

PENNANT INTERNATIONAL GROUP PLC

(the “**Company**”)

**Terms of Reference for the Audit Committee**

**1 CONSTITUTION**

By resolution of the board of Directors of the Company (the “**Board**”), a committee of the Board has been established, called the Audit Committee, to determine and apply policy on behalf of the Board to the financial reporting and internal control principles of the Company and for maintaining an appropriate relationship with the Company’s auditors.

**2 MEMBERSHIP**

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

2.2 All members of the Committee shall be Non-Executive Directors at least one of whom shall have recent and relevant financial experience, ideally with a professional qualification from one of the professional accountancy bodies. The Chairman of the Board shall not chair the Committee but may be a member provided he/she was independent on appointment as Chairman.

2.3 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chairman of the Board, Chief Executive Officer, Head of Finance, other Directors, and representatives from the finance function and other departments may be invited to attend all or part of any meeting as and when deemed appropriate by the Chairman of the Committee.

2.4 The external auditors and the Head of Finance will be invited to attend meetings of the Committee on a regular basis.

2.5 Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three year periods.

2.6 The Board shall appoint the Committee Chairman who shall be a 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.



### 3 **SECRETARY**

The Company Secretary or their nominee shall act as the Secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

### 4 **QUORUM**

The quorum necessary for the transaction of business shall be two members of the Committee. 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.

### 5 **FREQUENCY OF MEETINGS**

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

5.2 Outside of the formal meeting programme, the Committee Chairman will maintain a dialogue with key individuals involved in the Company's governance, including the Board Chairman, the Chief Executive Officer, the Head of Finance and the external audit lead partner.

### 6 **NOTICE OF MEETINGS**

6.1 Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any of its members.

6.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed (with relevant papers), shall be forwarded to each member of the Committee, any other person required to attend and all other Non-Executive Directors, no later than five working days before the date of the meeting.

### 7 **MINUTES OF MEETINGS**

7.1 The Secretary shall minute the proceedings and resolutions of all meetings of the Committee.

7.2 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

7.3 Minutes of Committee meetings shall be circulated promptly to all members of the Committee and to all members of the Board unless it would be inappropriate to do so in the opinion of the Committee Chairman.

### 8 **ANNUAL GENERAL MEETING**

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



## 9 DUTIES

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

### 9.1 Financial Reporting

9.1.1 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on 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.

9.1.2 The Committee shall review and challenge where necessary:

- (a) the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company/group;
- (b) the methods used to account for significant or unusual transactions where different approaches are possible;
- (c) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- (d) the clarity of disclosure in the Company's financial reports and the context in which statements are made; and
- (e) 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).

### 9.2 Narrative reporting

Where requested by the Board, the Committee should review the content of the annual report and accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

### 9.3 Internal Controls and Risk Management Systems

The Committee shall:

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

9.3.2 review and approve the statements to be included in the Annual Report concerning internal controls and risk management.



## 9.4 Compliance, Whistleblowing and Fraud

The Committee shall:

- 9.4.1 review the adequacy and security of the Company's arrangements for its employees and contractors in the UK and elsewhere it operates to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- 9.4.2 review the Company's procedures for detecting fraud, handling whistleblowing and other compliance related matters (both at an operational and central management level); and
- 9.4.3 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

## 9.5 External Audit

The Committee shall:

- 9.5.1 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 oversee 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;
- 9.5.2 oversee the relationship with the external auditor including (but not limited to):
  - (a) 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;
  - (b) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - (c) 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;
  - (d) 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);



- (e) agreeing with the Board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;
  - (f) 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; and
  - (g) 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;
  - (h) seeking to ensure co-ordination with the activities of the internal audit function; and
  - (i) evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of the auditor from the market in that evaluation;
- 9.5.3 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;
- 9.5.4 review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement having regard to the seniority, expertise and experience of the audit team;
- 9.5.5 review the findings of the audit with the external auditor. This shall include but not be limited to, the following;
- (a) a discussion of any major issues which arose during the audit,
  - (b) any accounting and audit judgements, and
  - (c) levels of errors identified during the audit;
- 9.5.6 review the effectiveness of the audit;
- 9.5.7 review any representation letter(s) requested by the external auditor before they are signed by management;
- 9.5.8 review the management letter and management's response to the auditor's findings and recommendations; and
- 9.5.9 develop and implement a policy on the supply of non-audit services by the external auditor, to avoid any threat to the auditor objectivity and independence, taking into account any relevant ethical guidance on the matter.



## 9.6 Reporting Responsibilities

- 9.6.1 The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities. This report shall include:
- (a) the significant issues that it considered in relation to the financial statements and how these were addressed;
  - (b) its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor; and
  - (c) any other issues on which the Board has requested the Committee's opinion.
- 9.6.2 The Committee shall compile a report on its activities to be included in the Company's annual report. The report should include an explanation of how the Committee has addressed the effectiveness of the external audit process; the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditor.
- 9.6.3 In compiling the reports referred to in 9.6.1 and 9.6.2 above, the Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have been informed the Board's assessment of whether the company is a going concern. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.
- 9.6.4 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

## 9.7 Other Matters

The Committee shall:

- 9.7.1 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- 9.7.2 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;
- 9.7.3 give due consideration to laws and regulations, the provisions of the Combined Code and the requirements of the rules of the AIM market as appropriate;



- 9.7.4 be responsible for co-ordination of the internal and external auditors;
- 9.7.5 oversee any investigation of activities which are within its terms of reference and act as a court of the last resort;
- 9.7.6 work and liaise, as necessary with all other Board committees; and
- 9.7.7 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.

## 10 **AUTHORITY**

The Committee is authorised:

- 10.1.1 to seek any information it requires from any employee of the Company in order to perform its duties;
- 10.1.2 obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference;
- 10.1.3 to call any employee to be questioned at a meeting of the Committee as and when required; and
- 10.1.4 have the right to publish in the Company's annual report, details of any issues that cannot be resolved between the Committee and the Board.

8 February 2018