



MOUNTFIELD GROUP PLC (“THE COMPANY” or “THE GROUP”): HOW THE COMPANY SEEKS TO ACHIEVE GOOD CORPORATE GOVERNANCE

What is good corporate governance?

“In essence, good corporate governance is about having the right people in the right roles, working together, and doing the right things to deliver value for shareholders as a whole over the medium to long-term.

Good corporate governance is achieved through a series of decisions made by the board, which needs to be kept dynamic and diverse and engender a consistent corporate culture throughout the organisation. Good corporate governance is about ensuring that the board is set up to make robust decisions and manage risk. It is also increasingly about ensuring that a healthy culture is in place which combines a strong focus on performance and a sense shared throughout the workforce of what is acceptable and what is unacceptable in terms of behaviour.” (Extract from the introduction to the QCA Corporate Governance Code).

At the time of the admission of the Company’s shares onto AIM in October 2008, the Board confirmed its intention to comply with the provisions of the QCA Corporate Governance Code (“the Code”) in so far as it was appropriate to an organisation of the size and structure of the Company.

The Code provides a framework designed to ensure that companies who adopt and comply with its provisions have boards that fulfil not only their statutory obligations but also those to their shareholders and other stakeholders.

The London Stock Exchange has made changes to the AIM Rules so that each AIM company must by 28 September 2018 apply the provisions of a recognised corporate governance code and also confirm that it intends to comply with it or cite those areas in which it intends to deviate from its provisions. In the case of the Company the chosen code will continue to be the Code.

As Chairman of the Company it has been my responsibility to ensure that in its methods of management, the manner in which the Board is structured and operates and in its relationship with its shareholders it complies (subject as mentioned) with the spirit and letter of the Code.

I will explain here how the Company complies with the ten key principles of in the Code. The following disclosures were last updated on 28 September 2018.

Principle 1: Establish a strategy and business model which promote long-term value for shareholders.

The Directors devote a considerable part of each board meeting to analysing the performance of the Company's two divisions - the specialist construction division (Mountfield Building Group Limited ("MBG")) and the commercial flooring division (Connaught Access Flooring Limited ("CAF")). Because the two operate with different business models and client bases the Board has had to merge the differing strategies that each has agreed with the Board.

The Board's overriding strategy has been designed to balance profitability against risk and this was developed as a result of the experience gained during the 2008 recession. MBG had until that time been focussed on the construction and fit-out of data centres at a time when demand for new centres was high. This type of work ceased to be widely available from late 2008 and the construction work that was on offer carried low margins and high risk.

Following a review by the Board of MBG's business strategy, MBG was re-focussed towards acting as principal contractor and away from fixed price, high-risk contracts. The result has been that MBG now makes a significant contribution to the Group's overall profitability.

MBG's current strategy is to specialise on undertaking construction management roles as a principal contractor, building fabric and facilities management, and specialist trade contracting and once again with an emphasis on building data centres.

CAF has, for a number of years focussed on the supply and installation of raised access flooring systems and of other types of commercial flooring with a particular emphasis on those utilised in the financial sector. Since Admission its strategy has been to concentrate on the highest standards in its installation work and its post-completion service. The result has been that it has been recognised as one of only three companies able to tender for large-scale flooring contracts and complete them on time and to the specified standards.

CAF, aware that its turnover is largely comprised of large-scale contracts for industry majors has sought to even out the cyclical nature of its work by pursuing lower value but higher or more robust margin contracts.

The Group's strategy has enabled the Group to increase profitability materially over the last three years.

The strategy is set by the Group CEO, Andy Collins in conjunction with the Board. The strategy is implemented within CAF by Andy Collins and within MBG by Graham Read, its Managing Director.

Variations to the existing strategy (for example, by increasing the number of services or products that the divisional companies cover are regularly considered by the Board and these take the form of increasing the number of products or services that the divisional companies cover or the Group moving into a new area following an acquisition) are frequently discussed. Although suitable opportunities have not been found changes to the strategy remain under active consideration.

The Board believes that the current business models and strategy provide the Company with the ability to provide increasing profitability and long-term growth in shareholder value because of:

- 1: The reputations that each of the divisional companies have developed with its clients and suppliers.
- 2: The balance each has achieved between the resources needed to provide their services and that for maintaining low operating costs.

Principle2: Seek to understand and meet shareholder needs and expectations

The Board has to date kept its shareholders updated about contract wins and developments relating to the Company through RNS announcements. It also issues trading statements usually twice a year to keep shareholders updated on the Company's performance and prospects. The Board is reviewing these communications to see how they could be improved by including information that would enable shareholders to better understand the Company's business and how undertakes it.

As Chairman I am happy to receive emails from shareholders and may be contacted at peter@peterjay.org who have questions regarding aspects of the Company's business. Although I have to be circumspect in providing answers so as to ensure that there is no disclosure of price sensitive or confidential information and that no shareholder is given information that would not be made available to all I regard the dialogue as being a useful one as it enables shareholders to make the Board aware of their concerns. The tenor of these comments is then shared with the other members of the Board at its meetings and is considered when updating the market.

The Company offers shareholders the opportunity to listen to and interrogate the Board at the Annual General Meeting that is held at a City of London location and in premises able to hold large numbers of shareholders. The Board is considering how it could supplement this by arranging sessions to which all shareholders would be invited and where they would be able to question the Board on aspects of the Company's business.

The Board would like to see more institutional shareholders joining the share register.

Principle 3: Take into account wider stakeholder and social responsibilities and their implications for long term success

The Board's primary statutory responsibility is to promote the success of the Company for the benefit of its shareholders. The Board recognises and accepts that it also has a responsibility to other parties including its employees, clients, suppliers and those parties who supply services to it and that its corporate social responsibility approach must meet these expectations. Being only a medium sized business in a sector that is dominated by large organisations the Company can only thrive by keeping particularly close links with its relatively small number of employees, clients and suppliers. It has not created a structure by

which it is able to communicate with the stakeholders as their contacts, both formal and informal provides the divisional directors with the input they require on a daily basis and they respond to the feedback in similar manner.

It is acknowledged that if the Company were to grow substantially beyond its present size a more structured approach would be required.

Due to the size and nature of the Company presently, the social, environmental and economic impacts from carrying out its business are limited but are of not of course disregarded. Furthermore, the Company is subject to the health, safety and operating standards set by a main contractor.

As mentioned elsewhere the Company works closely with its relatively small teams of employees. Whilst always conscious of the need to protect price-sensitive information or that which is confidential to a client, information regarding contracts being sought and those won and the ambitions for and strategy of the Group is regularly shared with the employees.

The Company takes employee training seriously: both MBG and CAF hold a Company Training Matrix for staff and labour employed to record necessary training modules completed and to ensure that certificates and qualifications are kept up to date. They also receive training to the required level of industry accreditation to management level along with operational and Health & Safety training.

MBG is ISO accredited to UKAS standards and is regularly audited by OSO appointed advisors/assessors.

Directors and Executives also meet to discuss any beneficial training that may be required for employees and labour and recommend external courses to compliment the individual skills.

Principle 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation.

Both of the divisional companies operate within highly competitive sectors of the construction industry. In addition, the industry has had a history of period of high demand followed by periods when activity levels are reduced. The Board's strategy (as mentioned in Principal 1) has been to balance the drive for increased profitability with the need to minimise risk and the consequent damage to the value of shareholders' funds.

Because of the size of the Company the respective Executive Directors work closely with their management teams and other employees and are therefore constantly aware of changes in client demands or levels of market activity. The Board is aware of the factors that dictate the levels of success of the business and the regular agenda for Board meetings has been designed to ensure that the issues that determine and measure performance are discussed and analysed at each meeting.

In terms of risk management and the Company's financial systems, the Audit Committee prepares a report following the completion of each audit as to the quality and robustness of

the systems and a copy of this is provided to the Board will consider the report at the board meeting held next following the completion of the report and acts on any recommendations contained in the report.

Principle 5: Maintain the Board as a well-functioning, balanced team led by the chair

The structure and size of the Board and the nature of the appointments to it have reflected the need for it to be a bridge between the two divisional companies within the Group and to enable informed and researched decisions to be made by the Directors acting as a Board. In addition, the Board sees itself as the evaluator of the Group's performance and as the natural forum for discussions and decisions to be made as to the Group's immediate and longer-term business strategy.

Decisions as to the size of the Board and its composition have been made following discussions how an organisation of the size and with the structure of the Group may best address the issues mentioned above.

The Board is currently composed of myself and the two Executive Directors of the Group - Andy Collins (who is also Group CEO) who heads CAF and Graham Read the MD of MBG. Although both divisional companies are construction based they have different clients and working methods and it has been Andy Collins's task, working with the Board to develop policies that are common to the Group but which also allow the divisional companies freedom of manoeuvre within an agreed framework.

Both Andy Collins and Graham Read are employed full-time within the Group and devote all their working time to it.

I am the non-executive chairman and my responsibility extends beyond chairing Board Meetings and using my professional experience of having been a corporate lawyer to include advising the Board on matters relating to corporate governance, corporate finance, providing legal advice when required and responsible for relationships with the shareholders and advisers. I am not involved in the undertaking of the Group's business.

Although strict compliance with the provisions of the Code would have meant the Board would have contained at least two independent non-executive directors it decided following extensive discussion that rather than appoint two independent non-executive directors it would appoint individuals who were suitably qualified by skill and experience to provide the Board with advice and analysis on the issues where substantial knowledge and experience were required.

The Company keeps the issue of board composition under review and acknowledges that the appointment of an additional independent non-executive director will be necessary when the size of the Company is significantly greater than it is today.

The two persons who attend the Board Meetings in this capacity (but do not have the right to vote) are:

Andy May – Andy is a partner in Barnes Roffe, a firm of chartered accountants and has extensive experience of advising small/medium companies on financial and audit matters. He regularly provides advice on matters relating to the financial aspects of the Group’s business at Board Meetings.

Chris Adlam – Chris is an FCCA and a director JDC Corporate Finance and specialises in advising companies on acquisitions and corporate activity, generally. His input is valuable and his expertise is called upon regularly.

As well as attending Board meetings Andy and Chris provide advice to the Board between meetings as and when required and also participate in meetings of the Board committees as mentioned under Principle 9.

The Board meets not less than ten times a year and in the last year all persons mentioned above attended all meetings.

Principle 6: Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

All those who attend Board meetings as Directors or as advisers have the experience and skills required to enable to successfully undertake its business and execute its strategy.

The Executive Directors attend trade shows to ensure that they keep up to date with changes in standards and working methods in their industry. The Chairman and the advisers keep their professional knowledge updated by attending lectures and reading professional journals. The Directors also attend course to enhance management skills and health and safety courses recommended by the Company’s external HR advisers.

The Executive Directors

Andy Collins – Group CEO and CEO of CAF

Andy’s background is in surveying after which he held a number of senior posts with companies specialising in refurbishing and fast-track fit-outs. Between 1989 and 2004 he worked for ISG Plc (which specialises in commercial fit-outs and refurbishment services) and at the time he left he held the position of divisional finance director.

In June 2004 he became Managing Director (and part owner) of CAF which he has built up to a position where it is now regarded as a leading specialist in the supply and installation of raised access flooring and other commercial flooring solutions.

Andy devotes the whole of his working time to the Group.

Graham Read – MD of MBG

Graham’s career began as a quantity surveyor in the construction industry and in 1986 he founded MBG as a trade contracting company. In 1987 he widened the company’s scope by offering specialist multi-trade services and in 1997 he began undertaking data centre related

work for Energis Plc, a telecoms company. This latter aspect of the company's work became its particular specialisation until around 2008. MBG is again involved in the construction and refurbishment of data centres along with the provision of other specialist construction services.

Graham devotes the whole of his working time to the Group.

Peter Jay – Non-Executive Chairman

From 1970 Peter worked as a lawyer specialising in corporate finance work and was a partner in three separate firms – with a maritime specialist in the City until 1985, as a founding partner and subsequently senior partner of Finers in the West End and from 2003 until 2009 as a partner specialising in capital market work with Beachcroft in the City.

Since 2009 Peter has provided advice on corporate finance matters to a wide range of clients and has held a number of board positions in companies, none of which have been in the construction industry.

Peter spends on average 100 days a year on the business of the Company.

Andy May

Andy is a partner and head of audit at Barnes Roffe, a medium sized accountancy practice based in East London. His input to the Board is on matters such as issues arising from the Company's annual audit, compliance and financial controls.

Andy is an external adviser to the Company and therefore splits his time between it and a number of other roles.

Chris Adlam

Chris, like Andy May is a chartered certified accountant with JDC Corporate Finance where he is director of business growth. He also has considerable experience of undertaking reviews and investigations into businesses and on advising clients on corporate transactions.

Chris is an external adviser to the Company and therefore splits his time between it and a number of other roles.

Principle 7: Evaluate Board performance based upon clear and relevant objectives, seeking continuous improvement

The Board has not previously implemented a formal evaluation process as the greater part of each board meeting (of which there are at least ten in each year) is taken up with a close examination of the performance of each of the divisional companies in terms of work secured, the progress of contracts, margins achieved and cash collections. In this way the Board has been able to evaluate the performance of the two Executive Directors who are each in charge of and responsible for one of the divisional companies.

It has now been agreed however that the Company is committed to implementing a more formal evaluation process with performance reviewed against each of the above factors and also on issues such as marketing strategy and management succession. Evaluation will be managed by the chairman and I will be assisted by the two advisers to the Board.

Principle 8: Promoting a corporate culture that is based upon ethical values and behaviours

The Code provides that:

“The board should embody and promote a corporate culture that is based on sound ethical values and behaviours and use it as an asset and a source of competitive advantage.

The policy set by the board should be visible in the actions and decisions of the chief executive and the rest of the management team. Corporate values should guide the objectives and strategy of the company.

The culture should be visible in every aspect of the business, including recruitment, nominations, training and engagement. The performance and reward system should endorse the desired ethical behaviours across all levels of the company.”

The Board operates in a manner that accords with the above in the way in which Board members treat each other with respect, the manner in which ethical standards are maintained in all tendering processes and in seeking new business and in the way in which the Company interacts with its employees.

The culture of the Company is set by that of the two trading divisional companies, CAF and MBG and by the fact that both are comprised of small teams of (primarily) long-serving employees.

Although the divisional companies occupy separate premises that are approximately 20 miles apart and the businesses of each are, to a degree, run independently of each other, they share a common culture and the employees identify strongly with the respective businesses as they progress.

This is the result of the close working relationships that the Executive Directors who head each of the divisional companies have with their respective teams. Subject always to the requirements regarding non-disclosure of price sensitive or confidential information, the members of the team are closely involved in the contract-winning and performing processes.

Each of the divisional companies operate in highly competitive fields and often pitch for contracts against larger and better resourced competitors. The Company’s success has to a considerable extent been underpinned by the team culture but also by the quality of the client service each provides, whether it be at the contract gaining stage, during the performance of the contract and, of great importance, in terms of client after-care. Corporate culture is maintained by the Divisional Executives (who are also Board members) and who are responsible for managing ethical values and behaviour throughout the Group.

Emphasis is placed upon attention to the needs of the client, integrity and accuracy in all aspects of the undertaking by CAF and MBG of their businesses.

Principle 9: Maintaining governance structures and processes that are fit for purpose and support good decision-making by the Board

The Company adopted the Code when it was admitted to AIM in 2008 and has abided by its principles ever since except where it has proceeded differently because the Board has decided that the size and structure of the Company make other solutions more appropriate.

In particular:

1. The Board is comprised of two executive directors and one non-executive director who have voting powers and they are assisted at board meetings by financial advisers with specialist knowledge, one (Andy May) of financial systems and business performance and the other (Chris Adlam) of business finance and corporate transactions. The Directors have concluded that the composition provides the Board with the oversight it requires of its business and of the strategy of the Company. The Directors believe experience over the last two years has shown that this composition works well for the Company, its shareholders and other stakeholders but keep it under regular review. The Board recognises that, as the business grows, so should the Board.
2. The Board does not believe that it is necessary for the Company to have a nominations committee.
3. Apart from having convened AGMs and EGMs, the Board has not organised meetings with its shareholders. The Board does intend to commence a shareholder engagement programme and convene the first of such meetings in the near future and to invite all the Company's shareholders to it.

The **Board** is the primary decision-making forum of the Company and it is responsible for matters relating to the Company's performance (and the review of it), strategy, financing, capital expenditure and administration and items not delegated to the divisional companies. Matters reserved (at first instance) to the divisional companies include their respective performance, staffing below senior management level, cash collection administrative matters.

The executive teams of the divisional companies meet at least monthly and the meetings are usually attended by both Andy Collins, the Group CEO and Graham Read.

The **Board** meets approximately once a month and the timings of its meetings are often chosen to permit the Board members to review monthly management accounts and annual or interim accounts before they are released.

The **Board** is comprised of:

1. Two Executive Directors – Andy Collins Managing Director of Connaught and also Group CEO and Graham Read, Managing Director of MBG.
2. The Chairman; I hold that position as an Independent Non-Executive capacity. My role is to set the agenda for meetings of the board, lead board discussions, act as primary contact with the Company's City and professional advisers, as a contact point for shareholders and ensure that the Company acts in accordance with the provisions of the Code and that there is regular review of its strategy and performance.
3. Two persons (Andy May and Chris Adlam) who are both Chartered Accountants and, although not appointed as directors of the Company attend Board Meetings and provide specialised advice on financial and corporate finance matters.

The Board has set up two committees, an **Audit Committee** and a **Remuneration Committee**.

Delegated to the **Audit Committee** is the oversight of the Company's annual audit, selection of the auditors and a meeting with the audit partner and his team following conclusion of their work. At that meeting the audit partner will advise the Committee of his conclusions as to the state of the Company's financial systems and will highlights any matters that require improvement or correction.

The Committee's chairman is the Group CEO and he is assisted by Andy May who has had extensive working experience in audit matters.

The **Remuneration Committee** is primarily responsible for reviewing and recommending to the Board changes to the remuneration of the (currently) two Executive Directors. It is also the forum at which share option schemes for the Executive Directors and other employees of the Company are discussed and from which recommendations are made to the Board.

The Committee is comprised of the Chairman of the Board and Chris Adlam who has considerable experience of advising on such matters.

Principle 10: Communicating how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

The Company is managed by the Board of Directors who meet regularly (usually once a month) to:

1. Review the current and historic performance of the two divisional companies;
2. Review schedules of contracts under negotiation and those being performed;
3. Discuss the market for construction services and the levels of activity in terms of tender processes and enquiries that may lead to new contracts;
4. Discuss relationships with long-standing clients and suppliers;
5. Receive any reports from the Company's audit and remuneration committees;
6. Review the Company's cash flow and consider it in the context of its banking facilities;

7. Discuss matters relating to its AIM listing, relationships with its professional advisers and updates on any corporate transactions that may be under consideration;
8. As an irregular item, a discussion on any aspects of the Company's strategy that arises from the above including consideration of new opportunities that may be available to either of the divisional companies.

The Company's business is based almost entirely upon the winning of construction contracts of various sizes and these are invariably announced to shareholders in the form of an RNS which will provide as much information as other parties to the contract allow the Company to disclose. Information on larger contracts is provided in this way and smaller ones are also referred to in an RNS but in this case in outline with a number of small contracts being described in a single RNS.

The Board is also keen that shareholders are kept informed about the Company's performance generally so that they are able to place the individual contract announcements into context. To this end the Board usually issues to the shareholders two trading statements each year in which they explain the performance of each of the divisional companies and give an indication of the Board's view as to future prospects for the Company.

The Board is reviewing the format and content of the trading statements in order to make them more informative for the shareholders.

In addition to the shareholders the Board maintains a regular dialogue with its principal clients and suppliers and its bankers to ensure that they are kept informed of information that is relevant to them in the context of their respective relationships with the Company.

The Board's principal point of direct contact with its shareholders is at annual general meetings (it has not had reason to convene any extraordinary general meetings) and copies of the various resolutions that have been proposed are included in the various notices of annual general meeting that are listed on the Company's website. All of the resolutions have been passed without any significant opposition.