

**Dated 5 December 2019**

**THE PEBBLE GROUP PLC**

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**AUDIT COMMITTEE TERMS  
OF REFERENCE**

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## **1 Interpretation**

1.1 In these terms of reference:

**Company** means The Pebble Group plc

**Board** means the board of directors of the Company;

**Auditor** means the external auditors of the Company; and

**Committee** means the audit committee of the Board.

## **2 Constitution**

By a resolution dated 28 November 2019, the Board resolved to establish a committee of the Board to be known as the audit committee.

## **3 General aims**

Without prejudice to the specific duties of the Committee detailed below, the general aims of the Committee shall be to:

- (a) increase shareholder confidence in, and the credibility and objectivity of, published financial information;
- (b) ensure that the financial performance, position and prospects of the Company are properly monitored and reported on;
- (c) assist the Board in meeting its financial reporting responsibilities and ensure that the Company's published financial statements comply with all applicable statutory requirements and accounting standards;
- (d) strengthen the independent position of the Auditor by providing channels of communication between them and the non-executive directors; and
- (e) review the performance of the Auditor.

## **4 Specific duties**

The Committee shall perform the following duties for the Company.

### **4.1 Financial Reporting**

- (a) The Committee shall monitor the integrity of the financial statements of the Company, including:
  - (i) its annual and half-yearly reports and accounts;
  - (ii) announcements of preliminary results; and
  - (iii) any other formal announcement relating to its financial performance,reviewing all significant financial reporting issues and all judgements which they contain.

- (b) The Committee shall review:
  - (i) summary financial statements;
  - (ii) significant financial returns to regulators; and
  - (iii) any financial information contained in other documents, such as announcements of a price sensitive nature.
  
- (c) The Committee shall review and challenge where necessary:
  - (i) the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company (and its 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 Auditor;
  - (iv) the clarity of disclosure in the Company's financial reports and the context in which statements are made;
  - (v) all material information presented with the financial statements, such as the operating and financial review, strategic report and the corporate governance statement (insofar as it relates to the audit and risk management); and
  - (vi) related party transactions, noting the requirements of the AIM Rules for Companies whereby in certain instances the directors who are independent of such a transaction are required to consult with the nominated adviser of the Company, the announcement obligations in respect of related party transactions, and the requirements of the AIM Rules for Companies for certain types of related party transactions to be disclosed in the Company's annual report and accounts.
  
- (d) The Committee shall review the annual financial statements of any pension funds where not reviewed by the Board as a whole.

#### 4.2 **Internal Controls and risk management systems**

- (a) The Committee shall:
  - (i) determine and review the Company's risk profile, including the nature and extent of significant risks that the Company is willing to take in achieving its strategic objectives;
  - (ii) keep under review the scope, adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems;
  - (iii) receive reports from the Company's management and the Auditor on the effectiveness and integrity of those systems;

- (iv) review whether the principle of any guidance published by the Financial Reporting Council (or any successor) for directors on internal control requirements are being embedded within the Company's group;
- (v) review the timelines of, and reports on, the effectiveness of corrective action taken by the Company's management; and
- (vi) review and approve any statements to be included in the Company's annual report and accounts concerning internal controls and risk management.

#### 4.3 **Whistleblowing/Anti-bribery**

The Committee shall:

- (a) review the scope, adequacy and effectiveness of the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters;
- (b) ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action and shall keep under review the Company's procedures for detecting fraud; and
- (c) review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

#### 4.4 **Internal Audit**

- (a) The Committee shall:
  - (i) consider annually whether there is a need for an internal audit and risk function and make a recommendation to the Board accordingly. In the event that an internal audit and risk function is introduced, the Board shall extend as appropriate the Committee's terms of reference to include, *inter alia*, monitoring and reviewing the effectiveness of the internal audit and risk function, senior appointments and removals in respect of that function, resourcing of that function, meetings with the internal auditors and reviewing executive management's responsiveness to findings and recommendations of the internal audit and risk function;
  - (ii) ensure that any internal audit and risk function has adequate standing and is free from management or other restrictions;
  - (iii) review and assess the annual internal audit and risk plan;
  - (iv) review promptly all reports on the Company from the internal audit and risk function;
  - (v) meet the head of internal audit at least once a year, without executive management being present, to discuss the remit of the internal audit and risk function 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 Board and to the Committee.

#### 4.5 External Audit

- (a) 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 or removal of the Auditor and oversee the selection process for a new Auditor and, if the Auditor resigns, investigate the issues leading to this and decide whether any action is required;
  - (ii) ensure that at least once every ten years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms and oversee the selection process and further ensure that all tendering firms have such access as is necessary to information and individuals during the tendering process;
  - (iii) oversee the relationship with the Auditor including (but not limited to):
    - (A) approval of their remuneration, whether fees for audit or non-audit services, and ensuring that the level of fees is appropriate to enable an effective and high quality 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 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) which could adversely affect the Auditor's independence and objectivity;
    - (E) agreeing with the Board a policy on the employment of former employees of the 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;
    - (G) assessing annually the qualifications, expertise and resources of the Auditor and the effectiveness of the audit process, which shall include a report from the Auditor on their own internal quality procedures;
    - (H) seeking to ensure co-ordination with the activities of any internal audit function; and

- (l) considering the risk of the withdrawal of the Company's present Auditor from the market;
- (iv) meet regularly with the Auditor, including once at the planning stage before the audit and once after the audit at the reporting stage and meet the Auditor at least once a year without executive management being present, to discuss the Auditor's remit and any issues arising from the audit;
- (v) review and approve the annual external 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;
- (vi) review the findings of the audit with the Auditor, this to 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;
- (vii) review the effectiveness of the audit;
- (viii) review any representation letter(s) requested by the Auditor before they are signed by the executive management;
- (ix) review the executive management letter and executive management's response to the Auditor's findings and recommendations; and
- (x) develop and implement a policy on the supply of non-audit services by the Auditor to avoid any threat to the Auditor's independence and objectivity, taking into account any relevant ethical guidance on the matter.

#### 4.6 Other Matters

The Committee shall:

- (a) have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required;
- (b) 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;
- (c) give due consideration to all relevant laws and regulations and to the AIM Rules for Companies, the Quoted Companies Alliance Corporate Governance Code, the requirements of the EU Market Abuse Regulation and, having regard to the size and nature of the Company, the provisions of the UK Corporate Governance Code, as appropriate (it being noted that the UK Corporate Governance Code does not apply to companies whose shares are admitted to trading on AIM);
- (d) be responsible for co-ordination of the internal auditor and the Auditor; and
- (e) oversee any investigation of activities which are within its terms of reference and act as a court of the last resort.

## **5 Reporting and AGM duties**

- 5.1 The chairman of the Committee 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.
- 5.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any matter within its remit where action or improvement is needed.
- 5.3 The chairman of the Committee (or, in his absence, another Committee member) shall attend the AGM prepared to respond to any shareholder questions on the Committee's activities.
- 5.4 The Committee's terms of reference shall be available on the Company's website.

## **6 Regulatory duties**

- 6.1 In carrying out its duties the Committee shall:
- (a) give due regard to:
    - (i) all relevant legal and regulatory requirements;
    - (ii) all rules of the AIM Market operated by the London Stock Exchange plc;
    - (iii) the provisions, recommendations and disclosure requirements contained in the EU Market Abuse Regulation (596/2014);
    - (iv) the Corporate Governance Code issued by the Quoted Companies Alliance; and
    - (v) the provisions and recommendations of the UK Corporate Governance Code issued by the Financial Reporting Council (having regard also to the size and nature of the Company and that the UK Corporate Governance Code does not apply to companies whose shares are admitted to trading on AIM).
  - (b) ensure that it has such information as it considers necessary or desirable to fulfil its duties, as set out in these terms of reference.

## **7 Membership**

- 7.1 Members of the Committee shall be appointed from time to time by the Board, on the recommendation of the nomination committee in consultation with the chairman of the Committee.
- 7.2 The Committee shall be made up of at least two members.

- 7.3 All members of the Committee shall be independent non-executive directors of the Company, and at least one member shall have recent and relevant financial experience.
- 7.4 The chairman of the Board can be a member of, and can chair, the Committee, provided he or she was considered independent on appointment.
- 7.5 Appointments to the Committee shall be for a period of up to three years, which may be extended for up to two further three year periods, provided that the relevant member of the Committee remains independent.
- 7.6 The Board shall appoint the chairman of the Committee who shall be an independent non-executive director of the Company. In the absence of the Chairman, the remaining members of the Committee present at a duly convened Committee meeting may elect one of their number to chair the meeting. The Board shall determine the period for which the chairman of the Committee holds office.
- 7.7 The Board may from time to time remove members from the Committee.
- 7.8 The membership of the Committee shall be set out in the annual report of the Company.

## **8 Secretary**

The company secretary (or such other person as may from time to time be selected for the task by the Committee) shall be the secretary of the Committee.

## **9 Meetings**

- 9.1 The Committee shall meet at least two times in each year at appropriate times in the reporting and audit cycle and at such other times as the chairman of the Committee, or any other member of the Committee, shall require.
- 9.2 Meetings of the Committee shall be summoned by the secretary of the Committee at the request of any member of the Committee or at the request of the Auditor or any internal auditor if they consider it necessary.
- 9.3 Unless otherwise agreed, at least 5 working days' notice shall be given of each meeting of the Committee.
- 9.4 Unless otherwise agreed, notice of each meeting of the Committee shall:
- (a) confirm the venue, time and date of the meeting;
  - (b) include an agenda of items to be discussed at the meeting; and
  - (c) be sent to each member of the Committee, any other person required, invited or entitled to attend the meeting and all other non-executive directors of the Company.
- 9.5 Supporting papers shall be sent to members of the Committee and (as appropriate) to other attendees at the same time as the relevant notice.
- 9.6 The quorum necessary for the transaction of business by the Committee shall be two members of the Committee and 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.



- 9.7 Only members of the Committee shall have the right to attend meetings of the Committee. However, others (such as the chairman of the Board, the chief executive officer, the chief financial officer, other directors, the heads of risk, compliance and internal audit, representatives from the finance function of the Company and external advisers) may be invited to attend and speak at (but not vote at) a meeting of the Committee as and when appropriate.
- 9.8 The Auditor shall be invited to attend and speak at meetings of the Committee on a regular basis, but shall not be entitled to vote at such meetings.
- 9.9 Meetings of the Committee may be held by conference telephone or similar communications equipment whereby all members participating in the meeting can hear, and be heard by, each other, provided always, however, that at least once per annum a direct meeting shall be held between the Committee and the Auditor where a quorum of the members of the Committee and the Auditor are present in person at the same location.

## **10 Voting**

- 10.1 Each member of the Committee shall have one vote which may be cast on matters considered at the meeting. Votes can only be cast by members attending a meeting of the Committee.
- 10.2 If a matter which is considered by the Committee is one where a member of the Committee, either directly or indirectly, has a personal interest, that member shall not be permitted to vote at the meeting.
- 10.3 Matters for decision by the Committee shall be decided by a majority decision of the members present at the meeting and eligible to vote.

## **11 Minutes**

- 11.1 The secretary of the Committee shall minute the proceedings and resolutions of Committee meetings and record the names of those present and in attendance.
- 11.2 The secretary of the Committee shall ascertain, at the start of each Committee meeting, the existence of any conflicts of interest and minute them accordingly.
- 11.3 Following each meeting of the Committee, the secretary of the Committee shall promptly circulate, for comment, draft minutes to each member who was present at the meeting.
- 11.4 After approval and signing of the minutes by the chairman of the meeting, the secretary of the Committee shall circulate copies of the minutes to all members of the Committee and to all other members of the Board, (save if, and to the extent that a conflict of interest exists).

## **12 Authority**

- 12.1 The Committee is a committee of the Board and as such exercises such powers of the Board as have been delegated to it.
- 12.2 The Committee is authorised by the Board to investigate any activity within its terms of reference.
- 12.3 The Committee is authorised to:
- (a) seek any information it requires (including from any employee of the Company or any of its subsidiaries) in order to perform its duties;

- (b) seek legal or other professional advice on any matters within its terms of reference including, without limitation, any legal matters which could have a significant effect on the Company's financial position;
- (c) within any budgeting constraints imposed by the Board, commission or purchase any relevant reports or surveys which it deems necessary to help it fulfil its obligations;
- (d) secure the attendance of external advisors at its meetings (if it considers it necessary);
- (e) call any employee to be questioned at a meeting of the Committee as and when required; and
- (f) have the right to publish in the Company's annual report details of any issues that cannot be resolved between it and the Board,

all at the Company's expense.

### **13 Own performance**

- 13.1 At least once a year, the Committee shall 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.
- 13.2 The Committee shall be provided with appropriate and timely training both in the form of an induction programme for new members and on an on-going basis for all members.