

TERRACE HILL GROUP PLC

("the company")

Company Number SC149799

THE AUDIT COMMITTEE – TERMS OF REFERENCE

1 MEMBERSHIP

- 1.1 The board of directors of the company (the "**Board**") has resolved to establish a committee of the Board to be known as the Audit Committee.
- 1.2 Membership of the Audit Committee shall consist of at least two members, each being a non-executive director. At least one member of the Audit Committee should have recent and relevant financial experience. The Audit Committee shall have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their duties and responsibilities effectively.
- 1.3 The members of the Audit Committee for the time being shall be appointed by the Board in consultation with the chairman of the Audit Committee. The chairman of the Board shall not be a member of the Audit Committee.
- 1.4 Subject to the normal periodic re-election of directors, a member of the Audit Committee shall serve an initial term of three years which may be extended by no more than two additional three year periods, so long as the member continues to be independent.

2 QUORUM

A quorum shall be two members of the Audit Committee. All reasonable efforts shall be made to give notice of meetings of the Audit Committee to all members and invitees and to arrange such meetings so that all members and invitees are able to attend.

3 CHAIRMAN

- 3.1 The Board shall appoint one of the members of the Audit Committee to be chairman of the Audit Committee. If the chairman is not present at a meeting of the Audit Committee, then the remaining members present shall elect one of their number to chair the meeting.
- 3.2 The chairman of the Audit Committee shall be available to answer questions through the chairman of the Board on the report on the Audit Committee's

activities and matters falling within its terms of reference at the annual general meeting of the company.

4 ATTENDANCE

4.1 No one other than the chairman of the Audit Committee and its members is entitled to be present at a meeting of the Audit Committee. Attendance at meetings of the Audit Committee by non-members, such as the chairman of the Board, the chief executive and other members of the Board, shall be at the discretion of the Audit Committee, but the finance director and the company's auditor and its internal auditors (if any) will normally be invited to attend meetings of the Audit Committee. The Audit Committee shall each year have at least one meeting, or part of a meeting, with the company's auditor and its internal auditors (if any) without any member of the company's management present to discuss matters relating to the remit of the Audit Committee and any issues arising from the audit.

4.2 The company secretary shall be the secretary of the Audit Committee and shall attend all of its meetings and shall prepare and circulate to members and all other non-executive directors (and invitees as appropriate) all information and papers in a timely manner to enable them to give full and proper consideration to the issues. The company secretary shall prepare minutes of the Audit Committee meetings and shall circulate them to all members of the Audit Committee and to the chairman and other members of the Board.

5 FREQUENCY OF MEETINGS

5.1 The Audit Committee shall meet as frequently as the chairman, in consultation with the company secretary, shall require and also at regular intervals to deal with routine matters and, in any event, not less than three times in each financial year. Any member of the Audit Committee, the company's auditor or its internal auditors (if any) may request a meeting if he/she considers that one is necessary or expedient.

5.2 Meetings will be arranged to coincide with key dates within the company's financial reporting and audit cycle where appropriate. A sufficient interval should be allowed between meetings of the Audit Committee and meetings of the Board to allow any work arising from a meeting of the Audit Committee to be carried out and reported to the Board as appropriate.

6 MINUTES OF MEETINGS

6.1 The company secretary shall minute the proceedings and resolutions of all meetings of the committee, including recording the names of those present and in attendance.

6.2 The company secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

6.3 Minutes of committee meetings shall be circulated promptly to all members of the committee and, once agreed, to all members of the board, unless a conflict of interest exists.

7 AUTHORITY

7.1 The Audit 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 or director of the company, or any consultant or other provider of services to the company. All employees, directors, consultants and other providers of services are directed to co-operate with requests for information made by the Audit Committee including requests to attend meetings of the Audit Committee.

7.2 The Audit Committee is authorised by the Board to obtain any outside legal or other independent professional advice at the cost of the company as it considers appropriate in relation to matters within its terms of reference and to secure the attendance at its meetings of outsiders with relevant experience and expertise if it considers this necessary or expedient.

8 RESPONSIBILITIES

The Audit Committee has the responsibilities set out below for the company and also for its major subsidiary undertakings and for the group as a whole as appropriate.

The Audit Committee shall:

- (a) monitor the integrity of the financial statements of the company, including its annual and half-yearly reports, preliminary results announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain. The Audit Committee shall also review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price-sensitive nature. The requirements of this paragraph should be met whenever practicable (without being inconsistent with any requirement for prompt reporting under the UK Listing Rules of the Financial Services Authority (the "**Listing Rules**"));
- (b) satisfy itself that matters raised by its members or the company's auditor or the company's internal auditors (if any) about any aspect of the accounts or of the company's control and audit procedures are appropriately considered and, if necessary, brought to the attention of the Board and resolved;

- (c) consider and make appropriate recommendations to the Board for the shareholders to consider at the annual general meeting relating to the appointment, reappointment and removal of the company's auditor. The Audit Committee shall oversee the process for selecting a new company auditor. If the company's auditor resigns, the Audit Committee shall investigate the issues leading to the resignation and shall decide whether any action is required;
- (d) meet with the company's auditor to discuss and review, before the start of each annual audit, the nature and scope of the audit, the annual audit plan (in order to ensure that it is consistent with the scope of the audit engagement) and the level of the audit fee (in order to ensure that it is appropriate to enable an adequate audit to be conducted). The Audit Committee shall, taking into consideration relevant UK professional and regulatory requirements, discuss annually with the company's auditor its qualifications, expertise, resources, independence and objectivity and the effectiveness of the audit process. The Audit Committee shall ensure that key partners within the appointed firm are rotated at appropriate intervals;
- (e) satisfy itself that there are no family, employment, investment, financial, business or other relationships between the auditor and the company other than in the ordinary course of business. The Audit Committee shall agree with the Board and monitor and implement a policy on the employment of former employees of the company's auditor;
- (f) ensure co-ordination where more than one audit firm is involved;
- (g) request and review an annual report from the company's auditor on its quality control procedures and review steps taken by the company's auditor to respond to changes in regulatory and other requirements;
- (h) recommend to the Board the audit fee and approve the terms of engagement of the company's auditor. The Audit Committee shall approve in advance any fees in respect of non-audit services provided by the company's auditor. The Audit Committee shall review, monitor and implement a policy on the engagement of the company's auditor to supply other professional services to the company and its subsidiary undertakings to ensure that the company's auditor continues to be objective and remains independent from the company's management whilst still providing value for money. The Audit Committee shall take into account relevant ethical guidance;
- (i) review any representation letter requested by the company's auditor before it is signed by any member of the management of the company;
- (j) review the company's auditor's management letter and the response of the company's management to it;

- (k) meet with the company's auditor to discuss and review the findings of the audit. This shall include (but not be limited to) a discussion of:
 - (i) any major issues which arise during the audit;
 - (ii) any accounting and audit judgments; and
 - (iii) levels of errors identified during the audit;
- (l) consider the risk of the withdrawal of the company's auditor from the market;
- (m) review the company's arrangements for its employees to raise concerns in confidence about possible wrong-doing in financial reporting or other matters. The Audit Committee shall ensure that these arrangements allow proportionate and independent investigation of these matters and appropriate follow up action;
- (n) review the company's procedures for detecting fraud;
- (o) review, and challenge where necessary, the actions and judgments of the company's management in relation to the interim and annual financial statements before submission to the Board, paying particular attention to:
 - (i) critical accounting policies and practices, any changes in them and the consistency of them on a year-on-year basis both across the company and across the group (as appropriate);
 - (ii) decisions requiring a major element of judgment taking into account the view of the company's auditor;
 - (iii) the extent to which the financial statements are affected by any significant or unusual transactions in the year under review, how they are accounted for where different approaches are possible and how they are disclosed;
 - (iv) the clarity of disclosures and the context in which statements are made;
 - (v) significant adjustments resulting from the audit;
 - (vi) the going concern assumption;
 - (vii) compliance with accounting standards taking into account the view of the company's auditor;
 - (viii) compliance with stock exchange and other legal and regulatory requirements;

- (ix) reviewing all material information presented with the financial statements to the extent that it relates to audit and risk management, including the relevant sections of the operating and financial review and the corporate governance statement prior to endorsement by the Board; and
- (x) reviewing the policies and process for identifying and assessing business risks and the management of those risks by the company;
- (p) discuss problems and reservations arising from the interim and final audits, and any matters the company's auditor may wish to discuss (in the absence of the company's management where necessary);
- (q) consider the company's management's response to any major external or internal audit recommendations;
- (r) monitor and review the effectiveness of the company's financial reporting and controls and its systems for internal control and risk management (for both financial and non-financial risks). The Audit Committee shall review management's and the internal auditor's reports on the effectiveness of these systems and shall review and approve the statements on internal control and risk management to be included in the company's annual report prior to its endorsement by the Board;
- (s) monitor and review the effectiveness of the internal audit function in the context of the company's risk management system, its remit and the annual internal audit plan, ensure co-ordination between the internal and external audit functions and ensure that the internal audit function is adequately resourced and has appropriate access to information to enable it to be effective and comply with relevant professional standards;
- (t) ensure that the internal audit function has appropriate standing within the company and is free from management or other restrictions;
- (u) review promptly all reports on the company from the internal auditor and ensure that the head of internal audit has direct access to the chairman of the Board and to the Audit Committee;
- (v) approve the appointment or removal of the head of internal audit;
- (w) where no such internal audit function exists, review annually the need for one and make an appropriate recommendation to the Board;
- (x) institute special projects or investigations on any matter within the Audit Committee's terms of reference as it sees fit, following consultation with the finance director. The Audit Committee shall be provided with the

necessary resources to access information for these purposes. The Audit Committee shall review any significant findings of internal investigations. Additionally, it shall consider from time to time whether any special remit should be referred to the company's auditor or to any other external body;

- (y) make available its terms of reference explaining clearly its role and the authority delegated to it by the Board;
- (z) ensure that it receives appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- (aa) give due consideration to legal and regulatory requirements, the provisions of the AIM Rules, the Combined Code/UK Corporate Governance Code and the requirements of the Listing, Prospectus and Disclosure and Transparency Rules as appropriate; and
- (bb) consider any other matter specifically referred to the Audit Committee by the Board.

9 REPORTING PROCEDURES

- 9.1 The Audit Committee shall report to the Board after each meeting on all matters within its terms of reference. The Audit Committee shall identify any matters in respect of which it considers that action or improvement is needed, making recommendations as to the steps to be taken.
- 9.2 A summary of the Audit Committee's duties and work, including the membership of the committee, the number of committee meetings held, attendance over the course of the year and reference to examination of the annual accounts, shall be included each year in the company's annual report.
- 9.3 The Audit Committee shall conduct an annual review of its constitution, its performance and effectiveness, its work and these terms of reference and make recommendations to the Board.
- 9.4 The chairman or at least one other member of the Audit Committee shall attend the meeting of the Board at which the accounts are approved.