

CORPORATE GOVERNANCE

Introduction

In July 2003, the Board resolved to voluntarily adopt the requirements of the Combined Code on Corporate Governance issued by the Financial Reporting Council ('the Code') and during the year the Company has applied the main Principles of the Code as described below.

Throughout the period from July 2003 to 31 December 2003 the Company has been in compliance with the Code provisions set out in Section 1 of the Code except for the following matters:

- Whilst comprehensive systems of internal control were in place throughout the period, the Company has not undertaken a formal review of the effectiveness of the Company's system of internal control nor has it documented its process of identifying, evaluating and managing the significant risks faced by the business. The Company will undertake a formal, documented risk assessment exercise in 2004 and formally evaluate the effectiveness of the systems of internal control in meeting those risks. Both assessments will be repeated annually thereafter.
- The Board has not appointed a senior independent Director as required under the Combined Code.

In July 2003 the Combined Code was revised resulting in a number of changes to the Corporate Governance disclosure requirements. These changes are applicable for accounting periods commencing on or after 1 November 2003 and will therefore be included within the financial statements for the year ending 31 December 2004.

Directors and the Board

The Board comprises seven Directors, two of which are executive and five of which are non-executive independent Directors. The Board meets regularly ten times per year and for ad hoc meetings as and when required. The role of the Board is to set the overall operating strategy, approve detailed operating plans and budgets, monitor performance against plans and oversee the activities of the Executive Directors. The Board has delegated the day to day operation of the activities of the Company to the Executive Directors. Biographical notes of all Directors are included on page 4.

Except where a Director is appointed to fill a casual vacancy, all Directors are appointed by the Shareholders at the Annual General meeting. One third of the Directors (to the nearest whole number of Directors) retire by rotation (based upon length of service) and seek re-election each year. Directors appointed to fill a casual vacancy must seek formal appointment by the Shareholders at the Annual General meeting.

The Board is supplied with regular timely management information through which it can monitor the performance, activities and financial position of the Company and on which decisions can be based.

Audit Committee

The Audit Committee was established by the Board on 20 September 2003 and is made up of R Pirouet (Chairman), C Hinault and S Marie. The auditors, Ernst & Young LLP, and the Executive Directors, H Snowden and H Smith also attend the meetings by invitation.

The terms of reference of the audit committee require it to meet at least twice per annum. Additional meetings may be called where deemed necessary. The Committee is charged by the Board with the following main responsibilities:

- to oversee the external audit process and manage the relationship with the external auditors making recommendations as to their appointment and remuneration.
- to monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance.
- to review the operation and effectiveness of the Company's internal financial and other controls and make recommendations for improvement where necessary.

CORPORATE GOVERNANCE CONTINUED

Remuneration Committee

The Remuneration Committee was established by the Board on 20 September 2003 and is made up of DC Norman (Chairman), L Norman and R Pirouet. The Executive Directors, H Snowden and H Smith may also attend the meeting by invitation. No Director plays any role in the determination of his own remuneration.

The terms of reference of the Remuneration Committee allow it to meet as and when necessary to:

- Review the remuneration of salaried staff.
- Review and determine the level of remuneration for Executive Directors.

Nomination Committee

The Nominations Committee was established by the Board on 20 September 2003 and comprises the full Board of the Company. The Committee is chaired by DC Norman and is responsible for selecting and appointing the Company's executive and non-executive directors as and when required.

Internal controls

The Board is responsible for ensuring that there are effective systems of internal control in place to reduce the risk of misstatement or loss and to ensure that business objectives are met. These systems are designed to manage rather than to eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Controls adopted by the Board to ensure that the systems of internal control are operating include the following:

- The preparation and approval each year of a detailed business plan which sets out, on a project by project basis, expenditure planned for the next ten years.
- The consideration and approval each year of detailed revenue and capital budgets for each cost centre.
- Regular review of detailed operational and financial management information and comparison of performance against budget and prior periods. Explanations are sought for variances and remedial action is taken as necessary.
- The review of reports received from the audit committee concerning the findings of the external auditors on the financial statements of the Company and the systems of internal control.
- Consideration by the Board of significant financing and investment decisions.

Whilst comprehensive checks and controls were in place throughout the year, no formal review of the effectiveness of the systems of internal control was undertaken as required by the Code. In addition, the process for identifying, evaluating and managing the significant risks faced by the Company has not been documented as required under the Turnbull guidance. It is planned that a documented risk assessment exercise will be undertaken in 2004 and updated annually thereafter. Additionally, the effectiveness of the systems of internal control in meeting those risks will be formally evaluated on an annual basis.

CORPORATE GOVERNANCE CONTINUED

Going Concern

The Directors have made sufficient enquiries to satisfy themselves that they have reasonable expectation that the Company will continue in operational existence for the foreseeable future and have therefore used the going concern basis in preparing the financial statements.

Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company and of the profit or loss for the period. In preparing these financial statements the Directors have selected what they consider to be suitable accounting policies and have applied them consistently. They have made judgements and estimates which they believe are reasonable and prudent, and have followed applicable accounting standards. They have prepared the financial statements on a going concern basis.

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.