

# Directors' remuneration report

## Remuneration strategy

The Group aims to remunerate employees at levels which are competitive, and are designed to attract, retain and motivate people of high quality and experience. The board considers itself to be responsible for the Group's remuneration policy, however it has charged the remuneration committee with determining and maintaining a remuneration package for the Company's executive directors and the Group's senior executives that aligns executive rewards with shareholder value creation, motivates executives to attain challenging performance levels and considers both individual and Company performance.

**Remuneration committee** The remuneration committee was chaired throughout the year by P A M Curry with other non-executive directors Sir Alan Cockshaw, J Hewitt, R Jeens and W Whiteley as members. From 1 January 2003 the remuneration committee is chaired by J Hewitt.

In determining the remuneration packages, the remuneration committee may seek the view of other board members. The committee will, if considered appropriate, also seek advice from independent consultants to provide market information and remuneration advice but did not do so in 2002. During the year, the committee sought the assistance of the Chief Executive on matters relating to the performance and remuneration of other senior executives within the Group. The Chief Executive was present for part of all the remuneration committee meetings, except when his own remuneration was discussed.

**Remuneration policy** The remuneration package for the executive directors and senior executives consists of an annual salary, short and long-term incentive schemes, pension arrangements, car and healthcare benefits.

The incentive schemes consist of annual bonuses, executive share option schemes, employee sharesave schemes and an employee share ownership plan.

**Basic salary and benefits** The basic salary is reviewed annually, and is determined by reference to relevant market data and the individuals experience, responsibilities and performance. Benefits principally comprise pension arrangements, a car and private healthcare.

**Performance related bonuses** The bonus for Group executive directors and certain senior executives is calculated on formulae which are determined each year by the remuneration committee. For each of the Group executive directors and certain senior executives, the formula measures the Group's performance against specified targets relating to the operational performance of the Group or its subsidiaries.

For the subsidiary senior executives, the targets are a combination of measures relating to their performance against specific objectives and business units operational performance. In 2002 bonuses were earned at two subsidiary companies by the executive team responsible for those businesses. The maximum bonuses payable under the above schemes are limited to 50% of annual salary. The cost of any subsidiary bonuses are taken into account before Group executive directors' bonuses are calculated.

**No. 1, No. 2 and No. 3 executive share option schemes** The No. 1, No. 2 and No. 3 executive share option schemes are available for certain executives in the Group's businesses. It is the policy of the committee that annual awards should not exceed the annual basic salary of the recipient in any one year. The option price is based on the mid market price of the Company's shares on the last dealing date preceding the granting of the options and can be exercised between the third and tenth anniversary of the grant date.

The executive directors each have options outstanding only under the No. 3 executive scheme. The exercise of options under the No. 3 executive share option scheme is dependent on certain performance criteria being achieved, namely that compound EPS growth over a three year period should exceed the movement in the retail price index by at least 3% for each year.

**Employee sharesave and stock option schemes** In the UK, grants were made under a sharesave scheme in January 1998. The option price was based on a discount of 20% from the mid market price of the ordinary shares five days before the application date. The savings term was for three or five years. The options under the three year scheme have either been exercised or lapsed. The five year plan is due to mature in 2003. The options are exercisable at a price of 150p per share.

**Employee share ownership plan (restricted share scheme)** This scheme is administered by an independent trust and awards can be recommended by the remuneration committee for senior executives in the Group's businesses. The shares are awarded at Nil cost to the recipient. No award was made under this scheme during the year.

# Directors' remuneration report continued

With effect from 1 December 2002, Mr Vaisey and the remuneration committee reached agreement whereby the pension entitlement of Mr Vaisey was revised. From 1 December 2002, the pension arrangements for Mr Vaisey transferred from a defined benefit basis to a defined contribution basis. The transfer to a defined contribution basis included a transfer payment of £242,000 in respect of pension benefits earned up to 1 December 2002 which amounted to £20,520 per annum in The Roxboro UK Executive Fund. The transfer was paid to The Roxboro Group UK Pension Scheme. The Roxboro Group UK Pension Scheme is a money purchase scheme and in 2002 contributions of £3,500 were made by the Company in respect of Mr Vaisey. The Company continues to be committed to providing additional pension benefits, now on a defined contribution basis, for Mr Vaisey through a funded unapproved pension scheme as his pension entitlement under the money purchase scheme is restricted under the Finance Act 1989. A funded unapproved pension scheme was established for Mr Vaisey during the year.

In December 2002, the Company paid £422,000 to the unapproved pension scheme representing the full amount due at that date in respect of benefits earned to 1 December 2002. Of this payment £273,000 was provided at 31 December 2001 with the amount charged in the accounts for the year ended 31 December 2002 amounting to £149,000 (2001: £69,000). In 2002 ordinary contributions of £3,500 were made by the Company to the unapproved pension scheme.

Mr Vaisey has an entitlement to additional payments amounting to £283,000, classified as salary supplement to compensate for the expected tax liability which arises in respect of the Company's contribution to the unapproved pension scheme. Of this payment £183,000 was provided at 31 December 2001 with the amount charged in accounts for the year ended 31 December 2002 amounting to £100,000 (2001: £46,000).

As part of the pension arrangements, the directors are entitled to life assurance cover equal to four times basic salary.

## Directors' beneficial interests

Directors' beneficial interests in the ordinary shares of 1p each in the Company are set out below:

	At 31 December 2002 Shares	At 31 December 2001 Shares
Sir Alan Cockshaw	30,000	30,000
H L Tee	2,579,422	2,579,422
A J Vaisey	82,600	82,600
P A M Curry	60,000	60,000
J Hewitt	8,000	8,000
R Jeens	10,000	10,000
W Whiteley	—	—

There has been no change in directors' holdings since the year end date.

None of the directors had or has an interest in any material contract relating to the business of the Company or any of its subsidiary undertakings.

## Directors' share options

The auditors have reported on the information contained in this section of the report.

Share options granted to directors are as follows:

	Date granted	Options granted	Exercise price per share
No. 3 executive share option scheme			
H L Tee	21 September 1999	80,000	246.5p
	14 March 2000	84,970	250.5p
A J Vaisey	14 September 2001	125,000	194.0p
	21 September 1999	60,000	246.5p
	14 March 2000	71,202	250.5p
	14 September 2001	100,000	194.0p

There has been no change to the share options during the year.

The options are exercisable after the third anniversary and before the 10th anniversary of the year of the grant.

	Date granted	Options granted	Exercise price per share	Savings period years
Employee sharesave scheme				
H L Tee	21 January 1998	11,500	150p	5

The executive directors were eligible to participate in the Company's Inland Revenue approved savings related share option scheme, on equal terms with all other employees.

## Share price

The share price range during 2002 was between a lowest market mid point price of 124p per share and a highest market mid point price of 286p per share. The market mid point price at 31 December 2002 was 144p per share.

## Service contracts

The service contract of H L Tee dated 11 October 1993 includes an ongoing notice period for termination of 24 months to be given by both the Company and H L Tee. This notice period was fixed in 1990 at the time of the formation of the Company and the committee are in agreement for it to continue.

On 20 December 2002, the Company entered into a new service contract with A J Vaisey, replacing any prior arrangement. The reason for the new contract with A J Vaisey was to adopt the revised pension arrangements as detailed earlier in this report. With effect from 1 December 2002, Mr Vaisey's pension entitlement transferred from a defined benefit basis to a defined contributions basis. A J Vaisey's service contract includes an ongoing terminable period of 12 months if given by the Company and six months if given by A J Vaisey.

It is the remuneration committee's intention that any future executive appointments will have notice periods of not more than 12 months. However, the committee accepts that it may have to offer a longer initial contract term for certain incoming directors.

There are no predetermined provisions for compensation on termination within the executive directors' service contracts which exceed 24 months' emoluments for Mr Tee and 12 months' emoluments for Mr Vaisey.

## Remuneration policy for non-executive directors

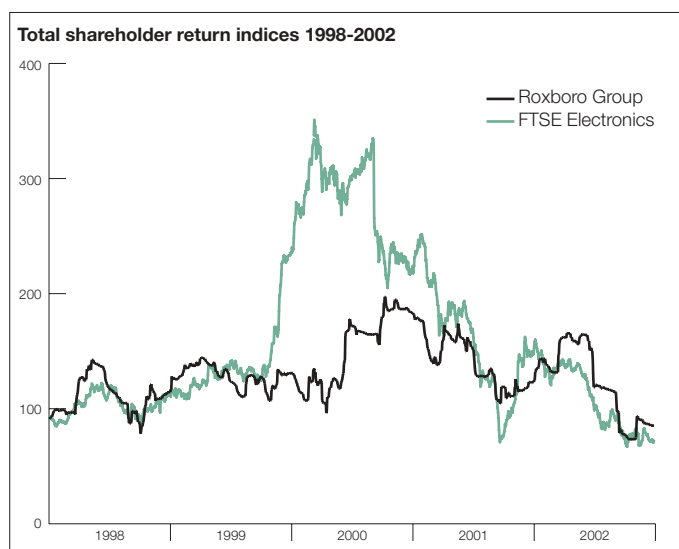
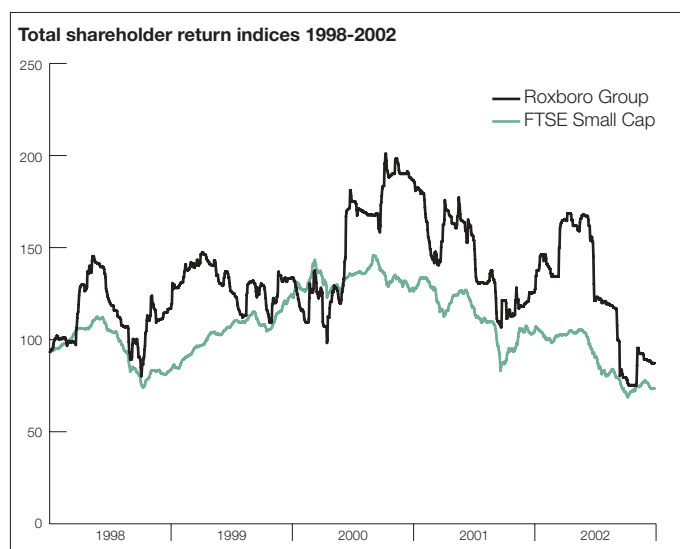
Fees for the non-executive directors are determined by the board as a whole. The non-executive directors do not take part in these discussions. The non-executive directors do not participate in the Company's bonus schemes or share schemes, and they are not eligible for pension scheme membership.

The agreement with non-executive directors is that they have an initial term of three years. This may be extended by a further three year period by mutual consent of the director and the board and thereafter for one-year periods upon agreement between the Board and the non-executive director. All agreements with the non-executive directors include notice periods of three months.

## Performance review

The following graphs show the five year total shareholder return performance of the Company, compared with the total shareholder return over the same period for the FTSE Small Cap Index and the FTSE Electronics Index. These were selected as they were considered to be a broad representation of Roxboro's Peer Group in terms of its size and industry sector.

The graphs show that The Roxboro Group outperformed both these indices over the five-year period with total returns to shareholders at 31 December 2002 of -6.5% compared with a return of -21.3% from the FTSE Small Cap Index and -20.9% from the FTSE Electronics Index.



## J Hewitt

Chairman of the remuneration committee

On behalf of the board

18 March 2003

## Relations with shareholders

Communication with shareholders is given high priority. The operating and financial review on pages 3 to 13 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 parties 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 23 April 2003 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 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 and confirm 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 by members of the head office finance department or senior financial personnel from Group companies to review internal control procedures.