

SHIRES SMALLER COMPANIES PLC

Audit Committee

Constitution

1. The Board hereby resolves to establish a Committee of the Board to be known as the Audit Committee.

Membership

2. The Committee shall be appointed by the Board from among the Non-Executive Directors of the Company and shall consist of not less than three members. A quorum shall be two members.
3. The Chairman of the Committee shall be appointed by the Board.

Attendance at meetings

4. A representative of the external auditors shall normally attend one meeting per year. Any Board members shall also have the right of attendance.
5. The Company Secretary shall be the Secretary of the Committee.

Frequency of meetings

6. Meetings shall be held not less than twice a year. The external auditors may request a meeting if they consider that one is necessary.

Authority

7. The Committee is authorised by the Board to investigate any activity within its terms of reference.
8. The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Duties

9. The duties of the Committee shall be:
 - (a) to consider the appointment of the external auditor, the audit fee and any questions of resignation or dismissal;
 - (b) where appropriate, to discuss with the external auditor before the audit commences the nature and scope of the audit;

- (c) to review the half-year and annual financial statements before submission to the Board, focusing particularly on:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgemental areas;
 - (iii) significant adjustments resulting from the audit;
 - (iv) the going concern assumption;
 - (v) compliance with accounting standards;
 - (vi) compliance with stock exchange and legal requirements.
- (d) to discuss problems and reservations arising from the audit and any matters the auditor may wish to discuss (in the absence of the managers where required);
- (e) to review the Company's statement on internal control systems prior to endorsement by the Board. This review should include an assessment of the arrangements by which the staff of the Managers may raise concerns about possible improprieties in matters of financial reporting or other matters.;
- (f) to consider other topics, as defined by the Board.

Reporting procedures

10. The Secretary shall circulate the minutes of meetings of the Committee to all members of the Board.