

Corporate Governance Report

Since the publication of the Company's last report and accounts we have seen the publication of the "Review of the role and effectiveness of non-executive directors" (the "Higgs Report") and the "Audit Committees Combined Code Guidance" (the "Smith Report"). The recommendations of these two reports have yet to be incorporated into a revised Combined Code.

The Company is committed to applying the highest principles of corporate governance. The Board is accountable to the Company's shareholders for good corporate governance. This report and the Directors' Remuneration Report describe how the Company complies with the provisions of the Combined Code.

Compliance

The Company has complied throughout the year with the Code provisions set out in Section 1 of the Combined Code except in respect of provision A 2.1. Provision A 2.1 states that a non-executive director other than the Chairman should be the senior independent non-executive director. During the year the Chairman of the Company, John Southwell, has acted as senior independent non-executive director. This situation has been reviewed and on 4 June 2003 Antony Beevor was appointed senior independent non-executive director.

Application of the principles

The Board of directors

The Board consists of four executive directors who hold the key operational positions in the Company and three non-executive directors, who bring a breadth of experience and knowledge to their roles. This provides a balance whereby the Board's decision making cannot be dominated by an individual or small group. The Chairman of the Board is John Southwell and the Company's business is run by Michael Slade, the Managing Director. All of the Company's non-executive directors act independently of management. John Southwell, however, has been a Board member for more than nine years and is a consultant to one of the Company's brokers. In addition Giles Weaver has been a non-executive director for more than nine years. It is noted that some shareholder advisory bodies such as PIRC (Pensions Investment Research Consultants) and NAPF (National Association of Pension Funds) take the view that independence of action is likely to be lost the longer the director serves on the Board. The arbitrary period of nine years has been put forward by these two bodies as a time by which independence may be deemed to be compromised. In our view the breadth of experience of these two directors and their detachment from the day to day issues within the company provide, with the third non-executive director Antony Beevor, a sufficiently strong and experienced balance with the executive members of the Board. This breadth of experience allied to the management information provided by the Company enable the non-executive Board members to assess and advise the full Board on the major risks faced by the Company. In view of this we continue to believe that shareholders should regard all our non-executive directors as independent.

Board meetings

The Company supports the concept of an effective Board leading and controlling the Company. The Board is responsible for approving company policy and strategy. In addition to ad hoc meetings arranged to discuss particular transactions and events and the AGM, the full Board met five times during the year under review. All Board members attended each of the meetings with the exception of the February 2003 meeting when Michael Slade was absent overseas.

The Board has a schedule of matters specifically reserved to it for decision which is reviewed annually. All directors have access to advice from the company secretary and independent professionals at the company's expense. Training is available for new directors and other directors as necessary.

Nominations and Appointments Committee

The Nominations and Appointments Committee meets as required to select and recommend to the Board suitable candidates for both executive and non-executive appointments to the Board. It comprises John Southwell, Chairman, and the two other non-executive directors, Giles Weaver and Antony Beevor. The Committee did not meet during the year under review. All directors are subject to re-election every three years and, on appointment, at the first AGM after appointment. All directors over 70 face annual re-election.

Relations with shareholders

The Company values the views of its shareholders and recognises their interest in the Company's strategy and performance, Board membership and quality of management. It therefore holds regular meetings with, and financial presentations to, its institutional shareholders to discuss its objectives. The Board also regularly meets, with the help of its brokers, institutions that do not currently hold shares in the Company to inform them of its objectives.

The AGM is used to communicate with private investors and they are encouraged to participate. The members of the Audit, Remuneration and Nomination and Appointment Committees are available to answer questions. Separate resolutions are proposed on each issue so that they can be given proper consideration and there is a resolution to consider the annual report and accounts. The Company counts all proxy votes and will indicate the level of proxies lodged on each resolution, after it has been dealt with by a show of hands.

The Company communicates with all shareholders through the issue of regular press releases and through its website at www.helical.co.uk. Shareholders may also keep informed of developments at the Company through the investor relations website at www.itruffle.co.uk. The Company receives regular reports from sector analysts and its investor relations advisors on how it is viewed by its shareholders.

Accountability and audit

Financial reporting

The Combined Code requires the Company to present a balanced and understandable assessment of the company's position and prospects. It seeks to do so in all published information and in particular in interim and preliminary announcements and other price-sensitive reports and reports to regulators as well as in the information required to be presented by statutory requirements.

Internal control

The Board is responsible for maintaining a sound system of internal control to safeguard shareholders' investment and the Company's assets. Such a system is designed to manage, but not eliminate, the risk of failure to achieve business objectives. There are inherent limitations in any control system and, accordingly, even the most effective system can provide only reasonable, and not absolute, assurance against material misstatement or loss.

In accordance with the guidance of the Turnbull Committee on Internal Control, an ongoing process has been established for identifying, evaluating and managing risks faced by the Company. This process has been in place from the start of the financial year under review to the date of approval of these financial statements. As part of this process the Board has identified key risks faced by the Company. The risks have been prioritised and a strategy has been set out to deal with them. The Board papers produced for each Board meeting include reports by each of the executive directors together with management accounts, profit and cash flow forecasts. The annual business development plan was presented to the Board in February 2003. This document discusses the commercial environment in which the Company operates, undertakes a SWOT analysis on the Company and sets short, medium and long-term targets for the business. The Board papers also include regular updates on corporate governance matters and during the year under review has received reports on internal financial control, risk assessment, interest rate risks, taxation, matters reserved for Board approval and the Higgs Report. In addition, since the year end, the Board has received a copy of a report on the internal financial controls and systems of the Company prepared for the Audit Committee by Grant Thornton, and the Smith Report. In between Board meetings the non-executive directors receive copies of the minutes of weekly management meetings between the executive Board members and senior management at which the property portfolio, financial and other matters are discussed and minutes of meetings with the Company's major joint venture partners. Non-executive directors also receive copies of analysts reports on the company. The directors are free to seek any further information they consider necessary.

The key features of the Company's system of internal control are as follows:

- clearly defined organisational responsibilities and limits of authority. The day-to-day involvement of the executive directors in the running of the business ensures that these responsibilities and limits are adhered to;
- financial controls and review procedures. Internal financial controls are reviewed annually by the Board;
- financial information systems including cash flow, profit and capital expenditure forecasts. The Board receive regular and comprehensive reports on the day-to-day running of the business;
- an Audit Committee which meets with the auditors and deals with any significant internal control matter. In the year under review the Committee met with the Auditors on two occasions and received a paper on the internal financial controls of the Company.

Audit Committee

The Audit Committee comprises John Southwell, Giles Weaver and Antony Beevor, all independent non-executive directors. Since the last report and accounts we have seen the publication of the Smith Report which seeks to offer guidance on the Combined Code to Audit Committees.

The recommendations of the Smith Report include a requirement to review the company's internal financial control system and risk management systems. In the year under review, Grant Thornton, the Company's auditors, were asked to conduct a systems review of the internal financial controls operating within the finance department at the Company. In April 2003, Grant Thornton reported to the Audit Committee on the key findings of their review. These key findings were:

- the control environment over financial controls is robust;
- the general environment, size and culture of the organisation means that reliance for the operation of controls is placed on a few key individuals;
- a high level of autonomy is given to directors and senior management; and,
- the volume of management information generated and provided to the non-executives directors is significant. Grant Thornton did not review the quality of this information.

Ethical concerns

The Company has adopted a Code of Ethics which has been distributed to all staff and joint venture partners. This Code sets out its approach to its business principles and provides details of good business practices promoted by the Company. It includes a clear policy statement that the Company does not condone any form of corrupt behaviour in its business dealings.