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If you have sold or otherwise transferred all of your registered holding in the ordinary shares in the Company, please immediately forward this document, together with the Form of Proxy appended at the end of this document, to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for onward delivery to the purchaser or transferee. If you have sold or otherwise transferred only part of your holding of ordinary shares in the Company, please immediately contact your stockbroker, bank or other agent through whom the sale or transfer was effected.

The Placing does not constitute an offer to the public requiring an approved prospectus under section 85 of FSMA and, accordingly, this document does not constitute a prospectus for the purposes of the Prospectus Rules made by the Financial Conduct Authority (“FCA”) pursuant to sections 73A(1) and (4) of FSMA. In addition, this document does not constitute an AIM Admission Document drawn up in accordance with the AIM Rules.

Hornby PLC

(incorporated and registered in England and Wales with registered number 01547390)

Proposed Delisting and Admission to AIM

Proposed Placing of 15,789,474 new Ordinary Shares at 95 pence per share

Proposed amendment to Articles of Association

Notice of General Meeting

Numis Securities Limited, which is authorised and regulated in the United Kingdom by the FCA, is acting for the Company in connection with the Delisting, Admission and Placing and is not acting for any other persons in relation to the Delisting, Admission and Placing. Numis Securities Limited is retained by the Company in connection with the Delisting, Admission and Placing and shall not be responsible to any other party for providing advice or taking any other action in relation to the Delisting, Admission and Placing. Persons receiving this document should note that Numis Securities Limited will not be responsible to anyone other than the Company for providing the protections afforded to clients of Numis Securities Limited or for advising any other person on the arrangements described in this document. Numis Securities Limited has not authorised the contents of, or any part of, this document and no liability whatsoever is accepted by Numis Securities Limited nor does it make any representation or warranty, express or implied, for the accuracy of any information or opinion contained in this document or for the omission of any information. Numis Securities Limited disclaims all and any responsibility or liability whether arising in tort, contract or otherwise which it might otherwise have in respect of this document. Nothing in this paragraph shall serve to exclude or limit any responsibilities which Numis Securities Limited may have under FSMA or the regulatory regime established thereunder.

The Company’s Existing Ordinary Shares are currently admitted to trading on the Main Market for listed securities of the London Stock Exchange. Application will be made to the London Stock Exchange for both the Existing Ordinary Shares and the Placing Shares to be admitted to trading on AIM. Subject to, amongst other things, the passing of the Transaction Resolutions at the General Meeting, it is expected that admission of the Existing Ordinary Shares and the Placing Shares will become effective and dealings in the Existing Ordinary Shares and the Placing Shares will commence on AIM on or around 8.00 a.m. on 12 August 2015. The Existing Ordinary Shares and the Placing Shares will not be admitted to trading on any other investment exchange. The Placing Shares will, on Admission, rank *pari passu* in all respects with the Existing Ordinary

Shares and will rank in full for all dividends and other distributions thereafter declared, made or paid on the ordinary share capital of the Company.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority (being the FCA acting as competent authority for the purposes of Part VI of FSMA) (“UKLA”). A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The AIM Rules are less demanding than those of the Official List of the UKLA. It is emphasised that no application is being made for admission of the Placing Shares to the Official List of the UKLA.

This document should be read as a whole. Your attention is drawn to the letter from the Chairman of the Company which is set out in Part 1 of this document and to the Risk Factors in Part 2 of this document.

Notice convening a General Meeting of the Company, to be held at 8.30 a.m. on 13 July 2015 at the offices of the Company’s solicitors, Berwin Leighton Paisner LLP at Adelaide House, London Bridge, London EC4R 9HA, is set out at the end of this document.

The action to be taken by Shareholders in respect of the General Meeting is set out on page 24 of this document. If you hold your Existing Ordinary Shares in certificated form, whether or not you plan to attend the General Meeting, you are encouraged to complete the accompanying Form of Proxy and return it in accordance with the instructions printed thereon as soon as possible, but in any event so as to be received by post or, during normal business hours only, by hand, at Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU by no later than 8.30 a.m. on 11 July 2015 (or, in the case of an adjournment of the General Meeting, not later than 48 hours before the time fixed for the holding of the adjourned meeting). The completion and return of a Form of Proxy will not prevent you from attending and voting at the General Meeting in person should you wish to do so.

This document does not constitute an offer to sell or an invitation to subscribe for, or solicitation of an offer to subscribe for or buy securities to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation. In particular, this document must not be taken, transmitted, distributed or sent, directly or indirectly, in, or into, the United States of America, Canada, Australia, Japan or the Republic of South Africa or transmitted, distributed or sent to, or by, any national, resident or citizen of such countries. Accordingly, the Placing Shares may not, subject to certain exceptions, be offered or sold, directly or indirectly, in, or into, or credited to the stock account of any person in the United States of America, Canada, Australia, Japan or the Republic of South Africa or in any other country, territory or possession where to do so may contravene local securities laws or regulations. The Placing Shares have not been, and will not be, registered under the United States Securities Act of 1933 (as amended) or under the securities legislation of any state of the United States of America, any province or territory of Canada, Australia, Japan or the Republic of South Africa and they may not be offered or sold, directly or indirectly, within the United States of America or Canada, Australia, Japan or the Republic of South Africa or to or for the account or benefit of any national, citizen or resident of the United States of America, Canada, Australia, Japan or the Republic of South Africa or to any US person (within the definition of Regulation S made under the US Securities Act 1933 (as amended)). In addition, offers, sales or transfers of the Placing Shares in or into the United States for a period of time following completion of the Placing by a person (whether or not participating in the Placing) may violate the registration requirement of the US Securities Act 1933 (as amended).

A copy of this document will also be available from the Company’s website, www.hornby.plc.uk.

This document contains (or may contain) certain forward-looking statements with respect to the Company and certain of its goals and expectations relating to its future financial condition and performance which involve a number of risks and uncertainties. No forward-looking statement is a guarantee of future performance and actual results could differ materially from those contained in any forward-looking statements. All statements, other than statements of historical facts, contained in this document, including statements regarding the Group’s future financial position, business strategy and plans, business model and

approach and objectives of management for future operations, are forward-looking statements. Generally, the forward-looking statements in this document use words such as “aim”, “anticipate”, “target”, “expect”, “estimate”, “plan”, “goal”, “believe”, “will”, “may”, “could”, “should”, “future”, “intend” “opportunity”, “potential”, “project”, “seek” and other words having a similar meaning. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances, including, but not limited to, economic and business conditions, the effects of changes in interest rates and foreign exchange rates, changes in legislation, changes in consumer habits and other factors outside the control of the Company, that may cause actual results, performance or achievements to be materially different from any results, performance or achievements expressed or implied by such forward-looking statements. All forward-looking statements contained in this document are based upon information available to the Directors at the date of this document and the posting or receipt of the document shall not give rise to any implication that there has been no change in the facts set forth herein since such date. Investors are urged to read this entire document carefully before making an investment decision. The forward-looking statements in this document are based on the relevant Directors’ beliefs and assumptions and information only as of the date of this document, and the forward-looking events discussed in this document might not occur. Therefore, investors should not place any reliance on any forward-looking statements. Except as required by law or regulation, the Directors undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future earnings or otherwise.

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Announcement of the Proposals and publication of this document	18 June 2015
Last time and date for receipt of Forms of Proxy	8.30 a.m. on 11 July 2015
General Meeting	8.30 a.m. on 13 July 2015
Publication of Schedule One announcement	14 July 2015
Last day of dealings in the Existing Ordinary Shares on the Main Market	11 August 2015
Cancellation of listing of the Existing Ordinary Shares on the Official List	8.00 a.m. on 12 August 2015
Admission and commencement of dealings in the Existing Ordinary Shares and the Placing Shares on AIM	8.00 a.m. on 12 August 2015
CREST accounts credited with Placing Shares in uncertificated form	8.00 a.m. on 12 August 2015
Dispatch of definitive share certificates in respect of Placing Shares to be issued in certificated form	by 24 August 2015

Each of the times and dates in the table above is indicative only and may be subject to change. If any of the details contained in the timetable above should change, the revised times and dates will be notified by means of an announcement through a Regulatory Information Service.

References to times in this document are to London time unless stated otherwise.

Note:

If you have any questions on how to complete the Form of Proxy, please contact Capita Registrars Limited on telephone number 0871 664 0300 or +44 208 639 3399 outside the UK. This helpline is open from 9.00 a.m. to 5.30 p.m. on Monday to Friday (inclusive). Please note that calls to the helpline cost approximately 10 pence per minute (including VAT) plus your service provider's network extras. Calls to the helpline from outside of the UK will be charged at applicable international rates. Different charges may apply to calls from mobile telephones. Please note that calls to the helpline may be monitored or recorded and that the helpline is not able to advise on the merits of the matters set out in this document or provide any legal, financial or taxation advice.

The ISIN code for the Existing Ordinary Shares and, following Admission, the Placing Shares will remain GB00B01CZ652.

The cancellation of listing of the Existing Ordinary Shares on the Official List and the admission and commencement of dealings in both the Existing Ordinary Shares and the Placing Shares on AIM are conditional on, amongst other things, the passing of the Transaction Resolutions at the General Meeting. The Placing will not proceed if Admission does not occur.

PLACING STATISTICS

Number of Existing Ordinary Shares in issue at the date of this document	39,164,100
Placing Price	95 pence
Number of Placing Shares	15,789,474
Number of Ordinary Shares in issue immediately following completion of the Placing	54,953,574
Placing Shares as a percentage of the enlarged issued share capital	28.7%
Net proceeds of the Placing	£14 million
Market capitalisation of the Company at the Placing Price immediately following completion of the Placing	£52,205,895.30

DIRECTORS, COMPANY SECRETARY AND ADVISERS

Directors	Richard Ames (<i>CEO</i>) Roger Canham (<i>Chairman</i>) Nick Stone (<i>Finance Director</i>) David Adams (<i>Non-Executive Director</i>) Charlie Caminada (<i>Non-Executive Director</i>)
Registered Office	Westwood Margate Kent CT9 4JX
Company Secretary	Amy Stacey
Financial Adviser and Broker	Numis Securities Limited 10 Paternoster Square London EC4M 7LT
Auditor to the Company	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH
Solicitors to the Company	Berwin Leighton Paisner LLP Adelaide House London Bridge London EC4R 9HA
Solicitors to Numis Securities	Stephenson Harwood LLP 1 Finsbury Circus London EC2M 7SH
Registrars	Capita Asset Services The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

DEFINITIONS

The following definitions apply throughout this document unless the context requires otherwise:

“Act”	the Companies Act 2006 (as amended)
“Admission”	the admission of the Existing Ordinary Shares and the Placing Shares to trading on AIM becoming effective in accordance with the AIM Rules
“AIM”	the Alternative Investment Market, a market operated by the London Stock Exchange
“AIM Designated Market”	a market whose name appears on the latest publication by the London Stock Exchange of the document entitled “The AIM Designated Market Route” and which includes the Official List
“AIM Rules”	the AIM Rules for Companies published by the London Stock Exchange from time to time
“Amended RCF”	has the meaning given to such term at Part 1, paragraph 9.1 of this document
“Barclays”	Barclays Bank PLC
“Board” or “Directors”	the directors of the Company whose names are set out on page 7 of this document
“Business Day”	a day not being a Saturday, Sunday or public holiday in England on which clearing banks are open for business in the City of London
“certificated” or “in certificated form”	a share or other security not held in uncertificated form (i.e. not in CREST)
“Closing Price”	the closing middle market quotation of the Existing Ordinary Shares, as derived from the Daily Official List of the London Stock Exchange
“Company”	Hornby PLC
“Corporate Governance Code for Small and Mid-Size Quoted Companies”	the Corporate Governance Code for Small and Mid-Size Quoted Companies, issued by the Quoted Companies Alliance in May 2013, as amended from time to time
“CREST”	a relevant system (as defined in the Uncertificated Securities Regulations 2001 (SI 2001/3755) as amended from time to time) in respect of which Euroclear is the Operator (as defined in the CREST Regulations)
“Delisting”	the proposed cancellation of the listing of the Existing Ordinary Shares on the Official List and from trading on the Main Market
“Disclosure and Transparency Rules”	the disclosure and transparency rules made by the FCA in exercise of its functions as competent authority pursuant to Part VI of FSMA, as amended from time to time
“Existing Articles”	the existing articles of association of the Company adopted by special resolution on 28 July 2008
“Existing Bank Debt”	the existing revolving credit facility with Barclays in the principal sum of £13 million expiring in December 2015

“Existing Ordinary Shares”	the 39,164,100 existing ordinary shares of 1 pence each in the capital of the Company as at 17 June 2015 (being the latest practicable date prior to the date of publication of this document)
“FCA”	the Financial Conduct Authority (and its predecessor, the Financial Services Authority) in its capacity as the competent authority for the purposes of Part VI of FSMA and in the exercise of its functions in respect of admission to the premium segment of the Official List
“Form of Proxy”	the form of proxy for use by Shareholders in connection with the General Meeting and accompanying this document
“FSMA”	the Financial Services and Markets Act 2000 (as amended)
“General Meeting”	the general meeting of the Company to be held at the offices of the Company’s solicitors, Berwin Leighton Paisner LLP at Adelaide House, London Bridge, London EC4R 9HA at 8.30 a.m. on 13 July 2015, or any adjournment thereof, notice of which is set out at the end of this document
“Group”	the Company and its subsidiary undertakings
“HMRC”	HM Revenue & Customs
“IA Guidelines”	the guidelines issued by the Investment Association and other members of the Institutional Shareholders Committee, from time to time
“Independent Shareholders”	Shareholders other than New Pistoia and Phoenix
“Listing Rules”	the listing rules made by the FCA in exercise of its function as competent authority pursuant to Part VI of FSMA, as amended from time to time
“London Stock Exchange”	London Stock Exchange plc
“Main Market”	the London Stock Exchange’s main market for listed securities
“New Articles”	the new articles of association proposed to be adopted by the Company pursuant to Resolution 5 at the General Meeting, further details of which are contained in Part 1, paragraph 13 of this document
“New Pistoia”	New Pistoia Income Limited, a Shareholder of the Company
“Notice of the General Meeting”	the notice of the General Meeting set out at the end of this document
“Numis Securities”	Numis Securities Limited, the Company’s nominated advisor and broker in connection with the Delisting, Admission and the Placing
“Official List”	the Official List of the FCA
“Ordinary Shares”	the ordinary shares of 1 pence each in the share capital of the Company
“Placees”	subscribers for Placing Shares
“Placing”	the proposed conditional placing by Numis Securities on behalf of the Company of the Placing Shares with certain new investors and existing Shareholders pursuant to the Placing Agreement

“Placing Agreement”	the agreement dated 18 June 2015 entered into between the Company and Numis Securities in respect of the Placing, as described in Part 1, paragraph 4 of this document
“Placing Price”	the price at which the Placing Shares are to be placed with Placees, being 95 pence per Placing Share
“Placing Shares”	the 15,789,474 new Ordinary Shares to be placed for cash in connection with the Placing and whose allotment and issue is conditional, amongst other things, on the approval of the Transaction Resolutions by Shareholders at the General Meeting
“Phoenix”	Phoenix Asset Management Partners Limited, a Shareholder of the Company
“Proposals”	the Delisting, Admission, Placing, RCF Extension and adoption of the New Articles
“Prospectus Rules”	the prospectus rules made by the FCA in exercise of its functions as competent authority pursuant to Part VI of FSMA, as amended from time to time
“RCF Amendment Agreement”	has the meaning given to such term at Part 1, paragraph 9.1 of this document
“RCF Amendment Date”	means the date on which the amendment and restatement of the Existing Bank Debt becomes effective in accordance with the terms of the RCF Amendment Agreement
“RCF Extension”	the proposed extension and amendment of the Existing Bank Debt on terms providing, <i>inter alia</i> , for the expiry date of the revolving credit facility to be extended to the date falling 4 years after the RCF Amendment Date and for the revolving credit facility commitment thereunder to be reduced (upon the expiry of 5 business days after the RCF Amendment Date) from a principal sum of £13,000,000 to a principal sum of £10,000,000, further details of which are contained in Part 1, paragraph 9 of this document
“Related Party Transaction”	the proposed participation in the Placing by New Pistoia and Phoenix, both substantial shareholders (as defined in Listing Rule 11.1.4A) of the Company, as described in Part 1, paragraph 5 of this document
“Resolutions”	the resolutions to be proposed at the General Meeting, as set out in the Notice of General Meeting and “Resolution” shall be a reference to any one of them
“Shareholders”	the holders of Existing Ordinary Shares
“Transaction Resolutions”	Resolutions 1 to 4 (inclusive) to approve the Delisting and Admission, the Related Party Transaction, the allotment of the Placing Shares and the disapplication of pre-emption rights in respect of such allotment, further details of each of which are set out at Part 1, paragraphs 14.1(a) to 14.1(e) (inclusive)
“UK Corporate Governance Code”	the UK Corporate Governance Code issued by the Financial Reporting Council in September 2012, as amended from time to time

“UKLA”	the UK Listing Authority comprising the FCA acting in its capacity as the competent authority for the purposes of Part VI of FSMA
“uncertificated” or “in uncertificated form”	recorded on the register of members of the Company as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST
“United Kingdom” or “UK”	the United Kingdom of Great Britain and Northern Ireland
“United States” or “US”	the United States of America

PART 1

LETTER FROM THE CHAIRMAN

Hornby PLC

(a public limited company incorporated in England and Wales with registered number 01547390)

Directors:

Richard Ames (*CEO*)
Roger Canham (*Chairman*)
Nick Stone (*Finance Director*)
David Adams (*Non-Executive Director*)
Charlie Caminada (*Non-Executive Director*)

Registered Office:

Westwood
Margate
Kent
CT9 4JX

18 June 2015

To Shareholders and, for information only, to holders of share options and/or awards under any of the Company's employee share schemes

Dear Shareholder,

**Proposed Delisting and Admission to AIM
Proposed Placing of 15,789,474 new Ordinary Shares at 95 pence per share
Proposed amendment to Articles of Association
and
Notice of General Meeting**

1 INTRODUCTION

- 1.1 The Company announced on 18 June 2015 that it is proposing to raise, in aggregate, £15 million (before expenses) by way of a placing of 15,789,474 new Ordinary Shares at a price of 95 pence per new Ordinary Share and to use part of the proceeds of such Placing to repay part of the Existing Bank Debt. The Placing Price represents a 4.2 per cent. discount to the Closing Price of 0.99 pence per Ordinary Share on 17 June 2015 (being the latest practicable date prior to the issue of this document).
- 1.2 In conjunction with the Placing, the Board is proposing to cancel the listing of the Existing Ordinary Shares on the premium segment of the Official List and to remove such Existing Ordinary Shares from trading on the Main Market and to apply for admission of both the Existing Ordinary Shares and the Placing Shares to trading on AIM. It is also taking the opportunity to seek Shareholder approval to replace the Company's current articles of association with new articles of association which contain more modern provisions and are more appropriate for an AIM company.
- 1.3 In terms of the RCF Extension, Barclays, the Company's existing debt provider, has agreed, subject to certain conditions precedent, to amend the terms of the Existing Bank Debt such that the expiry of the revolving facility is extended to the date falling 4 years after the date on which the RCF Extension becomes effective, but with a reduced revolving facility commitment of £10,000,000. These arrangements have been negotiated with a view to materially deleveraging the Company's balance sheet and, in conjunction with the Placing, to provide the Company with a strengthened and sustainable long term capital structure. Further details regarding the RCF Extension are set out in paragraph 9 below. The RCF Extension can only take place if all of the Transaction Resolutions are passed at the General Meeting and the Delisting, Admission and Placing therefore all occur.
- 1.4 **The Listing Rules require that, if a company wishes to cancel its listing on the Official List, it must seek the approval of not less than 75 per cent. of its shareholders in a general meeting voting in person or by proxy. Accordingly, a special resolution (Resolution 1) is being proposed at the General Meeting to authorise the Board to cancel the listing of the Existing Ordinary**

Shares on the Official List and to remove such Existing Ordinary Shares from trading on the Main Market and to apply for admission of such Existing Ordinary Shares, together with the Placing Shares, to trading on AIM. In addition, the participation in the Placing by certain substantial shareholders (as defined in the Listing Rules) will constitute a related party transaction for the purposes of the Listing Rules and will therefore, to that extent, require the further approval of Independent Shareholders. Accordingly an ordinary resolution (Resolution 2) is being proposed at the General Meeting for this purpose.

- 1.5 The Placing is conditional upon, amongst other things, the approval of Resolution 1 to authorise the Directors to effect the Delisting and Admission, Resolution 2 to authorise the Related Party Transaction, Resolution 3 to authorise the Directors to issue the Placing Shares and Resolution 4 to authorise the Directors to disapply pre-emption rights in connection with the issue of the Placing Shares. Therefore, if any one of these Resolutions is not approved by Shareholders at the General Meeting, the Placing will not proceed and, as a result, the RCF Extension would also not be possible. Furthermore, unless all of the Transaction Resolutions are passed, the Company will not look to adopt the New Articles. Subject to the Transaction Resolutions all being passed at the General Meeting and any other relevant conditions being satisfied (or, if applicable, waived), it is expected that both the Existing Ordinary Shares and the Placing Shares will be admitted to trading on AIM on or around 8.00 a.m. 12 August 2015. **For the avoidance of doubt, please note that, since the issue of the Placing Shares is conditional, amongst other things, on Admission, the Placing Shares will not be admitted to trading on the Official List. Therefore, the Placing will not proceed if Admission does not occur. Further details regarding the Placing and use of proceeds are set out at paragraphs 2 and 4 of this Part 1.**
- 1.6 The purpose of this document is to outline the reasons for, and provide further information on, the Proposals and to explain why the Board believes these to be in the best interests of the Company and its Shareholders as a whole. As such, the Directors unanimously recommended that Shareholders vote in favour of the Resolutions as they have irrevocably undertaken to do in respect of their own beneficial holdings of Existing Ordinary Shares (or, where applicable, procured to do, in respect of Ordinary Shares held by their connected persons) amounting, in aggregate, to 109,308 Existing Ordinary Shares, representing approximately 0.28 per cent. of the existing issued ordinary share capital of the Company. As outlined below, Richard Ames, Nick Stone, Charlie Caminada and Roger Canham have also given irrevocable undertakings to vote, or, where applicable, to procure the casting of votes by their connected persons (as defined in section 252 of the Companies Act 2008), in favour of the Resolutions.
- 1.7 At the end of this document, you will find a notice of the General Meeting at which the Resolutions will be proposed to approve, amongst other things, the Delisting, Admission and the issue of the new Ordinary Shares pursuant to the Placing. The General Meeting has been convened for 8.30 a.m. on 13 July 2015 and will take place at the offices of the Company's solicitors, Berwin Leighton Paisner LLP at Adelaide House, London Bridge, London EC4R 9HA.

2 BACKGROUND TO THE PLACING AND USE OF PROCEEDS

- 2.1 The Board's strategic mission remains the significant improvement of Shareholder value by focussing upon ongoing investment in the key areas of the Company's business for growth and development. The first stage of this work involved improving supplier partnerships and establishing better working practices in the Company's Asia business in order to improve the reliability of the Company's supply chain. The next phase, which has been implemented in part, involves a rationalisation of the Group's European warehouse arrangements and an upgrade to its systems in order to consolidate and centralise key activities and improve the data available to support decision-making in the business. The final phase requires investment to improve the dialogue and relationship that the Company has with its partners and customers, for example, through social media content.
- 2.2 As previously disclosed in the Company's interim condensed consolidated half-yearly financial report for the six months to 30 September 2014, the Board has set in motion various internal changes to

enhance sales and profits, including successfully moving the Company's UK warehouse operations to DS Logistics in Canterbury and implementing new Critical Path and Tooling Database systems to improve production and supply chain processes. The UK implementation of the new ERP system is well advanced and expected to go live by the end of June 2015. The system will then be rolled out across the Group's European operations and which will enable the closure of the Group's warehouses in Europe and their consolidation into the new operation in Canterbury. The Board believes that these changes will enable cost savings and a greater efficiency of operations.

- 2.3 The net proceeds of the Placing of £14 million will be used by the Company to repay part of the Existing Bank Debt, which comprises the Company's core debt excluding seasonal working capital needs. The balance of the net proceeds of the Placing is intended to be applied towards the continued investment in the Group's business.
- 2.4 In particular, the net proceeds of the Placing will be used:
- | | | |
|-----|--|-----|
| (a) | to repay part of the Company's Existing Bank Debt | £8m |
| (b) | by the Company to accelerate the implementation of the Group's growth strategy | £3m |
| (c) | for the general working capital requirements of the Company | £3m |
| (d) | to pay individual transaction costs in connection with the Proposals | £1m |
- 2.5 Shareholders should note that, unless all of the Transaction Resolutions are passed by Shareholders at the General Meeting, none of the Proposals can be implemented. In such circumstances, the Placing cannot occur and, as such, the Company will not receive the Placing proceeds. Whilst the Company would have sufficient working capital to trade, it could not do so in accordance with its existing business plan. For example, the Group's ability to implement its new strategic plan would be delayed or suspended in the absence of alternative available sources of financing, reflecting the limited operational and financial flexibility and headroom available to the Company under the Existing Bank Debt. Furthermore, without the proceeds of the Placing, the Company does not currently have the ability to repay part of the Existing Bank Debt which falls for renewal in December of this year. The Board believes that, if it is required to renegotiate the terms of the Existing Bank Debt or secure alternative bank finance later in the year when the Existing Bank Debt comes to the end of its term, any such new arrangements may not be on as favourable terms as would be the case if the Company had the benefit of the Placing proceeds.
- 2.6 In addition to the above, if all of the Transaction Resolutions are not passed, and the Placing does not therefore proceed, whilst the Company would like to continue to execute its stated strategy (as further detailed in paragraph 2 of this Part 1), it would be required to immediately delay or, more likely suspend, the execution of such strategy due to the absence of the available cash resources which approval of the Transaction Resolutions and completion of the Placing would otherwise provide. The Company would be unable to implement the Group's proposed strategy and the Board may find itself unable to prepare accounts on a going concern basis without first securing further external bank finance and/or other alternative sources of financing which may, or may not, be forthcoming before the Existing Bank Debt expires. Furthermore, there is a heightened risk that, were the economic environment or trading performance of the Group to deteriorate materially from its current position, and the Company did not take steps to delay, or if necessary suspend, implementation of the Group's strategic plan, the Company may fail to comply with one or more financial covenants that are in place under the terms of the Existing Bank Debt. In such circumstances, the Company would be obliged to enter into further negotiation with Barclays to relax the relevant covenant(s) or request that any breach of the relevant covenant(s) be waived.
- 2.7 As stated above, in the event of the Transaction Resolutions not being passed, the Company would need to delay or suspend implementation of the Group's strategic plan in order to ensure that its accounts are prepared on a going concern basis and that it complies with the current financial covenants that are in place under the Existing Bank Debt. Barclays have been supportive of the Company to date and most recently in the context of the RCF Extension and the Directors therefore

believe that it is likely that the Group would be able to secure any such amendment or waiver but that such an amendment or waiver would be likely to require the payment of additional fees and potentially to result in the imposition of more onerous obligations and restrictions on the Group than those which the Group has negotiated to date. In the event that Barclays were not supportive of the Company and any such amendment or waiver were not possible to agree, a failure to comply with financial covenants would be an event of default under the Existing Bank Debt and would entitle Barclays to demand repayment of all outstanding amounts and to cancel the Existing Bank Debt.

- 2.8 **In light of the above, the Directors believe that the Proposals are in the best interests of Shareholders and that it is very important that Shareholders vote in favour of the Transaction Resolutions so that the Proposals can be implemented.**

3 BACKGROUND TO AND REASONS FOR THE DELISTING AND ADMISSION

- 3.1 The Board believes that a move to AIM will provide a market and environment more suited to the Company's current size and strategic intent and will allow the Company to enhance Shareholder value.
- 3.2 The Board believes that growth and general trading of the Company will be more difficult in the absence of a move to AIM due to the less competitive position of the Company when seeking to complete the current re-organisation and systems upgrade or, for example, acquisitive deals or raising equity finance compared to operating with an AIM quotation and the ability to raise finance without the need to produce a prospectus. The Board believes that this would significantly slow the rate at which the Company can deliver enhanced value to Shareholders. For example, AIM has the benefit of lower transactional costs, reduced ongoing costs and simpler administrative and regulatory requirements that are more appropriate to the Company's size. The Delisting and Admission will offer greater flexibility to the Company, particularly with regard to corporate transactions, and should therefore enable the Company to execute certain transactions more quickly and cost effectively when compared to the requirements of the Official List. Given the Company's size and strategic intent, the Board believes that the move is likely to be of significant benefit to the Company going forward.
- 3.3 AIM will also provide Shareholders with a market on which to potentially trade their Ordinary Shares whilst, in the Directors' opinion, providing the Company with continued access to equity capital, including the ability to improve future liquidity for the benefit of all Shareholders. Importantly, as a Main Market company, and due to its size and current market capitalisation, the Company is currently unable to raise sufficient funds in the market to complete the current re-organisation of its European operations nor to support organic growth in the short term or longer term growth by acquisition without having to publish a prospectus under the Prospectus Rules, an exercise which, without raising funds, it cannot afford to do. Provided that Shareholders approve the Transaction Resolutions, the Directors will be in a stronger position to raise equity finance without the requirement to publish a prospectus. The Directors anticipate that raising equity financing will also help to increase liquidity through placing more Ordinary Shares into public hands.

4 DETAILS OF THE PLACING

- 4.1 The Company is proposing to raise, in aggregate, £15 million (before expenses) by way of a placing of 15,789,474 new Ordinary Shares at the Placing Price with Placees. The Placing Shares represent 40.3 per cent. of the issued share capital of the Company as at 17 June 2015 (being the latest practicable date prior to the publication of this document) and will, on Admission, represent approximately 28.7 per cent. of the enlarged issued share capital of the Company. The Placing will result in a dilution of the proportionate holdings of existing Shareholders who do not participate in the Placing. On Admission, Shareholders will experience an immediate dilution of approximately 28.7 per cent. as a result of the Placing.
- 4.2 The Placing Price represents a discount of 4.2 per cent. to the Closing Price of 0.99 pence per Ordinary Share as at 17 June 2015 (being the latest practicable date prior to the publication of this document). The Placing Price has been set by the Directors following their assessment of market

conditions and following a “book-building” exercise, which is a mechanism through which investor support for a fundraising such as the Placing is ascertained.

- 4.3 In connection with the Placing, the Company has entered into the Placing Agreement pursuant to which Numis Securities has agreed, in accordance with its terms, to use reasonable endeavours to place the Placing Shares with Placees.
- 4.4 As part of the Placing, New Pistoia and Phoenix have subscribed for 3,679,500 and 5,034,474 Placing Shares, respectively. Immediately following Admission, their holdings are expected to respectively represent 23.3 per cent. and 20.5 per cent. of the issued ordinary share capital of the Company.
- 4.5 The Placing is conditional, amongst other things, on:
 - (a) the passing of the Transaction Resolutions;
 - (b) the conditions in the Placing Agreement being satisfied or (if applicable) waived and the Placing Agreement not having been terminated in accordance with its terms prior to Admission; and
 - (c) Admission becoming effective by no later than 8.00 a.m. on 12 August 2015 (or such later time and/or date, being no later than 5.00 p.m. on 26 August 2015 as the Company and Numis Securities may agree in writing).
- 4.6 The Placing Agreement contains customary warranties given by the Company to Numis Securities as to matters relating to the Group and its business and a customary indemnity given by the Company to Numis Securities in respect of liabilities arising out of or in connection with the Placing. Numis Securities is entitled to terminate the Placing Agreement in certain circumstances prior to Admission including circumstances where any of the warranties are found not to be true or accurate or were misleading in any respect or on the occurrence of certain *force majeure* events.
- 4.7 The Placing Shares will be issued credited as fully paid and will rank in full for all dividends and other distributions declared, made or paid after Admission in respect of Ordinary Shares and will otherwise rank on Admission *pari passu* in all respects with the Existing Ordinary Shares. The Placing Shares are not being made available to the public and are not being offered or sold in any jurisdiction where it would be unlawful to do so.
- 4.8 Application will be made to the London Stock Exchange for both the Existing Ordinary Shares and the Placing Shares to be admitted to trading on AIM. On the assumption that, amongst other things, all of the Transaction Resolutions are passed by Shareholders at the General Meeting, it is expected that Admission of both the Existing Ordinary Shares and the Placing Shares will become effective on or around 8.00 a.m. 12 August 2015.

5 RELATED PARTY TRANSACTION

- 5.1 New Pistoia and Phoenix are related parties of the Company for the purposes of the Listing Rules as they have existing shareholdings in the Company that are greater than 10 per cent., being 23.30 per cent. and 15.98 per cent., respectively as at 17 June 2015 (the latest practicable date prior to publication of this document). Therefore their proposed participation in the Placing will require Shareholder approval.
- 5.2 It is proposed that New Pistoia and Phoenix will participate in the Placing in respect of 3,679,500 and 5,034,474 Placing Shares, respectively. New Pistoia and Phoenix will abstain, and will take all reasonable steps to ensure that their associates (as defined in the Listing Rules) will abstain from voting at the General Meeting in relation to Resolution 2 for the approval of the Related Party Transaction. As detailed below, in respect of the other Resolutions each of New Pistoia and Phoenix have irrevocably undertaken to vote in favour of such Resolutions.

- 5.3 The Directors will not participate in the Placing but may acquire secondary Ordinary Shares in the aftermarket. In the event that any Director does acquire secondary Ordinary Shares in the aftermarket, the Company will issue a regulatory announcement to notify the market of such director dealing.
- 5.4 **The Board having been so advised by the Company's sponsor, Numis Securities, consider the terms of the Related Party Transaction are fair and reasonable in so far as the Shareholders are concerned. Roger Canham, who is a director of both Phoenix and the Company, has refrained, in accordance with Listing Rule 13.6.2(1), from taking part in either the Board's consideration of the Related Party Transaction, or the Board's recommendation in connection with the Related Party Transaction.**

6 DILUTION RESULTING FROM THE PLACING

The Placing will result in a significant dilution of the proportionate holdings of existing Shareholders who do not participate in the Placing. Existing Shareholders will experience dilution of approximately 28.7 per cent. on Admission.

7 DETAILS OF THE DELISTING AND ADMISSION

- 7.1 In order to effect the Delisting and Admission, the Company will require, amongst other things, that all of the Transaction Resolutions are passed by Shareholders at the General Meeting. Resolution 1, together with the other Resolutions to be proposed at the General Meeting, are set out in the Notice of the General Meeting at the end of this document. Resolution 1 will authorise the Board to cancel the listing of the Existing Ordinary Shares on the Official List, remove such Existing Ordinary Shares from trading on the Main Market and to apply for admission of the Existing Ordinary Shares together with the Placing Shares to trading on AIM.
- 7.2 Conditional on all of the Transaction Resolutions having been approved by Shareholders at the General Meeting, the Company will apply to cancel the listing of the Existing Ordinary Shares on the Official List and to trading on the Main Market and give 20 Business Days' notice of its intention to seek admission to trading on AIM under AIM's streamlined process for companies that have had their securities traded on an AIM Designated Market (which includes the Official List).
- 7.3 Each of Richard Ames, Nick Stone, Charlie Caminada and Roger Canham have given an irrevocable undertaking to vote or, where applicable, to procure the casting of votes by their connected persons (as defined in section 252 of the Companies Act 2006), in favour of the Resolutions in respect of their own (or, as applicable, their connected persons) respective beneficial holdings of Existing Ordinary Shares together totalling 109,308 Existing Ordinary Shares and representing, in aggregate, 0.28 per cent. of the Existing Ordinary Shares.
- 7.4 It is anticipated that:
- (a) the last day of dealings in the Existing Ordinary Shares on the Main Market will be 11 August 2015;
 - (b) cancellation of the listing of Existing Ordinary Shares on the Official List will take effect at 8.00 a.m. on 12 August 2015, being not less than 20 Business Days from the date of the General Meeting; and
 - (c) Admission will take place, and dealings in both the Existing Ordinary Shares and the Placing Shares will commence on AIM, at 8.00 a.m. on 12 August 2015.
- 7.5 As the Existing Ordinary Shares are currently listed on the premium segment of the Official List, the AIM Rules do not require an admission document to be published by the Company in connection with the Company's admission to trading on AIM. However, subject to the passing of the Transaction Resolutions at the General Meeting, the Company will, following the General Meeting, publish an announcement which complies with the requirements of Schedule One to the AIM Rules comprising information required to be disclosed by companies transferring their securities from the Official List, as an AIM Designated Market, to AIM.

- 7.6 Although it is their intention, there is no guarantee that the Company will be successful in achieving admission of the Existing Ordinary Shares and the Placing Shares to trading on AIM or that the conditions in the Placing Agreement will be satisfied (or, if applicable, waived).
- 7.7 **The audit opinion from the Company's auditors, PricewaterhouseCoopers LLP, for the financial year ended 31 March 2015 contains an emphasis of matter paragraph. This draws the reader's attention to (a) the importance of the Placing and the inter-dependent RCF Extension to the Board's ability to prepare the accounts on a going concern basis and (b) the fact that the Placing and the proposed RCF Extension are both conditional upon the Transaction Resolutions having been passed at a General Meeting of the Company.**
- 7.8 **Shareholders should note that, unless all of the Transaction Resolutions are passed by Shareholders at the General Meeting, none of the Proposals can be implemented. In such circumstances the Placing and RCF Extension cannot occur and the Company will remain trading on the Main Market.**

8 CONSEQUENCES OF THE MOVE TO AIM

- 8.1 Following Admission, the Company will be subject to the AIM Rules. Shareholders should note that AIM is self-regulated and that the protections afforded to investors in AIM companies are less rigorous than those afforded to investors in companies listed on the premium segment of the Official List.
- 8.2 Shareholders should further note that the share price of AIM companies can be highly volatile, which may prevent Shareholders from being able to sell their Ordinary Shares at or above the price they paid for them. The Offer Price may not be indicative of prices that will prevail in the trading market and investors may not be able to resell the Ordinary Shares at or above the price they paid for them. The market price and the realisable value for the Ordinary Shares could fluctuate significantly for various reasons, many of which are outside the Group's control. In addition, the published market price of the Ordinary Shares will be, typically, their middle market price. Due to the potential difference between the middle market price of the Ordinary Shares and the price at which the Ordinary Shares can be sold, there is no guarantee that the realisable value of the Ordinary Shares will be the same as the published market price.
- 8.3 Whilst there are some similarities in the obligations of a company whose shares are traded on AIM to those of companies whose shares are listed on the premium segment of the Official List, there are also significant differences, including those referred to below:
- (a) Under the AIM Rules, prior shareholder approval is only required for:
 - (i) reverse takeovers, being an acquisition or acquisitions in a twelve month period which would:
 - (A) exceed 100 per cent. in various class tests; or
 - (B) result in a fundamental change in the Company's business, board or voting control; or
 - (ii) disposals which, when aggregated with any other disposals over the previous twelve months, would result in a fundamental change of business (being disposals that exceed 75 per cent. in various class tests).
 - (b) Under the Listing Rules, a more extensive range of transactions, including:
 - (i) class one acquisitions and disposals, being significant transactions for the purposes of Rule 10 of the Listing Rules; and
 - (ii) related party transactions for the purposes of Rule 11 of the Listing Rules, such as the Related Party Transaction in connection with the Placing,

are conditional on shareholder approval and require publication of a detailed circular.

- (c) The regime in relation to dealing in own securities and treasury shares is less onerous under the AIM Rules which contain restrictions on the timing of dealings and notification requirements but not requirements as to price, shareholder approval or tender offers as is the case under Listing Rule 12 for companies with a listing on the premium segment of the Official List.
- (d) There are no prescribed contents requirements for shareholder circulars or a requirement for such circulars to be approved by the FCA as is the case under Listing Rule 13 for companies with a listing on the premium segment of the Official List.
- (e) There is no requirement under the AIM Rules for a prospectus or an admission document to be published for further issues of securities to institutional investors, except when seeking admission for a new class of securities or as otherwise required by law.
- (f) Unlike the Listing Rules, the AIM Rules do not specify any required structures or discount limits in relation to further issues of securities.
- (g) Compliance with the UK Corporate Governance Code is not mandatory for companies whose shares are admitted to trading on AIM. If Admission occurs, the Company will have regard to the Corporate Governance Code for Small and Mid-Size Quoted Companies and the UK Corporate Governance Code and will review its corporate governance procedures from time to time having regard to the size, nature and resources of the Company to ensure such procedures are appropriate (further details of the Company's intention regards its corporate governance procedures are set out in paragraph 12 of this Part 1).
- (h) The IA Guidelines, which provide guidance on issues such as executive compensation and share-based remuneration, corporate governance, share capital management and the issue and allotment of shares on a pre-emptive or non-pre-emptive basis, do not directly apply to companies whose shares are admitted to trading on AIM.
- (i) The AIM Rules require that AIM companies retain a nominated adviser and broker at all times. The nominated adviser has ongoing responsibilities to both the Company and the London Stock Exchange.
- (j) Where the Company has a controlling shareholder (as defined in the Listing Rules), it will no longer be required to enter into a relationship agreement with such controlling shareholder and to comply with the independence provision at all times as is required under the Listing Rules.
- (k) There is no specified requirement for a minimum number of shares in an AIM company to be held in public hands, whereas a company listed on the Official List has to maintain a minimum of 25 per cent. of its issued ordinary share capital in public hands.
- (l) Certain securities laws will no longer apply to the Company following Admission; for example, the Disclosure and Transparency Rules (save that Chapter 5 of the same in respect of significant shareholder notifications will continue to apply to the Company) and certain of the Prospectus Rules. This is because AIM is not a regulated market for the purposes of the European Union's directives relating to securities.
- (m) Whereas companies with a listing on the premium segment of the Official List may only cancel their listing with the approval of 75 per cent. of the voted shares and, if the company has a controlling shareholder, must also secure the approval of a majority of the voting independent shareholders (other than in limited circumstances), under the AIM Rules, an AIM company only requires 75 per cent. shareholder approval in order to cancel admission of its securities to trading on AIM and in certain limited circumstances, the London Stock Exchange may agree that shareholder consent is not required.
- (n) Companies whose shares trade on AIM are deemed to be unlisted for the purposes of certain areas of UK taxation. Following the Delisting and Admission, individuals who hold Ordinary

Shares may, in certain circumstances, therefore be eligible for certain tax benefits. Shareholders and prospective investors should consult their own professional advisers on whether an investment in an AIM security is suitable for them, or whether a tax benefit referred to above may be available to them.

- (o) The Delisting may have implications for Shareholders holding shares in a Self-Invested Personal Pension (SIPP). For example, shares in unlisted companies may not qualify for certain SIPPs under the terms of that SIPP. Shareholders holding shares in a SIPP should therefore consult with their SIPP provider immediately.
- 8.4 The comments on the tax implications described in this document are based on the Directors' current understanding of tax law and practice, are not tailored to any individual circumstances and are primarily directed at individuals who are UK resident and domiciled. Tax rules can change and the precise tax implications for you will depend on your particular circumstances. If you are in any doubt as to your tax position, you should consult your own independent professional adviser.
- 8.5 Following Admission, Ordinary Shares that are held in uncertificated form will continue to be held and dealt through CREST. Share certificates representing those Ordinary Shares held in certificated form will continue to be valid and no new certificates will be issued in respect of such Ordinary Shares following a move to AIM.
- 8.6 In addition, the City Code on Takeovers and Mergers will continue to apply to the Company following Admission, as the Company is incorporated in the UK.
- 8.7 The Board does not envisage that there will be any significant alteration to the standards of reporting and governance which the Company currently maintains. The Company will maintain its Audit and Remuneration Committees which will be subject to the same terms and conditions.

9 THE RCF EXTENSION

- 9.1 In conjunction with the Placing, the Company, together with certain other members of its Group, has also entered into an amendment and restatement agreement, (the "**RCF Amendment Agreement**") with Barclays setting out the terms on which the Existing Bank Debt will be amended and restated pursuant to the RCF Extension (the terms of the new revolving credit facility agreement as so amended and restated being the "**Amended RCF**"). Completion of the RCF Extension is, under the terms of the RCF Amendment Agreement, conditional on, amongst other things, the occurrence of the Admission.
- 9.2 The terms of the Amended RCF provide for a multicurrency revolving credit facility to be made available to Hornby Hobbies Limited (the "**Borrower**") in an amount of £10,000,000 (save that, for the period commencing on the RCF Amendment Date to and including the date falling 5 business days thereafter the amount of the revolving credit facility will remain at £13,000,000). The revolving credit facility terminates on the fourth anniversary of the RCF Amendment Date.
- 9.3 The revolving credit facility is guaranteed by the Company, Hornby Industries Limited and H&M Systems Limited and benefits from security given by each of these companies and the Borrower.
- 9.4 Interest on drawings under the revolving credit facility is payable at a percentage rate per annum equal to a margin of 2.90 per cent. over LIBOR for the relevant currency and term of the relevant drawing (or over such other cost of funds basis as determined in accordance with the terms of the Amended RCF). A commitment fee at a rate per annum of 40 per cent. of 2.90 per cent. is payable by the Borrower to Barclays quarterly on the undrawn amount of the revolving credit facility.
- 9.5 Drawings under the Amended RCF may be made in sterling, euro, Hong Kong dollars and US dollars or such other currency approved by Barclays. Any such drawing is for a term of either 1 month, 3 months or 6 months, but may, subject to payment of break costs by the Company, be prepaid prior to the end of its term in accordance with the terms of the Amended RCF. Barclays is only obliged to make available a drawing under the revolving credit facility if certain conditions precedent are

satisfied, including that no event of default (or potential event of default) is continuing or would result from the drawing.

- 9.6 Drawings under the revolving credit facility are required to be cleaned down to zero (net of cash held by wholly-owned members of the Group) for a period of not less than 10 successive business days in each financial year of the Borrower. Subject to this requirement and the other terms of the Amended RCF, the revolving credit facility may, once a drawing is repaid, be re-drawn in the same amount.
- 9.7 The Amended RCF contains various representations and warranties given by the Company and various members of the Group. In the Amended RCF, the Company also gives various financial covenants and information undertakings and also gives (on behalf of itself and each other member of the Group) various general undertakings.
- 9.8 Breach of an undertaking, financial covenant, representation or warranty given by the Company or other member of the Group under the Amended RCF will constitute an event of default and entitle Barclays to cancel the revolving credit facility and make demand for all amounts outstanding under the Amended RCF.
- 9.9 Other events of default relating to the Group are contained in the Amended RCF whose occurrence would also entitle Barclays to cancel the revolving credit facility and make demand for all amounts outstanding under the Amended RCF. These include events of default relating to non-payment, cross-default, insolvency, insolvency proceedings, creditors' process, unlawfulness, cessation of business, expropriation, repudiation, litigation and material adverse change.

10. DIVIDEND

Assuming that sufficient distributable reserves are available at the time, the Board intends to adopt a progressive dividend policy which reflects the long-term earnings and cash flow potential of the Group. The Company may revise its dividend policy from time to time. Under the Amended RCF, a dividend cap of 60 per cent. of distributable profits in any relevant financial period has been implemented. A similar restriction on share buy-backs has also been put in place.

11 CURRENT TRADING AND PROSPECTS

- 11.1 It is pleasing that, after a year of hard work and numerous challenges for the Group, the Company has returned to profit at the underlying level. Having identified and focused on the key immediate priorities for the business, the Company has been able to make significant headway towards delivering value to Shareholders, customers and colleagues. It will be necessary to build upon this progress in order to enable the Group to operate at its full potential, but the Board is of a view that the Company is heading in the right direction and that many of the targets required to be met in order for the Company to be more profitable in the future have either already been achieved or are progressing well into development.
- 11.2 In particular, these include the following:
 - (a) The Group is improving product deliveries and product quality from its partners based in the Far East.
 - (b) The Company is operating from a new warehouse and distribution facility in Hersden, Kent run by its new 3PL Partner, DS Logistics.
 - (c) The Company has moved to a new head office in Discovery Park, Sandwich.
 - (d) The Company has opened a new office in Shoreditch, London to house our growing e-commerce team.
 - (e) The Company is preparing to launch a new Group-wide ERP IT system starting with the UK in Q2 2015 and rolling out across Europe during 2015/16.

- 11.3 As 2015 continues, the Board will further review the Group's performance and capabilities. Improvements in manufacturing, new product development processes and sales and marketing capabilities around the Group are priorities and will receive immediate attention. As the stock situation that has held back the Group over the last few months is resolved, the opportunity to benefit from improvements in other areas of the business will rise in importance and become integral to the Board's plan to return the Group to profitability. This process will continue through 2015 to 2017 and the Board is confident that the Group has the brands, team and know-how to bring the Company back to past levels of financial performance and beyond.
- 11.4 Trading in the current year so far is in line with the Board's expectations. The Company continues to focus on clearing the older elements of stock, with Group stock currently some £0.2 million lower than at year end. Whilst the delivery of the transformation plan comes with execution risk, the Group has a portfolio of fantastic brands that, if managed well, will offer plenty of potential for long-term growth. The Board intends to further update Shareholders in the future on the progress made in delivering the transformation plan. Group net debt as at 12 June 2015 was £11.5 million, in line with usual seasonal working capital outflows (£9.7 million as at 8 June 2014).
- 11.5 Save as disclosed in this document, there has been no significant change in the financial or trading position of the Group which has occurred since 31 March 2015, being the date to which the Group's most recently published audited financial statements have been prepared.

12 CORPORATE GOVERNANCE

- 12.1 The Board has reviewed its internal corporate governance procedures, financial controls and reporting procedures and consider these to be appropriate given the size and structure of the Company and its anticipated move to AIM on approval by Shareholders of the Transaction Resolutions.
- 12.2 Compliance with the UK Corporate Governance Code is not mandatory for companies whose shares are admitted to trading on AIM. However, the Directors propose, so far as practicable given the Company's size and nature, to follow with the main principles.
- 12.3 The Company intends to continue to hold timely board meetings as issues arise which require the attention of the Board. The Board will continue to be responsible for the management of the business of the Company, setting the strategic direction of the Company and establishing the policies of the Company. It will continue to be the Directors' responsibility to oversee the financial position of the Company and monitor the business and affairs of the Company, on behalf of the Shareholders, to whom they are accountable. The primary duty of the Directors will continue to be to act in the best interests of the Company at all times. As previously announced on 15 May 2015, the Company has hired Steve Cooke as its new Finance Director, who will join the Company on 10 June. The Company's current Finance Director, Nick Stone, will leave the Company later in the summer.

Existing Audit Committee

- 12.5 The Company's existing Audit Committee comprises David Adams and Charlie Caminada. They will continue to have the primary responsibility for monitoring the quality of internal control and will ensure that the financial performance of the Company is properly measured and reported on and will review reports from the Company's auditors relating to the Company's accounting and internal controls. The Audit Committee will continue to meet at least three times a year and the Chairman, Chief Executive, Finance Director, Company Secretary and other managers will continue to have the ability to attend by invitation only. The Group's Auditors attend meetings and have direct access to the Committee. The terms of reference of the audit committee are available on the Company's website, covering the authority delegated to it by the Board.

Existing Remuneration Committee

- 12.6 The Company's existing Remuneration Committee comprises David Adams and Charlie Caminada. They will continue to be responsible for establishing formal and transparent procedures for determining policy on executive remuneration and advising the Board on executive remuneration and,

in particular, for ensuring that executive remuneration packages are sufficient to attract, retain and motivate Executive Directors of the required quality whilst avoiding paying more than necessary. The Remuneration Committee will continue to establish performance related elements of remuneration which align the interests of the Directors with those of the shareholders of the Company. No Director will be involved in deciding his own remuneration and the Board itself will continue to determine the remuneration of the Non-Executive Directors. The terms of reference of the Remuneration Committee are available on the Company's website, covering the authority delegated to it by the Board.

Existing Nominations Committee

- 12.7 The Company's existing Nominations Committee comprises the Chairman as well as executive and Non-Executive Directors. Appointments to the Board will continue to require the Board's authorisation and will continue to be conducted by the Nominations Committee. The duties of the Nominations Committee will continue to include regularly reviewing the structure, size and composition required of the Board and making recommendations to the Board with regard to any changes, giving full consideration to succession planning for Directors and other senior executives, identifying and nominating candidates to fill Board vacancies and evaluating the balance of skills, knowledge and experience on the Board before an appointment is made. The terms of reference of the Nominations Committee are available on the Company's website, covering the authority delegated to it by the Board. The potential candidates will continue to be interviewed by either the Nominations Committee or a panel appointed by the Nominations Committee. An appointment requires the final approval of the Board prior to an offer being forwarded.

Share Dealing Code

- 12.8 The Company will maintain its existing Share Dealing Code of Directors' dealings, which is appropriate for a company whose shares are admitted to trading on AIM and will take all reasonable steps to ensure compliance by the Directors and any relevant individuals. The Share Dealing Code will prevent the Directors and applicable employees from dealing in Ordinary Shares during close periods in accordance with Rule 21 of the AIM Rules.

13 ADOPTION OF NEW ARTICLES

- 13.1 Your Board is asking Shareholders to approve the adoption by the Company of the New Articles primarily for the purposes of replacing the Existing Articles with a revised articles of association which are more appropriate for a Company whose shares are admitted to trading on AIM whilst at the same time taking the opportunity to include certain more modern provisions absent from the Existing Articles. A summary of the principal changes being made to the Existing Articles is set out in Part 3 of this document.
- 13.2 Your Board is seeking your approval to Resolution 5, which is required to be passed at a general meeting of the Company, which approves the adoption of the New Articles, replaces the Existing Articles and confirms the removal of the Company's objects clauses together with all the provisions of its memorandum of association which, by virtue of the Act, are treated as forming part of the Company's articles of association as of 1 October 2009 for the reasons explained in the summary at Part 3 of this document.
- 13.3 A copy of the New Articles are available for inspection at the offices of the Company's solicitors, Berwin Leighton Paisner LLP at Adelaide House, London Bridge, London EC4R 9HA during normal business hours on any weekday (excluding public holidays) from the date of this document until the close of the General Meeting and at the General Meeting for at least 15 minutes prior to and during the General Meeting.

14 GENERAL MEETING

- 14.1 Set out at the end of this document is a notice convening the General Meeting of the Company to be held at the offices of the Company's solicitors, Berwin Leighton Paisner LLP at Adelaide House,

London Bridge, London EC4R 9HA on 13 July 2015 at 8.30 a.m., at which the Resolutions (summarised below) will be proposed:

- (a) **Resolution 1** – as a special resolution, to authorise the Directors to cancel the listing of the Existing Ordinary Shares on the Official List and to remove such Existing Ordinary Shares from trading on the London Stock Exchange’s Main Market and to apply for admission of the Existing Ordinary Shares and the Placing Shares to trading on AIM;
- (b) **Resolution 2** – as an ordinary resolution, for the Independent Shareholders to approve the Related Party Transaction for the purposes of the Listing Rules;
- (c) **Resolution 3** – as an ordinary resolution, to authorise the Directors to allot the Placing Shares;
- (d) **Resolution 4** – as a special resolution, to authorise the Directors under section 570 of the Act, to disapply pre-emption rights in connection with the allotment of the Placing Shares; and
- (e) **Resolution 5** – as a special resolution to adopt the New Articles as the articles of the association of the Company.

- 14.2 Save in respect of the allotment of the Placing Shares, the grant of options to employees under employee share plans or other similar incentive arrangements and pursuant to any exercise of existing options in respect of Ordinary Shares, the Directors have no current intention to allot shares, or rights to subscribe or convert into shares, in the capital of the Company.

15 IRREVOCABLE UNDERTAKINGS AND CONSENTS

- 15.1 Each of Richard Ames, Nick Stone, Roger Canham and Charlie Caminada have given an irrevocable undertaking to vote or, where applicable, to procure the casting of votes by their connected persons (as defined in section 252 of the Companies Act 2006), in favour of the Resolutions in respect of their own (or, as applicable, their connected persons) beneficial holdings of Existing Ordinary Shares together totalling 109,308, representing in aggregate 0.28 per cent. of the issued Existing Ordinary Shares.
- 15.2 Numis Securities has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and references to it in the form and context in which they appear.

16 ACTIONS TO BE TAKEN

- 16.1 Please check that you have received a Form of Proxy for use in respect of the General Meeting with this document.
- 16.2 Whether or not you propose to attend the General Meeting in person, you are strongly encouraged to complete, sign and return your Form of Proxy in accordance with the instructions printed thereon as soon as possible, but in any event so as to be received, by post or, during normal business hours only, by hand, at Capita Asset Services, PXS 1, 34 Beckenham Road, Beckenham, Kent BR3 4TU, by no later than 8.30 a.m. on 11 July 2015 (or, in the case of an adjournment of the General Meeting, not later than 48 hours before the time fixed for the holding of the adjourned meeting (excluding any part of a day that is not a Business Day)). If you are posting your completed Form of Proxy in the UK you may do so using the reply-paid card printed on the reverse of the Form of Proxy.
- 16.3 Appointing a proxy in accordance with the instructions set out above will enable your vote to be counted at the General Meeting in the event of your absence. The completion and return of the Form of Proxy will not prevent you from attending and voting at the General Meeting, or any adjournment thereof, in person should you wish to do so.

17 RECOMMENDATION

- 17.1 **The Board believes that the Proposals are in the best interests of the Company and Shareholders as a whole. Accordingly, the Board unanimously recommends that Shareholders vote in favour of the Resolutions, as the Directors have irrevocably undertaken to do in respect of their own**

beneficial shareholdings (or, where applicable, procured to do in respect of Ordinary Shares held by their connected persons) amounting, in aggregate, to 109,308 Existing Ordinary Shares and representing approximately 0.28 per cent. of the Company's existing issued share capital.

- 17.2 Shareholders should note that, unless all of the Transaction Resolutions are passed by Shareholders at the General Meeting, none of the Proposals can be implemented. In such circumstances Admission, the Placing and the RCF Extension cannot occur, the Company will remain trading on the Main Market and the consequences discussed at paragraph 2 will apply. In light of this, the Directors believe that the Proposals are in the best interests of Shareholders and that it is very important that Shareholders vote in favour of the Transaction Resolutions so that the Proposals can be implemented.

Yours faithfully

Roger Canham
Chairman

PART 2

RISK FACTORS

In addition to the other information set out in this document, the risks described below should be carefully considered by investors prior to making any investment decision relating to the Ordinary Shares. The risks set out below are those risks which the Directors consider to be material as at the date of this document, but do not necessarily comprise all those risks associated with an investment in the Ordinary Shares or the Company and are not intended to be presented in any assumed order of priority. There may be additional risks that the Directors do not currently consider to be material or of which the Directors are not aware, which may affect the Group's financial condition, performance, prospects, results and/or the price of Ordinary Shares.

An investment in the Ordinary Shares involves significant risks and investors may lose a substantial portion or even all of the money that they invest in the Company. An investment in the Company is therefore only suitable for financially sophisticated investors who are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear losses (which may equal the whole amount invested) that may result from such an investment. An investment in the Ordinary Shares should constitute part of a diversified investment portfolio. Typical investors are expected to be professionally advised private investors and professional investors. Prospective investors should review carefully and evaluate the risks and other information contained in this document before making a decision to invest in the Ordinary Shares.

1 RISKS RELATING TO THE SECTOR IN WHICH THE GROUP OPERATES

1.1 *The Group operates in highly competitive markets. Any failure by the Group to compete effectively may have a material adverse effect on the Group's business, financial condition or results of operations*

The retail markets in which the Group competes include not only the model railway, slot racing, model kits, die cast and paint markets but also more generally the market for hobby and toy products. Such markets are highly competitive and the Group and the key retail customers selling the Group's products compete on the basis of product variety, quality, novelty and availability, price, delivery methods (including fast and reliable fulfilment), convenience of store and product location and price and store design, customer support and service, customer insight and engagement, functionality and reliability of online and mobile platforms, promotional activities and brand recognition. The Group and key retail customers compete with a range of local, national and international hobby and toy product retailers of varying sizes and covering different product categories, including general and specialist retailers, boutique and chain retailers, department stores and internet-only, catalogue businesses. Notwithstanding that in many of the Group's markets the Group enjoys a strong market position due to the continued development of the Group's brands, there is a risk that some of these competitors will enter the Group's markets where, unlike for example the model sector, market entry costs are less prohibitive, offering products at significantly lower prices. This may result in the Group's products being seen as relatively expensive, particularly if the Group fails to engage actively with customers to emphasise quality and service. The Group is continuing to improve its social media content alongside its own websites and the Hornby Forum, leading to an increasing dialogue with its customer base. Current competitors and potential new entrants may have greater resources, lower operating costs, greater purchasing economies of scale, greater market presence and brand recognition, a larger customer base and more developed online businesses, and they may be able to respond more swiftly to changes in market conditions and consumer demand. In addition, they may be able to secure better terms from manufacturers, suppliers and distributors, adopt more aggressive pricing and devote more resources to technology, infrastructure, fulfilment, inventory management and promotional activities. For example, due to their size, scalability and diversified product offering, certain competitors have in the past, and may in the future, heavily discount products or run short-term loss-making campaigns on products in order to increase sales and build traffic for other product categories. Internet-only retailers may also have greater pricing flexibility in light of the structure of

their cost base. Given that the Directors believe that demand for the Group's products is sensitive to pricing and value considerations, any pricing pressure may have an adverse impact on the Group's ability to compete and/or force the Group to reduce prices or increase spending on promotional activities, which could reduce its revenue and profitability.

1.2 *The purchase of hobby and toy products represent a discretionary expenditure for consumers and thus a reduction in consumer spending levels for any reason could negatively affect the results of the Group's operations*

Demand for hobby and toy products is influenced by prevailing economic conditions and, in particular, consumer spending levels. These are, in turn, determined by, among other factors, consumer and retailer confidence, the changing retail landscape, income levels and interest rates. As a result, and due to the discretionary nature and timing of most hobby and toy product purchases, consumers are more likely to defer the purchase of hobby and toy products in times of economic uncertainty or personal economic hardship.

At present, the UK market represents a significant part of the Group's revenue with 71 per cent. of such revenue derived in the UK in 2014 (75 per cent. in 2013). The Group is therefore exposed to a downturn in the performance of its brands in the UK as well as to the downturn in the UK economy. The Board's strategy continues to be to expand overseas sales and the acquisition of its brands Airfix, Humbrol, Corgi, Electrotren, Rivarossi, Lima, Arnold and Jouef have provided the Group with a significant share of the model railway, model and die-cast markets in continental Europe, with the objective of facilitating further growth.

1.3 *Certain adverse macroeconomic or political changes may have a material adverse effect on the Group's business*

Adverse changes or increased uncertainty in the macroeconomic or political climate, such as the breakup of the Eurozone, the prospect of a referendum on the UK's participation in the EU, the result following the recent UK general election or a decline in economic results in the UK, could have an additional adverse impact on the macroeconomic environment. As a result of the above, orders for the Group's products may decline, and/or it may experience an over or undersupply of components, raw materials and/or production capacity, each of which could have a material adverse effect on its business, results of operations, financial condition and prospects. In reviewing future forecasts for the business, the Directors consider reasonable changes in macro-economic and associated market conditions recognising the potential for a negative impact on the Group's results. The Group has credit insurance in place to mitigate against any key retail customer default.

1.4 *The Group's UK business is highly seasonal and, as a result, adverse factors experienced during peak selling seasons could have a disproportionate impact on the Group's business, reputation, results of operations or financial condition and prospects*

The Group's sales of hobby and toy products are highly seasonal, particularly in the UK, primarily due to the popularity of hobby and toy products as Christmas presents. Any factors adversely affecting sales in the UK in the third quarter of any year, including weaker footfall, prolonged adverse weather conditions, outbreak of pandemic disease, labour strikes and work stoppages, terrorist acts, disruptions to the supply chain or other disruptive events, incorrect stock forecasting, unfavorable economic conditions or promotional activity and trading pressures in and around peak periods, could have a disproportionately adverse effect on the Group's results of operations for the entire financial year.

Seasonality generally varies from one international territory to another and may be affected by religious or other local holidays, climatic conditions or local shopping habits. In addition, the Group's mix of product sales may vary as a result of changes in seasonal and related geographic demand for particular products. If sales during peak periods in the UK or in international markets are lower than expected for any reason, there may be a build-up of unsold stock and the Group may need to lower its prices to reduce stock levels. Conversely, if the Group fails to order sufficient quantities of products

or fails to receive delivery of such products from third parties, prior to or during peak periods, it may not have an adequate supply to meet customer demand, which could have a material adverse effect on the Group's business, reputation, results of operations or financial condition and prospects.

1.5 *The Group's business could suffer as a result of weak sales during peak promotional periods and/or its failure to deliver effective promotional campaigns*

The Group's business is subject to promotional peaks, with a large proportion of its sales being generated during specific promotional periods. Given the discretionary nature and cost of hobby and toy products, the Group relies on the effectiveness of its promotional campaigns to drive sales volumes during periods such as the post-Christmas winter sale. If sales during the Group's peak promotional periods are significantly lower than expected, the Group may be unable to reduce its costs in the short term to offset lower revenue. Conversely, any failure by the Group to ensure appropriate sales or logistics staff availability and put in place manufacturing plans to meet demand and maintain attractive delivery lead times during these periods could negatively impact the Group's customer goodwill, brand image and profitability. The Group's sales and profits can be highly volatile as a result of these factors, which may result in lost sales and its business, financial condition and results of operations could be materially adversely affected.

1.6 *The Group's retail market has experienced, and will continue to experience, a structural shift due to the emergence and growth of online, mobile and other non-traditional retail channels. Failure by the Group or its distributors to compete with, or to develop successfully their own online (including mobile) and other non-traditional retail channels, may have a material adverse effect on the Group's current business model, its results of operations or financial condition*

The retail landscape is changing with the Group's traditional high street independent distribution network under significant commercial pressure from online retailers and discounters. The structural transition following a shift in consumer purchasing habits towards online and mobile channels has affected, and is expected to continue to affect, sales as customers opt to purchase products online rather than in-store. High street failures will reduce the traditional customer base sales levels and increase credit risk. Customers are becoming increasingly reliant on the internet, in particular, researching heavily on price and using mobile devices to research online when in store. Such websites and applications enable customers not only to compare the price of the Group's products against those of its competitors but also purchase such products from competitors. The use of these websites and mobile applications by the Group's competitors has facilitated pricing pressure by allowing them to reach a large customer base without necessarily incurring significant upfront marketing costs.

Whilst the Group formulates its business strategy, including the website and direct to consumer channels, based on the changing retail dynamics and is developing an increased focus on direct web based selling, selling directly at exhibitions and other events such as its work with the National Railway Museum and its sponsorship of the 'Great Gathering' and expanding the Group's own retail concession network to protect the brand position, if the Group is unable to compete with other key players, including multi-channel retailers as well as internet-only businesses, its sales could decline. Further the Group may be unable to respond effectively or swiftly enough to changing customer shopping trends and/or monetise online or mobile user traffic, which would have a material adverse effect on its sales through direct web based selling.

1.7 *The Company may not be able to accurately predict consumer preferences or demand, which may damage the Group's competitive position and the market and lead to inventory risks*

Hobby and toy products are subject to changing consumer tastes and trends. Although some of the Company's traditional product ranges are less sensitive to consumer trends and the quality and heritage of the Group's brands allows it to re-introduce product lines to the market such as Airfix and Pocher, its success depends in part on its ability to effectively predict and respond to changing consumer tastes, in particular with respect to its contemporary product ranges, and to translate consumers' preferences effectively into marketable designs. The Group is therefore exposed to finished goods inventory risk in the same way as other retailers in the sector that carry stock. If the

Group is unable to successfully and rapidly lead and/or respond to changes in consumer tastes and trends, its sales may decline. This could have a material adverse effect on the Group's business, results of operations and financial condition and prospects as well as the Group's competitive position within the hobby and toy retail market.

1.8 *The Group is subject to extensive UK, EU and international legislation and regulation and failure to comply with, or changes in, regulation, may have a material adverse effect on the Group's business, results of operations or financial condition*

The Group is subject to laws and regulations in each of the markets in which it supplies or sources its products, in particular with respect to the quality and safety of products. Among other things, relevant legislation and regulation in both the UK and overseas governs product composition, product safety, manufacturing processes, packaging, labelling, advertising, consumer protection, the health, safety and working conditions of the Group's employees, the provision of online payment services, privacy, data protection, content, intellectual property, taxation, the Group's pension arrangements and the Group's competitive practices and market conduct. The Group's operations and properties are also subject to local environmental laws and regulations in the jurisdictions in which the Group supplies or sources its products and owns or leases property. A number of the Group's agreements with distributors are also governed by local laws. There may also from time to time be determinations by a court of law, regulator or tribunal, in the UK or overseas, as a result of which the Group could be exposed to increased costs or liabilities and/or required to change its business practices.

Failure to comply with applicable laws, regulations and/or judicial and/or regulatory authority determinations may result in civil or criminal sanctions, including fines, injunctions, product recalls, asset seizures, revocation of licences and regulatory authorisations and may adversely affect customers' perception of the Group and its brand image, any of which could adversely affect the Group's business, results of operations or financial condition. In addition, any changes in applicable laws or regulations, including as a result of changing government policy, may result in increased compliance costs, capital expenditure and other financial obligations or impose restrictions on the Group's operations, any of which could have a material adverse effect on the Group's business, results of operations or financial condition.

2 RISKS RELATING TO THE GROUP'S BUSINESS AND OPERATIONS

2.1 *A large portion of the Company's products are supplied by a small number of manufacturers, some of whom are located outside of the UK*

The Group purchases goods, in the main, from third party Chinese suppliers due to the significant cost advantage when compared to products manufactured in Europe. The principal suppliers to the Group are Refined, Talent, Zindart and Micro Plastics (India), all of whom together are expected to contribute 71% of product supplies in 2014.

Any significant disruption or other adverse event affecting any of the Group's key suppliers or its relationship with any of them could have a material adverse effect on its business, financial condition and results of operations. To the extent that any of the Group's key suppliers fail to satisfy their delivery obligations (for example, due to transportation or logistics interruptions, accidents, equipment breakdowns or work stoppages), particularly during a peak delivery period, this could adversely affect the Group's business. If the Group is required to replace any of its key manufacturers for any reason, it may face risks and costs associated with a transfer of operations, and the failure to replace any of its key manufacturers on commercially reasonable terms, or at all, could have a material adverse effect on its business, financial condition or results of operations.

The Group does not have exclusive arrangements with its suppliers and there is a risk that competition for manufacturing capacity could lead to delays in introducing new products or servicing existing demand. In addition, input cost escalation in China could reduce or remove the Group's pricing advantage and impact margins. The Group is continuing to develop and diversify its supplier portfolio, which includes a supplier in India and more recently in the UK and closely monitors production

through an increased number of locally-based employees (who also ensure the maintenance of quality standards).

The Group faces a variety of risks generally associated with doing business in foreign markets and importing products from these regions, including, among others, political instability; increased security requirements applicable to foreign goods; the imposition of taxes, duties, other charges and restrictions on imports; currency and exchange rate fluctuations; risks related to labour practices, environmental matters or other issues in the foreign countries or factories in which the Group's products are manufactured; delays in shipping; and increased costs of transportation. There is also a risk of the Group's suppliers experiencing financial distress or insolvency, with the potential for significant and prolonged disruption to one or more of its trading relationships. Further, the ability of the Group's suppliers to rely on credit insurance to protect against purchaser payment default (including by the Group) may from time to time be limited depending on the economic climate, which may restrict the ability of the Group's suppliers to do business with their respective customers, including the Group, or affect such suppliers' financial position. Any of these risks, in isolation or in combination, could adversely affect the Company's reputation, financial condition and results of operations.

2.2 *The Group's business, reputation or results of operations may be materially adversely affected if suppliers or distributors fail to deliver products that conform to the Group's standards and requirements on a timely basis and in anticipated quantities*

The Group's business is materially dependent on its suppliers and distributors to produce and/or deliver products that conform to the Group's quality control standards and other requirements on a timely basis and in anticipated quantities. Any disruption or other adverse event affecting any one or more of the Group's suppliers or distributors, particularly if significant or prolonged, or any failure by the Group's suppliers or distributors to fulfil their contractual obligations (including failure to supply the Group with products that comply with its quality control standards) in a timely manner, or at all, could in turn have a material adverse effect on the Group's ability to meet customer demand and result in product recalls, inventory shortages, reduced sales and profits, customer experience of the Group's brands and/or customer complaints. This could have a material adverse effect on the Group's business, reputation or results of operations.

2.3 *The Group supplies and sources its products in a number of countries in which bribery and corruption pose significant risks, and the Group may be exposed to liability under anti-corruption laws for any violations. In addition, any violation of applicable money laundering laws could also have a material adverse effect on the Group*

The Group is subject to anti-corruption and bribery laws and regulations that prohibit the Group and its intermediaries from making improper payments or offers of payments to foreign governments, their officials and political parties or private parties, for the purpose of gaining or retaining business, including the UK Bribery Act 2010 and similar laws worldwide. As a result, the Company has an Anti-Bribery & Corruption Policy and a Whistle-blowing Policy in place which is reviewed and implemented by the Company's existing Audit Committee. Given the extensive nature of the Group's international business, particularly in emerging markets, where bribery and corruption may be more commonplace, the Group is exposed to significant risks, particularly with respect to suppliers and distributors that are not within the Group's control. The Group may also be held liable for successor liability violations of such laws committed by companies in which the Group invests in or which it acquires. Moreover, due to the significant amounts of money involved in global supply contracts, there is also potential for suppliers to attempt to bribe the Group's employees and sourcing agents. Actual or alleged violations of anti-corruption and bribery laws could result in material adverse consequences, including, but not limited to, civil and criminal sanctions, termination of contracts and arrangements by the Group's counterparties, disruptions to the Group's business, and reputational harm, all of which could have a material adverse effect on the Group's financial condition or results of operations. The Group also deals with significant amounts of cash in its operations and is subject to various reporting and anti-money laundering regulations. Any violation of anti-money laundering

laws or regulations by the Group could have a material adverse effect on its business, reputation or results of operations.

2.4 *Substantial harm to the Group's reputation, or the reputation of, or value associated with, the Group's brands may have a material adverse effect on the Group's business, results of operations or financial condition*

The Group markets its products under a number of strong brands well known in their respective markets including Hornby, Scalextric, Electrotren, Lima, Jouef, Rivarossi, Arnold, Airfix, Humbrol and Corgi. The Group's brands and level of brand recognition are important assets of the Group's UK and international businesses. Maintaining the reputation of, and value associated with, the Group's brands and product offering is central to the success of its business. As a result, the Group's ability to maintain the reputation of its brand with respect to the quality, value and design of its products and high levels of customer service are important factors in earning and maintaining customer goodwill. Any damage to the Group's brands or reputation, or any decline in supplier, customer or other counterparty confidence in the Group or its products could have a material adverse effect on the Group's business results of operations and/or financial position. Various factors may adversely impact the Group's brand image and reputation, including product quality inconsistencies, product safety issues, pricing policies and the methods and practices of third parties that are part of the Group's supply chain, including labour standards, health, safety and environmental standards, raw material sourcing and ethical standards in the countries in which the Group sources or supplies its products. Any perceived or actual concerns related to the Group's products, supply chain or its distributors and/or its wholesale customers (whether well-founded or not) may be widely disseminated online, on consumer blogs or other social media sites or via print and broadcast media. Similarly, any litigation that the Group may face could subject it to increasing negative attention in the press. This in turn could have a material adverse effect on the Group's business, results of operations or financial condition.

2.5 *The loss of, or a significant reduction in business from, one or more key retail customers could have a material adverse effect on the Group's business, results of operations or financial condition*

The Group is materially dependent upon a small number of its retail customers for a significant amount of its income. Although the Group has established new ventures with partners such as WH Smith, Hawkins, Bazaar and other smaller partners, any damage to, or loss of, the Group's relationships with its key retail customers, in particular due to adverse events or circumstances affecting such retail customers and their ability to continue to purchase products from the Group, could have a material adverse effect on the Group's business, results of operations or financial condition. Like-for-like sales in the UK and in the Group's international business may not meet the Group's expectations or forecasts, which may have a material adverse effect on the Group's business, results of operations or financial condition.

2.6 *A loss of key personnel or of the Group's ability to attract and retain experienced employees, as well as the associated higher labour costs, could adversely affect its business*

The Group's business is highly dependent upon key senior management personnel who have extensive experience and knowledge of the UK retail and manufacturing industry. The successful implementation of its strategy depends on the continuing availability of senior management and its ability to continue to attract, motivate and retain other highly qualified and dependable employees, for whom it competes with other retailers. If members of the Group's senior management depart, the Group may not be able to find effective replacements in a timely manner, or at all, and its business may be disrupted or damaged. In addition, the loss of key members of senior management to competitors could have a material adverse effect on the Group's competitive position within the hobby and toy retail market.

The nature of, for example, the model railway business worldwide is that products are largely country-specific which therefore requires high levels of knowledge and expertise in each individual market. The Group therefore also faces the challenge of attracting, developing and retaining the right calibre of staff for its product design team, manufacturing plants, distribution centres and aftermarket services

teams while controlling its labour costs. The Group's ability to achieve this is subject to many external factors, including competition for and availability of qualified personnel in a given market, unemployment levels within those markets, prevailing wage rates, minimum wage laws, health and other insurance costs, union membership levels and activity among its employees and changes in employment and labour laws or other workplace regulation. The failure to recruit and retain key senior management and other skilled or semi-skilled personnel could adversely impact the Group's sales performance, increase its wage costs, and adversely affect its business, results of operations, financial condition, or prospects. The supply of such employees is limited and competition to hire and retain them results in higher labour costs, which could adversely affect the Group's profitability.

2.7 *The Group's business is subject to product liability claims, which could have a material adverse effect on the Group's business, reputation, results of operations or financial condition*

The Group is at risk of legal proceedings and claims arising out of the use of its products, including as a result of unanticipated malfunctions, side effects or issues that become evident only after products are widely introduced into the marketplace. In the event that the Group's products are not used in accordance with the instructions and guidance provided, there is a risk of harm that could be significant, particularly due to the young age of a significant proportion of the Group's target market.

The Group may be required in the future, to pay compensation for losses or injuries that are allegedly caused by the Group's products. Product liability claims may arise, among other things, from claims that the Group's products are defective, provide inadequate warnings or instructions or cause personal injury. Product liability claims, if resolved unfavorably, or if settled, could result in injunctions and/or may require the Group to pay substantial damages and related costs and result in the imposition of civil and criminal sanctions.

The Group may in the future be required or may voluntarily decide to make precautionary recalls or recall a defective product and/or alter its trademarks, labels or packaging, which could result in adverse publicity and loss of revenue. Any of these events can give rise to costs, adverse publicity and loss of customer trust as well as a heightened risk of claims for personal injury and/or damage, which in turn could have adverse financial consequences for the Group. In addition, a recall of a competitor's product that is similar to the Group's products may result in a decline in consumer confidence in the Group's products, which may consequently impact its business and results of operations.

2.8 *The Group may be subject to investigations, litigation in respect of claims outside the product liability area and potential enforcement action, which could have a material adverse effect on its business, results of operations or financial condition*

Outside the product liability area, the Group is subject to legal proceedings and other claims arising out of the ordinary course of business. It is possible that the Group may be subject to regulatory investigations or additional legal and/or regulatory action from time to time that targets an industry, a set of business practices or the Group's specific operations, in any of the jurisdictions in which the Group supplies or sources its products. This may or may not arise during the ordinary course of business and could potentially have a material adverse effect on the Group's business, reputation, results of operations or financial condition.

The Group cannot predict the outcome of individual legal actions and may settle litigation or regulatory proceedings prior to a final judgment or determination of liability to avoid the cost, management effort or negative business, regulatory or reputational consequences of continuing to contest liability, even where the Directors believe that the Group has valid defences to liability. Where appropriate, the Group establishes provisions to cover potential litigation-related costs. Such provisions may turn out to be insufficient, and any insurance coverage that the Group maintains may not cover the Group's losses fully, or at all.

2.9 *A disruption in the Group's information technology systems and/or website could adversely affect the Group's operations*

The Group uses information technology systems for, among other things, its business intelligence tools, hardware, network, applications and website. A significant portion of communications among Group personnel, customers, suppliers and other trading partners relies on the efficient performance of information technology systems. The Group also stores sensitive data, including intellectual property, proprietary business information and personally identifiable information of its employees and the secure maintenance and transmission of this information is critical to its operations. The Group's ability to protect these processes and systems against unexpected adverse events is a key factor in continuing to offer consumers its full complement of products on time in an uninterrupted manner. The Group's operations are vulnerable to interruption from a variety of sources, many of which are not within its control, such as: power loss and telecommunications failures; software and hardware errors, failures, defects, or crashes; computer viruses and similar disruptive problems; fire, flood, and other natural disasters; cyber-attacks on its network or damage to business intelligence tools, software and systems carried out by hackers or internet criminals; and the performance of third party vendors. Delays or interruptions in the delivery of the Group's products could result from unknown data, software, or hardware defects, insufficient capacity, or the failure of the Group's website hosting and telecommunications vendors to provide continuous and uninterrupted service. Interruptions in these systems, whether due to system failures, computer viruses, software errors or physical or electronic break-ins, could affect the security or availability of its websites and prevent or inhibit the ability of users to access the Group's services. Since the Group's customers may rely on the Group's websites to preview its products, problems with the reliability, availability or security of its websites could damage the Group's businesses, harm its reputation, result in a loss of customers and advertisers, result in additional costs, any of which could harm the Group's financial condition.

2.10 *The Group is exposed to exchange rate fluctuations*

The Group purchases goods in Hong Kong Dollars and US Dollars and sells in Pounds Sterling, Euros and US Dollars and it reports its consolidated financial results in pounds sterling. The Group's business is therefore subject to risks due to fluctuations in the currency exchange rates to which it is subject. Although the Group continues to hedge short-term exposures by establishing forward currency purchases using fixed rate and participating forward contracts up to twelve months ahead (it is deemed impracticable to hedge exchange rate movements beyond that period), this may not adequately protect its operating results from the effects of exchange rate fluctuations or may limit any benefit that it might otherwise receive from favourable movements in exchange rates.

2.11 *Increased supply chain costs, which are not matched by a commensurate increase in revenue, may have a material adverse effect on the Group's results of operations*

The Group's results of operations are impacted by its ability to manage its supply chain costs. Manufacture of the Group's products requires various raw materials, including petroleum-based products (such as plastic), aluminium and steel. Significant price fluctuations or shortages of these or other raw materials, including increases in the price of transporting such materials or finished products, foreign currency fluctuations against the pound sterling and/or increases in labour rates, could increase the cost of the Group's products, which may in turn have a material adverse effect on the Group's margins (particularly if the Group is unable or chooses not to pass on cost increases to consumers) and results of operations.

2.12 *The Group's business, profitability and liquidity may be adversely affected by deterioration in the creditworthiness of, or defaults by, third parties with which it conducts business*

In common with all businesses, the Group is exposed to the credit risk of the third parties with which it conducts business, including suppliers and customers, who may default on the amounts that they owe to the Group due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud or other reasons. A default could adversely affect the Group's level of bad debt. In particular the Group is exposed to the risk that, in particular retail customers, fail to make

payments to the Group, fail to pay royalties in a timely manner, or at all, whether due to financial difficulty or otherwise. The Group obtains insurance cover (subject to an excess) in respect of its credit risk exposure to retail customers. In the event that such insurance is insufficient or unavailable, this could have an adverse effect on the Group's cash flows, results of operations or financial condition.

2.13 *The Group may not be able to secure debt financing in the future on commercially acceptable or affordable terms*

The Group intends to use the net proceeds of the Placing, in part, to pay down part of its existing revolving credit facility. However, in the event that the Placing does not proceed, it will be unable to pay down the revolving credit facility. Further, at some point in the future, in the event that the Placing does not proceed and the RCF Extension therefore does not take effect, there is a heightened risk that, were the economic environment or trading performance of the Group to deteriorate materially from its current position, the Group may fail to comply with the current financial covenants that are in place. Any breach of such covenants would be an event of default under the terms of the existing banking facilities and would entitle the Group's lenders to demand immediate repayment of all outstanding amounts. Although the Group expects to be able to address any potential covenant breach prior to any such breach occurring, it may be unable to do so simply by negotiation with its existing lenders and may be required to seek alternative sources of finance. In the event that the Group is unable to reach agreement with its existing lenders or secure alternative means of finance, in those circumstances, the Group would consider taking immediate steps, such as disposing of certain of the Company's assets.

There can be no assurance that the Group will in the future be able to secure debt finance on commercially acceptable terms and any failure to do so could have a material adverse effect on the Group's results of operations, financial condition and prospects.

2.14 *Many of the Group's suppliers rely on credit insurance to protect their receivables and any changes to, or withdrawals of, such credit insurance may lead the Group's suppliers to seek to reduce their credit exposure to the Group*

The Group's business is dependent, in part, on its ability to maintain a supply of products to it by third parties. The Directors believe that many of the Group's larger suppliers and other counterparties with which it does business have traditionally taken out credit insurance to protect their receivables against the risk of bad debt, insolvency or protracted default of their buyers, including the Group. As with any business, the credit insurance or other sources of credit available to the Group's suppliers are dependent on a number of factors, including general economic conditions and the Group's financial position. If there is a significant decrease in the availability, or the withdrawal in its entirety, of credit insurance to the Group's suppliers, and such suppliers are unwilling or unable to take credit risk themselves or find alternative credit sources, they may decide to reduce their credit exposure to the Group, which could have an adverse effect on the Group's cash position if such suppliers seek to make a material change to their credit terms or refuse to do business with the Group.

2.15 *The Group may be unable to secure and protect its intellectual property rights and may face challenges to its intellectual property rights, including allegations of infringement of others' rights*

The Group's trademarks are central to the value of the Group's brands and the Group licenses certain of its intellectual property rights to its retail customers in exchange for a royalty fee. The Group has not registered all trademarks in all of the international markets in which its retail customers operate. The Group may not be able to protect its intellectual property rights in existing international markets or in additional international markets in future and, even if it succeeds in doing so, these rights may subsequently be invalidated, circumvented or challenged in future. Third parties may infringe or misappropriate the Group's rights by, for example, asserting rights in, or ownership of, its trademarks, trade dress rights, designs, copyrights or other intellectual property rights. In international markets, the Group relies, to some extent, on notification from its retail customers of any actual or threatened infringement or misappropriation of the Group's rights.

3 RISKS RELATING TO THE TRANSACTION AND THE ORDINARY SHARES

3.1 *The price of the Ordinary Shares may fluctuate significantly and investors could lose all or part of their investment*

The share price of AIM companies can be highly volatile, which may prevent Shareholders from being able to sell their Ordinary Shares at or above the price they paid for them. The Offer Price may not be indicative of prices that will prevail in the trading market and investors may not be able to resell the Ordinary Shares at or above the price they paid for them. The market price and the realisable value for the Ordinary Shares could fluctuate significantly for various reasons, many of which are outside the Group's control. In addition, the published market price of the Ordinary Shares will be, typically, their middle market price. Due to the potential difference between the middle market price of the Ordinary Shares and the price at which the Ordinary Shares can be sold, there is no guarantee that the realisable value of the Ordinary Shares will be the same as the published market price.

3.2 *There may not be a liquid secondary market for the Ordinary Shares, the price of which may fluctuate significantly and shareholders could lose all or part of their investment*

The Company is currently listed on the Official List and traded on the London Stock Exchange's Main Market for listed securities. However, upon Admission occurring the Company will be traded on AIM which is perceived to involve a higher degree of risk and to be less liquid. Shareholders do not have a right for their Ordinary Shares to be redeemed and the Company does not have a fixed winding-up date. Those Shareholders wishing to realise their investment will be required to dispose of their Ordinary Shares on the stock market or vote to wind up the Company. Admission should not be taken as implying that there will be a liquid market for the Ordinary Shares. There is no guarantee that an active market will arise or be sustained for the Ordinary Shares. If an active trading market is not maintained, the liquidity and trading price of the Ordinary Shares could be adversely affected. Even if an active trading market is maintained, the market price for the Ordinary Shares may fall below their original issue price and Shareholders may not realise their initial investment.

3.3 *There is no guarantee that dividends will be paid by the Company*

Any dividend on the Ordinary Shares will be limited by the Group's performance. The Company's dividend policy is described in Part 1, paragraph 10 of this document but should not be construed as a dividend forecast. As a holding company, the Company's ability to pay dividends in the future is affected by a number of factors, principally the Company's generation of distributable profits and the receipt of sufficient dividends from its subsidiaries. The Group's members may be precluded from paying dividends by various factors, such as their own financial condition, restrictions in existing or future financing documents to which they are party or applicable law. Under English law, a company can only pay cash dividends to the extent that it has distributable reserves and cash available for this purpose. In addition, the Company may not pay dividends if the Directors believe this would cause the Company to be inadequately capitalised or if, for any other reason, the Directors conclude it would not be in the best interests of the Company. Any of the foregoing could limit the payment of dividends to Shareholders or, if the Company does pay dividends, the amount of such dividends.

3.4 *New Pistoia and Phoenix will retain significant interests in the Company following Admission and their respective interests may differ from those of the other Shareholders*

Following Admission, New Pistoia and Phoenix will each continue to be substantial shareholders in the Company. As a result of their respective substantial shareholdings, New Pistoia and Phoenix will, subject to the Articles and applicable laws and regulations, be able to exercise significant influence over all matters requiring Shareholder approval, including the composition of the Board, the timing and amount of dividend payments and the approval of general corporate transactions. The interests of New Pistoia and Phoenix and those of the other Shareholders may not be aligned.

3.5 ***Future issuances of Ordinary Shares may dilute the holdings of Shareholders and may depress the price of the Ordinary Shares***

Other than in connection with the Placing or pursuant to employee share plans or other similar incentive arrangements, the Company has no current plans for an offering of Ordinary Shares. However, it is possible that the Company may decide to offer additional Ordinary Shares in the future. Future sales or the availability for sale of substantial amounts of Ordinary Shares in the public market could dilute the holdings of Shareholders, adversely affect the prevailing market price of the Ordinary Shares and impair the Company's ability to raise capital through future offerings of equity securities.

PART 3

EXPLANATORY NOTES OF THE PRINCIPAL CHANGES TO THE COMPANY'S ARTICLES OF ASSOCIATION

The principal changes that have been made to the Existing Articles are summarised below. Other changes which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the Act or conform the language of the New Articles with that used by in the model articles for public companies produced by the Department for Business, Enterprise and Regulatory Reform have not been noted below. These include changes required in light of the Delisting to remove references to terminology applicable to a traded company.

A copy of the New Articles are available for inspection at the offices of the Company's solicitors, Berwin Leighton Paisner LLP at Adelaide House, London Bridge, London EC4R 9HA during normal business hours on any weekday (excluding public holidays) from the date of this document until the close of the General Meeting and at the General Meeting for at least 15 minutes prior to and during the General Meeting.

1 The Company's objects

The provisions regulating the operations of the Company are currently set out in the Company's memorandum and articles of association. The Company's memorandum contains, among other things, the objects clause which sets out the scope of the activities the Company is authorised to undertake. This is drafted to give a wide scope.

The Act significantly reduces the constitutional significance of a company's memorandum. The Act provides that a memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in the company. Under the Act the objects clause and all other provisions which are contained in a company's memorandum, for existing companies at 1 October 2009, are deemed to be contained in the company's articles of association but a company can remove these provisions by special resolution.

Further the Act states that unless a company's articles provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have objects clauses. For this reason the Company is proposing to remove its objects clause together with all other provisions of its memorandum which, by virtue of the Act, are treated as forming part of the Company's articles of association as of 1 October 2009. As the effect of this will be to remove the statement currently in the Company's memorandum of association regarding limited liability, the New Articles also contain an express statement regarding the limited liability of shareholders.

2 Articles which duplicate statutory provisions

Provisions in the Existing Articles which replicate provisions contained in the Act are in the main to be removed in the New Articles. This is in line with the approach advocated by the Government that statutory provisions should not be duplicated in a company's constitution.

3 Change of name

Under the Companies Act 1985, a company could only change its name by special resolution. Under the Act a company will be able to change its name by other means provided for by its articles. To take advantage of this provision, the New Articles enable the Directors to pass a resolution to change the Company's name.

4 Authorised share capital and unissued shares

The Act abolishes the requirement for a company to have an authorised share capital and the New Articles reflect this. Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the Act, save in respect of employee share schemes.

5 Redeemable shares

Under the Companies Act 1985, if a company wished to issue redeemable shares, it had to include in its articles the terms and manner of redemption. The Act enables directors to determine such matters instead provided they are so authorised by the articles. The New Articles contain such an authorisation. The Company has no plans to issue redeemable shares but if it did so the Directors would need shareholders' authority to issue new shares in the usual way.

6 Authority to purchase own shares, consolidate and sub-divide shares, and reduce share capital

Under the Companies Act 1985, a company required specific enabling provisions in its articles to purchase its own shares, to consolidate or sub-divide its shares and to reduce its share capital or other undistributable reserves as well as shareholder authority to undertake the relevant action. The Existing Articles include these enabling provisions. Under the Act a company will only require shareholder authority to do any of these things and it will no longer be necessary for articles to contain enabling provisions. Accordingly the relevant enabling provisions have been removed in the New Articles

7 Provision for employees on cessation of business

The Act provides that the powers of the directors of a company to make provision for a person employed or formerly employed by the company or any of its subsidiaries in connection with the cessation or transfer to any person of the whole or part of the undertaking of the company or that subsidiary, may only be exercised by the directors if they are so authorised by the company's articles or by the company in general meeting. The New Articles provide that the Directors may exercise this power.

8 Use of seals

Under the Companies Act 1985, a company required authority in its articles to have an official seal for use abroad. Under the Act, such authority will no longer be required. Accordingly, the relevant authorisation has been removed in the New Articles.

The New Articles provide an alternative option for execution of documents (other than share certificates). Under the New Articles, when the seal is affixed to a document it may be signed by one authorised person in the presence of a witness, whereas previously the requirement was for signature by either a director and the secretary or two Directors or such other person or persons as the Directors may approve.

9 Vacation of office by directors

The Existing Articles specify the circumstances in which a director must vacate office. The New Articles update these provisions to treat physical illness in the same manner as mental illness.

10 Voting by proxies on a show of hands

The Shareholders' Rights Regulations have amended the Act so that it now provides that each proxy appointed by a member has one vote on a show of hands unless the proxy is appointed by more than one member in which case the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution. The New Articles remove provisions in the Existing Articles dealing with proxy voting on the basis that these are dealt with in the Act and contain a provision clarifying how the provision of the Act giving a proxy a second vote on a show of hands should apply to discretionary authorities.

11 Voting by corporate representatives

The Shareholders' Rights Regulations have amended the Act in order to enable multiple representatives appointed by the same corporate member to vote in different ways on a show of hands and a poll. The New Articles contain provisions which reflect these amendments. The New Articles remove provisions in the Existing Articles dealing with voting by corporate representatives on the basis that there are dealt with in the Act.

12 Electronic conduct of meetings

Amendments made to the Act by the Shareholders' Rights Regulations specifically provide for the holding and conducting of electronic meetings. The Existing Articles have been amended to reflect more closely the relevant provisions.

13 General

Generally the opportunity has been taken to bring clearer language into the New Articles and in some areas to conform the language of the New Articles with that used in the model articles for public companies produced by the Department for Business, Innovation and Skills.

PART 4

ADDITIONAL INFORMATION

1 MATERIAL CONTRACTS

The following are the only contracts (not being contracts entered into in the ordinary course of business) which have been entered into by members of the Group in the two years immediately preceding the date of this document and which are material or which have been entered into at any time by any member of the Group and which contain any provision under which any member of the Group has any obligation or entitlement which is, or may be, material to the Group as at the date of this document:

- (a) the Placing Agreement, further details of which are contained at Part 1, paragraphs 4.3 to 4.7 inclusive;
- (b) a nominated adviser and broker agreement dated 18 June 2015 (the “**Nomad Agreement**”), pursuant to which and conditional upon Admission, the Company has appointed Numis Securities to act as its nominated adviser and broker for the purposes of the AIM Rules. The Company has agreed to pay Numis Securities a fee of £75,000 per annum, for its services as nominated adviser and broker. The Nomad Agreement contains certain undertakings and indemnities given by the Company in respect of, amongst other things, compliance with all applicable laws and regulations. The Nomad Agreement continues for an initial period of 12 months (unless terminated prior to such date on one of the grounds specified in the Nomad Agreement) and thereafter may be terminated on one month’s written notice or otherwise in accordance with its terms;
- (c) the Amended RCF, further details of which are contained at Part 1, paragraph 9 of this document; and
- (d) an exclusivity agreement dated 1 May 2015 granting in favour of the Company a period of 115 days of exclusivity commencing on 1 May 2015 and expiring at 5.00 p.m. on 23 August 2015 for the purposes of enabling the Company to conduct its due diligence and negotiate the acquisition documentation in connection with the acquisition by the Company property known as land and buildings at Ramsgate Road, Enterprise Road, Channel Road and, subject to agreement and a corresponding reduction of the purchase price, land and buildings at Strasbourg Street, Westwood.

2 MAJOR SHAREHOLDERS

As at 17 June 2015 (being the latest practicable date prior to the publication of this document), in so far as known to the Company, the following persons had an interest in the Company’s issued Ordinary Share capital which is notifiable under DTR 5 (each, a “**Notifiable Interest**”):

<i>Shareholder</i>	<i>Number of Ordinary Shares</i>	<i>% of voting rights attached to the issued Ordinary Share capital</i>
New Pistoia	9,126,699	23.30
Phoenix	6,257,323	15.98
Electra Quoted Partners	2,995,150	7.65
Ruffer LLP	2,437,800	6.22
PJ Wood	2,721,500	6.95
Artemis Fund Managers Ltd	1,312,079	3.35

Save as set out above, the Company is not aware of any other Notifiable Interests.

3 ESTIMATED COSTS AND EXPENSES

The estimated costs and expenses relating to the Proposals payable by the Company are estimated to amount to approximately £1 million (excluding VAT).

4 DOCUMENTS ON DISPLAY

Copies of the following documents will be available for inspection on the Company's website at www.hornby.plc.uk and during normal business hours on any weekday (public holidays excepted) at the registered office address of the Company at Westwood, Margate, Kent CT9 4JX, up to and including 13 July 2015:

- (a) the Memorandum of Incorporation and the Existing Articles; and
- (b) the New Articles; and
- (c) this document.

PART 5

NOTICE OF GENERAL MEETING

Hornby PLC

(incorporated in England and Wales under the Companies Act 1985 with registered number 01547390)

NOTICE IS HEREBY GIVEN that a General Meeting of Hornby Plc (the “**Company**”) will be held at the offices of Berwin Leighton Paisner LLP at Adelaide House, London Bridge, London EC4R 9HA on 13 July 2015 at 8.30 a.m. for the purpose of considering and, if thought fit, passing the resolutions below, of which resolutions 1, 4 and 5 will be proposed as special resolutions and resolutions 2 and 3 will be proposed as ordinary resolutions (each a “**Resolution**”).

SPECIAL RESOLUTION

1. Delisting and Admission to AIM

That, subject to the passing of Resolutions 2, 3 and 4, the directors of the Company (the “**Directors**”) be and are hereby authorised to:

- (a) cancel the listing of the ordinary shares in the capital of the Company on the premium segment of the Official List of the Financial Conduct Authority and to remove such ordinary shares from trading on London Stock Exchange plc’s Main Market for listed securities; and
- (b) apply for admission of said ordinary shares and the Placing Shares (as defined in the circular to shareholders of the Company dated 18 June 2015 of which this notice forms part (the “**Circular**”)) to trading on AIM, a market operated by London Stock Exchange plc.

ORDINARY RESOLUTIONS

2. Related Party Transaction

That, subject to and conditional upon the passing of Resolutions 1, 3 and 4, the participation by New Pistoia Income Limited and Phoenix Asset Management Partners Limited in the Placing (as defined in the Circular) in respect of 3,679,500 and 5,034,474 Placing Shares respectively, such participation constituting a related party transaction, be and is hereby authorised in accordance with the Listing Rules.

3. Authority to allot shares

That, in addition to all existing authorities granted to the Directors and subject to and conditional on the passing of Resolutions 1 and 2, the Directors be and are hereby generally and unconditionally authorised, in accordance with section 551 of the Companies Act 2006 (the “**Act**”), to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company up to a maximum aggregate nominal amount of £157,894.74 in connection with the Placing (as defined in the Circular) such authority to be in addition to all existing authorities granted to the Directors and provided that this authority shall expire on the fifth anniversary of the date of its passing but so that the Company may, before such expiry, make an offer or agreement which would or might require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after such expiry and the Directors may allot shares or grant rights to subscribe for or convert securities into shares pursuant to such an offer or agreement as if this authority had not expired.

SPECIAL RESOLUTIONS

4. Disapplication of pre-emption rights

That, in addition to all existing authorities granted to the Directors and subject to and conditional on the passing of Resolutions 1, 2 and 3, the Directors be empowered, pursuant to section 570 of the Act, to allot

equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority conferred by Resolution 2 above as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities up to the maximum aggregate nominal amount of £157,894.74 in connection with the Placing (as defined in the Circular) and shall expire on the fifth anniversary of the date of its passing, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if this power had not expired.

5. Amendment of the Articles to reflect move to AIM

That, subject to and conditional upon the passing of Resolutions 1, 2, 3 and 4 and the admission of the Company's share capital to trading on AIM, the regulations produced to the meeting and signed, for the purposes of identification, by the Chairman of the meeting, be adopted as the Company's articles of association in substitution for the existing articles of association of the Company.

By order of the board

A Stacey

Company Secretary

Dated: 18 June 2015

Registered office:

Westwood

Margate

Kent CT9 4JX

Registered in England and Wales with number 01547390

NOTES TO THE NOTICE OF GENERAL MEETING

1. Only holders of ordinary shares are entitled to attend and vote at this general meeting. A shareholder entitled to attend and vote is entitled to appoint a proxy or proxies to attend, speak and vote instead of him/her. A shareholder may appoint more than one proxy provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him/her. A proxy need not be a member of the Company. A form of proxy is enclosed with this notice and instructions for its completion are shown on the form. Forms of proxy and any power of attorney or other authority, if any, under which it is signed or a duly certified copy of such power or authority should reach the office of the Company's registrars, not less than 48 hours (excluding any part of a day which is not a working day) before the time fixed for the general meeting or any adjournment thereof. Therefore the form of proxy must be received by the Company's registrars, Capita Asset Services, PXS 1, 34 Beckenham Road, Beckenham, Kent BR3 4TU, by 8.30 a.m. on 11 July 2015. Completing a form of proxy does not prevent a shareholder from attending the general meeting and voting in person. A vote withheld option is provided on the form of proxy to enable you to instruct your proxy to abstain on any particular resolution. However, it should be noted that a "vote withheld" is not a vote in law and will not be counted in the calculation of the proportion of the votes "For" and "Against" a resolution.

A shareholder must inform the Company's registrars in writing of any termination of the authority of a proxy.

A person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "**Nominated Person**") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the general meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

The statements of the rights of shareholders in relation to the appointment of proxies in this notice do not apply to a Nominated Person. The rights of shareholders in relation to the appointment of proxies can only be exercised by registered shareholders of the Company. Nominated Persons are reminded that they should contact the registered holder of their shares (and not the Company) on matters relating to their investments in the Company.

2. The Company specifies that only those shareholders registered in the register of members of the Company as at 8.30 a.m. on 11 July 2015 (or, if the general meeting is adjourned, shareholders on the register of members not later than 48 hours (excluding any part of a day which is not a working day) before the time fixed for the adjourned general meeting) shall be entitled to attend and/or vote at the aforesaid general meeting (and any adjournment thereof) in respect of the number of shares registered in their name at that time. Subsequent changes to entries on the relevant register of securities shall be disregarded in determining the rights of any person to attend or vote at the general meeting (and any adjournment thereof).
3. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
4. In order to facilitate voting by corporate representatives at the general meeting, arrangements will be put in place at the general meeting so that (i) if a corporate member has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that member at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate member attends the meeting but the corporate member has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate members are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – <http://www.icsa.org.uk/> – for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.
5. A copy of this Notice, and other information regarding the meeting, as required by section 311A Companies Act 2006, is available from www.hornby.plc.uk.
6. Under section 319A of the Companies Act 2006, a shareholder attending the meeting has the right to ask questions in relation to the business of the meeting. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
7. As at 17 June 2015 (being the last practicable date prior to any publication of this notice) the Company's issued share capital consists of 39,164,100 ordinary shares carrying one vote each. The total voting rights in the Company as at 17 June 2015 are, therefore, 39,164,100.

