

# 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 area:

As noted in the Board Report on Directors' 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, one other executive director and four other independent non-executive directors, one of whom, P A M Curry, acts as senior independent director. All of the non-executive directors are independent of management and are free from any relationship which could effect the exercise of their independent judgement. Their biographies appear on page 18. 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 42 and a statement on going concern is given on page 21.

The board has a formal schedule of matter 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 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, J L Hewitt, R C H Jeens and W H Whiteley. It is responsible for making recommendations to the board, within agreed terms of reference, on the Company's framework of executive remuneration and its cost. 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 22 and 23.

**Audit committee** The audit committee, which is chaired by R C H Jeens, comprises all the non-executive directors and meets not less than twice annually. The committee provides a forum for reporting by the Group's external auditors. Meetings are also attended by invitation by the executive directors.

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 3 to 17 includes a detailed review of the business and future developments. There is regular dialogue with institutional shareholders to foster mutual understandings of objectives. Such dialogue is controlled by written guidelines to ensure protection of share price sensitive information, that has not already been made available generally to the Company's shareholders. Similar guidelines also apply to communications between the Company and partners such as financial analysts, brokers and the press.

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 24 April 2002 can be found in the Notice of the Meeting on page 43.

**Internal control** The board has overall responsibility for establishing and maintaining the Group's system of internal control and for reviewing its effectiveness in accordance with the guidance set out in "Internal Control: Guidance for Directors on the Combined Code" (the Turnbull Guidance). The directors have reviewed the effectiveness of the system of internal controls in operation throughout the year. 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 Group's management operates an ongoing risk management process for identifying, evaluating and managing the significant risks faced by Roxboro. The process is reviewed by the board during the year.

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.
- **Risk assessment** Each business is required to maintain 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. Each business must submit the register to the board on an annual basis. The risk assessment is performed on a continual basis and reports are submitted to the board on a periodic basis to update them on progress as appropriate.
- **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 and updated business plan. 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 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.