

Corporate Governance report

Introduction

The Listing Rules require that listed companies (but not companies traded on the Alternative Investment Market (AIM)) incorporated in the UK should state in their report and accounts whether they comply with the Combined Code on Corporate Governance and identify and give reasons for any area of non-compliance. The Company is listed on AIM and therefore no disclosure is required. However, some voluntary disclosures have been given.

The Board supports the principles and aims of the Code and intends to ensure that the Group observes the provisions of the Code as it grows, as far as is practical. However, the Board considers that at this stage in the Group's development the expense of full compliance with the Combined Code (2003) is not appropriate. The Board will consider the updated Combined Code (2006) for the next year end.

Directors and Board

The Board comprises three executive and four non-executive directors. The roles of non-executive Chairman, non-executive directors and Chief Executive are separate appointments and it is Board policy that this will continue.

The non-executive directors bring their independent judgement to bear on issues of strategy, performance, appointments, resources and standards of conduct.

There is a formal schedule of matters specifically reserved for decision by the Board.

All directors have access to the advice and services of the Company Secretary and there is an agreed procedure for directors to take independent professional advice at the Group's expense if necessary.

Board committees

The Board has established two committees, the Audit and the Remuneration Committees. Both committees have written terms of reference agreed by the Board.

Following the recent Board changes and in light of the experience of the new Chairman, the Board has decided that for a temporary period, the Chairman should chair all Board sub-committees to ensure a smooth transition of the sub-committee activities to the new Board. It is understood that this is not in line with best practice but is believed to be in the best interests of the Company at this time. Colin Smithers and Olivier Hopkes are the other members of both the Remuneration and Audit Committees.

Audit

The Audit Committee has terms of reference that set out its remit, authority and duties and its intention to meet at least three times a year with the external auditors.

Internal financial control

The Group has established policies covering the key areas of internal financial control and the appropriate procedures, controls, authority levels and reporting requirements which must be applied throughout the Group.

The key procedures that have been established in respect of internal financial control are:

- internal control: the directors review the effectiveness of the Group's system of internal controls on an annual basis;
- financial reporting: there is in place a comprehensive system of financial reporting based on the annual budget approved by the Board. The results for the Group are reported monthly along with an analysis of key variances and year end forecasts are updated on a regular basis; and
- investment appraisal: applications for capital expenditure are made in a prescribed format which places emphasis on the commercial and strategic justification as well as the financial returns. All significant projects require specific Board approval.

No system can provide absolute assurance against material misstatement or loss but the Group's systems are designed to provide reasonable assurance as to the reliability of financial information, ensuring proper control over income and expenditure, assets and liabilities.