

**TERMS OF REFERENCE OF THE AUDIT COMMITTEE (THE “COMMITTEE”)  
OF THE BOARD OF DIRECTORS (THE “BOARD”)  
OF EDINBURGH DRAGON TRUST PLC (THE “COMPANY”)**

**AUTHORITY**

The Committee is authorised to investigate and undertake any activity within these terms of reference. It is authorised to seek any information it properly requires from any employee of Aberdeen Asset Management plc/Aberdeen Asset Managers Limited (the “Manager”). All such employees are directed to co-operate with any such request made by the Committee.

If the Committee considers it necessary or desirable so to do, it is authorised to obtain advice or information from, or secure the services of, external sources with relevant experience and expertise to assist it in the performance of its duties and to invite persons representing any such sources to attend meetings of the Committee. The cost of obtaining such advice or services shall be borne by the Company.

**MEMBERSHIP**

The Committee shall be made up of at least three members. All members of the Committee shall be independent non-executive directors at least one of whom shall have recent and relevant financial experience. The Chairman of the Board can be a member of the Audit Committee provided he/she was considered independent on appointment. The quorum shall be two members.

**MEETINGS**

The Committee shall meet at least two times in each year, at such times and locations as may be agreed by its members. In addition, any member of the Committee may at any time convene a meeting of the Committee. If they consider that one is necessary or desirable, the Company’s auditors may also request a meeting of the Committee at any time. The quorum for any meeting of the Committee shall be two.

Such employee(s) of the Manager as are appropriate for the purpose and (a) representative(s) of the Company’s auditors shall attend meetings, if appropriate, of the Committee (but they shall have no right to vote at such meetings). Any member of the Board who is not a member of the Committee shall have the right to attend (but not to vote at) any meeting of the Committee.

At least once in each year, the Committee shall meet with the Company’s auditors without the presence of any employee of the Manager.

**TRAINING**

An induction programme shall be provided for new Audit Committee members and ongoing training will be available for existing members of the Committee.

**DUTIES**

The duties of the Committee shall be:

**1. Financial reporting, accounting policies and going concern**

The Committee shall satisfy itself that proper books and records have been maintained. The Committee shall assess the integrity of the financial statements and report to the Board that the accounts show a true and fair view.

The Committee shall ensure that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provide the information necessary for shareholders to assess the company’s performance, business model and strategy. The Committee shall also identify significant issues that it considered in relation to the financial statements and report to the Board on how these issues were addressed.

The Committee shall assess the integrity of the Company's viability statement in the annual report which determines whether the Board has a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due. The Committee should specify the recommended period to be covered (should be longer than 12 months) and why they consider that period to be appropriate.

The Committee shall review the interim and annual financial statements of the Company before their submission and recommendation for approval by the Board, focusing particularly on:-

- a) any changes in accounting policies and practices;
- b) major judgmental areas including, but not limited to the review of the basis of the valuation of the unlisted investments.
- c) significant adjustments resulting from the review or audit carried out by the Company's auditors in connection therewith;
- d) the going concern assumption and the statement that the business is a going concern before endorsement by the Board;
- e) compliance with applicable accounting standards and practices;
- f) compliance with the requirements of investment trust status
- g) compliance with applicable London Stock Exchange, legal and other regulatory requirements.

## **2. Risk management and internal control systems (including internal audit, compliance, fraud detection and whistle blowing**

The Committee shall:

- a) review the effectiveness of the financial planning and internal control systems (including financial, operational and compliance controls and risk management) and discuss with the Manager the implementation of improvements;
- b) carry out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity and to describe how these principal risks are being managed or mitigated (viability statement).
- c) review the Company's statement on its system of internal controls as set out in the directors' report accompanying the Company's annual accounts prior to endorsement of that statement by the board;
- d) review the effectiveness and appropriateness of reliance on the Manager's risk management and internal controls and fraud detection systems, and the Manager's internal audit function,
- e) review the arrangements which the Manager has in place by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters;
- f) review the work of the Manager's risk management committee and the adequacy of resources within the Manager's risk management function and the adequacy of its reporting to the Audit Committee
- g) review the litigation status and regulatory actions in progress against the company and satisfy itself on whether the appropriate level of provision has been made;
- h) meet with the Manager's head of internal audit at least once a year. The Audit Committee Chairman shall have access to meet with Aberdeen Group's AC Chairman.

### **3. External audit**

The Committee shall:

- (a) consider the appointment and re-appointment of the Company's auditors, review their services and performance, their remuneration and cost effectiveness, their independence and objectivity and any questions of their resignation or dismissal. In relation to the supply of non-audit services to the Company or any of its subsidiary undertakings, review the volume, nature and extent of such services to ensure a balance is maintained;
- (b) review and approve the annual audit plan of the external auditors and, if necessary, to request special reviews outwith the scope of the auditors' statutory duties including (without limitation) the review of any financial information prior to publication, such as prospectuses and forecasts;
- (c) discuss problems and reservations (whether of the auditors or of the members of the Committee or of the other directors of the Company) arising from the review by the Company's auditors of interim financial information and/or the annual audit and any other matters which the Company's auditors may wish to discuss (without the presence of the employees of the Manager, where appropriate);
- (d) in relation to each annual audit, review the auditors' letter to the Committee;
- (e) consider any major findings of the auditors pursuant to any investigations carried out by the auditors concerning the Company's financial affairs or its system of internal controls and any response of the Manager thereto; and
- (f) assess the fees paid to the auditors, both in respect of their work as auditors and for other work.

### **4. Review of Management Agreement**

- (a) The Committee shall undertake an annual review of the Investment Management Agreement and satisfy itself that the terms of the agreement have been complied with.
- (b) The Committee shall review the performance of the Manager on an annual basis. The Committee shall recommend to the Board the continued suitability of the Manager on an annual basis. The Committee shall ensure that all Board decisions have been put into effect by the Manager.

### **5. Review of Third Party Agreements**

The Committee shall review compliance with major agreements, including but not limited to, stock-lending, custodial and loan agreements

### **6. Matters Reserved for the Board**

The Committee shall:

- (a) satisfy itself that all Board decisions have been actioned; and
- (b) assess whether any matters reserved for the Board have been delegated to management.

### **7. Other matters**

The Committee shall:

- (a) maintain informal contact with the Manager, the board and the auditors on the above matters;

- (b) consider such matters as may be requested by the board; and
- (c) review its performance, effectiveness and terms of reference annually and recommend any changes it considers necessary to the Board for approval.

### **REPORTING**

The secretary of the Committee shall circulate an agenda before each meeting of the Committee to all members of the Committee and the Company's auditors and, after each such meeting, shall circulate the minutes of such meeting to all members of the board and the Company's auditors.

The Audit Committee Chairman shall report to the Board on its proceedings after each meeting and shall make whatever recommendations to the Board it deems appropriate.

The Audit Committee Chairman should be available, at the request of the Chairman of the Board, to attend the AGM and respond to shareholder questions of the Committee's activities.

The Committee shall report on its activities in the company's Annual report.

April 2016