

Corporate Governance

Introduction

In July 2003, the Board voluntarily resolved to adopt the requirements of the Combined Code on Corporate Governance issued by the Financial Reporting Council ('the Code').

The Board are of the opinion that, throughout the year under review, the Company has been in compliance with the Code provisions set out in Section 1 of the Code except for the following matters:

- As reported in the corporate governance section of the 2003 financial statements the Company had not undertaken a formal review of the effectiveness of the Company's system of internal control nor had it documented its process of identifying, evaluating and managing the significant risks faced by the business. During 2004, the Company undertook a formal, documented risk assessment exercise and evaluated the effectiveness of the systems of internal control in meeting those risks. The findings of the review were formally accepted by the audit committee on 16 December 2004.
- As reported in the corporate governance section of the 2003 financial statements the Board had not appointed a Senior Independent Director as required by the Code. On 17 September 2004, Richard Pirouet was elected Senior Independent Director.
- In July 2003, the Code was revised and included a requirement that non executive Directors serving longer than nine years on the Board should be subject to annual re-election. The Board believes that this provision of the Code is not in the best long term interests of the Company and have therefore resolved not to apply it.

Directors and the Board

The Board

The Board comprises seven Directors, two of whom are executive and five of whom are non-executive Directors. The Board meets regularly, normally 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.

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.

Meetings and committee membership

During the year the Board met 13 times. Details of Board meeting attendance, committee membership and committee meeting attendance are provided in the table below.

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings in 2004	13	3	1	1
<i>David Norman</i>	13 (Chairman)			1 (Chairman)
<i>Senator Len Norman</i>	13			
<i>Richard Pirouet</i>	13	3 (Chairman)	1 (Chairman)	1
<i>Stephen Marie</i>	13	3	1	1
<i>Carlyle Hinault</i>	10	3	0	
<i>Howard Snowden</i>	13			
<i>Helier Smith</i>	13			

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Director independence

The Board considers all non executive directors to be independent in character and judgement. However, both David Norman and Senator Len Norman have been Board members for more than nine years and Senator Len Norman is a member of the States of Jersey, the Company's majority and controlling shareholder. David Norman and Senator Len Norman do not therefore meet the criteria of independence set down in the Combined Code. Accordingly, the Board have determined that Richard Pirouet, Carlyle Hinault and Stephen Marie shall be deemed independent.

Performance evaluation

In order to ensure that the Board continues to operate effectively, it has developed and implemented a process of performance evaluation. The process measures the performance of the Board as a whole against a set of predefined targets and of individual directors by way of self and peer appraisal. The results of the performance assessments and appraisals are fed back to the individual directors and the Board as a whole (as appropriate) and action taken accordingly.

Reappointment

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. Directors appointed to fill a casual vacancy must seek formal appointment by the Shareholders at the Annual General Meeting. Biographical notes of all Directors are included on page 4.

Relations with shareholders

The Company is in regular contact with its majority and controlling shareholder, the States of Jersey. Details of contact with and the views of the States are passed on to the whole Board as necessary.

Audit Committee

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

The terms of reference of the audit committee, which are available upon request, 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 monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance. The Committee are briefed on changes to reporting requirements and provided with information on any accounting or reporting issues that arise. The Audit Committee review in detail the financial statements before making a recommendation to the Board as to whether or not they should be formally approved.
- to review the operation and effectiveness of the Company's internal financial and other controls and make recommendations for improvement where necessary. During the year the Committee undertook the first risk assessment and evaluation of effectiveness of the systems of internal control.
- to oversee the external audit process and manage the relationship with the external auditors. The Committee formally considers the performance and independence of the external auditors on a regular basis taking into consideration all applicable professional and regulatory requirements. The Committee also has procedures in place to protect auditor independence and control the extent to which the auditors may be retained for non audit services and the basis upon which such services are purchased.

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- The committee is required to make recommendations to the Board as to the re-election and remuneration of the auditors at the Annual General Meetings and does so based upon its assessment of the performance of the auditors and giving due regard to their continued independence and any other regulatory or professional requirements.

The Committee have considered the need for an internal audit function and have concluded that due to the size and type of business that such a function would not be cost effective.

Remuneration Committee

The Remuneration Committee was made up of David Norman (Chairman), Senator Len Norman and Richard Pirouet until 17 September 2004 when Richard Pirouet became Chairman and David Norman and Senator Len Norman were replaced by Stephen Marie and Carlyle Hinault. The Executive Directors, Howard Snowden and Helier 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 of Executive Directors.

Nomination Committee

The Nominations Committee comprises David Norman (Chairman), Richard Pirouet and Stephen Marie and is primarily responsible for the selection and appointment of the Company's executive and non-executive directors as and when required.

The other duties of the committee include:

- Making recommendations to the main Board as to the re-election of Directors under the 'retirement by rotation' provisions in the Company's Articles of Association whilst giving due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required.
- Reviewing and making recommendations to the Board as to the succession planning for executive and non-executive Directors.
- Regularly reviewing the structure, size and composition required of the Board compared to its current position and making recommendations to the Board with regard to any changes.
- Keeping under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to operate effectively.

There were no new appointments to the Board during 2004.

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.

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During the year the Company developed a corporate and departmental risk register detailing and risk grading all of the significant risks faced by the Company. Alongside the register is a process through which the significant risks faced by the business are identified and evaluated on a regular basis and the controls operating over those risks assessed to ensure that they operate effectively. The Audit Committee formally adopted the first risk and control register on 16 December 2004.

The process of risk assessment and reviewing the effectiveness of the systems of internal control will be regularly reviewed by the audit committee, accords with Turnbull guidance and has been in place from the date of adoption by the audit committee up to and including the date on which the financial statements were approved.

Controls adopted by the Board (or its committees) to ensure the effectiveness of the systems of internal control include the following:

- The review of the corporate risk register maintained and updated by the Company and of the status of any actions arising from their regular review. The receipt of confirmation from Senior Management of the proper operation of controls throughout the period of the review.
- The review and approval during the year of terms of reference of sub committees.
- The review and approval during the year of the schedule of matters specifically reserved for its attention.
- 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.

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.