

LONDON & STAMFORD PROPERTY PLC

TERMS OF REFERENCE – AUDIT COMMITTEE

GUIDANCE NOTES

The UK Corporate Governance Code states as one of its principles that:

"The board should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors".

It goes on to state that:

"The board should establish an audit committee of at least three, or in the case of smaller companies (below the FTSE 350) two independent non-executive directors. The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience".

It is clear, therefore, that not only should companies go through a formal process of considering their internal auditing and control procedures and evaluating their relationship with their external auditors, but they must be seen to be doing so in a fair and thorough manner. It is, therefore, essential that the audit committee is properly constituted with a clear remit and identified authority.

The UK Corporate Governance Code also provides that:

1. The audit committee should review arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The audit committee's objective should be to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.
2. The audit committee should monitor and review the effectiveness of the internal audit activities. Where there is no intended audit function, the audit committee should consider annually whether there is a need for an internal audit function and make a recommendation to the board, and the reasons for the absence of such a function should be explained in the relevant section of the annual report.
3. The audit committee should have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors. If the board does not accept the audit committee's recommendation, it should include in the annual report, and in any papers recommending appointment or re-appointment, a statement from the audit committee explaining the recommendation and should set out reasons why the board has taken a different position.

The terms of reference, including the audit committee's role and authority delegated to it by the board, should be made available on the company's website.

The UK Corporate Governance Code provides that the remuneration committee's members should all be "independent" non-executive directors. Although the UK Corporate Governance Code does not attempt to define independence, companies should be aware that certain institutional investors and investor bodies such as the National Association of Pension Funds, Association of British Insurers

and Pensions Investment Research Council have developed their own criteria which companies may wish to consider. These set out the following principles:

4. Non-executive directors should be independent, i.e. free from bias, involvement or partiality. It is recognised that professional advisers such as merchant bankers and solicitors may well fulfil a specialist role but they should not be regarded as a substitute for the independent non-executive director. Independence is more likely to be assured, inter alia, when the director:
 - 4.1 has not been employed in any executive capacity by the company concerned within the last few years.
 - 4.2 is not retained as a professional advisers by the Company (either personally or through his or her firm); and
 - 4.3 is not a significant supplier or customer of the Company.
5. In order not to impair their impartiality, non-executive directors should not, under normal circumstances, be offered participation in share option schemes, nor in performance related or other incentivised remuneration schemes, nor in any company pension schemes. They should not be entitled to any compensation for loss of office.
6. Non-executive directors should hold other directorships in the same industry only with the approval of the board.

It is the Chairman's responsibility to ensure that the board and its committees are properly constituted and advised. There also needs to be a clear coordination between the main board and the various committees. In addition, although the responsibility for internal controls clearly remains with the board as a whole, the Chairman would normally have the day to day task of reviewing the internal control procedures of the Company and responsibility for drafting the governance report.

The frequency with which the Committee needs to meet will vary considerably from company to company and will no doubt change from time to time. As a general rule, most audit committees would be expected to meet quarterly, however, it is clear that it must meet at least once each year prior or close to the year end for the purpose of considering the relationship with the external auditors and to recommend whether or not they should be put forward for re-appointment at the next annual general meeting.

The list of duties proposed are those which all audit committees should consider and includes those matters specifically mentioned in the UK Corporate Governance Code. Some companies may wish to add to this list and some smaller companies may need to modify it in other ways. The audit committee should compile a brief report for shareholders which can be included in the Company's annual report although it could equally be produced as a separate statement. The chairman of the audit committee should attend the AGM prepared to respond to any questions that may be raised by shareholders on matters within the audit committee's area of responsibility.

LONDON & STAMFORD PROPERTY PLC

TERMS OF REFERENCE

AUDIT COMMITTEE

1. MEMBERSHIP

- 1.1 The Committee shall be appointed by the Board and shall comprise a Chairman and at least two other members.
- 1.2 Whilst the Committee itself would normally be made up entirely of non-executive directors, other individuals e.g. members of the investment manager or other external advisers may be invited to attend as and when appropriate.
- 1.3 All members of the Committee shall be independent of management and free from any business or other relationship which could interfere with the exercise of their free judgment.
- 1.4 Care should be taken to minimise the risk of any conflict of interest that might be seen to give rise to an unacceptable influence. Where possible, the Chairman and members of the Committee should be rotated on a regular basis.
- 1.5 The Board shall appoint the Committee Chairman who shall be a non-executive director and determine the period for which he or she shall hold office. The Chairman of the Board shall not be eligible to be appointed as the Chairman of the Committee. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of the non-executive members present to chair the meeting.

2. QUORUM

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

3. FREQUENCY OF MEETINGS

The Committee shall meet not less than once a year and at such other times as the Chairman of the Committee shall require.

4. NOTICE OF MEETINGS

- 4.1 Meetings of the Committee shall be summoned by the Chairman of the Committee at the request of any member thereof.
- 4.2 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 fewer than five working days prior to the date of the meeting.

5. MINUTES OF MEETINGS

- 5.1 The Chairman shall minute the proceedings and resolutions of all committee meetings, including the names of those present and in attendance.
- 5.2 Minutes of Committee meetings shall be circulated promptly to all members of the Committee and to all members of the Board.

6. 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.

7. DUTIES

7.1 Internal control and risk management

- 7.1.1 The Committee shall review the Company's internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent directors, or by the Board itself, to review the Company's internal control and risk management systems.
- 7.1.2 The Committee shall monitor and review the effectiveness of the Company's internal audit function.

7.2 External Audit

- 7.2.1 The Committee shall make recommendations to the Board, for it to put to shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and terms of engagement of the external auditor.
- 7.2.2 The Committee shall develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.
- 7.2.3 The Committee shall meet with the external auditors at least twice each year, once at the planning stage prior to the audit and once post audit at the reporting stage.
- 7.2.4 The Committee shall keep under review the relationship with external auditors including (but not limited to):
- (a) the independence, objectivity and effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
 - (b) 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; and
 - (c) discussions with the external auditors concerning such issues as compliance with accounting standards and any proposals which the external auditors have made vis-à-vis the Company's internal auditing standards.

7.3 **Financial statements**

- 7.3.1 The Committee shall 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.
- 7.3.2 The Committee shall keep under review the consistency of accounting policies both on a year to year basis and across the company/group.
- 7.3.3 The Committee shall review the annual financial statements of the pension funds where not reviewed by the Board as a whole.

7.4 **Reporting responsibilities**

- 7.4.1 The Committee or its Chairman shall meet formally with the Board of Directors at least once a year to discuss such matters as the Annual Report and the relationship with the external auditors.
- 7.4.2 In the light of its other duties, the Committee shall make whatever recommendations to the Board it deems appropriate and shall compile a report to shareholders to be included in the Company's Annual Report and Accounts.

7.5 **Other matters**

- 7.5.1 The Committee shall give due consideration to the requirements of the UK Listing Authority's Listing Rules.
- 7.5.2 The Committee shall be responsible for coordination of the internal and external auditors.
- 7.5.3 The Committee shall oversee any investigation of activities which are within its terms of reference and act as a court of the last resort.
- 7.5.4 The Committee should, on a regular basis, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness.

8. **AUTHORITY**

The Committee is authorised by the Board:

- 8.1 to seek any information it requires from any employee of the Company in order to perform its duties;
- 8.2 to obtain, at the Company's expense, outside legal or other professional advice on any matters within its terms of reference; and
- 8.3 to call any member of staff to be questioned at a meeting of the Committee as and when required.

9. **DEFINITIONS**

"Board"

shall mean the full Board of Directors;

"Committee"

shall mean the Audit Committee.