

The Board is committed to the maintenance of high standards of Corporate Governance. The policy of the Board is to manage the affairs of the Company in accordance with the Principles of Good Governance and the Code Provisions set out in Section 1 of the Combined Code on Corporate Governance (“the Combined Code”) issued by the Financial Services Authority.

Application of the Principles of Good Governance

The Group is controlled and directed by a Board consisting of a non-executive Chairman, five executive Directors and three other non-executive Directors. Their biographies appear on pages 25 to 27. The Board considers each of the non-executive Directors to be independent. In assessing independence, the Board considers that the non-executive Directors are independent of management and free from business and other relationships which could interfere with the exercise of independent judgement. The Board believes that any shareholdings of non-executive Directors serve to align their interests with those of all shareholders. Mr Arthur is acknowledged as the Senior Independent Director.

The Directors retain responsibility for the formulation of corporate strategy, investment decisions, and treasury and risk management policies. There is a formal schedule of matters reserved for the Board’s decision and the Board meets at least eight times each year. All Directors have access to the advice and services of the Company Secretary.

Lord McGowan chairs the Remuneration Committee of which each of the non-executive Directors is a member. Formal terms of reference exist which follow the recommendations of the Combined Code. The Committee makes recommendations to the Board on the framework for executive Directors’ remuneration based on proposals formulated by the Chief Executive.

Mr Ritchie chairs the Audit Committee of which each of the non-executive Directors is a member. Formal terms of reference exist which follow the recommendations of the Combined Code. The Committee reviews the interim and annual accounts, the statement on internal controls and is responsible for the relationship with the external auditors. The Chief Executive and Finance Director attend Committee meetings by invitation in order to provide appropriate advice.

Mr Barber chairs the Nomination Committee of which each of the non-executive Directors and the Chief Executive are members. Formal terms of reference exist which follow the recommendations of the Combined Code. The Committee makes recommendations to the Board on the appointment of new Directors.

Control of divisional operating matters is delegated to the Sectoral Managing Directors and Divisional Chief Executives all of whom are members of the Executive Board. Biographies of Executive Board members appear on pages 26 and 27. The Chief Executive chairs the Executive Board of which the Finance Director is also a member thereby

ensuring the Board's strategies are communicated to those overseeing operations. The Chief Executive and Finance Director meet regularly with each Sectoral Managing Director and each Divisional Chief Executive to monitor progress against key objectives and review operational performance.

Individual boards of directors, chaired by the appropriate Sectoral Managing Director or Divisional Chief Executive, manage operating companies. These Boards have clearly defined responsibilities for the operation of their businesses, including compliance with legislation and regulations, and for internal reporting. The system of internal control exercised within the Group is described below.

Investor relations

In regular meetings with shareholders and analysts the Chief Executive and Finance Director communicate the Group's methods and results. Meetings include the Annual General Meeting and briefings following the interim and annual results. The Financial Calendar is set out on page 65.

During the financial year the Group relaunched its web site, www.halma.com, which contains copies or summaries of all Company announcements, electronic versions of the latest Annual Report and Accounts, biographical information on key Directors and Officers, and full subsidiary company names and addresses as well as hotlinks to their own web sites.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Internal control

The Board of Directors has overall responsibility to the shareholders for the Group's system of internal control and formal responsibility for reviewing its effectiveness has been delegated to the Audit Committee. Any system of internal control can provide only reasonable but not absolute assurance against material misstatement or loss. The Audit Committee has carried out its annual review of internal controls covering key commercial and financial risks. The Committee has also satisfied itself that the procedures established to implement the recommendations of the Turnbull Committee, as set out in the document entitled "Internal Control – Guidance for Directors on the Combined Code", are sufficient to ensure compliance with these recommendations for the financial year to 31 March 2001. The transitional approach for complying with the internal control provisions of the Code and for disclosures has been adopted by the Board.

The Group's external auditors, PricewaterhouseCoopers, have audited the financial statements and have reviewed the internal financial control

systems to the extent they consider necessary to support their audit report.

As noted earlier, the Board meets regularly throughout the year and has adopted a schedule of matters which are required to be brought to it for decision. This procedure is intended to ensure that the Directors maintain full and effective control over all significant strategic, financial and organisational issues.

Group companies operate under a system of controls which includes but is not limited to:

- a defined organisational structure with an appropriate delegation of authority to operational management
- the identification and appraisal of risks both formally, through the annual process of preparing business plans and budgets, and informally through close monitoring of operations
- a comprehensive financial reporting system within which actual results are compared with approved budgets and previous year's figures on a monthly basis and reviewed at both local and Group level
- an investment evaluation procedure to ensure an appropriate level of approval for all capital expenditure
- half-yearly reviews of Group companies' results by senior financial staff
- a prescribed robust structure under which it is appropriate to adopt means of electronic communication and to conduct e-commerce.

Compliance with the Code of Best Practice

The Company complied with the Combined Code throughout the financial year except for those areas noted below for which compliance was achieved during the financial year.

- Directors were re-elected at least every three years, however, the Company's Articles of Association did not require them to be so re-elected. In order to ensure compliance with the provisions of the Combined Code, a special resolution was approved by shareholders at the 1999 Annual General Meeting amending the Company's Articles of Association to provide that all Directors should submit themselves for re-election at least every three years.
 - The terms of reference of the Remuneration Committee were amended in April 1999 so that the Committee now makes recommendations to the Board on the Company's framework for executive remuneration, whereas previously, the Committee had determined it.
 - At Annual General Meetings in earlier years, proxy votes had not been announced after a show of hands on each resolution. Following the introduction of the provisions of the Combined Code this practice was introduced with effect from the 1999 Annual General Meeting.
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Remuneration policy

The policy on Directors' Remuneration is to provide the remuneration packages necessary to attract, retain and motivate Directors of the quality required to manage the business of the Group and to align the interests of the Directors with those of the shareholders.

In accordance with rule 12.43A(c) of the Listing Rules of the Financial Services Authority the Board presents its Report on Remuneration to the shareholders. The Board confirms that when determining the remuneration policy for executive Directors for 1999/2000 full consideration was given to the Combined Code appended to the Listing Rules of the Financial Services Authority.

A Remuneration Committee was formed in May 1997 which consists entirely of non-executive Directors, the members being Lord McGowan (Chairman of the Committee), Mr D S Barber, Mr M J Arthur and Mr H M J Ritchie. The Committee makes recommendations to the Board on the framework for executive remuneration and determines the terms of service and remuneration of executive Directors.

Basic salary and benefits

In determining basic salary levels for each individual, the Committee uses independent surveys and other relevant data to relate remuneration levels to comparable publicly quoted companies.

Share options

The Directors have long believed that share option plans are an excellent way to align the interests of senior management with those of the shareholders and that share options provide excellent motivation.

The 1990 and 1996 Share Option Plans each provide for the grant of two categories of option both of which are subject to performance criteria. No further grants will be made from either of these plans.

Section 'A' options are exercisable after three years if the Company's earnings per share growth exceeds, for the 1990 Plan, the growth in the Retail Price Index and, for the 1996 Plan, the growth in the Retail Price Index plus 2% per annum. Section 'B' options are exercisable after five years if the Company's earnings per share growth exceeds the earnings per share growth of all but the top quarter of companies which were within the FTSE100 at the date of grant of any option.

The new 1999 Company Share Option Plan, under which no options have yet been granted, has more stringent exercise criteria. Section 'A' options are exercisable after three years if the Company's earnings per share growth exceeds the growth in the Retail Price Index plus 3% per annum. Section 'B' options are exercisable after five years if the Company's earnings per share growth exceeds the earnings per share growth of all but the top quarter of companies which were within a peer group at the date of grant of any option.

The granting of options is spread over the life of the plan. Executive Directors receive a triennial award of 'A' options, an annual award of 'B' options and the possibility of further 'A' options under a performance related bonus scheme.

Performance related bonus scheme

This scheme, which applies only to executive Directors, is reviewed annually by the Remuneration Committee and approved by the Board. Without such approval there is no alternative bonus arrangement for Directors.

The scheme differentiates between Directors who are Sectoral Managing Directors or Divisional Chief Executives and other Directors.

In the case of a Sectoral Managing Director or Divisional Chief Executive a bonus is earned if the profit of the Division(s) for which he is responsible for that year exceeds the previous highest peak when compared with the preceding three financial years. The profits calculated for this purpose regard each Division as if it was a stand-alone group of companies charging it with the cost of capital it utilises including the cost of acquisitions.

For other eligible Directors, bonuses are based on the increase in profits, calculated as above, of the aggregated Divisions for each year.

A predetermined percentage of the profit improvement is payable in cash and generally a further percentage is granted in the form of Section 'A' share options.

Directors' remuneration

	Salaries and fees £000	Bonus £000	Benefits £000	2000 Total £000	1999 Total £000
D S Barber	57	-	-	57	56
M J Arthur	20	-	-	20	20
S R O'Shea	221	-	17	238	226
C Q Summerhayes	150	54	9	213	169
P A Tett	133	-	11	144	136
J C Conacher	207	13	23	243	214
Lord McGowan	17	-	-	17	17
H M J Ritchie	17	-	-	17	17
K J Thompson	100	-	12	112	95
N Quinn	110	14	12	136	114
	<u>1,032</u>	<u>81</u>	<u>84</u>	<u>1,197</u>	<u>1,064</u>

Mr J C Conacher is based in the USA and his basic salary has been determined to reflect local employment conditions and an additional element for working overseas. Included in Mr Conacher's benefits is \$17,405 in respect of securing him medical insurance from the anticipated date of his retirement through to age 65.

The fees paid to Lord McGowan were paid to WestLB Panmure Limited and the fees paid to Mr H M J Ritchie were paid to Marsh Europe SA at the individuals' request.

Mr J C Conacher was the highest paid director in the financial year after aggregating his share option gain of £116,910 with his emoluments. This share option gain arises on an option granted in 1990.

Pension benefits

Directors participate in the following defined benefit and money purchase pension arrangements.

Defined benefit scheme

The Directors participate in the appropriate section of the Halma Group Pension Plan. This is a funded, Inland Revenue approved, final salary occupational pension scheme, which provides a pension equal to the

lower of two-thirds of final pensionable salary and the Inland Revenue maximum pension at normal pension age. Pensionable salary is the greatest salary of the last three complete tax years immediately before retirement or leaving service. Bonuses and other fluctuating emoluments and benefits in kind are not pensionable. The scheme also provides for life cover of three times pensionable salary, pensions in the event of early retirement through ill health and dependants' pensions.

- (a) Normal pension age: this is age 60 under the Halma Board Director and Divisional Chief Executive section. Transitional arrangements are in place for entrants to this section prior to 1 August 1992 until when the normal pension age was 65.
- (b) Dependants' pensions: for death in service, a spouse's pension of 50% of the member's prospective pension is payable and the member's contributions are refunded. For death in retirement, a spouse's pension of 50% of the member's pension is payable as well as a sum equal to the balance of five years' pension payments if death occurs within five years of retirement. In the event of death after leaving service but before commencement of pension, a spouse's pension of 50% of the accrued preserved pension is payable and member's contributions are refunded. In certain circumstances, children's allowances are also payable, at the rate of 16²/₃% of the member's pension.
- (c) Pension increases: post-retirement pension increases are guaranteed at the rate of 3% per annum on the pension earned for service up to 5 April 1997 and by the lesser of 5% per annum or the increase in the Retail Price Index (known as Limited Price Indexation) for service after 5 April 1997.
- (d) Early retirement rights: members over 50 may retire early with the consent of the Company and the Trustees of the Halma Group Pension Plan. The early retirement pension is determined to be equivalent in value to the deferred pension.

Details of the value of individual pension entitlements are shown below. This information is necessary to enable a reasonable assessment to be made of the increase in the transfer value over the year.

	Age at 1.4.00	Years of service at 1.4.00	Directors' contributions in the year £000	Increase in accrued pension during the year £000	Total accrued pension £000
S R O'Shea	54	24	10	9	103
C Q Summerhayes	58	26	7	5	90
P A Tett	60	16	6	2	55
J C Conacher	59	15	-	6	87
K J Thompson	40	12	4	5	24
N Quinn	50	12	4	10	32

The accrued pension shown is that which would be paid annually on retirement based on service to the end of the year.

The increase in accrued pension during the year is the amount in excess of the increase due to inflation.

Mr J C Conacher withdrew from active membership of the Halma Group Pension Plan in November 1996. Money purchase arrangements, details of which are given below, were subsequently established. The above table presents his preserved benefits which, by agreement, increase at a rate of 8% per annum up to the date of retirement.

Money purchase arrangements

Mr J C Conacher has a money purchase arrangement in an overseas pension plan established under a trust into which he pays 5% of his salary. The Company also pays into this plan an additional amount equal to 24.4% of salary each year. In the financial year this amount was £50,000 (1999: £48,000).

Directors' interests in shares

The beneficial and non-beneficial interests of Directors and their families in the ordinary shares of the Company during the financial year were as follows:

	Beneficial interests		Non-beneficial interests	
	shares 1.4.00	shares 3.4.99	shares 1.4.00	shares 3.4.99
D S Barber	13,203,056	13,203,056	-	-
M J Arthur	1,552,806	1,552,806	185,000	185,000
S R O'Shea	120,980	100,980	-	-
C Q Summerhayes	1,613,236	1,613,236	-	-
P A Tett	193,161	193,161	107,000	120,000
J C Conacher	345,523	275,205	-	-
Lord McGowan	41,540	41,540	-	-
H M J Ritchie	30,000	30,000	-	-
K J Thompson	47,786	97,786	-	-
N Quinn	1,894	1,894	-	-

The changes in Directors' interests from 1 April 2000 to 20 June 2000 were Mr D S Barber's sale of 150,000 ordinary shares on 11 April 2000 and Mr S R O'Shea's share option exercise over 296,126 ordinary shares and his sale of 194,624 ordinary shares, both on 18 April 2000.

The movements in share options during the financial year were as follows:

	As at 3.4.99	Granted	Exercised	Lapsed	As at 1.4.00
S R O'Shea	998,755	283,500	-	-	1,282,255
C Q Summerhayes	470,858	346,300	-	-	817,158
P A Tett	776,717	200,800	-	-	977,517
J C Conacher	704,658	480,500	162,762	-	1,022,396
K J Thompson	343,129	36,800	27,969	-	351,960
N Quinn	408,976	51,200	-	-	460,176

The total gains on options exercised by Directors during the financial year amounted to £135,265. The total gains arise on options granted between 1990 and 1992. The gains are calculated by deducting the exercise price from the closing middle market price at the date of exercise.

Options granted to Directors during the financial year were at a weighted average of 120p. The closing middle market price of the Company's ordinary shares on Friday, 31 March 2000, the last trading day preceding

the financial year end, was 94.5p per share and the range during the year was 93.5p to 137p.

Details of Directors' options outstanding at 1 April 2000 are set out in the table below. The status of the options can be summarised as follows:

- 1 Exercisable at that date at a price per share less than 94.5p
- 2 Exercisable at that date at a price per share greater than 94.5p
- 3 Not yet exercisable, will only be exercisable when the performance criteria, set out above, have been met but have an exercise price per share of greater than 94.5p.

	Status of options (see above)	Year of grant	Number of shares	Weighted average exercise price (p) per share
S R O'Shea	1	1990-92	296,126	51.70
	2	1993-96	400,798	130.19
	3	1993-99	585,331	122.40
C Q Summerhayes	1	1992	48,828	58.81
	2	1993-96	170,532	133.12
	3	1993-99	597,798	121.04
P A Tett	1	1990-92	413,065	54.68
	2	1993-96	256,664	125.22
	3	1994-99	307,788	122.24
J C Conacher	1	1990-92	158,966	58.29
	2	1993-96	150,532	133.43
	3	1993-99	712,898	121.45
K J Thompson	2	1994-96	70,843	122.42
	3	1993-99	281,117	121.09
N Quinn	1	1992	41,004	60.88
	2	1994	48,710	122.63
	3	1993-99	370,462	118.87

The Company's Register of Directors' Interests, which is open to inspection at the Registered Office, contains full details of Directors' shareholdings and share options.

Service contracts

Mr D S Barber, Mr M J Arthur, Lord McGowan and Mr H M J Ritchie have no service contracts. Mr S R O'Shea, Mr C Q Summerhayes and Mr J C Conacher have two year rolling service contracts. All other executive Directors have, and any subsequent appointees will have, contracts with a notice period of one year. None of the contracts has pre-determined compensation clauses in the event of early termination. The Board and the Remuneration Committee confirm that these contracts are appropriate having regard, amongst other things, to the individuals' length of service. Within five years, no Director will have a contract in excess of one year.

By Order of the Board
 Lord McGowan Chairman of the Remuneration Committee
 Misbourne Court Rectory Way Amersham Bucks HP7 0DE
 20 June 2000