

DATED 9<sup>TH</sup> SEPTEMBER 2021

LIGHT SCIENCE TECHNOLOGIES HOLDINGS PLC

**AUDIT AND RISK COMMITTEE  
TERMS OF REFERENCE**

## LIGHT SCIENCE TECHNOLOGIES HOLDINGS PLC (THE “COMPANY”)

### 1 CONSTITUTION

The audit and risk committee of the Company has been established as a board committee in accordance with the Company’s articles of association by resolution of the board of directors of the Company (the “**Board**”) passed on 9<sup>th</sup> September 2021 and shall be known as the Audit and Risk Committee (the “**Audit and Risk Committee**”).

### 2 MEMBERSHIP

2.1 The members of the Audit and Risk Committee shall be appointed by the Board from amongst the directors of the Company (the “**Directors**”) and shall comprise not less than two members. All of the members of the Audit and Risk Committee should be independent non-executive Directors and shall have recent and relevant experience working with financial and accounting matters.

2.2 Appointments to the Audit and Risk Committee shall be for a period of up to three years, which may be extended by no more than two additional periods of up to three years each provided that the majority of the Audit and Risk Committee members remain independent.

2.3 The Chairman of the Audit and Risk Committee, who should be an independent non-executive director, and shall not be Chairman of the Board, shall be appointed by the Board, which shall determine the period for which he/she shall hold office. In the absence of the Chairman of the Audit and Risk Committee, the remaining members present at a meeting of the Audit and Risk Committee shall elect one of their number to chair that meeting.

2.4 A quorum for decisions of the Audit and Risk Committee shall be two members present in person or by audio or video conference. A duly convened meeting of the Audit and Risk 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 Audit and Risk Committee.

2.5 In order to fulfil the Audit and Risk Committee's overall purpose the members of the Audit and Risk Committee should:

- (a) have no personal financial interest, other than as shareholders in the Company (if applicable), in the Audit and Risk Committee's decisions;
- (b) have no 'cross-directorships' with the executive Directors which could be thought to offer scope for mutual agreements;
- (c) be independent of the Company's management and free from any business or other relationship with the Company or any member of the Company's group which could materially interfere with the exercise of their independent judgement;
- (d) have a good understanding, enhanced as necessary by appropriate training or access to expert advice, of the ambit of the Audit and Risk Committee's business; and
- (e) at least one member of the Audit and Risk Committee should have recent and relevant financial knowledge.

2.6 The first members of the Audit and Risk Committee shall be Lisa Clement and Rob Naylor and the first Chairman shall be Myles Halley.

### 3 ATTENDANCE AT MEETINGS

3.1 The Audit and Risk Committee may at each meeting appoint one of their number to be the Secretary of the Audit and Risk Committee.

3.2 The secretary of the Committee shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

3.3 The Chairman of the Board, the Chief Executive and Finance Director of the Company and a representative of the external auditors of the Company (the “**Company's Auditors**”) may, if invited

by the Chairman of the Audit and Risk Committee, attend and speak at meetings (or parts thereof) of the Audit and Risk Committee. Other Board members shall also, if invited by the Chairman of the Audit and Risk Committee, have the right of attendance.

3.4 At least once a year, representatives of the Company's Auditors shall meet the Audit and Risk Committee without any executive Directors being present, except by invitation of the Audit and Risk Committee.

3.5 Outside of the formal meeting programme, the Chairman of the Audit and Risk Committee, and to a lesser extent the other committee members, will maintain a dialogue with key individuals involved in the company's governance, including the Chairman of the Board, the Chief Executive, the Finance Director and the external audit lead partner.

#### **4 FREQUENCY OF MEETINGS**

4.1 Meetings shall be held three times a year. The Company's Auditors and any member of the Audit and Risk Committee may request a meeting if they consider that one is necessary.

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 Audit and Risk Committee and any other person required to attend.

4.3 At least seven days' notice of any meeting of the Audit and Risk Committee shall be given, although such notice may be waived or shortened with the consent of all the members of the Audit and Risk Committee for the time being.

#### **5 AUTHORITY**

5.1 The Audit and Risk Committee is authorised by the Board to investigate any activity within its term of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any requests made by the Audit and Risk Committee.

5.2 The Audit and Risk Committee is authorised by the Board to obtain, at the cost of the Company, outside professional advice on any matter if it believes it necessary to do so and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

#### **6 VOTING AT MEETINGS**

6.1 Subject to paragraph 6.2, each member of the Audit and Risk Committee, present and voting in person at a meeting, shall have one vote which may be cast on each matter considered at that meeting.

6.2 A member shall not be permitted to vote on any matter considered at a meeting in relation to which that member is considered by the Audit and Risk Committee to have a direct or indirect personal interest.

6.3 Save where he is prevented from voting in accordance with paragraph 6.2, the Chairman of the Audit and Risk Committee shall have a casting vote.

#### **7 PURPOSE**

7.1 The purpose of the Audit and Risk Committee is to provide a formal and transparent framework for the application and monitoring of the group's financial reporting and internal control principles and to maintain an appropriate relationship within the Company's Auditors.

7.2 The Audit and Risk Committee should have oversight of the group as a whole and, unless required otherwise by regulation, carry out the duties below for the parent company, major subsidiary undertakings and the group as a whole, as appropriate.

#### **8 DUTIES**

8.1 The duties of the Audit and Risk Committee shall be:

- (a) to make recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the Company's Auditors and to approve the remuneration and terms of engagement of the Company's Auditors;
- (b) ensure that at least once every ten years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms; and in respect of such tender, oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the tendering process;
- (c) if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- (d) to discuss with the Company's Auditors before the audit commences the nature and scope of the audit, and other relevant matters and ensure co-ordination where more than one audit firm is involved;
- (e) to review and monitor:
  - (i) the independence and objectivity of the Company's Auditors taking into account relevant law, regulation, the ethical standard and other professional requirements and the group's relationship with the auditor as a whole, including any threats to the Company's Auditors' independence and the safeguards applied to mitigate those threats including the provision of any non-audit services; and
  - (ii) the effectiveness of the audit process,
 taking into consideration relevant professional and regulatory requirements;
- (f) to monitor in discussion with the Company's Auditors the integrity of the financial statements (including the annual and half-yearly reports) of the Company and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgments contained in them and, in particular, 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 both on a year on year basis and across the Company, including the application of new accounting policies in interim accounts, and the plan to communicate those changes to shareholders and the market;
  - (ii) major judgmental areas and whether the Company has made appropriate estimates and judgements, taking into account the external auditor's view;
  - (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;
  - (vii) the extent to which the financial statements are affected by any unusual transaction;
  - (viii) management's assessment of the impact of new accounting policies on the distributable reserves of the Company; and
  - (ix) the legality of any proposed dividend and the company's ability to pay it and remain a going concern;
- (g) to discuss problems and reservations arising from the audit, and any matters the Company's Auditors may wish to discuss (in the absence of management where necessary);
- (h) to review the Company's Auditors' management letter and management's response;

- (i) to consider any significant ventures, investments or operations which are not subject to external audit;
- (j) to review annually the effectiveness of the Company's systems of internal control (including financial, operational and compliance controls and risk management) prior to review by the Board and, in particular, to review:
  - (i) the procedures for identifying business risks and controlling their financial impact on the Company;
  - (ii) the Company's policies for preventing or detecting fraud;
  - (iii) the Company's policies for ensuring that the Company complies with relevant regulatory and legal requirements; and
  - (iv) the operational effectiveness of the policies and procedures,

and from time to time to make recommendations to ensure the maintenance of a sound system of internal control to safeguard shareholders' investment and the Company's assets;
- (k) to give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code, the QCA Corporate Governance code, the AIM Rules for Companies, the Market Abuse Regulation (EU) No. 596/2014 (as amended by the Market Abuse (Amendment) (EU Exit) Regulations 2019 (SI 2019/310) and Financial Services and Markets Act 2000 (Amendment) (EU Exit) Regulations 2019 (SI 2019/632)), the United Kingdom Listing Authority's Disclosure Guidance and Transparency Rules (in so far as they apply to the Company) and any other applicable rules as appropriate;
- (l) to monitor the Company's adherence to the Company's AIM Rule 31 Compliance Policy and Market Abuse Regulation (EU) No. 596/2014 (as amended by the Market Abuse (Amendment) (EU Exit) Regulations 2019 (SI 2019/310) and Financial Services and Markets Act 2000 (Amendment) (EU Exit) Regulations 2019 (SI 2019/632));
- (m) to review the Company's statement on internal control systems prior to endorsement by the Board;
- (n) to monitor and review the effectiveness of any internal audit function, ensure co-ordination between the internal and external auditors and ensure that it is adequately resourced, has freedom to act and has appropriate standing within the Company (and where there is no internal audit function, consider annually whether there is a need for an internal audit function and make a recommendation to the Board);
- (o) to develop and implement policy on the engagement of the Company's Auditors to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the Company's Auditors; and
- (p) to report to the Board, identifying any matters in respect of which the Audit and Risk Committee considers that action or improvement is needed and making recommendations as to the steps to be taken;
- (q) to review arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and ensure that arrangements are in place for the proportionate and independent investigation of such matters with appropriate follow-up action;
- (r) monitor the level of fees paid by the Company to the external auditor compared to the overall fee income of the firm, office and partner and assess these in the context of the legal, professional and regulatory requirements;
- (s) to consider the major findings of the Company's Auditors, or any internal investigations and management's response; and
- (t) to investigate into, and report and/or make recommendations regarding, any matter in any way connected with the matters which the Audit and Risk Committee is to review, consider or

determine or on which it is to advise, or which is referred to the Audit and Risk Committee by the Board.

## 9 RISK MANAGEMENT

9.1 The Audit and Risk Committee shall:

(a) Risk assessment and management

- (i) on behalf of the board (which retains overall responsibility for risk management), review and monitor the Company's risk management systems and overall risk framework and processes, at least annually, review their effectiveness;
- (ii) consider the appropriate risk appetite for the Company across all major activities, taking into account the overall strategy of the Company, its future plans and other internal information, as well as the external environment, including economic, political and industry information;
- (iii) ensure that a robust assessment of the principal risks facing the Company has been undertaken (including those risks that would threaten its business model, future performance, solvency or liquidity and provide advice on the management and mitigation of those risks;
- (iv) oversee the current and prospective risks faced by the Company and its strategy in relation to future risks;
- (v) ensure that risk management is properly considered in board decisions;
- (vi) review the methodology for reporting risk to the board, including both quantitative and qualitative measures; and
- (vii) set triggers for reporting and escalation of significant emerging risks which may be critical to the Company and assess the Company's ability to manage new risks.

(b) Internal controls

review the Company's internal financial controls and internal control systems and carry out a review of its effectiveness;

(c) On-going viability

provide advice on how, taking into account the Company's position and principal risks, the Company's prospects have been assessed, over what period and why the period is regarded as appropriate. The Audit and Risk Committee shall also advise on whether there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the said period, drawing attention to any qualifications or assumptions as necessary and taking into account relevant scenario planning and stress-testing;

(d) Management and internal and external audit reports

- (i) review the assurance reports from management on the effectiveness of the internal control and risk management systems and from the internal audit, the external auditor and others on the operational effectiveness of matters related to risk and control. The Audit and Risk Committee should satisfy itself that these sources of assurance and information are sufficient and objective and are enough to enable the board to satisfy itself that they are operating effectively; and
- (ii) review the timeliness of, and reports on, the effectiveness of corrective action taken by management in response to any material external or internal audit recommendation;

(e) Disclosures

- (i) review and approve the statements to be included in the annual report concerning internal controls, risk management, and ensure that relevant disclosures are given in the directors' report as to the Company's risk management and strategy in relation to financial instruments;
- (ii) consider any necessary disclosure implications of the process that has been applied by the board to deal with material internal control aspects of any significant problems disclosed in the annual report and accounts; and
- (iii) consider the major findings of any relevant internal investigations into risk and control weaknesses, fraud, or misconduct and management's response, and also consider whether any such failings or weaknesses are significant and therefore require disclosure, the basis and accuracy of explanations given as to what actions are being taken to address them, and whether the level of disclosure of such actions is appropriate.

## 10 **WHISTLEBLOWING**

10.1 The Audit and Risk Committee shall review the effectiveness, adequacy and security of the Company's arrangements for its workforce to raise concerns, in confidence and anonymously, about possible wrongdoing in financial reporting or other matters. The Audit and Risk Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action.

## 11 **FRAUD**

The Audit and Risk Committee shall annually review the Company's procedures for detecting fraud.

## 12 **COMPLIANCE**

12.1 The Audit and Risk Committee shall:

- (a) review the Company's systems and controls for ethical behaviour and the prevention of bribery and modern slavery and receive reports on non-compliance; and
- (b) review regular reports from the money laundering reporting officer and the adequacy and effectiveness of the Company's anti-money laundering systems and controls; and
- (c) review regular reports from the compliance officer and keep under review the adequacy and effectiveness of the Company's compliance function.

## 13 **PROCEDURES**

13.1 The Secretary of the Audit and Risk Committee shall circulate the minutes of meetings of the Audit and Risk Committee to all members of the Board and to the Company's Auditors. All decisions of the Audit and Risk Committee shall be reported to the Board.

13.2 The Chairman of the Audit and Risk Committee shall be available at the Annual General Meeting of the Company to respond to any shareholder questions on the activities and responsibilities of the Audit and Risk Committee. In addition the Chairman of the Audit and Risk Committee should seek engagement with shareholders on significant matters related to the Audit and Risk Committee's areas of responsibility.

13.3 The Audit and Risk Committee shall conduct an annual review of its work, own performance and these terms of reference to ensure it is operating at maximum effectiveness and shall make recommendations about this to the Board.

13.4 The Audit and Risk Committee shall have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required.

13.5 Members of the Audit and Risk Committee shall be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.