HALMA

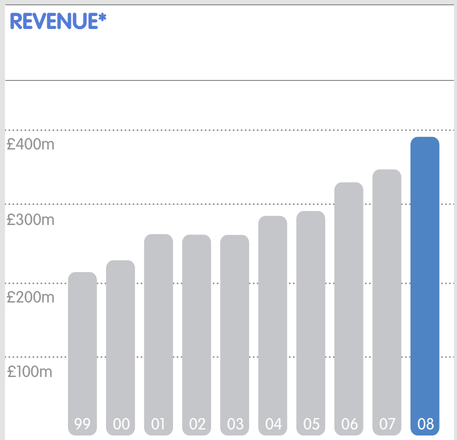
Making a difference




Halma p.l.c. Annual report and accounts 2008

Halma operates in global markets offering long-term growth underpinned by robust growth drivers. Our products help to provide innovative solutions for many of the key issues facing the world today:

Financial highlights



Contents

CONTINUING OPERATIONS	CHANGE	2008	2007
Revenue	+13%	**£395.1m**	£351.1m
Adjusted profit before taxation(1)	+11%	**£72.8m**	£65.6m
Statutory profit before taxation	+9%	**£68.0m**	£62.1m
Adjusted earnings per share(2)	+12%	**13.86p**	12.42p
Statutory earnings per share	+10%	**12.97p**	11.77p
Total dividends (paid and proposed) per share	+5%	**7.55p**	7.18p
Return on sales(3)		**18.4%**	18.7%
Return on total invested capital(4)		**14.1%**	14.0%
Return on capital employed(4)		**55.8%**	60.1%

Pro-forma information:

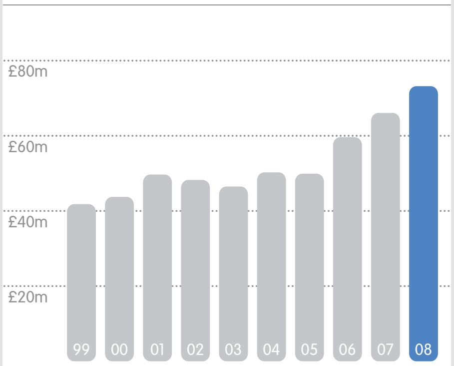
(1) Adjusted to remove the amortisation of acquired intangible assets of £4,757,000 (2007: £3,458,000).

(2) Adjusted to remove the amortisation of acquired intangible assets. See note 2 to the accounts for details.

(3) Return on sales is defined as adjusted(1) profit before taxation from continuing operations expressed as a percentage of revenue from continuing operations.

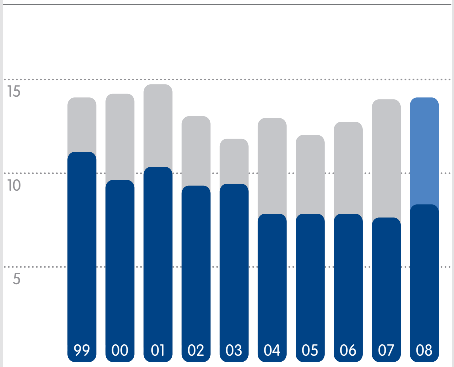
(4) Organic growth rates, Return on total invested capital and Return on capital employed are non-GAAP performance measures used by management in measuring the returns achieved from the Group's asset base. See note 3 to the accounts for details.

PROFIT*



* Revenue and profit include the results of discontinued operations up to the date of their discontinuance. Profit is before amortisation of acquired intangibles/goodwill and taxation. Figures prior to 2005 have not been restated for IFRS.

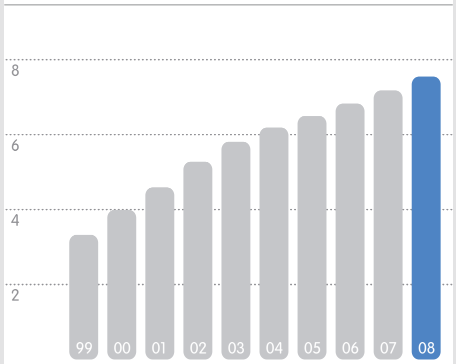
ROTIC** (%)



** Figures prior to 2005 have not been restated for IFRS.

WACC (weighted average cost of capital).

DIVIDENDS*** (pence/share)

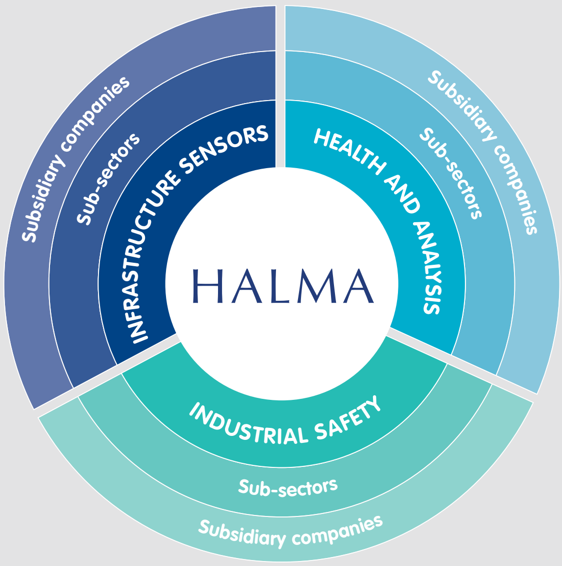


*** Dividends paid and proposed.

Who we are

Organisation

We are a highly decentralised organisation with an entrepreneurial and achievement oriented culture.



Each subsidiary is led by a management team who enjoy genuine autonomy and the freedom to grow in an entrepreneurial environment.

These management teams are chaired by Halma's Divisonal Chief Executives who understand the market needs and can contribute broadly to the individual company's strategy in technical, operational and commercial areas.

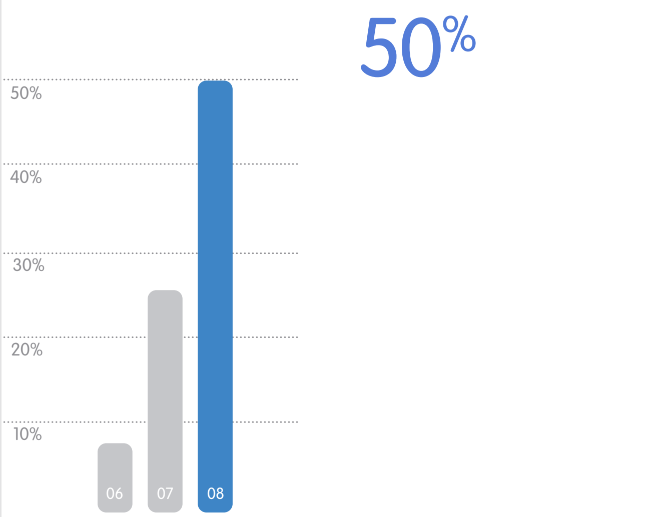
Through regular interaction between the Group's Executive Board members, common challenges and opportunities for Group businesses are identified.

Our flat operating structure provides excellent visibility of individual achievement levels.

People

We recruit and develop top quality boards to lead our businesses and offer opportunities for genuine and rapid career development.

INVESTMENT IN TRAINING CUMULATIVE % OF SUBSIDIARY DIRECTORS AND MANAGERS WHO HAVE COMPLETED HEDP* OR HMDP**



Halma's success relies on building strong management teams at subsidiary companies. This demands a rigorous approach to both recruitment and people development.

We have in-house training programmes for subsidiary directors and managers. These programmes help our people to be more successful in their current roles so that their achievements will create opportunity for further career development.

Halma's Executive Board actively manages the development of individuals among our top 200 subsidiary directors and managers.

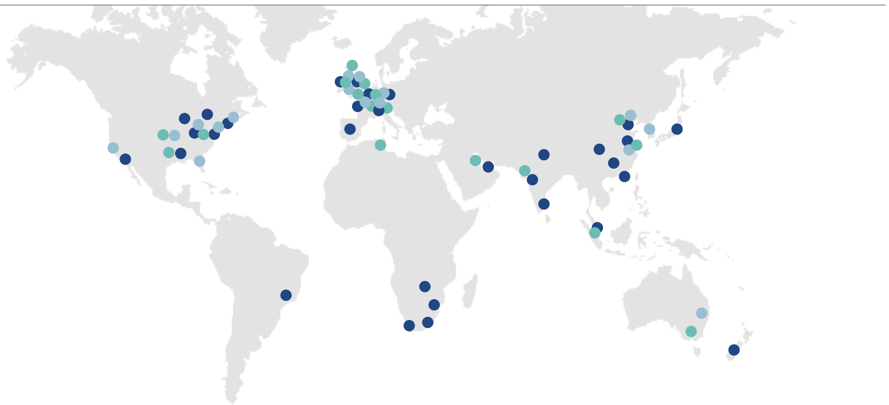
Almost all Executive Board members and all executive Directors have been appointed through internal promotion.

* Halma Executive Development Programme
** Halma Management Development Programme

WHERE WE OPERATE

Halma is made up of three sectors with operations in over 20 countries.

- Infrastructure Sensors
- Health and Analysis
- Industrial Safety

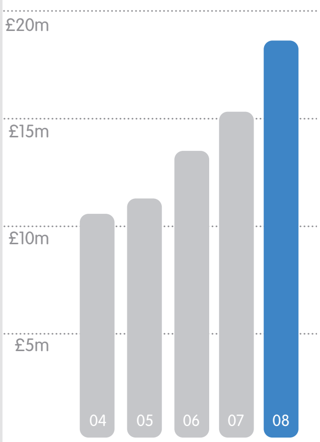


Products

Our products provide innovative solutions for many key issues facing the world today.

RESEARCH & DEVELOPMENT EXPENDITURE

£18.6m
+22%



The quality and performance of our products are key to our long-term success. We create products where the value to our customers is significant relative to cost. Often our products are critical components within the customer's larger system or process. Many of our products are the world market leading brands in their niche. Much of our intellectual property comes from application know-how built up over many years.

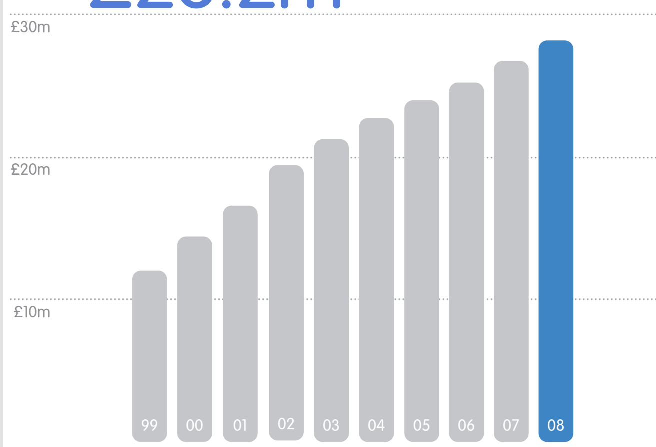
Research and development (R&D) plays an important role in ensuring that our products remain competitive. Increasingly Halma companies are sharing technical know-how and collaborating to meet customer needs.

Performance

We have a strong track record of sustained value-creation.

TOTAL DIVIDENDS PAID AND PROPOSED

£28.2m

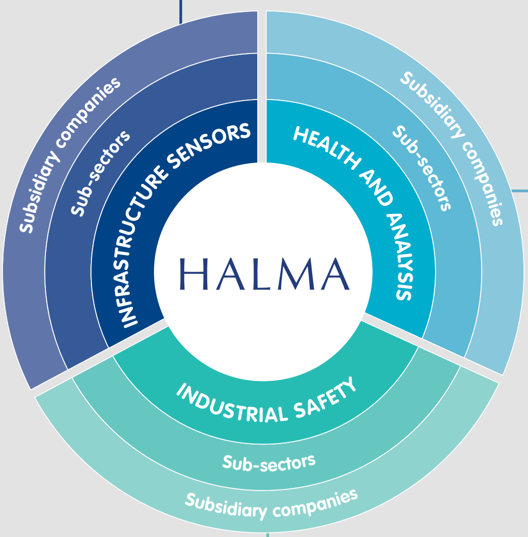


Our aim is to deliver growth and high returns, and to create value for shareholders each year. This has resulted in us building a track record of sustained success over more than 30 years.

We are highly cash generative and use this cash to sustain organic growth, expand through acquisition and provide a growing dividend to shareholders.

We have increased our dividend in each of the past 29 years. Our dividend record is unrivalled on the London Stock Exchange.

What we do

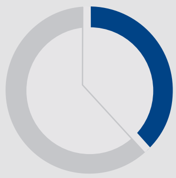


SECTORS

Infrastructure Sensors

Detecting hazards and protecting people and property in buildings.

PROFIT* CONTRIBUTION



£29m
38%

Health and Analysis

Improving public and personal health; protecting the environment.

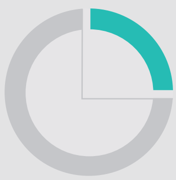
PROFIT* CONTRIBUTION

£28m
37%

Industrial Safety

Protecting property and people at work.

PROFIT* CONTRIBUTION



£19m
25%

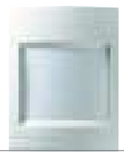
* See note 1 to the accounts

SUB-SECTORS

FIRE DETECTION

We make fire and smoke detectors and audible/visual warning devices. We are the world's second largest manufacturer of point smoke detectors used in public and commercial property.

SECURITY SENSORS



We have a strong presence in this strategically important and fast growing market. We are market leaders in the UK and South Africa for security sensors used in public and commercial property.

AUTOMATIC DOOR SENSORS

We are the world's largest manufacturer of sensors used on automatic doors in public and commercial buildings.

ELEVATOR SAFETY

We are the world's largest manufacturer of elevator/lift door safety sensors. We also make emergency communication devices, displays and control panels for elevators.

WATER

We are the world leaders in monitoring and finding leaks in underground water pipelines and among the world leaders in UV technology for disinfecting and treating water.

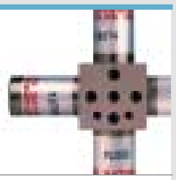
PHOTONICS

We have market leading technologies and products which generate, measure and condition light and analyse the interaction of light with substances.

HEALTH OPTICS

We make handheld devices used to assess eye health, diagnose disease and assist with eye surgery as well as diagnostic devices for general medical applications.

FLUID TECHNOLOGY



We make critical components such as pumps, probes, valves, connectors and tubing used by scientific, environmental and medical diagnostic OEMs for demanding applications.

GAS DETECTION

We make portable instruments and fixed systems which detect flammable and hazardous gases.

BURSTING DISCS

We make 'one time use' pressure relief devices to protect large vessels and pipework in process industries.

SAFETY INTERLOCKS

We make specialised mechanical, electrical and electromechanical locks which ensure that critical processes operate safely.

ASSET MONITORING

We make products for monitoring physical assets above ground, below ground and under water using innovative sensor and communications technologies.

Chairman's statement

We enter the new year in good shape, continuing to see organic and acquisitive growth opportunities

Geoff Unwin
Chairman

Halma: what we do and our strategy

Our business is to produce products which protect lives and improve the quality of life for people worldwide. We do this through continuous innovation in market-leading products, which meet the increasing demands for improvements to health, safety and the environment. We build strong positions in markets where the demand is global. Our businesses are autonomous and highly entrepreneurial.

Strategically we aim to grow profit and revenue in excess of 5% p.a. organically, to have Return on sales in the region of 18% or above and generate post-tax Return on total invested capital of more than 12%. As a result we are highly cash generative and re-invest back into our businesses through people, product and market development, continue to acquire more companies with like characteristics, and strive to give annual dividend growth of 5% or more to our shareholders. The latter we have achieved for 29 consecutive years.

Results

Once again, we have seen good progress over the last financial year. Revenue from continuing operations increased 13% to £395.1m (2007: £351.1m) with underlying organic growth* of 8.0% despite adverse currency effects of 1.4%, i.e. 9.4% at constant currency. Profit before tax and amortisation of acquired intangibles on continuing operations was £72.8m (2007: £65.6m) an increase of 11%, organic growth* was 6.7%; 7.6% at constant currency. Statutory profit before tax increased 9% to £68.0m. The Board is recommending a final dividend of 4.55p per share, an increase of 5.1%. Our dividend cover has increased to 1.83 times (2007: 1.74 times). Return on total invested capital* was 14.1% (2007: 14.0%).

Acquisitions and disposals

During the year we acquired Sonar Research & Development (SRD) for £2.6m which now operates as part of Tritech in the Industrial Safety sector and Riester (manufacturer of small medical and ophthalmic diagnostic devices) for €55m (£40m) in our Health and Analysis sector. In Infrastructure Sensors we concluded a joint venture agreement with a leading Chinese fire detector supplier which will result in an investment of approximately £2.5m in 2008/09.

We disposed of Post Glover Lifelink for US$6m (£3m).

Market development

We expanded our banking facilities in February 2008 with a new five-year £165m syndicated revolving credit facility, replacing our existing £60m facility on similar attractive terms. This increases our firepower to acquire more first-class companies that fit our strategic direction. We have allocated increased management resource to seek out and evaluate potential opportunities and the pipeline is improving.

Progress in China has been solid thanks to the investment we have made in our China hubs which are there to help our subsidiaries set up direct operations. Sales increased by 19% to £9m and the number of Group companies with in-country operations since we established the hubs has increased from 3 to 16.

We are now setting up a similar hub in India, which will assist Group companies in developing operations there.

These investments are in line with our strategy of devoting more resources to the faster growing economies.

Governance

At the beginning of the year we announced the appointment of Jane Aikman to the Board. Jane is the Financial Director of Infinis Limited (the UK's largest purely renewable energy generator) and she brings extensive financial and East Asia experience to the Board.

RETURN ON TOTAL INVESTED CAPITAL*

14.1%

DIVIDEND INCREASE

5%

At the end of the year we announced that Keith Roy had given notice that he would retire and resign as a Director with effect from 31 July 2008. Keith's contribution as an executive Director has been immense. Among the many qualities that Keith demonstrates, his mentoring and people development skills are outstanding. Many managers and directors within the Group owe their strong development to encouragement and advice from Keith. On behalf of the Board I would like to thank him and wish him well in the next stage of his life.

In April we appointed Adam Meyers as an executive Director to the Board. He is responsible for the Health Optics and Photonics division within Halma's Health and Analysis sector. His knowledge of many of our Health and Analysis markets, particularly in the USA, brings an added dimension to the Board.

People

We owe these results to the quality of people within Halma, to their continued innovation and their dedication to our customers. A sincere thank you to them all.

We continue to invest in the development of our people, in particular through our management training programmes. It is encouraging to see an increasing number of internal promotions within the Group, particularly cross-company promotions.

Summary

Another year of strong progress. We enter the new year in good shape, continuing to see organic and acquisitive growth opportunities and this gives us confidence for the future.

Geoff Unwin
Chairman

* See Financial highlights

2008 CORPORATE RESPONSIBILITY ACHIEVEMENTS

What we said	What we've achieved
1. Measurement and reporting of our carbon footprint	Halma's carbon policy was approved by the Board at the beginning of the year and calls for a 10% reduction in the carbon footprint by 2010.
2. Establishment of non-financial KPI in respect of the workplace	Halma conducts an annual survey of its employees to assess how well the Group's values are aligned with its employees and how well the Group communicates its values to employees.
3. Continuing development of our people	The Halma Executive Development Programme has been supplemented with a Management Development Programme aimed at middle-managers and the necessary skills they need in their current and future roles.
4. Emphasis on business ethics	At the beginning of the year, the Group formally adopted Group-wide policies on human rights and business practices to reinforce the strong ethical culture already prevalent throughout the Group.
5. Maintenance of the composition and balance of the Board	The Board filled the non-executive Director vacancy during the year thereby restoring its optimum composition. The Board also identified an internal successor for a retiring executive Director.

Record revenue and profit

Andrew Williams
Chief Executive

Record revenue and profit

We have achieved another year of record revenue and profit, demonstrating the strength of our business model and strategy which has created value consistently for shareholders, customers and employees over nearly four decades.

We continue to maintain a healthy balance between short-term performance and investment for sustainable growth in the longer term. The diversity of our products, markets and customer base provides good opportunities for organic and acquisitive growth and our underlying order intake trend remains strong.

Good organic growth and strong returns

We grew revenues from continuing operations by 13% to £395m (2007: £351m) and profit before amortisation of acquired intangibles by 11% to £72.8m. Organic revenue growth* of 8.0% and organic profit growth* of 6.7% exceeded the 5% p.a. minimum objective for a third consecutive year. Return on sales* of 18.4%, Return on capital employed* of 55.8% and Return on total invested capital* of 14.1% were all strong performances and meet my overall objective to deliver growth without diluting the high quality of returns.

Growth in all three sectors

All three reporting sectors (Infrastructure Sensors, Health and Analysis and Industrial Safety) achieved organic revenue and profit growth. In Infrastructure Sensors, our Fire Detection business performed very strongly whilst Elevator Safety and Security Sensors ended the year with improved momentum as planned following the major strategic changes implemented in the first half of the year. Our Health and Analysis sector made good progress with Labsphere, acquired in February 2007, contributing to another positive year for Photonics. Industrial Safety continued its record of strong organic growth and also benefited from a good performance from Tritech, the subsea asset monitoring business acquired in November 2006.

Revenue to all major geographic regions increased with double digit growth in the UK (+13%), Mainland Europe (+18%) and Asia Pacific/Australasia (+21%) – the latter meeting our objective of increasing our rate of revenue growth in Asia. Revenues into the USA grew by 7% despite an

OUR VALUES

Achievement	We aim to achieve record performance each year. This is accomplished through the individual and collective achievements of our people. We recognise, reward and celebrate high levels of achievement as this drives continuous improvement and sustained wealth creation.
Empowerment	We succeed by empowering our people to lead, make decisions and act with autonomy within a clearly communicated strategic framework. We give clear goals and make people accountable through regular and unambiguous performance feedback.
Innovation	We need to be innovative to be competitive, grow our business and create wealth. We encourage creativity whether it be in product design, manufacturing, selling or administration. We actively seek to recognise and reward innovative behaviour at all levels of our organisation.
Customer satisfaction	We are only successful if we help our customers to succeed too. We achieve this by giving customers what they want, every time, and finding new ways to add value. We aim to be leaders in our chosen sectors through innovative products and excellent service to customers.

2008 ORGANIC* REVENUE GROWTH

8%

2008 ORGANIC* PROFIT GROWTH

7%

adverse currency impact. The geographic diversity of our customer base and, increasingly, our cost base ensured that the overall impact of currency movement on the Group's revenue and profit was modest.

Acquisition activity continues with increased resources

Three acquisitions and one disposal were completed during the last year. In December 2007, we bought Riester (a German manufacturer of handheld instruments for the eyecare and general healthcare markets) for £40m, making it the second largest acquisition in our history. Earlier in the year we acquired SRD (£2.6m) to add new technology to our existing subsea Asset Monitoring business and BKKI for £0.3m to establish a stronger platform for our Gas Detection products in China. In January 2008, we sold Post Glover Lifelink Inc for £3m.

Our pipeline of acquisition opportunities remains good due to our increased 'search' activities and a stable marketplace for high quality small to mid-size technology businesses. We ended the year with net debt of £44m having extended our core borrowing facilities in February 2008 to £165m and leaving us well placed to take any suitable opportunities when they arise.

More investment in product and process innovation

We launched over 90 new products during the year and increased expenditure on R&D by 22% to £18.6m. This R&D expenditure supports a wide range of activities from leading edge technology to modifying existing products to meet precise customer needs.

Increasingly we are seeing opportunities to gain competitive advantage through our manufacturing capabilities. Investment is increasing in manufacturing automation across the Group. Examples include the latest Optical Thin Film coating technology in Photonics and the latest electron beam welding equipment to help our Bursting Disc business sell into new OEM markets. Strategically, this increased automation also simplifies manufacturing processes and opens up the opportunity to replicate operations closer to our customers in other regions.

A resilient value-creation strategy

Halma has changed a lot in recent years but our core values of Achievement through Empowerment, Innovation and Customer Satisfaction have remained the same.

Our value-creation strategy is a 'twin-track' approach.

As a business 'investor', we actively manage a portfolio of businesses, allocating capital and people resources according to where we see the best return. Since April 2005, we have made 11 acquisitions and 9 disposals.

As a business 'developer', we provide resources and highly relevant expertise to help our high return companies grow on a sustained basis. These resources and expertise include not only our Divisional Chief Executives, who chair the Group companies, but increasingly the knowledge shared between our companies. In addition to ensuring strong financial control and good governance, the role of our small Head Office is increasingly one of enabling companies to grow faster. Since April 2005, we have created Halma hubs in China, established senior management training programmes, held technology transfer events, increased the opportunities for cross-selling between Group companies and increased capital investment in new manufacturing capability.

The consistently high returns achieved by Halma are a direct consequence of selecting a diverse range of businesses which have common characteristics. These include robust market growth

2008 STRATEGIC ACHIEVEMENTS

What we said	What we've achieved
1. Organic growth to exceed 5% p.a.	7% organic profit growth and 8% organic revenue growth driving record results.
2. Targeted acquisitions	Riester acquired in December 2007 for €55 million strengthening our Health and Analysis sector. SRD and BKKI bolt-on deals completed to strengthen our Industrial Safety sector.
3. Build on Chinese hubs and grow revenue in Asia	Revenue in Asia increased by 21%. 16 group companies now have a direct presence in China. Our first acquisition (BKKI) and a Joint Venture agreement (Fire Detection) in China. Manufacturing hub facility due to be operational in Shanghai mid-2008.
4. Continued management development	Further Halma Executive Development Programmes (HEDP) completed for senior managers. New Halma Management Development Programme (HMDP) introduced for middle management.
5. Maintain strong new product introduction	Over 90 new products launched during 2007/08. R&D expenditure increased by 22% to £18.6m. More new products developed through collaboration between Group companies.

Chief Executive's review (continued)

drivers, strong barriers to entry, products which target 'non-discretionary' customer spend and untapped international growth opportunities. Our consistent good performance through macro-economic cycles shows the resilience of this integrated financial, operating and market drivers strategy.

Corporate responsibility and sustainability

Halma's commitment to the environment, safety and health and improving the quality of life for individuals is reflected in both the way we do business and the products we create for our customers.

Our 'operational' commitment is shown in greater detail in the Sustainability review starting on page 32, including the clear objectives we set ourselves in areas ranging from carbon policy to the safety of our employees. We set objectives because they make good business sense. These are regularly reviewed and, where necessary, acted upon by the Board.

The positive impact that our products have on society and the environment is significant and is a source of satisfaction for employees. Examples include protecting people from hazardous gases at work, providing safe access to public buildings for those with physical disabilities, enabling eye specialists to prevent sight loss or protecting the environment by conserving water through leakage reduction.

Stronger talent and succession planning processes

We achieve and sustain our high levels of performance because we have talented and hard working teams of people throughout the Group. The quality and depth of talent has improved significantly over recent years and I thank everyone who has contributed to another excellent year.

We have transformed the way in which we identify, develop and reward people. During the year, a new Halma Management Development Programme was created to support our Executive Development Programme and drive our investment in people development deeper into our organisation. A key benefit of this overall investment has been improved succession planning and increased internal promotions.

During the past year, three new Divisional Chief Executives were appointed. All were internal promotions, with each one earned through a strong track record of achievement at Managing Director level.

In April 2008, one of our existing DCEs Adam Meyers was promoted to the Halma p.l.c. Board following Keith Roy's announcement of his intention to retire in July 2008.

I congratulate Adam on his well deserved promotion and also wish Keith a long and happy retirement. Keith's generosity in sharing his experience and developing others is reflected in the strength of our Executive team and many of our subsidiary company boards. He leaves with the Group in good shape.

Outlook

Our businesses are well-positioned to sustain growth in the short and medium term due to their diversity of product range, customer base and geographic footprint as well as the 'non-discretionary' spend aspect of our safety-related products. In Infrastructure Sensors, these factors, a focus on commercial rather than residential buildings and a strong bias towards refit/refurbishment rather than new construction, gives us confidence of continued progress in 2008/09.

All of our Health and Analysis markets look positive for the coming year and beyond. In addition to good organic growth prospects we are still targeting much of our acquisition search efforts in this sector.

Order intake trends have continued to be positive as we move into the next financial year. A major contributor to this is in Industrial Safety where many of our customers in the oil and gas market have an ever lengthening pipeline of orders to fulfil.

Halma continues to deliver strong growth across our businesses and territories. This reflects our well-balanced portfolio and our focus on unique and high performance products that promote health and safety where customer investment is often non-discretionary. Our end markets remain robust and our financial position is strong. This gives us significant headroom to continue investing in innovation and organic growth and making acquisitions as the right opportunities present themselves. Therefore I am confident that we are well-positioned to make further progress in the current year and beyond.

Andrew Williams
Chief Executive

* See Financial highlights

Strategic review

We operate in relatively non-cyclical markets with resilient growth drivers. This enables us to increase shareholder value via organic growth and acquisitions.

RETURN ON SALES*

18.4%

REVENUE GROWTH TO ASIA

21%

MACRO-ECONOMIC, REGULATORY AND COMPETITIVE ENVIRONMENT

Our expectation for 2008/09 is that the macro-economic environment will be generally favourable to our growth strategy. We expect a higher risk of instability in the global economy but anticipate that for us any demand reduction in specific markets will be more than offset by: rising demand in developing regions; extending sales channels and gaining market share in developed regions; and more value-enhancing acquisitions.

Increasing environmental and safety legislation in our markets is favourable to us since it creates demand for our products. Global, national and regional product approvals and technical validations are an increasing cost and technical challenge, but also form an increasing barrier to market entrants.

While a slowdown in the more mature economies may moderate our rate of organic growth, we have a resilient business mix. Many Halma products sell into highly regulated markets characterised by low sales cyclicality. Demand resilience due to many of our products being driven by 'non-discretionary' customer spend, together with the diversity of our product portfolio, geographic market spread and a significant contribution from service income, upgrading and replacement products provide protection from unfavourable macro-economic trends.

While our markets are competitive, sales are spread across a wide range of industries; our largest single market is fire detection (approximately 15% of revenue) and our largest individual customer constitutes less than 3% of Halma revenue. This wide spread of activity means that competition issues are analysed at subsidiary company or operating sector level and our competitive environment is considered in the Sector reviews on pages 16-27.

GROUP STRATEGY AND FORWARD VISION

We have a clear vision of how the world is changing. Increased regulation and legislation, long-term demographic trends and generally higher safety, health and environmental expectations are relevant examples. As the world changes, our customers and their needs change too.

Within our operating businesses growth strategies tend to have a three to five-year horizon. However, at Group level, our strategy for acquiring businesses, developing positions in markets and investing in manufacturing resources has a horizon of 10 years or more.

We position our businesses in markets which we identify as relatively non-cyclical. We select markets with good prospects of long-term, sustained growth whatever the prevailing macro-economic conditions. Our criteria for choosing markets is that they are underpinned by resilient growth drivers.

OUR PRIMARY GROWTH DRIVERS

Demand for energy and water resources

Worldwide growth in energy and water consumption is relentless. The total world consumption of marketed energy is projected to increase by 57% from 2004 to 2030[1]. Despite the predicted economic slowdown in the USA, Asian economies are forecast to grow by 7.6% in 2008, with the PRC economy expanding by 10%[2]. As an indicator of rising energy demand, Asian electricity generation is predicted to rise annually by more than 4% from 2004 to 2030[1]. These trends favour our Industrial Safety businesses as investment in oil exploration and power generation continues to rise.

Growth in population, ageing and urbanisation

While population growth, ageing and urbanisation are sales drivers with a global dimension, their impact on our businesses is different regionally. For example, population growth and urbanisation drives demand for our Infrastructure Sensor products in Asia while the ageing population in the Western World drives demand for health products.

By the end of 2008 more than half of the world's population, 3.3 billion people, will be living in urban areas, rising to almost 5 billion by 2030[3]. The next few decades will see unprecedented urban growth, particularly in the developing world. Urbanisation drives investment in non-residential buildings like shops, offices, schools and hospitals, the primary market for our infrastructure sensors.

[1] International Energy Outlook 2007, Energy Information Administration (US Government)
[2] Asian Development Outlook 2007, Asian Development Bank
[3] State of World Population 2007, UNFPA (United Nations)

* See Financial highlights

Strategic review (continued)

Poor water quality and the urgent need to conserve water resource stimulate demand for our water leak location equipment, water quality testing kits and UV water treatment systems.

Increasing demand for healthcare

Many factors are fuelling the growing worldwide demand for healthcare and our health related products. The USA, the world's largest healthcare market, is expected to grow at an annual rate of 6.7% from 2007 to 2017. US healthcare spending will rise from 16.3% of GDP in 2007 to 19.5% in 2017[4].

In the developed world population ageing creates rising demand, whereas in the developing world economic development is making healthcare affordable to an increasing number of people. Throughout the world, advances in medical technology enable new medical procedures, stimulating demand for new instruments and equipment.

Increasing regulation and rising expectations of health and safety

Each year as many as 270 million people suffer occupational accidents and 160 million contract occupational diseases. Approximately two million people die from work-related accidents and diseases annually[5]. To combat this, governments worldwide introduce increasingly rigorous safety and environmental legislation to provide improved safety and quality of life. Failure to address these risks carries a huge potential cost to our customers.

Globalisation also drives demand for safety equipment. Western multinational businesses see the development of transnational safety and health standards as good business practice, effectively exporting high safety standards to the countries they operate in. In time, these practices become integrated into the regulatory frameworks of the 'host' countries. This is a process we see evolving in Asia currently.

New technology

During the past year, Halma companies spent 4.7% of revenue (£18.6m) on R&D and introduced around 90 new products into their market niches. Although we develop leading edge technology in some businesses, for example our Photonics business, most of our R&D is spent on taking proven technology and applying it in new ways using our market leading understanding of the application challenges. Our R&D resources are placed in each of the subsidiary companies to ensure market needs are understood and met efficiently. This agility results in products with superior performance and value for customers delivering strong product margins and sustained revenue growth.

OUR STRATEGIC PRIORITIES

Organic growth

Our strategic priorities for 2008/09 are to continue to deliver organic growth and maintain a balance between investment and profitability. The ability to grow and to make additional investments is an important element of our progress over the past three years.

Acquisitions

We want to accelerate our rate of growth by acquisition. We have invested more resources in our search for acquisitions and to ensure newly acquired businesses are integrated effectively. The characteristics of target businesses and their markets are most important. They have to be a good fit with our operating culture and strategy in addition to being value-enhancing financially.

Asian business expansion

We are seeing continued progress and opportunities in Asia – where revenue grew by 21% this year and represents around 11% of the Group total. The Halma China hubs created in 2006 resulted in 16 Group companies with a presence in the country, up from three originally. Since then we have made small investments in Fire and Gas Detection and are creating a manufacturing hub in Shanghai which will be operational in mid-2008. We are establishing a new Halma India hub in Mumbai which will be operational by the end of 2008.

Management development

We will continue to strengthen our management. Our increased investment in training has improved the quality and flexibility of our senior management and resulted in greater movement of managers across Group companies. Active management of our people resources is a key factor in our ability to sustain long-term growth.

Executive Board responsibilities are adjusted regularly to match our strategic priorities.

High rate of innovation

Innovation is continually improving from an already high standard. Our emphasis is on both product and process innovation since the latter often results in significant competitive advantage for niche businesses. The quality of entries in our monthly and annual innovation awards, together with the high number of new products launched each year, underline this success.

[4] Outlook – Healthcare Properties 2008, Grubb & Ellis Company (US)
[5] Decent Work, Safe Work, International Labour Office

Strategic principles

We apply five strategic principles to create shareholder value.

1. Operate in specialised global markets offering long-term growth underpinned by robust growth drivers achieving organic growth rates above the blended long-term growth rate of our markets of around 5%.
2. Build businesses which lead specialised global markets through innovative products differentiated on performance and quality rather than price alone.
3. Recruit and develop top quality boards to lead our businesses and nurture an entrepreneurial culture within a framework of rigorous financial discipline.
4. Acquire companies and intellectual assets that extend our existing activities, enhance our entrepreneurial culture, fit into our decentralised operating structure and meet our demanding financial performance expectations.
5. Achieve a high Return on capital employed to generate cash efficiently to fund organic growth, closely targeted acquisitions and sustained dividend growth.

KPIs

We use financial Key Performance Indicators (KPIs) to monitor progress.

ORGANIC REVENUE GROWTH[1]

2008	2007	Group target	Comment
8%	8%	>5%	Strong organic growth across all sectors for the third consecutive year.

RETURN ON SALES[2]

2008	2007	Group target	Comment
18.4%	18.7%	~18%	High margins with continued investment including costs of Security sub-sector reorganisation.

ORGANIC PROFIT GROWTH[1]

2008	2007	Group target	Comment
7%	8%	>5%	Continued progress driven by strong top line growth.

ROTIC (RETURN ON TOTAL INVESTED CAPITAL)[3]

2008	2007	Group target	Comment
14.1%	14.0%	>12%	Excellent returns for the Group well in excess of our WACC of 8.4%.

ROCE (RETURN ON CAPITAL EMPLOYED)[3]

2008	2007	Group target	Comment
56%	60%	>45%	High returns at operating company level.

R&D AS A PERCENTAGE OF REVENUE[4]

2008	2007	Group target	Comment
4.7%	4.3%	>4%	Another year of increased investment producing over 90 new products.

OPERATING CASH TO PROFIT[5]

2008	2007	Group target	Comment
104%	106%	100%	Good cash conversion after funding working capital and assets for growth.

See pages 32 to 35 for non-financial KPIs

1. Organic growth measures the change in the revenue and profit from continuing Group operations. The effect of acquisitions made during the current or prior financial period has been equalised by subtracting from the current year results a pro-rated contribution based on their revenue and profit at the date of acquisition.
2. Return on sales is defined as adjusted[6] profit before taxation from continuing operations expressed as a percentage of revenue from continuing operations.
3. ROTIC and ROCE are non-GAAP measures used by management in measuring the returns achieved from the Group's asset base. See note 3 to the accounts for details of the calculation basis.
4. Research and development expenditure as a percentage of revenue from continuing operations.
5. Cash generated from operations expressed as a percentage of adjusted[6] profit from continuing operations.
6. Adjusted to remove the amortisation of acquired intangible assets.

Risks and resources

These are the major risks and uncertainties facing us and what we are doing to identify, manage and mitigate them.

We seek to continuously grow our profits, generating a high return for shareholders over the long term. We view risk within the context of this objective as well as in absolute terms.
In any business the inherent risks that are an integral component of business activities must be identified, managed and mitigated. Our key means of risk control is the choice of the markets in which we operate and the people and methods we use to exploit those market opportunities. We perceive our primary operational risks to emanate from remoteness of operation and the actions and quality of our employees. Accordingly we invest heavily in identifying, recruiting and training talented people who are able to manage these risks while delivering the excellent results we require. Our choice to operate in the safety products and health-related technology markets, and the depth of market knowledge we have built up within the Group, allows us to adequately evaluate and assess the risks we encounter throughout our operations.
We do not place undue reliance on any one Group company nor does any one Group company rely heavily on one customer or transaction. In managing the portfolio of companies within the Group and in managing the transactions in any one company, we seek to spread our risks. We have processes in place to ensure any major transactions are reviewed at the appropriate level, including at Board level if necessary.
Another factor limiting risk is that our products are predominantly critical components or instruments which are warranted as fit for the purpose rather than systems or intangible products where satisfactory performance is contingent upon third parties.

ORGANIC GROWTH AND COMPETITION

The Group faces competition in the form of pricing, service, reliability and substitution. Our focus on improving our rate of innovation is a direct result of assessing these risks and determining how best to concentrate our efforts. Maintaining the high quality of our products is critical. In addition, all businesses maintain management information systems that provide local management with valuable product and market data. By empowering and resourcing local operations to respond to changing market needs, we have shown that any adverse impact of downward price pressure and competition can be mitigated.

ACQUISITIONS

The identification and purchase of businesses which meet our demanding financial and growth criteria is an important part of our strategy for developing the Group, as is ensuring the new businesses are rapidly integrated into the Group. We aim to pay sensible multiples for businesses whose technology and markets we typically know well. In the past year, we have increased the resource allocated to these activities, focusing on sectors where we see the greatest opportunity. These new resources are targeted to increase the pipeline of opportunities and ensure post-acquisition integration is successfully implemented.

R&D

New products are critical to our organic growth and underpin our ability to earn high margins and high returns over the long term. R&D is of necessity a risky activity but by devolving control of product development into the autonomous operating businesses, we spread the risk and ensure that the resource is as close to the customer as possible, giving the maximum chance of success. Protection of our intellectual property is important to our continued success. Whilst no single product or process is critical to the Group as a whole, all appropriate actions are taken to protect our intellectual property rights.

FINANCIAL IRREGULARITIES AND INCREASING SPAN OF CONTROL

We recognise that the size and remoteness of some operations may not permit full segregation of duties and that Internal and External Audit procedures may not always identify a financial irregularity. This risk increases as we pursue our strategy of geographic expansion often into regions with different accounting bases and cultures. Therefore the Group ensures that there is adequate local management and financial resource in each operational location and regularly reiterates to the subsidiary company officers their fiduciary responsibilities, ensuring they are adequately trained in financial matters whilst maintaining a culture of openness to promote disclosure. Group companies operate a common set of reporting procedures and accounting policies, disseminated via the Group intranet.

PENSION DEFICIT

Monitoring the funding needs of the Group's pension plans is essential to funding our pension obligations effectively. Our UK defined benefit pension plans are closed to new members. There is regular dialogue with pension fund trustees and pension strategy is a regular Halma Board agenda item. The Group's strong cash flows and access to adequate borrowing facilities mean that the pensions risk can be adequately managed. The Group is currently increasing contributions with the overall objective of paying off the deficit in line with the Actuary's recommendations.

TREASURY RISKS

The Group does not use complex derivative financial instruments and no speculative treasury transactions are undertaken. Foreign currency risk is the most significant treasury related risk for the Group. Significant currency denominated net assets and transactions are hedged but future currency profits are not hedged. The Sterling value of overseas profit earned during the year is sensitive to the strength of Sterling, particularly against the US Dollar and the Euro. The Group is exposed to a lesser extent to other treasury risks such as interest rate risk and liquidity risk. These financial risks are discussed more fully in note 26 to the accounts.

LAWS AND REGULATIONS

Group operations are subject to wide-ranging laws and regulations including employment, environmental and health and safety legislation. There is also exposure to litigation and contractual risk. All Group companies have an employee handbook detailing employment practices, including the need to report any major legal or contractual risks. The Group's emphasis on excellent financial control, the deployment of high quality management resource and strong focus on quality control over products and processes in each operating business helps to protect us from adverse litigation and contractual issues. Each operating company has a health and safety manager responsible for compliance and our performance in this area is excellent.

INTANGIBLE RESOURCES ADDRESSING RISK

The main intangible resources which deliver competitive advantage and which support our strategic objectives are: the patents and trade marks which protect our products; our employees, whose understanding of our technology, customers' needs and the dynamics of the markets we operate in, enable us to maintain leadership in many markets; and the enviable reputation enjoyed by our brands for superior product quality and market leading customer support. Our businesses build competitive advantage and strengthen barriers to entry in many ways including patents, product approvals, technical innovation, product quality, customer service levels and branding. We look for these qualities in the businesses we seek to acquire.

470 million people live in regions with severe **water shortages**, predicted to increase to 3 billion by 2025*

* International Water Association

Alabama, USA

"Our water distribution system consists of almost 4,000 miles of transmission lines. Leaks waste resources and raise costs for the city. The Permalog sensors do a great job at finding leaks and have become an integral part of our water system."

Geoff Goodwin
Director of Water Recovery, Birmingham Water Works Board

City water supply

Over 3,000 Permalog leak detectors monitor the underground water pipe network in the city of Birmingham, Alabama, USA to help conserve water in this drought-stricken region. Permalog is a state-of-the-art, battery-powered acoustic sensor and data recording device which fits on mains water pipes via magnetic force and periodically sends a 'no leak' radio signal or an alarm if a leak is detected.

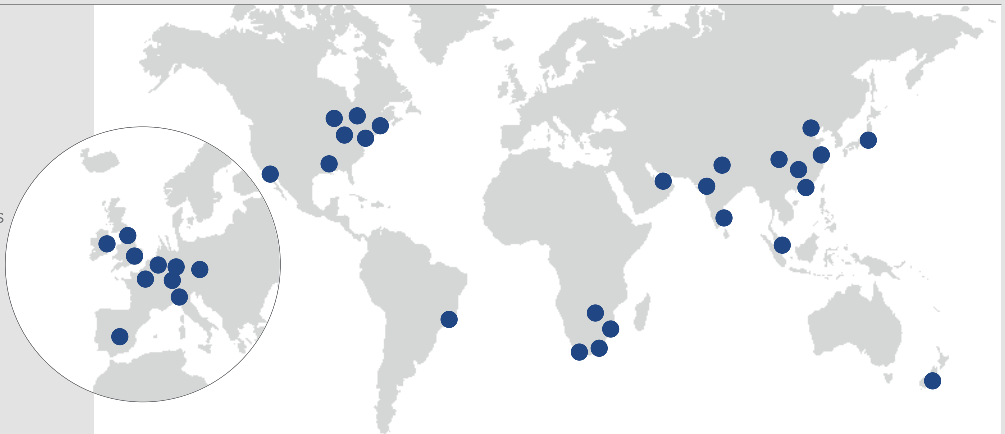
Halma's making a difference

Infrastructure Sensors

We make products which detect hazards to protect people and property in public and commercial buildings. Infrastructure Sensors contributed 42% of Group revenue (£167m) and 38% (£29m) of Group profit*. Our principal products are sensors for fire, security, automatic doors and elevator safety. There are four sub-sectors – see right.

WHERE WE OPERATE

Belgium
Brazil
Canada
China
Czech Republic
France
Germany
India
Italy
Japan
New Zealand
Republic of Ireland
Singapore
South Africa
Spain
UK
United Arab Emirates
USA



STRATEGIC ACHIEVEMENTS

> Organic revenue and profit growth
> Successful reorganisation of Elevator and Security businesses
> New sales offices in Asia, Europe and the USA
> New Elevator products factory in Czech Republic
> Created joint venture for Fire products in China
> Launched over 30 new products

STRATEGIC DIRECTIONS

> Increase organic profit growth driven by revenue growth
> Benefit from reorganisation in Elevator and Security businesses
> Increase regional sales and technical support offices
> Introduce more new products from R&D and bolt-on acquisitions
> Relentlessly improve manufacturing efficiency

KPIs

	Revenue growth[1]	Profit growth[1]	Return on sales[2]	ROCE[3]	R&D[4]
Sector Performance	8%	2%	17.0%	61%	5.1%
Group Target	>5%	>5%	~18%	>45%	>4%

GROWTH DRIVERS

> Growth in population, ageing and urbanisation
> Increasing regulation and rising expectations of health and safety
> New technology

1. Sector revenue and adjusted[5] sector profit before finance expense are compared to the equivalent prior year figure.
2. Return on sales is defined as adjusted[5] profit before finance expense and taxation expressed as a percentage of sector revenue.
3. Adjusted[5] sector profit before finance expense expressed as a percentage of sector operating net assets.
4. Sector research and development expenditure expressed as a percentage of sector revenue.
5. Adjusted to remove the amortisation of acquired intangible assets.

* See note 1 to the accounts

FIRE DETECTION

SECURITY SENSORS

AUTOMATIC DOOR SENSORS

ELEVATOR SAFETY

Market trends and growth drivers

Legislation remains the primary growth driver in the Fire market. There is a continuing global trend towards increasingly rigorous fire safety regulations. In the developing world, fire product standards are often based on North American and European norms, which favour our products. Recent revisions to Chinese fire detector standards are causing several smaller local suppliers to exit the market.

Worldwide, demand for fire detectors is steady with an annual estimated growth rate of just under 5%, predicted to continue until at least 2011. Asia is the fastest growing sector with average annual growth of 6.1%.[1]

In the past year we saw continuing fire market consolidation with more independent manufacturers acquired by multinationals. Customers are moving towards more sophisticated fire detection technologies such as addressable detectors, network systems and video-based smoke detection. We work alongside our customers to ensure we are well placed to meet these needs in the future.

Our Security Sensors sell into a global security market with a projected annual growth rate to 2012 of 7.8%[2]. We see opportunities to increase our market share through better product innovation and customer service levels – particularly outside our traditional strongholds, the UK and South Africa.

We estimate the market for Automatic Door sensors is growing by 3% to 4% annually[3]. However, within this there are geographic and specific application niches which are growing at a faster rate due to rising safety standards – for example industrial door sensors and access for those with disabilities.

Elevators are typically refurbished and upgraded every 15 to 25 years to meet current safety regulations. Worldwide, there is an installed base of 8 million elevators and each year around 400,000 new elevators are installed.[4]

We expect the global elevator market to continue to grow at 5% to 6% annually, but with wide regional variation in the ratio of more profitable modernisation work to new construction. The US market is an even mix of new build and modernisation, concentrated in large cities, where building fire codes are the main sales drivers. The mature European market is mostly modernisation work with demand strongly driven by the EN81[5] safety standards which continue to be gradually adopted by individual countries. New construction dominates the Asian elevator market, with the notable exception of Japan.

Sector strategy

In this sector our principal strategic goal is to be the leading supplier of safety-critical sensor products and supporting technology for infrastructure monitoring in non-residential buildings. We choose safety-critical products because these are 'non-discretionary' spend items for non-residential buildings driven by regulatory requirements.

Our businesses are positioned as the expert supplier of safety-critical components, not as complete system builders or installers. We aim not to compete with the global businesses that install complete building monitoring systems and position ourselves as an independent supplier to all of them. This demands that we continue to expand our commercial, technical and manufacturing presence internationally.

For example, to increase Fire product sales we are strengthening local customer relationships and improving market intelligence. To achieve this, we continue to set up new sales offices in Europe, the USA and Asia. We also plan to increasingly decentralise product development to accelerate new products designed to meet local standards. To defend our market positions, we regularly review our intellectual property portfolio, ensuring global protection and policing our patented technologies.

Sector review (continued)

Infrastructure Sensors

A continuing strategy is to build competitive advantage through manufacturing excellence. The goal is to achieve advances in both quality and productivity so that our customers get market leading service levels consistently – wherever they are located. In early 2008, we agreed a new manufacturing joint venture for Fire sensors in China to help satisfy increasing demand in Asia.

In our Security business, we will continue to invest in new products, processes and people to grasp our international expansion opportunities, particularly into North America and Asia. Strategic partners are in place to assist our aim of being a strong global player, complementing our market leadership in the UK and South Africa. We have obtained new international product approvals, improved our manufacturing platform and rationalised our new product development programmes. We are developing new intruder detection systems based on microwave and infrared sensors and have developed novel wireless communications technology for easier system installation and integration.

In addition to strengthening our position as the dominant world supplier of Automatic Door sensors for pedestrian doors, we are introducing novel new products to increase our share of the industrial door market. A major new product to be launched in 2008/09, featuring a laser sensor, will reinforce our technology leadership and drive sales growth in this market.

During the past year we completed the implementation of the regional Elevator strategic reorganisation started in late 2006. The creation of product focused manufacturing and R&D resources with a regionally aligned sales organisation is aimed at increasing profits through stronger revenue growth. We believe we can shorten product lifecycles, maintain technological leadership via R&D, cut production costs and extend sales channels thereby maintaining a strong competitive advantage even against low cost competitors. An international 'in-country' sales presence is a key differentiator and we now operate 23 elevator sales offices worldwide. Three new offices were opened in France, the USA and India during 2007/08 alone.

Sector performance

Fire sector revenue and profits were at record levels as we continued to gain market share, notably in Europe. Product margins improved due to product design and process innovations.

We achieved record sales of Security Sensors despite significant internal reorganisation to ensure success in our future global expansion plans. Underlying profitability improved during the second half of the year indicating that the benefits of these strategic changes are starting to emerge as planned.

Revenue and profit at our Automatic Door sensor business also set new records. During 2007/08 we achieved strong progress in the USA and China and more modest progress in Europe. Greater penetration of our products into specialist markets such as hospitals and schools contributed to growth.

Performance of our Elevator businesses was flat during the first half of 2007/08 due to higher investment and overhead costs and showed some improvement during the second half.

[1] Confidential market research
[2] World Security Equipment, The Freedonia Group Inc.
[3] Internal market research and confidential industry sources
[4] Freedonia "Industry Study 2016 – World Elevators" and elevator manufacturers' websites
[5] BS EN81-80:2003. Rules for the improvement of safety of existing passenger and goods passenger lifts

SECTOR OUTLOOK

Our markets in this sector are underpinned by robust regulatory drivers for non-residential buildings generating demand from both modernisation of existing structures and new construction. Therefore, they have proved to be resilient throughout the macro-economic downturns of the past.

We expect stable trading conditions to continue in our major market, Europe (61% of sector revenue including the UK), whilst our relative exposure to the US market (only 19% of sector revenue) will mitigate the impact on the sector of any major downturn in that region.

New sales channels, investment in worldwide product approvals and new products will create further opportunities in developing regions. The Infrastructure Sensors sector is well placed for continued growth in 2008/09.

The proportion of **urban dwellers** is predicted to rise from 3.2 billion in 2005 to 4.9 billion by 2030, roughly 60% of the world's population*

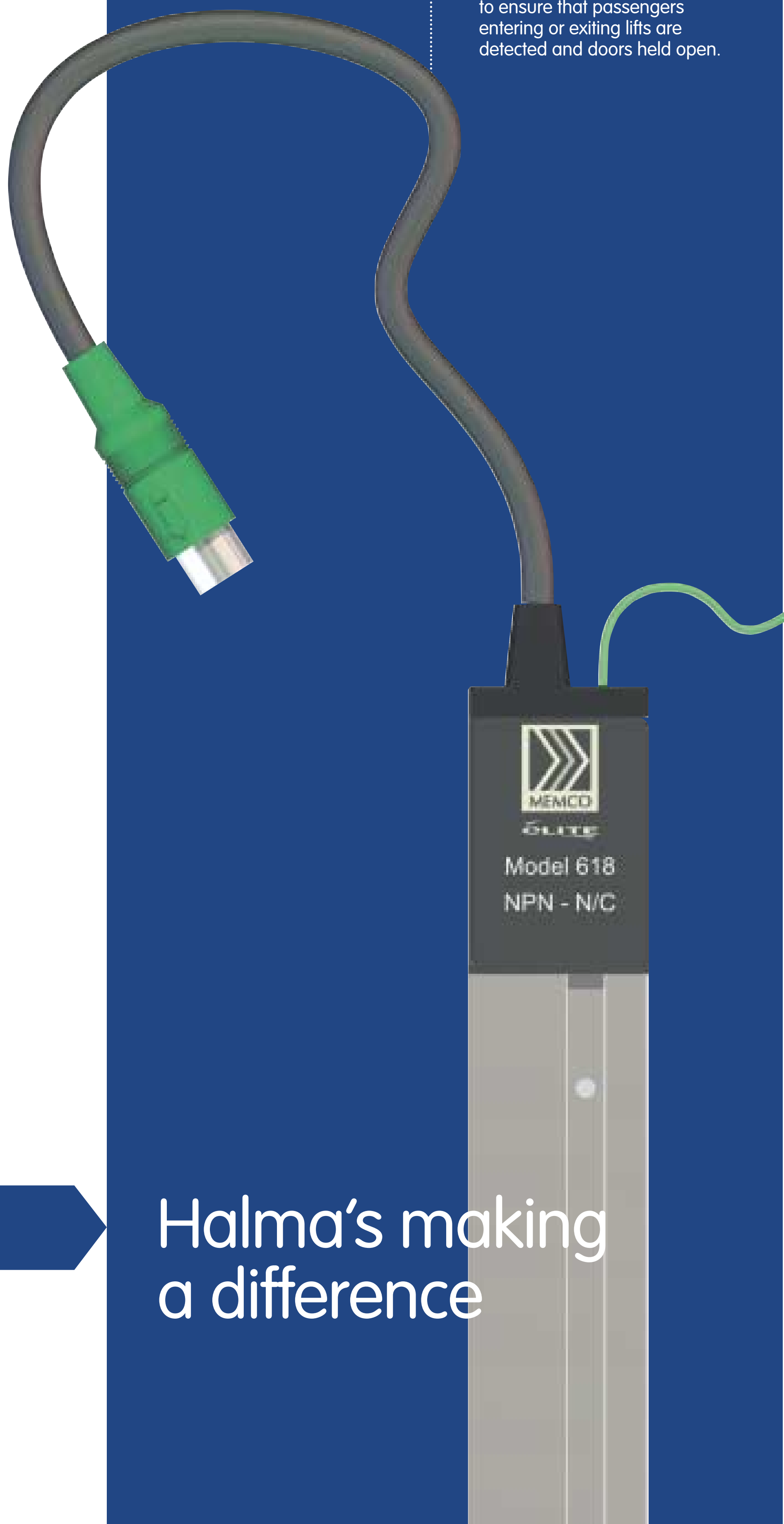
* World Urbanization Prospects, 2005. United Nations, Department of Economic and Social Affairs, Population Division (2006)

Mumbai, India

"Infrared light curtains are a very positive product for elevator doors, and ensure the safety of passengers as they enter or leave the elevators."

Mr C K Pithawalla
Director, Hiranandani Constructions Pvt. Ltd

Our safety systems protect elevator passengers at the Hiranandani Estate, a huge complex within the Mumbai conurbation in India. Halma elevator door sensors use up to 154 infrared beams to ensure that passengers entering or exiting lifts are detected and doors held open.



Public building

Halma's making a difference

Health and Analysis

We make components and products used to improve personal and public health. We also develop technologies and products which are used for analysis in safety, environmental and leisure related markets, including water. Health and Analysis contributed 34% (£135m) of Group revenue and 37% (£28m) of Group profit*. There are four sub-sectors – see right.

WHERE WE OPERATE

Australia
China
France
Germany
Holland
South Korea
Switzerland
UK
USA

STRATEGIC ACHIEVEMENTS

> Organic sales and profit growth
> Acquisition of Riester extending Health Optics
> Successful integration of Labsphere
> New sales resources and distributors in export territories
> More than 40 new product launches
> Inter-company collaboration producing unique new products
> Disposal of non-core business, Post Glover Lifelink

STRATEGIC DIRECTIONS

> Achieve organic profit growth through revenue growth
> Acquire businesses with familiar technology in similar markets
> Improve the quantity and quality of new product development
> Encourage more internal collaboration
> Accelerate investment in Asia

KPIs	Revenue growth[1]	Profit growth[1]	Return on sales[2]	ROCE[3]	R&D[4]
Sector Performance	16%	16%	20.7%	68%	5.0%
Group Target	>5%	>5%	~18%	>45%	>4%

GROWTH DRIVERS

> Demand for energy and water resources
> Growth in population, ageing and urbanisation
> Increasing demand for healthcare
> Increasing regulation and rising expectations of health and safety
> New technology

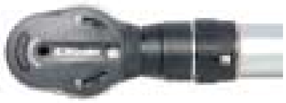
1. Sector revenue and adjusted[5] sector profit before finance expense are compared to the equivalent prior year figure.
2. Return on sales is defined as adjusted[5] profit before finance expense and taxation expressed as a percentage of sector revenue.
3. Adjusted[5] sector profit before finance expense expressed as a percentage of sector operating net assets.
4. Sector research and development expenditure expressed as a percentage of sector revenue.
5. Adjusted to remove the amortisation of acquired intangible assets.

* See note 1 to the accounts

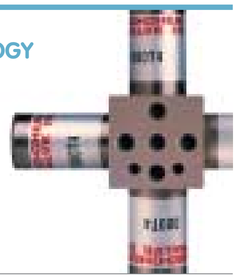
WATER

PHOTONICS

HEALTH OPTICS



FLUID TECHNOLOGY



Market trends and growth drivers

Demand for Water management products is driven by increasing regulatory control and water shortages due to finite resources, population growth and climate change. Estimates suggest that the US water industry is growing at 4% to 6%[1] per year and at even faster rates elsewhere. However, in absolute terms, the major markets remain in the UK and Europe.

Third party patent protection, covering the use of UV to treat drinking water in the USA, ended thereby reopening the US market. Our systems recently achieved NWRI[2] validation for wastewater reuse; USEPA[3] drinking water validation will follow during 2008/09. System validations are increasingly important, with US validation standards now required by many countries.

Our Photonics products sell into highly diverse niche markets. These include biomedical, life sciences, analytical instrumentation, research, education, space, defence, homeland security, semiconductor and industrial applications. At the leading edge of science and technology, our businesses continually spin off new applications and new customers. For example, the widespread change to low-energy lighting, driven by environmental concerns, is creating strong demand for our light measurement products used for quality control, validation and new product development.

We maintained global leadership in light integrating spheres (which capture light) and miniature spectrometers (which analyse light). Whilst we are growing internationally, about two-thirds of Photonics sales are in the USA. Growth depends on government science budgets (for education, defence and homeland security) and corporate spending by our OEM customers. However, demand for products used in health analysis is underpinned by regulatory drivers which make these markets relatively resilient and non-cyclical. We anticipate continued growth even in unfavourable economic conditions due to the flexibility of our technology and the diversity of our end markets.

Demand for our Health Optics products continues to grow in response to rising incomes and access to healthcare in the developing world, and an ageing population and rising health expectations in the developed countries. We estimate that the health optics market is growing 5% annually in developed economies and 2% to 3% worldwide. Rising international and local product registration requirements add cost to new healthcare product development but also represent an increasingly high barrier to market entrants reinforcing the strong brand strength we have in our chosen markets. The strength of the Euro boosted export growth for both our US and UK based optics companies to record levels.

In Fluid Technology, demand remains strong, especially from the fast-growing medical and environmental monitoring markets. We have seen further consolidation of customers and expect this merger and acquisition trend to continue, and believe this offers us further opportunity for growth.

Sector strategy

To remain the world market leader in Water leak reduction instrumentation, our strategy is to offer water utilities worldwide the most comprehensive range of leakage monitoring equipment available from one source supported by strong local sales and technical resources. This requires continual investment in establishing resources in export markets and in new product development, increasingly in close cooperation with our customers.

Our Water UV companies are organised to focus on either municipal or industrial applications. This strategy allows the companies to develop specialist applications experience and deliver enhanced customer service for the precise customer needs in their market segment.

Sector review (continued)

Health and Analysis

In Photonics and Health Optics our primary strategy is to drive organic profit growth by extending our geographical presence in sales, product development and manufacturing. We will also increase exploitation of our proprietary knowledge and patents. R&D spending will continue at above average rates to maintain technology leadership. We will encourage greater inter-company collaboration and seek complementary acquisitions.

Our Fluid Technology strategy is to extend our product portfolio and increase sales representation in new markets via organic growth and acquisitions.

Sector performance

Sales of Water products set new records and delivered good organic profit growth. Growth was particularly high in the UK where new products penetrated new wastewater monitoring markets and we also saw useful progress in Europe.

Our Photonics businesses achieved record revenue and profit. The new Chinese photonics facility has contributed to sales growth and is now starting to play a key role in procurement and product development.

Our Health Optics companies also achieved record revenue aided by expansion of their worldwide distribution network and record numbers of sales staff in overseas markets. There was growth in all major geographic regions. The recent Riester acquisition will help to increase our footprint outside the USA and UK with the expectation that Europe and the Rest of World revenue will grow as the further contribution from Riester comes through in the coming year.

Riester manufacture 'premium' handheld instruments for general medical practitioners. These include blood pressure monitors, ear nose and throat instruments, opthalmoscopes and stethoscopes. Good collaboration is already underway between Riester and our existing Health Optics businesses. They can sell Riester's instruments to their ophthalmology market and also supply ophthalmoscopes for Riester to sell into their general medical market. Geographically, Riester's strength in South America and other Spanish speaking territories (plus one or two markets in Asia) complements our existing strength in the UK and USA. Riester gives us new distribution into the general medical market which may benefit other businesses in our Health and Analysis sector in the longer term.

Record revenue and profit were achieved by our Fluid Technology businesses. This stemmed from continued higher investment in distribution and engineering resources focused on growing market share. Growth came from a strong core business demand plus new customers.

[1] American Water Works Association
[2] NWRI – U.S. National Water Research Institute (awaiting validation documents)
[3] USEPA – U.S. Environmental Protection Agency

SECTOR OUTLOOK

There are positive, resilient market drivers creating favourable conditions for growth in our Health and Analysis sector. Across this sector increased manufacture, procurement and product development in developing countries will protect margins and enable continued revenue growth.

Increasing demand and regulation to raise Water supply efficiency and drinking water quality, plus environmental pressures on wastewater usage, will create favourable conditions for our Water businesses. Increased cooperation on international sales distribution and new product development, between our Water businesses, should deliver continued growth during 2008/09.

In Photonics, we expect continued rapid growth in developing markets, particularly China. This growth should more than offset any disruption to US government spending caused by the presidential election in November.

The overall outlook for Health Optics is for continuing sales and profit growth at market rates. The first full year of trading at our recent acquisition, Riester, will boost this sub-sector's results in 2008/09.

We expect demand to stay steady for our Fluid Technology products and look forward to continuing profit growth in the year ahead. New operations are to be established in China and the Czech Republic to strengthen our presence in Asia and Europe.

Healthcare spending in OECD countries is increasing rapidly and is projected to triple from US$2.7 trillion in 2002 to US$10 trillion by 2020*

* PricewaterhouseCoopers HealthCast 2020: Creating a sustainable future, 2006

Liverpool, UK

"We have used Halma ophthalmoscopes for many years. We see over one hundred patients each morning so they receive heavy use. The new, rechargeable, wireless indirect is a great boon and has proved to be very reliable."

Mr David Wong FRCS FRCOphth, Consultant Ophthalmologist
St Paul's Eye Unit, Royal Liverpool University Hospital

Halma's head-mounted ophthalmoscopes with integral power supplies allow doctors to examine the interior of patients' eyes quickly and efficiently at Royal Liverpool University Hospital, UK. Our latest ophthalmoscopes have brighter, whiter LED light sources that illuminate the retina to reveal greater detail and image clarity.

Eye clinic

Halma's making a difference

Sector review (continued)

Industrial Safety

We make products which protect property and people at work. Industrial Safety contributed 24% of Group revenue (£94m) and 25% of Group profit* (£19m). There are four sub-sectors – see right.

WHERE WE OPERATE

Australia
China
Germany
France
Holland
India
Saudi Arabia
Singapore
Tunisia
UK
USA

STRATEGIC ACHIEVEMENTS

> Good organic revenue and profit growth
> Increased exposure to energy markets drove revenue growth
> Established manufacturing in China for Gas Detection products
> Acquired SRD to strengthen Asset Monitoring sub-sector

STRATEGIC DIRECTIONS

> Increase organic profit growth driven by revenue growth
> Accelerate new product development, particularly for energy markets
> Improve manufacturing operations
> Continue expansion into Asia and Eastern Europe
> Seek acquisitions to add new products and distribution channels

KPIs

	Revenue growth[1]	Profit growth[1]	Return on sales[2]	ROCE[3]	R&D[4]
Sector Performance	17%	21%	20.6%	77%	3.6%
Group Target	>5%	>5%	~18%	>45%	>4%

GROWTH DRIVERS

> Demand for energy and water resources
> Increasing regulation and rising expectations of health and safety
> New technology

1. Sector revenue and adjusted[5] sector profit before finance expense are compared to the equivalent prior year figure.
2. Return on sales is defined as adjusted[5] profit before finance expense and taxation expressed as a percentage of sector revenue.
3. Adjusted[5] sector profit before finance expense expressed as a percentage of sector operating net assets.
4. Sector research and development expenditure expressed as a percentage of sector revenue.
5. Adjusted to remove the amortisation of acquired intangible assets.

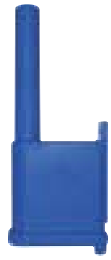
* See note 1 to the accounts

GAS DETECTION

BURSTING DISCS

SAFETY INTERLOCKS

ASSET MONITORING



Market trends and growth drivers

Research published in 2007 suggests that the global market for Gas Detection products was £350m in 2005, estimated to reach £486m in 2012[1]. Demand for gas detection products in the developed world remains robust, supported by a relatively high proportion of aftermarket sales. The adoption of enhanced safety standards in the developing economies will drive additional demand.

Internal data suggests Bursting Disc market growth of about 4% annually with higher rates in the developing world[2].

Market conditions for our Safety Interlock businesses were broadly favourable during 2007/08 with particular buoyancy in the global oil and gas market and in the supply chain supporting the expansion of utilities in China and India. Customers are placing orders earlier in the project cycle to 'lock in' supplies and ensure on-time delivery. Industrial safety is not yet fully embedded in Asian legislation but is often driven by engineering best-practice adopted from developed countries. Europe leads the world in worker protection. Signs that the USA is moving towards European industrial safety practice are favourable to us.

We estimate that the global market niches for Asset Monitoring that our businesses serve is £150m; we expect to see an average annual growth rate of 8% to 10%[2]. Rising global demand for closer monitoring of energy usage and for capturing data relating to high value or sensitive infrastructure assets, offers excellent growth prospects. This sub-sector was strengthened by the acquisition of Sonar Research & Development (SRD) in October 2007. SRD has been fully integrated within our existing Tritech subsea technology business.

Sector strategy

To grow our Gas Detection business against strong global competition we have a dual strategy of a regular stream of new products and relentless cost reduction of existing ones. From our new base in China we will design and manufacture for the local market and source components for our UK manufacturing base. We have set up a design resource in India to accelerate new product development.

Our strategy for Bursting Disc growth is to capture significant market share in both developed markets and the high growth BRIC[3] economies. We have set up new distribution agreements in Russia and South America, and are exploring expansion opportunities in China and India. Market share gains can also be achieved through superior customer service and we have an active capital investment programme to improve our manufacturing capabilities.

For Safety Interlocks, we aim to protect our strong market position and drive sales growth by increased investment on new product development and establishing a sales and operational presence in developing markets. Leading edge technological innovation is less critical in the safety interlocking market than the ability to adapt existing technology to solve new problems. Customers will pay premium prices in return for responsive sales and engineering support and reliable deliveries.

Sector review (continued)
Industrial Safety

Our Asset Monitoring business is positioned to satisfy growing worldwide demand for remote monitoring of valuable or safety-critical assets – particularly those in hazardous or remote locations. Our companies work closely with customers to develop solutions based on customer need rather than technological advancement. We will continue to integrate wireless data capture and communications technology, originally developed for water network management, into other Halma sub-sectors. For example, a unique wireless-monitored bursting disc was recently launched. This strategy of inter-company collaboration and technology exchange has the potential to add value to existing and future products across the Group.

Sector performance

Gas Detection revenue and profit grew above market rates. Revenue grew most strongly in export markets, notably in the USA, Europe, the Middle East and Asia.

Our concentration on global expansion of our Bursting Disc sales channels resulted in record revenue and profit with growth rates above the market level.

We achieved record revenue and profit from our Safety Interlock businesses with particularly strong growth in Germany and Asia and in those businesses serving the oil and gas markets.

Our Asset Monitoring businesses performed well in 2007/08 benefiting from a particularly good performance from our subsea business, Tritech, acquired in late 2006. SRD, acquired in October 2007, was successfully integrated into the Tritech group of companies.

1. Frost & Sullivan, World Gas Sensors, Detectors, Analyzers
2. Internal market analysis including confidential market sources
3. BRIC economies – Brazil, Russia, India and China

SECTOR OUTLOOK

The major demand drivers in our Industrial Safety markets are relatively resilient. There is a worldwide progression towards better protection for industrial workers and increasing safety regulation in all types of workplace. Businesses have to comply with safety legislation even during an economic downturn.

Underpinned by relatively non-cyclical demand drivers, our Industrial Safety businesses have the qualities to maintain growth and outperform the market. Our strategy of new product investment, additional sales offices, and significant investment in manufacturing improvements should ensure that we continue to achieve healthy organic growth in 2008/09.

Each year there are 270 million **work accidents** and almost 2.2 million work-related fatalities worldwide, costing US$1,250 billion in lost production*

* International Labour Organization, Safety in Numbers, 2003

Shanghai, China

"Halma safety interlocks were recommended by Alcoa engineers in Australia. They are easy to use and protect our employees from hazards. I would certainly recommend them to other companies."

Li Hongbing
Secure Engineer, Alcoa (Shanghai) Aluminium Products Co Ltd

Halma interlock safety systems at the Alcoa (Shanghai) Aluminium Products Co Ltd factory in China ensure that workers can only access potentially hazardous aluminium foil production machinery under safe conditions. Our trapped key interlocks ensure safety in industrial environments by forcing machine operators through a sequence of safe actions.

Aluminium plant

Halma's making a difference

Financial review

Another strong performance with growth in all three sectors and all territories

Kevin Thompson
Finance Director

Another strong performance

Profit from continuing operations before amortisation of acquired intangible assets increased by 11% to £72.8m on revenue from continuing operations up 13% to £395.1m. This is the fifth consecutive year we are announcing record results.

Organic profit growth* of 6.7% was achieved on organic revenue growth* of 8.0%, exceeding our target of 5% year on year improvement. Organic growth* is calculated before adding in the benefit of acquisitions. Currency translation had a more modest impact than previously expected. At constant currency, revenue and profit growth would have been approximately 1% higher.

There was one small disposal in the year so the prior year figures have been adjusted to give comparability. The trading result of that business, Post Glover Lifelink, and the gain on disposal are disclosed under discontinued operations.

Overall another strong performance continuing the pattern of delivering growth across all sectors and territories.

All three sectors grew

Infrastructure Sensors, still our largest sector, grew revenue by 8% and profit by 2%. Our Health and Analysis sector had another very good year with revenue growth of 16% and profit growth of 16% becoming a higher proportion of Group revenue and profit and closing the gap on Infrastructure Sensors. Industrial Safety had another outstanding year of growth with revenue 17% higher producing profits 21% ahead. All three sectors achieved both organic revenue and organic profit growth.

Revenue growth in all territories

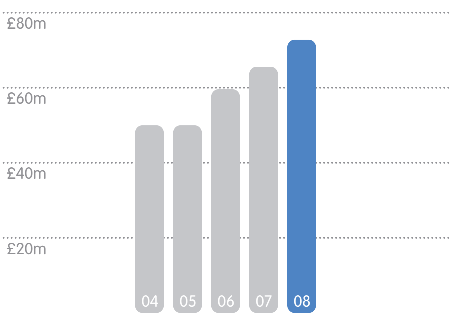
There was once again widespread growth in revenue. The revenue from continuing operations by destination was as follows:

£ million	Revenue	% growth
United Kingdom	109.3	13.1%
Mainland Europe	107.9	18.1%
United States of America	103.0	7.1%
Asia Pacific and Australasia	42.9	20.8%
Other countries	32.0	1.6%
	395.1	12.5%

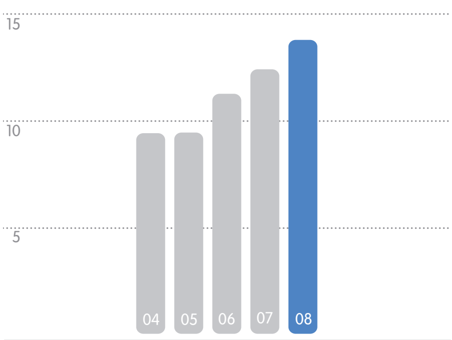
Strong UK growth came from our Infrastructure Sensors businesses and from Tritech (in the Industrial Safety sector) acquired part way through the prior financial year. Good performances in most sub-sectors drove the increase in Mainland Europe especially by our businesses selling into the oil and gas industries. There was a useful addition coming from the Riester acquisition in Europe with considerable future benefit likely to come from its presence in Spanish speaking territories across the world.

Our Photonics businesses performed very well in the USA. Our good revenue growth in the USA would have been even greater if not for a US Dollar that was on average 6% weaker than the prior year relative to Sterling. Sales to Asia Pacific and Australasia grew well supported by a 19% growth in sales to China and 36% growth in sales to India. The China and India growth is from a small base with more infrastructure being put in place by Halma to accelerate future growth by our subsidiary companies.

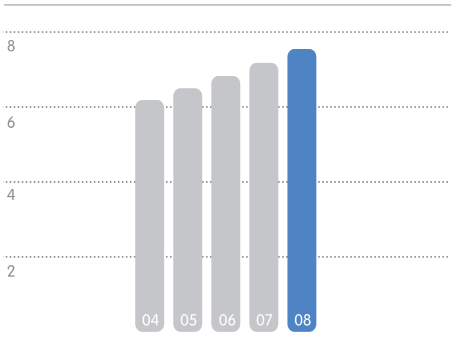
ADJUSTED* PROFIT BEFORE TAX



ADJUSTED EARNINGS PER SHARE* (pence)



DIVIDEND PER SHARE (pence)
(paid and proposed)



Continued high margins

Return on sales* for continuing operations was again at a high level of 18.4% (2007: 18.7%). This metric reflects the considerable value we consistently deliver to our customers through our products. We continue to invest in our businesses to give them the capacity they need to take future opportunities. Our KPI target in this area is a Return on sales of around 18% or higher and we aim always to couple that with growth as we have done again this year.

The cost of reorganisation in our Security Sensors business slightly reduced the Infrastructure Sensors margin this year as anticipated from 18.1% to 17.0%. Looking back at the performance of the Infrastructure Sensors sector in the years 2000 to 2004 and even in the early to mid-1990s we see its resilience. Taking the results of the companies we owned both now and then we see that during those periods sector revenue and profit grew and the Return on sales remained above 18%. This is a sector which has demonstrated that it is able to make progress in tougher economic conditions.

One business sold in the year

In January 2008 we sold Post Glover Lifelink, a US business which was no longer core to the Health and Analysis sector, for US$6m (£3m). It had annualised revenue of £3.4m and profit of £0.6m. The gain on sale of £1.7m together with the post-tax trading result is shown on the Consolidated income statement as a discontinued operation.

A lower effective tax rate

The effective tax rate on profit from continuing operations before amortisation of acquired intangible assets was 29.0% (2007: 29.7%). This reflects the mix of geographic locations in which tax is paid. We expect the effective tax rate to reduce a little in the foreseeable future with the benefit of the reduction in the UK rate of corporation tax. Tax paid in the year was below the figure in the prior year due to the tax deductibility of higher payments into the Group's pension plans, and also due to the timing of tax payments in advance which are expected to even out in the coming year.

Increased finance cost

The net finance expense in the Consolidated income statement increased from £1.8m to £2.1m. This resulted from a lower net pension finance charge with a higher cost of financing debt. We increased our level of debt at the end of the third quarter of the year with the acquisition of Riester and expect that the debt financing cost will therefore be higher in 2008/09.

Earnings per share and dividends grow

Adjusted earnings per share* were up 12% to 13.86p. Statutory earnings per share were 10% higher at 12.97p, a lower rate of increase due to the additional amortisation of intangible assets associated with the Riester acquisition.

The Board has recommended a further 5.1% increase in the final dividend which together with a similar increase in the interim dividend gives a total dividend of 7.55p per share, subject to shareholder approval. This is in line with our progressive dividend policy and is the 29th consecutive year of dividend increases of 5% or more. Given the strong earnings growth the dividend cover (calculated on earnings from continuing operations before amortisation of acquired intangible assets) increased to 1.83 times, moving further towards our target of 2 times cover.

ROCE* of 55.8% and ROTIC* of 14.1%

Strong growth was accompanied by our typical high returns. High returns are an important part of the Halma model with the objective of consistently creating value whilst growing our business. ROCE was 55.8% (2007: 60.1%) and is our measure of the effective use of operating assets. ROTIC is a post-tax return on the total asset base including all historic goodwill relating to ongoing and disposed businesses. This year ROTIC was 14.1% (2007: 14.0%) and this compares very favourably with a Weighted average cost of capital (WACC) for us calculated as currently being 8.4% (2007: 7.7%). See note 3 to the accounts for the definition of Return on capital employed (ROCE) and Return on total invested capital (ROTIC).

Capital structure

We finished the year with net debt of £44.3m (2007: £7.7m) in line with our strategy to use our balance sheet to accelerate business development. The major increase came in the second half following the Riester acquisition. The Group continues to be able to borrow at competitive rates and therefore sees a modest level of borrowing as an effective way of funding the development of the Group. During the year we expanded our five-year syndicated revolving credit facility from £60m to £165m with a core group of banks and on similar attractive terms.

The Group's good cash generation is used to invest in expanding the business organically and through high quality acquisitions using third party borrowings where needed. There are no material funds outside the UK where repatriation is restricted. Our treasury policies seek to ensure sufficient liquidity whilst minimising risk. No speculative transactions are undertaken.

Our strong balance sheet and the new credit facilities give us valuable headroom to take opportunities as they are created and to finance the continued growth of the Group.

* See Financial highlights

Financial review (continued)

Continued good cash flow generation

Cash generated from operations (excluding taxation paid) was £76.0m (2007: £70.3m). The main elements of the Group's cash flow are set out below:

Change in net (debt)/cash

£million	2008	2007
Cash generated from operations	76.0	70.3
Acquisition of businesses	(46.5)	(27.5)
Disposal of businesses	2.4	–
Development costs capitalised	(3.8)	(3.9)
Net capital expenditure	(14.9)	(7.3)
Dividends paid	(27.3)	(25.9)
Taxation paid	(17.6)	(19.5)
Issue of shares net of treasury shares purchased	0.2	3.6
Net interest paid	(1.8)	(0.8)
Exchange adjustments	(3.3)	(0.2)
	(36.6)	(11.2)
Net (debt)/cash brought forward	(7.7)	3.5
Net debt carried forward	(44.3)	(7.7)

Cash generated from operations was 104% (2007: 106%) of adjusted profit*. The investment in working capital increased in the year in line with the growth of revenue. There is no significant change in the risk profile of the Group. Working capital receives regular attention at local and Group level and this remains an important focus as there are increasing demands placed on our generated cash to fund the investment needed for organic growth, acquisitions, our dividend and pension obligations.

Further valuable acquisitions

Expenditure on acquisitions in the year was £46.5m (2007: £27.5m). The largest acquisition this year was that of Riester and its associated group companies in December 2007. We paid a consideration of €55m (including a small adjustment relating to the actual net asset value at acquisition). There is no earn out. Riester, which manufactures handheld medical and ophthalmic devices, fits into our Health and Analysis sector. At the time of acquisition Riester was generating profit of £4.6m on revenue of £17m. We undertook a very active integration process immediately on acquisition to bring the business in line with Group reporting standards and also to quickly deliver the benefits of collaboration with our related Group companies. The acquisition is immediately earnings enhancing.

At the start of the year we signed an agreement to pay £0.3m for the business of BKKI, a gas detector manufacturer in China. This forms the platform for expansion of our Gas Detection business in Asia.

In October 2007 we acquired Sonar Research & Development Limited (SRD) for £2.6m. This has been merged into our subsea asset monitoring business Tritech, part of the Industrial Safety sector.

During the year we increased our resources and capacity for acquisition search, due diligence and integration and together with our expanded credit facilities we hope to make further progress on acquisitions in the coming years.

Increased capital expenditure

Expenditure on property, plant and computer software was £15.7m in the year, above the figure of £10.9m last year. Much of the increase was due to investment in property for two Group companies as noted last year – both building projects have been completed successfully. Capital expenditure represents 172% of depreciation, historically a high figure. We expect capital expenditure excluding property to continue at a relatively high level for the coming year at least as we make further investments, in particular in our Photonics businesses, to increase capacity in line with growing demand.

Pension contributions increased

At year end the pension deficit on an IAS 19 basis for our defined benefit plans was £36.0m before the related deferred tax asset, a little lower than the previous year end figure of £37.3m. The movement is due to a combination of factors, the main ones being the increased pension contributions, the use of conservative assumptions in line with common practice, a reduction in the value of equity investments and an increase in the discount rate resulting in a reduction in the value of liabilities.

As indicated last year we increased further the extra contributions into the defined benefit plans, which were closed to new entrants in 2003, up to £6m per year. We anticipate making extra contributions of this level at least for the foreseeable future as we work toward our objective of eliminating the deficit as measured on an IAS 19 basis, over a 10-year period. These extra contributions are not an insignificant use of our cash but are not expected to impair our opportunities for further growth.

The Board reviews pension strategy in full at each pension fund valuation date and monitors for significant changes in between. The next valuation of the main pension plan will be based on figures as at 1 December 2008 and as part of that process mortality assumptions will be reviewed as will the level of contributions needed to meet our obligations.

Currency headwind reduced

Currency translation turned out to have less of an adverse impact on Group results than anticipated mid-way through the year. Approximately 30% of Group revenue is denominated in US Dollars with the Euro accounting for around 15% on an annualised basis. Foreign currency profits are not hedged but sales and purchase transactions are hedged into the functional currency of each operating company. Balance sheet net currency assets are substantially hedged using currency loans.

We translate revenue and profit at the average exchange rates for the year and translate the year end balance sheet at the year end exchange rates. For our main currencies these rates relative to Sterling were as follows:

Exchange rates	US Dollar		Euro	
	2008	2007	2008	2007
Average rate	2.01	1.89	1.42	1.48
Year end rate	1.99	1.96	1.26	1.47

As a guide, 1% movement in the Euro relative to Sterling is expected to change profit by £0.2m and revenue by £0.7m in a full year. In the first half of the year there was a 3% adverse currency impact due mainly to the weak US Dollar relative to Sterling. The trend reversed somewhat in the second half so that for the year as a whole revenue and profit were both reduced by approximately 1% due to currency translation. If current exchange rates continue we would expect a benefit to the coming year's results in terms of translation.

R&D investment grows

Innovation is one of our core values and one aspect of this is the commitment we make to Research and Development (R&D) for new products. Group expenditure this year increased to £18.6m, 4.7% (2007: 4.3%) of revenue and was 22% higher than last year's record amount. Expenditure on R&D as a percentage of revenue is one of the KPIs we monitor and report on and, as can be seen in the Sector reviews on pages 16 to 27, both Infrastructure Sensors and Health and Analysis are well clear of our benchmark level of 4% of revenue, with Industrial Safety increasing this year to 3.6% having historically been below 3%.

International Financial Reporting Standards (IFRS) require us to capitalise certain development expenditure and amortise this asset over an appropriate period. In 2008 we capitalised £3.8m (2007: £3.9m) of such development expenditure and amortised £2.0m (2007: £1.5m) giving rise to an asset carried on the March 2008 Consolidated balance sheet of £8.2m (2007: £6.1m). R&D is by its nature an activity with some risk, so we monitor closely all costs carried forward.
The increased investment in R&D expenditure and the resultant new products are a key part of the growth and resilience of Halma.

Spreading risks, developing our people

The main risks facing Halma are discussed above in the Strategic and Sector reviews. Risk is spread across our closely managed businesses, each one having its own high quality team including a senior finance executive. There is a significant level of review of the operations at each business; locally, via our Divisional Chief Executives who chair the local boards, by Divisional Finance Directors, and by our Internal Auditors. During the year we have added to our divisional finance resources, strengthened finance staff at a number of operating companies and added resource dedicated to acquisition integration. In 2008/09 we will be adding further to our Internal Audit team. For the first time we are reporting our progress on the Halma Executive Development Programme (HEDP) as a KPI and note that of the HEDP graduates some 17 have been amongst our senior finance executives. This careful addition and development of specific resource, focusing on risk and opportunity, gives us the capacity to grow our business actively whilst retaining the autonomy and accountability central to our business model.

Investing in the environment

During the year we have invested additional resources across the Group in reducing our impact on the environment. As discussed on pages 32 to 35 we set ourselves an initial target of reducing by 10% the tonnes of CO_2 we produce per £m of revenue over the three years to 2010 and progress so far is good. We see the reduction of our impact on the environment as part of relentless business improvement, consistent with our objective of delivering sustainable value to our customers and shareholders.

Kevin Thompson
Finance Director

* See Financial highlights

Sustainability review

Achievements

We deliver sustainable value to our customers and shareholders.

1. Halma's carbon policy was approved by the Board at the beginning of the year and calls for a 10% reduction in the carbon footprint by 2010.
2. Halma conducts an annual survey of its employees to assess how well the Group's values are aligned with its employees and how well the Group communicates its values to employees.
3. The Halma Executive Development Programme (HEDP) has been supplemented with a Halma Management Development Programme (HMDP) aimed at middle-managers and the necessary skills they need in their current and future roles.

KPIs

Non-financial Key Performance Indicators (KPIs) are used by the Board to monitor progress on Group initiatives; financial KPIs are considered on page 13.

CO_2 EMISSIONS: TONNES/£M OF REVENUE

40	42 2007	≥10% reduction Group target	Good progress towards reduced carbon emissions (relative to revenue) made in the policy's first year.

VALUES ALIGNMENT

7	5 2007	≥5 Group target	Survey of senior managers showed an improvement to seven desired values now present in the Group.

SUBSIDIARY DIRECTORS/MANAGERS WHO HAD COMPLETED HEDP/HMDP BY MARCH 2008

50%	26% 2007	>50% Group target	Continued commitment to training our people.

GOVERNANCE AND COMMITMENT TO CORPORATE RESPONSIBILITY

As Halma companies are involved in the manufacture of a wide range of products for the protection and improvement to quality of life for people worldwide, safety is critical to the Group and is a major priority for management. Likewise, the reduction of the Group's carbon footprint has received elevated attention in the current year in order to meet the Board's stated objective of a 10% reduction in relative carbon usage in the three years to March 2010.

Our core values are Achievement, Innovation, Empowerment and Customer Satisfaction. These core values have been selected following extensive surveying of employees across the Group. Our culture is one of openness, integrity and accountability. We encourage our employees to act fairly in their dealings with fellow employees, customers, suppliers and business partners. We recognise that our employees determine our success and therefore have invested in and encouraged their development more this year than ever before, not only with our intranet training facilities and Halma Executive Development Programme, but also through clearer leadership and decisive action. By ensuring that our team has the approach and skills required to succeed we are better placed to meet the challenges of the future.

We recognise the necessity of safeguarding the health and safety of our own employees whilst at work and operate so as to provide a safe and comfortable working environment for employees, visitors and the public. Our policy is to manage our activities to avoid causing any unnecessary or unacceptable risks to health and safety and the environment. We have an excellent long-term record for addressing environmental issues that affect our businesses and for developing products that protect the environment and improve safety at work and in public places.

Many of our innovative products play a very positive role in monitoring and improving the environment. Our brands lead the world in a number of technologies which help to minimise environmental damage.

We support the concept of sustainability and recognise that, in common with all businesses, our activities have an environmental impact. Our strategy is not to have capital-intensive manufacturing processes, so the environmental impact of our operations is relatively low compared to manufacturers in other sectors. We also recognise that we can improve our own environmental performance and so resources are now being deployed to actively reduce our own carbon footprint.

Halma was designated a member of the FTSE4Good UK index on its establishment in July 2001.

A summary of our progress and performance for all areas of corporate responsibility follows. Halma has developed meaningful key performance indicators (KPIs) that reflect the importance the Group places on corporate responsibility and enable the Board to monitor the Group's progress in meeting its objectives and responsibilities in these areas.

The biggest area of emphasis over the past two years has been the transformation of the Group's environmental policy into a carbon policy stating actual targeted reductions for the Group to achieve over a set timescale. Halma has an excellent health and safety record and a culture of safety is deeply embedded within the Group. We want to recognise the effort behind this exemplary record and will promote our safety culture more visibly over the coming year.

HALMA AND THE ENVIRONMENT

We have an excellent long-term record and a clear strategy for addressing environmental issues that affect our businesses and for developing products that protect the environment and improve safety at work and in public places.

Our products

Many of our innovative products play a very positive role in monitoring and improving the environment. Halma brands lead the world in a number of technologies which help to minimise environmental damage.

Our principal environmental technologies are water leakage detection, gas emissions monitoring, water and effluent analysis, UV water treatment and optical sensing. We tirelessly promote the use of UV water sterilisation which eliminates the need to use dangerous chemicals, as well as products that minimise the waste of clean water.

Our commitment to the development of equipment for measuring environmental changes and controlling the damaging impact of industrial activities is long-term.

We make safety equipment for use at work, in public places and in transportation systems that contribute to increased personal safety by ensuring safe practice at work, protecting people from fire and making elevators and automatic doors safe and effective. We are the major world supplier in several of these areas.

Carbon policy

The Group's policy on carbon is published on our website and has been distributed and explained to all Halma business units.

A senior executive in each of our higher-impact business units is responsible for implementing the carbon policy at local level. The Finance Director, Kevin Thompson, has principal responsibility for coordinating and monitoring the policy.

Environmental management system

We are committed to developing and implementing an environmental management system (EMS) throughout the Group to measure, control and, where practical, reduce our environmental impacts. We have developed performance indicators that assist local management in implementing the policy and ultimately developing an EMS. The requirement for an EMS and the related reporting has been rolled out to all UK business units, which represent over 50% of Group production facilities in terms of external turnover. All Group companies are encouraged to undertake ISO 14001, the international environmental accreditation, where warranted, and since last year Elfab Limited has obtained ISO 14001 approval. The requirement to implement an EMS will be extended to the rest of the Group in the medium term. In terms of revenue, currently 20% of the Group has ISO 14001 approval.

Our impact

The environmental effect of our operations is relatively low compared to manufacturers in other sectors. FTSE4Good has assessed Halma as having a low impact on the environment.

Nevertheless, Group companies are encouraged to improve energy efficiency, reduce waste and emissions and reduce the use of materials in order to reduce their environmental impact. The Group established baseline data in 2004/05 on emissions to air and water, water and energy consumption, and waste production, the results of which are updated on the Halma website each year. The data collected for the past three years has enabled the Group to set comprehensive and quantifiable objectives for reducing its environmental impacts in those areas and to set targets for reduction in key areas.

The collected data confirms that the main areas of impact on the environment are energy consumption and solid waste disposal. The Group does not operate a fleet of distribution vehicles although we do own a number of company cars. From May 2007, we implemented a cap on permissible CO_2 emissions of all UK company vehicles and will extend this requirement to the rest of the world in due course. This limit has been reduced in 2008 and will continue to be reduced annually so as to consistently reduce our vehicles' environmental impact. We have also set a fuel consumption standard for company vehicles in the USA.

Having identified the main areas of impact, we are now committed to their reduction and minimisation. Using the baseline data the total Group carbon emissions for 2006/07 were calculated as being approximately 15,000 tonnes, an average of approximately 42 tonnes per £million of revenues. We plan to reduce the Group's total carbon emissions relative to revenues by 10% by 2010, and have made reasonable progress in 2007/08 with total Group carbon emissions of averaging 40 tonnes per £million of revenues.

We worked with an international environment and energy consultancy to facilitate this reduction by providing each subsidiary with the means to identify tailored initiatives for energy efficiency. This is complemented by internal programmes, including the use of our own wireless communications technology to monitor energy usage and use of the Group intranet to allow for inter-company communication, reporting of data and feedback. This initiative has, and will continue to, lead to cost savings for the Group as well as preparing us for compliance with anticipated climate change legislation.

Our carbon policy can be found on the Halma website. The Group's environmental performance will continue to be reported both in the Annual report and on our website.

Sustainability review (continued)

The Group participated in the Carbon Disclosure Project for both the current and prior years and is committed to examining the establishment of 'green' procurement policies and increasing our use of recycled materials.

HALMA AND ITS PEOPLE

The Group has a policy of equal opportunities and preventing harassment, which applies in relation to recruitment of all new employees and to the management of existing personnel. This gives us access to the widest labour market and enables us to secure the best employees for our needs. We offer all of our staff training relevant to their roles and we believe that this contributes to an increase in employee motivation and job satisfaction. The culture alignment survey results mentioned below support this trend.

Periodically we complete a survey of employees to determine whether our core values are authentic in our organisation.

The survey establishes the values individual employees wish to see in our operating culture and to what extent they exist in our existing culture.

In 2006, our survey of senior managers showed that five of the values they wanted to see in our business were actually present. In 2008, our survey of senior managers showed that seven desired values were present in our business. This indicates a healthy level of alignment between the culture we aspire to have and the culture we have today.

No survey is capable of capturing all the appropriate sentiments, but our executives, who regularly visit all Group companies, agree that definite healthy improvements in the Group culture have occurred over recent years.

The Group will continue to monitor the survey results to enable us to better support our people bringing these values and strengths to work so that they and we may derive further benefit from them.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee consultation

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings, the Group intranet and the annual financial statements. Employee representatives are consulted routinely on a wide range of matters affecting their current and future interests. An employee share plan has been running successfully since 1980. It is open to all UK employees and aligns the interests of all UK employees to those of shareholders.

Health and safety

The Group manages its activities to avoid causing any unnecessary or unacceptable risks to health and safety. The policy is understood by all Group companies, and given the autonomous structure of the Group, operational responsibility for compliance with relevant local health and safety regulations is delegated to the board of directors of each Group company. We believe health and safety training is important and it is carried out within companies as appropriate. Adequate internal reporting exists in order that the Group's Finance Director may monitor each company's compliance with this policy.

Major injuries recorded	**2008**	2007
Days lost due to work-related injuries	691	652
Total recorded injuries to all employees	388	716

The Group has collected details of its worldwide reported health and safety incidents which are available on our website at www.halma.com. We are pleased to report that there were no fatalities during 2007/08 or 2006/07, and we achieved a considerable decrease in both serious and minor injuries in comparison with low levels in 2006/07.

People development

2007/08 saw the continuing success for the Halma Executive Development Programme (HEDP) which is based on our recognition of the fundamental part our people play in the success of the Group. HEDP is an integrated development plan for our senior people – including the next generation of Managing Directors and Divisional Chief Executives. Our objective is to provide these individuals with the tools and training to achieve more in their existing role and potentially to advance through the organisation if their achievements merit it.

Training	**2008**	2007
Cumulative number of candidates that have completed HEDP	90	50
Cumulative number of candidates that have completed HMDP	104	–

HEDP is aimed squarely at employees already serving on subsidiary boards but we also encourage applications from senior managers who can demonstrate they already have equivalent responsibilities and will benefit from the programme. There are approximately 200 such eligible employees in total.

The programme has been developed from a proven course structure and is specifically and continuously tailored to suit Halma's needs, aligning the content to the Group's four core values of Achievement, Innovation, Empowerment and Customer Satisfaction. It focuses strongly on strategic and leadership capabilities and developing personal attributes – commitment, determination and resilience. There is an emphasis on performance management and team development. It includes skill-based elements such as sales and marketing management, project leadership, corporate governance, finance and innovation, but all are presented in a strategic context.

The first six programmes have now been completed and the success of the programme can be measured by the enthusiasm of the participants upon their return to their businesses, the achievements of a number of participants and their eagerness to coordinate further sessions to explore topics of particular interest to their programme Group.

With the HEDP now a well-established part of Halma's people development activity, we have established a new programme for subsidiary managers and supervisors – the Halma Management Development Programme (HMDP). During the year five programmes were completed for a total of 104 employees. Programmes were held in the USA, Europe and Asia.

RESPONSIBLE INVESTMENT

Investing in Halma shares meets the criteria of many professional and private investors who base their decisions on environmental, ethical and social considerations. The Group is a world leader in several key environmental technologies and has a reputation for honesty and integrity in its relationships with employees, customers, business partners and shareholders.

Social conditions can be improved for all through the creation of wealth. Halma creates wealth responsibly allowing our employees, customers, business partners and shareholders to determine where this wealth is best distributed.

Halma's policies reflect the core requirements of the Universal Declaration of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work. We do not tolerate practices which contravene these international standards.

Regulatory demands upon us vary considerably around the world, so Halma establishes the core structure to ensure that Group companies fully comply with regulatory requirements while permitting them to tailor the solutions to their particular needs.

Ethics

The Group culture is one of openness, integrity and accountability. Halma encourages its employees to act fairly in their dealings with fellow employees, customers, suppliers and business partners. We aim to have suppliers of high quality and operate to acceptable international standards. Halma operates a confidential whistleblowing policy, which enables all Group employees to raise any concerns they may have.

Halma has a zero-tolerance policy on bribery and corruption which extends to all business dealings and transactions in which we are directly involved. This includes a prohibition on making political donations, offering or receiving inappropriate gifts or making undue payments to influence the outcome of business dealings.

CAUTIONARY NOTE

The Business review has been prepared solely to assist shareholders to assess the Board's strategies and their potential to succeed. It should not be relied on by any other party, for other purposes. Forward-looking statements have been made by the Directors in good faith using information available up until the date that they approved the Report. Forward-looking statements should be regarded with caution because of the inherent uncertainties in economic trends and business risks. In preparing this Business review, the Directors have aimed to comply with the Accounting Standards Board's 2006 Reporting Statement guidance on Operating and Financial Reviews.

Board of Directors and executive team

Name: **Geoff Unwin**

Title: **Chairman**

Appointment: July 2003 Chairman
September 2002 Deputy Chairman

Age: 65

Committees: Nomination (Chairman) and Remuneration

Skills and experience: Geoff is Chairman of Liberata plc and Taptu Limited. He is a non-voting board director of Capgemini Group, a member of the advisory board of Palamon Capital Partners and also chairs one of their investments, OmniBus Systems Limited. Previously he was Chief Executive of Cap Gemini Ernst & Young until 2002 and Chairman of United Business Media plc from 2002 to 2007.

Name: **Andrew Williams**

Title: **Chief Executive**

Appointment: July 2004 (Board)
April 2002 (Executive Board)

Age: 41

Committees: Nomination

Skills and experience: Andrew was appointed Chief Executive of Halma p.l.c. in February 2005. He became a member of the Executive Board in 2002 as Divisional Chief Executive of the Optics and Water Instrumentation Division and was promoted to a Director of Halma's p.l.c. Board in 2004. He joined Halma in 1994 as Manufacturing Director of Palmer Environmental and became Managing Director of that company in 1997. Andrew is a Chartered Engineer and a production engineering graduate of Birmingham University.

Name: **Kevin Thompson**

Title: **Finance Director**

Appointment: April 1998 (Board)
January 1995 (Executive Board)

Age: 48

Skills and experience: Kevin is Finance Director of Halma. In 1995 he joined the Halma Executive Board as Finance Director, in 1997 became group Finance Director and in 1998 was appointed to the Halma p.l.c. Board. He joined the Group in 1987 as Group Financial Controller and qualified as a Chartered Accountant with Price Waterhouse. Kevin is an economics and accounting graduate of Bristol University.

Name: **Richard Stone**

Title: **Non-executive Director and Senior Independent Director**

Appointment: January 2001

Age: 65

Committees: Nomination, Remuneration (Chairman) and Audit

Skills and experience: Richard is the Senior Independent Director. He is Chairman of Drambuie Limited and CSW Group Limited, a non-executive Director of Gartmore Global Trust p.l.c., Trust Union Finance (1991) plc, Engandscot Limited, TR Property Investment Trust plc and Candover Investments plc. Previously Richard was a member of the Global Board of PricewaterhouseCoopers and Chairman of Coopers & Lybrand.

Name: **Adam Meyers**

Title: **Chief Executive-Health Optics and Photonics Division**

Appointment: April 2008 (Board)
April 2003 (Executive Board)

Age: 46

Skills and experience: Adam is Chief Executive of the Health Optics and Photonics Division and was promoted to a Director of Halma's p.l.c. Board in April 2008. He became a member of the Halma Executive Board in 2003 as Divisional Chief Executive of the Fluid Technology Division. He joined Halma in 1996 as President of Bio-Chem Valve and was appointed Assistant Divisional Chief Executive in 2001. Adam is a systems engineering graduate of the University of Pennsylvania and gained his MBA from Harvard Business School.

Name: **Neil Quinn**

Title: **Chief Executive-Safety Sensors Division**

Appointment: April 1998 (Board)
April 1995 (Executive Board)

Age: 58

Skills and experience: Neil was appointed Chief Executive of the newly formed Safety Sensors Division in 2007 having previously been Chief Executive of both the Fire and the Fire & Security Divisions commencing in 1994. He was appointed to the Halma Executive Board in 1995 and to the Halma p.l.c. Board in 1998. He joined the Group as Sales Director of Apollo Fire Detectors in 1987, becoming Managing Director in 1992. Neil has a Material Sciences degree from Sheffield University.

Name: **Jane Aikman**

Title: **Non-executive Director**

Appointment: August 2007

Age: 42

Committees: Nomination, Remuneration and Audit

Skills and experience: Jane was appointed a non-executive Director of Halma in August 2007. She is Finance Director of Infinis Limited. Jane qualified as a Chartered Accountant with Ernst & Young and has a degree in civil engineering from Birmingham University. Previously Jane was finance director of both Wilson Bowden Plc and Pressac plc. She spent three years as an internal audit manager with GEC Alsthom and five years in East Asia with Asia Pulp and Paper Co Limited.

Name: **Stephen Pettit**

Title: **Non-executive Director**

Appointment: September 2003

Age: 57

Committees: Nomination, Remuneration and Audit (Chairman)

Skills and experience: Stephen was appointed a non-executive Director of Halma in September 2003. He is chairman of ROK plc and a non-executive director of National Grid plc and BT Group plc – Equality of Access Board. Stephen is an Economics and Politics graduate of Cardiff University, has an MSc from London School of Economics and an MBA from INSEAD. Previously Stephen was an executive director with Cable & Wireless PLC and a divisional chief executive with BP PLC.

Board of Directors

E Geoffrey Unwin *Chairman*
Andrew J Williams *Chief Executive*
Kevin J Thompson *Finance Director*
Neil Quinn
Richard A Stone
Keith J Roy
Stephen R Pettit
E Jane Aikman
Adam J Meyers

Secretary

Carol T Chesney

Executive Board

Andrew J Williams
Kevin J Thompson
Keith J Roy
John S Campbell *Elevator Safety*
Charles E Dubois *Fluid Technology*
Mark Lavelle *Process Safety*
Adam J Meyers *Health Optics and Photonics*
Neil Quinn *Safety Sensors*
Allan Stamper *Water and Asset Monitoring*
Nigel J B Trodd *Fire and Gas*
Nigel J Young *Special Projects*

Name: **Keith Roy**

Title: **Director**

Appointment: April 2001 (Board)
April 2000 (Executive Board)

Age: 58

Skills and experience: Keith was appointed to the Halma Board in 2001. He joined Halma having been joint owner of Reten Acoustics when Halma acquired it in 1992 and was appointed Managing Director and subsequently Chairman of Palmer Environmental. He became Assistant Divisional Chief Executive in 1998. In 2000 he was appointed Divisional Chief Executive of the Water Technology Division. Keith is an electronic engineering graduate of both Nottingham University (BSc) and Aston University (MSc). He will retire in July 2008.

Name: **Carol Chesney**

Title: **Company Secretary**

Appointment: April 1998

Age: 45

Skills and experience: Carol was appointed Company Secretary of Halma p.l.c. in 1998. She spent three years with English China Clays p.l.c. before joining Halma in 1995 as Group Finance Manager. She is a maths graduate of Randolph-Macon Woman's College, Virginia and qualified as a Chartered Accountant with Arthur Andersen.

Key
Board of Directors
Executive Board

Board of Directors and executive team (continued)

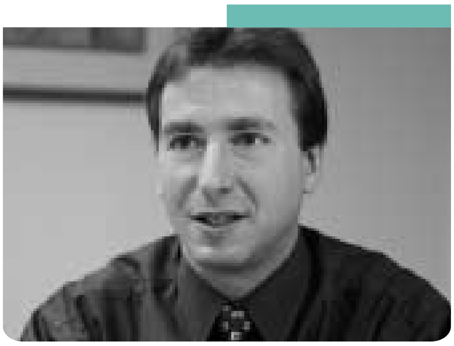
Name: **John Campbell**

Title: **Chief Executive – Elevator Safety Division**

Appointment: April 1998 (Executive Board)

Age: 49

Skills and experience: John was appointed Chief Executive of the Elevator Safety Division in 2006 after leading the successful disposal of the Group's resistor businesses. He joined the Halma Executive Board in 1998 and has also operated Halma businesses in the Safety Interlock, Bursting Disk and Automatic Door Sensor areas. He joined the Group in 1995 as President of IPC Resistors and is an electrical engineering graduate of the University of Toronto.



Name: **Charles Dubois**

Title: **Chief Executive – Fluid Technology Division**

Appointment: April 2008 (Executive Board)

Age: 42

Skills and experience: Charles was appointed Chief Executive of the Fluid Technology Division in April 2008. In 2007 he became Divisional Managing Director of that Division. He was appointed President of Diba Industries following the company's acquisition in 2004. Charles joined the Group in 1999 as Vice President Sales and Marketing of Perma Pure LLC. He holds a Bachelor's degree in physics from the College of the Holy Cross and earned his MBA from the F.W. Olin School of Business at Babson College.

Name: **Mark Lavelle**

Title: **Chief Executive – Process Safety Division**

Appointment: April 2007 (Executive Board)

Age: 49

Skills and experience: Mark was appointed Chief Executive of the Process Safety Division in 2007. He joined Keeler Instruments in November 2001 as Managing Director and was promoted to Divisional Managing Director in 2006. Mark has a chemistry degree from Cambridge University and an MBA from INSEAD.

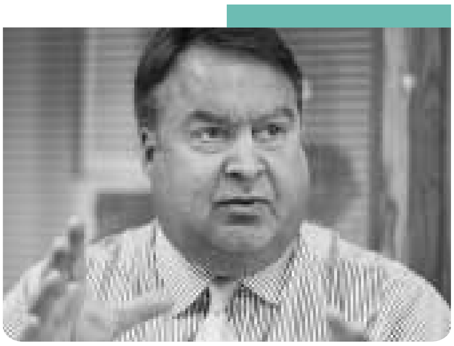
Name: **Allan Stamper**

Title: **Chief Executive – Water and Asset Monitoring Division**

Appointment: October 2007 (Executive Board)

Age: 53

Skills and experience: Allan was appointed Divisional Chief Executive and a member of the Executive Board in October 2007. He joined the Group in 2002 as Managing Director of Crowcon Detection Instruments. Allan is an engineering graduate of both Loughborough University (BSc) and Imperial College (MSc) and has an MBA from Cranfield.



Name: **Nigel Trodd**

Title: **Chief Executive – Fire and Gas Division**

Appointment: July 2003 (Executive Board)

Age: 50

Skills and experience: Nigel is Chief Executive of the Fire and Gas Division. He joined Halma in July 2003 as Chief Executive of Process Safety Division and a member of the Executive Board. Nigel is a business studies graduate of Thames Valley University and is a member of the Chartered Institute of Marketing.

Name: **Nigel Young**

Title: **Chief Executive – Special Projects**

Appointment: April 1994 (Executive Board)

Age: 58

Skills and experience: Nigel is Chief Executive – Special Products with responsibility for Group Management Information Systems and Halma People Development Programmes. He was appointed to the Executive Board in 1994 and has served as a Divisional Chief Executive since 1992. Nigel joined Halma as Managing Director of Fortress Interlocks when the company joined the Group in 1987. He has an MBA from Aston University.

Key

Board of Directors

Executive Board

Corporate governance

Geoff Unwin
Chairman

This section of the report deals with how the Board and its committees discharge their duties and how we apply the principles of good governance 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. 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.

I am pleased with the progress Halma has made to ensure best practice is maintained and we continually seek to improve our practices for the benefit of our shareholders.

Succession planning

I have always maintained that a key part of my role involves ensuring that the right people are doing the right jobs within the Group and that there is a sufficient cadre of individuals being nurtured throughout the Group to enable effective succession planning. Reviews of management capabilities and potential are performed on a routine basis and I am satisfied that sufficient resource within the Group exists and continues to be developed through programmes such as the Halma Executive Development Programme which itself evolves to meet the changing needs of the Group. Where a need for improvement to management resources is identified, the necessary attention is provided to ensure full strength is attained as soon as practicable.

Board appointments

Following the annual general meeting in August 2007, Jane Aikman joined the Board as a non-executive Director. As a finance director of both listed and private companies, Jane's corporate and international experience complements the Board's current mix of knowledge and skills.

In April 2008 we made another appointment to the Board, Adam Meyers, in contemplation of Keith Roy's notification of intention to retire at the end of July 2008. Adam provides another international dimension to the Board since he is based in the US and we are already benefiting from having him around the Board table.

Our Board composition is discussed further on page 40, but I wanted to add my own confirmation that I am entirely satisfied that our preferred composition of the Board, which is a deviation from the Combined Code, is appropriate to Halma and is one which all of the non-executive Directors support. No shareholder has ever raised this matter with me and, indeed, when I sought shareholders' support at the 2005 AGM, it was unanimous.

Board committees

Our committees are a valuable part of the Company's corporate governance structure. The workload of the committees is far more than the table of scheduled meetings on page 40 would indicate as ad hoc meetings and communications between meetings frequently require considerable amounts of time. As with the Board's composition, I am equally comfortable that the composition of all of our committees remains appropriate.

Board performance

The Board evaluates its performance and that of the Remuneration, Audit and Nomination Committees at least annually. Each year, we consult the Board to determine whether an external facilitator would enhance our process. To date, we have concluded that the current, open climate that the Board enjoys ensures a full and frank discussion of all matters, so an external facilitator is unnecessary. For 2007/08 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 January 2008 Board meeting. The Board also met in January 2008, separate from any scheduled meeting, for a general discussion on Board effectiveness followed by a meeting of the executive Directors with the Chairman, 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 Chief Executive, as appropriate.

Shareholder communication

I would like to encourage all shareholders to find the time to attend our AGM on 31 July 2008. It is an excellent opportunity to meet the Board, the Executive Board and the CEOs of our operating companies, all of whom will be in attendance, and hold them accountable for the Group's results and their stewardship of your company.

Geoff Unwin
Chairman

Corporate governance (continued)

Compliance with the Code of best practice

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, as amended in June 2006, except in respect of provisions A3.2 and C3.1 which involve the composition of the Board and the Audit Committee and the number of members who are independent non-executive Directors.

The Board reaffirmed its decision to maintain the composition of the Board as a Chairman, three independent non-executive Directors and four executive Directors and recognises that this composition was not achieved prior to Jane Aikman's appointment on 1 August 2007. From 3 April 2008, the preferred composition is not possible due to Keith Roy's and Adam Meyers' directorships overlapping for reasons of succession planning. Prior to permitting this imbalance to occur, the Chairman and non-executive Directors sought assurance from the Chief Executive that he was unaware of any significant matters to be brought to the Board's attention prior to Keith Roy's retirement on 31 July 2008. After Keith Roy's retirement, the Board will be restored to its preferred composition. The Board adjudged this composition as the most appropriate structure for the Company providing valuable direct knowledge of operations and a robust debate surrounding the issues facing the Group in the present and future as well as ensuring a good mix of skills and experience.

In respect of the Audit Committee composition, the non-compliance related to the period to 1 August 2007 when Jane Aikman was appointed to the Board and the Audit Committee. Jane Aikman succeeded Andrew Walker who retired in March 2007.

Application of the principles of good governance

The Group is controlled and directed by a Board consisting of a Chairman, four Directors (five from 3 April 2008 to 31 July 2008) and three other non-executive Directors. Their biographies appear on pages 36 and 37. The Nomination Committee returned to full membership in August 2007 following Jane Aikman's appointment. 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. Richard 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 Chairman confirms that non-executive Directors standing for re-election continue to be effective and demonstrate commitment to their roles.

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	3	3	1
Geoff Unwin	6	3	N/A	1
Andrew Williams	6	N/A	N/A	1
Kevin Thompson*	5	N/A	N/A	N/A
Neil Quinn	6	N/A	N/A	N/A
Richard Stone	6	3	3	1
Keith Roy	6	N/A	N/A	N/A
Stephen Pettit	6	3	3	1
Jane Aikman**	2	2	2	N/A

* Kevin Thompson was attending Harvard Business School's Advanced Management Program at the time he missed one Board meeting.

** Since her appointment on 1 August 2007, Jane Aikman has missed only one scheduled meeting due to a prior commitment identified at the time of her appointment.

Committees of the Board

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 the website or on request from the Company Secretary.

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 risk is mitigated by means of an operating structure which spreads the Group's activities across a number of autonomous subsidiary companies. Each of these companies operates with a high quality board of directors including a finance executive.

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 which ensures appropriate segregation of key duties;
- the identification and appraisal of risks both formally, through the annual process of preparing business plans and budgets, through an annual detailed risk assessment carried out at local level and informally through close monitoring of operations;
- a comprehensive financial reporting system within which actual and forecast results are compared with approved budgets and the 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. Group management also compile a summary of significant Group risks, documenting existing or planned actions to mitigate, manage or avoid the risk.
- 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 Chief Executive and Finance Director and report progress to the Executive Board.

– A set of 'warning signs' is reported to Group and divisional management. This report is designed to provide an early warning of potential risks and to direct appropriate action where necessary.

– The 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. Visit reports are coded in terms of risk and a summary of all such visits reported to the Audit Committee regularly with any significant control failings being reported directly to the Audit Committee; senior finance staff also carry out financial reviews at each operating company prior to publication of half year and year end figures.

– The Finance Director and Chief Executive report to the Audit Committee on all aspects of internal control for its review. The Board receives the papers and minutes of the Audit Committee meetings and uses these as a basis for its annual review of internal control.

During the year, actions to strengthen the control environment were taken centrally by Group management. The duties and responsibilities of subsidiary management were clarified and documented in a manual circulated to all subsidiary managing directors; further resources were dedicated to identify and investigate potential acquisitions and to ensure a rapid and successful integration following acquisition; and the scope of the Group's IT policies was extended, including a programme of compliance audits which commenced in early 2008.

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.

During the year we implemented further improvements to our Internal Audit activities as the result of several benchmarking activities previously conducted. As a result further improvements have been targeted for the coming year to enhance our processes including the appointing of a dedicated Internal Audit manager.

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.

Investor relations

In regular meetings with shareholders and analysts the Chief Executive and 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 opportunity to meet with the Chairman and/or Senior Independent Director.

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 announcements are available 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 features the facility to request e-mail alerts relating to announcements made by the Group and contains information in Chinese, French, German and Spanish as well as English.

The Financial calendar is set out on page 90.

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 £100,000 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.

Nomination committee report

Geoff Unwin
Chairman of the Nomination Committee

Members

– Geoff Unwin (Chairman)
– Andrew Williams (Chief Executive)
– Richard Stone
– Stephen Pettit
– Jane Aikman

The Nomination Committee is appointed by the Board from the non-executive Directors of the Group and the Chief Executive. The Nomination Committee's terms of reference include all matters indicated by the Combined Code. The terms of reference are considered annually by the Nomination Committee and are then referred to the Board for approval.

Responsibilities

– regularly reviewing the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and making recommendations to the Board with regard to any changes;

– giving full consideration to succession planning for directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the company, and what skills and expertise are therefore needed on the Board in the future; and

– being responsible for identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise.

The full terms of reference can be found on the Company's website or be obtained from the Company Secretary.

Governance

The Nomination Committee was in place throughout the financial year. It is chaired by the Chairman of the Company who was deemed to be independent upon appointment to the Board. Three of the five members of the Committee are independent non-executive Directors in accordance with provision A.3.1 of the Combined Code.

Activities

The Committee is responsible for nominating appropriate executive and non-executive candidates for appointment to the Board. During the past year, two such appointments have been made: Jane Aikman as a non-executive Director and Adam Meyers as an executive Director.

When the necessity to appoint a Director is identified, a candidate profile is developed indicating the ideal skills, knowledge and experience required taking into account the Board's existing composition. External search consultancies are retained when recruiting non-executive Directors and are used to evaluate internal and external candidates for succession planning. The Committee meets at least annually and more frequently during times that a search is being conducted.

As noted on page 39, the process of appointments to the Board is paramount in ensuring the Company's performance is maintained and continually improved upon. The Committee is committed to identifying the right candidates to take Halma forward.

On behalf of the Nomination Committee

Geoff Unwin
Chairman

Audit committee report

Stephen Pettit
Chairman of the Audit Committee

Members

– Stephen Pettit (Chairman)
– Richard Stone
– Jane Aikman

The Audit Committee is appointed by the Board from the non-executive Directors of the Group. The Audit Committee's terms of reference include all matters indicated by the Combined Code. The terms of reference are considered annually by the Audit Committee and are then referred to the Board for approval.

Responsibilities

– monitoring the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance and reviewing significant financial reporting judgments contained therein;

– reviewing the Group's internal financial controls and the Group's internal control and risk management systems including whistleblowing procedures;

– monitoring and reviewing the effectiveness of the Group's internal audit function;

– making recommendations to the Board, for a resolution to be put to the shareholders for their approval in general meeting, on the appointment of the external auditors and the approval of the remuneration and terms of engagement of the external auditors;

– reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; and

– developing and implementing a policy on the engagement of the external auditors to supply non-audit services, taking into account relevant guidance regarding the provision of non-audit services by the external audit firm.

The full terms of reference can be found on the Company's website or be obtained from the Company Secretary.

Governance

The Audit Committee was in place throughout the financial year with Jane Aikman's appointment in August 2007 restoring the Committee to three members. All three members are independent non-executive Directors in accordance with provision A.3.1 of the Combined Code.

The Chairman, Chief Executive, 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.

The Board has designated Jane Aikman (formerly Richard Stone) as the member of the Audit Committee with recent and relevant financial experience. Her background is as a chartered accountant and finance director with listed company experience.

Activities

The Committee not only reviews the financial reporting of the Company, but spends a significant amount of its time reviewing the effectiveness of the Group's internal control process. Combined with the Committee's review of the internal and external audit functions, it is able to obtain sufficient information to discharge its responsibilities. More specifically, the Committee:

– reviewed the March 2008 report and financial statements, the September 2007 half-yearly report and the Interim Management Statements issued in August and February. As part of this review the Committee received a report from the external auditors on their audit of the Annual report and financial statements;

– considered the output from the Group-wide process used to identify, evaluate and mitigate risks;

– reviewed the effectiveness of the Group's internal controls and disclosures made in the annual report and financial statements on this matter;

– reviewed and agreed the scope of the audit work to be undertaken by the auditors;

– agreed the fees to be paid to the external auditors for their audit of the March 2008 financial statements;

– reviewed its own effectiveness;

– undertook an evaluation of the performance of the Internal Audit function;

– agreed a programme of work for the company's Internal Audit function; and

– received reports from the Internal Audit Coordinator on the work undertaken by Internal Audit and management responses to proposals made in the audit reports issued by the function during the year.

The Group's policy on external audit sets out the categories of non-audit services which the external auditors will and will not be allowed to provide to the Group, subject to de minimis levels.

As a consequence of its satisfaction with the results of the external auditor-related activities outlined above, the Audit Committee has recommended to the Board that the external auditors are re-appointed.

The Group's whistleblowing policy contains arrangements for the Group Internal Audit Coordinator to receive, in confidence, complaints on accounting, risk issues, internal controls, auditing issues and related matters for reporting to the Audit Committee as appropriate.

On behalf of the Audit Committee

Stephen Pettit
Chairman

Remuneration report

Richard Stone
Chairman of the Remuneration Committee

Members
– Richard Stone (Chairman)
– Geoff Unwin
– Stephen Pettit
– Jane Aikman

REMUNERATION COMMITTEE REPORT

The Committee makes recommendations to the Board on the framework for executive Directors' and senior executives' remuneration based on proposals formulated by the Chief Executive.

Responsibilities

– determining and agreeing with the Board the policy and framework for the remuneration of the 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 agreeing the total annual payments made under such plans;

– reviewing the design of all share incentive plans for approval by the Board and shareholders, and 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 set; and

– determining the policy for, and scope of, pension arrangements for each executive Director and other senior executives.

The Committee also monitors and considers, with the Chief Executive, the framework of remuneration for subsidiary chief executives and directors and ensures a consistent approach is applied.

The full terms of reference can be found on the Company's website or be obtained from the Company Secretary.

Governance

The Remuneration Committee was in place throughout the financial year with Jane Aikman's appointment in August 2007 restoring the Committee to four members. All three non-executive Director members are independent in accordance with provision A.3.1 of the Combined Code.

None of the Committee has any personal financial interest (other than as shareholders), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. The Committee makes recommendations to the Board. No Director plays a part in any discussion about his or her own remuneration.

In determining the Directors' remuneration for the year, the Committee consulted Andrew Williams (Chief Executive) about his proposals. The Committee also consulted Watson Wyatt Limited to provide advice on structuring executive remuneration packages. Watson Wyatt provides limited independent pension advice to the Company as well.

The Committee meets at least twice per year.

Activities

During the year, the Committee reviewed the Company's remuneration strategy to ensure it remained appropriate. As a result of this review adjustments will be made in 2008/09 to ensure executives remain appropriately incentivised to meet the Group's objectives.

In addition the Committee has:

– agreed the performance targets on the granting of performance shares;

– agreed the award of bonuses in respect of 2007/08;

– approved the salary uplift on Adam Meyers' promotion to the Board; and

– reviewed the Remuneration report.

The Company's remuneration strategy, policy and details of executive remuneration follow.

On behalf of the Remuneration Committee

Richard Stone
Chairman

REPORT ON REMUNERATION STRATEGY AND POLICY

Introduction

This report has been prepared in accordance with Schedule 7A to the Companies Act 1985. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to directors' remuneration in the Combined Code. As required by the Act, a resolution to approve the report will be proposed at the Annual General Meeting of the company at which the financial statements will be approved.

The Act requires the auditors to report to the Company's members on certain parts of the Directors' Remuneration report and to state whether in their opinion those parts of the report have been properly prepared in accordance with the Companies Act 1985. The report has therefore been divided into separate sections for audited and unaudited information.

UNAUDITED INFORMATION

Remuneration policy

Executive remuneration packages are sensibly designed to attract, retain and motivate executives of the high calibre needed to run the Group successfully, manage its businesses and align the interest of the Directors with those of the shareholders by rewarding them for enhancing value to shareholders. The performance measurement of the executive Directors and key members of senior management and the determination of their annual remuneration package are undertaken by the Committee.

There are five main elements of the remuneration package for executive Directors and senior management:

– basic annual salary;

– benefits-in-kind;

– annual bonus payments which cannot exceed 100% of basic salary;

– share plan incentives; and

– pension arrangements.

The Company's policy is that a substantial proportion of the remuneration of the executive Directors should be performance-related. As described below, executive Directors may earn annual incentive payments of up to 100% of their basic salary together with the benefits of participation in share plans.

Basic salary

An executive Director's basic salary is reviewed by the Committee prior to the beginning of each year and when an individual changes position or responsibility. The Chief Executive is responsible for assessing the performance of each senior executive taking account of the complexity of the operations under their control, their opportunities for advancement with the Group, their remuneration relative to other executives in the Group and their bonus earning potential. He then formulates a remuneration proposal for the Committee's consideration. In deciding appropriate remuneration levels, the Committee also considers the Group as a whole and relies on objective research conducted by Watson Wyatt which gives up-to-date information on a comparator group of companies. Basic salaries are reviewed in January/February of each year with increases taking effect from 1 April. Executive Directors' contracts of service which include details of remuneration will be available for inspection at the Annual General Meeting.

Benefits-in-kind
The executive Directors receive certain benefits-in-kind, principally a car and private medical insurance.

Annual bonus payments
The Committee establishes the economic value added (EVA) objectives that must be met for each financial year if a cash bonus is to be paid. In setting appropriate bonus parameters the Committee has determined that bonuses of approximately 60% of salary are payable on the achievement of targeted levels of growth. The maximum performance-related bonus that can be paid is 100% of basic annual salary. Incentive payments for the year ended 29 March 2008 varied between 15% and 100%. This reflects continuing improvement to the company's organic growth and completion of strategic acquisitions.

This performance related bonus plan, which applies to executive Directors and Divisional Chief Executives, is reviewed annually by the Committee and approved by the Board. There is no alternative bonus arrangement for Directors and Divisional Chief Executives. During the year the Committee carefully assessed existing bonus arrangements and determined that incentive levels are appropriately set.

In the case of a Divisional Chief Executive a bonus is 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 Chief Executive and 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.

In 2007/08, Executive Directors and Divisional Chief Executives increased their cash bonus, subject to a 100% of salary cap, by either 10% of salary if the Return on capital employed in their Division (or aggregate thereof) exceeded 45%, or by 15% of salary if accompanied by absolute profit growth in their Division (or aggregate thereof). For 2008/09, the supplemental cash bonus that can be earned, subject to a 100% of salary cap, is dependent upon attainment of a Return on capital employed of 45% and organic profit growth of at least 4% in their Division (or aggregate thereof). At this level of ROCE, 5% of salary is payable rising to a maximum of 15% of salary at 6% organic growth.

Transitional provisions exist for divisional restructuring to ensure Divisional Chief Executives remain appropriately incentivised.

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

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, recognising the need to continually assess and evaluate such incentives, adopted a performance share plan following approval at the 2005 annual general meeting. The Committee has responsibility for supervising the Plan and the grants under its terms. The Committee believes that any incentive compensation awarded should be tied to the interests of the company's shareholders and that the principal measure of those interests is total shareholder return. In determining the amount to be granted, account is also taken of the relative financial and operational success of the different parts of the business for which the executive directors are responsible and the extent to which the personal strategic objectives set by their superior have been met.

The Plan contains provisions permitting share option grants, restricted share awards and performance share awards. To date, the Committee have used the Plan only to award performance shares. However, included in the AGM business for the current year is a proposal to add an approved share option section to the performance share plan to make future awards more tax effective for the Company and the participant. The economic and commercial value of the future awards made to participants will be unchanged. Awards made under the new Plan were first made in August 2005 and annually thereafter.

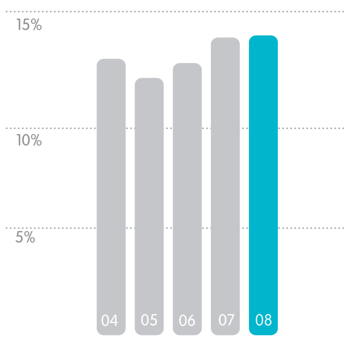
	Maximum award permitted*	Actual award 2007/08*
Chief Executive	140%	140%
Finance Director	140%	138%
Executive Directors	140%	132%
Divisional Chief Executives	100%	97%
Managing directors & Divisional finance directors	40%	33%

* expressed as a % of salary

Awards vest after three years on a sliding scale, as set out below, subject to the Company's relative TSR performance against the FTSE 250, excluding financial companies, combined with a measure based upon an absolute Return on total invested capital (ROTIC). Awards which do not vest on the third anniversary of their award lapse. Vesting expectations for awards made range from 45% to 85%.

Percentage of award which vests		TSR (percentile) <50%	50%	75%	100%
ROTIC (post-tax)	9.5%	0.0	16.7	50.0	50.0
	11.0%	16.7	33.3	66.7	66.7
	12.5%	33.3	50.0	83.3	83.3
	14.0%	50.0	66.7	100.0	100.0

ROTIC (Return on total invested capital)



The 1990, 1996 and 1999 share option plans all provided 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 23 to the accounts. No further grants may be made from the first two of these plans nor does the Company intend to make any further grants from the 1999 Plan given that the performance share plan was approved by shareholders at the 2005 annual general meeting. The granting of options was spread over the life of the Plan.

The total dilution effect under these various discretionary share plans is less than 5%.

The Company does not operate any long-term incentive plans other than the share plans described above. Except for the proposed amendment relating to the Performance Share Plan, no significant amendments are proposed to be made to the terms and conditions of any entitlement of a Director to share options.

Pension arrangements
Except as noted below, the executive Directors participate in the appropriate section of the Halma Group Pension Plan. This section is a funded final salary occupational pension plan registered with HM Revenue & Customs, which provides a maximum pension of two-thirds of final pensionable salary after 25 or more years' service at normal pension age (60). Up to 5 April 2006, final pensionable salary was the greatest salary of the last three complete tax years immediately before retirement or leaving service. From 6 April 2006, final pensionable salary is capped at 7.5% of the Lifetime Allowance equating to £120,000 for the year ended 29 March 2008.

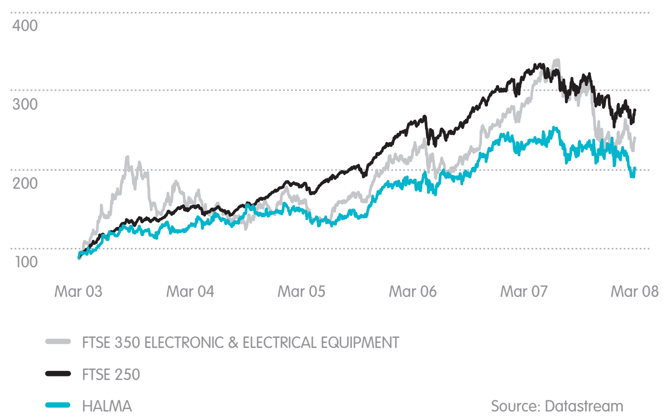
Remuneration report (continued)

Bonuses and other fluctuating emoluments and benefits in kind are not pensionable nor subject to the pension supplement. The Plan also provides for life cover of three times 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, currently possible from age 50 with the consent of the Company and the Trustees of the Plan, are subject to actuarial reduction. Pensions in payment increase by 3% per annum for service up to 5 April 1997, by price inflation (subject to a maximum of 5%) through to 31 March 2007 and 3% thereafter.

Executive Directors receive pension supplements to compensate them for the fact that their pension entitlement under the Halma Group Pension Plan defined benefit arrangements is limited by a pensionable salary cap introduced from 6 April 2006. The Company introduced a pensionable salary cap in order to address changes affecting the Plan made in the Pension Act 2006. Without the introduction of such a cap, there would, effectively, have been no benefit limits. This could have resulted in benefits in excess of prescribed levels with some individuals suffering penal rates of tax and potentially causing a limitation on the tax deductibility of employer contributions. The Company obtained external advice regarding the changes to the Plan and executive pension arrangements and required each affected executive to obtain independent advice prior to implementing the changes. These changes reduce the Plan's future liabilities and their associated funding risk.

To the extent that an executive's current salary exceeds the Plan salary cap, the Company compensates him at an annual rate of 26% of the excess. In April 2006, Kevin Thompson chose to cease entirely future service accrual in the Halma Group Pension Plan in return for the pension supplement on his full salary.

TOTAL SHAREHOLDER RETURN
(total return indices)



The graph above shows the Company's total shareholder return performance over the five years to 29 March 2008 as compared to the FTSE 250 and the FTSE 350 Electronic & Electrical Equipment sector indices, the latter of which the Company has been a constituent since it was reclassified in June 2006. Over the period indicated, the Company's total shareholder return was 113% compared to 187% for the FTSE 250 and 151% for the FTSE 350 Electronic & Electrical Equipment sector.

At the commencement of the five-year period depicted in the graph, the Halma p.l.c. ordinary share price was 114p and the total of dividends paid in the year ended 29 March 2003 was 5.491p per share. The Halma p.l.c. ordinary share price at 29 March 2008 was 191.5p and the total of dividends paid in the year then ended was 7.33p per share.

Directors' contracts

It is the Company's policy that executive directors should have contracts with an indefinite term providing for a maximum of one year's notice.

Kevin Thompson, Neil Quinn, Andrew Williams and Adam Meyers who are proposed for election or re-election at the next annual general meeting have service contracts which provide for a notice period of one year. Geoff Unwin who is proposed for re-election has a service contract which provides for six months' notice. Jane Aikman who is also proposed for re-election, being a non-executive Director, does not have a service contract.

The details of the Directors' contracts are summarised in the table below:

	Date of contract	Notice period
Andrew Williams	April 2003	one year
Kevin Thompson	April 2003	one year
Neil Quinn	April 2003	one year
Keith Roy	April 2003	one year*
Adam Meyers	September 1996	one year

* The Company has accepted Keith Roy's notice of retirement effective 31 July 2008.

In the event of early termination, no predetermined compensation is provided for in the Directors' contracts.

Non-executive Directors

Unless otherwise indicated, all non-executive Directors have a specific three-year term of engagement which may be renewed for further three-year terms 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 the Chairman and the 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 Geoff Unwin's services provides for termination, by either party, by giving not less than six months' notice. The fee for Geoff Unwin's services is set at £140,000 per annum. In addition there is a contribution of £16,150 towards office costs.

The other non-executive Directors do not have service contracts.

The Chairman's and the non-executive Directors' fees were last reviewed by the Board in April 2006 at which time the revised fee levels were set for three years from 2006/07 as follows:

Geoff Unwin (appointed September 2002), Chairman and Remuneration Committee member	£140,000
Richard Stone (appointed January 2001), Senior Independent Director, Remuneration Committee Chairman and Audit Committee member	£43,000
Stephen Pettit (appointed September 2003), Audit Committee Chairman and Remuneration Committee member	£40,000
Jane Aikman (appointed August 2007), Audit and Remuneration Committees member	£36,000

No fees are payable for membership of the Nomination Committee of which each of the above Directors is a member.

AUDITED INFORMATION

Aggregate Directors' remuneration

The total amounts for Directors' remuneration were as follows:

	2008 £000	2007 £000
Emoluments	2,036	2,152
Gains on exercise of share options	244	247
Pension supplements	167	159
	2,447	2,558

Directors' remuneration

	Salaries and fees £000	Bonus £000	Benefits £000	Pension supple-ment £000	**2008 Total £000**	2007 Total £000
Geoff Unwin	140	–	16	–	156	156
Andrew Williams	375	306	21	66	768	856
Kevin Thompson	247	182	12	64	505	516
Neil Quinn	200	41	14	21	276	258
Richard Stone	43	–	–	–	43	43
Keith Roy	180	180	15	16	391	368
Stephen Pettit	40	–	–	–	40	36
Jane Aikman	24*	–	–	–	24	–
Andrew Walker	–	–	–	–	–	51**
	1,249	709	78	167	2,203	2,284

* from date of appointment
** up to date of resignation

The fees paid in relation to Geoff Unwin were paid to Gunwin Limited. Andrew Williams' prior year benefits included relocation expense reimbursement of £74,000.

Directors' interests

The Directors who held office at 29 March 2008 had the following interests in the ordinary shares of the Company:

	Shares 29.3.08	Shares 31.3.07
Geoff Unwin	68,250	38,250
Andrew Williams	106,523	72,473
Kevin Thompson	114,301	99,609
Neil Quinn	74,118	69,118
Richard Stone	20,000	20,000
Keith Roy	764,057	760,649
Stephen Pettit	2,000	2,000
Jane Aikman	–	NA

At the date of his appointment, Adam Meyers had a beneficial interest in 41,689 ordinary shares of the Company. There are no non-beneficial interests of Directors. There were no changes in Directors' interests from 29 March 2008 to 17 June 2008.

Performance share plan

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

	Date of grant	As at 31.03.07	Granted in the year	Three-day average share price on grant	**As at 29.3.08**
Andrew Williams	Aug 2005	241,482		148.42p	241,482
	July 2006	246,231		199.00p	246,231
	July 2007		218,144	204.67p	218,144
Kevin Thompson	Aug 2005	169,792		148.42p	169,792
	July 2006	165,327		199.00p	165,327
	July 2007		141,632	204.67p	141,632
Neil Quinn	Aug 2005	141,305		148.42p	141,305
	July 2006	132,446		199.00p	132,446
	July 2007		109,695	204.67p	109,695
Keith Roy	Aug 2005	122,250		148.42p	122,250
	July 2006	114,852		199.00p	114,852
	July 2007		98,726	204.67p	98,726
		1,333,685	568,197		1,901,882

Performance conditions for the awards made in the financial year are set out above. The current vesting expectation for grants made in 2005 is 45%; for grants made in 2006, 85% and for grants made in 2007, 65%.

Directors' share options

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

	As at 31.3.07	Lapsed	Exercised	Share price on exercise	**As at 29.03.08**	**2008 Gains on exercise (£)**	2007 Gains on exercise (£)
Andrew Williams	443,421	(13,200)	(22,300)	240.00p	407,921	17,060	5,862
Kevin Thompson	782,602	(21,600)	(30,400)	236.17p	730,602	34,557	67,362
Neil Quinn	763,375	(21,600)	(142,100)	237.63p	599,675	178,973	150,247
Keith Roy	497,292	(6,800)	(11,800)	236.80p	478,692	13,488	24,027

There were no share plan grants or 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.

The closing middle market price of the Company's ordinary shares on Friday, 28 March 2008, the last trading day preceding the financial year end, was 191.5p per share and the range during the year was 181.5p to 246p.

Remuneration report (continued)

Details of Directors' options outstanding at 29 March 2008 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 191.5p.

2 Not yet exercisable, will only be exercisable when the performance criteria, set out in note 23 to the accounts, have been met and have an exercise price per share of less than 191.5p.

	Status of options (see above)	Year of grant	Number of shares	Weighted average exercise price (p) per share
Andrew Williams	1	2004	156,162	142.25
	2	1998-2005	251,759	138.78
Kevin Thompson	1	1998; 2000-2001; 2003-2004	359,190	130.18
	2	1998-2005	371,412	137.35
Neil Quinn	1	2001; 2003-2004	282,364	143.56
	2	1998-2005	317,311	134.72
Keith Roy	1	1998-1999; 2001-2002; 2004	207,144	135.47
	2	1998-2005	271,548	136.36

All options lapse if not exercised within ten 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.

There have been no variations to the terms and conditions or performance criteria for share options during the financial year.

Directors' pension entitlements

Four Directors are members of the Company's defined benefit pension plan. The following Directors had accrued entitlements under the plans as follows:

	Age at 29.3.08	Years of pensionable service at 29.3.08	Accrued pension 2007 £000	Increase in the year £000	**Accrued pension 2008 £000**
Andrew Williams	40	13	30	5	36
Kevin Thompson	48	18	87	1	91
Neil Quinn	58	20	92	3	98
Keith Roy	57	15	54	3	59

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 31.3.07 £000	Directors' contri-butions £000	Increase in value net of contri-butions £000	**Transfer value 29.3.08 £000**
Andrew Williams	231	12	83	326
Kevin Thompson	924	–	231	1,155
Neil Quinn	1,451	12	348	1,811
Keith Roy	866	12	251	1,129

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 plan.

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

Other statutory information

Activities
Halma p.l.c. is a holding company. A list of its principal subsidiary companies and their activities is set out on pages 88 and 89.

Ordinary dividends
The Directors are recommending a final dividend of 4.55p per share and, if approved, this dividend will be paid on 20 August 2008 to ordinary shareholders on the register at the close of business on 18 July 2008. Together with the interim dividend of 3p per share already paid, this will make a total of 7.55p (2007: 7.18p) per share for the financial year.

Share capital and capital structure
Details of share capital issued in the financial year are set out in note 21 to the accounts.

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 21 to the accounts. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company. There are no other classes of share capital.

There are no specific restrictions on the size of a holding nor on the transfer of shares, with both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Shares held in treasury are non-voting and are not eligible for dividends. Details of employee share plans are set out in note 23 to the accounts.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of directors, the Company is governed by its Articles of Association, the Combined Code, the Companies Acts and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of directors are described in the Matters reserved for the Board, copies of which are available on request, and the Corporate governance statement on page 39.

Under its Articles of Association, the Company has authority to issue 436,564,890 ordinary shares of which 374,796,280, including treasury shares, are in issue as at the date of this Report.

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company, principally bank loan agreements and employee share plans.

The only significant agreement, in terms of its likely impact on the business of the Group as a whole, containing such provisions is that governing the £165m revolving credit facility which on change of control, if the majority lenders require, can result in 30 days notice being given to the Company for all amounts outstanding to be immediately due and payable at which time the facility would be cancelled.

The Company's share plans contain provisions as a result of which options and awards may vest and become exercisable on a change of control of the Company in accordance with the rules of the plans.

The Directors are not aware of any agreements between the Company and its directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

Allotment authority
Under the Companies Act 1985 the Directors may only allot shares if authorised by shareholders to do so. At the Annual General Meeting an ordinary resolution will be proposed which, if passed, will authorise the Directors to allot and issue new shares up to an aggregate nominal value of £6,176,861 (up to £61,768,610 new ordinary shares of 10p each), which is equal to approximately 14% of the issued share capital of the Company (excluding treasury shares) as at 17 June 2008 (the latest practicable date prior to the publication of the Notice of meeting). In accordance with the Directors' stated intention to seek annual renewal, the authority will expire at the conclusion of the annual general meeting of the Company in 2009. Passing this resolution will give the Directors flexibility to act in the best interests of shareholders, when opportunities arise, by issuing new shares.

As at 17 June 2008 (the latest practicable date prior to the publication of the Notice of meeting), the Company had 374,796,280 ordinary shares of 10p each in issue and held 1,563,813 treasury shares, which is equal to approximately 0.4% of the issued share capital of the Company (excluding treasury shares) as at that date.

The Companies Act 1985 also requires that, if the Company issues new shares for cash or sells any treasury shares, it must first offer them to existing shareholders in proportion to their current holdings. At the Annual General Meeting a special resolution will be proposed which, if passed, will authorise the Directors to issue a limited number of shares for cash and/or sell treasury shares without offering them to shareholders first. The authority is for an aggregate nominal amount of up to 5% of the aggregate nominal value of the issued share capital of the Company as at 17 June 2008 (the latest practicable date prior to the publication of the Notice of meeting). The resolution will also modify statutory pre-emption rights to deal with legal, regulatory or practical problems that may arise on a rights or other pre-emptive offer or issue. The authority will expire at the same time as the resolution conferring authority on the Directors to allot shares. The Directors consider this authority necessary in order to give them flexibility to deal with opportunities as they arise, subject to the restrictions contained in the resolution.

There are no present plans to issue shares, except under share plans previously approved in general meeting.

Directors
The Directors of the Company are listed on page 37. Brief biographies are set out on pages 36 and 37.

E Jane Aikman was appointed a Director on 1 August 2007 and Adam J Meyers was appointed a Director on 3 April 2008. Having been appointed by the Board since the last annual general meeting, both are proposed for re-election at the 2008 Annual General Meeting.

Kevin Thompson, Neil Quinn, Geoff Unwin and Andrew Williams all retire by rotation and, being eligible, offer themselves for re-election.

For each Director being re-elected at the Annual General Meeting, the Board confirms that, following formal performance evaluations, each individual's performance continues to be effective and they continue to demonstrate commitment to their roles.

Purchase of own shares
The Company was authorised at the 2007 annual general meeting to purchase up to 37,000,000 of its own 10p ordinary shares in the market. This authority expires at the end of the 2008 Annual General Meeting. In accordance with the Directors' stated intention to seek annual renewal, a special resolution will be proposed at the Annual General Meeting to renew this authority, until the end of next year's annual general meeting, in respect of up to 37,000,000 ordinary shares, which is approximately 10% of the Company's issued share capital (excluding treasury shares) as at 17 June 2008 (the latest practicable date prior to the publication of the Notice of meeting). The Directors consider it desirable that the possibility of making such purchases, under appropriate circumstances, is available. Their present intention is that the shares purchased under the authority will (to the extent statutory requirements are met) be held in treasury for future cancellation, sale for cash or transfer for the purposes of, or pursuant to, an employee share plan, although in the light of circumstances at the time it may be decided to cancel them immediately on repurchase. The effect of any cancellation would be to reduce the number of shares in issue. For most purposes, while held in treasury shares are treated as if they have been cancelled (for example, they carry no voting rights and do not rank for dividends).

Following approval of the performance share plan (PSP) at the 2005 annual general meeting, the Directors made, and intend to continue to make, routine purchases of Halma shares in the market for holding in treasury until required for vesting under the PSP. In the year to 29 March 2008, 774,000 shares were purchased in the market for treasury. Otherwise, the Directors have no present intention of using this authority. In reaching a decision to purchase shares, the Directors will take into account the Company's cash resources, capital requirements and the effect of any purchase on the Company's earnings per share. It is anticipated that renewal of the authority will be requested at subsequent annual general meetings.

As at 17 June 2008, which is the latest practicable date prior to the publication of the Notice of meeting, options were outstanding to subscribe for a total number of 8,050,849 ordinary shares, or 2.1% of the Company's issued share capital. If this authority to purchase shares were used in full, the proportion of the adjusted issued share capital represented by this figure would be 2.4%.

Other statutory information (continued)

Deeds of indemnity
Following amendment of the Company's Articles of Association at the annual general meeting in 2006, the Company has entered into deeds of indemnity, which are qualifying third party indemnity provisions for the purpose of the Companies Act 1985, with each of the current Directors.

Substitution of Articles of Association
The Company's Articles of Association may be amended by special resolution at a general meeting of shareholders. At the 2008 Annual General Meeting, a special resolution will be put to shareholders proposing substitution of to the existing Articles of Association primarily in order to accommodate the provisions of the new Companies Act 2006.

Amendment to performance share plan
The Company's performance share plan does not currently contain the provision to grant tax efficient HM Revenue & Customs (HMRC) approved share options. Therefore, at the 2008 Annual General Meeting a resolution will be put to shareholders proposing an amendment to permit the granting of approved share options subject to approval of the amendment by HMRC.

Supplier payment policy
The Company does not follow any particular supplier payment code of practice. The Company has due regard to the payment terms of suppliers and generally settles all undisputed accounts within 30 days of the due date for payment. At 29 March 2008 the Company's trade creditors represented 31 days (2007: 37 days) of its annual purchases.

Donations
Group companies made charitable donations amounting to £11,000 (2007: £5,209) during the financial year. There were no political donations (2007: £nil).

Substantial shareholdings
On 17 June 2008, the Company had been notified, in accordance with chapter 5 of the Disclosure and Transparency Rules, of the following voting rights as a shareholder of the Company.

	No. of ordinary shares	Percentage of voting rights and issued share capital
Sprucegrove Investment Management Ltd	22,317,670	5.98
Silchester International Investors Ltd	22,147,989	5.93
Capital Research and Management Co	19,089,943	5.11
Barclays Bank PLC	15,724,354	4.21
Legal & General Group Plc	15,076,072	4.04
Sanderson Asset Management Ltd	15,075,762	4.04

Auditors
Each of the persons who is a Director at the date of approval of this Annual report confirms that:

– so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

– the Director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Carol Chesney
Company Secretary
17 June 2008

Directors' responsibilities

The Directors are responsible for preparing the Annual report, Directors' Remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. The Directors are required by the IAS Regulation to prepare the Group financial statements under IFRSs (IFRSs) as adopted by the European Union. The Group financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, Directors are also required to:

– properly select and apply accounting policies;

– present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and

– provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The parent company financial statements are required by law to give a true and fair view of the state of affairs of the Company. In preparing these financial statements, the Directors are required to:

– select suitable accounting policies and then apply them consistently;

– make judgments and estimates that are reasonable and prudent; and

– state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the parent company financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement
We confirm to the best of our knowledge:

1. the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
2. the management report, which is incorporated into the Directors' report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

By order of the Board

Andrew Williams
Chief Executive
17 June 2008

Kevin Thompson
Finance Director
17 June 2008

Consolidated income statement

	Notes	Before acquired intangibles amortisation £000	Amortisation of acquired intangibles £000	52 weeks to 29 March 2008 Total £000	Before acquired intangibles amortisation £000	Amortisation of acquired intangibles £000	52 weeks to 31 March 2007 Total £000
Continuing operations							
Revenue	1	**395,061**	**–**	**395,061**	351,119	–	351,119
Operating profit		**74,923**	**(4,757)**	**70,166**	67,437	(3,458)	63,979
Finance income	4	**8,159**	**–**	**8,159**	7,272	–	7,272
Finance expense	5	**(10,303)**	**–**	**(10,303)**	(9,101)	–	(9,101)
Profit before taxation	7	**72,779**	**(4,757)**	**68,022**	65,608	(3,458)	62,150
Taxation	10	**(21,101)**	**1,413**	**(19,688)**	(19,518)	1,065	(18,453)
Profit for the year from continuing operations		**51,678**	**(3,344)**	**48,334**	46,090	(2,393)	43,697
Discontinued operations							
Net profit for the year from discontinued operations	6	**1,950**	**–**	**1,950**	314	–	314
Profit for the year attributable to equity shareholders	1	**53,628**	**(3,344)**	**50,284**	46,404	(2,393)	44,011
Earnings per ordinary share	2						
From continuing operations							
Basic		**13.86p**		**12.97p**	12.42p		11.77p
Diluted				**12.90p**			11.68p
From continuing and discontinued operations							
Basic				**13.49p**			11.86p
Diluted				**13.42p**			11.77p
Dividends in respect of the year	11						
Paid and proposed (£000)				**28,172**			26,753
Paid and proposed per share				**7.55p**			7.18p

Consolidated balance sheet

	Notes	29 March 2008 £000	31 March 2007 £000
Non-current assets			
Goodwill	12	**161,230**	129,521
Other intangible assets	13	**33,252**	15,338
Property, plant and equipment	14	**57,452**	49,580
Deferred tax assets	20	**10,069**	11,178
		262,003	205,617
Current assets			
Inventories	15	**44,267**	39,134
Trade and other receivables	16	**99,741**	81,650
Cash and cash equivalents		**28,118**	22,051
		172,126	142,835
Total assets		**434,129**	348,452
Current liabilities			
Borrowings	17	**7,035**	29,762
Trade and other payables	18	**69,420**	62,590
Tax liabilities		**8,273**	6,043
		84,728	98,395
Net current assets		**87,398**	44,440
Non-current liabilities			
Borrowings	17	**65,358**	–
Retirement benefit obligations	28	**35,957**	37,260
Trade and other payables	19	**2,874**	3,005
Deferred tax liabilities	20	**6,108**	3,184
		110,297	43,449
Total liabilities		**195,025**	141,844
Net assets		**239,104**	206,608
Capital and reserves			
Share capital	21	**37,446**	37,312
Share premium account	22	**16,949**	15,239
Treasury shares	22	**(3,292)**	(1,664)
Capital redemption reserve	22	**185**	185
Translation reserve	22	**7,144**	(4,272)
Other reserves	22	**5,106**	3,654
Retained earnings	22	**175,566**	156,154
Shareholders' funds		**239,104**	206,608

Approved by the Board of Directors on 17 June 2008.

A J Williams **K J Thompson**
Directors

Consolidated statement of recognised income and expense

	52 weeks to 29 March 2008 £000	52 weeks to 31 March 2007 £000
Exchange differences on translation of foreign operations	**11,352**	(10,216)
Exchange differences transferred to profit on disposal of foreign operations	**64**	–
Actuarial (losses)/gains on defined benefit pension plans	**(3,886)**	7,084
Tax on items taken directly to reserves	**343**	(2,122)
Net loss recognised directly in reserves	**7,873**	(5,254)
Profit for the year	**50,284**	44,011
Total recognised income and expense for the year	**58,157**	38,757

Reconciliation of movements in shareholders' funds

	52 weeks to 29 March 2008 £000	52 weeks to 31 March 2007 £000
Shareholders' funds brought forward	**206,608**	188,080
Profit for the year	**50,284**	44,011
Dividends paid	**(27,329)**	(25,922)
Exchange differences on translation of foreign operations	**11,352**	(10,216)
Exchange differences transferred to profit on disposal of foreign operations	**64**	–
Actuarial (losses)/gains on defined benefit pension plans	**(3,886)**	7,084
Tax on items taken directly to reserves	**343**	(2,122)
Issue of shares	**1,844**	4,916
Treasury shares purchased	**(1,628)**	(1,285)
Movement in other reserves	**1,452**	2,062
Total movement in shareholders' funds	**32,496**	18,528
Shareholders' funds carried forward	**239,104**	206,608

Consolidated cash flow statement

	Notes	52 weeks to 29 March 2008 £000	52 weeks to 31 March 2007 £000
Net cash inflow from operating activities	25	**58,401**	50,754
Cash flows from investing activities			
Purchase of property, plant and equipment		**(14,787)**	(10,053)
Purchase of computer software		**(952)**	(847)
Proceeds from sale of property, plant and equipment		**831**	3,609
Development costs capitalised		**(3,796)**	(3,893)
Interest received		**721**	1,035
Acquisition of businesses	25	**(46,537)**	(27,499)
Disposal of businesses		**2,405**	–
Net cash used in investing activities		**(62,115)**	(37,648)
Financing activities			
Dividends paid		**(27,329)**	(25,922)
Proceeds from issue of share capital		**1,844**	4,916
Purchase of treasury shares		**(1,632)**	(1,272)
Interest paid		**(2,473)**	(1,894)
Drawdown of borrowings	25	**37,796**	–
Net cash from/(used in) financing activities		**8,206**	(24,172)
Increase/(decrease) in cash and cash equivalents	25	**4,492**	(11,066)
Cash and cash equivalents brought forward		**22,051**	35,826
Exchange adjustments		**1,575**	(2,709)
Cash and cash equivalents carried forward		**28,118**	22,051

Accounting policies

Basis of accounting
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union (EU) and therefore comply with Article 4 of the EU IAS legislation and with those parts of the Companies Act 1985 that are applicable to companies reporting under IFRS. The financial statements have also been prepared in accordance with IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued and effective at the time of preparing these accounts.

The principal Group accounting policies are explained below and, except as detailed below, have been applied consistently throughout the years ended 31 March 2007 and 29 March 2008.

In the current year, the Group adopted IFRS 7 'Financial Instruments: Disclosures' which is effective for annual reporting periods beginning on or after 1 January 2007 and the related amendment to IAS 1 'Presentation of Financial Statements'. The impact of these changes has been to expand the disclosures provided in note 26 regarding the Group's financial instruments and management of capital. In addition, the Group has elected to adopt IAS 23 (revised) 'Borrowing Costs' in advance of its effective implementation date. This has had no impact on the Group's accounting policies. The principal change to the Standard, which was to eliminate the previously available option to expense all borrowing costs as incurred, has no impact on these financial statements because it has always been the Group's policy to capitalise borrowing costs on qualifying assets.

At the date of authorisation of these financial statements, the following Standards and Interpretations in issue have not been applied as they are not yet in effect: IFRS 8 'Operating Segments'; IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions'; and IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'. The Directors anticipate that the adoption of these Standards and Interpretations in future periods will not have a material effect on the Group's financial statements, except for additional segment disclosures when IFRS 8 comes into effect for periods commencing on or after 1 January 2009.

The Group accounts have been prepared under the historical cost convention, except as described below under the heading 'Financial Instruments'.

The preparation of Group accounts in conformity with IFRS requires the Directors to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The key areas where estimates have been used and assumptions applied are in the valuation of acquired intangible assets, impairment testing of goodwill and in assessing the defined benefit pension plan liabilities.

Basis of consolidation
The Group accounts include the accounts of Halma p.l.c. and its subsidiary companies made up to 29 March 2008, adjusted to eliminate intra-Group transactions, balances, income and expenses. The results of subsidiary companies acquired or discontinued are included from the month of their acquisition or to the month of their discontinuation.

Goodwill
Goodwill in respect of acquisitions after 4 April 2004 represents the difference between the cost of an acquisition and the fair value of the net identifiable assets of the business acquired, and is recognised as an intangible asset in the Consolidated balance sheet. Goodwill therefore includes non-identified intangible assets including business processes, buyer-specific synergies, know-how and workforce-related industry-specific knowledge and technical skills. Negative goodwill arising on acquisitions would be recognised directly in the Consolidated income statement. On closure or disposal of an acquired business, this goodwill would be taken into account in determining the profit or loss on closure or disposal.

As permitted by IFRS 1, the Group elected not to apply IFRS 3 'Business Combinations' to acquisitions prior to 4 April 2004 in its consolidated accounts. As a result, the net book value of goodwill recognised as an intangible asset under UK GAAP at 3 April 2004 was brought forward unadjusted as the cost of goodwill recognised under IFRS at 4 April 2004 subject to impairment testing on that date; and goodwill that was written off to reserves prior to 28 March 1998 under UK GAAP will not be taken into account in determining the profit or loss on disposal or closure of previously acquired businesses from 4 April 2004 onwards.

Other intangible assets
(a) Product development costs
Research expenditure is written off in the financial year in which it is incurred.

Development expenditure is written off in the financial year in which it is incurred, unless it relates to the development of a new or substantially improved product, is incurred after the technical feasibility and economic viability of the product has been proven and the decision to complete the development has been taken, and can be measured reliably. Such expenditure is capitalised as an intangible asset in the Consolidated balance sheet at cost and is amortised through the Consolidated income statement on a straight-line basis over its estimated economic life of three years after which time it is retired and written out of the accounts.

(b) Acquired intangible assets
An intangible resource acquired with a subsidiary undertaking is recognised as an intangible asset if it is separable from the acquired business or arises from contractual or legal rights, is expected to generate future economic benefits and its fair value can be measured reliably. An acquired intangible asset is amortised through the Consolidated income statement on a straight-line basis over its estimated economic life of between three and ten years.

(c) Computer software
Computer software that is not integral to an item of property, plant or equipment is recognised separately as an intangible asset, and is amortised through the Consolidated income statement on a straight-line basis over its estimated economic life of between three and five years.

Accounting policies (continued)

Impairment of non-current assets
All non-current assets are tested for impairment whenever events or circumstances indicate that their carrying value may be impaired. Additionally, goodwill and capitalised development expenditure relating to a product that is not yet in full production are subject to an annual impairment test.

An impairment loss is recognised in the Consolidated income statement to the extent that an asset's carrying value exceeds its recoverable amount, which represents the higher of the asset's net realisable value and its value in use. An asset's value in use represents the present value of the future cash flows expected to be derived from the asset or from the cash generating unit to which it relates. The present value is calculated using a discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset concerned.

Impairment losses recognised in previous periods for an asset other than goodwill are reversed if there has been a change in the estimates used to determine the asset's recoverable amount, but only to the extent that the carrying amount of the asset does not exceed its carrying amount had no impairment loss been recognised in previous periods. Impairment losses in respect of goodwill are not reversed.

Foreign currencies
The Group presents its accounts in Sterling. Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates prevailing at that date. Any gain or loss arising from subsequent exchange rate movements is included as an exchange gain or loss in the Consolidated income statement.

Net assets of overseas subsidiary companies are expressed in Sterling at the rates of exchange ruling at the end of the financial year, and trading results and cash flows at the average rates of exchange for the financial year. Goodwill arising on the acquisition of a foreign business is treated as an asset of the foreign entity and is translated at the rate of exchange ruling at the end of the financial year. Exchange gains or losses arising on these translations are taken to the Translation reserve within Shareholders' funds.

In the event that an overseas subsidiary is disposed of or closed, the profit or loss on disposal or closure will be determined after taking into account the cumulative translation difference held within the Translation reserve attributable to that subsidiary. As permitted by IFRS 1, the Group has elected to deem the Translation reserve to be £nil at 4 April 2004. Accordingly, the profit or loss on disposal or closure of foreign subsidiaries will not include any currency translation differences which arose before 4 April 2004.

Financial instruments
The Group does not hold or issue derivatives for speculative or trading purposes, but uses forward foreign currency contracts to reduce its exposure to exchange rate movements. Forward currency contracts are initially recognised at fair value and subsequently remeasured to their fair value at each balance sheet date. The resultant gain or loss is recognised in the Consolidated income statement immediately.

The Group uses foreign currency borrowings to hedge its investment in foreign subsidiaries. The effective part of any gain or loss on these currency borrowings is recognised directly in the Translation reserve within Shareholders' funds. The ineffective portion is recognised immediately in the Consolidated income statement.

Revenue
Revenue represents sales, less returns, by subsidiary companies to external customers excluding value added tax and other sales related taxes. Transactions are recorded as revenue when the delivery of products or performance of services takes place in accordance with the contracted terms of sale.

Provisions
A provision is a liability of uncertain timing or amount, and is recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Property, plant and equipment
Property, plant and equipment is stated at historic cost less provisions for impairment and depreciation which, with the exception of freehold land which is not depreciated, is provided on a straight-line basis over each asset's estimated economic life. The principal annual rates used for this purpose are:

Freehold buildings	2%
Leasehold properties:	
more than 50 years unexpired	2%
less than 50 years unexpired	Period of lease
Plant, machinery and equipment	8% to 20%
Motor vehicles	20%
Short-life tooling	$33\frac{1}{3}$%

Leases
Leases that confer rights and obligations similar to those that attach to owned assets are classified as finance leases. All other leases are classified as operating leases.

Assets held under finance leases are included within property, plant and equipment and initially measured at their fair value or, if lower, the present value of the minimum lease payments, and a corresponding liability is recognised within the Consolidated balance sheet as obligations under finance leases. Subsequently the assets are depreciated on a basis consistent with owned assets or over the term of the lease, if shorter. At the inception of the lease, the lease rentals are apportioned between an interest element and a capital element so as to produce a constant periodic rate of interest on the outstanding liability. Subsequently, the interest element is recognised as a charge to the Consolidated income statement and the capital element is applied to reduce the outstanding liability.

Operating lease rentals, and any incentives receivable, are charged to the Consolidated income statement on a straight-line basis over the lease term.

Pensions

The Group makes contributions to various pension plans, covering the majority of its employees.

For defined benefit plans, the asset or liability recorded in the balance sheet is the difference between the fair value of the plans' assets and the present value of the defined obligation at that date. The defined benefit obligation is calculated separately for each plan on an annual basis by independent actuaries using the projected unit credit method.

Actuarial gains and losses are recognised in full in the period in which they occur, and are taken to Shareholders' funds.

Current and past service costs, along with the impact of any settlements or curtailments, are charged to the Consolidated income statement. Interest on pension plans' liabilities are recognised within finance expense and the expected return on the schemes' assets are recognised within finance income in the Consolidated income statement.

Contributions to defined contribution schemes are charged to the Consolidated income statement when they fall due.

Employee share schemes

Share-based incentives are provided to employees under the Group's share incentive plan, the share option plans and the performance share plan.

(a) Share incentive plan
Awards of shares under the share incentive plan are made to qualifying employees depending on salary and service criteria. The shares awarded under this plan are purchased in the market by the plan's trustees at the time of the award, and are then held in trust for a minimum of three years. The costs of this plan are recognised in the Consolidated income statement over the three-year vesting periods of the awards.

(b) Share option plans
All grants of options under the 1990 and 1996 share option plans and the 1999 company share option plan (together, the 'share option plans') are equity settled, and so, as permitted by IFRS 1, the provisions of IFRS 2 'Share-Based Payment' have been applied only to options awarded on or after 7 November 2002 which had not vested at 3 April 2005.

The fair value of awards under these plans has been measured at the date of grant using the Black-Scholes model and will not be subsequently remeasured. The fair value is charged to the Consolidated income statement on a straight-line basis over the expected vesting period, based on the Group's estimate of shares that will ultimately vest and adjusted for the effect of non market-based vesting conditions. The corresponding credit is to Shareholders' funds.

No further awards will be made under the share option plans.

(c) Performance share plan
On 3 August 2005 the share option plans were replaced by the performance share plan.

All awards under this plan are equity-settled and are subject to both market based and non-market based vesting criteria. Their fair value at the date of grant is established by using an appropriate simulation method to reflect the likelihood of market-based performance conditions being met. The fair value is charged to the Consolidated income statement on a straight-line basis over the vesting period, with appropriate adjustments being made during this period to reflect expected and actual forfeitures arising from the non-market based performance conditions only. The corresponding credit is to Shareholders' funds.

Inventories

Inventories and work in progress of subsidiary companies are included at the lower of cost and net realisable value. Cost is calculated either on a 'first in, first out' or an average cost basis and includes direct materials and the appropriate proportion of production and other overheads considered by the Directors to be attributable to bringing the inventories to their location and condition at the year end. Net realisable value represents the estimated selling price less all estimated costs to complete and costs to be incurred in marketing, selling and distribution.

Taxation

Taxation comprises current and deferred tax. Tax is recognised in the Consolidated income statement except to the extent that it relates to items recognised directly in Shareholders' funds, in which case it is recognised in Shareholders' funds. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or subsequently enacted at the balance sheet date, along with any adjustment to tax payable in respect of previous years. Taxable profit differs from net profits as reported in the Consolidated income statement because it excludes items that are never taxable or deductible.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes and is accounted for using the balance sheet liability method, apart from the following differences which are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profits; differences relating to investments in subsidiaries to the extent they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities, using tax rates and laws which are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax assets are only recognised to the extent that recovery is probable.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, deposits with an initial maturity of less than three months, and bank overdrafts that are repayable on demand.

Dividends

Dividends payable to the Company's shareholders are recognised as a liability in the period in which the distribution is approved by the Company's shareholders.

Notes to the accounts

1 Segmental analysis

Sector analysis

	Revenue		Profit	
	2008 £000	2007 £000	**2008 £000**	2007 £000
Infrastructure Sensors	**167,262**	154,830	**28,504**	27,975
Health and Analysis	**134,630**	116,483	**27,842**	23,980
Industrial Safety	**93,731**	79,940	**19,355**	15,998
Inter-segmental sales	**(562)**	(134)	**–**	–
Central companies	**–**	–	**(778)**	(516)
Continuing operations	**395,061**	351,119	**74,923**	67,437
Discontinued operations (note 6)	**2,894**	3,487	**436**	483
Net finance expense	**–**	–	**(2,144)**	(1,829)
Group revenue/profit before amortisation of acquired intangibles	**397,955**	354,606	**73,215**	66,091
Amortisation of acquired intangible assets	**–**	–	**(4,757)**	(3,458)
Profit on disposal of operations before tax (note 6)	**–**	–	**1,669**	–
Taxation	**–**	–	**(19,843)**	(18,622)
Revenue/profit for the year	**397,955**	354,606	**50,284**	44,011

Inter-segmental sales are charged at prevailing market prices.

	Assets		Liabilities	
	2008 £000	2007 £000	**2008 £000**	2007 £000
Infrastructure Sensors	**70,802**	64,083	**24,046**	20,622
Health and Analysis	**63,853**	50,619	**23,166**	18,673
Industrial Safety	**43,719**	36,272	**18,423**	14,978
Central companies	**43,306**	37,353	**56,997**	57,397
Continuing operations	**221,680**	188,237	**122,632**	111,670
Discontinued operations	**–**	907	**–**	412
Cash and cash equivalents/borrowings	**28,118**	22,051	**72,393**	29,762
Goodwill	**161,230**	129,521	**–**	–
Acquired intangible assets	**23,101**	7,646	**–**	–
Total Group	**434,129**	348,452	**195,025**	141,844

Central companies include all of the Group's land and buildings, deferred tax assets and liabilities, deferred purchase consideration and retirement benefit provisions.

	Capital additions		Depreciation and amortisation	
	2008 £000	2007 £000	**2008 £000**	2007 £000
Infrastructure Sensors	**5,567**	4,348	**3,777**	3,529
Health and Analysis	**7,005**	5,689	**3,695**	2,579
Industrial Safety	**3,681**	3,525	**3,165**	2,715
Central companies	**3,264**	1,170	**5,188**	4,255
Continuing operations	**19,517**	14,732	**15,825**	13,078
Discontinued operations	**18**	61	**55**	55
Total Group	**19,535**	14,793	**15,880**	13,133

Capital additions comprise purchases of computer software, property, plant and equipment and capitalised development costs. Central companies include all of the continuing Group's charge for amortisation of acquired intangible assets.

1 Segmental analysis continued

Geographical analysis

	Revenue by destination		Revenue by origin	
	2008 £000	2007 £000	**2008 £000**	2007 £000
United Kingdom	**109,253**	96,556	**228,090**	199,859
United States of America	**103,013**	96,173	**115,932**	107,407
Mainland Europe	**107,883**	91,371	**61,709**	56,047
Asia Pacific and Australasia	**42,859**	35,481	**19,422**	18,277
Africa, Near and Middle East	**22,136**	22,027	**–**	–
Other countries	**9,917**	9,511	**–**	–
Inter-segmental sales	**–**	–	**(30,092)**	(30,471)
Revenue from continuing operations	**395,061**	351,119	**395,061**	351,119
Discontinued operations (note 6)	**2,894**	3,487	**2,894**	3,487
Group revenue	**397,955**	354,606	**397,955**	354,606

Inter-segmental sales are charged at prevailing market prices.

	Profit	
	2008 £000	2007 £000
United Kingdom	**37,608**	32,626
United States of America	**22,710**	21,775
Mainland Europe	**12,597**	10,860
Asia Pacific and Australasia	**2,008**	2,176
Operating profit from continuing operations before amortisation of acquired intangibles	**74,923**	67,437
Discontinued operations (note 6)	**436**	483
Net finance expense	**(2,144)**	(1,829)
Group profit before amortisation of acquired intangibles	**73,215**	66,091
Amortisation of acquired intangible assets	**(4,757)**	(3,458)
Profit on disposal of operations before tax (note 6)	**1,669**	–
Taxation	**(19,843)**	(18,622)
Profit for the year	**50,284**	44,011

	Net assets		Capital additions	
	2008 £000	2007 £000	**2008 £000**	2007 £000
United Kingdom	**32,545**	29,592	**11,046**	8,986
United States of America	**33,206**	29,376	**5,493**	3,215
Mainland Europe	**27,838**	13,504	**2,296**	2,023
Asia Pacific and Australasia	**5,459**	4,185	**682**	508
Continuing operations	**99,048**	76,657	**19,517**	14,732
Discontinued operations	**–**	495	**18**	61
Net debt	**(44,275)**	(7,711)	**–**	–
Goodwill	**161,230**	129,521	**–**	–
Acquired intangible assets	**23,101**	7,646	**–**	–
Total Group	**239,104**	206,608	**19,535**	14,793

United Kingdom net assets include all of the Group's retirement benefit provisions and their related deferred tax assets.

2 Earnings per ordinary share

Basic earnings per ordinary share are calculated using the weighted average of 372,769,853 shares in issue during the year (net of shares purchased by the Company and held as treasury shares) (2007: 371,221,629). Diluted earnings per ordinary share are calculated using the weighted average of 374,604,505 shares (2007: 374,036,077) which includes dilutive potential ordinary shares of 1,834,652 (2007: 2,814,448). Dilutive potential ordinary shares are calculated from those exercisable share options where the exercise price is less than the average price of the Company's ordinary shares during the year.

Earnings from continuing operations excludes the net profit from discontinued operations. Adjusted earnings is calculated as earnings from continuing operations excluding the amortisation of acquired intangible assets after tax. The Directors consider that adjusted earnings represents a more consistent measure of underlying performance. A reconciliation of earnings and the effect on basic earnings per share figures is as follows:

			Per ordinary share	
	2008 £000	2007 £000	**2008 pence**	2007 pence
Earnings from continuing and discontinued operations	**50,284**	44,011	**13.49**	11.86
Remove earnings from discontinued operations	**(1,950)**	(314)	**(0.52)**	(0.09)
Earnings from continuing operations	**48,334**	43,697	**12.97**	11.77
Add back amortisation of acquired intangibles (after tax)	**3,344**	2,393	**0.89**	0.65
Adjusted earnings	**51,678**	46,090	**13.86**	12.42

3 Non-GAAP measures

Return on capital employed

	2008 £000	2007 £000
Operating profit from continuing operations before amortisation of acquired intangibles	**74,923**	67,437
Operating profit from discontinued operations in prior period before amortisation of acquired intangibles	**–**	483
Operating return	**74,923**	67,920
Computer software costs within intangible assets	**1,911**	1,577
Capitalised development costs within intangible assets	**8,240**	6,115
Property, plant and equipment	**57,452**	49,580
Inventories	**44,267**	39,134
Trade and other receivables	**99,741**	81,650
Trade and other payables	**(69,420)**	(62,590)
Tax liabilities	**(8,273)**	(6,043)
Non-current trade and other payables	**(2,874)**	(3,005)
Add back retirement benefit accruals included within payables	**2,087**	3,071
Add back accrued deferred purchase consideration	**1,189**	3,559
Capital employed	**134,320**	113,048
Return on capital employed	**55.8%**	60.1%

3 Non-GAAP measures continued

Return on total invested capital

	2008 £000	2007 £000
Post-tax profit from continuing operations before amortisation of acquired intangibles	**51,678**	46,090
Post-tax profit from discontinued operations in prior period before amortisation of acquired intangibles	**–**	314
Return	**51,678**	46,404
Total shareholders' funds	**239,104**	206,608
Add back retirement benefit accruals included within payables	**2,087**	3,071
Add back retirement benefit obligations	**35,957**	37,260
Less associated deferred tax assets	**(10,069)**	(11,178)
Cumulative amortisation of acquired intangibles	**10,112**	5,348
Goodwill on disposals	**5,441**	5,441
Goodwill amortised prior to 3 April 2004	**13,177**	13,177
Goodwill taken to reserves prior to 28 March 1998	**70,931**	70,931
Total invested capital	**366,740**	330,658
Return on total invested capital	**14.1%**	14.0%

Organic growth

Organic growth measures the change in revenue and profit from continuing Group operations. The effect of acquisitions made during the current or prior financial year has been equalised by subtracting from the current year results a pro-rated contribution based on their revenue and profit at the date of acquisition, and has been calculated as follows:

	Revenue			Profit* before taxation		
	2008 £000	2007 £000	% growth	2008 £000	2007 £000	% growth
Continuing operations	**395,061**	351,119		**72,779**	65,608	
Acquired revenue/profit	**(15,762)**	–		**(2,794)**	–	
	379,299	351,119	**8.0%**	**69,985**	65,608	**6.7%**

* Before amortisation of acquired intangible assets.

4 Finance income

	2008 £000	2007 £000
Interest receivable	**721**	1,035
Expected return on pension scheme assets	**7,438**	6,237
	8,159	7,272

5 Finance expense

	2008 £000	2007 £000
Interest payable on bank loans and overdrafts	**2,474**	1,890
Interest charge on pension scheme liabilities	**7,664**	7,103
Other interest payable	**165**	108
	10,303	9,101

Notes to the accounts (continued)

6 Discontinued operations

The discontinued operations relate to Post Glover Lifelink, Inc. ('PGL') which was sold in January 2008. PGL is incorporated in the USA and formed part of the Health and Analysis sector. PGL's results, which have been included in the Consolidated income statement, were as follows:

	2008 £000	2007 £000
Revenue	**2,894**	3,487
Operating expenses	**(2,458)**	(3,004)
Operating profit	**436**	483
Taxation	**(155)**	(169)
Profit from operations after taxation	**281**	314
Profit on disposal of operations	**1,733**	–
Exchange differences transferred to profit on disposal of operations	**(64)**	–
Profit on disposal of operations before and after taxation	**1,669**	–
Net profit from discontinued operations	**1,950**	314

The profit on disposal of operations includes gross disposal proceeds received and receivable of £3,035,000. The net cash inflow in the year on disposal of operations was £2,405,000.

PGL's net assets at the date of disposal were as follows:

	£000
Property, plant and equipment	**579**
Computer software	**16**
Inventories	**303**
Receivables	**547**
Cash and cash equivalents	**80**
Payables	**(520)**
	1,005

7 Profit before taxation

Profit before taxation comprises:			2008			2007
	Continuing operations £000	Discontinued operations £000	Total Group £000	Continuing operations £000	Discontinued operations £000	Total Group £000
Revenue	**395,061**	**2,894**	**397,955**	351,119	3,487	354,606
Cost of sales	**(266,577)**	**(2,082)**	**(268,659)**	(236,576)	(2,552)	(239,128)
Gross profit	**128,484**	**812**	**129,296**	114,543	935	115,478
Distribution costs	**(9,124)**	**(102)**	**(9,226)**	(8,447)	(126)	(8,573)
Administrative expenses	**(50,118)**	**(274)**	**(50,392)**	(42,893)	(326)	(43,219)
Other operating income	**924**	**–**	**924**	776	–	776
Net finance expense	**(2,144)**	**–**	**(2,144)**	(1,829)	–	(1,829)
Profit before taxation	**68,022**	**436**	**68,458**	62,150	483	62,633

Included within administrative expenses is the amortisation of acquired intangible assets.

7 Profit before taxation (continued)

Profit before taxation is stated after charging:		Continuing operations 2008 £000	Continuing operations 2007 £000	Total Group 2008 £000	Total Group 2007 £000
Depreciation		**8,462**	7,589	**8,511**	7,636
Amortisation		**7,363**	5,489	**7,369**	5,497
Research and development[1]		**14,839**	11,365	**14,886**	11,422
Auditors' remuneration[2]:	Audit services to the Company	**88**	79	**88**	79
	Audit services to the Group	**527**	503	**531**	507
	Total audit services pursuant to legislation	**615**	582	**619**	586
	Other services pursuant to legislation	**12**	14	**12**	14
	Tax services	**254**	87	**254**	87
	Other services	**16**	20	**16**	20
Operating lease rents:	Property	**3,916**	3,938	**3,916**	3,938
	Other	**473**	394	**473**	394

1. A further £3,796,000 (2007: £3,893,000) of development expenditure has been capitalised in the period. See note 13.
2. A further £20,000 (2007: £nil) of non-audit fees paid to the auditors in respect of acquisition advice have been included in cost of investments. In addition, the auditors received £12,000 (2007: £12,000) for their audit of the Halma Group Pension Plan.

8 Employee information

The average number of persons employed by the Group (including Directors) was:	Continuing operations 2008 Number	Continuing operations 2007 Number	Total Group 2008 Number	Total Group 2007 Number
United Kingdom	**2,002**	1,926	**2,002**	1,926
Overseas	**1,661**	1,374	**1,681**	1,400
	3,663	3,300	**3,683**	3,326

Group employee costs comprise:	Continuing operations 2008 £000	Continuing operations 2007 £000	Total Group 2008 £000	Total Group 2007 £000
Wages and salaries	**89,698**	76,154	**90,199**	76,799
Social security costs	**13,199**	11,060	**13,317**	11,221
Other pension costs (note 28)	**5,538**	5,289	**6,197**	5,317
	108,435	92,503	**109,713**	93,337

9 Directors' remuneration

The remuneration of the Directors, who are the key management personnel of the Group, is set out on pages 46 to 48 within the Remuneration report described as being audited and forms part of these financial statements.

Notes to the accounts (continued)

10 Taxation

	2008 £000	2007 £000
Current tax		
UK corporation tax at 30% (2007: 30%)	**8,970**	8,651
Overseas taxation	**10,046**	8,985
Adjustments in respect of prior years	**(74)**	69
Total current tax charge	**18,942**	17,705
Deferred tax		
Origination and reversal of timing differences	**462**	622
Adjustments in respect of prior years	**284**	126
Total deferred tax charge	**746**	748
Tax on profit from continuing operations	**19,688**	18,453
Tax on profit from discontinued operations	**155**	169
Total tax charge recognised in the Consolidated income statement	**19,843**	18,622
Reconciliation of the effective tax rate:		
Profit before tax – continuing operations	**68,022**	62,150
Profit before tax – discontinued operations	**2,105**	483
	70,127	62,633
Tax at the UK corporation tax rate of 30% (2007: 30%)	**21,038**	18,790
Overseas tax rate differences	**633**	1,141
Items not subject to tax	**(2,038)**	(1,504)
Adjustments in respect of prior years	**210**	195
	19,843	18,622
Effective tax rate on continuing and discontinued operations	**28.3%**	29.7%

11 Ordinary dividends

	Per ordinary share			
	2008 pence	2007 pence	2008 £000	2007 £000
Amounts recognised as distributions to shareholders in the year				
Final dividend for the year to 31 March 2007 (1 April 2006)	**4.33**	4.12	**16,139**	15,308
Interim dividend for the year to 29 March 2008 (31 March 2007)	**3.00**	2.85	**11,190**	10,614
	7.33	6.97	**27,329**	25,922
Dividends declared in respect of the year				
Interim dividend for the year to 29 March 2008 (31 March 2007)	**3.00**	2.85	**11,190**	10,614
Proposed final dividend for the year to 29 March 2008 (31 March 2007)	**4.55**	4.33	**16,982**	16,139
	7.55	7.18	**28,172**	26,753

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

12 Goodwill

	2008 £000	2007 £000
Cost		
At beginning of year	**129,521**	122,038
Additions (note 24)	**22,695**	13,955
Exchange adjustments	**9,014**	(6,472)
At end of year	**161,230**	129,521
Provision for impairment		
At beginning and end of year	**–**	–
Carrying amounts	**161,230**	129,521

Goodwill is allocated at acquisition to the business units that are expected to benefit from that acquisition. The carrying amount of goodwill has been allocated as follows:

	2008 £000	2007 £000
Infrastructure Sensors	**74,303**	68,172
Health and Analysis	**64,289**	41,464
Industrial Safety	**22,638**	19,885
	161,230	129,521

Goodwill values have been tested for impairment by comparing them against the value in use in perpetuity of the relevant cash generating units. The value in use calculations were based on projected cash flows, derived from the latest budget approved by the Board, with average growth rates of 2.3% used for periods not covered by the budget, discounted at the Group's estimated weighted average cost of capital of 8.4% per annum to calculate their net present value.

The most significant elements of the Group's consolidated goodwill figure at 29 March 2008 were allocated to: Texecom Limited (£15,795,000) and Bureau D'Electronique Appliquée S.A. (£40,746,000) within the Infrastructure Sensors sector; Ocean Optics, Inc. (£21,704,000) and Rudolf Riester GmbH & Co. KG (£22,492,000) within the Health and Analysis sector; and Tritech International Limited (£7,804,000) within the Industrial Safety sector.

13 Other intangible assets

	Acquired intangibles £000	Development costs £000	Computer software £000	Total £000
Cost				
At 1 April 2006	9,006	7,915	3,521	20,442
Assets of businesses acquired	4,049	–	213	4,262
Additions at cost	–	3,893	847	4,740
Disposals	–	–	(184)	(184)
Retirements	–	(1,240)	–	(1,240)
Exchange adjustments	(172)	(92)	(122)	(386)
At 31 March 2007	12,883	10,476	4,275	27,634
Assets of businesses acquired (note 24)	**18,472**	**–**	**130**	**18,602**
Assets of business sold	**–**	**–**	**(60)**	**(60)**
Additions at cost	**–**	**3,796**	**952**	**4,748**
Disposals	**–**	**–**	**(23)**	**(23)**
Retirements	**–**	**(903)**	**–**	**(903)**
Exchange adjustments	**1,858**	**411**	**115**	**2,384**
At 29 March 2008	**33,213**	**13,780**	**5,389**	**52,382**

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13 Other intangible assets continued

	Acquired intangibles £000	Development costs £000	Computer software £000	Total £000
Accumulated amortisation				
At 1 April 2006	1,880	4,088	2,308	8,276
Assets of businesses acquired	–	–	114	114
Charge for the year	3,458	1,528	511	5,497
Disposals	–	–	(164)	(164)
Retirements	–	(1,240)	–	(1,240)
Exchange adjustments	(101)	(15)	(71)	(187)
At 31 March 2007	5,237	4,361	2,698	12,296
Assets of businesses acquired (note 24)	**–**	**–**	**121**	**121**
Assets of business sold	**–**	**–**	**(44)**	**(44)**
Charge for the year	**4,757**	**1,981**	**631**	**7,369**
Disposals	**–**	**–**	**(11)**	**(11)**
Retirements	**–**	**(903)**	**–**	**(903)**
Exchange adjustments	**118**	**101**	**83**	**302**
At 29 March 2008	**10,112**	**5,540**	**3,478**	**19,130**
Carrying amounts				
At 29 March 2008	**23,101**	**8,240**	**1,911**	**33,252**
At 31 March 2007	7,646	6,115	1,577	15,338

14 Property, plant and equipment

	Land and buildings				
	Freehold properties £000	Long leases £000	Short leases £000	Plant, equipment and vehicles £000	Total £000
Cost					
At 1 April 2006	28,133	1,775	3,312	69,980	103,200
Assets of businesses acquired	1,554	–	–	3,486	5,040
Additions at cost	248	64	378	9,363	10,053
Disposals	(3,243)	(262)	(11)	(9,129)	(12,645)
Exchange adjustments	(750)	(19)	(96)	(2,114)	(2,979)
At 31 March 2007	25,942	1,558	3,583	71,586	102,669
Assets of businesses acquired (note 24)	**1,315**	**17**	**–**	**3,280**	**4,612**
Assets of businesses sold	**(624)**	**–**	**–**	**(348)**	**(972)**
Additions at cost	**3,724**	**34**	**886**	**10,143**	**14,787**
Disposals	**(390)**	**–**	**–**	**(3,200)**	**(3,590)**
Exchange adjustments	**779**	**4**	**72**	**1,739**	**2,594**
At 29 March 2008	**30,746**	**1,613**	**4,541**	**83,200**	**120,100**
Accumulated depreciation					
At 1 April 2006	5,160	591	1,854	45,541	53,146
Assets of businesses acquired	31	–	–	3,137	3,168
Charge for the year	445	45	306	6,840	7,636
Disposals	(558)	(150)	(10)	(8,652)	(9,370)
Exchange adjustments	(139)	(15)	(63)	(1,274)	(1,491)
At 31 March 2007	4,939	471	2,087	45,592	53,089
Assets of businesses acquired (note 24)	**130**	**8**	**–**	**2,686**	**2,824**
Assets of businesses sold	**(190)**	**–**	**–**	**(203)**	**(393)**
Charge for the year	**490**	**53**	**374**	**7,594**	**8,511**
Disposals	**(134)**	**–**	**–**	**(2,523)**	**(2,657)**
Exchange adjustments	**99**	**3**	**31**	**1,141**	**1,274**
At 29 March 2008	**5,334**	**535**	**2,492**	**54,287**	**62,648**
Carrying amounts					
At 29 March 2008	**25,412**	**1,078**	**2,049**	**28,913**	**57,452**
At 31 March 2007	21,003	1,087	1,496	25,994	49,580

15 Inventories

	2008 £000	2007 £000
Raw materials and consumables	**22,412**	19,270
Work in progress	**8,075**	7,094
Finished goods and goods for resale	**13,780**	12,770
	44,267	39,134

16 Trade and other receivables

	2008 £000	2007 £000
Falling due within one year:		
Trade receivables	**89,105**	74,788
Other receivables	**3,282**	1,875
Prepayments and accrued income	**7,354**	4,987
	99,741	81,650

Trade receivables are stated net of provisions for estimated irrecoverable amounts of £1,204,000 (2007: £1,034,000). This provision has been determined by reference to previous default experience.

The ageing of trade receivables was as follows:

	2008 £000	2007 £000
Not yet due	**68,597**	56,551
Up to 1 month overdue	**14,162**	13,365
Up to 2 months overdue	**3,568**	2,652
Up to 3 months overdue	**1,239**	920
Over 3 months overdue	**1,539**	1,300
	89,105	74,788

17 Borrowings

	2008 £000	2007 £000
Unsecured bank loans:		
Falling due within one year	**7,035**	29,762
Falling due after more than one year	**65,358**	–
Total borrowings	**72,393**	29,762

Information concerning the currency, interest rates and maturity of the Group's borrowings is given in note 26 to the accounts.

18 Trade and other payables: falling due within one year

	2008 £000	2007 £000
Trade payables	**40,081**	34,677
Other taxation and social security	**4,838**	4,016
Provision for deferred purchase consideration	**1,082**	2,867
Other payables	**3,816**	4,283
Accruals and deferred income	**19,603**	16,747
	69,420	62,590

19 Trade and other payables: falling due after one year

	2008 £000	2007 £000
Provision for deferred purchase consideration	**107**	692
Other payables	**2,767**	2,313
	2,874	3,005

20 Deferred tax

An analysis of Group deferred tax is as follows:

	2008 £000	2007 £000
Employee benefits	**10,069**	11,178
Acquired intangible assets	**(7,726)**	(2,255)
Accelerated capital allowances	**(3,143)**	(3,067)
Short-term timing differences	**6,929**	3,799
Goodwill timing differences	**(2,168)**	(1,661)
Net deferred tax asset	**3,961**	7,994

This has been recognised in the Consolidated balance sheet as follows:

	2008 £000	2007 £000
Non-current deferred tax assets	**10,069**	11,178
Non-current deferred tax liabilities	**(6,108)**	(3,184)
Net deferred tax asset	**3,961**	7,994

Movement in deferred tax asset:

	2008 £000	2007 £000
At beginning of year	**7,994**	10,587
Credit/(charge) to Consolidated income statement:		
UK	**85**	(414)
Overseas	**(831)**	(334)
Charge to Shareholders' funds	**(226)**	(1,396)
Acquired	**(2,785)**	(536)
Exchange adjustments	**(276)**	87
At end of year	**3,961**	7,994

No provision is made for tax which might become payable if profits retained by overseas subsidiary companies are distributed as dividends unless there is an intention to distribute such profits. The gross undistributed earnings of these subsidiaries at 29 March 2008 was £15,312,000.

At 29 March 2008 the Group had unused capital tax losses of £695,000 (2007: £1,793,000) for which no deferred tax asset has been recognised. None of these losses has an expiry date.

21 Share capital

	Authorised		Issued and fully paid	
	2008 £000	2007 £000	2008 £000	2007 £000
Ordinary shares of 10p each	**43,656**	43,656	**37,446**	37,312

The number of ordinary shares in issue at 29 March 2008 was 374,458,498 (2007: 373,116,492).

Changes during the year in the issued ordinary share capital were as follows:

	Issued and fully paid £000
At 31 March 2007	37,312
Share options exercised	**134**
At 29 March 2008	**37,446**

The total consideration received in cash in respect of share options exercised amounted to £1,844,000.

At 29 March 2008 options in respect of 8,388,631 (2007: 10,451,523) ordinary shares remained outstanding. Further details of these are given in note 23 to the accounts.

At the date of these accounts, the number of ordinary shares in issue was 374,796,280, including treasury shares of 1,563,813.

22 Reserves

	Share premium account £000	Treasury shares £000	Capital redemption reserve £000	Translation reserve £000	Other reserves £000	Retained earnings £000
At 1 April 2006	10,702	(379)	185	5,944	1,592	133,103
Profit for the year	–	–	–	–	–	44,011
Share options exercised	4,537	–	–	–	–	–
Foreign exchange translation differences	–	–	–	(10,216)	–	–
Dividends paid	–	–	–	–	–	(25,922)
Actuarial gains on defined benefit pension schemes	–	–	–	–	–	7,084
Share-based payments	–	–	–	–	2,062	–
Treasury shares purchased	–	(1,285)	–	–	–	–
Tax on items taken directly to equity	–	–	–	–	–	(2,122)
At 31 March 2007	15,239	(1,664)	185	(4,272)	3,654	156,154
Profit for the year	**–**	**–**	**–**	**–**	**–**	**50,284**
Share options exercised	**1,710**	**–**	**–**	**–**	**–**	**–**
Foreign exchange translation differences	**–**	**–**	**–**	**11,352**	**–**	**–**
Exchange differences transferred to profit on disposal of foreign operations	**–**	**–**	**–**	**64**	**–**	**–**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(27,329)**
Actuarial losses on defined benefit pension schemes	**–**	**–**	**–**	**–**	**–**	**(3,886)**
Share-based payments	**–**	**–**	**–**	**–**	**1,452**	**–**
Treasury shares purchased	**–**	**(1,628)**	**–**	**–**	**–**	**–**
Tax on items taken directly to equity	**–**	**–**	**–**	**–**	**–**	**343**
At 29 March 2008	**16,949**	**(3,292)**	**185**	**7,144**	**5,106**	**175,566**

Treasury shares are ordinary shares in Halma p.l.c. purchased by the Company and held to fulfil the Company's obligations under the performance share plan. At 29 March 2008 the number of treasury shares held was 1,563,813 (2007: 805,635) and their market value was £2,994,702 (2007: £1,774,441).

The capital redemption reserve was created on repurchase and cancellation of the Company's own shares.

The translation reserve is used to record differences arising from the retranslation of the financial statements of foreign operations.

The other reserve represents the provision being established in respect of the value of the equity-settled share option plans and performance share plan.

23 Share-based payments

The total cost recognised in the Consolidated income statement in respect of equity-settled share-based payment schemes (the 'employee share plans') was as follows:

	2008 £000	2007 £000
Share incentive plan	**251**	270
Share option plans	**204**	363
Performance share plan	**1,658**	974
	2,113	1,607

Share incentive plan

Shares awarded under this plan are purchased in the market by the Plan's trustees at the time of the award and are held in trust until their transfer to qualifying employees, which is conditional upon completion of three years' service. The costs of providing this plan are recognised in the Consolidated income statement over the three-year vesting period.

Share option plans

The Group has issued options to acquire ordinary shares in the Company under three share option plans, approved by shareholders in 1990, 1996 and 1999. These share option plans provide for the grant of two categories of option, both of which are subject to performance criteria.

Section A options are exercisable after three years if the Group's earnings per share growth exceeds, for the 1990 Plan, the growth in the Retail Price Index, for the 1996 Plan, the growth in the Retail Price Index plus 2% per annum and, for the 1999 Plan, 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 of, for the 1990 and 1996 Plans, all but the top quarter of companies which were within the FTSE 100 at the date of grant of any option and for the 1999 Plan, all but the top quarter of companies which were within a peer group at the date of grant of any option.

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

No further awards have been made under the Company share option plans since 3 August 2005.

Notes to the accounts (continued)

23 Share-based payments continued

Options in respect of 18,900 ordinary shares remained outstanding at 29 March 2008 under the 1990 Plan. Subject to the performance restrictions on the exercise of options granted under this Plan, options are exercisable for the periods and at the prices set out below:

Number of shares	Option price	Seven years from
18,900	129.0p	2002

Options in respect of 1,126,300 ordinary shares remained outstanding at 29 March 2008 under the 1996 Plan. Subject to the performance restrictions on the exercise of options granted under this Plan, options are exercisable for the periods and at the prices set out below:

Number of shares	Option price	Five years from	Seven years from
105,500	101.5p – 123.5p		2001
246,500	120.0p		2002
262,900	101.5p – 123.5p	2003	
511,400	120.0p – 131.0p	2004	

Options in respect of 7,243,431 ordinary shares remained outstanding at 29 March 2008 under the 1999 Plan. Subject to the performance restrictions on the exercise of options granted under this Plan, options are exercisable for the periods and at the prices set out below:

Number of shares	Option price	Five years from	Seven years from
361,200	111.0p		2003
443,200	163.5p		2004
491,164	144.33p		2005
759,080	134.0p		2006
1,097,567	142.25p		2007
741,042	145.67 – 157.92p		2008
615,900	111.0p	2005	
486,500	163.5p	2006	
688,250	144.33p	2007	
747,350	134.0p	2008	
812,178	142.25p	2009	

A summary of the movements in options issued under the share option plans is as follows:

	2008		2007	
	Number of share options	**Weighted average option price**	Number of share options	Weighted average option price
Outstanding at beginning of year	**10,451,523**	**136.50p**	15,199,515	134.62p
Exercised during the year	**(1,342,006)**	**139.80p**	(3,785,812)	129.84p
Lapsed during the year	**(720,886)**	**130.21p**	(962,180)	133.04p
Outstanding at end of year	**8,388,631**	**136.87p**	10,451,523	136.50p
Exercisable at end of year	**3,779,803**	**138.96p**	3,103,904	136.74p

The weighted average share price at the date of exercise for share options exercised during the year was 220.30p.

The options outstanding at 29 March 2008 had exercise prices from 101.5p to 163.5p and a weighted average remaining contractual life of four years.

Under the transitional provisions of IFRS 1 only the options awarded in 2004, 2005 and 2006 under the 1999 Plan have been recognised under IFRS 2. The fair value of these options was calculated using the Black-Scholes model using the following assumptions:

	2006	2005		2004	
Option section	A	A	B	A	B
Dividend yield	4%	4%	4%	4%	4%
Expected volatility	25%	25%	25%	25%	25%
Expected life (years)	4	4	6	4	6
Risk free rate (%)	4.1%	4.3–4.9%	4.9%	3.8%	4.0%
Option price (p)	145.67	142.25–157.92	142.25	134.00	134.00
Fair value per option (p)	24.70	25.71-27.22	29.25	22.18	25.35

The expected volatility was determined by calculating the historic volatility of the Group's share price over the previous six years.

23 Share-based payments continued

Performance share plan

The performance share plan was approved by shareholders on 3 August 2005 and replaced the previous share option plans from which no further grants will be made.

Awards made under this Plan vest after three years on a sliding scale subject to the Group's relative Total Shareholder Return against, for 2007/08 and 2006/07, the FTSE 250 excluding financial companies and, for 2005/06, 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.

A summary of the movements in share awards granted under the performance share plan is as follows:

	2008 Number of shares awarded	2007 Number of shares awarded
Outstanding at beginning of year	**3,361,308**	1,735,252
Granted during the year	**1,379,707**	1,689,658
Vested during the year (pro-rated for 'good leavers')	**(17,662)**	(4,921)
Lapsed during the year	**(229,659)**	(58,681)
Outstanding at end of year	**4,493,694**	3,361,308
Exercisable at end of year	**–**	–

The fair value of these awards was calculated using an appropriate simulation method to reflect the likelihood of the market-based performance conditions, which attach to half of the award, being met, using the following assumptions:

	2008	2007	2006
Expected volatility (%)	**19%**	20%	25%
Expected life (years)	**3**	3	3
Share price on date of grant (p)	**240.67**	199.00	148.42
Option price (p)	**nil**	nil	nil
Fair value per option (%)	**55%**	66%	46%
Fair value per option (p)	**132.37**	131.34	68.27

The expected volatility was determined by calculating the historic volatility of the Group's share price over the previous three years.

Notes to the accounts (continued)

24 Acquisitions

	Book value £000	Fair value adjustments £000	Total £000
Non-current assets			
Intangible assets	**9**	**18,472**	**18,481**
Property, plant and equipment	**1,938**	**(150)**	**1,788**
Current assets			
Inventories	**2,940**	**(696)**	**2,244**
Trade and other receivables	**3,983**	**(146)**	**3,837**
Cash and cash equivalents	**295**	**–**	**295**
Total assets	**9,165**	**17,480**	**26,645**
Current liabilities			
Trade and other payables	**(2,177)**	**(480)**	**(2,657)**
Deferred tax	**26**	**(2,811)**	**(2,785)**
Total liabilities	**(2,151)**	**(3,291)**	**(5,442)**
Net assets of businesses acquired	**7,014**	**14,189**	**21,203**
Cash consideration, including costs			**42,780**
Deferred purchase consideration			**–**
Total consideration			**42,780**
Goodwill arising on current year acquisitions			**21,577**
Goodwill arising on prior year acquisitions			**1,118**
Goodwill arising on acquisition			**22,695**

The values relating to the acquisitions of PP Medizintechnik GmbH and subsidiaries (including the operating company Rudolf Riester GmbH & Co. KG 'Riester') included in the table above were: net assets at book value £5,785,000; fair value adjustments £13,467,000; total net assets £19,252,000; total consideration £39,610,000; goodwill arising on acquisition £20,358,000.

The goodwill on current year acquisitions arose on the following acquisitions:

Company	Date of acquisition	Country of incorporation	Principal activity	Initial consideration
BKKI	September 2007	China	Industrial Safety	RMB3.8m
Sonar Research & Development Ltd	October 2007	United Kingdom	Industrial Safety	£2.6m
PP Medizintechnik GmbH and subsidiaries	December 2007	Germany	Health and Analysis	€55m

Together these acquisitions contributed £5,225,000 of revenue and £1,150,000 of profit before tax and amortisation of acquired intangible assets to the Group results for the year ended 29 March 2008. If these acquisitions had been held since the start of the financial year, it is estimated the Group's reported revenue would have been £11,700,000 higher and profit before tax and amortisation of acquired intangible assets £2,170,000 higher.

Adjustments were made to the book value of the net assets of the companies acquired to reflect their provisional fair value to the Group. Acquired inventories were valued at the lower of cost and net realisable value adopting Group bases and any liabilities for warranties relating to past trading were recognised. Other previously unrecognised assets and liabilities at acquisition were included and accounting policies were aligned with the Group where appropriate.

25 Notes to the consolidated cash flow statement

	2008 £000	2007 £000
Reconciliation of profit from operations to net cash inflow from operating activities		
Profit from continuing operations before taxation	**70,166**	63,979
Profit from discontinued operations before taxation	**436**	483
Depreciation and amortisation of computer software	**9,142**	8,147
Amortisation of capitalised development costs	**1,981**	1,528
Amortisation of acquired intangible assets	**4,757**	3,458
Share-based payment expense in excess of amounts paid	**1,997**	1,317
Additional payments to pension plans	**(6,352)**	(4,233)
Profit on sale of property, plant and equipment and computer software	**(1,186)**	(314)
Operating cash flows before movement in working capital	**80,941**	74,365
Increase in inventories	**(2,278)**	(1,648)
Increase in receivables	**(9,605)**	(3,673)
Increase in payables	**6,970**	1,215
Cash generated from operations	**76,028**	70,259
Taxation paid	**(17,627)**	(19,505)
Net cash inflow from operating activities	**58,401**	50,754

The cash outflow of £46,537,000 on the acquisition of businesses includes cash acquired of £295,000 and the payment of £3,650,000 of deferred purchase consideration which arose from acquisitions made in earlier years, and where provision was made in prior years' financial statements.

	2008 £000	2007 £000
Reconciliation of net cash flow to movement in net cash/(debt)		
Increase/(decrease) in cash and cash equivalents	**4,492**	(11,066)
Cash inflow from borrowings	**(37,796)**	–
Exchange adjustments	**(3,260)**	(163)
	(36,564)	(11,229)
Net (debt)/cash brought forward	**(7,711)**	3,518
Net debt carried forward	**(44,275)**	(7,711)

	At 31 March 2007 £000	Cash flow £000	Exchange adjustments £000	At 29 March 2008 £000
Analysis of net debt				
Cash and cash equivalents	22,051	**4,492**	**1,575**	**28,118**
Bank loans	(29,762)	**(37,796)**	**(4,835)**	**(72,393)**
	(7,711)	**(33,304)**	**(3,260)**	**(44,275)**

The cash inflow from bank loans in 2008 of £37,796,000 included a cash outflow on repayment of borrowings of £54,205,000 and a cash inflow on drawdown of new borrowings of £92,001,000.

26 Financial instruments

Policy

The Group's treasury policies seek to minimise financial risks and to ensure sufficient liquidity for the Group's operations and strategic plans. No complex derivative financial instruments are used, and no trading or speculative transactions in financial instruments are undertaken. Where the Group does use financial instruments these are mainly to manage the currency risks arising from normal operations and its financing. Operations are financed mainly through retained profits and, in certain geographical locations, bank borrowings. Foreign currency risk is the most significant aspect for the Group in the area of financial instruments. It is exposed to a lesser extent to other risks such as interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and these policies are summarised below. Policies have remained unchanged since the beginning of the financial year.

Foreign currency risk
The Group is exposed to foreign currency risk as a consequence of both trading with foreign companies and owning subsidiaries located in foreign countries.

The Group earns a significant proportion of its profit in currencies other than Sterling. This gives rise to translational currency risk, where the Sterling value of profits earned by the Group's foreign subsidiaries fluctuates with the strength of Sterling relative to their operating (or 'functional') currency. The Group does not hedge this risk, so its reported profit is sensitive to the strength of Sterling, particularly against the US Dollar and Euro. The Group also has transactional currency exposures. These arise on sales or purchases by operating companies in currencies other than the companies' operating (or 'functional') currency. Significant sales and purchases are matched where possible and the net exposure hedged by means of forward foreign currency contracts.

The Group has a significant investment in overseas operations in the USA and Europe, with further investments in Australia, New Zealand, Malaysia, Singapore, China, India and South Africa. As a result, the Group's balance sheet can be affected by movements in these countries' exchange rates. Where significant and appropriate, currency denominated net assets are hedged by currency borrowings. These currency exposures are reviewed regularly.

Interest rate risk
The Group is exposed to interest rate fluctuations on its borrowings and cash deposits. Where bank borrowings are used to finance operations they tend to be short-term with floating interest rates. Borrowings used to provide longer term funding are drawn on the Group's loan facilities and have fixed interest rates with maturities of not more than one year.

Surplus funds are placed on short-term fixed rate deposit or in floating rate deposit accounts.

Liquidity risk
The main source of long-term funding for the Group is its unsecured revolving credit facility, which was renewed in February 2008 for a further five years with a small syndicate of its principal bankers and extended to £165 million.

The Group has a strong cash flow and the funds generated by operating companies are managed regionally based on geographic location. Funds are placed on deposit with secure, highly-rated banks. For short-term working capital purposes, most operating companies utilise local bank overdrafts. These practices allow a balance to be maintained between continuity of funding, security and flexibility. Because of the nature of their use, the facilities are typically 'on demand' and as such uncommitted. Overdraft facilities are typically renewed annually.

Currency exposures

Translational exposures
It is estimated, by reference to the Group's US Dollar and Euro denominated profits, that a one per cent change in the value of the US Dollar relative to Sterling would have had a £225,000 impact on the Group's reported profit before tax; and a one per cent change in the value of the Euro relative to the Sterling would have had a £160,000 impact on the Group's profit before tax for the year ended 29 March 2008.

Transactional exposures
The table below shows the Group's net foreign currency monetary assets and liabilities. These are the assets and liabilities of Group companies which are not denominated in the functional currency of the company involved. They comprise cash and overdrafts, and certain debtors and creditors. These foreign currency monetary assets and liabilities give rise to the net currency gains and losses recognised in the Consolidated income statement as a result of movement in exchange rates. As at year end these exposures were as follows:

	Net foreign currency monetary assets/(liabilities)				
2008 **Functional currency of operation**	**Sterling £000**	**US Dollar £000**	**Euro £000**	**Other £000**	**Total £000**
Sterling	**–**	**685**	**1,637**	**(521)**	**1,801**
US Dollar	**(7)**	**–**	**(10)**	**–**	**(17)**
Euro	**411**	**192**	**–**	**(8)**	**595**
Other	**(37)**	**1,335**	**113**	**655**	**2,066**
Total	**367**	**2,212**	**1,740**	**126**	**4,445**

	Net foreign currency monetary assets/(liabilities)				
2007 Functional currency of operation	Sterling £000	US Dollar £000	Euro £000	Other £000	Total £000
Sterling	–	839	678	84	1,601
US Dollar	(8)	–	(9)	–	(17)
Euro	175	(5)	–	187	357
Other	224	1,038	(43)	343	1,562
Total	391	1,872	626	614	3,503

The amounts shown in the tables above take into account the effect of any forward currency contracts entered into to manage these currency exposures.

26 Financial instruments continued

Interest rate risk profile

The Group's financial assets which are subject to interest rate fluctuations comprise interest bearing cash equivalents which totalled £3,166,000 at 29 March 2008 (2007: £5,901,000). These comprised Sterling denominated deposits of £2,946,000 (2007: £5,780,000), and Euro and other currency deposits of £220,000 (2007: £121,000) which are placed on local money markets and earn interest at market rates. Cash balances of £24,952,000 (2007: £16,150,000) earn interest at local market rates.

The financial liabilities which are subject to interest rate fluctuations are bank loans, bank overdrafts and certain unsecured loans, which totalled £72,394,000 at 29 March 2008 (2007: £29,762,000). All bear interest at floating rates or fixed rates where the period of the fix is typically no more than three months. Interest rates are based on LIBOR plus a small margin. These comprise Sterling bank loans of £9,000,000 (2007:£nil) which bear interest with reference to UK LIBOR rates, US Dollar denominated bank loans of £23,116,000 (2007: £16,327,000) which bear interest with reference to the US Dollar LIBOR rates, and Euro denominated bank loans of £40,278,000 (2007: £13,435,000) which bear interest with reference to the Euro LIBOR rates.

Maturity of financial liabilities

With the exception of the deferred purchase consideration and other payables due after one year, all of the Group's financial liabilities mature in one year or less or on demand. The total of deferred purchase consideration due after one year includes £67,000 (2007: £603,000) due between one and two years, with the balance of £40,000 (2007: £89,000) due between two and five years. Other creditors due after more than one year include £1,000,000 (2007: £1,017,000) due between one and two years, £1,299,000 (2007: £1,296,000) due between two and five years, with the balance of £468,000 (2007: £nil) due after more than five years.

Borrowing facilities

The Group's principal source of long-term funding is its unsecured five-year £165 million revolving credit facility, which expires in February 2013.

Short-term operational funding is provided by cash generated from operations and by local bank overdrafts. These overdraft facilities are uncommitted and are generally renewed on an annual or ongoing basis and hence the facilities expire within one year or less.

The Group's indrawn committed facilities available at 29 March 2008 were £105,872,000 of which £6,230,000 mature within one year and £99,642,000 between four and five years.

Fair values of financial assets and financial liabilities

As at 29 March 2008 there was no significant difference between the book value and fair value (as determined by market value) of the Group's financial assets and liabilities.

Hedging

As explained above, the Group's policy is to hedge significant sales and purchases denominated in foreign currency using forward currency contracts. These instruments are initially recognised at cost, which is typically £nil, and subsequently measured at fair value. Changes in fair value are taken to the Consolidated income statement.

The following table details the forward foreign currency contracts outstanding as at the year end, which all mature within one year:

	Average Exchange Rate/£		Foreign Currency		Contract Value		Fair Value	
	2008	2007	**2008 '000**	2007 '000	**2008 £000**	2007 £000	**2008 £000**	2007 £000
US Dollars	**1.98**	1.95	**5,051**	6,892	**2,550**	3,527	**11**	10
Euros	**1.31**	1.48	**10,069**	9,091	**7,680**	6,138	**(311)**	(46)
Other currencies	**–**	–	**–**	–	**1,928**	1,891	**62**	(10)
					12,158	11,556	**(238)**	(46)

With the exception of currency exposures, the disclosures in this note exclude short-term receivables and payables.

27 Commitments

Capital commitments

Capital expenditure authorised and contracted at 29 March 2008 but not provided in these accounts amounts to £1,469,000 (2007: £1,076,000).

Commitments under operating leases

Annual payments under non-cancellable operating leases will be made as follows:

	Land and buildings		Other	
	2008 £000	2007 £000	**2008 £000**	2007 £000
Within one year	**3,831**	3,879	**456**	289
Within two to five years	**9,133**	8,054	**624**	320
After five years	**3,469**	1,475	**–**	–
	16,433	13,408	**1,080**	609

28 Retirement benefits

Group companies operate both defined benefit and defined contribution pension plans. The Halma Group Pension Plan and the Apollo Pension and Life Assurance Plan have defined benefit sections with assets held in separate trustee administered funds. Both of these sections were closed to new entrants during 2002/03 and a defined contribution section was established within the Halma Group Pension Plan. Defined contribution schemes are mainly adopted in overseas subsidiaries.

Full actuarial valuations of the defined benefit plans are carried out every three years. The Halma Group Pension Plan was last assessed as at 1 December 2005, and the Apollo Pension and Life Assurance Plan as at 1 April 2006, using the projected unit method. At those dates the market value of the plan assets were £71.5m for the Halma Group Pension Plan and £13.8m for the Apollo Pension and Life Assurance Plan. The actuarial value of these assets represented 60% and 59% respectively of the benefits that had accrued to members after allowing for expected future increases in earnings. These shortfalls are being addressed by increased company contributions.

Defined contribution schemes

The amount charged to the Consolidated income statement in respect of defined contribution schemes was £2,016,000 (2007: £1,592,000).

Defined benefit schemes

The assumptions used to calculate scheme liabilities are:

	2008	2007	2006
Rate of increase in salaries	**4.75%**	4.25%	4.25%
Rate of increase of pensions in payment (pre-April 1997)	**3.50%**	3.00%	2.75%
Rate of increase of pensions in payment (post-April 1997)	**3.50%**	3.00%	2.75%
Discount rate	**5.85%**	5.25%	5.00%
Inflation assumption	**3.50%**	3.00%	2.75%
Mortality assumption – Halma pensioners	**PA 92 medium cohort**	PA 92 medium cohort	PA 92 medium cohort plus one year
Mortality assumption – Halma non-pensioners	**PA 92 medium cohort**	PA 92 medium cohort	PA 92 medium cohort plus one year
Mortality assumption – Apollo pensioners	**PA 92 medium cohort plus one year**	PA 92 medium cohort plus one year	PA 92 (C=2010)
Mortality assumption – Apollo non-pensioners	**PA 92 medium cohort plus one year**	PA 92 medium cohort plus one year	PA 92 (C=2020)

If assumed life expectancies had been one year greater in the defined benefit plans, the gross deficit would have increased by approximately £3m.

28 Retirement benefits continued

The expected rates of return and the net deficit in the plans were:

	2008		2007	
	Expected rate of return %	Fair value £000	Expected rate of return %	Fair value £000
Equities	**7.50**	**76,753**	7.50	77,229
Bonds	**5.85**	**29,742**	5.00	27,457
Property	**6.00**	**3,540**	6.00	3,655
Total fair value of assets		**110,035**		108,341
Present value of plan liabilities		**(145,992)**		(145,601)
Net deficit		**(35,957)**		(37,260)

The fair value of plan assets includes £101,525 of Halma p.l.c. 10p ordinary shares (2007: £1,445,721) and a receivable of £2,087,000 (2007: £3,071,000) in respect of pension plan liabilities that Halma p.l.c. has assumed on discontinued UK operations. The equivalent liability is included in the Consolidated and Company balance sheets within trade and other payables/other creditors.

The amount charged/(credited) to the Consolidated income statement in respect of the schemes was as follows:

	2008 £000	2007 £000
Current service cost (administrative expenses)	**2,844**	2,859
Expected return on pension plan assets	**(7,438)**	(6,237)
Interest on plan liabilities	**7,664**	7,103
Net finance cost	**226**	866
Total charge	**3,070**	3,725

The amount charged to the Consolidated statement of recognised income and expense in respect of the actuarial loss of the plans was £3,886,000 (2007: £7,084,000 gain).

The movements in plan assets, liabilities and the net deficit are as follows:

	2008			2007		
	Fair value of plan assets £000	Present value of plan liabilities £000	Net deficit £000	Fair value of plan assets £000	Present value of plan liabilities £000	Net deficit £000
At beginning of year	**108,341**	**(145,601)**	**(37,260)**	95,561	(141,580)	(46,019)
Current service cost	**–**	**(2,844)**	**(2,844)**	–	(2,859)	(2,859)
Contributions paid	**9,243**	**–**	**9,243**	7,092	–	7,092
Net finance cost	**7,438**	**(7,664)**	**(226)**	6,237	(7,103)	(866)
Actuarial (loss)/gain	**(14,003)**	**10,117**	**(3,886)**	1,143	5,941	7,084
Movement on receivable from principal employer	**(984)**	**–**	**(984)**	(1,692)	–	(1,692)
At end of year	**110,035**	**(145,992)**	**(35,957)**	108,341	(145,601)	(37,260)

History of experience adjustments:

	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
Present value of defined benefit obligations	**(145,992)**	(145,601)	(141,580)	(112,914)	(102,196)
Fair value of plan assets	**110,035**	108,341	95,561	72,069	61,427
Deficit in the plan	**(35,957)**	(37,260)	(46,019)	(40,845)	(40,769)
Experience adjustments on plan liabilities:					
Amount	**–**	273	536	52	–
Percentage of plan liabilities	**–**	–	–	–	–
Experience adjustments on plan assets:					
Amount	**12,327**	1,321	11,271	2,821	7,717
Percentage of plan assets	**11%**	1%	12%	4%	13%

The amount disclosed for 2004 is under UK GAAP as it is not practicable to restate amounts prior to the date of transition to IFRS.

Independent Auditors' report to the members of Halma p.l.c.

We have audited the Group financial statements of Halma p.l.c. for the 52 weeks to 29 March 2008 which comprise the Consolidated income statement, the Consolidated balance sheet, the Consolidated statement of recognised income and expense, the Reconciliation of movements in shareholders' funds, and the Consolidated cash flow statement together with the statement of Accounting policies and the related notes 1 to 28. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration report that is described as having been audited. We have reported separately on the parent company financial statements of Halma p.l.c. for the 52 weeks to 29 March 2008.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual report, the Directors' Remuneration report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' responsibilities. Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view, whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the Directors' Remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the Group financial statements.

In addition we report to you if in our opinion we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Directors' Report and the other information contained in the Annual report for the above period as described in the Contents section and consider whether it is consistent with the audited Group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any further information outside the Annual report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements and the part of the Directors' Remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Group financial statements and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements and the part of the Directors' Remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the Group financial statements and the part of the Directors' Remuneration report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with International Financial Reporting Standards as adopted by the European Union, of the state of the Group's affairs as at 29 March 2008 and of its profit for the 52 week period then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the part of the Directors' Remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Group financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Reading, UK

17 June 2008

Neither an audit nor a review provides assurance on the maintenance and integrity of the web site, including controls used to achieve this, and in particular whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area. Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

Company balance sheet

	Notes	29 March 2008 £000	31 March 2007 £000
Fixed assets			
Tangible assets	C3	**2,226**	2,388
Investments	C4	**121,332**	115,023
		123,558	117,411
Current assets			
Debtors	C5	**177,191**	134,200
Current tax receivable		**–**	630
Short-term deposits		**2,946**	5,409
		180,137	140,239
Creditors: amounts falling due within one year			
Borrowings	C6	**7,277**	42,070
Creditors	C7	**69,762**	71,564
Current tax payable		**67**	–
		77,106	113,634
Net current assets		**103,031**	26,605
Total assets less current liabilities		**226,589**	144,016
Creditors: amounts falling due after more than one year			
Borrowings	C6	**65,358**	–
Creditors	C8	**2,849**	2,719
Provisions for liabilities and charges	C9	**370**	72
Net assets		**158,012**	141,225
Capital and reserves			
Share capital	C11	**37,446**	37,312
Share premium account	C12	**16,949**	15,239
Treasury shares	C12	**(3,292)**	(1,664)
Capital redemption reserve	C12	**185**	185
Other reserves	C12	**2,583**	1,611
Profit and loss account	C12	**104,141**	88,542
Shareholders' funds	C13	**158,012**	141,225

Approved by the Board of Directors on 17 June 2008.

A J Williams **K J Thompson**
Directors

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Notes to the Company accounts

C1 Accounting policies

Basis of accounting
The separate Company financial statements are presented as required by the Companies Act 1985 and have been prepared on the historical cost basis and comply with applicable United Kingdom Accounting Standards and law. The principal Company accounting policies have been applied consistently throughout the current and preceding years and are described below.

Foreign currencies
Transactions in foreign currency are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates prevailing at that date. Any gain or loss arising from subsequent exchange rate movements is included as an exchange gain or loss in the profit and loss account.

Exchange differences on foreign currency borrowings which are taken out for the purpose of hedging the Company's investments in overseas subsidiary companies are taken to reserves.

Share-based payments
Equity-settled share-based payments are provided to employees under the Company's share incentive plan, share option plans and performance share plan. The Company recognises a compensation cost in respect of these schemes that is based on the fair value of the awards. For equity-settled schemes, the fair value is determined at the date of the grant and is not subsequently remeasured unless the conditions on which the award was granted are modified. The fair value at the date of the grant is calculated using appropriate option pricing models and the cost is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to failure to satisfy service conditions or non-market performance conditions. As permitted by FRS 20 'Share-based payment', the Company has applied FRS 20 retrospectively only to equity-settled awards that were granted on or after 7 November 2002 which had not vested at 3 April 2005.

Investments
Investments are stated at cost less provision for impairment.

Fixed assets and depreciation
Fixed assets are stated at cost less provisions for impairment and depreciation which, with the exception of freehold land which is not depreciated, is provided on all fixed assets on the straight-line method, each item being written off over its estimated life. The principal annual rates used for this purpose are:

Freehold buildings	2%
Leasehold properties:	
more than 50 years unexpired	2%
less than 50 years unexpired	Period of lease
Plant and equipment	8% to 20%
Motor vehicles	20%

Leases
The costs of operating leases of property and other assets are charged as incurred.

Pensions
The Company makes contributions to defined contribution pension plans, which are charged against profits when they become payable. The Company also participates in a Group-wide defined benefit pension plan. This plan is operated on a basis that does not enable individual companies to identify their share of the underlying assets and liabilities, and in accordance with Financial Reporting Standard 17 the Company accounts for its contributions to the plan as if it was a defined contribution plan.

Deferred tax
The Company provides for tax deferred because of timing differences between profits as computed for taxation purposes and profits as stated in the accounts, on an undiscounted basis. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are only recognised if recovery is considered more likely than not on the basis of all available evidence.

C2 Profit for the year

As permitted by Section 230 of the Companies Act 1985, the Profit and Loss Account of Halma p.l.c. is not presented as part of these accounts.

Auditors' remuneration for audit services to the Company was £88,000 (2007: £79,000).

Total employee costs (including Directors) were:

	2008 £000	2007 £000
Wages and salaries	**3,095**	2,694
Social security costs	**511**	386
Other pension costs	**567**	398
	4,173	3,478

	2008 Number	2007 Number
Number of employees	**39**	30

Details of Directors' remuneration are set out on pages 46 to 48 within the Remuneration Report and form part of these financial statements.

C3 Fixed assets – tangible assets

	Land and buildings			
	Freehold properties £000	Short leases £000	Plant equipment and vehicles £000	Total £000
Cost				
At 31 March 2007	2,050	167	1,602	3,819
Additions at cost	–	–	**407**	**407**
Disposals	**(361)**	–	**(108)**	**(469)**
At 29 March 2008	**1,689**	**167**	**1,901**	**3,757**
Accumulated depreciation				
At 31 March 2007	412	75	944	1,431
Charge for the year	**46**	**1**	**259**	**306**
Disposals	**(123)**	–	**(83)**	**(206)**
At 29 March 2008	**335**	**76**	**1,120**	**1,531**
Carrying amounts				
At 29 March 2008	**1,354**	**91**	**781**	**2,226**
At 31 March 2007	1,638	92	658	2,388

C4 Investments

Shares in Group companies

	2008 £000	2007 £000
At cost less amounts written off at beginning of year	**115,023**	102,566
Additions	**6,309**	12,457
At cost less amounts written off at end of year	**121,332**	115,023

Additions in the year relate to the acquisition of Sonar Research & Development Limited, together with revisions to the estimate of deferred purchase consideration payable in respect of acquisitions made in prior years.

Notes to the Company accounts (continued)

C4 Investments (continued)

Details of principal subsidiary companies are set out on pages 88 and 89. All these subsidiaries are wholly owned and, apart from the following, are subsidiaries of Halma p.l.c. and are incorporated in Great Britain where they principally operate.

Name of company	Country of incorporation
Fortress Systems Pty. Limited	Australia
HF Sécurité S.A.S.*	France
Hydreka S.A.S.*	France
SERV Trayvou Interverrouillage S.A.S.*	France
Apollo Gesellschaft für Meldetechnologie mbH*	Germany
Rudolf Riester GmbH & Co. KG*	Germany
Berson Milieutechniek B.V.*	The Netherlands
Netherlocks Safety Systems B.V.*	The Netherlands
Bureau D'Electronique Appliquée S.A.*	Belgium
TL Jones Limited*	New Zealand
E-Motive Display Pte Limited*	Singapore
Halma Holdings Inc.*	USA
Air Products and Controls Inc.*	USA
Aquionics Inc.*	USA
B.E.A. Inc.*	USA
Bio-Chem Fluidics Inc.*	USA
Diba Industries, Inc.*	USA
Janus Elevator Products Inc.*	USA
Labsphere, Inc.*	USA
Ocean Optics, Inc.*	USA
Oklahoma Safety Equipment Co. Inc.*	USA
Perma Pure LLC*	USA
Volk Optical Inc.*	USA

* Interests held by subsidiary companies.

C5 Debtors

	2008 £000	2007 £000
Amounts due from Group companies	**173,159**	131,576
Other debtors	**1,313**	29
Prepayments and accrued income	**2,719**	2,595
	177,191	134,200

C6 Borrowings

	2008 £000	2007 £000
Falling due within one year:		
Unsecured bank loans	**–**	29,762
Overdrafts	**7,277**	12,308
	7,277	42,070
Falling due after more than one year:		
Unsecured bank loans	**65,358**	–
Total borrowings	**72,635**	42,070

The facility under which the bank loans are drawn expires within two to five years (2007: within two to five years) and at 29 March 2008 £99,642,000 (2007: £30,238,000) remained committed and undrawn.

The bank overdrafts at 29 March 2008 and 31 March 2007 were drawn on uncommitted facilities which all expire within one year, and were held pursuant to a Group pooling arrangement which offsets them against credit balances in subsidiary undertakings.

C7 Creditors: amounts falling due within one year

	2008 £000	2007 £000
Trade creditors	**484**	640
Amounts owing to Group companies	**63,265**	62,194
Other taxation and social security	**1,314**	1,369
Deferred purchase consideration	**1,059**	2,021
Other creditors	**1,566**	2,000
Accruals and deferred income	**2,074**	3,340
	69,762	71,564

C8 Creditors: amounts falling due after one year

	2008 £000	2007 £000
Deferred purchase consideration	**–**	569
Other creditors	**2,849**	2,150
	2,849	2,719
These liabilities fall due as follows:		
Within two to five years	**2,849**	2,719

C9 Provisions for liabilities and charges

	2008 £000	2007 £000
Deferred tax (note C10)	**370**	72
	370	72

Notes to the Company accounts (continued)

C10 Deferred tax

	2008 £000	2007 £000
Movement in deferred tax liability/(asset):		
At beginning of year	**72**	(64)
Charge to profit and loss account	**161**	423
Charge/(credit) to reserves	**137**	(287)
At end of year	**370**	72

Deferred tax comprises short-term timing differences.

C11 Share capital

	Authorised		Issued and fully paid	
	2008 £000	2007 £000	2008 £000	2007 £000
Ordinary shares of 10p each	**43,656**	43,656	**37,446**	37,312

The number of ordinary shares in issue at 29 March 2008 was 374,458,498 (2007: 373,116,492).

Changes during the year in the issued ordinary share capital were as follows:

	Issued and fully paid £000
At 31 March 2007	37,312
Share options exercised	**134**
At 29 March 2008	**37,446**

The total consideration received in cash in respect of share options exercised amounted to £1,844,000.

Details of share options in issue on the Company's share capital and share-based payments are included in note 23 to the Group accounts.

C12 Reserves

	Share premium account £000	Treasury shares £000	Capital redemption reserve £000	Other reserves £000	Profit and loss account £000
At 31 March 2007	15,239	(1,664)	185	1,611	88,542
Profit transferred to reserves	–	–	–	–	**21,790**
Issue of shares	**1,710**	–	–	–	–
Movement in other reserves	–	–	–	**972**	–
Treasury shares purchased	–	**(1,628)**	–	–	–
Exchange adjustments	–	–	–	–	**(6,191)**
At 29 March 2008	**16,949**	**(3,292)**	**185**	**2,583**	**104,141**

The capital redemption reserve was created on repurchase and cancellation of the Company's own shares.

The other reserves represent the provision being established in respect of the value of equity-settled share option plans and performance share plan awards made by the Company.

Treasury shares are the Company's own shares purchased and held to fulfil its obligations under the performance share plan.

C13 Reconciliation of movement in shareholders' funds

	2008 £000	2007 £000
At beginning of year	**141,225**	122,912
Profit after taxation	**49,119**	36,378
Dividends paid	**(27,329)**	(25,922)
Exchange adjustments	**(6,191)**	3,184
Issue of shares	**1,844**	4,916
Treasury shares purchased	**(1,628)**	(1,285)
Movement in other reserves	**972**	1,042
At end of year	**158,012**	141,225

Independent Auditors' report to the members of Halma p.l.c.

We have audited the parent company financial statements of Halma p.l.c. for the 52 weeks to 29 March 2008 which comprise the Balance sheet together with the statement of Accounting policies and the related notes numbered C1 to C13. These parent company financial statements have been prepared under the accounting policies set out therein. We have reported separately on the Group financial statements of Halma p.l.c. for the 52 weeks to 29 March 2008 and on the information in the Directors' Remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual report, and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' responsibilities. Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the Directors' Report is consistent with the parent company financial statements. In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual report as described in the Contents section and consider whether it is consistent with the audited parent company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any further information outside the Annual report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the parent company financial statements.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice of the state of affairs of the Company as at 29 March 2008;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Reading, UK

17 June 2008

Neither an audit nor a review provides assurance on the maintenance and integrity of the web site, including controls used to achieve this, and in particular whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area. Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

Summary 1999 to 2008

	UK GAAP 1998/99 £000	UK GAAP 1999/00 £000
Revenue (note 2)	217,758	233,485
Overseas sales (note 2)	134,189	150,727
Profit before taxation, acquired intangibles amortisation and goodwill written off (note 3)	41,823	43,751
Net tangible assets/capital employed	102,101	89,755
Borrowings	7,730	14,700
Cash and cash equivalents	29,894	21,900
Employees (note 2)	2,827	2,975
Earnings per ordinary share (note 2)	7.91p	6.08p
Adjusted earnings per ordinary share (note 3)	7.99p	8.41p
Year on year increase/(decrease) in adjusted earnings per ordinary share	(3.3%)	5.3%
Return on sales (notes 2 and 4)	19.2%	18.7%
Return on capital employed (note 5)	45.4%	44.7%
Year on year increase in dividends per ordinary share	20%	20%
Ordinary share price at financial year end	92p	95p
Market capitalisation at financial year end	£330.6m	£340.1m

Notes:

1. The amounts disclosed for periods up to and including 2003/04 are stated on the basis of UK GAAP, as it is not practicable to restate amounts prior to the date of transition to IFRS.
2. Continuing and discontinued operations.
3. Adjusted to remove amortisation of goodwill and acquired intangible assets. IFRS figures include results of discontinued operations up to the date of their sales or closure but exclude profit on sale or closure.
4. Return on sales is defined as profit before taxation, goodwill/acquired intangible asset amortisation and exceptional items expressed as a percentage of revenue.
5. Return on capital employed is defined in note 3 to the accounts.
6. UK GAAP figures prior to 2000/01 have not been restated for the adoption of FRS 19 (Deferred Taxation).

UK GAAP 2000/01 £000	UK GAAP 2001/02 £000	UK GAAP 2002/03 £000	UK GAAP 2003/04 £000	UK GAAP 2004/05 £000	IFRS 2004/05 £000	IFRS 2005/06 £000	IFRS 2006/07 £000	**IFRS 2007/08 £000**
268,322	267,597	267,293	292,640	299,119	299,119	337,348	354,606	**397,955**
181,831	183,259	188,161	206,102	218,745	218,745	249,055	258,050	**288,701**
49,698	48,255	46,508	50,284	50,389	49,912	59,641	66,091	**73,215**
99,991	117,515	86,854	95,935	80,750	104,417	105,396	113,048	**134,320**
7,758	15,047	27,667	26,934	33,344	33,344	32,308	29,762	**72,393**
21,484	45,657	27,574	48,482	45,348	45,348	35,826	22,051	**28,118**
3,059	2,859	2,793	2,925	3,002	3,002	3,187	3,326	**3,683**
8.91p	8.58p	7.76p	6.09p	7.97p	9.38p	11.08p	11.86p	**13.49p**
9.34p	9.10p	8.55p	9.44p	9.42p	9.45p	11.27p	12.50p	**13.86p**
11.1%	(2.6%)	(6.0%)	10.4%	(0.2%)	N/A	19.3%	10.9%	**11.5%**
18.5%	18.0%	17.4%	17.2%	16.8%	16.7%	17.7%	18.6%	**18.4%**
48.4%	45.7%	41.7%	50.5%	52.1%	48.8%	56.9%	60.1 %	**55.8%**
15%	15%	10%	7%	5%	5%	5%	5%	**5%**
129p	164p	114p	149p	161p	161p	188p	220p	**192p**
£465.7m	£598.2m	£416.7m	£546.5m	£593.8m	£593.8m	£693.4m	£821.8m	**£717.7m**

Halma group directory

	Main products
Air Products and Controls Inc.	Duct detectors and control relays for smoke control systems
Apollo Fire Detectors Limited	Smoke and heat detectors, sounders, beacons and interfaces
Apollo Gesellschaft für Meldetechnologie mbH	Smoke and heat detectors, sounders, beacons and interfaces
Aquionics Inc.	Ultraviolet light equipment for water treatment
Berson Milieutechniek B.V.	Ultraviolet light equipment for treating drinking water, waste water and water reuse applications
Bio-Chem Fluidics Inc.	Miniature valves, micro pumps and fluid components for medical, life science and scientific instruments
Bureau D'Electronique Appliquée S.A.	Sensors for automatic doors
Castell Safety International Limited	Safety systems for controlling hazardous industrial processes
Crowcon Detection Instruments Limited	Gas detection instruments for personnel and plant safety
Diba Industries, Inc.	Specialised components and complete fluid transfer subassemblies for medical, life science and scientific instruments
Elfab Limited	Pressure sensitive relief devices to protect process plant
E-Motive Display Pte Limited	Electronic displays for providing information to elevator passengers
Fire Fighting Enterprises Limited	Beam smoke detectors and specialist fire extinguishing systems
Fortress Interlocks Limited	Safety systems for controlling access to dangerous machines
Fortress Systems Pty. Limited	Machinery and process safety systems and high power electrical resistors
Halma Holdings Inc.	US holding company
Halma International Limited Shanghai Representative Office	Halma China hub
Hanovia Limited	Ultraviolet light equipment for treating water used in the manufacture of food, drinks, pharmaceuticals and electronic components
HF Sécurité S.A.S.	Safety systems and high security locks
Hydreka S.A.S.	Equipment and software for flow analysis of water and sewerage systems and leak detection systems
Janus Elevator Products Inc.	Elevator safety components including fixtures, displays, door systems and emergency communications
Keeler Limited	Ophthalmic instruments for diagnostic assessment of eye conditions
Klaxon Signals Limited	Audio/visual warning systems for fire and industrial security
Labsphere, Inc	Light testing and measurement products and specialised optical coatings
Memco Limited	Infrared safety systems for elevator doors and elevator emergency communications
Netherlocks Safety Systems B.V.	Process safety systems for petrochemical and industrial applications
Ocean Optics, Inc.	Miniature fibre optic spectrometers for consumer electronics, process control, environmental monitoring, life sciences and medical diagnostics
Oklahoma Safety Equipment Co. Inc.	Pressure sensitive relief devices to protect process plant
Palintest Limited	Instruments for analysing water and measuring environmental pollution
Palmer Environmental Limited	Instrumentation for quantifying, detecting and controlling leakage in underground water pipelines
Perma Pure LLC	Gas dryers and humidifiers for fuel cell, medical, scientific and industrial use
Radcom (Technologies) Limited	Instrumentation for recording data, and detecting and controlling leakage, in water distribution pipelines
Radio-Tech Limited	Radio telemetry
Rudolf Riester GmbH & Co.KG	Diagnostic medical devices for ophthalmology, blood pressure measurement and ear, nose and throat diagnostics
SERV Trayvou Interverrouillage S.A.S.	Safety systems for controlling access to dangerous machines
Smith Flow Control Limited	Process safety systems for petrochemical and industrial applications
Texecom Limited	Security alarm products
TL Jones Limited	Infrared safety systems, emergency communications and displays for elevators
Tritech International Limited	Underwater equipment for pipeline leak detection, infrastructure maintenance, construction and security
Volk Optical Inc.	Ophthalmic equipment and lenses as aids to diagnosis and surgery
Volumatic Limited	Cash handling and security from point of sale to cash centre

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Shareholder information and advisers

Financial calendar

2007/08 Interim results	29 November 2007
2007/08 Interim dividend paid	6 February 2008
Interim management statement	14 February 2008
2007/08 Preliminary results	17 June 2008
2007/08 Report and accounts issued	1 July 2008
Annual General Meeting and Interim management statement	31 July 2008
2007/08 Final dividend payable	20 August 2008
2008/09 Interim results	27 November 2008
2008/09 Interim dividend payable	February 2009
Interim management statement	February 2009
2008/09 Preliminary results	June 2009

Analysis of shareholders

at 22 May 2008

	Shareholders Number	%	Shares Number	%
Number of shares held				
1 – 7,500	5,306	80.6	10,320,228	2.8
7,501 – 25,000	695	10.6	9,113,994	2.4
25,001 – 100,000	324	4.9	16,105,411	4.3
100,001 – 750,000	171	2.6	51,108,746	13.6
750,001 and over	85	1.3	288,147,901	76.9
	6,581	100.0	374,796,280	100.0

Share price

London Stock Exchange, pence per 10p share

	2008	2007	2006	2005	2004
Highest	**246**	240	194	170	151
Lowest	**182**	172	139	142	109
Year end	**192**	220	188	161	149

Dividends

Pence per 10p share

	2008	2007	2006	2005	2004
Interim	**3.00**	2.85	2.71	2.58	2.44
Final	**4.55***	4.33	4.12	3.92	3.75
Total	**7.55**	7.18	6.83	6.50	6.19

* proposed

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Investor information
Visit our website, www.halma.com, for investor information and Company news. In addition to accessing financial data, you can view and download Annual and Interim reports, analyst presentations, find contact details for Halma senior executives and subsidiary companies and access links to Halma subsidiary websites.

E-mail news alert
You can subscribe to an e-mail news alert service on our website, www.halma.com, to automatically receive an e-mail when significant announcements are made.

Shareholding information
Please contact our registrars directly for all enquiries about your shareholding. Visit their Investor Centre website for online information about your shareholding (you will need your shareholder reference number which can be found on your share certificate or dividend tax voucher), or telephone the registrars using the dedicated telephone number for Halma shareholders (see below).

Dividend reinvestment plan
The company operates a dividend reinvestment plan ('DRIP') which offers shareholders the opportunity to use their cash dividends to buy new shares in Halma. You can register for the DRIP online by visiting Computershare's Investor Centre website and selecting 'Dividend Reinvestment Plan election' or by requesting an application form direct from Computershare.

Electronic communications
All shareholder communications, including the company's Annual report and accounts, are made available on the Halma website. You may opt to receive e-mail notification that documents and information are available to view and download. If you would like to sign up for this service, visit the Computershare Investor Centre website, selecting 'Electronic Shareholder Communications' and following the registration process.

Share dealing facilities
A low cost telephone dealing service has been arranged with Stocktrade which provides a simple way for buying or selling Halma shares. Basic commission is 0.5% up to £10,000, reducing to 0.2% thereafter (subject to a minimum commission of £15). For further information please call 0845 601 0995 and quote reference Low Co0198.

Annual General Meeting
The 114th Annual General Meeting of Halma p.l.c. will be held at The Ballroom, The Berkeley Hotel, Wilton Place, London SW1X 7RL on Thursday, 31 July 2008 at 11.30 am. The Notice convening the meeting is on page 3 of the circular.

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To view our Annual report and accounts online, please visit: www.halma.com