

HERALD INVESTMENT TRUST PLC

AUDIT COMMITTEE TERMS OF REFERENCE

Last approved at the Audit Committee held on 19 February 2019.

- Prime responsibility:** To assist the board in carrying out its responsibilities relating to the Company's accounting policies, internal controls, risk management and financial reporting functions.
- Membership & quorum:** The Committee shall comprise at least three members. The Members of the Committee shall be appointed by the board, on the recommendation of the Nomination Committee, from amongst the independent non-executive directors of the Company. At least one member shall have recent and relevant financial experience and be competent in accounting or auditing and a majority of the members should be competent in the TMT sector. A quorum shall be two members. The Chairman of the Committee shall be appointed by the board.
- Attendance at meetings:** Representatives of the manager and secretary, the manager's compliance officer, representatives of the administrator, the depositary and a representative of the external auditor may be required to attend all or part of any meeting.
- Secretary:** Law Debenture Corporate Services Limited.
- Frequency of meetings:** Meetings shall be held at least twice a year. Any member of the Committee or the external auditor may request additional meetings if they consider it necessary.
- Training:** An induction programme is provided for new Audit Committee members and on-going training is available for existing members of the Committee.
- Authority:** The Committee is authorised by the board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from the manager and the secretary and may obtain outside legal or other independent professional advice and secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.
- Duties:** The duties of the Committee shall be:

Financial reporting

- To monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance before submission to the Board, focussing particularly on:-
 - i) the consistency of, and any changes to, accounting policies and practices;
 - ii) major judgmental areas including, but not limited to, the review of the basis of the valuation of the unlisted investments;
 - iii) significant adjustments arising from the audit;
 - iv) the methods used to account for significant or unusual transactions;
 - v) compliance with applicable accounting standards and practices;
 - vi) the clarity of disclosure in the Company's financial reports;
 - vii) all material information presented with the financial statements, such as the strategic report and the corporate governance statements (insofar as it relates to the audit and risk management);
 - viii) where required by the board, advising on whether the annual report and financial statements as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
 - ix) the going concern assumption;
 - x) the viability statement; and
 - xi) compliance with applicable UKLA, London Stock Exchange, legal and other regulatory requirements.

Internal controls and risk management systems

HERALD INVESTMENT TRUST PLC

- To keep under review the adequacy and effectiveness of internal control and risk management systems.
- Review and approve the statements to be included in the annual report concerning internal controls and risk management.

External audit

- To consider the appointment, re-appointment and removal of the external Auditor within the context of the EU Audit Directive and make recommendations to the board. The Committee shall oversee the audit tender and selection process for a new auditor and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required.
- To approve in advance the remuneration of the auditor, whether for audit or non-audit services.
- Approval of the auditor's terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit.
- To review and monitor annually the auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements.
- Assess annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process.
- To discuss problems and reservations arising from the annual audit, and any other matters the auditor may wish to discuss (in the absence of management where necessary).
- Review any representation letter(s) requested by the external auditor.
- To review the auditor's management letter and management's response.
- To develop and implement policy on the engagement of the external auditor to supply non-audit services.

Internal audit, compliance and whistleblowing

- To consider annually whether there is a need for an internal audit function and to explain the reasons for the absence of such a function in the annual report.
- Review regular reports from the manager's compliance officer, including risk monitoring and other matters arising from the manager's obligations under AIFMD.
- Review regular reports from the company secretary, administrator and the depositary.

To review the arrangements in place at Herald Investment Management whereby their staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters insofar as they may affect the Company.

Reporting procedures

The secretary shall circulate the minutes of meetings of the Committee to all members of the board.

The Committee Chairman shall report to the board after each meeting, identifying any matters where the Committee considers that action or improvement is needed and making recommendations as to the steps to be taken.

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Other matters

The Committee shall:

- Review the investment management agreement once a year.
- Periodically review of its own performance and, at least annually, review these terms of reference and recommend any changes it considers necessary to the board for approval.