

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 Revised Combined Code

In July 2003 the UK Financial Reporting Council published the Revised Combined Code ("the Revised Code"). This Revised Code was issued following the recommendations made in the Smith Report on Audit Committees and the Higgs report on non-executive directors. This is the first year that the Company has been required to report under the Revised Code.

The Company has been in full compliance with the provisions set out in the Revised Code throughout the year, except in the following areas:

The Board intends during the next few months to put in place a formal process for performance evaluation of the Board, its committees and directors.

The arrangements whereby employees may in confidence raise matters of concern about possible improprieties in matters of financial reporting or other matters will be formalised in line with the recommendations of the Code during the next year.

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

The Board and Board committees

The Board

The Board currently comprises the independent non-executive Chairman, the Chief Executive, one other executive director and three other independent non-executive directors. J Hewitt has acted as senior independent director throughout the year. The Board considers that 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 and therefore meet the criteria set out in the Revised Code. Their biographies appear on page 14. 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 25 and a statement on going concern is given on page 16.

The Board had nine meetings during the year, which were attended by the directors with the exception of one meeting which one director, Mr Whiteley, was unable to attend due to a prior commitment.

There is a clear division of responsibilities between the Chairman and Chief Executive. The responsibilities broadly follow the guidance given in the Revised Code.

The Board has a formal schedule of matters specifically reserved to it for decision including the approval of annual and interim results, annual budgets, and acquisitions and disposals. 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. Every director has access to appropriate training as required subsequent to appointment.

The Board meets at least eight times each year, reviewing trading performance, ensuring adequate funding, setting and monitoring strategy, examining major acquisition and disposal possibilities, and giving consideration to announcements to be made to shareholders. During the year the Board also reviews those matters delegated to the Committees. 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. Comprehensive papers are distributed by the Company Secretary to all directors in advance of Board meetings. The documentation normally includes a full report from the Chief Executive and Finance Director and detailed papers on other matters that the Board are being asked to consider. In addition directors are briefed by presentations at the meetings including those given by senior management on key areas of the Group's operations. Their understanding of the Group operations is further enhanced by visits to the operations. The Chairman ensures that the directors take independent professional advice as required.

The Chairman and other non-executive directors also meet during the year without the executive directors present.

The Company has arranged for appropriate insurance cover for directors' and officers of the Company.

The following committees, all of which have terms of reference, deal with the specific aspects of the Group's affairs.

Nominations committee

The nominations committee which comprises the non-executive directors meets as necessary. There were three meetings during 2004 attended by all the members. The Chairman is Sir Alan Cockshaw and the Committee is responsible for proposing and recommending 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 election by shareholders at the first Annual General Meeting following their appointment and to re-election thereafter at intervals of no more than three years. Non-executive directors are appointed for an initial three year term and are normally expected to serve up to six years. The Board continues to value the experience and contribution offered by the Chairman who has served longer than six 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 was chaired by J Hewitt throughout the year with the other members being all the non-executive directors, Sir Alan Cockshaw, R Jeens and W 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 remuneration committee met seven times during the year and the meetings were attended by all members except for one meeting which Mr Whiteley was unable to attend.

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 19 to 21.

Audit committee

The audit committee, which is chaired by R 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 met twice during the year in March and September. Each meeting was attended by all of the members.

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, risk management, the application of appropriate accounting policies and procedures, and monitoring the controls which are in force to ensure the integrity of the information reported to the shareholders. The audit committee makes recommendations to the Board on the appointment and reappointment 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 is also responsible for overseeing the internal audit function for which an independent firm is used. The primary function of the internal audit is to review the systems and controls for financial reporting. The audit committee receives copies of the reports prepared by the internal audit firm and group personnel for any internal control review visits they may perform. The internal audit firm will attend the audit committee as requested to report directly on any significant findings.

The Committee is also responsible for monitoring the cost effectiveness, independence and objectivity of KPMG Audit Plc, the external auditor, and agreeing the level of remuneration and extent of non-audit services. The scope of the external audit for each business, together with the audit fees were presented by KPMG Audit Plc at the September 2004 Committee meeting. Both the audit scope and related fees were approved at the meeting. The executive directors attended the meeting by invitation.

Non-audit work is subject to approval by the audit committee if it is above a certain value, to ensure that the auditor's independence is not compromised. All fees for non-audit work are subject to the agreement of the Group Finance Director. The approach of the Group over the past few years has been to use the Group's auditors for tax work if they are considered to be best suited to do the work.

The audit committee can meet with the auditors without management present.

Relations with shareholders

Communications with shareholders are given high priority. The review of the Chief Executive and Finance Director 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. At the AGM the Company conducts the formal business of the meeting by a poll on each separate resolution. Details of resolutions to be proposed at the Annual General Meeting on 10 May 2005 can be found in the Notice of the Meeting. Notices covering each Annual General Meeting are sent out to shareholders at least 20 working days before each meeting.

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 control 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 business, operational, compliance and financial 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.
- **Financial information** 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.

Each business also produces five year business plans which are updated regularly to reflect changing circumstances. The plans will include consideration of financial projections and the evaluation of business alternatives.

The Board receives and reviews monthly management accounts together with the full year forecasts which are updated monthly. Performance against forecast and budget is closely monitored.

- **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 senior financial personnel and Internal Auditors, 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 these reports or the external auditors.

The Group does not have an in-house internal audit function, but engages a firm of independent auditors to perform internal audit reviews at each of the main businesses. The programme of visits to each of the main sites has continued throughout the year and reports issued to the audit committee. The firm of independent auditors does not provide any other services to the Group and their appointment is considered to enhance the monitoring process already in place. In addition internal control visits are made at least once a year to a number of the subsidiaries by senior financial personnel from group companies to review control procedures.

Corporate Social Responsibility

The Board considers social and environmental matters and will review any items of significance where appropriate. The Risk Assessment processes in operation are designed to identify any major areas of concern in areas including Health and Safety and environmental issues.

Social policy

The Group takes its responsibilities to its employees, customers and shareholders seriously but it also recognises its social responsibilities.

Roxboro has a policy of not making donations to political groups, parties or individuals, but has a positive policy of supporting worthwhile institutions which benefit either the communities in which it operates or the industry in which it works.

Environmental policy

The Group recognises its responsibility for the environment in which it operates. The business operations within the Group have a minimal environmental impact. Each business operates within a policy of reducing the environmental effects of its operations and to meet any statutory requirements placed upon it.

Dialight – social, ethical and environmental matters

Dialight's industry leadership extends beyond technologically advanced products and solutions, as social, ethical and environmental stewardship help ensure the businesses' success. Dialight promotes a safe and equitable work environment, where equal opportunity abounds and employees are provided social benefits beyond insurance against illness and disability. For instance, the Employee Assistance Program, while not mandated by law, provides Dialight employees access to confidential counselling services pertaining to a wide range of personal issues and dependencies. A written code of conduct to prevent harassment and workplace violence is in place.

Dialight's manufacturing processes are designed to have minimal environmental impact; procedures are established to reduce, re-use and recycle all materials, including by-products of the manufacturing process. Emissions of gases, chemicals and water are well below governmental thresholds and, in most cases, undetectable. Dialight actively manages its supply chain and processes to eliminate or reduce the inclusion of hazardous substances in its end product and works to meet and exceed internationally recognised regulations such as RoHS – 2002/95/EC, WEEE – 2002/96/EC, ELV – 2000/53/EC dated 27 June 2002, JGSSSI dated 22 July 2003 and many regulations in discussion worldwide.

Solartron – social, ethical and environmental matters

Solartron is a designer, manufacturer and supplier of measurement instrumentation; all of these products are used to improve industrial and process plant and equipment performance and safety. This includes reduction of energy used, elimination of emissions by ensuring efficient combustion processes, avoidance of pollution risk with such applications as leak detection in pipelines and overfill protection on storage tanks.

All Solartron products are designed in accordance with international standards and are independently certified for use globally in a wide range of industries, processes and applications.

All Solartron business processes operate within national and international laws and directives. Solartron is an active member of trade bodies such as Gambica, PERA, EIC and API, contributing directly, where appropriate, to the development of standards, guidelines and directives on matters of product performance, design and safety.

The division employs the services of external consultants to assist management and the total workforce to ensure full awareness and compliance with all appropriate guidelines and directives. It is the objective of the division to move towards the adoption of best practice throughout all aspects of the business including HR, Health and Safety, AQ and Environmental matters.

Solartron is a founding member of the B2B Compliance Producer Consortium, an organisation being established by members of Gambica, the UK trade body representing the measurement and control industry. The B2B Compliance Producer Consortium is being established to help ensure participating members comply with the WEEE Directives and the resultant regulations soon to be issued by the DTI.