

## UK COMMERCIAL PROPERTY TRUST LIMITED (the "Company")

### TERMS OF REFERENCE - AUDIT COMMITTEE

APPROVED 23rd MARCH 2017

#### 1. Constitution

The Audit Committee (the "Committee") was constituted by resolution of the board of directors of the Company (the "Board") on 25 August 2006. A certified copy of the resolution is attached to these terms of reference.

#### 2. Membership

- 2.1. Members of the Committee shall be appointed by the Board. The Committee shall be made up of at least three members, provided that at all times a majority of the members of the Committee shall be resident outside the United Kingdom and, where this should cease to be the case for any reason, the Committee shall not meet before a Board meeting is held at which the membership of the Committee is amended so that a majority of the members of the Committee are not resident in the United Kingdom.
- 2.2. All members of the Committee shall be independent non-executive directors, at least one of whom should have recent and relevant financial experience.
- 2.3. In determining whether a director shall be deemed to be independent for the purpose of these terms of reference, the Board shall have regard to the UK Corporate Governance Code (or any successor or equivalent guidance) and leading corporate governance practice.
- 2.4. Only members of the Committee have the right to attend Committee meetings. However, other individuals such as representatives of the Company's investment manager or auditors from time to time may be invited to attend all or part of any meeting as and when appropriate.
- 2.5. The external auditors will be invited to attend meetings of the Committee on a regular basis.
- 2.6. Appointments to the Committee shall be for a period of up to three years, which may be extended for further three year periods, provided the director remains independent.
- 2.7. The Board shall appoint the Committee Chairman who shall be an independent non-executive director and not normally the Chairman of the Company, provided that the Chairman of the Committee shall not be a United Kingdom resident. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting, provided that the Chairman of the Committee shall again not be a United Kingdom resident.

2.8. The first members of the Committee (the "Members") shall be all the independent non-executive directors of the Company. For the avoidance of doubt, John Robertson shall not be a member of the Committee.

2.9. The current Chairman is Kenneth McCullagh.

### **3. Secretary**

The Company Secretary or its nominee shall act as the Secretary of the Committee.

### **4. Quorum**

The quorum necessary for the transaction of business shall be two members, provided that a quorum shall not be present where a majority of members are United Kingdom resident. 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.

### **5. Meetings**

The Members may convene the Committee, meet together for the dispatch of business and otherwise regulate their meetings as they think fit.

### **6. Frequency of Meetings**

The Committee shall meet at least three times a year at appropriate times in the reporting and audit cycle and otherwise as required.<sup>1</sup>

### **7. Notice of Meetings**

7.1. 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.

7.2. 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 later than five 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. No Committee meeting shall be held within the United Kingdom and no Committee meeting shall be valid where a majority of members participating in that Committee meeting are present within the United Kingdom at the time of the meeting.

### **8. Minutes of Meetings**

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<sup>1</sup> The frequency and timing of meetings will differ according to the needs of the Company. Meetings should be organised so that attendance is maximised (for example by timetabling them to coincide with Board meetings).

- 8.1. The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 8.2. The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 8.3. Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board.

## 9. **Annual General Meeting**

The Chairman of the Committee may attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities and matters within the scope of the Audit Committee's responsibilities.

## 10. **Duties**

The Committee should carry out the duties below for the Company and the Company's group as a whole, as appropriate.

### 10.1. *Financial Reporting*

10.1.1. 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 formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain. The Committee shall also review summary financial statements, and any significant financial returns to regulators.

10.1.2. The Committee shall review the half yearly and annual financial statements and interim and preliminary announcements before their submission to the Board for approval, focusing in particular upon and challenging where necessary:

- (a) the assumption that the Company is a going concern;
- (b) the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company/group;
- (c) the methods used to account for significant or unusual transactions where different approaches are possible;
- (d) whether the Company has followed appropriate accounting standards which are in accordance with the law and made appropriate estimates and judgements, taking into account the views of the external auditor and report to the Board accordingly;

- (e) any reconciliation between the half yearly and annual net asset values and the published net asset values;
- (f) the clarity of disclosure in the Company's financial reports and the context in which statements are made;
- (g) all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management);
- (h) significant adjustments resulting from the audit; and
- (i) compliance with regulatory and legal requirements (including the requirements of the UK Listing Authority and the London Stock Exchange).

10.1.3. The Committee shall review the basis upon which the net asset value of an ordinary share is published quarterly.

10.1.4. The Committee shall review the suitability of the accounting standards adopted by the Company.

10.1.5. The Committee shall review such contingent and off balance sheet items as may be material to the Company and the scope and status of systems for managing such risk. Where requested by the Board, the Committee should review the content of the annual report and accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

## 10.2. *Internal Controls and Risk Management Systems*

The Committee shall:

10.2.1. monitor and review the effectiveness of the Company's financial reporting procedures, internal controls and accounting and risk management systems; and

10.2.2. review the statements to be included in the Annual Report concerning internal controls and risk management before approval by the Board.

## 10.3. *External Audit*

The Committee shall:

10.3.1. consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, remuneration, 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. The Committee shall initiate a tender process in accordance with regulatory requirements and influence the appointment of the engagement partner and be responsible for the selection procedures for the appointment of audit firms.

10.3.2. oversee the relationship with the external auditor including (but not limited to):

- (a) approval of their remuneration, whether fees for audit or non audit services and that the level of fees is appropriate to enable an adequate 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 UK and Guernsey professional and regulatory requirements, ethical standards and the relationship with the auditors 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 auditors and the Company (other than in the ordinary course of business);
- (e) monitoring the auditors' 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; and
- (f) assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditors on their own internal quality procedures, also evaluating the risks to the quality and effectiveness of the financial reporting process, especially in light of the auditor's communication with the Audit Committee.
- (g) Resolution from the Audit Committee Meeting held 07 March 2012 at 05.30pm

#### Policy regarding Non-Audit Services

It was resolved that Board Approval will be required for non-audit services by the Auditors of over £25,000.

- (h) Resolution from the Audit Committee Meeting held 06 March 2013 at 05.30pm

### Policy regarding Non-Audit Services

Approval of non-audit service policy will be required on an annual basis.

- 10.3.3. meet the external auditors at least once a year, without the investment manager being present, to discuss their remit and any issues arising from the audit;
- 10.3.4. review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- 10.3.5. review the findings of the audit with the external auditors. This shall include but not be limited to, the following:
  - (a) a discussion of any major issues which arose during the audit;
  - (b) a discussion of any problems or reservations arising from the audit (whether interim (if applicable) or final);
  - (c) any accounting and audit judgements;
  - (d) levels of errors identified during the audit;
  - (e) any matters which the auditors wish to discuss;
- 10.3.6. review the effectiveness of the audit and the performance of the auditors;
- 10.3.7. review any representation letter(s), management letter(s) and management's response to the auditor's findings and recommendations requested by the external auditors before they are signed by any director, the Company Secretary or the Investment Manager;
- 10.3.8. review the investment manager's response to the auditors' findings and recommendations; and
- 10.3.9. implement and maintain a policy on the supply of non-audit services by the external auditors, taking into account any relevant ethical guidance on the matter.

#### 10.4. *Reporting Responsibilities*

- 10.4.1. The Chairman of the Committee shall make a brief report on the findings and recommendations of the Committee to the Board after each Committee meeting.
- 10.4.2. The minutes of the Committee meetings shall be circulated to the Board.

10.4.3. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

10.4.4. The Committee shall report to the Board on how it has discharged its responsibilities. It shall also include within the annual report a description of the work of the Committee in how it discharged its responsibilities.

10.5. *Other Matters*

The Committee shall:

10.5.1. have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required. Where appropriate be provided with timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;

10.5.2. give due consideration to laws and regulations, the provisions of the UK Code of Corporate Governance and/or the AIC Code (or any successor or equivalent guidance) and the requirements of the UK Listing Authority's Listing Rules as appropriate;

10.5.3. oversee any investigation of activities which are within its terms of reference and act as a court of the last resort;

10.5.4. 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;

10.5.5. the Committee shall have the authority to investigate any matter within its terms of reference (and shall have the resources which it needs to do so) and to seek any information it requires from any associate of the Company. The Committee is authorised to take such independent professional advice (including legal advice) and to secure the attendance of outsiders with relevant expertise or experience as it considers necessary;

10.5.6. the Committee shall have no executive powers with regard to its findings and recommendations;

10.5.7. the Committee shall keep under review the Company's procedures for handling allegations from whistleblowers;

10.5.8. the Committee shall keep under review the Company's procedures for detecting fraud; and

10.5.9. consider other matters as specified by the Board.

**Addendum I****UKCPT - Audit Committee Members**

<b>MEMBERS</b>	<b>Established/Joined</b>	<b>Review</b>
Andrew Wilson	25/08/2006	16/08/2012
Kenneth McCullagh	06/02/2013	
Sandra Platts	12/12/2013	
Michael Ayre	24/02/2016	
NOTES:		

**Addendum II****Resolution**

Extract of board meeting minute of 25 August 2006 held at 9.00am

**Committees:**

It was noted that it was proposed to establish two Board committees, the management engagement committee and the audit committee. It was also noted that the terms of reference of these committees would be considered later in the meeting after the Board had considered the statements proposed to be made in the Prospectus and the arrangements to be entered into in connection with the Company's relationship with Resolution and its group.

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