

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, four 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. Lord McGowan is acknowledged as the Senior Independent Director. Upon appointment and at regular intervals, all Directors are offered appropriate training. Each Director is subject to re-election at least every three years.

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 as well as there being an agreed procedure for obtaining independent professional advice.

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 Group 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 Group Chief Executive and Group 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 Group 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 Divisional Chief Executives all of whom are members of the Executive Board. Biographies of Executive Board members appear on pages 26 and 27. The Group Chief Executive chairs the Executive Board of which the Group Finance Director is also a member thereby ensuring the Board's strategies are

communicated to those overseeing operations. The Group Chief Executive and Group Finance Director meet regularly with each Divisional Chief Executive to monitor progress against key objectives and review operational performance.

Individual operating company boards, chaired by the appropriate Divisional Chief Executive or Assistant 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 Group Chief Executive and Group 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 72.

The Group web site, www.halma.com, 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 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.

Following publication by the Turnbull Committee of the guidance for directors on internal control ("Internal Control: Guidance for Directors on the Combined Code"), the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, that this has been in place for the year under review and up to the date of approval of the Annual Report and Accounts. This process has been reviewed by the Board and the Group accords with the Turnbull guidance.

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.

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
- self-certification by operating company management of compliance and control issues
- a prescribed robust structure under which it is appropriate to adopt means of electronic communication and to conduct e-commerce.

The processes which the Board has applied in reviewing the effectiveness of the Group's system of internal control are summarised below.

- Operating companies carry out a detailed risk assessment as part of the annual strategic planning process and identify mitigating actions in place or proposed. Divisional Chief Executives carry out an independent risk assessment for each operating company. A similar review of Group risks is conducted.
- Each month the board of each operating company meets, discusses and reports on its operating performance, its opportunities, the risks facing it and the resultant actions. The relevant Divisional Chief Executive or Assistant Divisional Chief Executive chairs this meeting. Divisional Chief Executives meet regularly with the Group Chief Executive and Group Finance Director and report progress to the Executive Board.
- The Group Chief Executive submits a report to each Halma p.l.c. Board meeting which includes financial information, the main features of Group operations and an analysis of the significant risks facing the Group at that time.
- The Group Finance Director and Group Chief Executive report to the Audit Committee on all aspects of Internal Control for its review. The Board receives the minutes of the Audit Committee meetings and uses these as a basis for its annual review of internal control.

The Group does not maintain a formal internal audit function. The need for such a function was reviewed in 2002 by the Audit Committee, which concluded that it is not appropriate to the Group's current size and structure. Half-yearly reviews of Group companies' results are undertaken by senior financial staff as are regular internal control visits.

Compliance with the code of best practice

The Company complied with the Combined Code throughout the financial year.

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 2001/02 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 H M J Ritchie and Mr R A Stone. The Committee makes recommendations to the Board on the framework for executive remuneration, based on proposals formulated by the Group Chief Executive, and determines the terms of service and remuneration of executive Directors.

Basic salary and benefits

In determining recommended 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 may 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 Scheme, the growth in the Retail Price Index and, for the 1996 Scheme, 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.

Options under the 1999 Company Share Option Plan have 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 the 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.

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 of the preceding three financial years. The profits calculated for this purpose regard each Division as 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 pre-determined percentage of the profit improvement is payable in cash and generally a further percentage is granted in the form of Section 'A' options.

Directors' remuneration

	Salaries and fees £000	Bonus £000	Benefits £000	2002 Total £000	2001 Total £000
D S Barber	61	-	-	61	67
M J Arthur	-	-	-	-	7
S R O'Shea	270	-	15	285	300
C Q Summerhayes	175	7	15	197	218
P A Tett	-	-	-	-	12
J C Conacher	29	-	1	30	292
Lord McGowan	20	-	-	20	20
H M J Ritchie	20	-	-	20	20
K J Thompson	135	-	12	147	134
N Quinn	135	-	13	148	192
R A Stone	20	-	-	20	5
K J Roy	92	-	12	104	-
	<u>957</u>	<u>7</u>	<u>68</u>	<u>1,032</u>	<u>1,267</u>

The fees paid to Lord McGowan were paid to WestLB Panmure Limited until 31 January 2002 and to himself thereafter. The fees paid to Mr H M J Ritchie were paid to Marsh Europe SA.

After inclusion of gains on the exercise of share options, where applicable, Mr S R O'Shea was the highest paid director in the financial year.

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 $16\frac{2}{3}\%$ 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 30.3.02	Years of service at 30.3.02	Directors' contributions in the year £000	Increase in accrued pension during the year £000	Total accrued pension £000
S R O'Shea	56	26	12	11	128
C Q Summerhayes	60	28	8	7	109
J C Conacher*	60*	14*	–	–	94
K J Thompson	42	14	5	5	34
N Quinn	52	14	6	6	44
K J Roy	51	9	4	6	21

* as at date of retirement

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, increased at a rate of 8% per annum up to the date of retirement.

Money purchase arrangements

Mr J C Conacher had a money purchase arrangement in an overseas pension plan established under a trust into which he paid 5% of his salary. The Company also paid into this plan an additional amount equal to 24.4% of salary each year. In the financial year this amount was £7,500 (2001: £58,000).

Directors' interests in shares

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

	Shares 30.3.02	Shares 31.3.01
D S Barber	13,053,056	13,053,056
S R O'Shea	222,482	222,482
C Q Summerhayes	1,643,221	1,613,236
Lord McGowan	41,540	41,540
H M J Ritchie	30,000	30,000
K J Thompson	47,786	47,786
N Quinn	25,596	1,894
R A Stone	5,000	5,000
K J Roy	744,587	776,975*

* as at date of appointment

There are no non-beneficial interests of Directors.

The only changes in Directors' interests from 30 March 2002 to 18 June 2002 were in relation to Mr C Q Summerhayes. He sold 12,986 shares on 4 April 2002, and on 9 April 2002 he exercised share options over 215,492 shares and sold 127,188 shares.

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

	As at 31.3.01	Granted	Exercised	Lapsed	As at 30.3.02
S R O'Shea	1,076,229	100,800	-	-	1,177,029
C Q Summerhayes	963,458	45,600	(255,366)	-	753,692
K J Thompson	490,760	48,400	-	-	539,160
N Quinn	635,276	96,900	(41,004)	-	691,172
K J Roy	295,886*	54,700	(34,844)	-	315,742

* as at date of appointment

The total gains on options exercised by Directors during the financial year amounted to £100,953. The total gains arise on options granted in 1992, 1993 and 1996 to 1998. The gains are calculated by deducting the exercise price from the closing middle market price at the date of exercise or the actual gross sales proceeds if appropriate.

Options granted to Directors during the financial year were at 163.5p. The closing middle market price of the Company's ordinary shares on Thursday, 28 March 2002, the last trading day preceding the financial year end, was 164p per share and the range during the year was 126p to 174.5p.

Details of Directors' options outstanding at 30 March 2002 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 less than 164p
- 2 Not yet exercisable, will only be exercisable when the performance criteria, set out above, have been met and have an exercise price per share of less than 164p.

	Status of options (see above)	Year of grant	Number of shares	Weighted average exercise price (p) per share
S R O'Shea	1	1993-98	630,029	127.92
	2	1997-01	547,000	127.44
C Q Summerhayes	1	1992-95	215,492	103.22
	2	1999-01	538,200	121.24
K J Thompson	1	1993-98	268,560	121.26
	2	1997-01	270,600	123.69
N Quinn	1	1993-98	321,372	119.20
	2	1997-01	369,800	127.05
K J Roy	1	1993-98	126,042	121.90
	2	1997-01	189,700	129.76

All options lapse if not exercised within 10 years from the date of grant.

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, Lord McGowan, Mr H M J Ritchie and Mr R A Stone have no service contracts. Mr S R O'Shea has a two year rolling service contract. All other executive Directors, and any subsequent appointees, 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 three 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
 18 June 2002

Responsibilities of the Directors

It is the responsibility of the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for that period.

The Directors have responsibility for ensuring that proper accounting records are maintained which disclose with reasonable accuracy the financial position of the Company and the Group and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors also have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors consider that, in preparing the financial statements on pages 42 to 64 and the disclosures on pages 36 to 39 relating to the remuneration of the Directors, appropriate accounting policies have been used, which have been consistently applied and supported by reasonable and prudent judgements and estimates, that all accounting standards which they consider to be applicable have been followed, and that it is appropriate to use a going concern basis.