

Terms of reference for the Audit and Risk committee

1. Membership

1.1. Members of the Committee shall be appointed by the Board in consultation with the Chairman of the Audit and Risk Committee. The Committee shall be made up of at least two members.

1.2. Where possible, the majority of the Committee shall be non-executive directors who are independent of management, at least one of whom shall have recent and relevant financial experience. The company chairman may be a member of, but not chair, the committee in addition to the independent non-executive directors, provided he or she was considered independent on appointment as chairman.

1.3. Only members of the Committee have the right to attend Committee meetings. However, the Chairman, Chief Executive, Finance Director, other directors and representatives from the finance function or other persons that the audit committee thinks it appropriate may be invited to attend all or part of any meeting as and when appropriate.

1.4. The external auditors will be invited to attend meetings of the Committee on a regular basis.

1.5. Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three year periods, provided the director remains independent.

1.6. The Board shall appoint the Committee Chairman who shall be an independent non-executive director. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

1.7. If a member is unable to act for any reason, the Chairman of the Audit Committee may appoint another non-executive as an additional member provided always that the majority of members of the committee shall be independent as described in paragraph 1.2 above.

2. Secretary

2.1. The Company Secretary or its nominee shall act as the Secretary of the Committee.

3. Quorum

3.1. The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

4. Frequency of Meetings

4.1. The Committee shall meet at least two times a year at appropriate times in the reporting and audit cycle and otherwise as required.

4.2. The external auditors may request a meeting if they consider that one is necessary.

5. Notice of Meetings

5.1. Meetings of the Committee shall be summoned by the Secretary of the Committee

5.2. Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no later than three working

days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

6. Minutes of Meetings

6.1. The 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 Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest, how they are to be dealt with and minute accordingly.

6.3. Draft minutes of Committee meetings shall be circulated within five business days to all members of the Committee and, once agreed, then to all members of the Board, unless a conflict of interest exists; in which case the minutes for the meeting shall be redacted suitably and then circulated.

7. Annual General Meeting

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

8. Duties

The Committee shall carry out the duties below for the parent Company, major subsidiary undertakings and the group as a whole, as appropriate.

8.1. Financial Reporting

8.1.1. The Committee shall monitor the integrity of the financial statements of the Company, including its annual, half yearly and interim 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 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.

8.1.2. The Committee shall review the half-year financial statements and annual accounts and reports to shareholders and any other public announcement concerning the Company's financial position and challenge where necessary:

8.1.2.1 the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company/group;

8.1.2.2 the methods used to account for significant or unusual transactions where judgment must be exercised;

8.1.2.3 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;

8.1.2.4 the clarity of disclosure in the Company's financial reports and the context in which statements are made;

8.1.2.5 all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management);

8.1.2.6 compliance with stock exchange and legal requirements;

8.1.2.7 significant adjustments resulting from the audit; and

8.1.2.8 the going concern assumption.

8.1.3. The Committee shall submit the documents referred to in paragraph 8.1.2 to the Board for its approval and determine what information should be brought to the Board's attention in connection with that submission.

8.2. Internal Controls and Risk Management Systems

The Committee shall:

8.2.1. keep under review the effectiveness of the Company's internal controls and risk management systems; and

8.2.2. review and approve the statements to be included in the Annual Report concerning internal controls and risk management having regard to relevant best practice guidance or risk.

8.3. Whistleblowing & fraud

The Committee shall

8.3.1. review the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters (including operational ones). The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action; and

8.3.2. review the Company's procedures for detecting and preventing bribery and fraud.

8.4. Internal Audit

8.5. The Committee shall keep under review the requirement to establish an internal audit function.

8.6. External Audit

The Committee shall:

8.6.1. 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 Company's external auditor. The Committee shall make recommendations regarding the selection process for new auditors and if an auditor resigns, the Committee shall investigate the issues leading to this and decide whether any action is required;

8.6.2. oversee the relationship with the external auditor including (but not limited to):

8.6.2.1. discussion with the auditors, before the audit starts, regarding the nature and scope of the audit;

8.6.2.2. approval of their remuneration, whether fees for audit or non audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;

8.6.2.3. approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;

8.6.2.4. assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non audit services;

8.6.2.5. satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business);

8.6.2.6. agreeing with the Board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;

8.6.2.7. monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;

8.6.2.8. assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures; and

8.6.2.9. seeking to ensure co-ordination with the activities of the internal audit function.

8.6.3. meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit;

8.6.4. review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement and its cost effectiveness;

8.6.5. review the findings of the audit with the external auditor. This shall include but not be limited to, the following;

8.6.5.1. a discussion of any major issues which arose during the audit,

8.6.5.2. any accounting and audit judgements, and

8.6.5.3. levels of errors identified during the audit. The Committee shall also review the effectiveness of the audit;

8.6.6. review any representation letter(s) requested by the external auditor before they are signed by management;

8.6.7. review the management letter and management's response to the auditor's findings and recommendations;

8.6.8. develop and implement a policy on the supply of non audit services by the external auditor, taking into account any relevant ethical guidance on the matter;

8.6.9. in the event that the Finance Director feels dissatisfied with the service provided and / or cost of the external auditor, or wishes to evaluate other external auditors for whatever reason, the Finance Director shall consult with the Audit Committee; and

8.6.10. if the Audit Committee and the Finance Director agree to evaluate other audit firms with the intent of possibly making a change, then a list of acceptable alternative audit firms shall be mutually

developed by the Audit Committee and Finance Director, and then presented to the Board for consideration and approval.

8.7. Banking relationships

The committee shall

8.7.1. have responsibility for overseeing the Group's banking arrangements with its current bankers, with regard to levels of service, costs, authority limits and signatories

8.7.2. make recommendations to the Board for any changes to the Group's banking relationships

8.8. Reporting Responsibilities

8.8.1. The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

8.8.2. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

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

8.9. Compliance with the AIM Rules

8.9.1. The Committee shall, in accordance with AIM Rule 31, ensure the Company has sufficient procedures, resources and controls in place to comply with the AIM Rules. These procedures shall include but not be limited to:

8.9.1.1. the Directors seeking advice from the Company's nominated adviser regarding its compliance with these rules whenever appropriate;

8.9.1.2. providing the Company's nominated adviser with any information it reasonably requests;

8.9.1.3. ensuring that each of the Company's directors accepts full responsibility, collectively and individually, for the Company's compliance with the AIM Rules; and

8.9.1.4. ensuring that each director discloses to the Company without delay all information which the Company needs in order to comply with AIM Rule 17.

8.10. Other Matters

The Committee shall:

8.10.1. have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;

8.10.2. be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;

8.10.3. give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of AIM, AIM Rules for Companies and AIM Rules for Nominated Advisers and UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules as appropriate;

8.10.4. oversee any investigation of activities which are within its terms of reference and act as a court of the last resort; and

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

9. Authority

The Committee is authorised:

9.1. to seek, if necessary in confidence, any information it requires from any employee of the Company in order to perform its duties;

9.2. to obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference and at reasonable cost; and

9.3. to call any employee to be questioned at a meeting of the Committee as and when required.