

Compliance with the code of best practice

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 corporate governance contained in the Combined Code on Corporate Governance which is appended to the Listing Rules of the Financial Services Authority and for which the Board is accountable to shareholders.

Throughout the financial year, the Company complied with the Code provisions set out in Section 1 of the July 2003 FRC Combined Code on Corporate Governance except in respect of provisions A3.2, A4.1 and C3.1 all of which involve the composition of the board or its committees and the number of members who are independent non-executive directors. The Board re-affirmed its decision to maintain the composition of the Board and its Committees based on its assessment that this is the most appropriate structure for the Company. Furthermore, the Board believes it important that the Chairman continue to serve on the Audit Committee to enable him to contribute to the deliberations of the Committee and to enable him to properly discharge his responsibilities.

Application of the principles of good governance

The Group is controlled and directed by a Board consisting of a Chairman, four executive Directors and three non-executive Directors. Their biographies appear on page 14. The Board considers the Chairman and each of the non-executive Directors to be independent. In assessing independence, the Board considers that the Chairman and non-executive Directors are independent of management and free from business and other relationships which could interfere with the exercise of independent judgment now and in the future. The Board believes that any shareholdings of the Chairman and non-executive Directors serve to align their interests with those of all shareholders. Mr Stone 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 six times each year with further ad hoc meetings as required. Directors are issued an agenda and comprehensive board papers in the week preceding each Board Meeting. 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.

Board and committee meeting attendance

During the year attendance by Directors at Board and Committee meetings was as follows:

	Board	Remuneration Committee	Audit Committee	Nomination Committee
Total scheduled meetings	6	2	3	2
E G Unwin	6	2	3	2
S R O'Shea	6	N/A	N/A	2
A J Williams	3	N/A	N/A	N/A
K J Thompson	6	N/A	N/A	N/A
N Quinn	6	N/A	N/A	N/A
R A Stone	6	2	3	2
K J Roy	6	N/A	N/A	N/A
A J Walker	6	2	3	N/A
S R Pettit	6	2	3	N/A

Committees of the Board

A J Williams attended three of the four Board meetings that he was eligible to attend as he was abroad on residential corporate training. A J Williams was not a member of the Nomination Committee when the two meetings were held.

Halma has six committees of the Board: the Remuneration Committee, the Audit Committee, the Nomination Committee, the Share Plans Committee, the Bank Facilities and Guarantees Committee and the Acquisitions and Disposals Committee. Each of these committees has terms of reference approved by the Board, copies of which are available on request from the Company Secretary.

Remuneration Committee

Mr Stone chairs the Remuneration Committee of which the Chairman and each of the non-executive Directors is a member. The Committee makes recommendations to the Board on the framework for executive Directors' and senior executives' remuneration based on proposals formulated by the Group Chief Executive. The Committee meets at least twice per year. Further information about the Committee is contained in the Remuneration Report on pages 39 to 45.

Audit Committee

Mr Walker chairs the Audit Committee. The Chairman and each of the non-executive Directors is a member of the Committee. The Committee reviews the interim and annual accounts and the disclosures contained therein, accounting policies and matters of significant judgment, the statement on internal controls, the process of Internal Audit and the Group whistleblowing procedures. The Committee is also responsible for the relationship with the external auditors including terms of engagement, fee levels, approval of the annual audit plan, a review of the findings of the audit and assessing auditor effectiveness and independence. The Group Chief Executive, Group Finance Director and representatives from the Auditors attend Committee meetings by invitation in order to provide appropriate advice. The Committee routinely meets with the Auditors without the involvement of the executive Directors. The Committee meets at least three times per year.

Nomination Committee

Mr Unwin chairs the Nomination Committee. Mr O'Shea was a member of the Committee until his resignation in February 2005. Mr Williams joined the Committee on his appointment as Group Chief Executive in February 2005. Mr Stone is also a member of the Committee. The Committee makes recommendations to the Board on the appointment of new Directors. External search consultancies are retained when recruiting non-executive Directors and are used to evaluate internal and external candidates for executive succession planning. The Committee meets at least annually.

The Group Chief Executive succession process undergone in the 2004/05 financial year involved the Committee's initial assessment of the candidates based on criteria formulated in consultation with the Board. The comprehensive process also involved each candidate being interviewed and assessed by an external search consultant. The ultimate appointment decision rested with the Board.

Other Committees

The Share Plans, Bank Facilities and Guarantees and Acquisitions and Disposals Committees' terms of reference provide that certain Directors and the Company Secretary may form sub-committees to cover administrative matters or to formally enact matters which have already been determined by the Board in principle.

Executive Board

Control of divisional operating matters is delegated to the Executive Board of which the Group Chief Executive, Group Finance Director and all of the Divisional Chief Executives are members. Biographies of Executive Board members appear on page 14. The Group Chief Executive chairs the Executive Board, which meets regularly, thereby ensuring the Board's strategies are communicated to those overseeing operations.

The Executive Board reviews operational activities, trading results, budgets, policy matters, investment opportunities, resource allocation and risk exposures. Any matters arising out of the Executive Board meetings are reported to the Board via the Group Chief Executive's report to the Board.

The Group Chief Executive and Group Finance Director also 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, 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.

Board effectiveness

The Board evaluates its performance and that of the Remuneration, Audit and Nomination Committees at least annually. In 2004/05 the evaluation commenced with a self-assessment questionnaire, the results of which were compiled by the Company Secretary and discussed by the Board at the next Board meeting. The second phase of the evaluation involved the Chairman meeting with each Director in order to address any individual concerns. The Board then met, separate from any scheduled meeting, for a general discussion on Board effectiveness followed by a meeting of the Chairman and non-executive Directors, and then a meeting of the non-executive Directors without the Chairman present. The outcomes of these meetings were then fed back to individuals by the Chairman, Senior Independent Director or Group Chief Executive, as appropriate.

Investor relations

In regular meetings with shareholders and analysts the Group Chief Executive and Group Finance Director communicate the Group's strategy and results, disclosing such information as is permitted within the guidelines of the Listing Rules. Such meetings ensure that institutional shareholders representing over 50% of the Company's issued share capital meet with the Company on a regular basis. Major shareholders are also offered the additional opportunity to meet with the Chairman and/or Senior Independent Director.

The Company consulted with its largest shareholders prior to finalising the proposed Performance Share Plan which is included in the Notice of Meeting for approval at the 2005 AGM.

All shareholders are encouraged to attend the Annual General Meeting, and major shareholders are also invited to briefings following the interim and annual results. The content of presentations to shareholders and analysts at results announcements and all Company announcements are contained on the Group website, www.halma.com.

The Group website also contains electronic versions of the latest Annual Report and Accounts, Interim Reports, biographical information on key Directors and Officers, share price information, and full subsidiary company contact details as well as hotlinks to their own websites. The website also contains the facility to request e-mail alerts relating to announcements made by the Group.

The Financial Calendar is set out on page 80.

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, Deloitte & Touche LLP, 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 each year and identify mitigating actions in place or proposed for each significant risk. A risk register is compiled from this information, against which action is monitored through to resolution. In addition, Divisional Chief Executives carry out an independent risk assessment for each operating company. A review of Group risks is also 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 chairs this meeting. Divisional Chief Executives meet regularly with the Group Chief Executive and Group Finance Director and report progress to the Executive Board.
- A set of "warning signs" which are specifically relevant to every Halma operating company has been developed and these are reported and monitored each month with actions taken at senior level where required.
- 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.
- Cyclical internal control visits are carried out by senior finance staff resulting in actions fed back to each company and followed up by Divisional Finance Directors and Divisional Chief Executives with the feedback process having been further strengthened during the year; visit reports are coded in terms of risk with any significant control failings reported directly to the Audit Committee and a summary of all such visits reported to the Audit Committee regularly; senior finance staff also carry out financial reviews at each operating company prior to publication of half year and year end figures.
- 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.

As noted above, a programme of internal control visits is conducted. Following its review of internal control activities in 2004, the Audit Committee established an internal audit function for independent reporting of the outcome of these visits to the Audit Committee.

Auditor independence

The Audit Committee has responsibility for reviewing auditor independence and objectivity annually. During 2003/04, the Committee set down the "Policy on Auditor Independence and Services provided by the External Auditor". This policy states that the Group will only use the appointed external auditor for non-audit services in cases where these services do not conflict with the auditor's independence. The policy also sets a fee level of £50,000 (£100,000 for taxation compliance services) above which non-audit services are subject to a tendering process. The above fee levels for non-audit services regarding the external auditors are also subject to an annual cap equal to the audit fee.

The following sections of the Report on Remuneration have been audited: the table of Directors' remuneration; pension benefits; Directors' interests in shares.

Remuneration Committee

The Remuneration Committee consists of the Chairman and the non-executive Directors, the members being Mr R A Stone (Chairman of the Committee), Mr E G Unwin, Mr A J Walker and Mr S R Pettit. The Board has re-affirmed its decision to appoint Mr Unwin to the Committee as the Board believes that his Chairmanship of the Board does not interfere with his independence as regards membership of the Committee. No Director takes part in discussions concerning his own remuneration.

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 and senior executives. The Committee's Terms of Reference, which are available from the Company Secretary on request, include:

- determining and agreeing with the Board the framework or broad policy for the remuneration of the Group Chief Executive, the executive Directors, the Company Secretary and such other members of the executive management as it is designated to consider;
- approving the design of, and determining targets for, any performance related pay plans operated by the Company and approval of the total annual payments made under such plans;
- reviewing the design of all share incentive plans for approval by the Board and shareholders. For any such plans, determining each year whether awards will be made, and if so, the overall amount of such awards, the individual awards to executive Directors and other senior executives and the performance targets to be used;
- determining the policy for, and scope of, pension arrangements for each executive Director and other senior executives.

The Committee also monitors the framework of remuneration for subsidiary chief executives and directors.

The Committee has appointed Ernst & Young LLP to advise on certain aspects of executive remuneration. This firm did not provide any other services to the Company during the 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 run the Group successfully, manage the business of the Group and to align the interests of the Directors with those of the shareholders. In determining such packages, the Committee considers whether members of the executive management of the Group are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Group.

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 2004/05 full consideration was given to the Combined Code appended to the Listing Rules of the Financial Services Authority.

Basic salary and benefits

Basic salary levels for each individual are determined with reference to independent surveys and other relevant data in order to relate remuneration levels to comparable publicly quoted companies. The Group Chief Executive is responsible for assessing the performance of each senior executive, the complexity of the operations under their control and their opportunities for advancement within the Group. He then formulates a remuneration proposal for the Committee's approval. Basic salary levels are set around the market median, and the Committee ensures that a balance between fixed and variable remuneration is achieved.

Remuneration of subsidiary directors is set at competitive levels to reflect the size, complexity and geographic locations of these businesses.

Share plans

The Directors have long believed that share plans are an excellent way to align the interests of senior management with those of shareholders and that share plans provide excellent motivation. The Committee recognises the need to continually assess and evaluate such incentives and therefore engaged Ernst & Young LLP to assist them in developing the next phase of incentive arrangements to introduce across the Group.

Included in the Notice of Meeting is a resolution for the approval of a Performance Share Plan which would replace the existing share option plan for future share incentives. The Plan contains provisions permitting share option grants, restricted share awards and performance share awards, however, the Committee intends to initially use the Plan to award performance shares only. Awards, which will be made annually, will be determined by evaluating the financial performance of the executive Directors' and the Divisional Chief Executives' operations and the attainment of certain personal goals. The maximum award is fixed at 140% of salary for executive Directors and 100% of salary for Divisional Chief Executives. The expected level of award is 110% and 80% of salary respectively. Awards vest after three years on a sliding scale subject to the Company's relative TSR performance against the Engineering and Machinery sector, combined with an absolute Return on Total Invested Capital measure. Awards which do not vest on the third anniversary of their award lapse. The Performance Share Plan will also be extended to certain centrally based executives and subsidiary chief executives with maximum awards of 40% of salary. More details of the Plan are contained in the circular which has been sent to shareholders.

The 1990 and 1996 Share Option Plans and the 1999 Company Share Option Plan all provide for the grant of two categories of option both of which are subject to performance criteria. The exercise criteria for these three plans are noted in Note 19 on the Accounts. No further grants may be made from the first two of these plans nor does the Company plan to make any further grants from the 1999 Plan provided that the Performance Share Plan is approved by shareholders at the Annual General Meeting in August 2005.

The granting of options was spread over the life of the plan. Executive Directors received 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 to executive Directors and Divisional Chief Executives, is reviewed annually by the Remuneration Committee and approved by the Board. Without approval of this scheme there is no alternative bonus arrangement for Directors and Divisional Chief Executives. During the year the Remuneration Committee carefully reconsidered existing bonus arrangements and determined that incentive levels are appropriately set.

In the case of a Divisional Chief Executive a bonus would be earned if the profit of the Division for which he is responsible exceeds a target calculated from the profits of the three preceding 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 the Group Chief Executive and Group Finance Director, bonuses are calculated as above but based on the aggregated profit of the Divisions exceeding a target calculated from the profits of the Divisions for the three preceding financial years.

A pre-determined percentage of the profit improvement is payable in cash, and, up to and including 2004/05, a further percentage was granted in the form of Section 'A' share options. The percentage payable in cash commences at a low level for modest growth increasing, in percentage terms, as performance improves. The maximum cash bonus payable to any one Director or Divisional Chief Executive is capped at 100% of his salary.

For 2005/06, executive Directors and Divisional Chief Executives may increase their cash bonus, subject to the 100% of salary cap, by either 10% of salary if the Return on Capital Employed of their Division (or aggregate thereof) exceeds 45%, or by 15% of salary if accompanied by absolute profit growth in their Division (or aggregate thereof).

Subsidiary directors participate in bonus arrangements similar to those established for senior executives.

Directors' remuneration

	Salaries and fees £000	Bonus £000	Benefits £000	2005 Total £000	2004 Total £000
D S Barber	-	-	-	-	52
E G Unwin	112	-	12	124	124
S R O'Shea	604 ⁺	166 ⁺	40 ⁺	810 ⁺	429
A J Williams	170*	64	6	240	-
Lord McGowan	-	-	-	-	8
K J Thompson	200	38	10	248	215
N Quinn	175	13	13	201	259
R A Stone	32	-	-	32	32
K J Roy	150	73	14	237	155
A J Walker	32	-	-	32	27
S R Pettit	29	-	-	29	16
	<u>1,504</u>	<u>354</u>	<u>95</u>	<u>1,953</u>	<u>1,317</u>

⁺to date of resignation, see below

^{*}from date of appointment

The fees paid in relation to Mr E G Unwin were paid to Gunwin Limited.

Further to the succession planning process, Mr S R O'Shea resigned on 28 February 2005, and the figures above include £347,000 representing his contractual entitlement to December 2005, his normal retirement date.

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

Pension benefits

The executive Directors participate in the appropriate section of the Halma Group Pension Plan. This section 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 (60). 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 of one-half of the member's prospective pension. Early retirement pensions, possible from age 50 with the consent of the Company and the Trustees of the Halma Group Pension Plan, are subject to actuarial reduction. Pensions in payment increase by 3% per annum for service up to 5 April 1997 and by price inflation thereafter subject to a maximum of 5%.

Details of the value of individual pension entitlements are shown below.

	Age at 2.4.05	Years of service at 2.4.05	Accrued pension 2004 £000	Increase in the year £000	Accrued pension 2005 £000
S R O'Shea	59 ⁺	29 ⁺	165	18	188 ⁺
A J Williams	37	10	17*	5	23
K J Thompson	45	17	51	6	59
N Quinn	55	17	60	9	71
K J Roy	54	12	33	5	39

⁺as at date of resignation

*as at date of appointment

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.

	Transfer value 3.4.04 £000	Directors' contributions £000	Increase in transfer value net of contributions £000	Transfer value 2.4.05 £000
S R O'Shea	2,722	24	528	3,274 ⁺
A J Williams	103*	5	45	153
K J Thompson	444	13	98	555
N Quinn	812	13	181	1,006
K J Roy	439	12	106	557

⁺as at date of resignation

*as at date of appointment

The transfer values disclosed above do not represent a sum paid or payable to the individual Director. Instead they represent a potential liability of the pension scheme.

These values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.

Further to Mr O'Shea's resignation, the Company and Mr O'Shea each paid pension contributions equating to those payable during the notice period up to Mr O'Shea's normal retirement date. The Company's contributions amounted to £86,936. The above table does not reflect this augmentation.

Total shareholder return

The graph below shows the Company’s total shareholder return performance over the five years to 2 April 2005 as compared to the FTSE 250 and Engineering & Machinery indices which have been chosen as the Company is a constituent of both of these indices. Over the period indicated, the Company’s total shareholder return was 110% compared to 28% for the FTSE 250 and 32% for the FTSE Engineering & Machinery sector.



At the commencement of the five-year period depicted in the graph, the Halma p.l.c. ordinary share price was 95p and the total of dividends in respect of the year ended 1 April 2000 was 3.993p per share. The Halma p.l.c. ordinary share price at 2 April 2005 was 161p and the total of dividends in respect of the year then ended was 6.5p per share.

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	Shares
E G Unwin	2,405	3,404
A J Williams	38,250	38,250
K J Thompson	19,493	—*
N Quinn	60,857	49,749
R A Stone	43,586	33,788
K J Roy	5,000	5,000
A J Walker	744,587	744,587
S R Pettit	5,500	35,714
	2,000	1,000

*as at date of appointment

There are no non-beneficial interests of Directors.

There were no changes in Directors’ interests from 2 April 2005 to 21 June 2005.

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

	As at 3.4.04	Granted	Exercised	As at 2.4.05	Gains on exercise (£)
S R O'Shea	1,409,960	522,099	(690,131)	1,241,928 ⁺	198,834
A J Williams	159,470*	195,529	–	354,999	–
K J Thompson	738,156	150,726	(47,108)	841,774	17,886
N Quinn	864,080	148,370	(54,798)	957,652	18,155
K J Roy	461,114	50,216	(14,933)	496,397	7,331

⁺ as at date of resignation
* as at date of appointment

There were no share option lapses during the financial year.

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 an exercise price of 142.25p, and 157.92p in respect of 236,112 of Mr O'Shea's options. The closing middle market price of the Company's ordinary shares on Friday, 1 April 2005, the last trading day preceding the financial year end, was 161p per share and the range during the year was 141.5p to 170p.

Details of Directors' options outstanding at 2 April 2005 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 161p
- 2 Not yet exercisable, will only be exercisable when the performance criteria, set out on note 19, have been met and have an exercise price per share of less than 161p.
- 3 Not yet exercisable, will only be exercisable when the performance criteria, set out on note 19, have been met and have an exercise price per share of greater than 161p.

	Status of options (see above)	Year of grant	Number of shares	Weighted average exercise price (p) per share
S R O'Shea	2	1997-00; 2002-05	1,141,128	140.30
	3	2001	100,800	163.50
A J Williams	2	1997-00 2002-04	303,199	136.48
	3	2001	51,800	163.50
K J Thompson	1	1995-98	213,098	122.54
	2	1997-00 2002-04	580,276	129.59
N Quinn	3	2001	48,400	163.50
	1	1995-99	242,832	119.87
K J Roy	2	1997-00 2002-04	617,920	128.11
	3	2001	96,900	163.50
K J Roy	1	1995-99	154,632	122.22
	2	1997-00 2002-04	287,065	134.30
	3	2001	54,700	163.50

All options lapse if not exercised with 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

It is the Company's policy that executive Directors have contracts with an indefinite term up to the normal retirement age of 60 and providing for a maximum of one year's notice. There are no exceptions to this policy. 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.

Chairman and non-executive Directors

Unless otherwise indicated, all non-executive Directors have specific three-year terms of engagement which may be renewed for a further three years if both the Director and the Board agree. The remuneration of the Chairman and the non-executive Directors is determined by the Board based on independent surveys of fees paid to Chairmen and non-executive directors of similar companies. The Chairman and the non-executive Directors receive a basic fee supplemented by additional fees for membership and/or chairmanship of the Audit and Remuneration Committees.

The contract in respect of Mr Unwin's services provides for termination, by either party, by giving not less than six months' notice. Mr Unwin's basic fee for 2004/05 was set at £108,000 per annum excluding Committee membership fees, and he received a contribution of £1,000 per month towards his office costs.

The non-executive Directors do not have service contracts.

The Chairman's and the non-executive Directors' fees were last reviewed by the Board of Directors in April 2005.

By Order of the Board

R A Stone Chairman of the Remuneration Committee
Misbourne Court Rectory Way Amersham Bucks HP7 0DE
21 June 2005

United Kingdom Company Law requires 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 at any time 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 and are responsible for the system of internal control.

The Directors consider that, in preparing the financial statements on pages 48 to 73 and the disclosures on pages 39 to 45 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, and that all accounting standards which they consider to be applicable have been followed.