

HOLDERS Technology plc Annual Report & Accounts 2017

Specialised PCB Materials, LED Components and Smart Lighting

Year in Brief

Holders Technology supplies specialty laminates and materials for printed circuit board manufacture (“PCB”), and operates as an LED solutions provider to the lighting and selected industrial markets.

The Group made notable progress during the year, with encouraging revenue growth, improved margins, and a return to profitability.

The Group now comprises two PCB divisions based in the UK and Germany, and two LED divisions also based in the UK and Germany. In the opinion of the directors, all divisions achieved satisfactory growth by the year end.

Certain operations (NRGstar and Opteon Germany) were discontinued during the period, and their results are shown separately as discontinued operations.

The directors will recommend payment of a final dividend of 0.25p per share.

The results are summarised below.

Highlights		2017	2016	Change	
		£'000	Restated £'000	£'000	
Continuing Revenue	PCB	9,453	8,336	1,117	Increase* ¹
	LED	2,755	2,362	393	Increase* ²
	Group	12,208	10,698	1,510	Increase* ³
Gross Margins	PCB	24.2%	22.2%	2.0%	Increase
	LED	33.4%	34.2%	-0.8%	Decrease
	Group	26.3%	24.9%	1.4%	Increase
Operating Profit/ (Loss)	PCB	214	(1)	215	Increase
	LED	(92)	(229)	137	Decrease
	Group	65	(261)	326	Increase
Profit/ (Loss) before tax	Group	54	(265)	319	Increase
Tax credit/ (expense)		5	(17)	22	-
Discontinued Loss		(42)	(113)	71	Decrease
Profit/ (Loss) after tax	Group	17	(395)	412	Increase
EPS/ LPS - Continuing		1.42p	(6.94p)		
EPS/ LPS - Total		0.41p	(9.72p)		
Dividend paid & proposed		0.50p	0.50p		
Cash		580	781		
Debt		Nil	Nil		

* Increase includes ¹£0.6m/ ²£0.1m/ ³£0.7m arising from exchange rate movements.

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STRATEGIC REPORT

Chairman's Statement

In my last Annual Statement, I reported that a number of changes were being made to the Group's management and sales teams and that along with this, further investments in PCB machinery were being made. The aim of these measures was to enable the Group to return to profitability and I am very pleased to be able to report that the Group did achieve a profit for the year of £65,000 from continuing operations (2016: loss of £261,000).

The Group now comprises PCB and LED divisions, based in both the UK and Germany. Two unprofitable activities NRGStar, based in the UK, and Opteon, based in Germany, were closed at the beginning of the year with their combined results recording a loss of £42,000 (2016: loss £113,000).

The overall Group result for the year showed continuing revenues of £12.2m (2016: £10.7m), with gross margins of 26.3% (2016: 24.9%) and a profit after tax of £17,000 (2016: loss £395,000). Approximately £0.7m of the Group revenue growth related to the Euro strengthening against sterling.

The PCB divisions together had revenue of £9.5m (2016: £8.3m) and achieved an operating profit of £214,000 (2016: loss £1,000) with margins improving from 22.2% to 24.2%. Approximately £0.6m of the PCB revenue growth related to the Euro strengthening against sterling.

Our German PCB operations, the largest single element of the Group, had a successful year with satisfactory growth from both existing and new product lines. Investments were made in machinery and improved systems during the year and we plan further investment in 2018.

UK PCB operations achieved encouraging revenue growth from a number of new product lines. The directors expect modest revenue improvement in 2018.

LED revenues overall amounted to £2.8m (2016: £2.4m) with gross margins decreased slightly to 33.4% (2016: 34.2%) and operating losses being reduced from £229,000 in 2016 to £92,000 in 2017. Approximately £0.1m of the LED revenue growth related to the Euro strengthening against sterling.

The LED divisions both had stronger second halves in 2017 with the UK division, in particular, substantially improving its performance. The product range continues to develop with smart lighting controls a key focus for the future. Both divisions were profitable in the second half of the year.

On behalf of the Board I would like to record our thanks to all of our staff for their hard work during 2017 which resulted in a profitable year for the Group. With 2017 seeing a return to profitability the board and management team remain fully committed to achieving further improvement in both sales and profitability in 2018 and beyond. The Board considers it appropriate to recommend a final dividend of 0.25p in respect of the 2017 year.



R W Weinreich
Executive Chairman
6 April 2018

STRATEGIC REPORT

Operating and Business Review

Corporate strategy

The board seeks to enhance shareholder value over the medium to long term, whilst maintaining a conservative financial framework. Where an opportunity to strengthen the Group's position is identified, this is addressed within the bounds of internally generated cash flow and bank facilities.

Product strategy

Holdings Technology plc ("Holdings") has operated for many years as a distributor of specialised and consumable materials to the PCB industry. The European PCB industry has strengths in the defence, aerospace, automotive and medical sectors, while the Far East is dominant in the production of consumer-related electronics.

Holdings continues to pursue a PCB strategy based on dual positioning: both as a low-cost source of standard products used throughout the industry; and as an exclusive supplier of technically sophisticated products to the PCB sector.

In addition to the PCB industry, Holdings operates as an LED and smart control solutions provider to the lighting and selected industrial markets. The product offering ranges from distribution of a full range of LED components, to supporting our customers with the design and assembly of light engines and integration of smart control lighting solutions.

Our LED strategy is to provide a competitive and complementary premium product range for our selected markets, supported by strong technical support and industry knowledge. In addition, Holdings provides bespoke solutions to fulfil customer requirements.

Market Overview

2017 saw good growth for the largest European PCB manufacturers, and our market position in Germany remains strong, with some notable improvement in the UK.

With the growing acceptance of LEDs in the marketplace and an understanding of the energy saving benefits, the market has moved to developing solutions for Smart Lighting and incorporating lighting within the 'Internet of Things'. Holdings is well placed in offering solutions which incorporate this smart, wireless technology and is working with key suppliers in this sector.

PCB operations

UK

UK trading operations are based in Galashiels, Scotland. The PCB industry in the UK is oriented towards the aerospace and defence industries, both of which require a broad range of products. During the year the division benefitted from a wider product range, and improved product availability.

Continental Europe

The German PCB industry is dominated by demand from the automotive and industrial sectors. In 2017, further investment in machinery and systems continued, and the PCB product offering was extended.

2017 revenues in sterling terms increased from £6.9m to £8.0m, of which approximately £0.6m was due to the strengthening Euro.

LED & Lighting solutions

UK

Holdings Components UK specialises in providing LED solutions to original equipment manufacturers (OEMs) in the general lighting market. During 2017, the division benefitted from an extended product range and a strengthened sales team.

Sales for the first half of 2017 were below expectations, however marked progress was made in the second half with good growth and profitability. The division has seen strong interest in smart lighting control solutions during the first quarter of 2018.

STRATEGIC REPORT

Operating and Business Review (continued)

Continental Europe

Holders Components Germany specialises in providing LED solutions to customers in continental Europe. The division also had a slower start in 2017 but saw improving sales and profitability in the second half. The division enters 2018 with a strong order book and encouraging interest in smart lighting control solutions, as well as customised components.

Discontinued Divisions

The unprofitable NRGstar operation was closed in the first half of the year. The NRGstar results, together with the financial activities from Opteon Germany (the closure of which we announced at the end of 2016), are shown as discontinued operations. Further details are shown in note 9 to the accounts.

Conclusion

We have made good progress in 2017 across all four divisions, investing in new products, equipment, and strong technical sales people, as well as focussing on improving our processes to become more efficient. We look forward to achieving further progress in 2018.



Victoria Blaisdell

Group Managing Director

6 April 2018

STRATEGIC REPORT

Financial Review

Key performance indicators

The directors believe that the following key performance indicators are of most significance to assessment of the Group's performance and financial position:

- Revenue

The level of turnover provides an important indication of the strength of the Group's product range and coverage.

- Profitability

Profitability is largely a function of the gross margins achieved and management's success in containing administrative expenses in relation to turnover.

- Liquidity

The Group operates in a cyclical industry and the directors have consistently adopted a conservative approach to financing the Group's activities. The key measure is *net liquid funds*, which is described in more detail below.

- Efficiency

Production efficiency is important in a competitive PCB market, and a greater focus has been placed on monitoring this activity during the year.

Revenue

Group revenue from continuing operations increased from £10.7m to £12.2m. Overall PCB revenue increased by 13.4%, and LED revenue increased by 16.6%. If the impact of Euro/ sterling strengthening is eliminated, then real terms growth was PCB 6.2%, LED 13.0%.

Profitability

The operating result from continuing operations was a profit of £65,000 compared to a loss of £261,000 in 2016. The gross profit margin was 26.3% compared to 24.9% in 2016.

Administration costs as a proportion of revenue decreased from 22.8% in 2016 to 22.1% in 2017.

Discontinued Operations

The result from the discontinued operations NRGstar (UK) and Opteon Germany was a loss of £42,000 (2016: loss £113,000).

Taxation

As announced in October 2016, the Group has a potential UK tax liability in respect of EU Cross Border Group Relief ("CBGR") claims relating to its former Swedish and Dutch operations. The remaining liability is estimated at up to £130,000, of which £36,000 has been agreed by the Company. The full liability was provided for in the 2016 accounts, although the Board believes a lower amount may be payable when a final settlement is agreed.

Post tax result

The profit for the financial year after tax, attributable to equity shareholders was £17,000 (2016: loss of £375,000). The basic earnings per share from continuing business was 1.42p (2016: loss 6.94p per share) and the fully diluted profit per share was 1.34p (2016: loss per share 6.94p).

Dividends

The board proposes a final dividend of 0.25p per share to be paid on 23 May 2018 to shareholders on the register on 5 May 2018. Including the 0.25p interim dividend already paid on 11 October 2017 the total dividend for 2017 would be 0.50p (2016: 0.50p).

Principal risks and uncertainties

The directors believe that the following are the principal risks and uncertainties faced by the Group:

- Competition

Both the PCB and LED sectors are highly competitive and the Group faces competition from a wide range of companies. The Group continually seeks the most cost-effective sources for its products in order to remain competitive.

- Customers

The Group is exposed to the risk of bad debts. Within the major European markets, the Group uses credit analysis data to monitor customer risk levels and maintain appropriate credit limits. Credit insurance is used for UK and European customers whenever it is available.

- Suppliers

As with any distribution business, the Group is dependent on maintaining supply. The Group has diversified its product range and sources in order not to be overly dependent on any single supplier.

STRATEGIC REPORT

Financial Review (continued)

Cash flow, liquidity and financing

Despite the reported revenue growth, stock levels were maintained at £2.4m in 2016 and 2017.

The Group maintains overdraft and trade financing facilities with its banks to meet short term financing requirements during the year. An overdraft facility of £100,000 is in place, however this has not been needed nor used during the period under review. The trade financing facility is used for occasional letters of credit and duty deferment. At 30 November 2017, the Group had net cash of £0.6m compared with £0.8m at the previous year end.

At 30 November 2017 the Group had *net liquid funds* (trade and other receivables plus cash minus current liabilities) of £1.2m compared to £1.1m in the preceding year. Net assets per ordinary share at 30 November 2017 were £0.95 compared with £0.93 in 2016.

Derivatives and other financial instruments

Operations are financed by a mixture of retained profits and overdrafts. The board's current policy is to use variable rate overdraft facilities in order to maintain short term flexibility.

The Group's financial instruments, other than forward currency contracts, comprise borrowings, cash and items, such as trade receivables and payables that arise directly from its operations. The main purpose of these instruments is to raise finance for operations.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

Currency risk and exposure

The Group enters into derivatives transactions, in the form of forward currency contracts that are used to manage the currency risks arising from purchases from foreign suppliers where the products are sold in local currencies.

The overseas sales operations during the year were predominantly in the European Union. The Group has currency exposures primarily in US dollars and Euros. Although day to day transactional exposures are regularly covered by forward contracts, the Group

has an underlying exposure, particularly to the Euro. At the year-end forward USD purchase contracts with a contracted value of £300,000 were held as detailed in note 19.

2017 saw a further strengthening of the Euro against sterling as a result of the EU Referendum result. German operations (roughly 75% of Group revenue and 50% of Group assets), being Euro-based, have become more valuable in sterling terms. The UK operations (roughly 25% of Group revenue and 50% of Group assets) have experienced higher import costs due to weaker sterling. Our UK competitors are generally in a similar foreign exchange position to Holders so that our position has not been significantly impacted in comparison to them.

Net assets

Net assets at the 2017 year-end were £3,932,000 (2016: £3,860,000). In addition to the net profit of £17,000, the Group benefited from £73,000 of exchange differences from Euro-based foreign operations.

Conclusion

The Group continues to operate a conservative financial policy, which leaves it well placed to benefit from future growth opportunities.



Paul Geraghty

Group Finance Director

6 April 2018

STRATEGIC REPORT

The Strategic Report on pages 1-5 was approved by the Board on 6 April 2018 and signed on its behalf by



Paul Geraghty

Group Finance Director

6 April 2018

BOARD REPORTS

Company Information

Directors	R W Weinreich, Executive Chairman V M Blaisdell, BSc, Group Managing Director P K I Geraghty BSc, FCA, Group Finance Director T G Bray MEng, Executive Director D A Mahony, BA (Econ), MSc, Non-Executive Director
Secretary	P K I Geraghty BSc, FCA
Registered office	27-28 Eastcastle Street London W1W 8DH
Website	www.holdersgroup.com
Registered number	1730535
Auditors	Grant Thornton UK LLP Grant Thornton House 202 Silbury Boulevard Milton Keynes MK9 1LW
Bankers	HSBC City CBC 60 Queen Victoria Street London EC4N 4TR
Registrars	Neville Registrars Neville House 18 Laurel Lane Halesowen West Midlands B63 3DA
Nominated Advisor and Broker	Northland Capital Partners Limited 60 Gresham Street London EC2V 7BB

BOARD REPORTS

Report of the Directors

Business review and future developments

A review of the year and likely developments is contained in the Strategic Report.

Results and dividends

The Group made a profit after taxation for the financial year attributable to shareholders of £17,000 (2016: loss £395,000).

Full details are contained in the Group income statement on page 14. The directors have proposed a final dividend of 0.25p per share payable on 23 May 2018 to shareholders on the register at close of business on 5 May 2018. The total dividend for the year, including the interim dividend of 0.25p (2016: 0.25p) per share paid on 11 October 2017, amounts to £20,000 (2016: £20,000), which is equivalent to 0.50p (2016: 0.50p) per share.

Financial risk management

Details of the Group's financial risk management are contained in note 4 to the financial statements.

Directors

The directors currently holding office are listed on page 6. Thomas Bray was appointed to the Board as Executive Director on 23 February 2017. All other directors served throughout the year. The beneficial shareholdings of the directors at 30 November 2017 are set out in note 23 to the financial statements.

Rudi Weinreich, aged 71, Chairman and Chief Executive, was born in Austria. He has been responsible for all aspects of the business since he started it in 1972, particularly the assessment of new products and distributorship agreements.

Victoria Blaisdell, aged 45, joined the Group in 2004 and is now Group Managing Director. Prior to joining the Group she worked in the IT industry for over 12 years and worked in several countries as a Senior Consultant for a large American telecom consulting company.

Paul Geraghty, aged 57, joined the Group in 2011 as Group Finance Director and Company Secretary. He previously held senior financial roles in engineering companies, including Elektron Components Limited and Protec plc.

Thomas Bray, aged 36, joined the Group in 2013 as Holders Components Sales Director, and is now LED Business Development Director. Thomas was previously Technical Director of ACDC Lighting.

David Mahony, aged 74, is the Senior Non-Executive Director, appointed in 1988.

Substantial shareholdings

At 29 March 2018 the company had been informed of the following interests, in addition to the interests of R W Weinreich and T G Bray, amounting to 3% or more in the issued ordinary share capital of the company:

	Number	%
Andre Marcou	520,000	12.50%
Armstrong Investments Limited	275,000	6.61%
Rath Dhu Limited	235,000	5.65%
Stockinvest Limited	171,500	4.12%
Hugh S Pearson Gregory	161,290	3.88%

BOARD REPORTS

Report of the Directors (continued)

Annual General Meeting

The Annual General Meeting of the Company will be held at the offices of Grant Thornton UK LLP, Churchill House, 26-30 Upper Marlborough Road, St Albans, Hertfordshire AL1 3UU at 11.30 a.m. on 30 April 2018.

Special business at the Annual General Meeting

An ordinary resolution (set out as resolution 5 in the Notice of the Annual General Meeting) will be proposed to give the directors authority to allot 1,386,517 ordinary shares being approximately 33% of the issued ordinary share capital of the company as at the date of this report which includes 139,672 ordinary shares being the maximum number of shares the company may be obliged to issue under its employee share option scheme. The authority, when given, will expire at the conclusion of next year's annual general meeting. The directors have no present intention of exercising this authority.

A special resolution (set out as resolution 6 in the Notice of Annual General Meeting) will be proposed to empower the directors to allot securities of the company up to a specified amount in connection with rights issues without having to obtain prior approval from shareholders on each occasion and also to allot a smaller number of these for cash without first being required to offer such shares to existing shareholders. The number of ordinary shares which may be issued for cash under the latter authority will not exceed 207,978 being approximately 5% of the issued ordinary share capital of the company as at the date of this report. The proposed power will expire at the conclusion of next year's Annual General Meeting.

A special resolution (set out as resolution 7 in the Notice of Annual General Meeting) will be proposed to authorise the company to buy on the open market up to 415,955 ordinary shares of 10p each, representing 10% of the issued ordinary share capital of the company as at the date of this report, excluding treasury shares. The directors, in reaching any decision to purchase ordinary shares, will take into account the company's cash resources, capital requirements and the effect of any purchase on earnings per share.

Going Concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 5. The financial position of the company, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on page 4. In addition, notes 2, 3, 4, 19 and 24 to the financial statements include the company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and foreign exchange risk mitigation activities; and its exposures to credit risk and liquidity risk. Budgets and forecasts indicate a satisfactory going concern position.

The company enjoys a positive cash position with no debt, and benefits from a number of customers and suppliers across different geographic areas and industries. Management have prepared budgets and forecasts covering the period to May 2019. As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook and therefore conclude it is appropriate to prepare the financial statements on a going concern basis.

BOARD REPORTS

Report of the Directors (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Report of the Directors and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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 Act 2006. 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.

The directors confirm that:

- so far as each of the directors is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' indemnity arrangements

The company has purchased and maintained throughout the year directors' and officers' liability insurance in respect of its directors. The directors also have the benefit of the indemnity provision contained in the company's Articles of Association. These provisions, which are qualifying third party indemnity provisions as defined by the Companies Act, were in force since 30 April 2007, and are currently in force.

Auditors

The auditors, Grant Thornton UK LLP, are willing to continue in office as auditors of the company and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.



By order of the board

Paul Geraghty

Secretary

6 April 2018

BOARD REPORTS

Directors' Remuneration Report

The directors present the directors' remuneration report for the financial year ended 30 November 2017. As the company is listed on AIM, it does not have to comply with the requirements of the remuneration report contained in the listing rules.

Remuneration policy

The company policy is to design prudent executive remuneration packages to attract, motivate and retain directors of a high calibre and to reward them for enhancing value to shareholders. The determination of the annual remuneration packages of the senior executive directors and key members of senior management are undertaken as set out in the corporate governance report on page 11.

There are three main elements of the remuneration packages of the executive directors:

- Basic annual salary and benefits;
- Share option incentives; and
- Pension arrangements.

The company believes that share option incentives encourage long term commitment to shareholder value and ensure that rewards for executive directors and senior managers are aligned with the interests of shareholders.

Contributions are made to the pension schemes of certain directors.

Executive directors may accept up to two external non-executive appointments, as long as these are not with competing companies and are not likely to lead to conflicts of interest. This policy is followed where such appointments would beneficially broaden experience and knowledge.

Executive directors' remuneration and terms of appointment

Base salaries are reviewed annually and are set to reflect responsibilities, experience and marketability. Regard is also given to the level of rewards made in the year to staff. The mechanism for supervising the company share option scheme and the granting of options under it is as set out in the corporate governance report on page 11.

None of the directors have service contracts with a notice period exceeding one year. Each director is entitled to contributions to personal pension schemes and certain benefits in kind, which include car allowance and private health insurance.

Non-executive directors' remuneration

The fees paid to non-executive directors are determined by the board. Non-executive directors are normally appointed for an initial period of three years. Appointments are made subject to retirement by rotation or removal under the company's articles of association. Non-executive directors do not participate in the company's option scheme.

Details of the directors' remuneration, pension entitlements, shareholdings and share options are included in note 23 to the financial statements.

BOARD REPORTS

Corporate Governance

UK Corporate Governance Code

We do not comply with the UK Corporate Governance Code. Instead, we have reported on our Corporate Governance arrangements drawing on best practice available, including those aspects of the UK Corporate Governance Code we consider to be relevant to the Group and best practice.

Board composition and responsibility

During the year, the board comprised three executive directors and one non-executive director. None of the directors are independent. The appointment of another Non-Executive Director will be considered when it is judged appropriate. All directors are required to retire and submit themselves for re-election at three yearly intervals. No director has a service agreement requiring more than twelve months' notice of termination to be given.

All directors receive management information in advance of board meetings, which are held monthly, and the board visits subsidiary companies as appropriate. There is a schedule of matters requiring board approval, including corporate strategy, acquisitions and disposals, key appointments, and Group funding strategy. All directors have access to the advice and services of the Company Secretary (and there are processes in place enabling directors to take independent legal advice at the company's expense in the furtherance of their duties).

The following table shows the number of scheduled board and board committee meetings held during the year ended 30 November 2017 and details of each director's attendance.

	Board	Audit	Remuneration
Number held	12	2	1
R Weinreich	12	1	-
V Blaisdell	12	1	-
T Bray	9	-	-
D Mahony	11	2	1
P Geraghty	12	1	-

Audit Committee

The Group Finance Director and the Non-Executive Director act as the audit committee which is responsible for reviewing a range of financial matters, including the interim and final accounts, and monitoring the controls which are in force to ensure the integrity of the financial information reported to

the shareholders. The committee reviews the need for internal audit on an annual basis and, due to the size of the company; the committee believes that the cost of introducing this function would outweigh any perceived benefits. The audit committee has met twice in the year. The Non-Executive Director meets separately with the auditors as part of such meetings.

Remuneration Committee

During the year, the Non-Executive Director has acted as the sole member of the remuneration committee.

The principal function of the remuneration committee is to determine on behalf of the board the remuneration and other benefits of the executive directors, including pensions, share options, service contracts and compensation payments. The remuneration policy and key elements of the remuneration packages of the executive directors are included in the Directors' Remuneration Report on page 10.

The principal objectives of the remuneration committee in respect of executive directors and the board in respect of the company as a whole are to ensure that the company's senior management remuneration policies and practice facilitate the recruitment, retention and motivation of top quality personnel and to ensure that senior management remuneration operates on a best-practice basis, aligning, where practicable, the remuneration of executives with the interests of shareholders.

Each of the company's executive directors is subject to an annual appraisal of their performance as executives which is conducted by the Non-Executive Director.

Board nominations

The company has formal procedures for making appointments to the board and these would be applied to ensure that any new appointments that might be made meet the desired criteria.

Shareholder relationships

The objective of the board is to create increased shareholder value by growing the business in a manner that delivers sustainable improvement in earnings over the medium and long term.

BOARD REPORTS

Corporate Governance (continued)

The board regards the annual general meeting as an important opportunity to communicate with private investors in particular. Directors make themselves available to shareholders both before and after the annual general meeting and at other times.

Internal Control

The system of internal controls established by the directors is intended to be comprehensive, although the limitations of any system of control is such that it is designed to manage rather than eliminate the risk of failure to achieve business objectives and to provide a reasonable, rather than absolute, level of assurance against material misstatement or loss. The directors acknowledge their responsibilities for the Group's system of internal control and for reviewing its effectiveness.

The principal features of the system of internal financial controls are:

- budgetary control over all operating units, measuring performance against pre-determined targets on at least a monthly basis;
- regular forecasting and reviews covering trading performance, assets, liabilities and cash flows;
- delegated limits of authority covering key financial commitments including capital expenditure and recruitment;
- identification and management of key business risks.

The board continually reviews the effectiveness of other internal controls, including financial, operational, compliance controls and risk management.

Financial reporting

A detailed formal budgeting process for all Group businesses culminates in an annual Group budget which is approved by the board. Results for the

company and for its main constituent businesses are reported monthly to the board against this budget and revised forecasts for the year are prepared each quarter.

Financial and accounting principles

- A comprehensive financial and accounting controls manual sets out the principles of and minimum standards required by the board for effective financial control. The manual sets out the financial and accounting policies and procedures to be applied throughout the Group.

Capital investment

- The Group has clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisals and review procedures, levels of authority and due diligence requirements where businesses are being acquired.

Risk assessment

- The Group has implemented a process for identifying, reporting and assessing risk at each subsidiary. The board regularly reviews the subsidiaries' risk assessments.

The directors confirm that they have reviewed the effectiveness of the system of internal controls in operation during the year and the period to the date of the approval of the annual report and accounts.

The board is committed to the principles of openness, integrity and accountability in dealing with the company's affairs. It believes it has always acted with probity in the best interests of the company, its employees and shareholders and fully intends to continue to do so in the future.