

Corporate governance

The Company is committed to high standards of corporate governance. The board is accountable to the Company's shareholders for good corporate governance. This statement describes how the principles of corporate governance are applied to the Company and the Company's compliance with the Code provisions set out in Section 1 of the Combined Code on Corporate Governance.

Statement by the directors on compliance with the provisions of the Combined Code The Company has been in full compliance with the provisions set out in the Combined Code throughout the year, except in the following areas:

As noted in the Board Report on Remuneration, the Chief Executive of the Group, H L Tee, has a service contract of more than one year.

The directors' statement regarding compliance with requirements relating to internal control are dealt with below.

The workings of the board and its committees

The board The board currently comprises the independent non-executive Chairman, the Chief Executive, the Finance Director and three other independent non-executive directors, one of whom, P A M Curry, acts as senior independent director. Their biographies appear on page 21. These demonstrate a range of experience and sufficient calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct which is vital to the success of the Group. The board is responsible to shareholders for the proper management of the Group. A statement of the directors' responsibilities in respect of the accounts is set out on page 45 and a statement on going concern is given on page 23.

The board has a formal schedule of matters specifically reserved to it for decision. All directors have access to the advice and services of the Company Secretary, who is responsible to the board for ensuring that board procedures are followed and that applicable rules and regulations are complied with. In addition, the Company Secretary ensures that the directors receive appropriate training as necessary.

The board normally meets at least eight times each year, reviewing trading performance, ensuring adequate funding, setting and monitoring strategy, examining major acquisition possibilities and reporting to shareholders. The non-executive directors have a particular responsibility to ensure that the strategies proposed by the executive directors are fully considered. To enable the board to discharge its duties, all directors receive appropriate and timely information. Briefing papers are distributed by the Company Secretary to all directors in advance of board meetings. The Chairman ensures that the directors take independent professional advice as required.

The following committees deal with the specific aspects of the Group's affairs.

Nomination committee During the year the nomination committee comprised the non-executive directors. The Chairman is Sir Alan Cockshaw. The committee is responsible for proposing candidates for appointment to the board, having regard to the balance and structure of the board. In appropriate cases, recruitment consultants are used to assist the process. All directors are subject to re-election at least every three years. The committee is also involved in the selection and recruitment of Managing Directors of the subsidiary businesses.

Remuneration committee The Group's remuneration committee is chaired by P A M Curry and its other members are Sir Alan Cockshaw, L C N Bury and R Koch. It is responsible for making recommendations to the board, within agreed terms of reference, on the Company's executive remuneration. The committee determines the contract terms, remuneration and other benefits for each of the executive directors, including performance related bonus schemes, pension rights and compensation payments. The board itself determines the remuneration of the non-executive directors. The committee calls for advice by leading firms of remuneration consultants as they consider appropriate.

Further details of the Company's policies on remuneration and service contracts are given in the board report on directors' remuneration on pages 24 and 25.

Audit committee The audit committee, which is chaired by L C N Bury, comprises all the non-executive directors and meets not less than two times annually. The committee provides a forum for reporting by the Group's external auditors. Meetings are also attended by invitation by the Finance Director.

The audit committee is responsible for reviewing a wide range of matters including the half year and annual accounts before their submission to the board, and monitoring the controls which are in force to ensure the integrity of the information reported to the shareholders. The audit committee advises the board on the appointment of external auditors and on their remuneration both for audit and non-audit work, and discusses the nature, scope and results of the audit with external auditors. The audit committee keeps under review the cost-effectiveness and the independence and objectivity of the external auditors.

Relations with shareholders Communications with shareholders are given high priority. The operating and financial review on pages 4 to 19 includes a detailed review of the business and future developments. There is regular dialogue with institutional shareholders including presentations after the Company's preliminary announcement of the year end results and at the half year.

The board uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation. The Chairman aims to ensure that the Chairman of the audit, remuneration and nomination committees are available at these meetings to answer questions. Details of resolutions to be proposed at the Annual General Meeting on 25 April 2001 can be found in the Notice of the Meeting on page 46.

Internal control The board has overall responsibility for establishing and maintaining the Group's system of internal control and for reviewing its effectiveness. The role of the Group's management is to implement board policies on risk and control. Internal controls systems are designed to meet the particular needs of the business concerned and the risks to which it is exposed and by their nature can provide reasonable but not absolute assurance against material misstatement or loss. The Combined Code introduced a requirement that the directors review and report on the effectiveness of the Group's system of internal controls. This extended the previous requirement in respect of internal financial controls to cover all controls including financial, operational compliance and risk management. Guidance for Directors' Internal Control: Guidance for Directors on the Combined Code (the Turnbull Guidance) was published in September 1999 and as noted in last year's Annual Report the directors took advantage of the London Stock Exchanges' transitional rules which required full implementation of the Guidance by 23 December 2000.

During the year the board reviewed the guidance issued to directors and confirm that they have established procedures necessary to implement the Turnbull Guidance such that the company complied fully by the end of the accounting year.

The Group's management operates a risk management process for identifying, evaluating and managing the significant risks faced by Roxboro. The process is reviewed by the board during the year. During the year the board approved an enhancement to the risk management process already in existence whereby each business within the Group is now required to prepare a Risk Register. The Risk Register identifies the key risks facing the business, the probability of those risks occurring, the impact should the risk occur and the actions being taken to manage those risks to the approved level. The Risk Register for each business is submitted to the board for review on a half yearly basis. Reports are submitted to the board on a regular basis to update them on progress, as appropriate.

In addition to the above, the Group has continued to operate with the risk based system of internal control detailed in previous years.

The key procedures, which the directors have established to review the effectiveness of the system of internal control, include the following:

- *Management structure* The board has overall responsibility for the Group and there is a formal schedule of matters specifically reserved for decision by the board. Each executive director has been given responsibility for specific aspects of the Group's affairs. The executive directors together with key senior executives constitute the executive committee which meets regularly to discuss day-to-day operational matters. The executive directors also meet regularly with the Managing Directors of the subsidiary businesses together with their management teams.
- *Corporate accounting and procedures manual* Responsibility levels are communicated throughout the Group as part of the corporate accounting and procedures manual which sets out, inter alia, the general ethos of the Group, delegation of authority and authorisation levels, segregation of duties and other control procedures together with accounting policies and procedures. The manual is updated regularly.
- *Quality and integrity of personnel* The integrity and competence of personnel is ensured through high recruitment standards and subsequent training courses. High quality personnel are seen as an essential part of the control environment and the ethical standards expected are communicated through the corporate accounting and procedures manual.
- *Budgetary process* Each year the board approves the annual budget. Key risk areas are identified. Performance is monitored and relevant action taken throughout the year through the monthly reporting to the board of variances from the budget, updated forecasts for the year, together with information on the key risk areas.
- *Investment appraisal* Capital expenditure and research and development projects are regulated by budgetary process and authorisation levels. For expenditure beyond specified levels detailed written proposals have to be submitted to the board. Reviews are carried out after the acquisition is complete, and for some projects, during the acquisition period, to monitor expenditure; major overruns are investigated. Due diligence work is carried out if a business is to be acquired.
- *Audit committee* The audit committee monitors, through reports to it by the Group finance department, the controls which are in force and any perceived gaps in the control environment. The audit committee also considers and determines relevant action in respect of any control issues raised by the Group finance department or external auditors.

The audit committee has reviewed the effectiveness of the system of internal financial control as it operated during the year and reported its conclusions to the board.

The Group does not have an internal audit department, however the situation is reviewed periodically by the board to assess whether circumstances have changed to warrant its introduction. However, visits are made at least once a year to each subsidiary to review internal control procedures.