

AUDIT COMMITTEE - TERMS OF REFERENCE

ProStrakan Group plc

(adopted by resolution of the directors passed on 10 March
2005)

PROSTRAKAN GROUP PLC
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1. Introduction

These terms of reference were adopted by a resolution of the board of directors of ProStrakan Group plc (the "Company") passed on 10 March 2005.

2. Membership

- 2.1 The audit committee (the "Committee") shall be appointed by the board of directors of the Company (the "Board"), on the recommendation of the nomination committee, in consultation with the chairman of the Committee. The Committee shall be made up of at least three (3) members.
- 2.2 All of the members of the Committee shall be independent non-executive directors at least one of which shall have recent and relevant financial experience. The chairman of the Board shall not be a member of the Committee.
- 2.3 Appointments to the Committee shall be for a period of up to three (3) years which may be extended for two further three (3) year periods, provided the director remains independent.
- 2.4 The chairman of the Committee shall be appointed by the Board. In the absence of the chairman of the Committee and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting. For the avoidance of doubt, the chairman of the Committee shall not have a second or casting vote.
- 2.5 The company secretary or his/her nominee shall be the secretary of the Committee.

3. Attendance at Meetings

- 3.1 Only members of the Committee have the right to attend Committee meetings.
- 3.2 Other individuals such as the chairman of the Board, the chief executive, the chief financial officer, other directors, representatives from the finance function and other relevant employees may be invited to attend all or part of any meeting as and when appropriate.
- 3.3 The external auditors will be invited to attend meetings of the Committee on a regular basis.
- 3.4 The quorum necessary for the transaction of business at a meeting of the Committee shall be two (2) 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

The Committee shall meet at least three times a year at appropriate times in the Company's reporting and audit cycle and otherwise as required.

5. Notice of Meetings

- 5.1 Meetings of the Committee shall be summoned by the secretary of the Committee at the request of any of its members or at the request of external or internal auditors if they consider it necessary.
- 5.2 Unless otherwise agreed, notice of each meeting of the Committee 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 five (5) 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 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.

7. Authority

- 7.1 The Committee is authorised by the Board to investigate any matter within its terms of reference and to seek any information it requires from any employee of the Company in order to perform its duties. All employees are directed to co-operate (if required, on a confidential basis) with any request made by the Committee.
- 7.2 The Committee is authorised by the Board to obtain outside legal, accounting or other independent professional advice at the cost of the Company and to secure the attendance of outsiders with relevant experience and expertise on any matters within its terms of reference if it considers this necessary.

8. General Duties

- 8.1 The specific duties of the Committee shall be those set out in paragraphs 9 to 13 below and shall be carried out for the Company, its major subsidiary undertakings and the group as a whole, as appropriate and references in those paragraphs to the Company shall be deemed to include its major subsidiary undertakings and the group as a whole, as appropriate.
- 8.2 In order to discharge its duties, the Committee shall:
- (i) be given access to sufficient resources;
 - (ii) 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;
 - (iii) give due consideration to laws and regulations, the provisions of the Combined Code and the requirements of the UK Listing Authority's Listing Rules as appropriate;

- (iv) oversee any investigation of activities which are within its terms of reference (subject to the overriding authority of the Board); and
- (v) 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. Financial Reporting

- 9.1 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and interim reports, preliminary results' announcements and any other form of 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 for which Board approval is required, such as announcements of a price sensitive nature, provided that such monitoring and review is not inconsistent, with any requirement for prompt reporting under the Listing Rules.
- 9.2 The Committee shall review and challenge where necessary:
- (i) the consistency of, and any changes to, accounting policies and practices both on a year on year basis and across the group;
 - (ii) the methods used to account for significant or unusual transactions where different approaches are possible;
 - (iii) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditors;
 - (iv) the clarity of disclosure in the Company's financial reports and the context in which statements are made; and
 - (v) all material related information presented with the financial statements, including but not limited to the operating and financial review and the corporate governance statements (insofar as they relate to audit and to risk management).

10. Internal Controls and Risk Management Systems

- 10.1 The Committee shall:
- (i) review the Company's internal control and risk management systems;
 - (ii) receive reports from management on the effectiveness of these systems and on the conclusions of any testing carried out by internal and external auditors; and
 - (iii) review and approve the statements to be included in the annual report concerning internal controls and risk management.

11. Whistleblowing

The Committee shall review the Company's arrangements for its employees to raise concerns, in confidence, about possible improprieties in financial reporting or other matters. The Committee's objective should be to ensure that arrangements are in place for a proportionate and independent investigation of such matters and appropriate follow up action.

12. Internal Audit

- 12.1 The Committee shall consider annually whether there is a need for an internal audit function and make a recommendation to the Board. For so long as there is no internal audit function, the reasons for its absence should be explained in the relevant section of the annual report. Once such a function is established, the Committee shall:
- (i) monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system;
 - (ii) approve the appointment and removal of the head of the internal audit function;
 - (iii) consider and approve the remit of the internal audit function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The committee shall also ensure that the function has adequate standing;
 - (iv) review and assess the annual internal audit plan;
 - (v) review promptly all reports on the Company from the internal auditors;
 - (vi) review and monitor management's responsiveness to the findings and recommendations of the internal auditor; and
 - (vii) meet the head of internal audit at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition, the head of internal audit shall be given the right of direct access to the chairman of the Committee.

13. External Audit

- 13.1 The Committee shall:
- (i) 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 auditors. 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;
 - (ii) oversee the relationship with the external auditor including (but not limited to):
 - (i) approval of their remuneration, (whether fees for audit or non-audit services) and that the level of their fees is appropriate to enable an adequate audit to be conducted;
 - (ii) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - (iii) assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
 - (iv) 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);

- (v) agreeing with the Board a policy on the employment of former employees of the Company's auditor and then monitoring the implementation of this policy;
 - (vi) monitoring the auditor's compliance with the 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
 - (vii) 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;
- (iii) 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;
 - (iv) review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
 - (v) review the finding of the audit with the external auditor. This shall include but not be limited to, the following:
 - (i) the discussion of any major issues which arose during the audit;
 - (ii) any accounting and audit judgements; and
 - (iii) levels of errors identified during the audit; and
 - (vi) review any representation letter(s) requested by the external auditors before they are signed by management;
 - (vii) review the management letter and management's response to the auditors findings and recommendations; and
 - (viii) 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.

14. Reporting Procedures

- 14.1 The chairman of the Committee shall report formally to the Board on proceedings of the Committee after each meeting and on all matters within its duties and responsibilities.
- 14.2 The Committee shall make whatever recommendations to the Board it deems appropriate in any area within its remit where action or improvement is needed.
- 14.3 The Committee shall compile a report to shareholders on its activities to be included in the Company's annual report. This report should include, inter alia:
 - (i) a summary of the role of the Committee;
 - (ii) the names and qualifications of all members of the Committee during the period;
 - (iii) details of the number of Committee meetings held;
 - (iv) a report on the way the Committee has discharged its responsibilities; and

- (v) an explanation of how, if the auditor provides non-audit services, auditor objectivity and independence is safeguarded.

14.4 The chairman of the Committee shall attend the AGM and shall answer questions, through the chairman of the Board, on the Committee's activities and its responsibilities.