

Corporate Governance

Introduction

As a company listed on the Alternative Investment Market of the London Stock Exchange, AdEPT Technology Group plc ("AdEPT" or the "Company") is not required to comply with the UK Corporate Governance Code ("the Code"). However, the board of directors recognises the importance of, and is committed to, ensuring that proper standards of corporate governance operate throughout the Company. A description of the main governance policies and procedures adopted by the Company is set out in this document.

Corporate Structure

AdEPT is both a trading company and a holding company of the companies it has acquired. The intention is to hive up the business of any company purchased into AdEPT and leave the subsidiaries dormant, however in some circumstances AdEPT will retain the trading entity with relevant documentation stating '<Subsidiary Name.> trading as AdEPT'. Any other subsidiaries are registered to protect the AdEPT trading name in either current or possible future activities.

Board of Directors

The board includes four non-executives – Ian Fishwick (Chairman), Roger Wilson (Deputy Chairman), Richard Bligh and Craig Wilson. Other than in respect of their respective shareholdings in the Company, these non-executives are independent of management and are free from any business of other relationship which could materially interfere with the exercise of their independent judgement.

The board also consists of two executive directors, of whom Phil Race is Chief Executive and John Swaite is Finance Director.

The Company website contains biographies for all of the board members which demonstrates the depth of experience the individuals bring to the Company.

Board meetings are not expected to take place unless at least two of the Board Directors are present – either in person, or by telephone or videoconference. The board meets regularly, normally bi-monthly, and reviews both operations, sales and finance and assesses future strategy for the Company as a whole. It also operates a schedule of matters reserved for its decision, including Companies Act requirements, board membership and committees and strategic decisions.

The Board is responsible for ensuring that its fiscal and statutory obligations are met and for ensuring that shareholder value is preserved/ enhanced.

Directors retire in rotation in accordance with the Company's articles of association and corporate governance recommendations. The Directors can seek independent professional advice as necessary, for the issues in relation to their duties, at the Company's expense, within designated limits.

Board Committees

The Board is responsible for all aspects of governance of AdEPT. It discharges this responsibility through delegated authority to specific board committees and the senior management team. The Board shall establish the terms of reference and membership of these adopted standing committees. Currently these are:

- Audit Committee
- Remuneration & Nominations Committee
- Senior Management Team

Audit Committee

The audit committee's primary function is to assist the Board in fulfilling its responsibilities regarding the review of policy and practices in respect of:

- AdEPT's accounting and financial reporting
- The system of internal control
- Risk management and corporate governance
- The annual audit

The current membership of the Audit committee is:

- Craig Wilson (Chairman)
- Ian Fishwick
- Roger Wilson

A quorum shall be two members. The committee shall meet at least twice each year. A meeting shall be convened at the request of the external auditor or any member of the AdEPT Board or senior management team if any of them believe there is a matter that should be brought to the attention of the committee.

Meetings are to be attended by external auditors (currently Crowe LLP), the Finance Director and/or Chief Executive as required.

Remuneration & Nominations Committee

The remuneration committee is responsible for;

- a) Remunerations – In respect of Remunerations this committee is responsible for determining and agreeing with the Board the framework or broad policy for the remuneration of the executive directors of AdEPT and the senior management team; defined as any employee with a salary of £100,000 per annum or greater. Further, the Remunerations Committee shall agree the policy for authorising claims for expenses from the Chief Executive and Chairman and will be exclusively responsible for selecting, appointing and instructing any remuneration consultants who advise the committee.
- b) Nominations – In respect of Nominations this committee is responsible for evaluating the board of directors of AdEPT and examining the skills and characteristics needed in board candidates. The nomination committee will also identify suitable candidates for various director positions. Other responsibilities for this committee may include reviewing and changing corporate governance policies.

The current membership of the Remuneration committee is:

- Richard Bligh (Chairman)
- Roger Wilson
- Ian Fishwick

A quorum shall be two members. The committee shall meet at least twice each year. The Chief Executive and/or Finance Director, may attend by invitation.

Senior Management Team

It is the responsibility of the Senior Management Team to implement Board policy through day to day operational control of the business, bringing forward proposals for any changes to the Board for approval. To provide leadership and development so that all staff may achieve their potential.

The current membership of the senior management team is:

- Phil Race (Chief Executive)
- John Swaite (Finance Director)

A quorum shall be two members. The senior management team shall normally meet once a week.

Other members of staff will be asked to join senior management meeting, with no voting rights, as determined by the Chief Executive.

Relationship with Shareholders

The Chairman's statement and the Strategic report to shareholders is set out in the Annual Report each year. In addition to regular financial reporting, significant matters relating to trading or development of the business are released to the market by way of Stock Exchange announcements as required.

The directors meet with institutional and other shareholders when possible, usually following the announcement of the Company's results, to keep them informed about the performance and objectives of the business. The annual general meeting provides a further forum for shareholders to communicate with the board.

Financial Authorities

The CEO has financial authority as set out below:

For expenditure within a budget or reforecast approved by the Board:

- Invoices up to £1m for network expenditure
- Invoices up to £150k for operating expenditure
- Invoices up to £50k for capital expenditure

For expenditure which is not budgeted, a limit of:

- Up to £25k for either operating expenditure or capital items. This is an item that is not budgeted, where the amount to be paid would take the total of the category above budget
- This policy enables the CEO to reprioritise within a budgeted category.

For contracts which commit the Company to long term expenditure, with multiple payment milestones, the limits are:

- £5m for network expenditure
- £1m for operating expenditure

Any expenditure or commitments of expenditure above these limits must be referred to the Board.

The CEO may delegate these authorities to the Senior Management Team at financial limits up to but not exceeding his own.

Delegation

The Board may at any time delegate part of its normal business to a committee of two Directors, or one Director together with at least two members of the senior management team. But the Board may not delegate any of their Reserved Matters, subject to the provisions of the agreed financial authorities.

The Finance Director will maintain a written delegation of authorities setting out what Board powers are delegated to senior management and staff. Senior management will implement a process of control to ensure the delegation of authorities is understood by all relevant staff and there is adequate visibility of compliance.

Risk Management and Assurance

The Board is responsible for AdEPT's system of internal control and will seek assurance to satisfy itself that the system is functioning effectively. Further the Board will ensure that the system of internal control is effective in managing risks in the manner it has approved. In discharging these responsibilities the Board will:

- ✓ Review the material risks facing the business
- ✓ Determine the appetite for risk
- ✓ Monitor the effectiveness of the risk management process
- ✓ Reviewing significant issues and failures in the system
- ✓ Communicate policy and procedures throughout the business

These responsibilities will be discharged through the senior management and the Audit Committee. Such systems can provide reasonable, but not absolute, assurance against material misstatement or loss. The board believes that the Company has internal control systems in place appropriate to the size and nature of its business.

The directors do not consider that an internal audit function is required, given the size and nature of the business at this time. This situation is reviewed annually.

The Company maintains a comprehensive process of financial reporting. The annual budget is reviewed and approved by the board before being formally adopted, following which the board receives at least monthly financial reports of the Company's performance compared to the budget, with explanations of significant variances. Monthly cash flow forecasts are provided to the board, as are budget reforecasts if deemed appropriate.

The executive directors monitor key performance indicators on a monthly basis, management of these being delegated to the Company's senior management.

The board undertakes a rolling review of known and potential risks, and addresses newly identified risks as they arise, with controls put in place to minimise their potential effect on the Company.

The key operational functions of the Company are subject to processes established and externally audited under ISO27001, which the directors consider to be a valuable additional internal and external control tool of the business.