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HAVELOCK EUROPA PLC  
DALGETY BAY



**HAVELOCK EUROPA PLC**

GROUP HEAD OFFICE

3 July 2007

**J M Gourlay** Chairman

Sir Christopher Hogg  
Chairman  
Financial Reporting Council  
Aldwych House  
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LONDON  
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Dear Sir Christopher

Thank you for your letter of 23 April 2007 asking for comments on the FRCs consultation paper on the Combined Code.

Havelock is a listed company in the Fledging Index with ambitions to move forward quickly into the Small Cap Index. In the year to 31 December 2006, we reported a pre-tax profit of £5 million on revenues of £115 million. We are capitalised at £60 million. We have a Board of seven members made up of three executive directors, three non-executive directors and me as Non-Executive Chairman. Our shareholder base is primarily institutional.

We fully support the principles of sound corporate governance set out in the Code. We have however, concerns that the principles of the Code are being undermined by a "box ticking" approach to its interpretation by an increasing number of investors.

This raises issues with the operation of the "comply or explain" approach. The rationale behind this is very sound and allows companies such as ourselves to justify a divergence from the rules of the Code. What we have found however is that there is a trend for investors to sub-contract their voting at shareholder meetings to third parties. These third parties appear to take a very black and white approach to Code compliance and appear oblivious to the qualitative judgements expected from the "comply or explain" approach. We have examples of votes being lodged against the re-election of our directors purely because of Code non-compliance, with complete disregard to the explanations given which have fully satisfied the relevant fund managers at the institutions involved.

Our view is that the "comply or explain" principle is unlikely to be effective in a world where voting rights are effectively transferred to non-involved third parties. The solution to this will have to be that greater flexibility must be built into the Code.

As a smaller company, a continuing challenge we face is to attract and retain high quality Non-Executive Directors. We have worked hard to attract three such persons at not inconsiderable cost for a company of our size. In these circumstances we would like to have greater flexibility to deploy our resources where they are best suited. The recent change to the Code in relation to membership of the remuneration committee is helpful. However we would like the Code to allow further flexibility for a Board to appoint whichever independent director is best qualified to chair and sit on board committees. The rules as they stand do not allow us to have the optimal make up of committees.

We believe that the principle of requiring positions to be held by independent directors is appropriate but it should be up to the Board to identify the best qualified member for each role within each committee. This would maintain the principles of the Code but allow greater flexibility which is important to a smaller company with a limited range of non executive directors available to it.

Our final comment concerns the requirement for an annual review of Board and Board Committee performance. We support these reviews and believe that, if properly undertaken, they can be extremely valuable. However, in practice, we have found the requirement for a full annual review to be onerous and possibly repetitious. We believe that a full review at least once every three years with a "lighter touch" update on an annual basis would be more productive.

I hope these comments are helpful. I would be very pleased to clarify them further if you so require.

I would like to thank you again for your invitation to provide feedback.

Yours sincerely



J M Gourlay  
Chairman