

HORNBY PLC

AUDIT COMMITTEE

TERMS OF REFERENCE

1. Constitution

The Committee shall be a sub-committee of the Board of Directors of Hornby Plc and shall be known as the Audit Committee (hereinafter referred to as "the Committee"). The purpose of this committee is to assist the Board in fulfilling its oversight responsibilities.

The committee shall report to the board identifying any matters in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken.

2. Membership

The Committee shall be appointed by the Board and comprise the independent non-executive directors of the Company. A quorum shall be two members.

The Chairman of the Committee shall be appointed by the Board from amongst the independent non executive directors.

One member of the Committee should have significant, recent and relevant financial experience.

3. Secretary

The Group company secretary shall act as the secretary of the Committee.

4. Attendance at meetings

No one other than the Committee members shall be entitled to attend Committee meetings.

The Chairman of the board, Chief Executive, Finance Director and a representative of the external auditors shall normally attend meetings. The Committee shall, if it so decides meet with the external auditors without executive Board members present.

There should be at least one meeting per year, where the audit committee meets the external auditors without executive board members present.

5. Frequency of Meetings

Meetings shall be held not less than three per year. The external auditors may request a meeting if they consider that one is necessary.

6. Authority

The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees.

7. Duties

The duties of the Committee shall be:

External Audit

- 7.1 To oversee the Company's relations with the external auditor;
- 7.2 To consider, and make recommendations on the appointment, reappointment and removal of the external auditor.
- 7.3 To approve the terms of engagement and remuneration to be paid to the external auditor in respect of audit services provided;
- 7.4 To assess the qualification, expertise and resources, effectiveness and independence of the external auditors annually;
- 7.5 To discuss with the external auditor, before the audit commences, the nature and scope of the audit;
- 7.6 To review with the external auditors, the findings of their work, including, any major issues that arose during the course of the audit;
- 7.7 To review the audit representation letters before consideration by the Board, giving particular consideration to matters that relate to non-standard issues;
- 7.8 To assess, at the end of the audit cycle, the effectiveness of the audit process;
- 7.9 To review and monitor the content of the external auditor's management letter, in order to assess whether it is based on a good understanding of the company's business and establish whether recommendations have been acted upon, and if not, the reasons why they have not been acted upon;
- 7.10 To develop and recommend to the Board the Company's policy in relation to the provision of non-audit services by the auditor and ensure that the provision of such services does not impair the external auditor's independence or objectivity;

Financial Reporting

- 7.12 To review and monitor the integrity of the financial statements of the company challenging the actions and judgements of management, in relation to the interim and full year results and the Annual Report and Accounts, preliminary announcements and related formal statements before submission to, and approval by, the board and before clearance by the auditors. Such a review shall include:
- Critical accounting policies and practices, and any changes in them;
 - Decisions requiring a significant element of judgement;
 - Significant adjustments resulting from the audit;
 - The going concern assumption;
 - Compliance with accounting standards;
 - Compliance with stock exchange and legal requirements;
 - The annual impairment review of intangible assets;
 - The clarity of disclosures;
 - The extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed.

Internal Control and Risk Management

- 7.22 To review the Company's procedures for detecting fraud and whistle blowing and ensure that arrangements are in place by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.
- 7.23 To review management's and the auditor's reports on the effectiveness of the systems for internal financial control, financial reporting and risk management;
- 7.24 To monitor the integrity of the Company's internal financial controls;
- 7.25 To review the statement in the annual report and accounts on the company's internal controls and risk management framework;
- 7.26 To assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks.

- 7.27 The review the Group's systems and controls for the prevention of bribery and receive reports on non-compliance.
- 7.28 To review the risk register and to decide on action to mitigate risks.

Internal Audit

- 7.29 To consider annually whether there is a need for an internal audit function.
- 7.30 To consider other topics, as defined by the Board.

8. Reporting

- 8.1 The Chairman of the Committee shall ensure that minutes are taken of the proceedings of each meeting and the minutes shall be passed to the Company Secretary to be filed in the Minute book kept for that purpose and circulated to all members of the Board.
- 8.2 The Audit Committee shall annually review its terms of reference and its own effectiveness and recommend any necessary changes to the Board.
- 8.3 The Audit Committee shall prepare a report on its role and responsibilities and the actions it has taken to discharge those responsibilities for inclusion in the Annual Report and accounts.
- 8.4 Where disagreements between the Audit Committee and the Board cannot be resolved, the Audit Committee shall report the issue to the shareholders as part of the report on its activities in the Company's annual report.
- 8.5 If the Board does not accept the Audit Committee's recommendation regarding the appointment, reappointment and removal of the external auditors, the Audit Committee shall include a statement explaining its recommendation and reasons why the board has taken a different stance in the Annual Report.
- 8.6 The Audit Committee Chairman shall attend the AGM and shall answer questions, through the Chairman of the Board, on the Audit Committee's activities and their responsibilities.