

Corporate Governance Statement

The Board believes strongly in the value and importance of good corporate governance and its accountability to all of REACT's stakeholders, including shareholders, staff, customers and suppliers. In the statement below, we explain our approach to governance, and how the Board operates.

Changes to the AIM Rules for Companies on 30 March 2018 required AIM companies to apply a recognised corporate governance code from 28 September 2018. REACT has chosen to adhere to the Quoted Company Alliance's ("QCA") Corporate Governance Code for Small and Mid-Size Quoted Companies (revised in April 2018) to meet the new requirements of AIM Rule 26.

The QCA Code is constructed around ten broad principles and a set of disclosures. The QCA has stated what it considers to be appropriate arrangements for growing companies and asks companies to provide an explanation about how they are meeting the principles through the prescribed disclosures. We have considered how we apply each principle to the extent that the Board judges these to be appropriate in the circumstances, and below we provide an explanation of the approach taken in relation to each.

Board Composition and Compliance

The QCA Code requires that the boards of AIM companies have an appropriate balance between executive and non-executive directors of which at least two should be independent. At present REACT does not comply with this requirement of the Code. Following the resignation of the Group Finance Director on 30 June 2018 the Board has comprised Gill Leates, as part time executive Chairman, and Lesley Innes as an independent non-executive director. Lesley is a Chartered Accountant with over 30 years' experience in a range of public and private companies. The day to day operations are managed by Melvin Teale, an Interim Head of Operations with extensive general management experience.

As the size of the Group does not justify the establishment of a formal Nominations Committee, the Board is actively involved in the search for an additional non-executive director with sales and marketing experience. It is also our intention to appoint additional executive directors to strengthen the Board when the size of the business increases and the Company's financial position improves.

Board Evaluation

Performance of the directors is reviewed informally by the Chairman on an ongoing basis and action taken to address any issues arising as appropriate.

Shareholder Engagement

Shareholders are encouraged to attend General Meetings and are provided with the Chairman's contact details on all Company announcements made via RNS. The Board also has ultimate responsibility for reviewing and approving the Annual Report and Accounts and confirms that, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The following paragraphs set out REACT's compliance with the 10 principles of the QCA Code

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

REACT is a specialist cleaner capable of dealing with diverse and extreme cleaning problems whose common factor is typically that they are beyond the "usual" cleaning tasks of facilities managers and other sub-contractors or in-house service providers. REACT's service offering typically supplements these cleaners for those tasks which require specialist capital equipment or clothing, are hard to reach, in hazardous or difficult locations or require operatives to have specialist health and safety training or specialist accreditations. The Company has two main parts to its business : the provision of 24/7 emergency services primarily to cover the police, prison and railway customer base; and the provision of contract cleaning services to a large London hospital and a Highways company.

The Board's strategy going forward is to grow both parts of the business organically and, where appropriate, by acquisition. There have been a number of changes in the management of the business which have resulted in improved infrastructure and financial controls. It is now the Board's intention to increase the investment in sales and marketing to identify opportunities for growth and to focus its efforts on bidding for new contracts in its core areas of expertise.

Principle 2: "Seek to understand and meet shareholder needs and expectations."

The Board believes it is important to provide shareholders with clear and transparent information on the Group's activities, strategy and financial position. Responsibility for investor relations rests with the Chairman whose contact details are provided on the website and on all announcements released via RNS; shareholders are also encouraged to attend General Meetings during which time is set aside specifically to allow questions from attending members to be addressed by the Board. A range of corporate information (including all REACT Group announcements) is also available to shareholders, investors and the public on our website.

At the AGM, separate resolutions are proposed on each substantial issue. For each proposed resolution, proxy forms are issued which provide voting shareholders with an opportunity to vote in advance of the AGM if they are unable to vote in person. Our registrars count the proxy votes which are properly recorded, and the results of the AGM are announced through an RNS.

At the the 2017 and 2018 AGMs the Board sought authority from shareholders to allot up to 30% and 10% respectively of the Company's issued share capital on a non-pre-emptive basis. Following the Placing in August 2018 the Company has authority to issue up to 38% of issued share capital. The directors are aware that this is not in line with the 5% recommended by the Pre-Emption Group's Statement of Principles as updated in 2015. However, the directors note that limits of this level are not unusual for AIM quoted companies of the size of REACT, and the directors believe that this level of authority has been and remains appropriate in order to allow the Company flexibility to move quickly in order to finance business opportunities which may arise.

The Board is keen to ensure that the voting decisions of Shareholders are reviewed and monitored and that approvals sought at the Company's AGM are as much as possible within the recommended guidelines of the QCA Code.

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

The Board recognises its prime responsibility under UK corporate law is to promote the success of the Company for the benefit of its members as a whole. The Board also understands that it has a responsibility towards its employees, customers and suppliers and to take into account, where practicable, the social, environmental and economic impact of its activities on its stakeholders.

Accordingly we have a detailed Corporate Social Responsibility Policy in place which outlines our commitment to our social responsibilities. We also undertake regular business risk assessments in accordance with the ISO9001:2015 and ISO14001:2015, to assess and manage the risks associated with the operational aspects of the business including the environmental impact. Under the ISO 2015 Standards we also have to identify other 'Interested Parties' who may be affected by daily operation of the organisation, and document and regularly review how we manage those relationships.

The Board also takes its responsibilities with regard to health and safety and working practices very seriously and ensures that the Company complies with all the necessary legislation, and that employees are given appropriate training for the work that they have to undertake.

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

Responsibility for the management of risk in the business rests with the Board. The Company's business is subject to a number of risks and uncertainties and the Board continually considers how to identify and mitigate the key business risks that could impact upon performance. The principal risks and uncertainties facing the Group and how they being addressed are as follows :

Dependence on key customers

REACT generates a significant proportion of its revenues from a limited number of customers. It may prove difficult to gain new business and to achieve turnover growth from such customers. The Group is aiming to mitigate this risk by investing in its sales and marketing effort, building relationships with large Facilities Management companies and targeting larger corporate customers from the private sector.

Attraction and retention of key management and employees

The successful operation of the Group will depend partly upon the performance and expertise of its management and employees. As part of a wholesale review of the business a comprehensive training program has been put in place and any personnel requiring additional training will be put on relevant courses as soon as practicable. All services offered within the business are being assessed and relevant Key Performance Indicators are being put in place so that performance can be monitored at all levels of the Company.

Future funding requirements

The Group made a trading loss in the six months ended 31 March 2018. If the Group's return to profitability is slower than expected the Company may need to seek additional funding to meet its working capital requirements. However the Board regularly reviews the Group's performance and its overall cash position.

Health and safety

Given the nature of the business our operators are often working in challenging conditions. As a consequence the Group takes its responsibilities with regard to the health and safety of its employees very seriously and has implemented a number of policies to ensure the well-being of its staff.

The directors also constantly monitor the financial risks and uncertainties facing the Group with particular reference to the exposure of credit risk and liquidity risk. They are confident that suitable policies are in place and that all material financial risks have been considered. The Group's financial instruments comprise cash balances and receivables and payables that arise directly from its operations. The main risks the Group faces are liquidity risk, capital risk and foreign currency risk. The board regularly reviews and agrees policies for managing each of these risks. The Group's policies for managing these risks are summarised below.

Interest risk

The Group is not exposed to significant interest rate risk as it has limited interest bearing liabilities.

Credit risk

The Group is exposed to credit risk as services are invoiced on completion. This risk is mitigated as most large customers have been customers for several years and have good credit ratings. The board has also put procedures in place to ensure all services are invoiced promptly and payments received in a timely manner.

Liquidity risk

Liquidity risk is the risk that Group will encounter difficulty in meeting the obligations associated with financial liabilities. The responsibility for liquidity risks management rest with the Board of Directors, which has established appropriate liquidity risk management framework for the management of the Group's short term and long-term funding risks management requirements.

Capital risk

The Group's objectives when managing capital are to safeguard the ability to continue as a going concern in order to provide returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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

The members of the board have a collective responsibility and legal obligation to promote the interests of the Group, and are collectively responsible for defining corporate governance arrangements. Ultimate responsibility for the quality of, and approach to, corporate governance lies with the chair of the board.

As highlighted above the Board does not fully comply with Principle 5 of the Code as it currently comprises a part time Executive Chairman and one independent non-executive Director. However, each director currently devotes as much time as is required in order to fulfil their functional, operational and governance responsibilities, It is the Board's intention to recruit an additional independent non-executive with appropriate sales and marketing experience when a suitable candidate is identified. It is also the Board's intention to appoint additional executive directors when the Company's financial position improves, and the size of the Company justifies it.

Details of the individual Directors and their biographies are set out on this website www.reactplc.co.uk. The directors evaluate the balance of skills, knowledge and experience on the Board when defining the role and capabilities required for new appointments.

The Board is responsible for management of the business, setting the strategic direction and policies. The Board meets regularly to attend to any issues which require the attention of the Board and oversees the financial position of the Company monitoring the business and affairs on behalf of the Shareholders, to whom the Directors are accountable. The Board also addresses issues relating to internal control and the Company's approach to risk management.

The day-to-day management of the Group's business is delegated to the Interim Head of Operations who reports to the Executive Chairman. During the year ended 30 September 2017 the Board held 12 scheduled meetings. The primary duty of the Board is to act in the best interests of REACT Group PLC at all times.

Audit Committee

The Audit Committee, which currently comprises Lesley Innes and Gill Leates, meets at least twice a year. The committee is responsible for making recommendations to the Board on the appointment of auditors and the audit fee and for ensuring that the financial performance of the Group is properly monitored and reported. In addition, the Audit Committee receives and reviews reports from management and the auditors relating to the interim report, the annual report and accounts and the internal control systems of REACT Group PLC.

Remuneration Committee

The Remuneration Committee, which comprises Gill Leates and Lesley Innes meets not less than once each year. The committee is responsible for the review and recommendation of the scale and structure of remuneration for senior management, including any bonus arrangements or the award of share options with due regard to the interests of the Shareholders and the performance of REACT Group PLC.

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

The Board currently comprises a part time Executive Chairman and an independent non-executive director. The skills and experience of the Board are set out elsewhere on this website. As sales and marketing experience has been identified as an area that is lacking at Board level, appropriate experience in this area will be pre-requisite for any new appointee.

Lesley Innes, the independent non-executive director, is a qualified Chartered Accountant with considerable experience of SME businesses. Lesley attends seminars and other training events to ensure her knowledge remains current.

The Board is kept abreast of developments of governance and AIM regulations. The Company's lawyers provide updates on governance issues and the Company's NOMAD provides annual Board AIM Rules refresher training as well as the initial training as part of a new director's onboarding.

The directors have access to the Company's NOMAD, registrars, lawyers and auditors as and when required and are able to obtain advice from other external bodies when necessary.

The Company is mindful of the issue of gender balance although Board appointments are made with the primary aim of ensuring that the candidate offers the required skills, knowledge and experience.

Principle 7: "Evaluate board performance based on clear and relevant objectives, seeking continuous improvement."

Performance of the directors is reviewed informally by the Chair on an ongoing basis and action taken to address any issues arising as appropriate.

The Board meets formally 10 times a year with ad hoc Board meetings as the business demands. There is a strong flow of communication between the directors. The Agenda is set with the consultation of all directors, with consideration being given to both standing Agenda items and the strategic and operational needs of the business. Papers are circulated well in advance of the meetings, giving directors ample time to review the documentation and enabling an effective meeting. Resulting actions are tracked for appropriate delivery and follow up.

The current non-executive director was appointed during 2018, with Lesley Innes' appointment bringing an independent non-executive to the Board. The composition of the Board continues to be monitored, in particular the lack of a CEO and the balance of executive and non-executive directors.

On-going review of the functioning of the Board and ensuring that a high level of governance is maintained whilst being mindful of the size and stage of development of the Company.

Whilst the Board has not undertaken any formal training this is something that will be considered as the business grows and the Board establishes further. The directors have a wide knowledge of the business and requirements of directors' fiduciary duties. The directors have access to the Company's NOMAD and auditors as and when required. They are also able, at the Company's expense, to obtain advice from external bodies if required. The Board as a whole is mindful of the need for considering succession planning.

Principle 8: "Promote a corporate culture that is based on ethical values and behaviours."

The Board believes that the promotion of a corporate culture based on sound ethical values and behaviours is essential to maximise Shareholder value. The Company maintains and regularly reviews a staff handbook that includes clear guidance on what is expected of every employee of the company. As noted above the Company also has detailed Corporate Social Responsibility Policy in place which outlines our commitment to our social responsibilities and provides guidance for employees.

The Board also takes its responsibilities with regard to health and safety and working practices very seriously and ensures that the Company complies with all the necessary legislation, and that employees are given appropriate training for the work that they have to undertake.

Issues of bribery and corruption are taken seriously, The Company has a zero-tolerance approach to bribery and corruption and has an anti-bribery and corruption policy in place to protect the Company, its employees and those third parties to which the business engages with. The policy is provided to staff upon joining the business and training is currently being provided to ensure that all employees within the business are aware of the importance of preventing bribery and corruption. There are strong financial controls across the business to ensure on going monitoring and early detection.

A whistleblowing policy is in place, which enables staff to raise any concerns in confidence.

Principle 9: “Maintain governance structures and processes that are fit for purpose and support good decision making by the board.”

The Board provides strategic leadership for the Group and is developing its corporate governance framework. Its purpose is to ensure the delivery of long-term Shareholder value, which involves setting the culture, values and practices that operate throughout the business, and defining the strategic goals that the Group implements in its business plans. The Executive Chairman has overall responsibility for corporate governance and in promoting high standards throughout the business as well as the management of the day to day operations. The Independent Non-Executive Director contributes independent thinking and judgement through the application of her external experience and knowledge, scrutinising the performance of management, providing constructive challenge to the Executive management and ensuring that the Group is operating within the governance and risk framework approved by the Board. She also has responsibility for the review and internal audit of the financial information produced by the executive management.

The matters reserved for the board are:

- Setting long-term objectives and commercial strategy;
- Approving annual operating and capital expenditure budgets;
- Changing the share capital or corporate structure of the Group;
- Approving half year and full year results and reports;
- Approving major investments and contracts;
- Approving resolutions to be put to general meetings of shareholders and the associated documents or circulars; and
- Approving changes to the board structure.

The Board has approved the adoption of the QCA Code as its governance framework against which this statement has been prepared and will monitor compliance against this Code on an annual basis and revise its governance framework as appropriate as the Group evolves.

Details of the Audit Committee and the Remuneration Committee are detailed in relation to Principle 5 above.

Principle 10: “Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders”

See investor relations activities described above in relation to Principle 2.

In relation to the outcome of Shareholders’ votes in general meetings, if a significant number of votes were cast against a resolution put to a general meeting (20% or more) the Company would, on a timely basis, provide an explanation of what actions it intends to take to understand the reasons behind that vote result, and, where appropriate, any different action it has taken, or will take, as a result of the vote.