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If you have sold or otherwise transferred all of your Hornby Shares (other than pursuant to acceptances of the Offer), please send this document and any accompanying document(s) (but not any personalised Form of Acceptance) as soon as possible to the stockbroker, bank or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee. However, these documents must not be distributed, forwarded or transmitted in or into any jurisdiction where to do so would constitute a violation of the relevant laws of that jurisdiction (a “**Restricted Jurisdiction**”). If you have sold or transferred only part of your holding of Hornby Shares, you should retain these documents and consult the stockbroker, bank or other agent through whom the sale or transfer was effected.

The release, publication or distribution of this document in, into or from jurisdictions other than the United Kingdom and the availability of the Offer to Hornby Shareholders who are not resident in the United Kingdom may be restricted by the laws of those jurisdictions. Therefore persons into whose possession this document comes should inform themselves about, and observe, such restrictions. Any failure to comply with the restrictions may constitute a violation of the securities laws of any such jurisdiction. This document does not constitute an offer to sell or issue, nor the solicitation of an offer to buy or subscribe for, shares in any jurisdiction in which such offer or solicitation is unlawful.

HORNBY PLC

(incorporated in England and Wales with limited liability under registration number 01547390)

RESPONSE TO THE UNCONDITIONAL MANDATORY CASH OFFER

FOR

HORNBY PLC

BY

PHOENIX UK FUND LTD

The Offer is subject to the jurisdiction of the Panel.

Numis Securities Limited, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority, is acting exclusively for Hornby and no one else in connection with the Offer and will not be responsible to anyone other than Hornby for providing the protections afforded to its clients or for providing advice in relation to the Offer, the contents of this document or any other matters referred to in this document.

The statements contained in this document are not to be construed as legal, business, financial or tax advice. If you are in any doubt about the content of this document, you should consult your own legal, financial or tax adviser for legal, business, financial or tax advice.

The statements contained in this document are made as at the date of this document, unless some other time is specified in relation to them, and service of this document shall not give rise to any implication that there has been no change in the facts set out in this document since such date. No dealer, salesperson or other person is authorised to give any information or to make any representations with respect to the Offer other than such information or representations contained in this document and, if given or made, such information or representations must not be relied upon as having been authorised by Hornby.

IMPORTANT NOTICE

Overseas jurisdictions

The distribution of this document in jurisdictions other than the United Kingdom and the ability of Hornby Shareholders who are not resident in the United Kingdom to accept the Offer may be affected by the laws of relevant jurisdictions. Therefore any persons who are subject to the laws of any jurisdiction other than the United Kingdom or Hornby Shareholders who are not resident in the United Kingdom will need to inform themselves about, and observe, any applicable legal or regulatory requirements. Any failure to comply with the applicable restrictions may constitute a violation of the securities laws of any such jurisdiction.

The Offer is not being, and will not be, made available, directly or indirectly, in or into or by the use of the mails of, or by any other means (including, without limitation, facsimile or other electronic transmission, telex or telephone) or instrumentality of inter-state or foreign commerce of, or any facility of a national state or other securities exchange of any Restricted Jurisdiction, unless conducted pursuant to an exemption from the applicable securities laws of such Restricted Jurisdiction and will not be capable of acceptance by any such use, means or facility or from within any Restricted Jurisdiction.

Accordingly, copies of this document and all other documents relating to the Offer are not being, and must not be, directly or indirectly, mailed, transmitted or otherwise forwarded, distributed or sent in, into or from any Restricted Jurisdiction except pursuant to an exemption from the applicable securities laws of such Restricted Jurisdiction and persons receiving this document (including, without limitation, agents, nominees, custodians and trustees) must not distribute, send or mail it in, into or from such jurisdiction. Any person (including, without limitation, any agent, nominee, custodian or trustee) who has a contractual or legal obligation, or may otherwise intend, to forward this document and/or any other related document to a jurisdiction outside the United Kingdom should inform themselves of, and observe, any applicable legal or regulatory requirements of their jurisdiction.

US investors

The Offer is being made for securities in a company incorporated in England and Wales with a listing on AIM and Hornby Shareholders in the United States should be aware that this document and any other documents relating to the Offer have been prepared in accordance with the Code and UK disclosure requirements, format and style, all of which differ from those in the United States. All financial information relating to Phoenix UK Fund and Hornby that is included in this document or any other documents relating to the Offer may not be comparable to financial statements of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States.

Neither the US Securities and Exchange Commission nor any US state securities commission has approved or disapproved the Offer, or passed comment upon the adequacy or completeness of this document. Any representation to the contrary is a criminal offence in the United States.

Forward-looking statements

This document, including information included or incorporated by reference in this document, may contain "forward-looking statements" concerning Hornby. All statements other than statements of historical fact may be forward-looking statements. Generally, the words "will", "may", "should", "continue", "believes", "expects", "intends", "anticipates" or similar expressions identify forward-looking statements. The forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. Many of these risks and uncertainties relate to factors that are beyond the relevant persons abilities to control or estimate precisely, such as future market conditions and the behaviours of other market participants and, therefore undue reliance should not be placed on such statements, which speak only as of the date of this document.

No member of the Hornby Group, nor any of their respective associates, directors, officers, employees or advisers, provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this document will actually occur.

Other than in accordance with its legal or regulatory obligations, Hornby is not under any obligation and Hornby expressly disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Except as expressly provided in this document, no forward-looking or other statements have been reviewed by the auditors of Hornby. All subsequent oral or written forward-looking statements attributable to any member of the Hornby Group, or any of their respective associates, directors, officers, employees or advisers, are expressly qualified in their entirety by the cautionary statement above.

No profit forecasts or estimates

No statement in this document is intended to constitute a profit forecast for any period, nor should any statements be interpreted to mean that earnings or earnings per share will necessarily be greater or less than those of the preceding financial periods for Hornby.

Publication on website

This document, together with those documents listed in paragraph 10 of Part III of this document, and all information incorporated into this document by reference to another source, will be available free of charge, subject to certain restrictions relating to persons resident in Restricted Jurisdictions, on Hornby's website at www.hornby.plc.uk/mandatory-offer-documents, in each case until the Offer closes. For the avoidance of doubt, except as expressly provided to this document, the content of such website is not incorporated into, and does not form part of, this document.

Dealing and Opening Disclosure requirements of the Takeover Code

Under Rule 8.3(a) of the Takeover Code, any person who is interested in 1 per cent. or more of any class of relevant securities of an offeree company or of any securities exchange offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the offer period and, if later, following the announcement in which any securities exchange offeror is first identified. An Opening Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 p.m. (London time) on the 10th business day following the commencement of the offer period and, if appropriate, by no later than 3.30 p.m. (London time) on the 10th business day following the announcement in which any securities exchange offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a securities exchange offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure.

Under Rule 8.3(b) of the Takeover Code, any person who is, or becomes, interested in 1 per cent. or more of any class of relevant securities of the offeree company or of any securities exchange offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any securities exchange offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s), save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 p.m. (London time) on the business day following the date of the relevant dealing.

If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a securities exchange offeror, they will be deemed to be a single person for the purpose of Rule 8.3. Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4).

Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Takeover Panel's website at www.thetakeoverpanel.org.uk, including details of the number of relevant securities in issue, when the offer period commenced and when any offeror was first identified. You should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129 if you

are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure.

In accordance with, and to the extent permitted by, the Code and normal UK market practice, Numis Securities Limited and its affiliates will continue to act as exempt principal traders in Hornby Shares on the London Stock Exchange and engage in certain other purchasing activities consistent with their respective normal and usual practice and applicable law. To the extent required by the applicable law (including the Code), any information about such purchases will be disclosed on a next day basis to the Panel and a Regulatory Information Service including the Regulatory News Service on the London Stock Exchange website, www.londonstockexchange.com. To the extent that such information is made public in the United Kingdom, this information will also be deemed to be publicly disclosed in the United States.

Availability of hard copies

You may request hard copies of any document published on Hornby's website in connection with the Offer by contacting Hornby's registrar, Capita Asset Services, on 0871 664 0300 from within the UK or on +44 371 664 0300 if calling from outside the UK (lines are open from 8.30 a.m. to 5.30 p.m. (London time) Monday to Friday) or by submitting a request in writing to Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. You may also request that all future documents, announcements, and information to be sent to you in relation to the Offer should be in hard copy form.

Rounding

Certain figures included in this document have been subjected to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Definitions

Certain words and terms used in this document are defined in Part IV of this document.

Time

All references to time in this document are references to London time unless otherwise stated.

Date of publication

The date of publication of this document is 4 July 2017.

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PART I

LETTER FROM THE DIRECTORS OF HORNBY PLC

(Incorporated and registered in England with registered number 01547390)

David Adams Interim Non-Executive Chairman
Steve Cooke Chief Executive Officer
Martin George Non-Executive Director
David Mulligan Group Finance Director

(the “Hornby Directors”)

Registered Office:
Third Floor
The Gateway
Innovation Way
Discovery Park
Sandwich, Kent
England CT13 9FF

4 July 2017

To: Hornby Shareholders and, for information only, to persons with information rights and holders of share options and/or awards under any of the Company’s employee share schemes

Dear Shareholder,

Response to the unconditional mandatory cash offer by Phoenix UK Fund Ltd for Hornby plc

1 Introduction

The Hornby Directors believe that the Offer does not reflect an adequate premium for control and significantly undervalues Hornby and its prospects. This document sets out the valuation, control and other considerations taken into account by the Hornby Directors in reaching their conclusion that **Hornby Shareholders should reject the Offer.**

TO REJECT THE OFFER YOU NEED TO TAKE NO ACTION

2 Background to the Offer

On 21 June 2017, Phoenix UK Fund Ltd (“**Phoenix**”) announced that it had unconditionally agreed to acquire 17,641,161 Hornby Shares from New Pistoia Income Fund Limited (“**NPIL**”) at a price of 32.375 pence per Hornby Share (the “**Acquisition**”). The Acquisition settled on 23 June 2017 and as a result of the Acquisition, the percentage of Hornby Shares carrying voting rights which the Phoenix Concert Party holds increased to more than 50 per cent.

Rule 9 of the Code requires that where a shareholder, together with persons acting in concert with him, has an interest of not less than 30 per cent., but does not hold more than 50 per cent., of a company’s voting share capital, and then acquires an interest in any further shares he is required to make a mandatory cash offer for the entire issued share capital not already owned by him and persons acting in concert with him. As a result of the Acquisition, and pursuant to Rule 9 of the Code, Phoenix, on behalf of the Phoenix Concert Party, was therefore required to make an offer for all the Hornby Shares not already owned by it or by persons acting in concert with it.

On 21 June 2017, Phoenix announced a mandatory unconditional cash offer to acquire all of the Hornby Shares not already held by members of the Phoenix Concert Party (the “**Offer**”). Since the Phoenix Concert Party holds more than 50 per cent. of the existing issued share capital of Hornby, the Offer has become wholly unconditional. Details of the Offer were set out in the offer document sent to Hornby Shareholders on 23 June 2017 (the “**Offer Document**”).

3 The Hornby Directors’ Views on the Offer Price

The Hornby Directors believe that the Offer does not reflect an adequate premium for control and significantly undervalues Hornby and its prospects.

As a result of the Acquisition, the Phoenix Concert Party increased its shareholding to more than 50 per cent. of the voting rights of Hornby. In the view of the Hornby Directors, the Offer Price of 32.375 pence per Hornby Share does not in any way reflect an adequate premium for control. The

Offer values the entire issued and to be issued share capital of Hornby at approximately £27.4 million and represents a premium of approximately:

- 3.6 per cent. to the Closing Price of 31.25 pence per Hornby Share on 20 June 2017 (being the last Business Day prior to commencement of the Offer Period);
- 5.3 per cent. to the volume-weighted average Closing Price of 30.74 pence per Hornby Share for the one month period ended 20 June 2017 (being the last Business Day prior to commencement of the Offer Period); and
- 2.5 per cent. to the volume-weighted average Closing Price of 31.58 pence per Hornby Share for the three month period ended 20 June 2017 (being the last Business Day prior to commencement of the Offer Period).

The Hornby Directors also note that at 32.375 pence per Hornby Share, Phoenix has chosen to offer Hornby Shareholders the minimum price it could have under the Code, being no more than the highest price paid by the Phoenix Concert Party for any interest in Hornby Shares during the 12 months prior to the announcement of the Offer.

Furthermore, the Hornby Directors do not believe the Offer appropriately recognises the medium term prospects and growth potential of Hornby. Following the trading challenges of 2015/16, Hornby embarked upon a two-year Turnaround Plan to transform the business. The preliminary results of Hornby for the financial year ended 31 March 2017 were announced on 21 June 2017 and are incorporated by reference into this document (see Part II). Within these preliminary results, Steve Cooke, Hornby Chief Executive Officer, said:

“Our results to March 2017 provide solid evidence of our delivery in phase one of our Turnaround Plan; notably in terms of cash flow performance and gross margin improvement during the year. We are determined to build on this progress as we move to the next phase of the Turnaround Plan. We have built a sound platform for growth over the last 18 months and we are now planning to deliver sustainable profit and net cash generation into the medium term. The current financial year has started positively and we are well placed to achieve the Board’s expectations for the year.”

The Hornby Directors are pleased with the considerable progress made against the Turnaround Plan over the past year and consider that the business is well-placed for the coming years as the management team has returned the business to a sound financial footing and has laid the foundations for the business to progress to profitability and positive cash generation on a sustainable basis. It is the expectation of the Hornby Directors that the delivery of the next stages of Hornby’s stated strategy should result in the improved operational and financial performance of the business which, it is expected, will deliver shareholder value for Phoenix and the other Hornby Shareholders in the medium term. The Hornby Directors consider that, whilst being both immediate and certain, the cash value of the Offer, absent an adequate premium for control, is wholly unattractive when compared to the shareholder value that the Hornby Directors expect to be created in the medium term.

4 Phoenix as a majority shareholder

The Hornby Directors reiterate that, as a result of the Acquisition, the Phoenix Concert Party is now a majority shareholder with a shareholding of 55.217 per cent. of Hornby Shares. Whilst Phoenix has been the largest shareholder of Hornby for a number of years and has acted in a supportive manner by, for example, supporting the Turnaround Plan by participating in Hornby’s placing and open offer announced in June 2016, the Hornby Directors wish to highlight that Phoenix could use its voting power as a majority shareholder to take actions that may be to the potential detriment of other Hornby Shareholders.

Specifically, the Hornby Directors draw your attention to the fact that on any ordinary resolution put to Hornby Shareholders, the Phoenix Concert Party will be able to carry the vote on its own and, as such, the other Hornby Shareholders will have no influence. Hornby Shareholders should also be aware that, in the event that some Shareholders elect to accept the Offer and the Phoenix Concert Party holds in excess of 75 per cent. of Hornby Shares following completion of the Offer, this ability to carry the vote and this lack of influence for other Hornby Shareholders would extend to any special resolution put to Hornby Shareholders.

Notwithstanding this, the Hornby Directors note that the Relationship Agreement entered into between Phoenix, Hornby and Numis Securities dated 22 June 2016 (a summary of which is set

out in paragraph 5(iii) of Part III of this document) will continue to apply to Phoenix following completion of the Offer and, in particular, the Hornby Directors expect Phoenix to comply with the terms of the undertakings given therein notwithstanding their increased shareholding in the Company.

Given that the other Hornby Shareholders comprise a minority shareholding position following the Acquisition, the Hornby Directors welcome a number of statements made by Phoenix in paragraphs 7 and 9 of the letter from Phoenix in Part I of the Offer Document that may provide some comfort to other Hornby Shareholders in this regard. In particular, the Hornby Directors note that Phoenix believes that Hornby should maintain its AIM listing and that it will support Hornby in maintaining a board of directors that complies with the QCA Corporate Governance Code. With regard to the AIM listing, Phoenix has stated that it believes that Hornby will benefit from the access to capital and increased profile and transparency that an AIM listing provides. Phoenix has specifically stated that, subject to Hornby's nominated adviser assessing that Hornby's free float remains suitable for the purposes of maintaining an AIM listing, following the completion of the Offer, Phoenix intends to recommend to the directors of Hornby that Hornby maintains its listing on AIM.

5 The Hornby Directors' Views on the Effect of the Implementation of the Offer on Hornby's Interests, Employees and Locations

The Code requires the Hornby Directors to give their views on the effects of the implementation of the Offer on all Hornby's interests, including, specifically, employment, and their views on Phoenix's strategic plans for Hornby and their likely repercussions on employment and the locations of Hornby's places of business. In fulfilling their obligations under the Code, the Hornby Directors can only comment on the details provided in the Offer Document and, in doing so, have considered, in particular, paragraph 7 of Part I of the Offer Document.

The Hornby Directors note that Phoenix has not set out any detailed or considered plans about its intentions for the business of Hornby, its management or employees following completion of the Offer. The Hornby Directors welcome Phoenix's statement that it has no intention to change the locations of Hornby's places of business or to redeploy any material fixed assets of Hornby as a consequence of the Acquisition. The Hornby Directors also note Phoenix's intention to review all strategic options for Hornby including, but not limited to, acquisitions, disposals, licensing agreements, funding requirements together with management and board composition. The Hornby Directors note that there can be no certainty that Phoenix will not alter the strategy of Hornby. Whilst Phoenix highlights that it cannot be certain of what the effect of any strategy changes will be on Hornby's employees and management, the Hornby Directors welcome Phoenix's recognition of the importance of the Hornby management team and employees to the future success of Hornby and its intention to ensure that, following completion of the Offer, the existing statutory employment rights, including any pension rights, of the management and employees of Hornby will be fully safeguarded.

Without information regarding Phoenix's detailed plans for Hornby, the Board of Directors cannot be certain as to the full repercussions of the Offer on the Company's interests and is unable to comment further.

6 Hornby share option schemes

Your attention is drawn to paragraph 8 of the letter from Phoenix in Part I of the Offer Document in relation to the proposals to be made in respect of the Hornby share option schemes.

7 Current trading of Hornby

At the time of announcing its preliminary results for the year ended 31 March 2017, the Company noted the following:

"As part of the first stage of the Turnaround Plan, Hornby undertook a stock liquidation programme in its UK business during the first quarter of the year to 31 March 2017. While this generated significant revenue it also impacted gross margins. Excluding this exceptional effect from the comparable period, sales in the UK and US for the 11 weeks to 18 June 2017 are down slightly. By contrast, sales in Europe are around half the level compared with the same period for last year due to the timing of new product releases and the lower levels of capital expenditure being invested in International rail brands. Gross margin for the Group for the 11 weeks to 18 June 2017 was 5 percentage points higher compared with the same period last year, reflecting the absence of stock liquidation initiatives this year.

Overall, trading is in line with expectations acknowledging some variations in the timing of new product launches.”

Since 21 June 2017 (being the date of such announcement), Hornby has continued to trade in line with the expectations of the Hornby Directors.

8 Take No Action

Your decision as to whether to accept the Offer will depend upon your individual circumstances. If you are in any doubt as to what action you should take, you should seek your own independent professional advice. However, the Hornby Directors, who have been so advised by Numis Securities as to the financial terms of the Offer, consider that the Offer significantly undervalues Hornby and its prospects and, in light of this and notwithstanding the other considerations outlined above, unanimously recommend that Hornby Shareholders reject the Offer.

Numis Securities is providing independent financial advice to the Hornby Directors for the purposes of Rule 3 of the Code and, in doing so, has taken into account the commercial assessments of the Hornby Directors.

Accordingly, the Hornby Directors unanimously recommend that **YOU SHOULD TAKE NO ACTION** in relation to the Offer and that **YOU SHOULD NOT SIGN ANY DOCUMENT WHICH PHOENIX OR ITS ADVISERS SEND TO YOU**. If you have already accepted the Offer, there are certain circumstances in which you can withdraw your acceptance of the Offer and a summary of the rights of withdrawal is set out in paragraph 3 of Section A of Part II of the Offer Document.

The Hornby Directors who hold Hornby Shares do not intend to accept the Offer in respect of their own beneficial interests in those Hornby Shares.

Yours faithfully

David Adams

Interim Non-Executive Chairman
for and on behalf of the Hornby Directors

PART II

FINANCIAL INFORMATION RELATING TO HORNBY

The following sets out financial information in respect of Hornby as required by Rule 24.3 of the Code. The documents referred to below (or parts thereof), the contents of which have previously been announced through a Regulatory Information Service, are incorporated by reference into this document pursuant to Rule 24.15 of the Code.

Document	Website address	Page numbers of the document incorporated by reference
Preliminary results of Hornby for the financial year ended 31 March 2017	http://www.hornby.plc.uk/aim-rule-26/	2-24
Annual report and financial statements of Hornby for the financial year ended 31 March 2016	http://www.hornby.plc.uk/annual-reports/	20-60
Annual report and financial statements of Hornby for the financial year ended 31 March 2015	http://www.hornby.plc.uk/annual-reports/	40-78

The information above is available free of charge in a read only, printable format from the hyperlinks set out above.

Availability of hard copies

You may request hard copies of any document published on Hornby's website in connection with the Offer by contacting Hornby's registrar, Capita Asset Services, on 0871 664 0300 from within the UK or on +44 371 664 0300 if calling from outside the UK (lines are open from 8.30 a.m. to 5.30 p.m. (London time) Monday to Friday) or by submitting a request in writing to Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. You may also request that all future documents, announcements, and information to be sent to you in relation to the Offer should be in hard copy form.

No incorporation of website information

Save as set out above, neither the Hornby website, nor the content of any website accessible from hyperlinks on the Hornby website, is incorporated into, or forms part of, this document.

PART III
ADDITIONAL INFORMATION

1 Responsibility

The issue of this document has been approved by the Hornby Directors. The Hornby Directors, whose names appear in paragraph 2 below, accept responsibility for the information contained in this document. To the best of their knowledge and belief (having taken all reasonable care to ensure that such is the case), the information contained in this document (other than any information relating to Phoenix, Phoenix's directors or their immediate families, related trusts and connected persons) for which they are responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.

2 Directors

The Hornby Directors and their respective positions are set out below:

Name	Position
David Adams	Interim Non-Executive Chairman
Steve Cooke	Chief Executive Officer
David Mulligan	Group Finance Director
Martin George	Non-Executive Director

The registered office of Hornby and the service address of each Hornby Director is 3rd Floor, The Gateway, Innovation Way, Discovery Park, Sandwich, Kent, England CT13 9FF. The registered number of Hornby is 01547390.

3 Interests and dealings

(a) **Definitions**

For the purposes of this paragraph 3 only:

- (i) **acting in concert** with a party means any such person acting or deemed to be acting in concert with that party for the purposes of the Code and/or the Offer. Persons who will be presumed to be acting in concert with other persons in the same category include:
 - (A) a company, its parent, subsidiaries and fellow subsidiaries, and their associated companies, and companies of which such companies are associated companies, all with each other (for this purpose ownership or control of 20 per cent. or more of the equity share capital of a company is regarded as the test of associated company status);
 - (B) a company with any of its directors (together with their close relatives and related trusts);
 - (C) a company with any of its pensions schemes and the pension schemes of any company covered in (A);
 - (D) a fund manager (including an exempt fund manager) with any investment company, unit trust or other person whose investments such fund manager manages on a discretionary basis, in respect of the relevant accounts; and
 - (E) connected advisers (and persons controlling, controlled by or under the same control as such connected advisers) with their clients;
- (ii) **connected adviser** includes an organisation which: (i) is advising Phoenix or (as the case may be) Hornby in relation to the Offer; (ii) is a corporate broker to Phoenix or (as the case may be) Hornby; or (iii) is advising a person acting in concert with Phoenix or (as the case may be) Hornby in relation to the Offer or in relation to the matter which is the reason for that person being a member of the concert party;
- (iii) **control** means an interest or interests in shares carrying in aggregate 30 per cent. or more of the voting rights attributable to the share capital of a company which are currently exercisable at a general meeting, irrespective of whether the holding or holdings gives de facto control;

- (iv) **dealing** includes: (i) the acquisition or disposal of relevant securities, of the right (whether conditional or absolute) to exercise or direct the exercise of the voting rights attaching to relevant securities or of general control of relevant securities; (ii) the taking, granting, acquisition, disposal of, entering into, closing out, termination, exercise (by either party) or variation of an option (including a traded option contract) in respect of any relevant securities; (iii) subscribing or agreeing to subscribe for relevant securities; (iv) the exercise or conversion, whether in respect of any new or existing securities, or any relevant securities carrying conversion or subscription rights; (v) the acquisition, disposal of, entering into, closing out, exercising (by either party) of any rights under, or variation of, a derivative referenced, directly or indirectly, to relevant securities; (vi) entering into, terminating or varying the terms of any agreement to purchase or sell relevant securities; and (vii) any other action resulting, or which may result, in an increase or decrease in the number of relevant securities in which a person is interested or in respect of which he has a short position;
- (v) **derivative** includes any financial product the value of which, in whole or in part, is determined directly or indirectly by reference to the price of an underlying security;
- (vi) **disclosure date** means 3 July 2017, being the latest practicable date before publication of this document;
- (vii) **disclosure period** means the period which began on 21 June 2016 (the date 12 months before the start of the Offer Period) and ended on the disclosure date;
- (viii) **exempt fund manager** means a person who manages investment accounts on a discretionary basis and is recognised by the Panel as an exempt fund manager for the purposes of the Code;
- (ix) references to **Hornby Directors** shall include reference to Roger Canham (who resigned as a director on 21 June 2017 shortly after commencement of the Offer Period);
- (x) a person has an **interest** or is **interested** in relevant securities if he has a long economic exposure, whether absolute or conditional, to changes in the price of those securities (but not if he only has a short position in such securities) and in particular if: (i) he owns them; (ii) he has the right (whether conditional or absolute) to exercise or direct the exercise of the voting rights attaching to them or has general control of them; (iii) by virtue of any agreement to purchase, option or derivative, he: (A) has the right or option to acquire them or call for their delivery; or (B) is under an obligation to take delivery of them, whether the right, option or obligation is conditional or absolute and whether it is in the money or otherwise; or (iv) he is party to any derivative: (I) whose value is determined by reference to their price; and (II) which results, or may result, in his having a long position in them; and
- (xi) **relevant securities** includes: (i) Hornby Shares and any other securities of Hornby conferring voting rights; (ii) equity share capital of Hornby; and (iii) securities of Hornby carrying conversion or subscription rights into any of the foregoing.

(b) **Hornby Directors**

As the Disclosure Date the interests of the Hornby Directors in the issued share capital of the Company are as follows:

Name of Director	Number of Hornby Shares held	Percentage of Hornby Shares held
David Adams	22,500	0.027
Steve Cooke	97,000	0.115
Martin George	—	—
David Mulligan	—	—
Roger Canham	40,000	0.047
Total	159,500	0.189

As at the Disclosure Date the Hornby Directors have the following rights to subscribe for interests in Hornby Shares under the Hornby Performance Share Plan:

Name of Director	Award Date	Vesting Date	Market price at	Interest as at the
			Award Date	Disclosure Date
Steve Cooke	August 2015	August 2018	105 pence	190,476
	December 2016	March 2019	29 pence	2,136,752
David Mulligan	December 2016	March 2019	29 pence	598,290

Each of the above awards are structured as options with an option price of 1 pence per Hornby Share and subject to the performance conditions of the Performance Share Plan.

(c) **Persons acting in concert with Hornby**

In addition to the Hornby Directors (together with their close relatives and related trusts and connected persons), the persons who are acting in concert with Hornby for the purposes of the Offer and which are required to be disclosed are:

Person acting in concert	Type of company	Relationship with Hornby	Address
Numis Securities Limited	Private Limited Company	Nominated adviser and corporate broker	The London Stock Exchange Building 10 Paternoster Square London EC4M 7LT

(d) **Dealings in relevant securities of Hornby:**

Name of Hornby Director	Dealing date	Nature of dealing	Number of Hornby Shares	Dealing price per Hornby Share
David Adams	18.06.2015	Purchase	10,000	95.0 pence
	11.07.2016	Purchase	12,500	27.0 pence
Steve Cooke	30.09.2016	Purchase	97,000	35.7 pence

(e) **General**

Save as disclosed in this paragraph 3, as at the disclosure date;

(i) none of:

(A) the Hornby Directors (and their close relatives and related trusts and connected persons); nor

(B) any other person acting in concert with Hornby,

held any interest in or right to subscribe for or any short position, including any short position under a derivative in relation to, is party to any agreement to sell or has any delivery obligation or right to require another person to purchase or take delivery of any relevant securities of Hornby;

(ii) none of:

(A) Hornby;

(B) the Hornby Directors (and their close relatives and related trusts and controlled companies); nor

(C) any other person acting in concert with Hornby,

save for any borrowed shares which have either been on-lent or sold, had borrowed or lent any relevant securities of Hornby (including for these purposes any financial collateral arrangements of the kind referred to in Note 4 on Rule 4.6 of the Code), nor had any such person dealt in relevant securities of Hornby during the Offer Period;

- (iii) none of:
 - (A) Hornby; nor
 - (B) the Hornby Directors,
 held any interest in or right to subscribe for or any short position, including any short position under a derivative in relation to, is party to any agreement to sell or has any delivery obligation or right to require another person to purchase or take delivery of any relevant securities of Phoenix¹; and
- (iv) none of:
 - (A) the Hornby Directors (and their close relatives and related trusts and controlled companies); nor
 - (B) any other person acting in concert with Hornby,
 dealt in any relevant securities of Hornby; and
- (v) none of:
 - (A) Hornby; nor
 - (B) the Hornby Directors,
 dealt in any relevant securities of Phoenix¹.

4 Market quotations

The following table sets out the Closing Price for Hornby Shares on:

- (a) the first dealing day in each of the six months prior to the disclosure date (as defined in paragraph 3 of this Part III);
- (b) 20 June 2017 (being the last dealing day before commencement of the Offer Period); and
- (c) on the disclosure date.

Date	Price per Hornby Share (pence)
3 January 2017	31.75
1 February 2017	31.25
1 March 2017	34.00
3 April 2017	32.00
2 May 2017	31.38
1 June 2017	32.13
20 June 2017 (being the last dealing day before commencement of the Offer Period)	31.25
3 July 2017 (being the disclosure date)	32.75

5 Material contracts and dealing arrangements

Save as set out below, there are no dealing arrangements and there have been no material contracts entered into by Hornby or any other member of the Hornby Group other than in the ordinary course of business within the period of two years prior to 21 June 2017 and which are or may be considered to be material and there have been no material changes to any such contracts or any other such material contracts entered into since the date of publication of the Offer Document.

(i) The Amendment and Restatement relating to the Amended and Restated RCF

Hornby, together with certain members of the Hornby Group, entered into an amendment and restatement agreement with its principal lender, Barclays, on 22 June 2016 in respect of Hornby's existing revolving credit facility with Barclays (the "Amendment and Restatement").

¹ Roger Canham also has an interest in respect of Phoenix (but not in respect of any other vehicles associated with Phoenix) in which he first invested in October 2002 and on the same terms as any other investor.

Pursuant to the terms of the Amendment and Restatement, the Group's existing £10 million multi-currency revolving credit facility made available to Hornby Hobbies Limited (the "**Borrower**") was amended and extended (the terms of the existing bank facility, as so amended and extended, being the "**Amended and Restated RCF**").

The Amended and Restated RCF 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. Under the terms of the Amended and Restated RCF, the revolving credit facility matures on 31 December 2019 and is expected to allow sufficient headroom for trading working capital needs through to such date.

Interest on drawings under the Amended and Restated RCF is payable at a percentage rate per annum equal to a margin of 3.5 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 and Restated RCF). The Amended and Restated RCF is also subject to commitment and utilisation fees payable quarterly dependent on the level of drawings under the revolving credit facility.

Drawings under the Amended and Restated RCF may be made in sterling, euro, Hong Kong dollars and US dollars or such other currency approved by Barclays. Any such drawing will be for a term of either one month, three months or six 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 and Restated RCF. In addition, the net proceeds from the disposal of two of the Group's non-core properties were applied in reduction of the revolving credit facility.

Barclays will only be 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. Subject to the other terms of the Amended and Restated RCF, the revolving credit facility may, once a drawing is repaid, be re-drawn up to the level of the total facility commitments.

As is customary, the Amended and Restated RCF contains financial covenants which the Hornby Group must comply with and which are to be tested quarterly. Through to and including December 2017, such financial covenants include a minimum EBITDA test and a current asset (stock and receivables) to net debt test. Thereafter, such financial covenants will revert to leverage and interest cover financial covenants.

The Amended and Restated RCF contains various representations and warranties given by the Company and various members of the Hornby Group. In the Amended and Restated RCF, the Company also gives various information undertakings and (on behalf of itself and each other member of the Group) various general undertakings.

Breach of an undertaking, financial covenant, representation or warranty given by the Company or other member of the Hornby Group under the Amended and Restated 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 and Restated RCF to be repaid.

Other events of default relating to the Hornby Group are contained in the Amended and Restated RCF whose occurrence would also entitle Barclays to cancel the revolving credit facility and make demand for all amounts outstanding under the Amended and Restated 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.

(ii) **Placing and Open Offer Agreement**

The Company entered into a placing and open offer agreement on 22 June 2016 with Numis Securities (the "**Placing and Open Offer Agreement**") in connection with a placing and open offer (the "**Placing and Open Offer**"), and pursuant to which Numis Securities agreed, in accordance with its terms, to use reasonable endeavours to place Hornby Shares with shareholders. The Placing and Open Offer Agreement contained customary warranties given by the Company to Numis Securities as to matters relating to the Hornby 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 and Open Offer. Numis Securities was entitled to terminate the Placing and Open Offer Agreement in certain circumstances prior to admission of the shares that were subject to the Placing and Open Offer Agreement, including in 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.

(iii) **Relationship Agreement**

Hornby entered into a relationship dated 22 June 2016 with Phoenix Asset Management Partners Limited and Numis Securities (the “**Relationship Agreement**”) in connection with the Placing and Open Offer. The purpose of the Relationship Agreement is to ensure that, for so long as Phoenix Asset Management Partners Limited (and/or its associates) holds 25 per cent. or more of the issued voting share capital of Hornby, the relationship between Hornby and Phoenix Asset Management Partners Limited is appropriately regulated between them to ensure that, amongst other things, (a) the Hornby Group will be capable at all times of carrying on its business independently of Phoenix Asset Management Partners Limited (and/or its associates) and (b) all transactions, arrangements, relationships and arrangements entered into between Phoenix Asset Management Partners Limited (and/or its associates) and the Hornby Group will only be made on an arm’s length basis and on normal commercial terms.

6 Directors’ employment arrangements

Save as is set out below there are no service agreements in force between any Hornby Director or any proposed director of Hornby and Hornby or any of its subsidiaries and no such contracts have been entered into or amended within six months of the date of this document. Particulars of the Hornby Directors’ current service agreements or letters of appointment with Hornby are as follows:

Director	Position	Effective date of contract	Current annual remuneration (including other benefits)	Notice period	Compensation on early termination
David Adams	Interim Non-Executive Chairman	08.01.2014	Fees: £40,000 p.a. ¹	6 months’ notice	N/A
Steve Cooke	Chief Executive Officer	1.05.2016	Salary: £250,000 p.a. Accommodation allowance: £24,000 Car allowance: £10,000 p.a. Bonus: up to 100% of base salary	9 months’ notice by employer 6 months’ notice by employee	Sum equal to salary and other benefits
Martin George	Non-Executive Director	22.12.2016	Fees: £40,000 p.a. ²	6 months’ notice	N/A
David Mulligan	Group Finance Director	01.10.2016	Salary: £175,000 p.a. Accommodation allowance: £18,000 Car allowance: £10,000 p.a. Bonus: up to 75% of base salary	9 months’ notice by employer 6 months’ notice by employee	Sum equal to salary and other benefits

7 Bases and sources of information

Unless otherwise stated, the following constitute the bases and sources of information referred to in this document:

1. The financial information relating to Hornby is extracted (without adjustment) from the audited consolidated financial statements of Hornby for the relevant years prepared in accordance with IFRS.

1 In addition, David Adams is entitled to receive an additional fee of £3,000 per month, payable during the period from 21 June 2017 until such time as a permanent Chairman of the Company is appointed, to recognise the additional work required to be undertaken by David Adams as Interim Chairman following the resignation of Roger Canham on 21 June 2017.

2 In addition, Martin George is entitled to receive an additional fee of £1,000 per month, payable during the period from 21 June 2017 until such time as a permanent Chairman of the Company is appointed, to recognise the additional work required to be undertaken by Martin George as Senior Independent Director following the resignation of Roger Canham on 21 June 2017.

2. The value attributed to Hornby's entire issued and to be issued share capital as implied by the offer price stated in paragraph 3 of Part I of this document is based on 84,583,204 Hornby Shares in issue as at close of business on 3 July 2017 (being the last dealing day prior to the date of this document) and an Offer price of 32.375 pence per Hornby Share.
3. All prices and closing prices for Hornby Shares are closing middle market prices derived from the London Stock Exchange Daily Official List.
4. The volume weighted average closing prices are derived from Datastream.
5. The International Securities Identification Number for the Hornby Shares is GB00B01CZ652.

8 General

- (a) Numis Securities has given and has not withdrawn its written consent to the issue of this document with the inclusion of the references to its name in the form and context in which they appear.
- (b) Save as disclosed in paragraph 7 of Part I of this document, there has been no significant change in the trading or financial position of the Hornby Group since 31 March 2017, the date to which the Company's most recent preliminary statement of annual results have been prepared.

9 Fees and expenses

The estimated aggregate fees and expenses expected to be incurred by Hornby in connection with the Offer are £250,000 (exclusive of VAT and expenses). This aggregate amount comprises the following categories (in each case excluding VAT and expenses):

- (a) financial and corporate broking advice: approximately £200,000;
- (b) legal advice: approximately £30,000;
- (c) public relations advice: approximately £7,000;
- (d) other professional services: approximately £5,000; and
- (e) other costs and expenses: £8,000.

10 Documents available for inspection

Copies of the documents referred to below will be available, free of charge, for inspection on Hornby's website www.hornby.plc.uk/mandatory-offer-documents while the Offer remains open for acceptance:

- (a) the Rule 2.7 announcement of the Offer on 21 June 2017;
- (b) copies of the Company's announcements dated 22 June 2017 and 26 June 2017;
- (c) this response circular;
- (d) the material contracts referred to in paragraph 5 above;
- (e) the Offer Document and the accompanying Form of Acceptance;
- (f) the audited consolidated financial statements of Hornby for the financial years ending 31 March 2015 and 31 March 2016 and the preliminary results of Hornby for the financial year ending 31 March 2017; and
- (g) the Memorandum and Articles of Association of Hornby.

For the avoidance of doubt, the content of the website referred to above is not incorporated into and, save for the information specifically incorporated by reference into this document, does not form part of this document.

PART IV

DEFINITIONS

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

Acquisition means the acquisition by Phoenix of 17,641,161 Hornby Shares from NPIL at a price of 32.375 pence per Hornby Share and which settled on 23 June 2017;

Act means the Companies Act 2006 (as amended);

AIM means the AIM Market operated by London Stock Exchange plc;

Business Day means a day which is not a Saturday, Sunday or a public holiday in England and Wales;

Code or **Takeover Code** means the City Code on Takeovers and Mergers;

disclosure period has the meaning set out in paragraph 3 of Part III of this document;

Hornby or the **Company** means Hornby plc, a company incorporated in England and Wales with limited liability under registration number 01547390;

Hornby Directors means the directors of Hornby at the date of this document;

Hornby Group means Hornby and its subsidiaries from time to time;

Hornby Shares means the existing issued or unconditionally allotted and paid (or credited as fully paid) ordinary shares of 1 pence each in the capital of Hornby and any further shares which are unconditionally allotted or issued fully paid (or credited as fully paid) on or prior to the date on which the Offer closes (but excluding, for the avoidance of doubt, any treasury shares held by Hornby);

Hornby Shareholders means the holders of Hornby Shares;

NPIL means New Pistoia Income Fund Limited;

Numis Securities means Numis Securities Limited, a company incorporated in England and Wales with limited liability under registration number 02285918;

Offer means the mandatory unconditional cash offer made by Phoenix to acquire the entire issued and to be issued share capital of Hornby not already owned by Phoenix or any members of the Phoenix Concert Party, as further detailed in the Offer Document;

Offer Period means the period commencing on 21 June 2017 and ending on the 21st day after the date of publication of the Offer Document or (if that day is a Saturday, Sunday or public holiday) on the next succeeding business day;

Offer Price means 32.375 pence in cash, being the consideration payable by Phoenix for each Hornby Share under the terms of the Offer;

Offer Document means the document containing the Offer sent to Hornby Shareholders by Phoenix on 23 June 2017;

Panel means the Panel on Takeovers and Mergers;

Phoenix means Phoenix Fund UK Ltd, a company incorporated in The Commonwealth of the Bahamas with registration number 72,182B;

Phoenix Concert Party means Phoenix Asset Management Partners Limited, Phoenix, the directors of Phoenix and Roger Canham (who for the purposes of the Code are considered to be acting in concert);

QCA means the Quoted Companies Alliance;

Restricted Jurisdiction means, subject always to the requirements of Rule 23.2 of the Code in relation to the distribution of offer documentation to jurisdictions outside the UK, any jurisdiction where extension of the Offer would violate the law of that jurisdiction;

subsidiary has the meaning given to that term in the Act;

United Kingdom or **UK** means the United Kingdom of Great Britain and Northern Ireland and its dependent territories; and

United States or **US** means the United States of America, its territories and possessions, any state of the United States of America, the District of Columbia and all other areas subject to its jurisdiction and any political subdivision thereof.

