

## Corporate governance

The directors acknowledge the importance of the principles set out in the 2004 FRC Combined Code on Corporate Governance. Although not required to make these disclosures, the directors set out below how the principles that they consider to be applicable to the Company have been applied during the year:

### The Board of directors

During the year to 31 March 2005 the Board comprised a non-executive chairman, a chief executive, a finance director and two independent non-executive directors. The Board includes non-executive directors of sufficient calibre and number to bring independent judgement on the key issues facing the Group.

The Board meets regularly throughout the year to review performance against pre-agreed budgets. The Board has a formal schedule of matters specifically reserved to it for decision covering overall strategy, acquisition and divestment policy, approval of budgets and major capital expenditure projects and general treasury and risk management policies. To enable the Board to discharge its duties, all directors have full access to all relevant information and to the advice and services of the Company Secretary. The appointment and removal of the Company Secretary is a matter for the Board as a whole. In addition, the directors may take independent professional advice in the furtherance of their duties, if necessary, at the Company's expense.

A nominations committee is not considered appropriate because of the small size of the Board but all appointments or potential appointments are fully discussed by all Board members. All new directors and senior management are given a comprehensive introduction to the Group's business, including visits to the principal sites and meetings with senior management. Any training necessary will be provided at the Company's expense.

The Articles of Association provide that directors will be subject to re-election at the first opportunity after their appointment and then submit to re-election at intervals of three years. The Chief Executive is not subject to retirement by rotation, but would expect to submit voluntarily to re-election at intervals of three years.

### Audit Committee

The Audit Committee consists of Norman Saunders, Chairman, and John Hemingway. The Audit Committee meets at least twice a year and considers the appointment and fees of the external auditors and discusses the scope of the audit and its findings. Meetings are also attended by relevant executive directors. The Committee is also responsible for monitoring compliance with accounting and legal requirements and for reviewing the annual and interim financial statements prior to their submission for approval by the Board.

### Remuneration Committee

The Remuneration Committee consists of John Hemingway, Chairman, and Norman Saunders. The Committee's role is, amongst other responsibilities, to consider and approve the remuneration and benefits of the executive directors. In framing the Company's remuneration policy, the Remuneration Committee has given full consideration to Section B of The Combined Code. The Report on Directors' Remuneration is set out on pages 14 to 16.

### Internal control

The Board has ultimate responsibility for the system of internal control operating throughout the Group and for reviewing its effectiveness.

No system of internal control can provide absolute assurance against material misstatement or loss. The Group's system is designed to manage rather than eliminate the risk of failure to achieve business objectives and to provide the Board with reasonable assurance that potential problems will normally be prevented or will be detected in a timely manner for appropriate action.

The Company has had procedures in place throughout the year and up to the date of approval of this annual report, which accord with the Internal Control Guidance for Directors on the Combined Code published in September 1999.

The Board has delegated the detailed design of the system of internal control to the executive directors. The Board has also appointed a manager with specific responsibility for operational risk management. The Group Financial Controller and the Operational Risk Surveyor are formally encouraged to approach the Audit Committee if appropriate.

The control framework and key procedures are as follows:

- The executive directors meet regularly together, and with other senior executives, to consider Group financial performance, business development and Group management issues. The directors and officers of Group subsidiaries comprise executives with appropriate functional responsibilities. Directors of key operating companies meet regularly to manage their respective businesses.
- The Group Board establishes corporate strategy and Group business objectives. Divisional management must integrate such objectives into divisional business strategies for presentation to the Group Board with supporting financial objectives.
- There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. Major business risks and their financial implications are appraised by the responsible executives and endorsed by divisional management.

This is an integral part of the strategic planning process. The appropriateness of controls is considered by the executives, having regard to cost/benefit, materiality and the likelihood of risks crystallising. Key risks and actions to mitigate those risks are considered at each regular Board meeting and are formally reviewed and approved by the Group Board annually.

- Divisional budgets, containing financial and operating targets, capital expenditure proposals and performance indicators are reviewed by the executive directors and must support divisional business strategies. The consolidated Group budget is approved by the Group Board.
- Reports on Group and divisional performances are regularly provided to directors and discussed at Group Board meetings. Performance against both budgets and objectives together with management of business risks are reviewed with divisional management, as are forecasts and material sensitivities. The Board regularly receives reports from key executives and functional heads covering areas such as forecasts, business development, strategic planning, legal and corporate matters.
- There is a group-wide policy governing appraisal and approval of investment expenditure and asset disposals. Post investment performance reviews are undertaken.
- Clearly defined organisation structures and appropriate delegated authorities for executives are in place throughout the Group.

#### Relations with shareholders

Communications with shareholders are given high priority. All shareholder enquiries to the directors are attended to by a director. There is a regular commentary for shareholders including presentations after the Company's preliminary announcement of the year end results and at the half year, as well as the investor relations section of the Company's website.

The Board also uses the Annual General Meeting to communicate with investors and welcomes their participation. The Chairman aims to ensure that the Chairmen of the Audit and Remuneration Committees are available at Annual General Meetings to answer questions.

Established procedures ensure the timely release of share price sensitive information and the publication of financial results and regulatory financial statements.

#### Health and safety

A high standard of health and safety management is promoted at all levels within the Group. The Group's health and safety approach is supported by training programmes at operating businesses, Group health and safety rules and monitoring and auditing to promote a high level of awareness and commitment.

#### Statement by directors on compliance with the provisions of the Combined Code

The Board consider that they have complied with the provisions of the Combined Code throughout the year ended 31 March 2005 which they consider to be practicable and appropriate for a relatively small public company in accordance with the recommendations on corporate governance.

#### Directors' responsibilities for the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that they have complied with the above requirements in preparing these financial statements.

#### Going concern

After making appropriate enquiries, the directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.