

approved September 2018

James Halstead plc is a group of companies involved in the manufacture and supply of flooring for commercial and domestic purposes based in Bury UK. James Halstead plc is listed on the AIM market of the London Stock Exchange.

The group was established in 1914 and continues to operate out of the original premises in Bury.

In its factories in Bury and Teesside it manufactures resilient flooring for distribution in the UK and worldwide.

It also sources other flooring products, in particular Luxury Vinyl Tiles and rubber flooring from other key partners manufacturing on the group's behalf.

The key brands the group operates under are Polyflor, Objectflor and Expona. There are other brands that the group operates under that are more regionally based or territory specific.

It utilises a global distribution chain for export. Parts of this network are controlled by the group, in particular, Western Europe, Australia, New Zealand, Canada and India.

The group employs about 824 worldwide, the majority of which are in the UK.

James Halstead plc's strategy is designed to enhance the brand identity thereby generating and enhancing goodwill and customer satisfaction with the aim of continued repeat business. This approach is designed to increase revenue and consequently profitability and cash flow to enable the continuation of dividends thereby creating shareholder wealth. As a manufacturer our supply is in bulk to distributors responsible for regional / local delivery by key to the company ethos is not to delegate the presentation of product to stockists but rather to have dedicated sales personnel to present the product to end users and specifiers.

Details of the group's financial performance can be found in the Financial Reports section of this website.

Chairman's introduction to governance

The board has over many years recognised its responsibility towards good corporate governance. It is part of our character and, I believe, contributes to our ability to deliver long-term shareholder value. During this year the Financial Reporting Council and the Quoted Company alliance have both issued guidance on governance and having assessed these codes we have aligned our approach to the latter. In many ways this is a continuing process but in the following paragraphs we outline how we effect this code and I trust our shareholders will take the time to review our comments.

It is my belief that good governance is accountability to shareholders as a whole over time rather than being swayed by current short term objectives of individual holders. For many companies some shareholders are transient and focus short term, looking for ambitious acquisitions or risky strategies and yet quick to exit at the first sign of problems. Management need to be focused on the medium to long term goals as much as current issues.

Anthony Wild

Chairman

Introduction

The Company is controlled by the board of directors. The board consists of a non-executive chairman, two executive directors, a senior independent director and two non-executive directors.

There board has three sub committees, an audit committee, a remuneration committee and an nominations committee.

The directors are named below along with their membership of board committees.

	Role	Remuneration Committee	Audit Committee	Nominations Committee
Mr Anthony Wild	Non-executive Chairman	X	X	X
Mr Mark Halstead	Group Chief Executive			X
Mr Gordon Oliver	Group Finance Director			X
Mr Steve Hall	Senior Independent Director	X	X	X
Mr Michael Halstead	Non-executive Director	X	X	X
Mr Russell Whiting	Non-executive Director	X	X	X

The board

The role of the board is summarised as follows:

- To establish and maintain the group's vision, mission and values;
- Decide on the current and future strategy to ensure the group's longevity;
- To delegate to management the implementation of policies, strategies and business plans while ensuring the framework of internal controls is effective;
- Account to shareholders and stakeholders to promote their interests and the goodwill to the group.

The board comprises two executive directors and three non-executive directors. The roles of chairman and chief executive are separated.

Directors

Mr Anthony Wild – non-executive Chairman

Mr Wild was appointed to the board as senior independent director in March 2001 and chairman in December 2017. He is a Chartered Accountant and was senior partner in a local firm for many years offering management consultancy services. He brings a long and in depth knowledge of James Halstead plc, its heritage and strategy over many years along with business and commercial knowledge obtained in a career of business advice. A key responsibility of the chairman is to lead the board effectively and to oversee the adoption, delivery and communication of the company's corporate governance model. The chairman as a non-executive director has adequate separation from the day-to-day business to be able to have an independent view. The chairman ensures that the board receives accurate, timely and clear information and that there should be good information flows within the board and its committees as well as between the NEDs and senior management. Mr Wild chairs the Nominations Committee.

Mr Mark Halstead – Managing Director

Mr Halstead has over 30 years' experience in the group holding senior management positions within Polyflor prior to his appointment as group chief executive in 2002. Having gained his grounding in many aspects of the group's flooring activities Mr Halstead focused on exports and founded our operations in Europe. He brings unparalleled knowledge of the group's activities, the products and positioning in markets and experience to allow for the assessment of future opportunities for the group both in commercial terms and product related. Mr Halstead is tasked with the delivery of the business model agreed within the strategy set by the board.

Mr Gordon Oliver – Finance Director

Mr Oliver is a Chartered Accountant. He trained with KPMG and held a number of financial positions in industry prior to joining James Halstead in 1987 as Group Financial Controller. He was instrumental in the disposal of non-core businesses in the UK and overseas and became finance director of the group in 1999. He brings knowledge of financial management and control, corporate governance and business acumen to the business as well as development of future strategy arising from a long period as a member of the board. During his time with the company Mr Oliver's standing has been recognised by several awards from his peers and the financial press. Mr Oliver is tasked with working closely with the Chief Executive to progress the business and to have regard to mitigation of risk. In addition a key role is integrity of the financial information and communicating to the board the financial implications of areas of subjective judgement.

Mr Steve Hall – Senior non-executive director

Mr Hall was appointed to the board in 2012 as a non-executive director. He has 21 years' experience as a Director of Corporate Banking for the Royal Bank of Scotland where he was responsible for corporate SMEs and quoted clients. For several years he has acted as a consultant outside of banking and is a non-executive director to a large retail chemist chain. He brings with him this banking

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experience as well as broad experience of mergers, acquisitions and disposals and the financing thereof. One of the key responsibilities of the SID is leading the performance evaluation of the chairman, or the search for a new chairman. As SID, Mr Hall is an alternative route of access for shareholders and other directors who have a concern that cannot be raised through the normal channels of the chair or the executive directors. Mr Hall is Chairman of the Remuneration and Audit Committees,

Mr Michael Halstead – non-executive director

Mr Halstead was appointed to the board in 2017. He has many years' experience in the advertising industry having been an account director for Saatchi and Saatchi and more recently running his own company HH&S Group Limited. He brings general business acumen to the board along with specifics relating to marketing and public relations arising from his background. Mr Halstead provides oversight and scrutiny of the performance of the executive directors, whilst both constructively challenging and inspiring them, thereby ensuring the business develops, communicates and executes the agreed strategy and operates with reference to the risk management framework. Mr Halstead is in the 4th generation after the founder and has never worked within the business but is passionate to preserve the principles of the company and to contribute its continued success.

Mr Russell Whiting – non-executive director

Mr Whiting was appointed to the board in 2017. He is a local businessman and is director of a company involved in leasing of assets, Associated Credits Holdings Ltd. As well as general business acumen he brings specific understanding of business and asset financing to a broad range of commercial enterprises. He has known the group for a number of years through his business. Mr Whiting possesses the critical skills that are relevant to modern companies, which includes both technical experience and the ability to positively challenge and to listen in equal measure.

The Quoted Company Alliance Code (“QCA code”)

The directors recognise the importance of good corporate governance and have chosen to apply the QCA code as their framework to do so. The QCA code was developed by the Quoted Company Alliance in consultation with a number of institutional small company investors as an alternative code applicable to AIM companies. The QCA code was published in April 2018.

The QCA code sets out ten principles which seek to ensure that the overall framework for corporate governance is robust. The directors believe that this framework is appropriate to the size and operations of the business and each of the principles is commented on below. Many of the disclosures relevant to the code are already made in our annual report and accounts.

The chairman has the responsibility for corporate governance and has taken a lead on this matter. The executive team are directed to day to day management and are accountable to the rest of the board. The chairman expects and demands open discussion of issues facing the business and in the application of this code has sought input from the auditors, the company’s advisors and a review by the company lawyer. The board is tasked with continuing the success of the business over time and through successive generations of management and the importance of corporate governance is to oversee the division of ownership and stewardship. The executive directors have the day to day responsibility of stewardship and the chairman and non-executives monitor and evaluate this on behalf of the owners.

James Halstead plc has been listed on the London stock exchange for over 70 years and continues to look for growth in sales and profit to continue its strong record of reward to shareholders in the form of dividend. Whilst this is a primary role, the board is proud of its reputation within its industry and the financial markets and corporate control is central to the ethos.

The disclosures below were last reviewed and approved by the board in September 2018.

QCA Principles and James Halstead plc’s approach

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

James Halstead plc’s strategy is explained fully within our Strategic Report section in our Report and Accounts each financial year.

Our strategy is focussed around stable profitable growth from building the goodwill in our brands and products leading to increasing dividends over time.

Key risks and mitigating factors to our business are also detailed annually in our Report and Accounts.

2. Seek to understand and meet shareholder needs and expectations

The board has a track record of increasing dividends over many years. Where the business has generated funds in excess of its medium-term requirements and no specific investment requirements exist the board has also encouraged the payment of special dividends over the years.

Members of the board talk regularly to both institutional and private investors and the financial press to ensure that company's strategy and objectives are communicated. The group has a large number of shareholders and regular broker updates are published.

The company regularly hosts institution and broker site visits to update on progress and the executive directors are in ongoing contact with the nominated advisor who communicates more closely with the market.

Shareholders can contact the Company Secretary with questions and may be referred to the directors.

In addition, the AGM acts as a forum for all shareholders to meet with the board and raise any questions they may have.

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

The board recognises that the group has responsibilities to many stakeholders other than its shareholders. This includes employees, customers, suppliers and the wider societies in which we operate.

In terms of communications with stakeholders this is done in ways appropriate to the stakeholder and may take the form of formal announcements, individual meetings (for example appraisals with employees) and negotiations with other stakeholders.

The environmental impact of our manufacturing and our output is of significant importance to our medium term prospects not only to demonstrate our commitment to the community at large but also to customers who increasingly, and rightly, look for suppliers with strong ethical values.

As a member of the communities in which we operate the board takes seriously the impact the business has, positively in terms of being an employer and seeking continuous improvement with respect to the impact on the environment and communities. This is illustrated by our annual "Sustainability Report" copies of which are available on www.polyflor.com which outlines the impact of our manufacturing operations on the wider environment and improvements over time. Feedback from the local community is received directly to the head office. This report has been published for nearly two decades and is now an annual report.

We understand continuous development of our products also contributes to our responsibilities as well as the success of the business. This is illustrated, for example, by development of "dementia friendly" flooring in recent years.

The operating businesses encourage feedback from customers through their relationship managers in the business and customer service teams.

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

Risk management is reported annually in our Report and Accounts along with how those risks are mitigated and how they change over time.

The board meets 6 times a year during which business and other risks are assessed. Key subsidiaries have their own management boards which meet regularly and assess the risks relevant to that specific business and relevant responses. These are communicated to the main board either by direct representation or via group management structures that are in place. There are also formal and informal communication routes that allow for risks to be communicated to board members in a timely manner from all operational entities.

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

Anthony Wild, the non-executive chairman is responsible for the running of the board and Mark Halstead as chief executive has responsibility for implementation of the board's direction.

A monthly report is provided to the board of the financial and operational performance of the group. Information is provided in advance of meetings.

The board is responsible for all strategic decisions and the overall governance and culture of the group.

All the directors have access to the services and advice of the company secretary and are able to take independent professional advice to enable them to do so. This may be done at the group's expense.

The board has a majority of non-executive directors and consider that they bring independent thought and judgement to bear as well as business experience out-with the group.

The board has sub committees with specific remits, specifically remuneration, audit and nomination committees and detail of the number of meetings and attendance by directors is noted in the Annual Report.

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

The board evaluates consistently those skills that are required and whether they are adequately provided for. In doing so and where relevant it will consider guidance available on appointment and training of board members. The Company Secretary has the responsibility to make the board aware of legal changes and will advise on the company's approach. For example the recent GDPR requirements and previously the Market Abuse Regulations (MAR).

Where vacancies arise or gaps are identified that must be addressed, the nomination committee oversees the process of identifying candidates and makes recommendations to the board. Appointments are made on merit against objective criteria and with regard to the benefits that will be brought to the board and the group. The nomination committee also considers succession planning.

The company secretary supports the chairman in addressing the training and development needs of the directors. In the case of new directors there is an induction process to ensure they become aware of the operations of the group.

The directors are aware of their individual responsibility to undertake appropriate continuing development.

7. Evaluate board performance based on clear and relevant objectives seeing continuous improvement.

The board will take account of the Financial Reporting Council's Guidance on Board Effectiveness as it evaluates on a regular basis its performance. The remuneration committee meets formally and is tasked with not only the remuneration of the executive directors but also evaluation of performance. To this end the board is circulated with press comment and market feedback on the business. Market share data and peer group analysis is available.

In terms of the financial performance the auditors meet the audit committee (comprising the non-executives) bi-annually and beyond the audit report do comment on the systems, procedures and efficacy of the management. The nominated advisor has access to the Chairman and meets the non-executives annually.

A rigorous recruitment process is undertaken for new directors prior to their proposal and election. In terms of re-election their performance is reconsidered prior to them being proposed to ensure they remain effective in their role and that they retain their independence.

Re-election is considered by the shareholders at the AGM at which shareholders have the opportunity as a body to approve or otherwise board membership. Succession planning for the board and as importantly the key executives around the world who manage our businesses is an ongoing topic of discussion.

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

The board expects the highest ethical standards of its members and management across the group.

The group has documented procedures with respect to its responsibilities regarding ethical behaviour, specifically bribery and corrupt practices and modern slavery and these are applicable across its operations including supply and customer chains.

The board also takes seriously its responsibilities towards sustainability of its operations and the impact of our operations on the environment. This is documented and reported on annually in Polyflor's Sustainability Report.

As an employer and member of many communities throughout the world, the board consider that strong ethical values to be a good member of these communities is a mind-set not one underpinned by rules and procedures. Ensuring, via recruitment processes and cultural values that this cascades through the business is critical to ensuring the group is a "good member of the community". All directors of the group's companies are expected to comply and are given a manual on procedures and expectations. This covers authority levels and gives guidance on appropriate behaviour.

Ultimately service contracts underpin this by indicating behaviour that can be deemed a breach of contract and the directors are clear about their statutory duties as formally set out in sections 171–177 of the Companies Act 2006.

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

Corporate governance disclosures are assessed at least annually including whether the structures and processes are fit for purpose.

10. Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

The AGM is a key forum for communications with any shareholders who wish to attend, and the directors are available here to listen to views expressed both formally and informally. This combined with the normal cycle of announcements is the key method of communication. The outcome of resolutions put to the AGM are published and available on the company website.

It terms of publication of results, the company uses the Stock Exchange regulatory news service (RNS) to advise the market (ie shareholders and others) of performance and significant matters. As a group we do not find social media (Facebook, twitter etc) an appropriate medium for dissemination of news due to the “sound-bite” nature of the medium. Brokers are updated and circulate notes regularly.

The group has, where appropriate, communications with major institutional and private shareholders and encourages dialogue.