

DAVENHAM GROUP PLC

AUDIT COMMITTEE

TERMS OF REFERENCE

Davenham Group plc
8 St John Street
Manchester M3 4DU

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1. PURPOSE

- 1.1 The purpose of the Committee is to provide formal and transparent arrangements for considering how to apply the financial reporting and internal control principles set out in the Combined Code, and to maintain an appropriate relationship with the Company's auditors, as required by section C.3 of the Combined Code.

2. CONSTITUTION AND MEMBERSHIP

- 2.1 The Audit Committee has been established as a committee of the Board by resolution of the Board.
- 2.2 The members of the Committee shall be appointed by the Board. The Committee shall comprise at least two members, all of whom shall be independent non-executive Directors. At least one member of the Committee should have significant, recent and relevant financial experience.
- 2.3 The chairman of the Committee shall be appointed by the Board. In the absence of the chairman of the Committee, the members present shall select one of their number present to chair the meeting.
- 2.4 The Company Secretary shall act as the Secretary of the Committee. Where the Secretary is also an executive Director, the Committee may nominate one of its members to act as secretary for any meeting which the Committee wishes to hold without executive Directors being present.

3. ATTENDANCE

- 3.1 The Committee shall invite a representative of the external auditors to attend meetings of the Committee. The Committee should have at least one meeting, or part of a meeting, with the external auditors without management being present.
- 3.2 The Committee may request the Chief Executive, Finance Director and any relevant senior management to attend meetings of the Committee, either regularly or by invitation, but such invitees have no right of attendance.

4. FREQUENCY OF MEETINGS, AND PROCEEDINGS

- 4.1 The Committee will meet at least twice each year, having regard to the Company's financial reporting cycle, and at such other times as the Chairman of the Committee shall think fit.
- 4.2 Meetings of the Committee will be arranged to tie in with the publication of the Company's financial statements. Meetings should be held prior to any board meeting at which accounts or financial statements are to be approved.
- 4.3 The external auditors may through the Chairman of the Committee request a meeting of the Committee if they consider that one is necessary.
- 4.4 Meetings of the Committee shall be convened by the Secretary of the Committee at the request of any member.
- 4.5 Unless otherwise agreed by all members of the Committee, notice of meetings, confirming the venue, time and date together with an agenda and all relevant papers, should normally be circulated to each member of the Committee, to any other person required to attend, and to all other non-executive directors, at least five working days prior to the date of the meeting.
- 4.6 The quorum for meetings of the Committee shall be two members.

5. REPORTING

- 5.1 The Secretary shall minute the proceedings and resolutions of all meetings of the Committee. Minutes of Committee meetings shall be circulated promptly to all members of the Committee and to all members of the Board.
- 5.2 The Committee shall make whatever recommendations to the Board that it deems appropriate in the context of the scope of its responsibilities.
- 5.3 The Committee shall prepare a report each year to be included in the Company's annual report and accounts.
- 5.4 The chairman of the Committee should be present at the Company's annual general meeting to respond to questions on matters within the responsibility of the Committee.

6. DUTIES

- 6.1 The duties of the Committee are:

Financial Statements

- 6.1.1 to monitor the integrity of the financial statements of the Company, and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them.
- 6.1.2 to keep under review the consistency of accounting policies, both on a year to year basis and across the Company.
- 6.1.3 to review and challenge where necessary the Company's financial statements (including the actions and judgements of management in relation to them), before submission to the Board, taking into account, in particular:
 - 6.1.3.1 critical accounting policies and practices, and any changes in them;
 - 6.1.3.2 decisions requiring a major element of judgement;
 - 6.1.3.3 the extent to which the financial statements are affected by any unusual transactions or circumstances;
 - 6.1.3.4 the clarity of disclosures;
 - 6.1.3.5 significant adjustments resulting from the audit;
 - 6.1.3.6 the going concern assumption;
 - 6.1.3.7 compliance with accounting standards;
 - 6.1.3.8 compliance with stock exchange and other regulatory and legal requirements;
- 6.1.4 to consider management's response to any major external [or internal] audit recommendations.

Internal Control and Risk Assessment Systems

- 6.1.5 to keep under review the effectiveness of the Company's financial reporting and internal control policies and systems, covering all material controls, including financial, operational and compliance controls, and the Company's procedures for the identification, assessment, management and reporting of risks.

Internal Audit

- 6.1.6 to review at least annually the need for an internal audit function.

External Audit

- 6.1.7 to make recommendations to the Board in relation to the appointment of the external auditors and to approve the remuneration and terms of engagement of the external auditors.
- 6.1.8 to monitor and review the external auditors' independence, objectivity and effectiveness, taking into consideration relevant UK professional and regulatory requirements.
- 6.1.9 to oversee the selection process, consider and make recommendations to the Board in relation to the appointment and re-appointment of the Company's external auditors, and to ensure that the key partners within the appointed firm are rotated from time to time.
- 6.1.10 to meet with the external auditors at least twice each year, including at the audit planning stage, when the nature and scope of the audit, quality control procedures and steps taken by the auditors in response to regulatory and other requirements will be considered, and post audit at the reporting stage.
- 6.1.11 to review any auditors management letters and management's responses.
- 6.1.12 to keep under review the relationship with the external auditors including (but not limited to):
 - 6.1.12.1 the independence and objectivity of the external auditors;
 - 6.1.12.2 the consideration of audit fees which should be paid, as well as any other fees which are payable to auditors in respect of non-audit activities;
 - 6.1.12.3 discussions with the external auditors concerning such issues as compliance with accounting standards and any proposals which the external auditors have made in relation to the Company's internal auditing standards.
- 6.1.13 to develop and implement policy on the engagement of the external auditors to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the relevant external audit firm, specifying types of non-audit work:
 - 6.1.13.1 from which the external auditors are excluded;

6.1.13.2 for which the external auditors can be engaged without referral to the Committee; and

6.1.13.3 for which a case by case decision from the Committee is necessary.

Other matters

6.1.14 to give due consideration to the requirements of the Listing Rules of the UK Listing Authority.

6.1.15 to review the Company's procedures by which staff may raise concerns about possible improprieties in matters of financial reporting or other matters, and to ensure that arrangements are in place for proportionate and independent investigation of such matters and for appropriate follow-up action.

6.1.16 to oversee any investigation of activities which are within its terms of reference, and to act as a court of last resort.

6.1.17 to review the Committee's own performance, constitution and terms of reference, and make recommendations to the Board as necessary, to ensure that it is operating at maximum effectiveness.

7. AUTHORITY

7.1 The Committee is authorised by the Board to investigate any activity or state of affairs within its terms of reference.

7.2 The Committee is authorised to seek any information it requires from any employees or officers and to call any member of staff to be questioned at a meeting of the Committee as and when required.

7.3 The Committee is authorised by the Board, at the Company's expense, to obtain expert advice from the Company's auditors, professional advisers or otherwise, and to take independent professional advice and to require the attendance of outsiders with relevant experience and expertise if it considers it necessary.

These terms of reference were adopted by resolution of the Board passed on 3rd May 2006.