

CHAPELTHORPE PLC

AUDIT COMMITTEE

TERMS OF REFERENCE

1. **Constitution**

The Board has resolved to establish a committee of the Board known as the Audit Committee.

2. **Purpose and Authority**

The Audit Committee is a committee of the Board composed of directors with no management responsibility for the Company's financial operations, which shall report directly to the Board and have no executive powers of its own.

Its principal purpose shall be to assist all the directors (executive and non-executive) in discharging their individual and collective legal responsibilities for ensuring that the Company's financial and accounting systems are providing accurate and up-to-date information on its current financial position, and that the Company's published financial statements represent a true and fair reflection of this position.

It can also help the directors in conjunction with the external auditors to ensure that the external audit, which the law requires to provide independent confirmation that these legal responsibilities are being met, is conducted in a thorough, efficient and effective manner.

The Audit Committee is authorised by the Board to investigate any activity within its duties as detailed below and should be provided with sufficient resources in order to carry out its duties. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.

The Audit Committee is authorised by the Board to obtain independent professional advice at the Company's expense, and to secure the attendance of advisers with relevant experience and expertise if it considers this to be necessary.

3. **Membership**

The Audit Committee shall be appointed by the Board from amongst the non-executive directors of the Company. The Committee shall comprise at least two independent non-executive directors. If the Company has only one independent non-executive director, the Chairman of the Board shall be a member of the Committee.

The Chairman of the Audit Committee shall be appointed by the Board, who shall be an independent Non-Executive Director or the Chairman

of the Board. In the absence of the Committee Chairman the remaining members present shall elect one of their members to chair the meeting.

At least one of the Committee members shall have recent and relevant financial experience.

The Committee shall be provided with appropriate training and, in particular, for new members.

The Company Secretary shall act as the Secretary to the Audit Committee.

A quorum shall be two members.

4. Attendance at meetings

Only members of the Committee have the right to attend Committee meetings.

The Chairman of the Audit Committee may request executive Directors and managers to attend as appropriate.

A representative of the external auditors shall normally be invited to attend meetings.

The Audit Committee shall have the opportunity to meet with the external auditors without any executive Board member or management being present.

5. Frequency of meetings

Meetings will be held ordinarily two times per year, usually at the following times:

- * prior to the meeting of the Board to approve the announcement of the interim results
- * prior to the meeting of the Board to approve the annual financial statements

The external auditors may, if necessary, request a meeting of the Audit Committee, without any executive management present.

Any member of the Audit Committee or the internal auditor may, if necessary, request the Secretary to summon a meeting of the Committee.

6. Duties

The duties of the Audit Committee shall be:-

External Audit

- consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the external auditors;
- oversee the election process for new auditors, and if an auditor resigns the Committee shall investigate the issues leading to this and consider whether any action is required;
- review the relationship with the external auditors; this includes the consideration of audit fees as well as any other fees which are payable to the auditors in respect of non-audit activities;
- develop and implement a policy on the supply of non-audit services by the external auditors, taking into account any relevant ethical guidance on the matter;
- discuss with the external auditors before the audit commences the nature and scope of the audit;
- discuss problems and reservations and any other findings arising from the interim and final audits, and any matters the external auditors may wish to discuss (in the absence of management where necessary);
- determine any changes that may arise from the summary of unadjusted misstatements reported;
- review the external auditors' management letter and management's response;
- assess annually the external auditors' qualifications, expertise and resources and the effectiveness of the audit process;
- assess annually the independence and objectivity of the external auditors taking into account the provision of any non-audit services.

Financial Reporting

- the Audit Committee shall monitor the integrity of the Company's financial statements including its half-year and annual financial statements (and any other financial statements or forecasts to be issued by the Company) before submission to the Board, focusing particularly on:

- any changes in accounting policies
- major judgmental areas
- the methods used to account for significant or unusual transactions where different approaches are possible
- valuation issues
- significant adjustments resulting from the audit
- compliance with accounting standards
- compliance with AIM Rules and legal requirements
- any statements to be made in the financial statements concerning the adequacy or quality of internal controls, and the going concern assumption.

Internal Audit

- review the internal audit programme and the effectiveness of the internal audit activities;
- consider the major findings of internal audit reports and management's response;
- keep under review the effectiveness of internal control systems;
- agree the internal audit programme and the appropriateness of manning levels.

7. Reporting Procedures

The Audit Committee shall report to the Board after each meeting and shall make recommendations to the Board in respect of those matters which are within its Terms of Reference.

The Secretary shall circulate the minutes of meetings of the Audit Committee to all members of the Board.

The Committee shall compile a report to shareholders on its activities to be included in the Company's annual report.

8. Whistleblowing

The Audit Committee shall review the Company's arrangements for its employees to raise concerns, in confidence, about possible improprieties in financial reporting or other matters.

9. Annual General Meeting

The Chairman of the Audit Committee shall attend the Annual General Meeting to respond to any shareholder questions on the Committee's activities.

10. **Other Matters**

The Audit Committee shall make available on request these terms of reference, explaining the role and the authority delegated to it by the Board including posting it on the Company website.

11. **Review**

The Committee shall, at least once a year, review its own performance, constitution and terms of reference to ensure it is operating effectively and recommend any changes it considers necessary to the Board for approval.