hedges	—	—	—	—	183	—	—	183
Net income recognised directly in reserves	—	—	—	14	183	—	—	197
Profit for the period	—	—	—	—	—	—	415	415
Total recognised income for the period	—	—	—	14	183	—	415	612
Issue of shares	—	62	—	—	—	—	—	62
Share-based payments	—	—	—	—	—	—	122	122
Shares vested from Short Term Incentive Plan	—	—	—	—	—	—	171	171
	—	62	—	—	—	—	293	355
Balance at 30 September 2009	380	5,340	55	(519)	(497)	1,688	26,074	32,521

* Retained earnings includes amounts that are not distributable including £647,000 at 30 September 2010 (2009 – £664,000) that relates to a 1986 revaluation of land and buildings.

Statement of Cash Flows

for the six months ended 30 September 2010

	Six months to 30 September 2010 (unaudited) £'000	Six months to 30 September 2009 (unaudited) £'000	Twelve months to 31 March 2010 (audited) £'000
Cash flows from operating activities			
Cash (utilised in)/generated from operations	(2,793)	141	14,385
Interest received	49	2	20
Interest paid	(379)	(380)	(809)
Tax paid	(748)	(901)	(1,653)
Net cash (utilised in)/generated from operating activities	(3,871)	(1,138)	11,943
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	32	1	2
Purchase of property, plant and equipment	(2,069)	(1,880)	(3,827)
Net cash utilised in investing activities	(2,037)	(1,879)	(3,825)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	–	62	62
(Repayments)/proceeds of loans	(540)	3,873	3,333
Finance lease capital payments	(41)	(9)	(19)
Dividends paid to Company's shareholders	(1,897)	–	–
Net cash (utilised in)/generated from financing activities	(2,478)	3,926	3,376
Effect of exchange rate movements	293	195	445
Net (decrease)/increase in cash and cash equivalents	(8,093)	1,103	11,939
Cash, cash equivalents and bank overdrafts at beginning of the period	8,879	(3,060)	(3,060)
Cash, cash equivalents and bank overdrafts at end of period	786	(1,956)	8,879
Cash, cash equivalents and bank overdrafts consist of:			
Cash and cash equivalents	2,097	1,241	8,998
Bank overdrafts	(1,311)	(3,197)	(119)
Cash, cash equivalents and bank overdrafts at end of period	786	(1,956)	8,879

The notes on pages 9 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 2010

Cash flows from operating activities

	Six months to 30 September 2010 (unaudited) £'000	Six months to 30 September 2009 (unaudited) £'000	Twelve months to 31 March 2010 (audited) £'000
Profit before taxation	528	743	5,215
Interest payable	379	380	809
Interest receivable	(49)	(2)	(20)
Amortisation of intangible assets	194	197	395
Depreciation	1,709	1,763	4,376
Profit on disposal of tangible fixed assets	(2)	(1)	(1)
Share-based payments	(86)	122	289
Loss/(gain) on financial derivatives	21	80	(24)
Increase/(decrease) in provisions	209	(54)	(147)
(Increase)/decrease in inventories	(4,506)	(3,058)	2,095
Increase in trade and other receivables	(2,961)	(1,714)	(167)
Increase in trade and other payables	1,771	1,685	1,565
Cash (utilised in)/generated from operations	(2,793)	141	14,385

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 Company has its primary listing on the London Stock Exchange and is registered in England No. 01547390.

This condensed consolidated half-yearly financial information was approved for issue on 12 November 2010.

These interim financial results do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2010 were approved by the Board of Directors on 4 June 2010 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 2010 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 2010 which have been prepared in accordance with IFRSs as adopted by the European Union.

3. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 March 2010, as described in those annual financial statements.

Notes (continued)

The Group has adjusted the accounting for settlement discounts and these are now a deduction to revenue. Historically, settlement discounts have been included within costs of sales and operating expenses. This adjustment, the net impact of which is a reclassification between revenue and expenses, has been made in the comparative numbers in the statement of comprehensive income and relevant notes. The settlement discount adjustment reduced revenue by £300,000 in the six months to 30 September 2009 (£873,000 reduction in the year ended 31 March 2010).

Adoption of new and revised standards

The following new standards and amendments to standards are mandatory for accounting periods beginning on or after 1 April 2010:

IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

As the Group has not made any business combinations in the period, IFRS 3 is not relevant for the period under review.

The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 April 2010 but are not relevant to the Group's operations:

IFRIC 17, 'Distributions of non-cash assets to owners', effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Group, as it has not made any non-cash distributions.

IFRIC 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009. This is not relevant to the Group, as it has not received any assets from customers.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published, but the Group has not early adopted them:

IFRS 9	Financial instruments
IAS 24 (revised)	Related party disclosures
IFRIC 19	Extinguishing financial liabilities with equity instruments

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 2010						
Total revenue	21,494	1,164	2,071	1,999	1,700	28,428
Inter-segment revenue	(1,726)	–	(878)	(276)	–	(2,880)
Revenue (from external customers)	19,768	1,164	1,193	1,723	1,700	25,548
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)
Profit/(loss) before taxation	1,175	(105)	(539)	250	(253)	528
Six months ended 30 September 2009						
Total revenue	19,203	1,114	1,899	3,404	2,460	28,080
Inter-segment revenue	(1,476)	–	(353)	(1,096)	–	(2,925)
Revenue (from external customers)	17,727	1,114	1,546	2,308	2,460	25,155
Underlying profit/(loss) before taxation	722	(53)	180	209	(45)	1,013
Foreign exchange on intercompany loans including impact of foreign exchange collar	(73)	–	–	–	–	(73)
Amortisation of intangible assets	(132)	–	–	(48)	(17)	(197)
Profit/(loss) before taxation	517	(53)	180	161	(62)	743

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.

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 £56,000 favourable impact of the collar shown in the table above comprises foreign exchange losses on translation of intercompany loans of £443,000 (2009 – loss of £246,000), offset by a gain on marking to market the foreign exchange collar of £499,000 (2009 – gain of £173,000).

Beneficial cumulative profit impact of the collar from inception to 3 October 2011 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 £823,000 at the participation cap rate of €1.3725:£ compared to the intercompany loans Sterling valuation at 31 March 2007 (€1.4734:£).

As at 30 September 2010 the profit impact is a gain of £823,000. Therefore in the period 1 October 2010 to 30 September 2011 there will be an adjustment to the Statement of Comprehensive Income between a £nil profit and £483,000 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)
30 Sep 2010		1.15	14,297	3,098	(2,275)	74
Total gain/(loss) to profit before tax						823

Notes (continued)

5. TANGIBLE AND INTANGIBLE ASSETS

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

The additions relate to new product tooling (£1,547,000), property, plant and equipment (£299,000) and motor vehicles (£96,000).

	Tangible and intangible assets (unaudited) £'000
Six months ended 30 September 2009	
Opening book amount 1 April 2009	29,836
Exchange adjustment	(181)
Additions	2,095
Depreciation, amortisation and impairment	(1,960)
Closing net book amount 30 September 2009	29,790

	2010 (unaudited) £'000	2009 (unaudited) £'000
CAPITAL COMMITMENTS		
At 30 September commitments were:		
Contracted for but not provided for	1,124	1,188

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

6. SHARE CAPITAL

The Group has 38,064,100 ordinary 1p shares in issue with nominal value £380,641 (2009 – £380,641).

No employee share options were exercised during the first half to 30 September 2010 (2009 – nil share options).

7. BORROWINGS

	30 September 2010 (unaudited) £'000	30 September 2009 (unaudited) £'000	31 March 2010 (audited) £'000
CURRENT:			
Bank overdrafts	1,311	3,197	119
Bank loans	2,050	1,053	1,552
Finance lease obligations	27	49	47
	3,388	4,299	1,718
NON-CURRENT:			
Bank loans	9,443	11,520	10,481
Finance lease obligations	114	74	66
	9,557	11,594	10,547

At 30 September 2010 the Group has a £10,000,000 revolving credit facility expiring July 2012 (2009 – £10,000,000) that attracts interest at 2.85% above Libor and a fixed term loan of £11,000,000 with payments scheduled to July 2014 (2009 – £12,000,000) that attracts interest at 3.6% above Libor.

In the period to 30 September 2010 loan repayments were £500,000 (2009 – £nil).

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.

9. EARNINGS PER SHARE

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

	30 September 2010 (unaudited)	30 September 2009 (unaudited)	31 March 2010 (audited)
Earnings per share for profit from continuing operations attributable to the equity of the Company			
– basic	0.80p	1.10p	9.76p
– diluted	0.79p	1.08p	9.60p

Notes (continued)

10. DIVIDENDS

A final dividend that related to the financial year ended 31 March 2010 amounted to £1,897,000 (2009 – £nil).

An interim dividend of 1.7p has been declared for the interim period ended 30 September 2010 amounting to £647,000 (2009 – £nil).

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 £965,000 for the six months to 30 September 2010 (2009 – £1,180,000).

	30 September 2010 (unaudited) £'000	30 September 2009 (unaudited) £'000	31 March 2010 (audited) £'000
Salaries and other short-term benefits	995	978	2,091
Post-employment benefits	95	93	192
Share-based payments	(46)	109	276
	1,044	1,180	2,559

The Company received management fees from subsidiaries of £670,000 (2009 – £604,000), interest of £87,000 (2009 – £114,000) and dividends from subsidiaries of £1,897,000 (2009 – £nil).

At the year-end balances due from subsidiaries to the Company amounted to £6,850,000 (2009 – £6,179,000) and due to subsidiaries from the Company amounted to £6,318,000 (2009 – £6,358,000).

There are no other related party transactions.

13. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

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

14. RISKS AND UNCERTAINTIES

The Board regularly reviews key risks and uncertainties and have concluded that the disclosures on pages 10 to 11 and 16 to 18 of the Group's Annual Report for the year ended 31 March 2010 remain appropriate. These should be read in conjunction with the interim management report for the half year ended 30 September 2010.

15. SEASONALITY

Sales are subject to seasonal fluctuations, with peak demand in the October – December quarter. For the six months ended 30 September 2010 sales represented 40% (2009 – 41%) of the annual sales for the year ended 31 March 2010.

Statement of Directors' Responsibilities

The directors confirm that, to the best of their knowledge, these condensed consolidated set of financial statements have 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 2010. A list of current directors is maintained on the Hornby Plc website: www.hornby.com.

By order of the Board

Frank Martin

Chief Executive

12 November 2010

Andrew Morris

Finance Director

12 November 2010

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 2010 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 set of consolidated financial statements 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

Independent Review Report to Hornby PLC (continued)

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 2010 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

12 November 2010

Notes:

- (a) The maintenance and integrity of the Hornby Plc web site 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 interim report since it was initially presented on the web site.
- (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:

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