

HALMA



In summary

Financial Highlights

	Change	2010	2009
Continuing Operations			
Revenue	+1%	£459.1m	£455.9m
Adjusted Profit before Taxation ¹	+9%	£86.2m	£79.1m
Statutory Profit before Taxation	+12%	£81.4m	£72.8m
Adjusted Earnings per Share ²	+10%	16.89p	15.30p
Statutory Earnings per Share	+14%	16.10p	14.07p
Total Dividend per Share ³	+7%	8.50p	7.93p
Return on Sales ⁴		18.8%	17.3%
Return on Total Invested Capital ⁵		13.6%	13.1%
Return on Capital Employed ⁵		61.3%	47.7%

Pro-forma information:

¹ Adjusted to remove the amortisation of acquired intangible assets of £4.8m (2009: £6.3m).

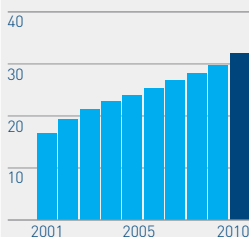
² Adjusted to remove the amortisation of acquired intangible assets. See note 2 to the accounts for details.

³ Total dividend paid and proposed per share.

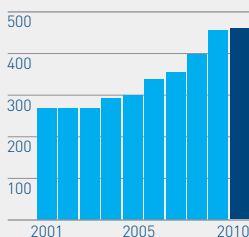
⁴ Return on Sales is defined as adjusted¹ profit before taxation from continuing operations expressed as a percentage of revenue from continuing operations.

⁵ 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.

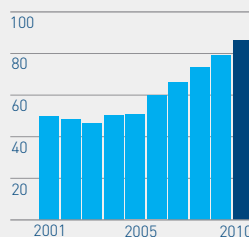
Dividend paid and proposed (£m)



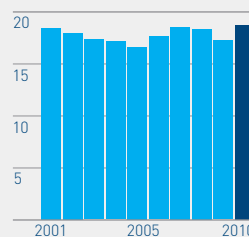
Revenue (£m)



Adjusted profit before taxation (£m)



Return on Sales (%)



Front cover: a tag cloud derived from our Investment Proposition on page 1

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Accelerating momentum



See Global Capability p.03

Accomplished during uncertain and challenging economic conditions



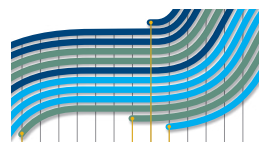
See how we've performed p.06

"Record profit and increased rate of dividend growth"



See Chairman's Statement p.08

See how Halma maintains momentum



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Investment Proposition

Halma has an impressive record of creating sustained shareholder value through the economic cycle. Our reputation is built on consistently delivering record profits, high returns, strong cash flows, low levels of balance sheet gearing and a 30+ year track record of growing dividend payments by 5% or more every year. We are one of only three companies quoted on the London Stock Exchange with this record of dividend increases.

Halma's ability to achieve record profits through the recent period of unprecedented economic turbulence is derived from our strategy of operating in specialised global markets with resilient growth drivers and diverse end customers. Growth drivers include Health, Safety and Environmental regulation which stimulate 'non-discretionary' purchase of products whose quality and reliability requirements enable us to build competitive advantage.

In the past five years, closely targeted strategic investments have generated growth momentum to supplement our long-standing defensive qualities.

Organic growth momentum has been created by significantly increasing investment in management development, new product development and establishing platforms for growth in Asia, where Health, Safety and Environmental regulation is starting to emerge.

Organic growth generates the financial and business resources to fund acquisitions in our existing sectors. Through acquisitions we add value to our businesses by bringing new intellectual assets and a wider technological and geographic footprint.

Halma's defensive qualities, organic growth momentum and potential to acquire new businesses position us strongly to continue to create shareholder value and achieve even higher levels of performance in the future.

Directors' Report **Governance**

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Strong management teams equipped to succeed in challenging markets



See Board of Directors and Executive Team

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Good management of the cost base delivers high returns in all three sectors

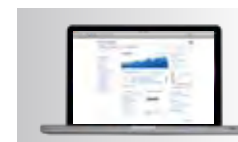


See Sector Reviews



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www.halma.com/investors

Our Business

Diverse Markets

Halma is a global business operating in 22 countries and selling to over 150 countries. Our customer base is also diverse with our largest customer representing less than 2% of total Group revenue. We have three major Business Sectors each with four sub-sector market niches which offer long-term growth and sustainable high returns. Our diversity gives us many opportunities for growth.

	Infrastructure Sensors Detecting hazards and protecting assets and people in buildings.		Health and Analysis Improving public and personal health; protecting the environment.		Industrial Safety Protecting assets and people at work.		
Revenue	£183m	40% of Group	£176m	38% of Group	£100m	22% of Group	
Profit¹	£36m	39% of Group	£35m	39% of Group	£20m	22% of Group	
Sub-sectors	Fire Detection  Fire and smoke detectors and audible/visual warning devices.	Water  Products to detect leaks in water pipes. UV technology for disinfecting water and water quality test kits.	Gas Detection  Portable instruments and fixed systems which detect flammable and hazardous gases.				
	Security Sensors  Security sensors and signals used in public and commercial property.	Photonics  Opto-electronic technology for scientific, medical, environmental and other applications.	Bursting Disks  'One time use' pressure relief devices to protect large vessels and pipework in process industries.				
	Automatic Door Sensors  Sensors used on automatic doors in public and commercial buildings.	Health Optics  Devices used to assess eye health, diagnose disease, assist with eye surgery and general medical applications.	Safety Interlocks  Specialised mechanical, electrical and electromechanical locks which ensure that critical processes operate safely.				
	Elevator Safety  Elevator/lift door safety sensors, emergency communication devices, displays and control panels for elevators.	Fluid Technology  Critical components such as pumps, probes, valves, connectors and tubing used by scientific, environmental and medical diagnostic OEMs.	Asset Monitoring  Products for monitoring physical assets above ground and under water using sensors and communications technologies.				
More information	p.16		More information	p.22		More information	p.28

Common Characteristics

Global Niche Markets

We choose to operate in specialist markets where technology and application know-how provide the opportunity to generate sustainable high returns and strong competitive advantage.

More information

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Long-term Market Growth Drivers

Demand in each of our markets is driven by one or more of the following:

- Increasing demand for energy and water
- Increasing urbanisation and ageing of population
- Increasing demand for healthcare
- Increasing health and safety regulation

More information

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¹ See note 1 to the Accounts.

Global Capability

Our global capability is developing as we seek to keep our resources close to our customers. In recent years, we have established new commercial and manufacturing platforms in Asia to meet the growing need in the emerging markets for Health, Safety and Environmental products.

	United States of America	United Kingdom	Mainland Europe
Revenue by destination	£127m +5%	£98m -6%	£136m +2%
Employees	983	1,643	660

	Africa, Near and Middle East	Asia Pacific and Australasia	Other countries*
Revenue by destination	£24m -14%	£59m +9%	£15m -9%
Employees	36	365	2

* Canada and South America.

Our Strategy

Strategic Summary

Objective

To create sustained shareholder value and high returns on invested capital.

Strategic Directions

To operate in global specialised markets offering long-term growth with technology able to sustain high returns.

Strategic Priorities

Strategic Priorities and Rationale	Performance and Achievements 2009/10	Priorities and Targets 2010/11
<p>Organic Growth</p> <p>This is our lifeblood and is dependent on the quality of our people, products and markets.</p>	<p>This is one of our KPIs (see page 6) and in 2009/10, we achieved 1% organic revenue growth and 9% organic profit growth.</p>	<p>Each year we aim to exceed our minimum organic growth target of 5% representing the blended long-term average growth rate of our markets.</p>
<p>International Expansion with Focus on Asia</p> <p>The Health, Safety and Environmental markets in Asia are developing fast and offer us higher rates of growth in the future. We continue to invest in establishing local selling, technical and manufacturing resources to meet this current and future need.</p>	<p>Revenue outside the USA and Europe was 21% of the Group total with revenue from Asia Pacific and Australasia up by 9%. Revenue from China grew by 59% to £18m which is now three times the level in 2006, when we established our first Halma hubs.</p>	<p>Our aim is for revenue outside the USA and Europe to be 30% of the Group total by 2015. During 2010 we are opening three new regional commercial offices in China and adding local staff to our hub in Mumbai, India.</p>
<p>High Rate of Innovation</p> <p>We create competitive advantage and build market leadership through innovation in the way we design, make and sell our products. We aim to maintain a high level of investment in Research and Development (R&D) for new products which underpins growth and high margins.</p>	<p>R&D expenditure was 5% of revenue and above our 4% minimum target level. In May 2009, we held a Group-wide innovation and technology event to encourage collaboration between companies.</p>	<p>We aim to maintain R&D expenditure above our 4% minimum target level which is also one of our KPIs (see page 7).</p>
<p>Management Development</p> <p>We have a decentralised structure which places responsibility, resources and key commercial decisions on our operating company boards. Therefore we need to build and develop strong local management teams.</p>	<p>We have exceeded our target of 50% of subsidiary directors and senior managers completing one of our internal training programmes. We have created a new training programme for technical staff, launched in June 2010.</p>	<p>We aim to ensure at least 50% of directors and senior managers have completed one or more of our internal training programmes. We will complete the first Halma Certificate in Applied Technology (HCAT) programme.</p>
<p>Acquisitions</p> <p>We acquire companies with business and market characteristics like Halma. They have to be a good fit with our operating culture and value-enhancing financially. We have considerable financial resources to invest in further acquisitions to accelerate growth and penetration in our chosen markets.</p>	<p>We acquired SphereOptics (New Hampshire, USA) for an initial consideration of £1.7m in January 2010 to add to our Photonics businesses in Health and Analysis.</p>	<p>We have stepped up our acquisition search activity and we are looking for opportunities in all three of our sectors. Currently, we are seeing most opportunities in Health and Analysis and, geographically, in the USA and Europe. We could comfortably spend £100m on acquisitions.</p>

Our Resources

Resources

We have access to the resources necessary to support investment for organic growth and acquisitions. Operationally, we have a decentralised structure which places our R&D, manufacturing, sales and marketing resources within each Halma company under the management of the local board.

Relationships and resources breakdown



External relationships

We aim to work in partnership with our **customers** not only to ensure their short-term needs are met but also to ensure that we design new products which meet their medium- and long-term needs. Since we have such a diverse customer base, our decentralised structure enables our companies to develop more intimate relationships with their customers than would be possible if we were more centralised.

Whilst we assemble products locally, we source our components globally. Halma companies often collaborate to locate high quality **suppliers** of common technologies or component types and are required to ensure suppliers meet our ethical standards.

If we do not have the commercial or technical resources within the Group, we will develop relationships with **strategic partners** such as universities, specialist design businesses and value-adding distributors. These relationships often add new technology and expertise to product development or identify new market opportunities.

We have to develop good relationships with industry **regulators** who regulate the quality of suppliers (like us) or our customers. Many Halma companies will be represented on industry regulatory bodies as technical experts to ensure regulatory codes are implemented in light of the latest technology and best practice.

Halma recognises the need to listen closely to the views given by **shareholders and corporate advisers** such as our bankers, brokers and investor relations partners. They provide valuable insight gained through their involvement with a broad array of other businesses and commercial situations.

Internal resources

During the past year, the economic conditions have resulted in us reducing our average headcount by 8%. Despite this we have increased our investment in training and development of **employees** since this is critical to our medium- and long-term success. In 2010, we are launching a new programme aimed at technical staff. Halma is also committed to maintaining a strong health and safety record within its business under the guidance of the local company management teams.

In general our manufacturing is relatively light and not capital intensive. We do have some **fixed assets** which are critical to our businesses (for example, thin film coaters in Photonics). The average direct labour content of our products is less than 5% of the selling price. This allows us to locate operations close to our customers rather than be driven to position them in the lowest cost region. Decisions to establish manufacturing facilities in low cost regions are made because we see local sales opportunities.

Our **technical** resources include our people, patents and specialist application know-how. Often our competitive advantage is built on knowing how to reliably apply a proven technology in very specific situations whilst meeting stringent regulatory requirements. We invest at least 4% of revenue in R&D and this, together with acquisitions, continues to refresh and strengthen our intellectual assets. We encourage our companies to collaborate on technical issues through our various training programmes and the HITE event held in May 2009.

We have sufficient **financial** resources to meet our organic and acquisition growth objectives. We operate with a strong system of financial control and audit the value and location of our cash on a weekly basis. Due to our high returns, we encourage our companies to make capital investments in accordance with a strict but speedy approvals process.

Halma companies are typically the leader (in the top five) in their specialised markets and therefore each has a strong product **brand**. These brands are synonymous with high quality products and service levels and in some cases are used as the generic industry term for a particular product type.

Our Key Performance Indicators

We continue to maintain a clear focus on achieving organic growth, maintaining high returns, investing in new products and generating cash.

		Definition	Performance	Target
<p>Organic Revenue Growth¹ %</p> <p>2010 0.5% Target >5%</p>		Organic revenue growth measures the change in revenue achieved in the current year compared with the prior year from continuing Group operations. The effect of acquisitions and disposals made during the current or prior financial period has been equalised.	Modest organic growth against the background of tough economic conditions. Over the last five years our average rate of organic growth has been 8% p.a.	The Board established a minimum organic growth target of 5% representing the blended long-term average growth rate of our markets.
<p>Return on Sales¹ %</p> <p>2010 18.8% Target >18%</p>		Return on Sales is defined as adjusted profit before taxation ¹ from continuing operations expressed as a percentage of revenue from continuing operations.	High returns achieved representing a significant improvement in performance against the previous year.	From 2010 we aim to achieve a Return on Sales of at least 18% with the potential to exceed 20% as rates of revenue growth increase.
<p>Organic Profit Growth¹ %</p> <p>2010 9.0% Target >5%</p>		Organic profit growth measures the change in profit achieved in the current year compared with the prior year from continuing Group operations. The effect of acquisitions and disposals made during the current or prior financial period has been equalised.	Strong organic profit growth achieved exceeding the target. This resulted from the planned increase in product margins, good control of overheads and the benefit of favourable currency movement (+4%). Over the last five years our average rate of organic growth has been 8% p.a.	The Board established a minimum organic growth target of 5% representing the blended long-term average growth rate of our markets.
<p>ROTIC (Return on Total Invested Capital)¹ %</p> <p>2010 13.6% Target >12%</p>		Return on Total Invested Capital is defined as the post-tax return from continuing operations before amortisation of acquired intangibles as a percentage of adjusted shareholders' funds as detailed in note 3 to the Accounts.	High returns maintained in excess of our current Weighted Average Cost of Capital (WACC) of 8.5% (2009: 9.0%).	The target of 12% was set in 2005 when the Group's ROTIC was 12.1%; a range of 12% to 14% is considered representative of the Board's expectations over the long term.

¹ See Financial Highlights.

		Definition	Performance	Target												
<p>ROCE (Return on Capital Employed)¹ %</p> <p>2010 61.3%</p> <p>Target >45%</p>	<table border="1"> <caption>ROCE Data</caption> <thead> <tr> <th>Year</th> <th>ROCE (%)</th> </tr> </thead> <tbody> <tr> <td>2006</td> <td>60</td> </tr> <tr> <td>2007</td> <td>62</td> </tr> <tr> <td>2008</td> <td>58</td> </tr> <tr> <td>2009</td> <td>50</td> </tr> <tr> <td>2010</td> <td>61.3</td> </tr> </tbody> </table>	Year	ROCE (%)	2006	60	2007	62	2008	58	2009	50	2010	61.3	<p>Return on Capital Employed is defined as the operating profit from continuing operations before amortisation of acquired intangibles as a percentage of capital employed as detailed in note 3 to the Accounts.</p>	<p>Very high returns above the target level achieved. The significant increase against the prior year was due to concerted efforts to improve profitability and reduce the operating capital base.</p>	<p>The target is set in order to ensure the efficient generation of cash at all levels to fund organic growth, closely targeted acquisitions and sustained dividend growth.</p>
Year	ROCE (%)															
2006	60															
2007	62															
2008	58															
2009	50															
2010	61.3															
<p>R&D as Percentage of Revenue %</p> <p>2010 4.7%</p> <p>Target >4%</p>	<table border="1"> <caption>R&D as Percentage of Revenue Data</caption> <thead> <tr> <th>Year</th> <th>Percentage (%)</th> </tr> </thead> <tbody> <tr> <td>2006</td> <td>4.2</td> </tr> <tr> <td>2007</td> <td>4.4</td> </tr> <tr> <td>2008</td> <td>4.6</td> </tr> <tr> <td>2009</td> <td>4.8</td> </tr> <tr> <td>2010</td> <td>4.7</td> </tr> </tbody> </table>	Year	Percentage (%)	2006	4.2	2007	4.4	2008	4.6	2009	4.8	2010	4.7	<p>Total research and development expenditure in the financial year (regardless of whether or not it was capitalised) as a percentage of revenue from continuing operations.</p>	<p>Total spend in the year was £21m (2009: £23m) exceeding the 4% of revenue target. All three sectors exceeded the 4% target this year.</p>	<p>New products contribute strongly to achieving organic growth, maintaining high returns and building strong market positions. The 4% minimum investment target is appropriate to the mix of product life cycles and technologies within Halma.</p>
Year	Percentage (%)															
2006	4.2															
2007	4.4															
2008	4.6															
2009	4.8															
2010	4.7															
<p>Operating Cash to Profit %</p> <p>2010 131%</p> <p>Target >100%</p>	<table border="1"> <caption>Operating Cash to Profit Data</caption> <thead> <tr> <th>Year</th> <th>Percentage (%)</th> </tr> </thead> <tbody> <tr> <td>2006</td> <td>125</td> </tr> <tr> <td>2007</td> <td>110</td> </tr> <tr> <td>2008</td> <td>108</td> </tr> <tr> <td>2009</td> <td>112</td> </tr> <tr> <td>2010</td> <td>131</td> </tr> </tbody> </table>	Year	Percentage (%)	2006	125	2007	110	2008	108	2009	112	2010	131	<p>Cash generated from operations expressed as a percentage of adjusted profit from continuing operations¹.</p>	<p>Cash conversion of 131% was well above the target, an excellent performance across the Group. Cash generation continues to receive close attention at subsidiary company and Group level.</p>	<p>The goal of cash inflow exceeding 100% is a metric that has relevance at all levels of the organisation and aligns management action with the strategic goals of organic growth, acquisitions and progressive dividends.</p>
Year	Percentage (%)															
2006	125															
2007	110															
2008	108															
2009	112															
2010	131															

See page 44 for non-financial KPIs

Chairman's Statement

Record profit and increased rate of dividend growth reflect Halma's resilience and adaptability



Geoff Unwin Chairman

Dividend per Share +7%	8.50p (paid and proposed)
Adjusted Earnings per Share ¹ +10%	16.89p

Halma: what we do and our strategy

Our business is to make 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 niche 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 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 reinvest in 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; something we have achieved for more than 30 consecutive years.

Results

Full year revenue increased by 1% to £459.1m (2009: £455.9m), organic revenue growth¹ was flat and at constant currency, showed a decline of 3%. Profit before tax and amortisation of acquired intangibles increased by 9% to £86.2m (2009: £79.1m), virtually all organic and we achieved 5% profit growth at constant currency. Statutory profit before tax increased by 12% to £81.4m. Return on Total Invested Capital was 13.6% (2009: 13.1%), Return on Capital Employed at the operating level increased to 61.3% from 47.7% in the previous year. Cash generation was excellent moving from net debt at the end of 2009 of £51.2m to net cash at the end of 2010 of £9.1m.

¹ See Financial Highlights.

The Board is recommending a final dividend of 5.19p per share, an increase of 8.6% giving a total dividend for the year up 7.2% to 8.50p. The final dividend is subject to approval by shareholders and will be paid on 25 August 2010 to shareholders on the register on 23 July 2010. Dividend cover is 1.98 times (2009: 1.92 times) meeting our objective of around 2 times cover.

These results show both the resilience and adaptability of Halma in difficult and uncertain times. Action to reduce costs was taken promptly (more detail in Andrew Williams' report) and this is also reflected in a significant improvement in Return on Sales from 17.3% in 2009 to 18.8%. However, this was not achieved by a major reduction in investment; expenditure on R&D was 4.7% of revenue compared to 5% the previous year. Investment in training and development was also maintained at the same level, vital for the future of Halma.

Geographic expansion

It is pleasing to see our strategic investments in China and India bearing fruit. Sales to China increased by 59%, fuelled in part by the massive investments being made in this region's infrastructure. In 2010, we decided to increase our sales and support capability even further by investing in three additional regional centres (expanding on our existing bases in Shanghai and Beijing) which should benefit all our sub-sectors. Our manufacturing capability in China is also expanding. This year we will explore further the merits of additional investment into other high-growth territories.

Five years ago our sales outside the USA and Europe were £53m – this year they were £98m. As a result of our strategic actions to encourage expansion into high growth markets outside the USA and Europe, within two to three years, sales outside these territories should grow even further and begin to have a material effect on the growth rate of the Group overall.

Acquisitions

Because of the general uncertainty in earnings outlook, we took a cautious view on acquisitions during the year and only invested £1.7m in acquiring SphereOptics, a good addition to our Photonics activities.

Meanwhile, we have plenty of financial capacity with net cash and longer term facilities in place to comfortably finance a further £100m of investment. However, our acquisition screening remains as rigorous as ever to make sure that both our strategic and financial criteria are met.

Governance

There were no changes to the Board during the year but we continue to evaluate performance thoroughly, and as always, with an eye to appropriate succession on the Board.

People

It has been a hard and uncertain market for many of our companies. It has been pleasing to see how well company boards have reacted to their own markets, taking the necessary actions as appropriate i.e. playing it as they see it. It is this proactive and adaptable attitude that is a key strength of Halma. To everyone in the Group, my sincere thanks for all your actions and dedication.

Outlook

As we have seen, the Group can react swiftly to the market conditions as they unfold and will continue to invest in people, innovation and market development. This, together with strong cash generation which supports our efforts to grow organically and make acquisitions, gives us confidence for the future.

Geoff Unwin

Chairman

Chief Executive's Strategic Review 2010

We have greater momentum than a year ago and are well positioned to achieve growth



Andrew Williams Chief Executive

Revenue +1%	£459m
Adjusted profit before taxation ¹ +9%	£86.2m
Operating cash to profit	131%

A record year with momentum for the future

For the 53 weeks to 3 April 2010, adjusted profit¹ grew by 9% to £86.2m (2009: £79.1m) with underlying organic growth¹ of 9%, a 5% increase in constant currency. Revenue increased by 1% to £459.1m (2009: £455.9m) with underlying organic growth¹ of 0.5%, a 3% decline in constant currency.

These record results were accomplished during uncertain and challenging economic conditions and they reflect both the strength of Halma's fundamental strategy and the quality of our management. Cash generation was exceptionally strong which, together with continued investment and improving order intake levels, provides momentum for the future.

Cash generation is one of our key strengths and this year's performance was particularly impressive. We ended the year with net cash of £9m having started it with net debt of £51m. We maintained a healthy level of capital expenditure, paid a record dividend to shareholders and made a small acquisition. We are in a strong financial position and have core borrowing facilities of £165m in place until 2013. We can comfortably deploy up to £100m on acquisitions, should we find the right opportunities.

Order intake levels, which were very volatile a year ago, first stabilised and then improved as the year progressed. In the second half of 2009/10, order intake was 9% higher than the first half, giving a 4% increase for the year overall. We finished the year with an order book 14% higher than a year ago. Whilst our order book is typically equivalent to only six weeks of Group revenue, the improving trend left us well placed for the start of 2010/11.

High returns increased further

We acted decisively to reduce costs. Each business did so according to their individual market needs with the overall impact on the Group being an 8% headcount reduction. Product margins increased by more than one percentage point due to improved efficiency in manufacturing. This enabled us to increase Return on Sales¹ to 18.8% (2009: 17.3%). We aim to achieve a Return on Sales of at least 18% with the potential to exceed 20% as rates of revenue growth increase.

Good management of our operating assets combined with earnings growth increased our Return on Total Invested Capital¹ (ROTIC) to 13.6% (2009: 13.1%) whilst, our Return on Capital Employed¹, a better measure at the operating company level, rose to 61.3% (2009: 47.7%).

Our adjusted profit¹ of £86.2m includes £2.7m of restructuring costs (2009: £1.2m) predominantly related to the reduction in headcount. We achieved our overall objective of reducing our direct and indirect costs by at least £20m p.a. relative to our run-rate during the second half of 2008/09.

¹ See Financial Highlights.

A key objective for the future is to ensure that as order intake improves, we add an increasing proportion of our resources to growth generating activities like R&D and selling.

Our employees at all levels have achieved tremendous results during a period of uncertainty and, in many businesses, disruption caused by redundancies. I thank all of them for their commitment and determination in ensuring that we continued to meet the expectations of customers and, consequently, our shareholders.

Macro-economic, regulatory and competitive environment

Our expectation for 2009/10 was that the macro-economic environment would continue to be challenging but that there would be opportunities to offset this through market share growth in developed regions, rising demand in developing regions and acquisitions.

Whilst a slowdown in our markets did make organic growth more difficult to achieve, we proved that we have a resilient business mix. Many Halma businesses have products which are driven by non-discretionary customer spend and are sold into diverse geographic regions and end-markets. They benefit from strong market positions providing upgrading and replacement sales opportunities. We are not over-reliant on any single region, market or customer with our largest customer constituting less than 2% of revenue.

Increasing environmental and safety legislation in our markets creates relatively robust demand for our products. Global, national and regional product approvals or technical validations are an increasing cost and technical challenge, but also provide a hurdle to new market entrants.

Our wide spread of activity in niche markets means that competition issues are best dealt with by management at company or sub-sector level. Details are given in the Sector reviews on pages 16 to 31.

Our primary market growth drivers

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 developing positions in markets 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 due to the following resilient growth drivers:

Increasing demand for energy and water

Demand for energy and water continues to rise driven by population growth and mobility, rising living standards, changes in food consumption and biofuels energy production.

Although global consumption of marketed energy contracted by 2.2% during 2009, the latest projection from the US Government's energy statistics office is for a 49% increase between 2007 and 2035. In non-OECD countries, energy demand is predicted to rise by 84% in the same period.² Water demand also rises relentlessly. Global population growth translates into an annual increase in fresh water demand of 64 billion cubic metres.³

Several of our Health and Analysis businesses are positioned to benefit from the rising demand for energy and water. Continued investment in oil and gas exploration and extraction drives demand for our Industrial Safety products.

Increasing urbanisation and ageing of population

The world population, which stood at 6.8 billion in 2009, will reach 9 billion by 2050. Most of those additional 2.2 billion people will enlarge the population of developing countries, projected to rise from 5.6 billion in 2009 to 7.9 billion by 2050.⁴

The global population is ageing. The number of people over 60 is growing at 2.6% per year, faster than the 1.2% annual rise in the overall population.⁵

About half of the world's population (3.4 billion) now live in urban areas, predicted to increase to almost 5 billion by 2030. Rapid urban growth is predicted in the developing world where the urban population is expected to double between 2000 and 2030. By 2030, 81% of the world's urban population will live in the developing world.⁶ Urbanisation drives investment in non-residential buildings like shops, offices, schools and hospitals, the primary market for our Infrastructure Sensors while a growing and ageing population drives demand for Health and Analysis products.

² International Energy Outlook 2010, <http://www.eia.doe.gov/oiaf/ieo/index.html>, US Energy Information Administration.

³ World Water Assessment Programme. 2009. The United Nations World Water Development Report 3: Water in a Changing World. Paris: UNESCO, and London: Earthscan.

⁴ World Population Prospects – The 2008 Revision, Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat. June 2009.

⁵ World Population Ageing 2009. Department of Economic and Social Affairs, Population Division, United Nations, 2009.

⁶ State of the World Population 2007, United Nations Population Fund.

Chief Executive's Strategic Review 2010

continued

Increasing demand for healthcare

Worldwide demand for healthcare and health-related products continues to increase, driving growth in our Health and Analysis markets. Healthcare spending is growing rapidly in the developed world, particularly in the USA where it rose from \$2.39tn in 2008 to \$2.50tn in 2009. Health spending accounted for about 17.6% of US GDP in 2009, but is expected to climb to over 20% by 2018.⁷

Population growth and rising incomes in the developing world also drive healthcare demand. Population ageing creates rising healthcare needs and as incomes rise health services are becoming available to an increasing number of people in the developing world. Healthcare spending in China is projected to rise to \$600bn by 2015, a threefold increase over expenditure in 2000.⁸ Continuous advances in medical technology create new medical procedures, also stimulating demand for new instruments and equipment.

Increasing health and safety regulation

Every day a million workers will suffer an accident at work, and about 5,500 workers will die due to a work-related accident or disease. This adds up to an estimated 2.3m people dying from work-related hazards every year.⁹ The International Labor Organization suggests that there are 270 million occupational accidents and 160 million cases of occupational disease annually.¹⁰ In addition to human tragedy, workplace accidents and sickness have a significant financial impact. A rough estimate suggests that direct and indirect costs of occupational accidents and diseases represent 4% of annual global GDP [US\$1.25tn].⁹ In response, governments throughout the world enact increasingly strict laws and regulations to protect workers from workplace hazards. Continuing integration of regional economies through globalisation extends health and safety regulation to developing regions. The combination of increasing safety regulation and globalisation drives demand for our Industrial Safety and Infrastructure Sensors products.

Sector performances

After a solid performance in the first half year, all of our three business sectors significantly improved profits in the second half.

Infrastructure Sensors resilient

Infrastructure Sensors had a resilient year with profit¹¹ increasing by 8% to £35.5m (2009: £33.0m) on revenue down 2% to £182.9m (2009: £186.0m). Organic profit growth was 9% (5% at constant currency) whilst organic revenue growth was 1% (a 3% decline at constant currency). Door Sensors had a very good year, gaining market share through a combination of new product launches and continuously improving service levels worldwide. Elevator Safety revenue was flat and profit slightly up whilst Fire Detection increased profit despite seeing some weakness in demand in the UK and US markets. Security Sensors generated revenue growth in its core markets, the UK and Mainland Europe, but overall profit was lower following the sale of our South African subsidiary in 2008/09.

Health and Analysis strong

Health and Analysis performed very strongly, increasing revenue by 7% to £176.0m (2009: £165.1m) and profit¹¹ by 23% to £35.3m (2009: £28.7m). Organic profit growth was 21% (15% at constant currency) whilst organic revenue growth was 3% (a 3% decline at constant currency). Water increased profits despite lower revenue. Health Optics, Fluid Technology and Photonics delivered strong profit increases with Photonics starting to gain traction in China and Asian markets.

Industrial Safety improving

After a tough first half, Industrial Safety achieved revenue and profit growth in the second half of the year. Full year revenue was down by 4% at £100.5m (2009: £105.0m) compared to an 11% decline at the end of the first half. Full year profit¹¹ was down by 11% at £19.8m (2009: £22.2m), a significant improvement on the 29% decline reported for the first half year. In recent months, some larger prospects were finally converted into orders, most notably in South America and Asia.

Both Safety Interlocks and Gas Detection performed solidly whilst Bursting Disks benefited from improved order intake in the second half. Asset Monitoring had a disappointing year although a slight improvement in order intake in recent months and the benefits of significant restructuring during the past year provide optimism for an improved performance in 2010/11.

Our strategic directions

We aim to operate in global specialised markets offering long-term growth with technology able to sustain high returns. We have clear strategic priorities based on five principal areas:

Organic growth

We aim to continue to deliver organic growth of at least 5% which we believe is the blended medium-term growth rates of our end markets, aiming to maintain a balance between investment and profitability. Over the last five years our average rate of organic growth has been 8% per annum.

International expansion with a focus on Asia

Asian markets offer significant and long-term growth potential for our businesses. We have increased investment to help our companies build a local presence in key regions.

The regional revenue trends were more mixed than in recent years. Revenue from the Far East and Australasia grew by 9% to £59m despite the adverse impact of the disposal of our Resistors business in Australia, in 2008/09. Encouragingly, revenue from China grew by 59% to £18m and has almost tripled since we established Halma hubs in Shanghai and Beijing in mid-2006. China now represents 4% of total revenue and we plan to significantly increase our investment there in 2010/11 by adding three new regional commercial hubs in Chengdu, Guangzhou and Shenyang.

Revenue in the UK fell by 6% to £98m (2009: £104m) with all three sectors down. Here, we saw some improvement in the latter part of the year, especially in Industrial Safety. In the USA, revenue increased by 5% to £127m (2009: £121m). Here, our Infrastructure Sensors businesses saw the most challenging market conditions, particularly Fire Detection. Mainland Europe's revenue increased by 2% to £136m (2009: £133m) and all three sectors showed modest improvements. The significant reduction in revenue from Africa, Near and Middle East of 14% was mainly due to last year's disposal of our Security Sensors business (based in South Africa).

High rate of innovation

We value both product and process innovation since the latter often results in significant competitive advantage and market share gain.

⁷ Health Care Trends, Plunkett Research Ltd, 2009.

⁸ Healthcare Market in China, Opportunities, Scientia Advisors, LLC, 2010.

⁹ Facts on Health and Safety at Work, International Labor Organisation, 2009.

¹⁰ Safety and health at work, ILO website.

¹¹ See note 1 to the Accounts.

In May 2009, we held our first Group-wide innovation and collaboration event, HITE (Halma Innovation and Technology Exposition). HITE not only increased the visibility and transfer of knowledge between Halma businesses, but also provided the opportunity for us to agree clear investment priorities for the year ahead. Despite the understandable increased focus on reducing costs, I am pleased that investment in growth for the medium term was maintained.

R&D expenditure during 2009/10 was £21m (2009: £23m) remaining close to 5% of revenue and above our minimum 4% target level. Importantly, we are seeing a steady improvement in the productivity of this investment. An example of this was the strength of entries for the internal Halma Innovation Awards 2010, which offered a first prize of £20,000.

This year's winners were Ocean Optics, one of our Photonics companies, who devised a new method of optical filtering enabling their low cost optical analyser to compete with much larger and complex systems for a fraction of the cost. Runners-up were Volumatic who developed an intelligent cash counting system for major retailers which not only securely collects bank notes at the counter but also detects forgeries within seconds of receiving payment from the customer. Fire Fighting Enterprises were in third place with a self-adjusting laser-based fire detector which is used in large building spaces such as museum halls.

These award winners highlight the shift towards higher technology we have seen across Halma over the past decade and the depth of application knowledge within our specialist niche market businesses. Both these factors help us generate and maintain high returns.

Management development

Increased investment in training improves the quality and flexibility of our senior management, raises performance and creates opportunities for career progression. Our increased investment during the past five years really benefited us this year. Senior managers across the Group were well equipped to assess the impact of the global recession on their business, determine the appropriate strategy and take quick action to reduce costs appropriately. This localised decision making and resource allocation will continue to serve us well during any uncertain times ahead, particularly as we have such diverse end-markets.

The various Halma people development programmes offer training opportunities beyond subsidiary board level to all managers in the Group. During 2009/10, 130 managers attended Halma programmes and many more benefited from training organised within their subsidiary company. In 2010, we are introducing a new programme targeted at our technical engineers to equip them with a broader understanding of Halma's technology, improve their productivity and provide specific skills training in areas such as project management.

Acquisitions

We look to buy companies with business and market characteristics like Halma. They have to be a good fit with our operating culture and strategy in addition to being value-enhancing financially.

2009/10 was a relatively quiet year for investment in both capital expenditure and acquisitions. This reflected a more cautious approach while we took care of our own operational challenges and understood how strong businesses like Halma would perform during the downturn. Capital investment was £11.0m compared to £16.8m in 2008/09.

We made one small acquisition during the year, adding SphereOptics to our existing Photonics business Labsphere, a market-leading light measurement company based in New Hampshire, USA. We paid \$2.5m at completion with up to \$3.5m to follow over the next two years should certain profit growth targets be achieved.

In recent months we have increased our acquisition search activity. Our experience has been that vendors of good quality businesses are now keener to talk but that many remain cautious about whether to sell now or to wait in the hope that markets will recover in the medium term. Our task is to convince them that they will achieve even greater success by being part of Halma now and to structure deals accordingly.

We continue to search for businesses in all of our existing market sectors and in all geographic regions.

Delivering corporate responsibility and sustainability

The positive impact that our products have on customers, on society and on the environment is a significant source of satisfaction and motivation for all our employees. Halma's commitment to the environment, safety and improving the quality of life for individuals is shown not only in the solutions we create for our customers but also in the way we do business. Our Corporate Responsibility review on page 44 details our commitment in greater depth and includes the clear objectives we set ourselves in areas ranging from carbon policy to the safety of employees. These objectives make good business sense and are reviewed regularly by the Board so that, where necessary, action is taken to address issues as they arise.

Strategic actions to sustain success during the recent changing market conditions have varied between each Halma business. For example, in some markets we anticipated falling demand by cutting costs so that overheads were aligned with revenue. Our strong balance sheet and committed debt facilities have enabled us to take advantage of opportunities requiring capital expenditure in existing businesses or investment in acquisitions.

Throughout our businesses we will continue to invest in customer-facing resources and maintain R&D spend to extend technology leadership. Our aim continues to be to emerge from the current downturn with larger market shares, improved competitive positions and strong margins.

Outlook

In 2009/10, we achieved our stated objective of maintaining short-term returns through active cost control and protecting medium-term growth through continued investment. During the past year it has become clearer that our sustained increased investment in innovation, management and international expansion has made us a stronger business. Our aim for the coming year is to translate this into higher rates of growth and even higher rates of return.

Coming into 2010/11 we have greater momentum than a year ago, particularly in terms of order intake, and are well positioned to achieve growth. Therefore, we look forward to the year ahead with confidence.

Andrew Williams

Chief Executive

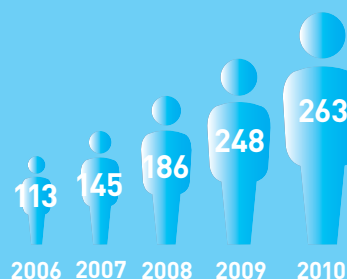
Strategy in Action**Organic Growth** Asian Business Expansion

Halma hubs accelerate Asian expansion

Past To stimulate international sales growth, particularly in Asia, we set up two Halma hubs in Shanghai and Beijing in 2006. These full-service business centres have provided a quick start platform for rapid market entry for our companies.

Future Our target is to increase revenue from outside Europe and the USA to 30% of the Group total by 2015. During 2010/11 we will invest in setting up a further three serviced business centres in China, expanding our geographic representation and providing a more responsive service for our Chinese customer base.

7%
of all Halma
employees
work in China



Revenue

+299%

Revenue from China has grown by 299% over the past 5 years

Key to map

-  Serviced business centre (hub)
-  Shared/hub manufacturing facility
-  Manufacturing facility
-  Planned new sales hub

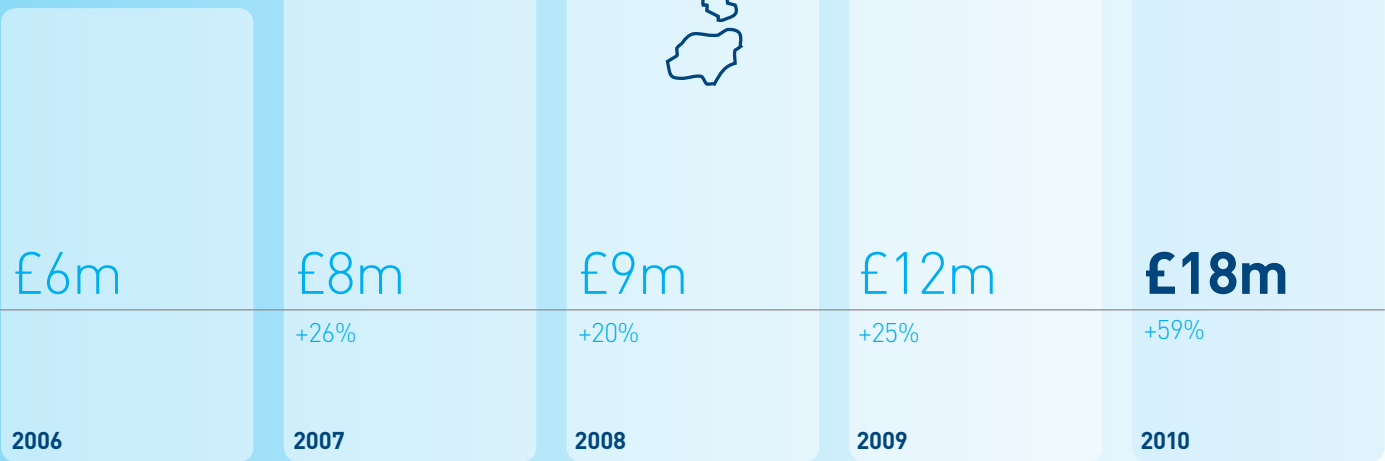
4
Number of Halma companies present in 2006

20
Number of Halma companies present in 2010

The hub offices in Beijing and Shanghai host seven to eight companies each in addition to stand-alone and manufacturing operations in China.











The Shanghai manufacturing hub opened in 2008 and is home to Halma companies in Fluid Technology, Safety Interlocks and Photonics.



Sector Reviews

Infrastructure Sensors

We make products which detect hazards to protect assets and people in public and commercial buildings. Infrastructure Sensors contributed 40% of total revenue (£183m) and 39% (£36m) of profit*.

Strategic summary	Achievements		Directions		
	<ul style="list-style-type: none"> – Organic profit growth of 9% – Organic revenue growth of 1% – 33% revenue growth in China – R&D expenditure 5% of revenue with new product launches in all sub-sectors – Key succession planning completed in Elevator Safety and Automatic Door Sensors – Consolidated security sensor businesses 		<ul style="list-style-type: none"> – Sustain organic growth – Increase resources and revenue in Asia, particularly Fire and Security – Increase revenue from the USA for Fire and Security – Maintain R&D investment at 5% of revenue – Continue diversification of Automatic Door Safety into industrial, security and transport markets – Bolt-on acquisitions 		
Market growth drivers	<ul style="list-style-type: none"> – Increasing urbanisation and ageing of population – Increasing health and safety regulation 				
Sub-sectors	Fire Detection	Security Sensors	Automatic Door Sensors	Elevator Safety	
Key products					
	Fire and smoke detectors and audible/visual warning devices. World's second largest manufacturer of point smoke detectors used in public and commercial property.	Security sensors and signals used in public and commercial property. Market leaders in the UK.	World leader in sensors used on automatic doors in public and commercial buildings.	World leader in elevator/lift door safety sensors. We also make emergency communication devices, displays and control panels for elevators.	
					
Where we operate	<ul style="list-style-type: none"> – Australia – Belgium – Canada – China 	<ul style="list-style-type: none"> – Czech Republic – France – Germany – Hong Kong 	<ul style="list-style-type: none"> – India – Ireland – Italy – Japan 	<ul style="list-style-type: none"> – New Zealand – Singapore – Spain 	<ul style="list-style-type: none"> – UAE – UK – USA

* See note 1 to the Accounts.

Sector KPI measurements

	Sector performance	Group target	✓/✗
Revenue growth ¹	(2%)	>5%	✗
Profit growth ¹	8%	>5%	✓
Return on Sales ²	19.4%	>18%	✓
ROCE ³	75%	>45%	✓
R&D/Revenue ⁴	4.9%	>4%	✓

¹ Sector revenue and adjusted⁵ sector profit before finance expense are compared to the equivalent prior year figure.

² Return on Sales is defined as adjusted⁵ profit before finance expense and taxation expressed as a percentage of sector revenue.

³ Adjusted⁵ 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.

Market trends and growth drivers

The global **Fire Detection** and suppression market declined by around 3% during 2009, but it is expected to recover during 2010 due to stricter regulation and adoption of new technology¹. Changes to fire regulations worldwide continue to drive demand for our non-discretionary fire products. Sales of voice-enhanced alarms are set to grow following changes to the US National Fire Alarm Signalling Code covering emergency mass-notification systems². China's fire laws have been amended with harsher penalties for owners of buildings lacking adequate fire protection.

In many countries the **Security Sensors** sub-sector is highly regulated, and local or international technical product approvals are essential. After considerable costs and investment of R&D resources, we can now sell our UK-manufactured security control products in the USA and Canada backed by the required Underwriters' Laboratories approvals. The intruder detection market is primarily driven by residential systems installations, with demand dependent on new housing construction. A new line of wireless security sensors is targeted at commercial premises. This new technology will provide a platform for growth even if the residential market remains flat.

Legislation on the safety of people and processes continues to drive the market in both new and renovated facilities. We continue to forecast medium-term **Automatic Door Sensors** market growth at 3% to 4%. We have compensated for the fall in demand in the commercial construction sector due to the recession by winning business from new customers and diversification into industrial, security and transport markets. Our growth in Europe and China was ahead of market growth rates. The transport sector offers considerable growth prospects for door safety products.

The **Elevator Safety** market splits into modernisation of installed elevators and installations in new buildings. Western countries account for the majority of installed elevators while Asian economies, particularly China, dominate the new installations market³. During 2009/10 we saw large variations in regional demand. Last year we reported falling demand due to a decline in new building construction, particularly in China. During 2009/10 this trend reversed and China was our strongest market. Now the largest elevator market in the world, Chinese elevator output rose by about 5% on the previous year⁴ and sales in India rose too. In the USA, we saw a small benefit from US Government public housing spending, but we expect the US market to remain weak in the short term. Demand in Europe was patchy, but strong in the UK and Spain.

Sector strategy

Our primary strategy in the Infrastructure Sensors sector is world leadership in safety-critical sensor products for infrastructure monitoring in commercial buildings. We develop market-leading products that eliminate hazards and protect buildings and their occupants. These products satisfy the demand driven by increasingly strict public safety and building regulations in the highly regulated construction and building maintenance markets. Our fire, elevator and door controls are primarily targeted at commercial premises and security products are largely installed in apartments and houses. We aim to grow our presence in the commercial premises market for our security products.

¹ IMS Research; World Market for Fire Detection & Suppression Products 2010 Edition. Author Justin Siller; published Feb 2010, Table 5.3 page 220.

² NFPA-72-2010: National Fire Alarm and Signalling Code, US National Fire Protection Association.

³ Global Escalators & Elevators Market Report: 2009 Edition. http://www.researchandmarkets.com/reports/693893/global_escalators_and_elevators_market_report

⁴ China Elevator Industry Report, 2009, TD The Market Publishers Ltd.

Sector Reviews

Infrastructure Sensors

continued

To avoid competing with global customers that install complete building monitoring systems, we position our businesses as specialist suppliers of safety-critical components, not as complete system suppliers and installers.

Continued investment in international **Fire Detection** product approvals will give our fire businesses access to new geographic markets. We will continue to invest in innovative technology to maintain competitive advantage and premium margins. In addition to organic growth we will continue to seek acquisitions.

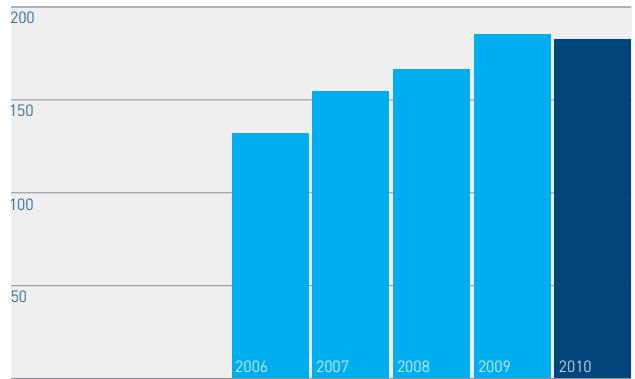
In **Security Sensors** our strategic focus is geographic expansion to reduce exposure to the UK market and an increase in the proportion of non-residential sales. We believe we can grow market share through market-leading technology and customer service. New advanced technology products were launched in the first quarter of 2010. These address the need for security detection in outdoor areas and wireless intruder detection systems, particularly in commercial premises. During the year we integrated our hazard signalling and security sensors businesses. This is expected to contribute to sales growth, reduce production costs and raise margins in the coming year.

While maintaining our leadership of **Automatic Door Sensors** for pedestrian doors, we will continue to increase sales penetration in the industrial door, security and transportation markets. We will continue to implement lean manufacturing and improved logistic systems to enhance customer service. Following the successful launch of a unique laser-based door sensor into the industrial market, we will extend this technology platform into other markets.

Elevator Safety strategy differs from other Halma sub-sectors in the extent of co-ordination between our companies and active elimination of duplicated sales and marketing activity. Each of our three elevator businesses sells the products of its sister businesses within regional markets. We will continue this overall strategy.

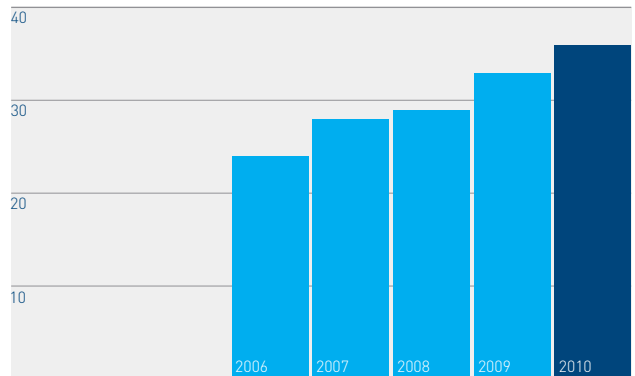
Revenue £m

£183m
(2%)



Profit* £m

£36m
+8%



* See note 1 to the Accounts.

Sector performance

2009/10 was a good year overall for our **Fire Detection** sub-sector with profit growth due to careful cost management. Despite challenging market conditions due to weakness in the home, retail and commercial construction markets globally, we grew market share strongly in the UK and made significant gains in Europe. We continue to innovate and launch exciting new products that will underwrite our success going forward.

As expected our **Security Sensors** business saw reduced revenue and profits due to the sale of its South African business in 2008/09. Despite continued market weakness, careful cost control ensured we delivered an improved Return on Sales.

We achieved a strong performance in **Automatic Door Sensors** with double-digit revenue and profit growth. During 2009 we won major orders in China for sensors fitted to the doors of high speed trains.

2009/10 was a mixed year for **Elevator Safety**; revenues were flat and profit slightly up. We started the year with our cost base reduced in line with expectations of tough market conditions. Demand was a little better than anticipated. We increased unit volume sales of elevator safety edges in China considerably. Innovative technology can drive sales even in a recession and a new elevator emergency telephone which complies with the latest European regulations generated encouraging sales in the first year.

Sector outlook

We anticipate a continuation of current demand trends for **Fire Detection** in the short to medium term. Many economies are gradually recovering from recession but new construction activity is expected to lag behind other economic sectors. Our businesses are positioned to gain market share due to technology leadership, our portfolio of worldwide product approvals and penetration of new regional markets.

We anticipate **Security Sensors** revenue growth based on extended sales channels and new technology even though end markets are expected to remain flat. Recently agreed partnership deals in Asia and Europe will add new opportunities for growth in regions where sales have previously been low. Our new wireless security sensors product line is expected to establish a market-leading position and contribute to growth in the coming year.

Increasing regulation continues to drive growth for **Automatic Door Sensors**. Our strategy of continuously updating our offering with innovative new technology, extending geographical sales resources and new market entry, should create a platform for continued growth despite the constraints of some markets which show few signs of recovery.

Global **Elevator Safety** product demand is forecast to rise by over 4% annually at least until 2013. China will account for nearly half of all new demand, while Western Europe remains the largest market for modernisation⁵. The expectation is for markets to remain flat outside of Asia. In spite of unfavourable overall market conditions, continued growth of Asian economies, particularly China, will provide opportunities for our businesses. Further advances should come from winning market share and sales of range-extending products like emergency telephone equipment.

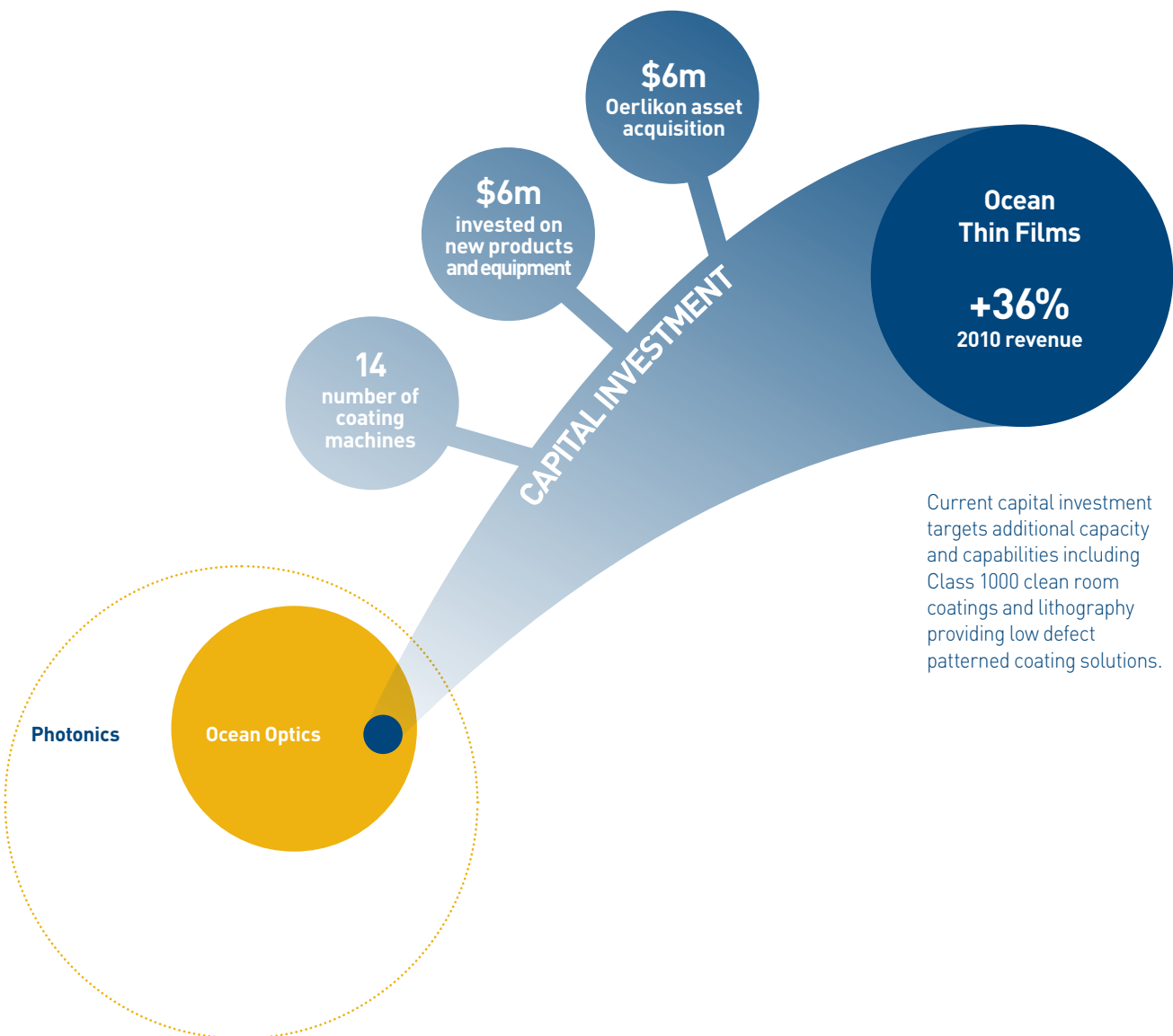
⁵ World Elevators to 2013 – Demand and Sales Forecasts, Market Share, Market Size, Market Leaders, Freedonia Group, 2009.

Strategy in Action

Organic Growth Capital Investment

Past Capital investment allowed Ocean Thin Films to be spun out of Ocean Optics Inc as a new trading unit in its own right.

Capital investment unlocks new growth potential



Future Investing in chip-on-board (COB) electronics (created in Belgium) in China to be used on infrared door sensors fitted to high speed trains.

Transferring technological expertise from our manufacturing centre in Liege, Belgium, to our factory in Beijing, China.

CAPITAL INVESTMENT



BEA Belgium
We developed in-house expertise and invested in state-of-the-art chip-on-board assembly systems because sub-contractors could not assemble our electronic circuit boards with sufficient accuracy.

BEA China
Benefits from this investment are local supply to the Chinese market, reduced costs, higher product reliability and better protection against reverse engineering.

BEIJING

Supplying door sensors to China's high speed rail network which will expand to **25,000km** of track by 2020.

Sector Reviews

Health and Analysis

We make products used to improve personal and public health. We develop technologies for analysis in safety, life sciences and environmental markets, including water. Health and Analysis contributed 38% (£176m) of total revenue and 39% (£35m) of profit*.

Strategic summary	Achievements		Directions		
	<ul style="list-style-type: none"> – Organic profit growth 21% – Organic revenue growth 3% – 71% revenue growth in China with local manufacturing established in Photonics and Fluid Technology – R&D expenditure 4.7% of revenue with new products launched in all sub-sectors – New dedicated Photonics Thin Film Coating business established – SphereOptics acquired in Photonics 		<ul style="list-style-type: none"> – Sustain high organic growth – Increase resources and revenue in Asia – Reduce Water business reliance on UK market – Maintain R&D investment at 5% of revenue – Improve collaboration – Complete SphereOptics integration – Acquisitions 		
Market growth drivers	<ul style="list-style-type: none"> – Increasing health and safety regulation – Increasing demand for healthcare – Increasing demand for energy and water – Increasing urbanisation and ageing of population 				
Sub-sectors	Water	Photonics	Health Optics	Fluid Technology	
Key products					
	World leader in products to detect leaks in water pipes; among the world leaders in UV technology for disinfecting water; and water quality test kits.	Market leading opto-electronic technology for scientific, medical, environmental and other applications.	Devices used to assess eye health, diagnose disease, assist with eye surgery and for general medical applications.	Critical components such as pumps, probes, valves, connectors and gas conditioning products used by scientific, environmental and medical diagnostic OEMs for demanding applications.	
					
Where we operate	<ul style="list-style-type: none"> – Australia – China – France 	<ul style="list-style-type: none"> – Germany – India 	<ul style="list-style-type: none"> – Japan – Malaysia 	<ul style="list-style-type: none"> – Netherlands – Spain 	<ul style="list-style-type: none"> – UK – USA

* See note 1 to the Accounts.

Sector KPI measurements

	Sector performance	Group target	✓/✗
Revenue growth ¹	7%	>5%	✓
Profit growth ¹	23%	>5%	✓
Return on Sales ²	20.0%	>18%	✓
ROCE ³	64%	>45%	✓
R&D/Revenue ⁴	4.7%	>4%	✓

¹ Sector revenue and adjusted⁵ sector profit before finance expense are compared to the equivalent prior year figure.

² Return on sales is defined as adjusted⁵ profit before finance expense and taxation expressed as a percentage of sector revenue.

³ Adjusted⁵ 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.

Market trends and growth drivers

As we reported last year, demand trends have varied considerably, both regionally and by end user application. Overall, demand trends within this sector are positive and improving with the prospect of continued revenue and profit growth.

A new five-year regulated investment cycle began in April 2010 and is expected to stimulate UK **Water** spending for the next three years. Market reforms allowing foreign companies to invest in China, and new legislative drivers, should create favourable conditions for water products sales growth.

Whilst we encountered difficult conditions for UV water treatment capital equipment sales in both municipal and industrial sectors, our consistent investment in independent test house validations has delivered significant competitive advantage in many markets where third party validations are increasingly demanded. To comply with 'Made in America' requirements for federally-funded stimulus projects we began UV system manufacture in the USA.

Short-term demand patterns in **Photonics** markets such as life sciences, medical, research, space, defence and homeland security were uneven. About two-thirds of photonics sales are in the USA where demand was more resilient than expected, boosted by government stimulus spending. Some niche sectors, such as defence and entertainment, softened but should return to growth next year. We saw continued growth in Asia. This is driven by rising R&D activity, western businesses setting up manufacturing plants, and expansion of the solid-state lighting industry.

The value of tenders for **Health Optics** in general medical markets fell in 2009/10. We anticipate reduced demand for medical equipment in developed economies to continue next year.

Demand in South East Asia should remain strong; China has one of the fastest annual growth rates for medical devices in the world of around 13%¹. Certification of medical products is becoming increasingly difficult and costly in all sales territories. This multiplies marketing and development costs; it also creates a strong barrier to market entry by new and smaller competitors.

Fluid Technology sales divide into two markets with different drivers, leading to different demand patterns. The medical diagnostic market continued its growth trajectory after some de-stocking early in the year. Against this positive background, price competition has increased. Despite this we remained competitive and achieved strong growth with no margin erosion. Scientific analysis instruments, our second fluid technology market, was more affected by the downturn but we maintained strong returns.

Sector strategy

Our Health and Analysis sector includes many businesses with leading-edge technology, in some cases world-leading. The strategic focus in this sector is to maintain technological leadership and expand our geographical sales channels. Maintaining prowess in advanced technologies requires continuous high R&D investment. Despite the higher development risks, rapid payback from technological innovation is common in this sector and novel products with unique user benefits targeted at fast-growing market niches command high premiums.

A key strategic direction for our Health and Analysis businesses is to develop sales beyond their strong positions of market leadership in the UK and the USA. Growth in developing regions, particularly in China and elsewhere in Asia, is a primary goal.

¹ "The Medical Device Market: China," Espicom Business Intelligence, July 2009.

Sector Reviews

Health and Analysis

continued

Our **Water** businesses make products for UV water treatment, leakage control and quality testing. We are global market leaders in leakage control instrumentation and are expanding into waste water instrumentation. We will stimulate growth in the legislation-driven Chinese market by investing in increasingly regionally based sales resources.

Continued investment in independent certification of our UV water treatment systems will differentiate our offering from non-validated competitors. In the industrial UV market we will target high volume, high value OEM applications.

Sustained spending on R&D will maintain technology leadership in our **Photonics** niches. We will build on our recently established manufacturing bases in China to extend our position there. During 2010/11 we aim to increase profit through sales growth. Resources will be focused on the more resilient niches and direct sales staff in export markets will be strengthened. Our search will continue for value-enhancing acquisitions that support or add to the existing technology base.

The key focus of our **Health Optics** growth strategy continues to be geographic expansion concentrating on Asia and South America. We will continue to expand our product offering by increased R&D investment. We have begun a collaborative R&D programme between two of our world-leading health optics businesses to develop a new family of products to be marketed jointly via existing sales channels.

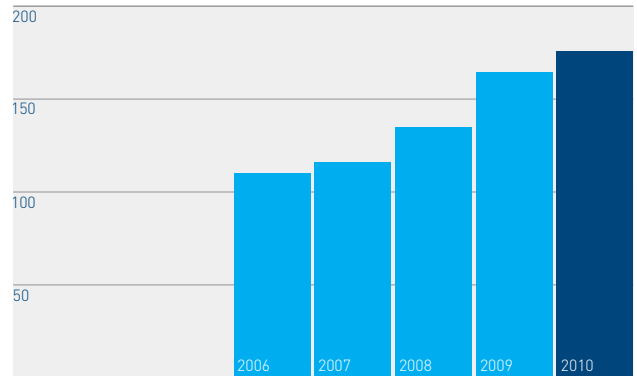
Start-up manufacturing of our **Fluid Technology** products in China led to entry into the Asian scientific instrumentation market. We will use this manufacturing platform to assist more of our businesses to penetrate markets in this region.

Revenue

£m

£176m

+7%

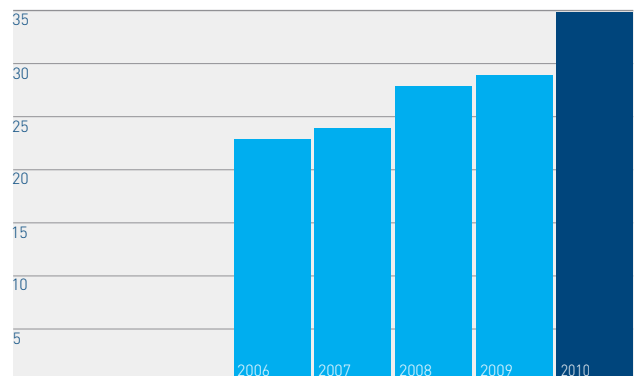


Profit*

£m

£35m

+23%



* See note 1 to the Accounts.

Sector performance

Our **Water** businesses increased profits. This increase was achieved, against an unfavourable economic background of weak UK demand, due to overhead cuts in early 2009 and margin improvements.

After successfully dealing with costly new product delays in the prior year end, our **Photonics** businesses improved their Return on Sales in 2009/10 and delivered record revenue and profit.

In **Health Optics** we again achieved record profit. Overhead reductions together with manufacturing efficiencies, strengthened margins and improved return on sales.

We achieved record revenue and profit in our **Fluid Technology** sub-sector. Overhead control protected and improved margins.

Sector outlook

We anticipate steady expansion of the global market for our **Water** products. Growth in this sector is driven by increasingly stringent regulation to upgrade water supply security, raise drinking water quality and tighten environmental discharge regulations. Rising UK demand for instrumentation is expected as UK water companies begin a new five year capital investment cycle. In the USA we expect to benefit from strengthening demand supported by federal economic stimulus spending and pressure from government regulation. Continued investment in R&D and people development should underpin a return to revenue growth in 2010/11.

We foresee strengthening of demand from some **Photonics** niches next year, with softening in others. We expect strong growth from the solid-state low energy lighting (LED) manufacture and test market. This is expected to grow by more than 24% annually until at least 2013². Rapidly growing Asian economies will remain primary growth targets and we will gain increasing benefit from our Chinese photonics manufacturing operations.

We expect continued growth of **Health Optics** revenue ahead of market rates. While demand in Europe and the USA is expected to be flat in the short term, we expect continuous growth both from market expansion in developing regions and new products. Continued strengthening of the US Dollar will make US exports more difficult but a weaker Euro against the US Dollar will make our German products more competitive. Revenue growth could be dampened by reduced government stimulus spending and healthcare spending cuts aimed at reducing sovereign debt.

During early 2009 demand across **Fluid Technology** markets was depressed by analytical instrumentation customers destocking component inventory. We anticipate both revenue growth and margin improvements in 2010/11 due to significant new product launches, strengthened sales resources, and manufacturing and market penetration in Asia.

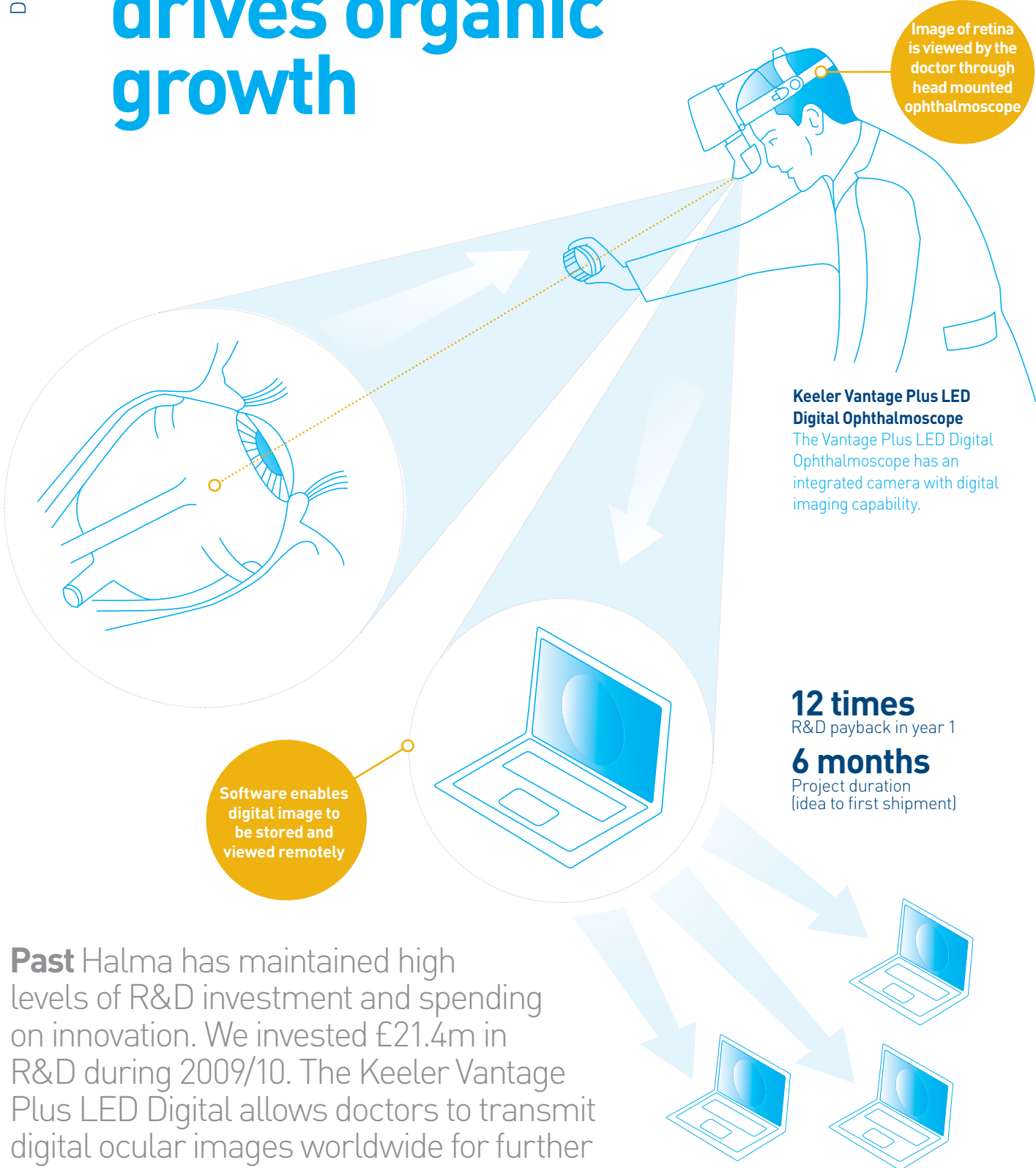
² 'LED market stumbles in 2009, but long-term outlook remains bullish,' www.ledsmagazine.com, Oct 2009.

Strategy in Action

Organic Growth through Innovation

Innovation drives organic growth

Image of retina is viewed by the doctor through head mounted ophthalmoscope



Keeler Vantage Plus LED Digital Ophthalmoscope

The Vantage Plus LED Digital Ophthalmoscope has an integrated camera with digital imaging capability.

12 times
R&D payback in year 1

6 months
Project duration (idea to first shipment)

Past Halma has maintained high levels of R&D investment and spending on innovation. We invested £21.4m in R&D during 2009/10. The Keeler Vantage Plus LED Digital allows doctors to transmit digital ocular images worldwide for further expert analysis.

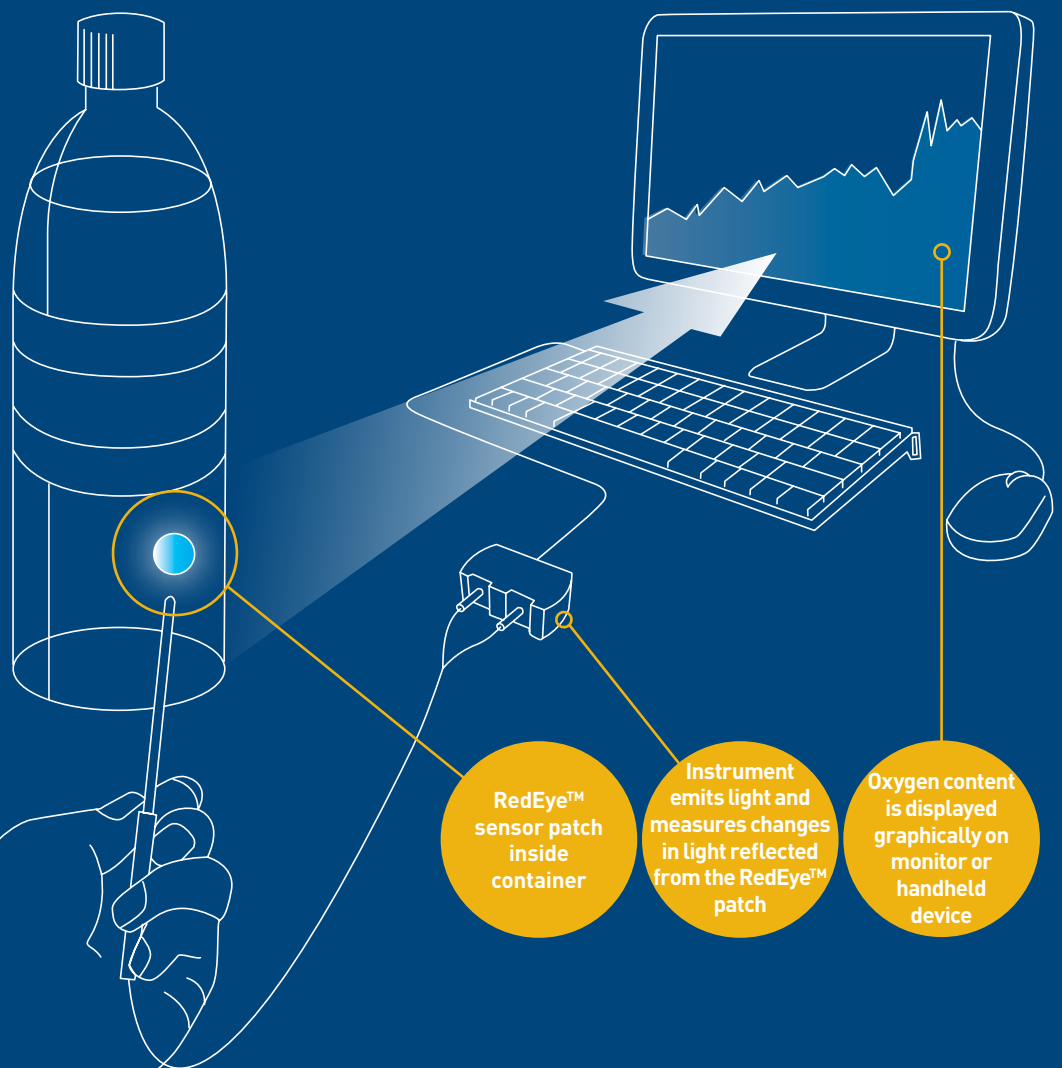
Future Ocean Optics' RedEye™ is a revolutionary patented, quality control product that lets manufacturers test whether their products remain sterile inside packaging. From outside of packaging or a closed container RedEye™ measures the amount of oxygen inside without breaking the seal.

World-leading technology

Accurate measurement of oxygen inside packages can be vitally important. In packaged medical and pharmaceutical products it can assure patient safety by confirming a sterile seal on surgical instruments and drugs.

Potential applications









- Surgical equipment
- Blood bag analysis
- Food and drink packaging
- Biological process control
- Drug packaging



Sector Reviews

Industrial Safety

We make products which protect assets and people at work. Industrial Safety contributed 22% of revenue (£100m) and 22% of profit* (£20m).

Strategic summary	Achievements		Directions		
	<ul style="list-style-type: none"> – Organic revenue and profit growth in second half of year – 152% revenue growth in China with local manufacture established for Safety Interlocks – R&D expenditure exceeded 4% of revenue for the first time with new products launched in all subsectors – Major reorganisation in Asset Monitoring including disposal of survey business – Consolidation of Safety Interlock businesses in France 		<ul style="list-style-type: none"> – Achieve organic revenue and profit growth – Grow revenue in Asia – Add selling resource in China – Maintain R&D investment above 4% of revenue and increase rate of new product introductions – Collaborate with other Halma companies to add new technology 		
Market growth drivers	<ul style="list-style-type: none"> – Increasing health and safety regulation – Increasing demand for energy and water 				
Sub-sectors	Gas Detection	Bursting Disks	Safety Interlocks	Asset Monitoring	
Key products					
	Portable instruments and fixed systems which detect flammable and hazardous gases.	'One time use' pressure relief devices to protect large vessels and pipework in process industries.	Specialised mechanical, electrical and electromechanical locks which ensure that critical processes operate safely.	Products for monitoring physical assets above ground and under water using sensors and communications technologies.	
					
Where we operate	<ul style="list-style-type: none"> – Australia – China – France 	<ul style="list-style-type: none"> – Germany – India 	<ul style="list-style-type: none"> – Netherlands – Saudi Arabia 	<ul style="list-style-type: none"> – Singapore – Tunisia 	<ul style="list-style-type: none"> – UK – USA

* See note 1 to the Accounts.

Sector KPI measurements

	Sector performance	Group target	✓/✗
Revenue growth ¹	(4%)	>5%	✗
Profit growth ¹	(11%)	>5%	✗
Return on Sales ²	19.7%	>18%	✓
ROCE ³	72%	>45%	✓
R&D/Revenue ⁴	4.1%	>4%	✓

¹ Sector revenue and adjusted⁵ sector profit before finance expense are compared to the equivalent prior year figure.

² Return on Sales is defined as adjusted⁵ profit before finance expense and taxation expressed as a percentage of sector revenue.

³ Adjusted⁵ 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.

Market trends and growth drivers

The worldwide market for toxic and combustible **Gas Detection** is expected to grow by about 4% over the next five years. The Middle East and Asia are forecast to offer the fastest growth rates, due to high investment in the chemical, petrochemical, oil and gas, power and steel making sectors.¹ The market is forecast to switch emphasis from capital projects to upgrading existing equipment. Demand for gas detection products is continually reinforced by worldwide strengthening of health and safety legislation. Emerging economies are adopting Western gas safety standards and expanding the market size.

Bursting Disks are sold into industrial manufacturing markets driven by increasing regulation and rising expectations of health and safety. These markets were hard hit by the economic downturn in the first half of 2009/10 with factory shutdowns and reduced maintenance spending. The second half saw significant improvement in demand with the oil and gas and chemical processing sectors leading the recovery. Disk sales to Europe and the USA declined but Asia continued to grow, albeit slowly. Our product technology improvements have resulted in improving sales into OEM markets.

Although the long-term trend has been growth in demand for our **Safety Interlocks** products, many markets declined over the past year, particularly the manufacturing sector in Europe and the USA. We benefited from growth in less traditional markets, in particular from energy and raw material related industries, mostly driven by latent Chinese demand or higher oil prices. We will continue to benefit from the introduction of stricter health and safety regulations in the emerging Asian economies, while in the West the legal enforcement of safety laws provides resilience.

Growth in our **Asset Monitoring** businesses is driven by demand for capturing data relating to energy and water usage, and to the condition or location of high value infrastructure assets. Forecasts suggest that 2010 oil and gas spending will rise by 12%² followed by a substantial increase in the following three years³. Elsewhere, the introduction of increasing carbon reduction regulations, such as the CRC Energy Efficiency Scheme in the UK, will increase demand for remote monitoring of energy consumption.

¹ 'Toxic and Combustible Gas Detectors Worldwide Outlook.' ARC Advisory Group study, 2009. <http://www.automation.com/content/toxic-and-combustible-gas-detector-market-to-reach-823-million>.

² Spend With Caution: The Post-Recession Oil and Gas Industry, www.offshore-technology.com/features/feature81877/

³ The World Offshore Oil & Gas Production & Spend Forecast 2009-2013, Douglas Westwood Ltd.

Sector Reviews

Industrial Safety

continued

Sector strategy

Underpinning our strategy to grow **Gas Detection** is a programme to upgrade and extend our product range for wider applications and an extended geographic base, particularly in North America. We are extending our manufacturing and sales base in China to increase our share of this fast growing market.

Our **Bursting Disks** businesses are focusing on markets outside the traditional process industries, such as energy exploration and medical instrumentation. A new range of safety vents designed to mitigate the effect of explosions in industrial premises has been launched to satisfy growing demand driven by US legislation to prevent dust-induced explosions in bulk powder storage facilities.

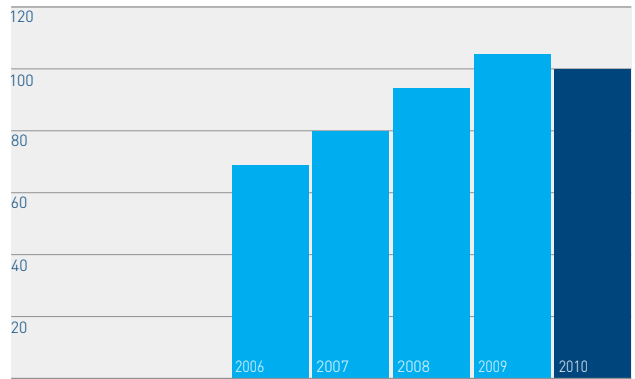
We have protected our strong global position in **Safety Interlocks** and begun to introduce products that expand our target markets. We continue to protect profitability by ensuring alignment of costs with sales potential.

Our **Asset Monitoring** companies are positioned to supply innovative technology that captures data from valuable or safety-critical assets and transmits this to the customer wherever they are in the world. This monitoring may be above ground, below ground or underwater. Applications include intelligent street lighting, energy management, automatic meter reading, underwater monitoring of oil and gas pipelines and platforms, vessel and harbour security and using remotely operated vehicles (ROV). We will continue to invest in new communications and data capture technology.

Revenue

£m

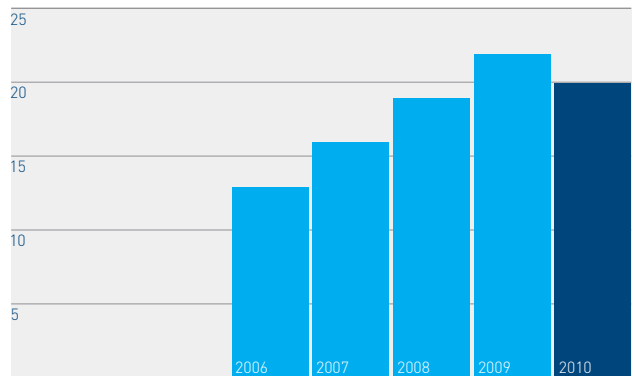
£100m
(4%)



Profit*

£m

£20m
(11%)



* See note 1 to the Accounts.

Sector performance

The global downturn had a significant effect on our **Gas Detection** business in the first half of 2009/10. Continued action on cost control, new product introductions and improved manufacturing performance aided a strong recovery in the second half. Full year profit was in line with the record level of the prior year.

Demand fell in all markets served by our **Bursting Disk** businesses during 2009/10. Investment in new production processes and products together with preparatory work to extend our global reach continued during the year and ensures that we are well placed to take advantage of the anticipated upturn in business activity forecast in our core markets.

Our **Safety Interlocks** businesses delivered only modest revenue growth and slightly lower profit but at good margins.

We saw a decline in **Asset Monitoring** revenue and profit. The decrease in crude oil price continued to adversely affect our subsea business through 2009 particularly in the North Sea. Most of the oil majors focused on cost reduction plans through 2009 rather than investment. During the year we completed a significant restructuring of our major Asset Monitoring business including the disposal of the assets of our subsea survey business.

Sector outlook

The outlook for **Gas Detection** is reasonably resilient. Supported by the strong underlying legislative growth drivers in the markets for industrial safety equipment, we anticipate continued growth based on our track record of out-performing the market through technological innovation and geographic sales expansion.

Demand trends for **Bursting Disks** are dependent on an upturn in industrial capital spending. Continuous strengthening of industrial safety legislation and rising expectations of safe working practices worldwide underpins medium- to long-term growth in this market.

We anticipate that the oil and gas sector will continue to offer strong growth prospects for our **Safety Interlock** companies. Demand for industrial safety products in the worldwide manufacturing sector is expected to be flat in the short term, but we expect increasing opportunities in China.

The markets in which our **Asset Monitoring** businesses operate have good long-term growth potential supported by a strategy of market diversification, such as offshore renewable energy projects. Continued investment in new product development is forecast to deliver market share gains in subsea and energy monitoring markets. Last year's cost reductions will enable a profit recovery during 2010/11 without a demand increase. We expect demand to pick up in the coming year driven by environmental legislation and a return to offshore oil and gas investment.

Strategy in Action

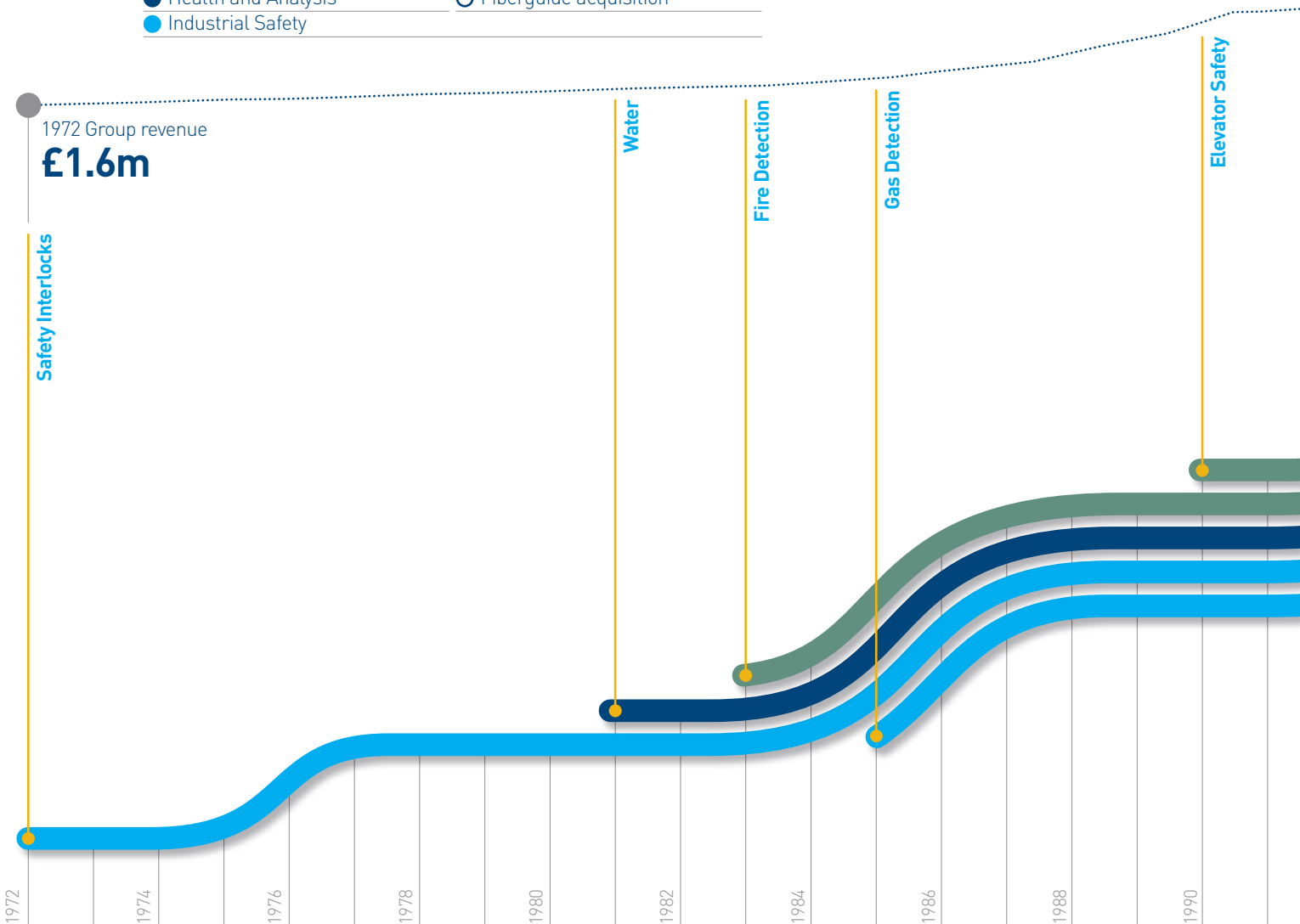
Growth Delivered through Acquisitions

Acquisitions sustain long-term growth

Complementing our organic growth, we have a strong track record of buying businesses that add real value and increase competitive advantage. Our proven resilience is primarily due to our geographic and technological diversity and derives from the long series of acquisitions that began in 1972 and continues today.

Key to acquisitions timeline

Sectors	Acquisitions
● Infrastructure Sensors	● First sub-sector acquisition
● Health and Analysis	○ Fiberguide acquisition
● Industrial Safety	



Adding value

Fiberguide Industries, Inc, a US fibre optic cables specialist, was acquired in 2008. We injected capital for new production equipment.

£8.2m
(initial consideration)
acquisition of
Fiberguide

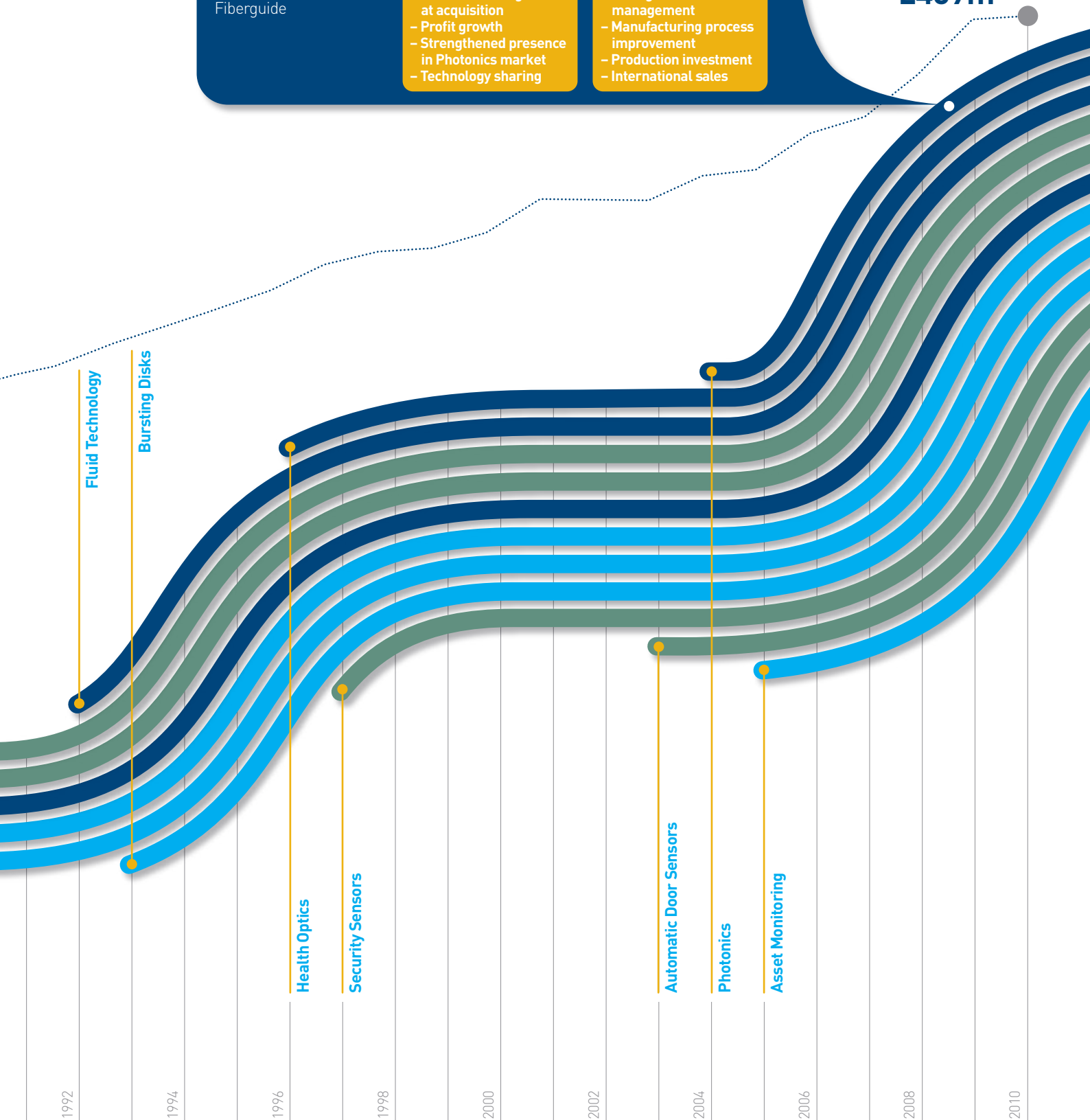
Key benefits for Halma

- Value enhancing at acquisition
- Profit growth
- Strengthened presence in Photonics market
- Technology sharing

Key benefits for Fiberguide

- Strengthened management
- Manufacturing process improvement
- Production investment
- International sales

2010 Group revenue
£459m



Financial Review

Our financial position remains strong and we have continued to invest actively in our business



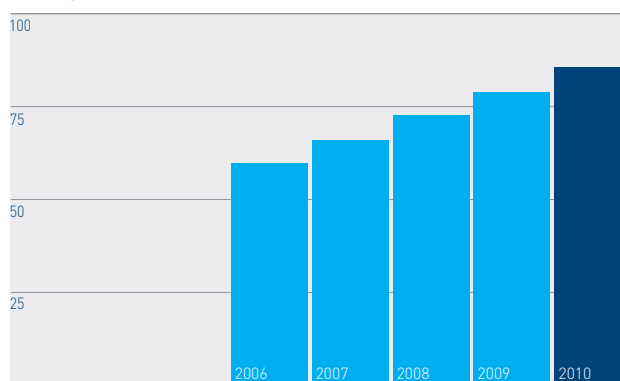
Kevin Thompson Finance Director

Adjusted profit* before tax

£m

£86m

+9%



Record results

Halma achieved record revenue and profit with strong organic profit growth and excellent cash generation against the background of tough market conditions. Our financial position remains strong and we have continued to invest actively in our business. This is the seventh consecutive year of record results.

	2010 £m	2009 £m	Increase £m	Percentage change		
				Total	Organic growth**	Organic growth** at constant currency
Revenue	459.1	455.9	3.2	0.7%	0.5%	(3.0%)
Adjusted profit*	86.2	79.1	7.1	9.0%	9.0%	4.7%

** Organic growth* is calculated excluding the results of acquisitions and disposals.

Adjusted profit* for the 53 weeks to 3 April 2010 increased by 9% to £86.2m (2009: £79.1m) exceeding our profit growth KPI. As shown on pages 6 and 7 the vast majority of our financial KPIs were above both last year and their targets. Exceptions to this were organic revenue growth and R&D as a percentage of revenue, which was slightly below last year but at the typically high levels of recent years.

We acted early to ensure that our cost base was appropriate to the market circumstances we were seeing. The results we achieved are after charging costs of reorganisation amounting to £2.7m in the year. This together with the £1.2m charged to profit in the previous year had the anticipated effect of reducing the run rate of overheads by more than £15m, and improving product margins by £5m, compared with the run rate in the second half of 2008/09. This high impact at low cost was possible because of the great flexibility within our businesses and the autonomy of operations, allowing quick action appropriate to local needs.

The second half profitability was much stronger than that of the first half which had been slightly below the prior year. 56% (2009: 51%) of the full year's adjusted profit* was earned in the second half. Adjusted profit* at £48.1m (2009: £40.1m) for the second half increased by 20%, due to good management of the cost base and higher product margins. All three sectors delivered an improved profit performance in the second half.

* See Financial Highlights.

Half-yearly growth by sector

	Revenue growth			Adjusted profit* growth		
	First half	Second half	Total	First half	Second half	Total
Infrastructure Sensors	(1%)	(2%)	(2%)	2%	13%	8%
Health and Analysis	9%	4%	7%	12%	33%	23%
Industrial Safety	(11%)	3%	(4%)	(29%)	10%	(11%)
Group	–	1%	1%	(2%)	20%	9%

Health and Analysis increased its share of full year revenue to 38% (2009: 36%) although Infrastructure Sensors remains the largest sector at 40% (2009: 41%) of the total.

Growth in Mainland Europe, USA and China

	Revenue		Change £m	% growth
	2010 £m	2009 £m		
Mainland Europe	135.7	132.5	3.2	2%
United States of America	127.2	120.7	6.5	5%
United Kingdom	98.3	104.4	(6.1)	(6%)
Asia Pacific and Australasia	59.1	54.1	5.0	9%
Other Countries	38.8	44.2	(5.4)	(12%)
	459.1	455.9	3.2	1%

We have a balanced regional footprint. We achieved revenue growth in Mainland Europe, the largest sales destination at 30% of the total, with the USA close behind at 28% of the total. All three sectors grew in Mainland Europe. In the USA, Health and Analysis grew by 11% whilst there was a small decline there in the other two sectors.

Our businesses are relentlessly pursuing revenue growth across the world. By contrast it has been tougher to get growth in the UK in recent years and this year all three sectors made lower sales to the UK than in the prior year. UK revenue was 6% down after a 4% decrease last year and the UK now represents 21% of total revenue compared with 27% of revenue in 2005. Over this period UK sales have grown by 22% compared with 53% growth in total Group revenue. Despite the reduced significance of the UK for the Group overall we continue to generate significant UK revenue in Fire Detection, Gas Detection, Security Sensors and Safety Interlocks.

Revenue to the rest of world (outside Mainland Europe, USA and UK) totalled £98m and was level with last year. There was a 5% underlying growth in the rest of world after adjusting for two small disposals made last year. We are actively targeting growth in these territories and aim to grow the 21% of Group revenue to 30% over the next five years. Revenue to China grew by an impressive 59% to £18m as a result of our increased investment over the past four years. We have momentum in China across many of our businesses, in particular those in Health and Analysis.

Currency less volatile

Halma reports its results in Sterling. The most important other trading currencies are the US Dollar and Euro. These currencies have shown less volatility this year compared with last year. Approximately 30% of Group revenue is denominated in US Dollars and 20% in Euros. Currency translation of results resulted in a 3.5% increase to reported revenues and a 4.3% increase in adjusted profit*. Translational currency exposures are not hedged.

	Weighted average rates used in Income Statement		Year end exchange rates used to translate Balance Sheet	
	2010	2009	2010	2009
US Dollar	1.60	1.72	1.53	1.43
Euro	1.13	1.20	1.13	1.08

Based on the current mix of currency denominated revenue and profit a 1% movement in the US Dollar relative to Sterling changes revenue by £1.5m and profit by £0.3m. Similarly, a 1% movement in the Euro changes revenue by £0.8m and profit by £0.2m. If current spot rates were maintained throughout the next year there may be a small positive impact from currency translation in 2010/11.

We both purchase and sell significant amounts of product priced in US Dollars so the net impact of this currency on our trading is relatively limited – there is a good degree of natural hedging. We purchase fewer products in Euros than we sell in Euros and so have a net exposure of approximately Euro 40m in a typical year. This year we introduced a new hedging strategy, fixing currency rates up to 12 months forward for approximately 50% of our trading transactions. This gives our businesses greater certainty in their overseas trading.

Financial Review

continued

High and increased margins

Return on Sales increased to the high level of 18.8% (2009: 17.3%) after two years of decline. In the past we have targeted a Return on Sales in the 16% to 20% range and have operated above 16% for each of the past 25 years. In the future we intend to operate at 18% to 20% or above, recognising the need to balance very high returns with investment for the future. Return on Sales is an important metric for the Group reflecting our high rate of profitability and the significant value our customers place on our products.

Return on Sales is calculated after charging the reorganisation costs noted above. The increase over last year is due to a more than 1% improvement in product margins as well as the reduction in operating company overheads. Our three sectors currently have a similar Return on Sales (19% to 20%), which is a little above the Group figure due to the impact of central costs and interest on the Group calculation. Infrastructure Sensors and Health and Analysis both increased their Return on Sales strongly this year.

Tax rates stable

The effective tax rate on profit before amortisation of acquired intangible assets was 26.5% (2009: 27.7%). This year on year reduction arose primarily due to the change in the mix of profits earned in different jurisdictions as well as some specific items such as the lower tax rate we currently enjoy in China due to our 'high technology' tax status. We expect the Group's effective rate to be a little lower in the year ahead.

The Group's approach to taxation is to minimise the tax burden where possible in a responsible manner, managing good relationships with tax authorities based on legal compliance, transparency and co-operation.

Low net finance cost

The net finance cost in the Income Statement was less than last year at £2.9m (2009: £3.4m). Net bank interest expense was £1.8m lower at £0.8m due to lower rates of interest and reduced borrowing. As expected the net pension finance charge was £1.2m above the prior year due to the lower pension plan asset values at the start of 2009/10 compared with the prior year.

Looking ahead we expect the net pension finance cost to be lower in 2010/11 with plan asset values having recovered somewhat, offset by a higher interest cost on scheme liabilities. Bank interest expense will depend on our success in putting cash to work in making good quality acquisitions and of course the absolute level of borrowing rates.

Growth in earnings per share, dividend and record market capitalisation

Adjusted earnings per share* increased by 10% to 16.9p (2009: 15.3p) driven primarily by the increase in the adjusted profit* and the reduction in the tax rate, offset by a higher number of shares in issue. Statutory earnings per share was up 14% to 16.1p (2009: 14.07p) due to the amortisation of acquired intangibles being lower this year than last.

Halma has a progressive dividend policy. The recommended final dividend of 5.19p gives a total dividend up 7.2% to 8.50p (2009: 7.93p). At the year end share price this rate of full year dividend represents a dividend yield of 3.3%. With this 8.6% increase in the final dividend we will have increased our full year dividend by 5% or more for every one of the last 31 years paying out over £320m in dividends over that period.

Dividend cover (the ratio of profit after taxation to dividends paid and proposed) calculated on adjusted* profit is now 1.98 times (2009: 1.92 times) which meets our objective of around 2 times cover.

Shortly after the 2009/10 year end Halma's market capitalisation exceeded £1bn for the first time. This is over 50 times its market capitalisation 30 years ago and, together with our dividend growth record, reflects the value created for shareholders over the long term.

Higher and increased returns

Return on Total Invested Capital (ROTIC), the post-tax return on all the Group's assets including all historic goodwill, increased to 13.6% (2009: 13.1%). It takes a good performance to increase the ROTIC measure as to do so requires delivering a return not only on the previous year's total assets, but also on additions to those assets made during the current year. Halma's ROTIC compares favourably to a long-term Weighted Average Cost of Capital (WACC) calculated as currently being 8.5% (2009: 9.0%). The excess above WACC is an indicator of shareholder value creation.

Efficient use of operating assets is a key part of our business model. We aim to operate with just enough net assets to satisfy our customer needs. Return on Capital Employed (ROCE) measures this operating effectiveness and this year increased significantly to 61.3% (2009: 47.7%). The increases came from the growth in profits but more significantly from the excellent management of working capital across the Group.

The detailed calculation of these ratios is given in note 3 to the Accounts.

* See Financial Highlights.

Excellent cash generation

Cash generation was extremely strong this year which is a great credit to the work of our operating company teams. Cash generated from operations, excluding taxation paid was £112.7m (2009: £86.4m) and this represents 131% (2009: 109%) of adjusted profit*. A summary of the year's cash flow is as follows:

Cash flow	2010 £m	2009 £m
Operating cash flow before movement in working capital	99.6	91.8
Decrease/(increase) in working capital	13.1	(5.4)
Cash generated from operations	112.7	86.4
Acquisition of businesses	(1.7)	(12.4)
Disposal of businesses	0.5	2.9
Development costs capitalised	(3.1)	(3.8)
Net capital expenditure	(10.2)	(15.2)
Dividends paid	(30.4)	(28.8)
Taxation paid	(12.3)	(20.5)
Issue of shares/treasury shares purchased	0.8	(0.2)
Net interest paid	(0.9)	(2.7)
Exchange adjustments	4.9	(12.6)
	60.3	(6.9)
Net debt brought forward	(51.2)	(44.3)
Net cash/(debt) carried forward	9.1	(51.2)

Our businesses managed their operating requirements very tightly and were able to generate £13.1m of cash out of working capital. The risk in outstanding trade debts continues to be closely managed at operating company level, closest to our customers which is especially beneficial in times of economic uncertainty. Consequently our record is very good in this area and we also benefit from the risk being spread across many customers.

Taxation paid was relatively low. More tax was paid in advance in 2008/09 than was required given a lower level of profit in the final quarter of that year than expected and a UK tax deduction was obtained for currency movements on our currency denominated borrowings which is not expected to reverse. We expect the tax payments in 2010/11 to follow a more typical pattern with an amount closer to the taxation charge in the Income Statement.

Strong capital structure

We are highly cash generative, currently holding net cash and with substantial bank facilities available. Our strong balance sheet and retained earnings are used to sustain and develop our businesses. We have access to borrowings at short notice and at competitive rates and are comfortable with a modest level of debt to accelerate the Group's progress. Group treasury policy is conservative and no speculative transactions are allowed. This policy utilises highly rated banks, spreads risks and aims to ensure good liquidity for the Group.

Our five-year £165m syndicated revolving credit facility runs to February 2013 on attractive terms and with a well established core group of banks. The Group continues to operate well within its banking covenants with ample headroom on its facilities.

We ended the year with £9.1m of net cash having come into the year with £51.2m net debt. The net cash figure is a combination of £22m debt and £31m cash. As a decentralised international Group we fund our businesses according to local needs and therefore some cash is held around the world to meet local requirements. We have an active programme of cash repatriation to maintain efficiency in our cash and debt management. The outstanding debt is primarily held in US Dollars and Euros; being the currencies in which we have funded recent acquisitions. We control the amount of currency debt we hold since although it provides a hedge against currency assets it also makes the debt subject to currency fluctuations, which can impact on the headroom available on our borrowing facilities.

Financial Review

continued

Acquisition and disposals

In the year we spent £1.7m on acquisitions including costs. We purchased SphereOptics, a US manufacturer of light measurement equipment in January 2010 and have integrated it with Labsphere, one of our existing Photonics businesses. There is potential deferred consideration of up to £2.3m (\$3.5m) payable to the vendors on achieving earnings growth objectives. At acquisition SphereOptics had revenue of £2.5m.

As required under IFRS we review the fair value of assets and liabilities on all acquisitions and determine the value of goodwill and intangible assets acquired. Intangible assets are amortised through the Income Statement. This year's charge to the Income Statement of £4.8m (2009: £6.3m) is lower than last year as certain intangible assets are now fully amortised.

We made two small disposals in the prior year for a total of £2.7m resulting in a small gain. Both businesses were in the 'Rest of World' region and so impact on the comparison of revenues year on year as noted above.

We are working hard to build our pipeline of good quality acquisitions and have significant resources available to be deployed.

Investing in assets

Expenditure on property, plant and computer software in the year was £11.0m (2009: £16.8m), 2008/09 having been a particularly high year of expenditure. This year's figure represents 88% of depreciation, relatively low for Halma, and going forward we would expect something more like 100% to 120%.

Although we operate an 'asset light' model we encourage all our businesses to make the capital expenditure necessary to meet customer needs and drive future organic growth. With the Group's high ROCE we can earn a good return on well targeted capital investment.

Meeting our pension obligation

On an IAS 19 basis the year end deficit on our defined benefit pension plans was £43.1m (2009: £42.6m) before the related deferred tax asset. Plan assets increased to £127.8m (2009: £89.8m) with a general recovery in equity values; 65% of plan assets are invested in equities. Plan liabilities increased to £170.9m (2009: £132.4m) due to lower discount rates pushing up the present value of liabilities and also due to slightly more prudent valuation assumptions, both in line with current market views.

The Group's defined benefit pension plans were closed to new members in 2003. The Board monitors pension strategy regularly and reviews it in detail at each pension fund valuation. The most recent triennial plan valuation has just been finalised and we are making extra contributions at the rate of approximately £6m per annum into the plans with the objective of eliminating the deficit, as measured on an IAS 19 basis, over a 10-year period.

Investing in R&D and emerging markets

Expenditure on R&D this year at £21.4m (2009: £22.9m) represents 4.7% (2009: 5%) of revenue. Investing in new products and innovation is an important part of the Halma story and we have been careful to minimise cuts in R&D against the background of more significant overhead reductions elsewhere in the business. We have been increasing our rate of investment in R&D steadily in recent years, continually enhancing our technology base. We aim to maintain this rate at around 5% of revenue, ahead of our benchmark figure of 4% of revenue.

We are required under International Financial Reporting Standards (IFRS) to capitalise certain development expenditure and amortise it over an appropriate period, for us three years. R&D by its nature carries some risk and all R&D projects, particularly those requiring capitalisation, are subject to close scrutiny and a rigorous approval and review process. In 2010 we capitalised £3.1m (2009: £3.8m) and amortised £3.8m (2009: £2.9m). This results in an asset carried on the Consolidated Balance Sheet of £9.2m (2009: £10.2m).

We have invested in emerging markets and in China particularly over the past five years. We will continue with this investment and are in the process of expanding our regional coverage in China at a cost of £0.6m in 2010/11 and an ongoing annual cost of £1.1m. We expect a good payback on this investment through increased revenue in the region.

Risk management and going concern

The main risks facing the Group and how we deal with them are reviewed on pages 40 and 41. Key operating risks are covered in the Strategic and Sector reviews.

Risks are spread across the Group via a number of independent operating units each with a high quality local team including a finance executive. There is extensive review of risks and operations at local and divisional level, close to the action, supplemented by the independent review of our Internal Audit function which incorporates Information Technology (IT) reviews. These IT reviews have been stepped up during the year. Higher on our agenda at the moment are Intellectual Property risks and the risk of bribery and corruption to ensure continued best practice as we do more in emerging markets.

Each week we collect and analyse revenue, orders and cash information for each operating company. We are making an increased investment in Group-wide systems to provide faster and more complete data to drive even better management action.

The tougher economic environment we have faced over the past 18 months has highlighted a number of risks which have had to be managed including supplier risks, potential bad debts and fraud, and the maintenance of an appropriate cost base. Each of these areas has received close scrutiny so that risks do not escalate and to ensure that opportunities are not missed. The Board considers all of these factors in carrying out its Going Concern review as described on page 53. Autonomy and accountability across the Group continues to be key to Halma's success, making risk management an integral part of our sustainable delivery of value to shareholders over the long term.

Kevin Thompson

Finance Director

Our Risk Factors

We recognise major risks and uncertainties facing us and take action to identify, manage and mitigate them

Description	Mitigation
<p>Operational Risk We seek to continuously grow our profits, generating a high return for shareholders over the long term within a clear strategic framework. 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. We perceive our primary operational risks to emanate from remoteness of operation and the actions and quality of our employees.</p>	<p>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. Our choice is to operate in the safety products and health-related technology markets which we consider to be robust over the long term. We invest heavily in identifying, recruiting and training talented people who are able to manage the risks we face while delivering the excellent results we require. 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, supplier or transaction. We always 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.</p>
<p>Organic Growth, Supplier Risk and Competition The Group faces competition in the form of pricing, service, reliability and substitution. We rely on high quality supply from our partners. These constitute an ongoing threat to our growth.</p>	<p>Our focus on investing in management development, innovation and international growth is a direct result of assessing these risks. We aim to manage the risk of timing and quality of component supply by dual sourcing and long standing working relationships. By empowering and resourcing local operations to respond to changing market needs, the potential adverse impact of downward price pressure and competition can be mitigated and growth maintained. We recognise the competitive threat coming from emerging economies and by operating within these economies, typically using local staff, we are better placed to make fast progress ourselves.</p>
<p>Research and Development New products are critical to our organic growth and underpin our ability to earn high margins and high returns over the long term.</p>	<p>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. New product development 'best practice' is shared between Group companies and return on investment of past and future innovation projects is tracked monthly. Large R&D projects, especially those which are capitalised, require Head Office approval.</p>
<p>Intangible Resources 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. Protection of our intellectual property is important to our continued success.</p>	<p>The main intangible resources which deliver competitive advantage and which support our strategic objectives are: the patents and trademarks 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. 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. With our development activity increasing in emerging economies we will often segregate the elements of a project to protect the know how.</p>
<p>Laws and Regulations Group operations are subject to wide-ranging laws and regulations including business conduct, employment, environmental and health and safety legislation. There is also exposure to product litigation and contractual risk.</p>	<p>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 product failure, litigation and contractual issues. Each operating company has a health and safety manager responsible for compliance and our performance in this area is excellent. Health and safety processes have been reviewed at each operating company this year. We carry comprehensive insurance against all standard categories of insurable risk. Contract review and approval processes mitigate exposure to contractual liability. Our well established policies on bribery and corruption are constantly being reviewed to ensure continued compliance with best practice.</p>

Description	Mitigation
<p>Information Technology/Business Interruption Group and operational management depend on timely and reliable information from our software systems. We seek to ensure continuous availability and operation of those systems as disruption could delay or impact on decision making and service to our customers.</p>	<p>There is substantial redundancy and back up built into any Group wide systems. The spread of business offers good protection from individual events and disaster recovery plans are widespread. We have a small central resource available, Halma IT Services, to assist Group companies with any major IT needs and to ensure adequate IT security policies are set across the Group. We carry out regular IT audits across the Group. This year we have introduced processes to standardise our software systems and improve systems implementation by focusing on the pre-implementation phase.</p>
<p>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.</p>	<p>We aim to pay sensible multiples for businesses whose technology and markets we know well. Divisional Chief Executives are responsible for finding and completing acquisitions in their business sectors subject to Board approval. We support them with central resources to search for opportunities and assist with implementation of a post-acquisition plan. Incentives are aligned to encourage acquisitions which are value-enhancing from day one.</p>
<p>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.</p>	<p>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. This year our Internal Audit function increased the depth and scope of its audits.</p>
<p>Cash For any business a key risk is that it will run out of cash or have inadequate access to cash. In addition, cash deposits need to be held in a secure form or location.</p>	<p>The strong cash flow generated by the Group provides financial flexibility. Cash needs are monitored regularly. In addition to short-term overdraft facilities the Group holds a five-year revolving credit facility, renewable in February 2013, which provides sufficient headroom for its needs. Cash deposits are monitored centrally and spread amongst a number of highly rated banks.</p>
<p>Treasury Risks Foreign currency risk is the most significant treasury related risk for the Group. In times of increased volatility this can have a significant impact on performance. 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 25 to the accounts.</p>	<p>The Group does not use complex derivative financial instruments and no speculative treasury transactions are undertaken. Currency profits are not hedged. Currency hedging must fit with the commercial needs of the business and this year we have introduced a new hedging strategy to manage Group exposures. This requires the hedging of a substantial proportion of expected future transactions up to 12 months ahead. Longer term currency trends can only be covered through a wide geographic spread of operations. We closely monitor performance against the financial covenants on our revolving credit facility and are operating well within these covenants.</p>
<p>Current Economic Conditions In times of uncertain economic conditions businesses face additional or elevated levels of risk. These include market and customer risk, customer default, fraud, supply chain risk and liquidity risk.</p>	<p>We manage such risks primarily at local company level where they are best understood and where we are closest to the markets and our customers. The financial strength, availability of finance and diversity of the Group provides mitigation to much of this risk. We operate robust credit management at each operating company. Each business regularly undertakes a close examination of its cost structure to determine that it is appropriate to the current economic circumstances it faces and contingency plans are in place for potential future changes. High quality subsidiary boards provide close monitoring of operations whilst the Halma Executive Board identifies any wider trends which require action on a broader basis across the Group.</p>
<p>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.</p>	<p>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 has increased pension contributions with the overall objective of paying off the deficit in line with the Actuary's recommendations. We monitor and consider alternative means of reducing our pension risk in light of the best long-term interest for shareholders.</p>

Strategy in Action

Organic Growth Investing in People

People development builds our competitive advantage

Past Recognising the vital role that our people play in delivering organic growth, our flagship training course, the Halma Executive Development Programme (HEDP), is designed to enhance the skills of the next generation of Managing Directors and Divisional Chief Executives. It has had a major influence on the careers of many senior managers since its launch in 2005. To develop the skills of our middle managers, we introduced the Halma Management Development Programme (HMDP) in 2007. We run the courses in the USA, Europe and Asia.

So far...



152
executives have completed HEDP courses

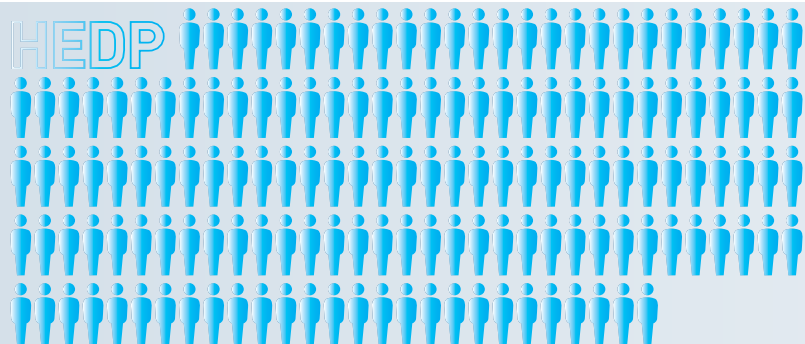
HEDP
HEDP is a three-week residential course, which focuses on leadership skills and personal development.

and...



277
managers have completed HMDP courses

HMDP
HMDP is a week-long residential course to help middle managers achieve more in their existing role and to advance through the organisation.



Future Our latest training initiative, the Halma Certificate in Applied Technology (HCAT), launched in 2010. HCAT is developing talent which drives our technical and process innovation and thereby fuels organic growth.

HCAT

Accelerates
new ideas
to market

Improves
return on
innovation
investment

Creates
collaboration
networks
across the
Group

HCAT

HCAT targets engineers at first level management or below. The one-year part time programme develops communication skills and broadens knowledge in areas such as strategy, finance and product marketing. It includes a module on project management and a series of visits to Halma companies to leverage existing knowledge as well as spark creative new ideas.

Corporate Responsibility

Achievements	KPIs										
We deliver sustainable value to our customers and shareholders.	Non-financial Key Performance Indicators (KPIs) are used by the Board to monitor progress on Group initiatives; financial KPIs are considered on pages 6 and 7.										
1. Halma's carbon policy was first approved by the Board in 2007 and calls for a 10% reduction in the carbon footprint every three years.	<p>CO₂ emissions: tonnes/£m of revenue</p> <table border="1"> <tr> <td>41</td> <td>39</td> <td>40</td> <td>42</td> <td>10% reduction</td> </tr> <tr> <td>2010</td> <td>2009</td> <td>2008</td> <td>2007</td> <td>Group target</td> </tr> </table> <p>Emissions increased following recent acquisition.</p>	41	39	40	42	10% reduction	2010	2009	2008	2007	Group target
41	39	40	42	10% reduction							
2010	2009	2008	2007	Group target							
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.	<p>Values alignment</p> <table border="1"> <tr> <td>5</td> <td>6</td> <td>7</td> <td>5</td> <td>5</td> </tr> <tr> <td>2010</td> <td>2009</td> <td>2008</td> <td>2007</td> <td>Group target</td> </tr> </table> <p>Survey of senior managers matched the target of five of their desired values being present in our business culture.</p>	5	6	7	5	5	2010	2009	2008	2007	Group target
5	6	7	5	5							
2010	2009	2008	2007	Group target							
3. The Halma Executive Development Programme (HEDP) and the Halma Management Development Programme (HMDP) provide executives and middle managers with the necessary skills they need in their current and future roles.	<p>Subsidiary directors/managers who had completed HEDP/HMDP by March 2010</p> <table border="1"> <tr> <td>67%</td> <td>55%</td> <td>50%</td> <td>26%</td> <td>>50%</td> </tr> <tr> <td>2010</td> <td>2009</td> <td>2008</td> <td>2007</td> <td>Group target</td> </tr> </table> <p>Continued commitment to training our people.</p>	67%	55%	50%	26%	>50%	2010	2009	2008	2007	Group target
67%	55%	50%	26%	>50%							
2010	2009	2008	2007	Group target							

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 since 2007 with the objective of a 10% reduction in relative carbon usage in the three years to March 2010 and over the subsequent three years to March 2013.

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 Development Programmes, 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 has been a member of the FTSE4Good UK index since 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.

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 continue to actively promote our safety culture 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. Our 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 approximately 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 we last reported Fortress' Australian operations have joined the list of ISO 14001 approved entities. 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. Our manufacturing model is decentralised permitting our operations to be located close to their customers. Manufacturing operations are established across the world for this very reason rather than to save labour costs. The ethos of being close to our customers reflects the importance we place on the quality of our products and the service levels we provide to our customers. It also makes our operations more flexible and responsive to their markets and customers. With operations spread around the globe, our supplier base is understandably fragmented. Therefore, responsibility for vetting and managing suppliers is devolved to local management whilst meeting the Group's ethical standards.

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 minimise 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 five years has enabled the Group to set comprehensive and quantifiable objectives for reducing its environmental impacts in those areas and to set and monitor targets for reduction in key areas. The collected data confirms that the main area of impact on the environment is energy consumption. 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 CO₂ emissions of all UK company vehicles and will extend this requirement to the rest of the world in due course. This limit is reduced each year so as to consistently reduce our vehicles' environmental impact. We have also set a fuel consumption standard for company vehicles in the USA which is reviewed annually.

We are committed to reducing our carbon footprint. We set a target in 2007 to reduce the Group's total carbon emissions relative to revenues by 10% over three years. Following a total reduction of 7% in the first two years, in 2009/10 our total Group carbon emissions averaged 41 tonnes per £million of revenues, as shown on page 44. This represents a 2% reduction on the 2007 level.

In November 2008 we acquired Oerlikon Optics in the US, which we integrated into our Photonics sub-sector. This business is a significant consumer of energy for its optical coating facility and we are now working hard to improve the energy efficiency of its operations. Excluding that business the Group would have reported in the current year carbon emissions better than its targeted 10% reduction.

Due to revisions to best practice in conversion of energy usage into carbon tonnes we reset the carbon benchmark in April 2010 to enable comparability in the future. The updated figure for the Group for 2010 is 47 tonnes of carbon per £million of revenue. We are setting ourselves the target of a 10% carbon reduction per £million of revenue over the next three years.

From April 2010, we will be working with a provider of energy efficiency and carbon reduction solutions to ensure compliance with the new Carbon Reduction Commitment Energy Efficiency Scheme (CRC), which is the UK's mandatory climate change and energy saving scheme, started in April 2010 and administered by the Environment Agency. Our existing monitoring systems will be enhanced to drive further improvement in our energy usage firstly in the UK, and in due course, across the Group.

Corporate Responsibility

continued

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.

The Group 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 current culture.

In 2006, our survey of senior managers showed that five of the values they wanted to see in our business were actually present. Again in 2010, our survey of senior managers showed that five desired values were still present in our business. This indicates that there is 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 observable and valuable 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 to our employees in the work place or to the public as a result of our activities. 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	2010	2009	2008
Days lost due to work-related injuries	133	706	691
Total recorded injuries to all employees	233	496	388

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 2009/10, 2008/09 or 2007/08.

People development

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, continued to thrive in 2009/10. 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	2010	2009	2008
Cumulative number of candidates that have completed HEDP	152	113	90
Cumulative number of candidates that have completed HMDP	277	206	104

HEDP is aimed squarely at employees already serving on subsidiary boards but we also encourage applications from senior functional 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.

Ten 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 a well-established part of Halma's people development activity, in the 2008 financial year we established a new programme for subsidiary managers and supervisors – the Halma Management Development Programme (HMDP). During the year, four programmes were completed giving a cumulative total of 277 employees who have completed HMDP. Programmes were held in the USA, Europe and Asia.

In 2010, we are introducing a new programme targeted at our technical engineers to equip them with a broader understanding of Halma's technology, improve their productivity and provide specific skills training in areas such as project management.

Community

In line with our decentralised structure, social and community activities are sponsored and undertaken at the direction of subsidiary management. Each subsidiary has the freedom to implement its own initiatives. This approach recognises that priorities will vary from business to business.

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 accepted 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 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.*

Board of Directors and Executive Team



Name:	Geoff Unwin	Andrew Williams	Kevin Thompson	Adam Meyers
Title:	Chairman	Chief Executive	Finance Director	Chief Executive – Health Optics and Photonics Division
Appointment:	July 2003 Chairman Sept 2002 Deputy Chairman	July 2004 (Board) April 2002 (Executive Board)	April 1998 (Board) January 1995 (Executive Board)	April 2008 (Board) April 2003 (Executive Board)
Age:	67	43	50	48
Committees/ sub-sectors:	Nomination (Chairman) and Remuneration	Nomination		Health Optics and Photonics

Skills and experience:

Geoff is Chairman of Liberata plc, Taptu Limited and Alliance Medical Group Limited. He is a non-voting board director of Caggemini 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.

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.

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.

Adam is Chief Executive of the Health Optics and Photonics Division. He 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. He joined Halma in 1996 as President of Bio-Chem Valve. Adam is a systems engineering graduate of the University of Pennsylvania and gained his MBA from Harvard Business School.



Name:	Richard Stone	Stephen Pettit	Jane Aikman	Neil Quinn
Title:	Non-executive Director and Senior Independent Director	Non-executive Director	Non-executive Director	Chief Executive – Safety Sensors Division
Appointment:	January 2001	September 2003	August 2007	April 1998 (Board) April 1995 (Executive Board)
Age:	67	59	44	60
Committees/ sub-sectors:	Nomination, Remuneration (Chairman) and Audit	Nomination, Remuneration and Audit	Nomination, Remuneration and Audit (Chairman)	Bursting Disks, Gas Detection and Automatic Door Sensors

Skills and experience:

Richard is the Senior Independent Director. He is Chairman of Drambuie 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.

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.

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.

Neil is Chief Executive of the Safety Sensors Division. 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:	John Campbell	Nigel Trodd	Mark Lavelle	Allan Stamper
Title:	Chief Executive – Elevator Safety Division	Chief Executive – Fire and Security Division	Chief Executive – Process Safety Division	Chief Executive – Water and Asset Monitoring Division
Appointment:	April 1998 (Executive Board)	July 2003 (Executive Board)	April 2007 (Executive Board)	October 2007 (Executive Board)
Age:	51	52	51	55
Committees/sub-sectors:	Elevator Safety	Fire Detection and Security Sensors	Safety Interlocks	Water Management and Asset Monitoring

Skills and experience:	John is Chief Executive of the Elevator Safety Division. He previously led 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.	Nigel is Chief Executive of the Fire and Security 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.	Mark is Chief Executive of the Process Safety Division. He joined Keeler Instruments in November 2001 as Managing Director and was promoted to Divisional Chief Executive and the Executive Board in 2007. Mark has a chemistry degree from Cambridge University and an MBA from INSEAD.	Allan is Divisional Chief Executive of the Water and Asset Monitoring Division. He was appointed to 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.
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Name:	Carol Chesney	Charles Dubois	Martin Zhang
Title:	Company Secretary	Chief Executive – Fluid Technology Division	Director – Halma China
Appointment:	April 1998	April 2008 (Executive Board)	February 2008
Age:	47	44	43
Committees/sub-sectors:		Fluid Technology and Water-UV	Halma China

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.	Charles is Chief Executive of the Fluid Technology Division. He was appointed to the Executive Board in April 2008. He was previously President of Diba Industries having joined the Group in 1999 as Vice President 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.	Martin was appointed as Adviser to the Halma Executive Board in February 2008. Martin joined the Group in June 2006 as Director of Halma China and successfully established Halma China offices in Beijing and Shanghai. Martin holds a Bachelor's degree in Chemical Engineering from Chengdu University of Science and Technology and he also studied for his Executive MBA at University of Texas at Arlington (Tongji University Shanghai).
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Corporate Governance

Corporate governance is about behaviour and 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. Governance is complex, so the Board is committed to the shared endeavour of maintaining high standards of corporate governance to ensure the Board sends consistent messages on values and behaviours. 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 not by merely following regimented rules, but by the promotion of wide discussion on topics to which Board members properly contribute, demonstrating mutual engagement amongst the participants. In the spirit of 'comply or explain', the Board has again this year reaffirmed its decision to retain a Board composition that differs from the Combined Code principles.

I continue to be 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. In fact, additional emphasis is being placed on our succession planning practices over the coming year to demonstrate the importance we place on developing talent in house. 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

There has been no change to the composition of the Board since our last report.

Our Board composition is discussed further on page 51 since it is a deviation from the Combined Code in that half of the Board, excluding myself, is not made up of independent non-executive Directors. However, given the growth of the Group, the Board now feels that the addition of a further non-executive Director would be appropriate and is taking steps to do so.

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 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 with each Committee also evaluating its own performance. 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 2009/10 the evaluation commenced with an updated self-assessment questionnaire, the results of which were compiled by the Company Secretary and discussed by the Board at the February 2010 Board and Committee meetings. The Board also met in February 2010, separate from any scheduled meeting, for a general discussion on Board effectiveness followed by a meeting of the executive Directors with the Chairman, the executive Directors with the Senior Independent Director, 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. Overall, our process confirms that the blend of behaviours and skills around the Halma Board table are well suited to the task and consistent with Group values. With a Board that is free to openly express concerns comes more considered outcomes emphasising collective responsibility, transparency, clarity and sustainable conduct.

Shareholder communication

I would like to encourage all shareholders to find the time to attend our AGM on 29 July 2010. It is an excellent opportunity to meet the Board, the Executive Board and a selection of the CEOs from our operating companies.

Geoff Unwin

Chairman

22 June 2010

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 2008 FRC Combined Code except in respect of provision A.3.2 which involves the composition of the Board and the number of members who are independent non-executive Directors.

The Board reaffirmed its decision to maintain the current composition of the Board as a Chairman, three independent non-executive Directors and four executive Directors; this composition subsisted for the full financial year. To date, the Board adjudged this composition as the most appropriate structure for the Company providing valuable direct knowledge of operations and effective challenge surrounding the issues facing the Group. However, the Board has recently determined that the Group would now benefit from the appointment of a further non-executive Director and is taking steps to do so.

Application of the principles of good governance

The Company has applied the principles set out in section 1 of the Code, including both the Main Principles and supporting principles, by complying with the Code as reported above.

The Group is controlled and directed by a Board consisting of a Chairman, four executive Directors and three other non-executive Directors. Their biographies appear on page 48. 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 both Richard Stone and Stephen Pettit, who are standing for re-election, continue to be effective and demonstrate commitment to their roles. Richard Stone is standing for re-election as the Board has a policy of requiring non-executive Directors who have served on the Board for nine years or more to stand for annual re-election by shareholders. Richard Stone has indicated his willingness to continue as a Director whilst succession planning is advanced and the Board believes that his continuing appointment provides a good balance of experience amongst the non-executive Directors and has accepted that his independence is not compromised by this extension of his term of office.

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.

Engagement with management

The Directors have a programmed schedule of meetings and visits with the Executive Board, Group companies and Development Programmes to ensure that they are able to engage with management and employees at all levels. Such contact, especially between the non-executive Directors and Group employees, is where much value is added and supports the messages from the Executive team.

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 Guarantees and Facilities 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.

Board meeting attendance

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

Geoff Unwin	6 of 6
Andrew Williams	6 of 6
Kevin Thompson	6 of 6
Neil Quinn	6 of 6
Richard Stone	6 of 6
Stephen Pettit	6 of 6
Jane Aikman	6 of 6
Adam Meyers	6 of 6

Corporate Governance

continued

Internal control

The Board 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. Whilst not providing absolute assurance against material misstatements or loss, this system is designed to identify and manage those risks that could adversely impact the achievement of the Group's objectives. The principal risks are detailed on pages 40 and 41.

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 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, developed in terms of speed and coverage during the last financial year, 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 and other capitalised costs;
- self-certification by operating company management of compliance and control issues; and
- 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, relevant 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.
- 'Warning signs' are reported to Group and divisional management. These are designed to provide an early warning of potential risks and to direct appropriate action where necessary. These metrics have been revised to recognise the additional risks of an uncertain economic climate.
- 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 and risk-based internal control visits are carried out by internal audit personnel or 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 conduct financial reviews at each operating company prior to publication of half-year and year-end figures. A programme of IT audits is also carried out and reported on.
- The Chief Executive and Finance Director 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 continue to be taken centrally by Group management. The duties and responsibilities of subsidiary management are continually refreshed as well as documented in a manual circulated to all subsidiary managing directors. The dedicated resources established to identify and investigate potential acquisitions and to ensure a rapid and successful integration following acquisition remain in place, and the scope of the Group's IT policies and the programme of compliance audits are regularly reviewed to ensure they are sufficient to address current risks. Over recent months we have been refreshing our processes to ensure that appropriate tax accounting arrangements are maintained in particular to enable continued compliance with local tax requirements.

As noted above, a programme of internal control visits is conducted. The internal audit function has independently operated since 2004, reporting on the outcome of these visits to the Audit Committee. In 2008/09, a dedicated Internal Audit manager was added to support the function. During each year we implement further improvements to our Internal Audit activities as the result of benchmarking activities and continue to target further revisions for the coming year to enhance our processes.

Going concern

The Group's business activities, together with the main trends and factors likely to affect its future development, performance and position, and the financial position of the Group, its cash flows, liquidity position and borrowing facilities, are set out in the Business Review. In addition, note 25 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to currency and liquidity risks.

The Group has considerable financial resources (including a £165m five-year revolving credit facility) together with contracts with a diverse range of customers and suppliers across different geographic areas and industries. No one customer accounts for more than 2% of Group turnover. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries and after conducting a formal review of the Group's financial resources, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

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 or hold discussions with the Company on a regular basis. Major shareholders are also offered the opportunity to meet 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 half-year 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, Half-Year 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 116.

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 per project 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

Members

- Geoff Unwin (Chairman)
- Andrew Williams
- 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, which remain unchanged from the previous year, can be found on the Company's website or can 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.

During the year attendance by Committee members at meetings was as follows:

Name	Attendance
Geoff Unwin (Chairman)	5 of 5
Andrew Williams	5 of 5
Richard Stone	5 of 5
Stephen Pettit	5 of 5
Jane Aikman	4 of 5

Activities

The Committee is responsible for nominating appropriate executive and non-executive candidates for appointment to the Board. During the past year, the Committee has been occupied with succession planning discussions.

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 50 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

22 June 2010

Audit Committee Report

Members

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

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 Disclosure Transparency Rule 7.1 and the Combined Code. The terms of reference are considered annually by the Audit Committee and are then referred to the Board for approval.

Responsibilities

The Audit Committee assists the Board in fulfilling its responsibilities in respect of:

- 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;
- oversight of risk management including the review of the Group's financial, operational and compliance internal controls as well as 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 the periodic rotation of audit personnel and 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, which were subject to minor revision in the year to reflect the changes in the Internal Audit function, can be found on the Company's website or can be obtained from the Company Secretary.

Governance

The Audit Committee was in place throughout the financial year with Jane Aikman as the chair. 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 the Auditors without the involvement of the executive Directors; the Committee meets at least three times per year.

During the year attendance by Committee members at meetings was as follows:

Name	Attendance
Jane Aikman (Chairman)	3 of 3
Richard Stone	3 of 3
Stephen Pettit	3 of 3

The Board has designated Jane Aikman 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.

Audit Committee Report

continued

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 3 April 2010 report and financial statements, the 3 October 2009 half-yearly report and the Interim Management Statements issued in July 2009 and February 2010. As part of these reviews the Committee received a report from the external auditors on their audit of the Annual report and financial statements;
- considered the quality of the reports and 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;
- evaluated the independence and objectivity of the external auditors;
- agreed the terms of engagement and fees to be paid to the external auditors for their audit of the 3 April 2010 financial statements;
- reviewed its own effectiveness;
- evaluated 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.

The independent auditors, Deloitte LLP, were appointed in 2003. The Committee has considered the risk of the withdrawal of their independent auditors from the market and has concluded that the risk is small. During 2010 a review of their independence was undertaken, and the Committee concluded that the independence criteria under the relevant standards continued to be met. At the year-end the auditors formally confirmed that their independence and objectivity has been maintained. In addition, they are required to rotate the audit partner responsible for the Group audit every five years. The audit partner responsible for the Group audit will change as part of the rotation process in 2013. In 2010/11 the Audit Committee will determine whether to tender for the audit work in 2011. There are no contractual obligations that acted to restrict the Committee's choice of auditor.

Accordingly, the Committee unanimously recommended to the Board that a resolution for the reappointment of Deloitte LLP as the Company's independent auditors be proposed to shareholders at the AGM in July 2010.

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

Jane Aikman

Chairman

22 June 2010

Remuneration Report

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, which remain unchanged from the prior year, can be found on the Company's website or can be obtained from the Company Secretary.

Governance

The Remuneration Committee, which meets at least twice per year, was in place throughout the financial year. All 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 consults Andrew Williams (Chief Executive) on his proposals and relates the proposals to remuneration packages at comparable listed companies. The Committee consults Watson Wyatt Limited regarding the structuring of executive remuneration packages and reviews other external published material. Independent pension advice is provided to the Company by Lane, Clark & Peacock LLP.

During the year attendance by Committee members at meetings was as follows:

Name	Attendance
Richard Stone (Chairman)	4 of 4
Geoff Unwin	4 of 4
Stephen Pettit	4 of 4
Jane Aikman	4 of 4

Activities

During 2009/10, the Committee continued to review the Company's remuneration strategy such that executives remain appropriately incentivised to meet the Group's objectives in the prevailing economic conditions. That strategy relies upon three key components which produce an appropriate balance between fixed and variable pay over the short and long term:

- setting salaries close to median levels;
- a performance related bonus scheme, as described below, tying bonuses to a weighted average increase in economic value added; and
- a long-term equity-based incentive with entry and exit performance hurdles.

Accordingly the Committee agreed that:

- executive base salaries for 2009/10 should be held at 2008/09 levels for the full year after an interim review of the Group's performance for the first six months of 2009/10;
- executive base salaries for 2010/11 should be increased by an average of 3.5%;
- the annual targets on the granting of performance shares were set appropriately; and
- the award of bonuses in respect of 2009/10 should only be based on objective measures and be related to the Company's performance.

The Committee has reviewed the Remuneration Report for 2009/10 and the Company's remuneration strategy, policy and details of executive remuneration follow.

On behalf on the Remuneration Committee

Richard Stone

Chairman

22 June 2010

Remuneration Report

continued

Report on Remuneration Strategy and Policy

Introduction

This report has been prepared in accordance with Schedule 8 to the Accounting Regulations under the Companies Act 2006. 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 Accounting Regulations. The report has therefore been divided into separate sections for audited and unaudited information.

Unaudited information

Remuneration policy

Executive remuneration packages are designed to attract, retain and motivate executives of the high calibre needed to manage the Group successfully and align their interests 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.

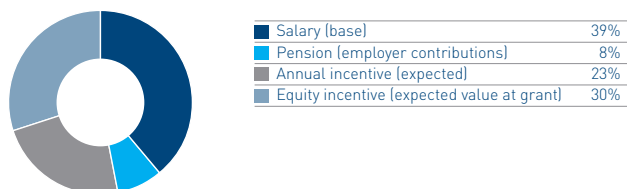
There are four main elements of the remuneration package for executive Directors and senior management:

Element	Purpose	Operation
Salary	To provide competitive fixed remuneration that will attract and retain key employees and reflect their experience and position in the Group.	Reviewed every 12 months. Benchmarked against appropriate median market comparators. Linked to individual performance and contribution.
Annual bonus	Incentivises the achievement of an objective annual target which supports the short- to medium-term strategy of the Group.	Maximum bonus potential is set at a market competitive level (100% of salary). Bonus is based on Economic Value Added. Paid in cash.
Equity incentive	Performance share plan incentivises executives to achieve superior returns to shareholders over a three-year period. Retain key individuals and align interests with shareholders.	Share awards are made annually to senior executives and are based on a combination of TSR (50%) and ROTIC (50%) targets over a three-year period. Maximum awards range from 100% to 140% of salary.
Pension	To provide competitive post-retirement benefits.	Executives may participate in either a Group defined benefit pension plan, Group defined contribution pension plan or the US 401k money purchase arrangement. Cash supplements in lieu of Company pension contributions are made to some individuals.

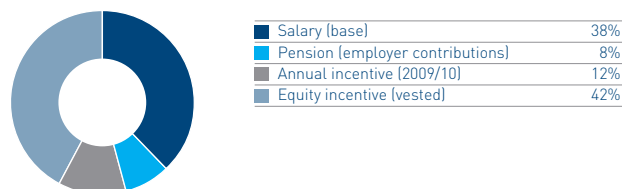
The Company's policy is that a substantial proportion of the remuneration of the executive Directors should be performance-related. As described below, executive Directors may earn annual bonus payments of up to 100% of their basic salary together with the benefits of participation in share plans which are subject to a maximum value, in the year of grant, of 140% of basic salary.

Each executive Director currently holds shares in the Company in excess of the guideline of one year's salary.

Split of package (expected)



Split of package (actual)



Basic salary

An executive Director's basic salary is reviewed by the Committee against the market, Company performance and future strategy 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 external research which gives information on a comparator group of companies. Basic salaries are reviewed in January/February of each year with increases, if appropriate, 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.

Annual bonus payments

During the year the Committee carefully assessed existing incentive arrangements and determined that incentive levels are appropriately set. 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. Executive Director bonus payments for 2010 were £322,000 versus £nil in the prior year reflecting progress achieved in prevailing economic conditions.

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.

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 Group profit exceeding a target calculated from the profits for the three preceding financial years after charging cost of capital, including the cost of acquisitions.

For 2009/10, a supplemental cash bonus of up to 15% of salary could be earned, subject to the 100% of salary cap for total bonus paid, dependent upon attainment of a Return on Capital Employed of 45% and Return on Sales improvement.

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.

Performance share plan

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 assess and evaluate such incentives, adopted a performance share plan following shareholder approval at the 2005 annual general meeting; this Plan replaced the existing share option plans in respect of future share awards. 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.

How the PSP works

Performance criteria determine the amount to be granted and, after three years, the amount to vest as illustrated below:

Stages	Award		Vesting	
Process	Performance criteria determine the number of shares to be granted out of a Maximum Award level. Primary emphasis is placed upon the attainment of personal strategic objectives coupled with financial and operational success.	The assessment of the individual's achievement of their objectives establishes the proportion of the Maximum Award that an individual is granted (the Actual Award in the table below)	50% of the amount granted is subject to TSR growth relative to the FTSE 250, excluding financial companies, over the three-year vesting period. 50% of the amount granted is subject to ROTIC performance over each of the three years	Awards vest on a sliding scale, as set out below.
Timeline	Criteria set one year prior to grant	Assessment occurs immediately prior to grant	Vesting conditions apply throughout the three-year vesting period	Three years from grant or pro rata for good leavers
PSP value	Maximum Award	x % attainment of individual objectives	x % attainment of Group performance conditions	= Final shares vested

Remuneration Report

continued

Vested awards are satisfied in shares with sufficient shares being sold to meet tax and social costs owing, as directed, and the net balance of shares transferred to the individual.

Awards lapse if they do not vest on the third anniversary of their award.

Current vesting expectations for awards made in 2007, 2008 and 2009 range from 66% to 95%.

Performance against objectives	Maximum award permitted*		Actual award 2009/10*		Estimate of vesting in 2012/13*
Chief Executive	140%	At individual % assessment level	110%	At 66% vesting expectation	73%
Finance Director	140%		119%		78%
Executive Directors	140%		110%		73%
Divisional Chief Executives	100%		81%		53%
Managing Directors and Divisional Finance Directors	40%		28%		18%

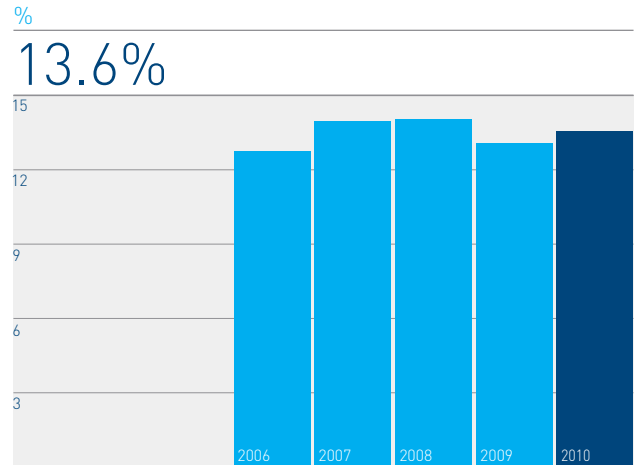
* Expressed as a percentage of 2009/10 base salary.

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).

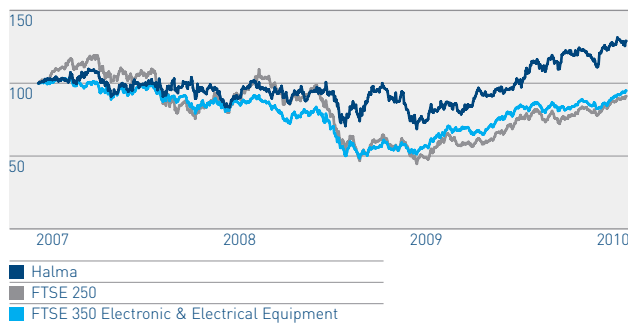
PSP vesting table

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

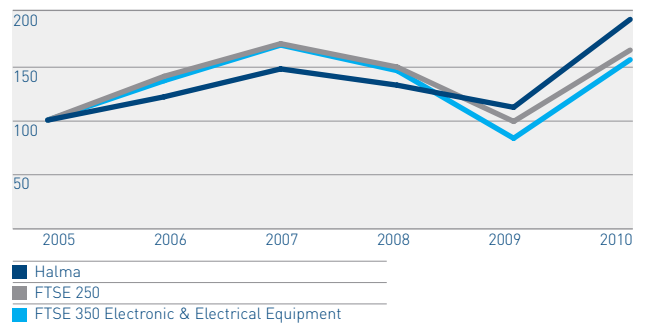
ROTIC



Total Shareholder Return (three years)



Total Shareholder Return (five years)



The five-year graph above shows the Company's total shareholder return performance over the five years to 3 April 2010 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 194% compared to 165% for the FTSE 250 and 156% 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 161p and the total of dividends paid in the year ended 2 April 2005 was 6.33p per share. The Halma p.l.c. ordinary share price at 3 April 2010 was 259p and the total of dividends paid in the year then ended was 8.09p per share. The Plan contains provisions permitting share option grants, restricted share awards and performance share awards. To date, the Committee has used the Plan only to award both approved and unapproved performance shares.

Share option plans

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 22 to the accounts. No further grants may be made from these plans which have been replaced by the performance share plan approved by shareholders at the 2005 annual general meeting. The granting of options was spread over the life of the Plan.

Dilution

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. No significant amendments are proposed to be made to the terms and conditions of any entitlement of a Director to share options or performance share awards.

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 £131,250 for the year ended 3 April 2010.

Bonuses and other fluctuating emoluments and benefits-in-kind are not pensionable nor subject to any pension accrued 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 55 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.

Whilst pension benefits are accruing, executive Directors receive pension supplements to compensate them for the fact that their pension accrual 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.

Prior to receiving pension payments, 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.

Benefits-in-kind

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

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. 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
Adam Meyers	July 2008	one year

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

Remuneration Report

continued

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. Richard Stone, who is proposed for re-election in accordance with the Company's Articles, had his terms of engagement extended for a further third three-year term in 2006 in contemplation of attaining six years of service in January 2007. Richard has expressed his willingness to continue as a Director past his ninth anniversary on the Board whilst overall non-executive Director succession planning is considered and finalised.

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 receives a basic fee 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. Richard Stone, Stephen Pettit and Jane Aikman have contracts in respect of their non-executive Director services which can be terminated, by either party, by giving not less than three months' notice.

The Chairman's and the non-executive Directors' fees have remained static for the past four years. They were reviewed by the Board in October 2009 and April 2010, with increases to take effect from April 2010.

AUDITED INFORMATION

Aggregate Directors' remuneration

The total amounts for Directors' remuneration were as follows:

	2010 £000	2009 £000
Emoluments	1,719	1,459
Gains on vesting of performance shares	1,122	583
Gains on exercise of share options	966	129
Pension supplements (including 401k company contributions)	156	166
	3,963	2,337

Directors' remuneration

	Salaries and fees £000	Bonus £000	Benefits £000	Pension supplement £000	2010 Total £000	2009 Total £000
Geoff Unwin	140	-	-	-	140	147
Andrew Williams	400	77	21	71	569	493
Kevin Thompson	258	49	13	67	387	338
Neil Quinn	207	36	15	18	276	242
Richard Stone	43	-	-	-	43	43
Stephen Pettit	36	-	-	-	36	39
Jane Aikman	40	-	-	-	40	37
Adam Meyers**	219	160	5	-	384	212*
Keith Roy	-	-	-	-	-	74*
	1,343	322	54	156	1,875	1,625

* From/to date of appointment/retirement.

** Remunerated in US Dollars and translated at the prevailing average rate for the year.

Salaries and fees of the Board and Executive team for 2009/10 were held at the 2008/09 levels.

The fees paid in relation to Geoff Unwin were paid to Gunwin Limited up to September 2008.

Directors' interests

The Directors who held office at 3 April 2010 had the following interests in the ordinary shares of the Company:

	Shares 03.04.10	Shares 28.03.09
Geoff Unwin	68,250	68,250
Andrew Williams	328,028	172,893
Kevin Thompson	241,775	160,282
Neil Quinn	178,869	92,384
Richard Stone	20,000	20,000
Stephen Pettit	2,000	2,000
Jane Aikman	2,000	2,000
Adam Meyers	125,131	68,601

There are no non-beneficial interests of Directors. There were no changes in Directors' interests from 3 April 2010 to 22 June 2010.

Performance share plan

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

	Date of grant	As at 28.03.09	Granted/ (vested) in the year	Five-day average share price on grant	As at 03.04.10
Andrew Williams	July 2006	246,231	(224,685)	199.00p	–
	July 2007	218,144		204.67p	218,144
	Aug 2008	274,297		201.30p	274,297
	Aug 2009		226,610	194.36p	226,610
Kevin Thompson	July 2006	165,327	(150,860)	199.00p	–
	July 2007	141,632		204.67p	141,632
	Aug 2008	173,154		201.30p	173,154
	Aug 2009		157,473	194.36p	157,473
Neil Quinn	July 2006	132,446	(120,856)	199.00p	–
	July 2007	109,695		204.67p	109,695
	Aug 2008	143,964		201.30p	143,964
	Aug 2009		125,620	194.36p	125,620
Adam Meyers	July 2006	81,805	(74,647)	199.00p	–
	July 2007	62,025		204.67p	62,025
	Aug 2008	110,507		201.30p	110,507
	Aug 2009		80,909	194.36p	80,909

Performance conditions for the awards made in the financial year are set out above. The 2006 grants vested in August 2009 at a value of 196.46p per share with 91.25% of the original number of shares granted being transferred to participants net of any tax and social charges; the balance of the 2006 award lapsed. The current vesting expectation for grants made in 2007 is 95%; for grants made in 2008, 83% and for grants made in 2009, 66%.

Directors' share options

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

	As at 28.03.09	Exercised	Share price on exercise	As at 03.04.10	2010 Gains on exercise (£)	2009 Gains on exercise (£)
Andrew Williams	394,846	(275,509)	243.44p	119,337	278,367	439
Kevin Thompson	674,702	(457,716)	241.99p	216,986	499,128	26,614
Neil Quinn	455,272	(177,516)	234.40p	277,756	171,293	78,209
Adam Meyers	491,781	(23,300)	194.72p	468,481	17,410	–

There were no share plan grants 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 Thursday, 1 April 2010, the last trading day preceding the financial year end, was 259.0p per share and the range during the year was 155.5p to 263.8p.

Remuneration Report

continued

Details of Directors' options outstanding at 3 April 2010 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 259.0p.
2. Not yet exercisable, will only be exercisable when the performance criteria, set out in note 22 to the accounts, have been met and have an exercise price per share of less than 259.0p.

	Status of options (see above)	Year of grant	Number of shares	Weighted average exercise price (p) per share
Andrew Williams	2	2000-2004	119,337	138.62
Kevin Thompson	2	2000-2004	216,986	138.34
Neil Quinn	1	2001	63,800	163.50
	2	2000-2004	213,956	137.70
Adam Meyers	1	2000; 2003-05	307,783	131.68
	2	2000-2004	160,698	138.64

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

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

	Age at 03.04.10	Years of pensionable service at 03.04.10	Accrued pension 2009 £000	Increase in the year £000	Accrued pension 2010 £000
Andrew Williams	42	15	37	3	40
Kevin Thompson	50	18	95	5	100
Neil Quinn	60	22*	102	9*	111*

* As at the date the pension commenced payment.

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

	Transfer value 28.3.09 £000	Directors' contributions £000	Increase in value net of contributions £000	Transfer value 03.04.10 £000
Andrew Williams	404	12	40	456
Kevin Thompson	1,410	-	124	1,534
Neil Quinn	2,148	10	291*	2,449*

* As at the date the pension commenced payment.

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.

Adam Meyers is a member of the US 401k money purchase scheme. Company contributions paid in the year since his appointment to the Board were \$12,654 (£7,909) (2009: \$11,812 (£6,867)).

The report was approved by the Board of Directors and signed on its behalf by:

Richard Stone

Remuneration Committee (Chairman)

22 June 2010

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 114 and 115.

Ordinary dividends

The Directors recommend a final dividend of 5.19p per share and, if approved, this dividend will be paid on 25 August 2010 to ordinary shareholders on the register at the close of business on 23 July 2010. Together with the interim dividend of 3.31p per share already paid, this will make a total of 8.50p (2009: 7.93p) 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 share capital, together with details of the movements in the 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. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Holders of ordinary shares are entitled to attend and speak at general meetings of the Company and to appoint one or more proxies or, if the holder of shares is a corporation, one or more corporate representatives. On a show of hands, each holder of ordinary shares who (being an individual) is present in person or (being a corporation) is present by a duly appointed corporate representative, not being himself a member, shall have one vote, as shall proxies (unless they are appointed by more than one holder, in which case they may vote both for and against the resolution in accordance with the holders' instructions). On a poll every holder of ordinary shares present in person or by proxy shall have one vote for every share of which he is the holder.

Electronic and paper proxy appointments and voting instructions must be received not later than 48 hours before the meeting. A holder of ordinary shares can lose the entitlement to vote at general meetings where that holder has been served with a disclosure notice and has failed to provide the Company with information concerning interests held in those shares. Except as set out above and as permitted under applicable statutes, there are no limitations on voting rights of holders of a given percentage, number of votes or deadlines for exercising voting rights.

The Directors may refuse to register a transfer of a certificated share that is not fully paid, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis or where the Company has a lien over that share. The Directors may also refuse to register a transfer of a certificated share unless the instrument of transfer is: (i) lodged, duly stamped (if necessary), at the registered office of the Company or any other place as the Board may decide accompanied by the certificate for the share(s) to be transferred and/or such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer; (ii) in respect of only one class of shares; (iii) in favour of a person who is not a minor, infant, bankrupt or a person of unsound mind; or (iv) in favour of not more than four persons jointly.

Transfers of uncertificated shares must be carried out using CREST and the Directors can refuse to register a transfer of an uncertificated share in accordance with the regulations governing the operation of CREST.

There are no other restrictions on the transfer of ordinary shares in the Company except certain restrictions which may from time to time be imposed by laws and regulations (for example insider trading laws); or where a shareholder with at least a 0.25% interest in the Company's certificated shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares. 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 do not have voting rights and are not eligible for dividends. Details of employee share plans are set out in note 22 to the accounts.

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. Directors can be appointed by the Company by ordinary resolution at a general meeting or by the Board. If a director is appointed by the Board, such director will hold office until the next annual general meeting and shall then be eligible for re-election at that meeting. The Company can remove a director from office, including by passing a special resolution or by notice being given by all the other directors. 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 50.

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.

Other Statutory Information

continued

Allotment authority

Under the Companies Act 2006 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 £12,500,000 (up to 125,000,000 new ordinary shares of 10p each), being just less than one-third of the issued share capital of the Company (excluding treasury shares) as at 21 June 2010 (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 authorities will expire at the conclusion of the Annual General Meeting of the Company in 2011. 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 21 June 2010 (the latest practicable date prior to the publication of the Notice of Meeting), the Company had 377,721,994 ordinary shares of 10p each in issue and held 1,523,217 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 2006 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 21 June 2010 (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 issue 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 names of the Directors of the Company who served throughout the year, including brief biographies, are set out on page 48. Stephen Pettit retires by rotation at the Annual General Meeting and, being eligible, offers himself for re-election. With regard to his re-election, the Board confirms that, following formal performance evaluations, Stephen Pettit's performance continues to be effective and he continues to demonstrate commitment to his role.

Richard Stone, Senior Independent Director and Chairman of the Remuneration Committee, was first elected a non-executive Director in 2001 and has now served on the Board for nine years. He is standing for re-election at the Annual General Meeting as the Board has a policy of requiring non-executive Directors who have served for nine years or more to stand for annual re-election by shareholders.

Directors' indemnities

The Company has entered into deeds of indemnity with each of the current Directors which remain in force at the date of this report. These are qualifying third-party indemnity provisions for the purposes of the Companies Act 2006.

Purchase of the Company's own shares

The Company was authorised at the 2009 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 2010 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 37,600,000 ordinary shares, which is approximately 10% of the Company's issued share capital (excluding treasury shares) as at 21 June 2010 (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 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 3 April 2010, 1,098,908 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 21 June 2010, 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 4,133,788 ordinary shares, or 1.1% of the Company's issued share capital. If the proposed authority were to be used in full and all of the repurchased shares were cancelled (but the Company's issued share capital otherwise remained unaltered), the total number of options to subscribe for ordinary shares at that date would represent approximately 1.2% of the Company's issued share capital (excluding treasury shares).

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 3 April 2010 the Company's trade creditors amounting to £1.1m (2009: £0.8m) represented 39 days (2009: 18 days) of its annual purchases.

Donations

Group companies made charitable donations amounting to £4,383 (2009: £15,334) during the financial year. There were no political donations (2009: £nil).

Substantial shareholdings

On 15 June 2010, 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	5.93
Capital Research and Management Co	19,089,943	5.07
Massachusetts Financial Services Company	18,950,413	5.04
Barclays Bank PLC	15,724,354	4.18
Sanderson Asset Management Ltd	14,891,762	3.96
Legal & General Group Plc	14,874,651	3.95

Annual General Meeting

The Company's Annual General Meeting will be held on 29 July 2010. The Notice of Meeting, together with an explanation of the proposed resolutions, is enclosed with this Annual Report and is also available on the Company's website at www.halma.com.

Special business

The Board will propose two special resolutions under Special Business at the Annual General Meeting:

1. A resolution will be proposed to adopt new Articles of Association:
 - a) to delete all the provisions of the Company's Memorandum of Association which, by virtue of Section 28 of the Companies Act 2006, are to be treated as provisions of the Company's Articles of Association; and
 - b) to take account of changes resulting from the full implementation on 1 October 2009 of the Companies Act 2006.
2. Following the implementation of the EU Shareholder Rights Directive (the 'Directive') in August 2009, a resolution will be proposed to permit the Company in accordance with the Directive to retain the ability to call general meetings (other than annual general meetings) at 14 days' notice rather than at 21 days' notice.

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 s418 of the Companies Act 2006.

Deloitte 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

22 June 2010

Directors' Responsibilities

The Directors are responsible for preparing the Annual 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. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and 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). Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- 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; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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 that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, 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
- 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 that they face.

By order of the Board

Andrew Williams

Chief Executive

22 June 2010

Kevin Thompson

Finance Director

22 June 2010

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 53 week period ended 3 April 2010 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income and Expenditure, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 3 April 2010 and of its profit for the 53 week period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' Statement contained within Corporate Governance in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other matter

We have reported separately on the parent company financial statements of Halma p.l.c. for the 53 week period ended 3 April 2010 and on the information in the Directors' Remuneration Report that is described as having been audited.

Mark Mullins (Senior Statutory Auditor)
for and on behalf of **Deloitte LLP**
Chartered Accountants and Statutory Auditors
Reading, UK

22 June 2010

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 information differs from legislation in other jurisdictions.

Consolidated Income Statement

	Notes	53 weeks to 3 April 2010			52 weeks to 28 March 2009		
		Before amortisation of acquired intangibles £000	Amortisation of acquired intangibles £000	Total £000	Before amortisation of acquired intangibles £000	Amortisation of acquired intangibles £000	Total £000
Continuing operations							
Revenue	1	459,118	-	459,118	455,928	-	455,928
Operating profit		89,135	(4,840)	84,295	82,508	(6,301)	76,207
Finance income	4	6,566	-	6,566	8,405	-	8,405
Finance expense	5	(9,487)	-	(9,487)	(11,826)	-	(11,826)
Profit before taxation	6	86,214	(4,840)	81,374	79,087	(6,301)	72,786
Taxation	9	(22,807)	1,870	(20,937)	(21,888)	1,683	(20,205)
Profit for the year attributable to equity shareholders	1	63,407	(2,970)	60,437	57,199	(4,618)	52,581
Earnings per share	2						
From continuing operations							
Basic		16.89p		16.10p	15.30p		14.07p
Diluted				16.05p			14.03p
Dividends in respect of the year	10						
Paid and proposed (£000)				31,984			29,723
Paid and proposed per share				8.50p			7.93p

Consolidated Statement of Comprehensive Income and Expenditure

	Notes	53 weeks to 3 April 2010 £000	52 weeks to 28 March 2009 £000
Profit for the year		60,437	52,581
Exchange differences on translation of foreign operations		(8,613)	40,336
Exchange differences transferred to profit on disposal of foreign operations		-	193
Actuarial losses on defined benefit pension plans	27	(4,644)	(11,092)
Effective portion of changes in fair value of cash flow hedges	25	(47)	-
Tax relating to components of other comprehensive income	9	2,917	6,315
Other comprehensive (expense)/income for the year		(10,387)	35,752
Total comprehensive income for the year attributable to equity shareholders		50,050	88,333

Consolidated Balance Sheet

	Notes	3 April 2010 £000	[Restated]* 28 March 2009 £000
Non-current assets			
Goodwill	11	195,334	198,084
Other intangible assets	12	33,705	40,894
Property, plant and equipment	13	66,786	71,408
Deferred tax assets	20	10,612	10,003
		306,437	320,389
Current assets			
Inventories	14	47,014	51,381
Trade and other receivables	15	98,077	103,544
Tax receivable		1,067	3,275
Cash and cash equivalents		31,323	34,987
Derivative financial instruments		232	–
		177,713	193,187
Total assets		484,150	513,576
Current liabilities			
Borrowings	16	317	6,559
Trade and other payables	17	66,955	61,361
Provisions	18	1,515	2,018
Tax liabilities		7,843	3,756
Derivative financial instruments		331	–
		76,961	73,694
Net current assets		100,752	119,493
Non-current liabilities			
Borrowings	16	21,924	79,614
Retirement benefit obligations	27	43,071	42,568
Trade and other payables	19	4,554	3,013
Provisions	18	1,954	719
Deferred tax liabilities	20	13,193	14,353
		84,696	140,267
Total liabilities		161,657	213,961
Net assets		322,493	299,615
Equity			
Share capital	21	37,765	37,539
Share premium account		20,959	18,146
Treasury shares		(2,581)	(2,759)
Capital redemption reserve		185	185
Hedging and translation reserve		39,013	47,673
Other reserves		4,178	4,246
Retained earnings		222,974	194,585
Shareholders' funds		322,493	299,615

* Provisions previously within 'Trade and other payables' have been separately disclosed in note 18. See note 17 for further details.

The financial statements of Halma p.l.c., company number 40932, were approved by the Board of Directors on 22 June 2010.

A J Williams
Director

K J Thompson
Director

Consolidated Statement of Changes in Equity

	Share capital £000	Share premium account £000	Treasury shares £000	Capital redemption reserve £000	Hedging and translation reserve £000	Other reserves £000	Retained earnings £000	Total £000
At 28 March 2009	37,539	18,146	(2,759)	185	47,673	4,246	194,585	299,615
Profit for the period	-	-	-	-	-	-	60,437	60,437
Other comprehensive income and expense:								
Exchange differences on translation of foreign operations	-	-	-	-	(8,613)	-	-	(8,613)
Actuarial losses on defined benefit pension plans	-	-	-	-	-	-	(4,644)	(4,644)
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	(47)	-	-	(47)
Tax relating to components of other comprehensive income	-	-	-	-	-	-	2,917	2,917
Total other comprehensive income and expense	-	-	-	-	(8,660)	-	(1,727)	(10,387)
Share options exercised	226	2,813	-	-	-	-	-	3,039
Dividends paid	-	-	-	-	-	-	(30,394)	(30,394)
Share-based payments	-	-	-	-	-	(1,017)	-	(1,017)
Deferred tax on share-based payment transactions	-	-	-	-	-	949	-	949
Excess tax deductions related to share-based payments on exercised options	-	-	-	-	-	-	73	73
Net movement in treasury shares	-	-	178	-	-	-	-	178
At 3 April 2010	37,765	20,959	(2,581)	185	39,013	4,178	222,974	322,493
At 29 March 2008	37,446	16,949	(3,292)	185	7,144	5,106	175,566	239,104
Profit for the period	-	-	-	-	-	-	52,581	52,581
Total other comprehensive income and expense	-	-	-	-	40,529	-	(4,777)	35,752
Share options exercised	93	1,197	-	-	-	-	-	1,290
Dividends paid	-	-	-	-	-	-	(28,785)	(28,785)
Share-based payments	-	-	-	-	-	(201)	-	(201)
Deferred tax on share-based payment transactions	-	-	-	-	-	(659)	-	(659)
Net movement in treasury shares	-	-	533	-	-	-	-	533
At 28 March 2009	37,539	18,146	(2,759)	185	47,673	4,246	194,585	299,615

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 3 April 2010 the number of treasury shares held was 1,130,036 (2009: 1,274,108) and their market value was £2,926,793 (2009: £1,981,238).

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

The Hedging and translation reserve is used to record differences arising from the retranslation of the financial statements of foreign operations and the portion of the cumulative net change in the fair value of cash flow hedging instruments that are deemed to be an effective hedge.

The Other reserves represent the provision established in respect of the value of the equity-settled share option plans and performance share plan.

Consolidated Cash Flow Statement

	Notes	53 weeks to 3 April 2010 £000	52 weeks to 28 March 2009 £000
Net cash inflow from operating activities	24	100,338	65,931
Cash flows from investing activities			
Purchase of property, plant and equipment		(9,781)	(15,209)
Purchase of computer software		(1,260)	(1,631)
Purchase of intangibles		(38)	(220)
Proceeds from sale of property, plant and equipment		854	1,884
Development costs capitalised		(3,072)	(3,846)
Interest received		189	566
Acquisition of businesses	24	(1,676)	(12,388)
Disposal of businesses		520	2,867
Net cash used in investing activities		(14,264)	(27,977)
Financing activities			
Dividends paid		(30,394)	(28,785)
Proceeds from issue of share capital		3,039	1,290
Purchase of treasury shares		(2,252)	(1,442)
Interest paid		(1,047)	(3,305)
Repayment of borrowings	24	(58,845)	(3,519)
Net cash used in financing activities		(89,499)	(35,761)
(Decrease)/increase in cash and cash equivalents	24	(3,425)	2,193
Cash and cash equivalents brought forward		34,987	28,118
Exchange adjustments		(556)	4,676
Cash and cash equivalents carried forward		31,006	34,987

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 2006 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 have been applied consistently throughout the years ended 28 March 2009 and 3 April 2010 other than those noted below.

The Group accounts have been prepared under the historical cost convention, except as described below under the heading 'Derivative financial instruments and hedge accounting'.

New, revised or changes to existing standards which have been adopted by the Group in the year ending 3 April 2010

IAS 1 (revised), effective for periods commencing 1 January 2009, requires the presentation of a statement of changes in equity as a primary statement, separate from the Income statement and Statement of comprehensive income. As a result, a Consolidated statement of changes in equity has been included in the primary statements, showing changes in each component of equity for each period presented.

IFRS 8 'Operating segments', became effective on 1 January 2009. The new standard has not required any significant changes to segmental reporting from that reported in 2009.

IAS 23 'Borrowing costs' amendment became effective on 1 January 2009 and requires borrowing costs which meet certain criteria to be capitalised. The Group does not currently have any material borrowings or interest costs, which are covered by this standard.

Amendments to IFRS 2 'Share-based payment' and IFRS 7 'Financial instruments: Disclosures' became effective in 2009 and did not have a material impact on the Group.

New standards and interpretations not yet adopted

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 1 (amended)	Additional Exemptions for First-time Adopters
IFRS 2 (amended)	Group Cash-settled Share-based Payment transactions
IFRS 3 (revised 2008)	Business Combinations
IFRS 9	Financial Instruments
IAS 24 (revised)	Related Party Disclosure
IAS 27 (revised 2008)	Consolidated and Separate Financial Statements
IAS 32 (amended)	Classification of Rights Issue
IAS 39 (amended)	Eligible Hedged Items
IFRIC 9 and IAS 39	Embedded Derivatives
IFRIC 14 (amended)	Prepayments of a Minimum Funding Requirement
IFRIC 17	Distributions of Non-cash Assets to Owners
IFRIC 18	Transfer of Assets from Customers
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
Improvements to IFRS (April 2009)	

None of these is anticipated to have any material impact on future periods other than IFRS 3 (revised) (with effect from 4 April 2010), which will change the Group's treatment of the cost of business combinations and deferred consideration for transactions completed from that date.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained on page 53.

Key sources of estimation uncertainty and critical accounting judgments

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 following two areas of key estimation uncertainty and critical accounting judgment have been identified as having significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year:

– Goodwill impairment

Determining whether goodwill is impaired requires an estimation of the value in use of cash generating units (CGUs) to which goodwill has been allocated. In turn, the value in use calculation involves an estimation of the present value of future cash flows of CGUs. The future cash flows are based on annual budgets, as approved by the Board, to which the management's expectation of market-share and long-term growth rates are applied. The present value is then calculated based on management's judgment of future discount rates. The Board reviews these key assumptions (market-share, long-term growth rates, and discount rates) and the sensitivity analysis around these assumptions. Further details are provided in note 11.

– Defined benefit pension scheme liabilities

Determining the value of the future defined benefit obligation requires judgment in respect of the assumptions used to calculate present values. These include future mortality, discount rate, inflation and salary increases. Management makes these judgments in consultation with an independent actuary. Details of the judgments made in calculating these transactions are disclosed in note 27.

Basis of consolidation

The Group accounts include the accounts of Halma p.l.c. and its subsidiary companies made up to 3 April 2010, 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 (the date from which the financial statements were reported under IFRS) 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, 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.

(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. Acquired intangible assets are amortised through the Consolidated income statement on a straight-line basis over their estimated economic lives 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.

(d) Other intangibles

Other intangibles are amortised through the Consolidated income statement on a straight-line basis over their estimated economic lives of between three and ten 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.

Segmental reporting

An operating segment is a distinguishable component of the Group that is engaged in business activities from which it may earn revenues and incur expenses, and whose operating results are reviewed regularly by the Chief Operating Decision Maker (the Chief Executive Officer) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Group has adopted IFRS 8 in the current year. The reportable segments disclosed are consistent with operating segments previously determined and presented in accordance with IAS14 Segment Reporting. Reportable segments are operating segments that either meet the thresholds and conditions set out in IFRS 8 or are considered by the Board to be appropriately designated as reportable segments. Segment result represents operating profits and includes an allocation of head office expenses. Segment result excludes tax and financing items. Segment assets comprise goodwill, other intangible assets, property, plant and equipment (excluding land and buildings), inventories, trade and other receivables. Segment liabilities comprise trade and other payables, provisions and other payables. Unallocated items represent land and buildings, corporate and deferred taxation balances, defined benefit scheme liabilities, deferred purchase consideration, all components of net cash/borrowings and derivative financial instruments.

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 Hedging and 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 Hedging and translation reserve attributable to that subsidiary. As permitted by IFRS 1, the Group has elected to deem the Hedging and translation 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.

Derivative financial instruments and hedge accounting

The Group enters into derivative financial instruments to manage its exposure to foreign exchange rate risk using forward exchange contracts. Further details of derivative financial instruments are disclosed in note 25.

Derivative financial instruments are classified as fair value through profit and loss (held for trading) unless they are in a designated hedge relationship.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Cash flow hedge accounting

The Group designates certain hedging instruments as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument has been or is expected to be highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 25 sets out details of the fair values of the derivative instruments used for hedging purposes and the movements in the hedging reserve in equity.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in Other comprehensive income. The gain or loss relating to the ineffective portion as a result of being overhedged is recognised immediately in profit or loss.

Amounts previously recognised in Other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in Other comprehensive income at that time is accumulated in equity and is recognised, when the forecast transaction is ultimately recognised, in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Net investment hedge accounting

The Group uses US Dollar and Euro denominated borrowings as a hedge against the translation exposure on the Group's net investment in overseas companies. Where the hedge is fully effective at hedging the variability in the net assets of such companies caused by changes in exchange rates, the changes in value of the borrowings are recognised in the Statement of comprehensive income and accumulated in the Hedging and translation reserve. The ineffective part of any change in value caused by changes in exchange rates is recognised 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.

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 property	2%
Leasehold properties:	
Long leases (more than 50 years unexpired)	2%
Short leases (less than 50 years unexpired)	Period of lease
Plant, equipment and vehicles	8% to 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, of which the Group has none. All other leases are classified as operating leases.

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 schemes, covering the majority of its employees.

For defined benefit schemes, the asset or liability recorded in the balance sheet is the difference between the fair value of the scheme's assets and the present value of the defined obligation at that date. The defined benefit obligation is calculated separately for each scheme 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.

Accounting Policies

continued

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.

Awards under this plan are partly equity-settled and partly cash-settled, and are subject to both market based and non-market based vesting criteria.

The fair value of the equity-settled portion 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.

For the cash-settled portion, a liability equal to the portion of the services received is recognised at the current fair value determined at each balance sheet date.

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.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of the cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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 too 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 profit 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 profit; and 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

The Group has three main reportable segments (Infrastructure Sensors, Health and Analysis and Industrial Safety), which are defined by markets rather than product type. Each segment includes businesses with similar operating and marketing characteristics. These segments are consistent with the internal reporting as reviewed by the Chief Executive Officer.

These reportable segments remain unchanged from the 28 March 2009 financial statements.

Segment revenue and results

	Revenue (all continuing operations)	
	53 weeks to 3 April 2010 £000	52 weeks to 28 March 2009 £000
Infrastructure Sensors	182,923	186,042
Health and Analysis	175,988	165,123
Industrial Safety	100,462	105,026
Inter-segmental sales	(255)	(263)
Revenue for the year	459,118	455,928

Inter-segmental sales are charged at prevailing market prices and have not been disclosed separately by segment as they are not considered material. The Group does not analyse revenue by product group.

	Profit (all continuing operations)	
	53 weeks to 3 April 2010 £000	52 weeks to 28 March 2009 £000
<i>Segment profit before allocation of amortisation of acquired intangible assets</i>		
Infrastructure Sensors	35,510	32,950
Health and Analysis	35,254	28,738
Industrial Safety	19,795	22,159
	90,559	83,847
<i>Segment profit after allocation of amortisation of acquired intangible assets</i>		
Infrastructure Sensors	35,510	31,588
Health and Analysis	31,755	25,764
Industrial Safety	18,454	20,194
Segment profit	85,719	77,546
Central administration costs	(1,424)	(1,339)
Net finance expense	(2,921)	(3,421)
Group profit before taxation	81,374	72,786
Taxation	(20,937)	(20,205)
Profit for the year	60,437	52,581

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit before amortisation of acquired intangible assets is disclosed separately above as this is the measure reported to the Group Chief Executive Officer for the purpose of allocation of resources and assessment of segment performance.

Segment assets and liabilities

<i>Goodwill and acquired intangibles not allocated to specific segment assets/liabilities</i>	Assets		Liabilities	
	2010 £000	2009 £000	2010 £000	2009 £000
Infrastructure Sensors	70,905	76,397	23,429	23,621
Health and Analysis	76,484	81,983	22,512	19,385
Industrial Safety	43,861	45,669	16,945	13,131
Total segment assets/liabilities excluding goodwill and acquired intangible assets	191,250	204,049	62,886	56,137
Goodwill	195,334	198,084	-	-
Acquired intangible assets	21,230	27,424	-	-
Total segment assets/liabilities including goodwill and acquired intangible assets	407,814	429,557	62,886	56,137

1 Segmental analysis continued

<i>Goodwill and acquired intangibles allocated to specific segment assets/liabilities</i>	Assets		Liabilities	
	2010 £000	2009 £000	2010 £000	2009 £000
Infrastructure Sensors	153,112	160,799	23,429	23,621
Health and Analysis	186,751	196,918	22,512	19,385
Industrial Safety	67,951	71,840	16,945	13,131
Total segment assets/liabilities including goodwill and acquired intangibles	407,814	429,557	62,886	56,137
Cash and cash equivalents/borrowings	31,323	34,987	22,241	86,173
Derivative financial instruments	232	–	331	–
Other unallocated assets/liabilities	44,781	49,032	76,199	71,651
Total Group	484,150	513,576	161,657	213,961

Segment assets and liabilities, excluding the allocation of goodwill and acquired intangible assets, have been disclosed separately above as this is the measure reported to the Chief Executive Officer for the purpose of monitoring segment performance and allocating resources between segments. Other unallocated assets include land and buildings and tax assets and unallocated liabilities include deferred purchase consideration, retirement benefit provisions and tax liabilities.

Other segment information

	Additions to non-current assets (restated)		Depreciation and amortisation (restated)	
	2010 £000	2009 £000	2010 £000	2009 £000
Infrastructure Sensors	4,517	5,907	5,633	6,338
Health and Analysis	10,290	22,031	9,930	8,136
Industrial Safety	3,651	6,245	5,087	5,537
Total segment additions/depreciation and amortisation	18,458	34,183	20,650	20,011
Unallocated	395	798	582	329
Total Group	18,853	34,981	21,232	20,340

Non-current asset additions comprise acquired and purchased goodwill, intangible assets and property, plant and equipment.

2010 includes, and the prior year has been restated after, the following allocation of additions to, and amortisation of, acquired tangible and intangible assets and goodwill to the operating segments.

	Additions to acquired tangibles and intangibles and goodwill		Amortisation of acquired intangibles	
	2010 £000	2009 £000	2010 £000	2009 £000
Infrastructure Sensors	–	–	–	1,362
Health and Analysis	4,702	14,075	3,499	2,974
Industrial Safety	–	–	1,341	1,965
Total Group	4,702	14,075	4,840	6,301

There were no impairment losses incurred during the year (2009: £nil).

Geographical information

The Group's revenue from external customers (by location of customer) and its non-current assets by geographical location are detailed below:

	Revenue by destination		Non-current assets	
	2010 £000	2009 £000	2010 £000	2009 £000
Mainland Europe	135,676	132,556	27,239	29,483
United States of America	127,152	120,681	36,028	39,303
United Kingdom	98,339	104,406	230,139	239,247
Asia Pacific and Australasia	59,143	54,071	2,419	2,353
Africa, Near and Middle East	23,695	27,556	–	–
Other countries	15,113	16,658	–	–
	459,118	455,928	295,825	310,386

Notes to the Accounts

continued

1 Segmental analysis continued

Non-current assets comprise goodwill, other intangible assets and property, plant and equipment.

Information about major customers

The Group had no revenue from a single customer, which accounts for more than 2% of the Group's revenue.

2 Earnings per ordinary share

Basic earnings per ordinary share are calculated using the weighted average of 375,485,642 shares in issue during the year (net of shares purchased by the Company and held as treasury shares) (2009: 373,831,805). Diluted earnings per ordinary share are calculated using the weighted average of 376,513,219 shares (2009: 374,893,326), which includes dilutive potential ordinary shares of 1,027,577 (2009: 1,061,521). 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.

Adjusted earnings are calculated as earnings from continuing operations excluding the amortisation of acquired intangible assets after tax. The Directors consider that adjusted earnings represent 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			
	2010 £000	2009 £000	2010 pence	2009 pence
Earnings from continuing operations	60,437	52,581	16.10	14.07
Add back amortisation of acquired intangibles (after tax)	2,970	4,618	0.79	1.23
Adjusted earnings	63,407	57,199	16.89	15.30

3 Non-GAAP measures

The Board uses certain non-GAAP measures to help it effectively monitor the performance of the Group. These measures include Return on Capital Employed, Return on Total Invested Capital and organic growth.

Return on capital employed

	2010 £000	2009 £000
Operating profit from continuing operations before amortisation of acquired intangible assets	89,135	82,508
Computer software costs within intangible assets	3,050	3,022
Capitalised development costs within intangible assets	9,202	10,194
Other intangibles within intangible assets	223	–
Property, plant and equipment	66,786	71,408
Inventories	47,014	51,381
Trade and other receivables	98,077	103,544
Trade and other payables	(66,955)	(61,361)
Provisions	(1,515)	(2,018)
Net tax liabilities	(6,776)	(481)
Non-current trade and other payables	(4,554)	(3,013)
Non-current provisions	(1,954)	(719)
Add back retirement benefit accruals included within payables	–	1,103
Add back accrued deferred purchase consideration	2,921	68
Capital employed	145,519	173,128
Return on capital employed	61.3%	47.7%

Return on total invested capital

	2010 £000	2009 £000
Post-tax profit from continuing operations before amortisation of acquired intangible assets	63,407	57,199
Total shareholders' funds	322,493	299,615
Add back retirement benefit accruals included within payables	–	1,103
Add back retirement benefit obligations	43,071	42,568
Less associated deferred tax assets	(12,060)	(11,920)
Cumulative amortisation of acquired intangibles	21,919	17,360
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	464,972	438,275
Return on total invested capital	13.6%	13.1%

3 Non-GAAP measures continued

Organic growth

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

	Revenue			Profit* before taxation		
	2010 £000	2009 £000	% growth	2010 £000	2009 £000	% growth
Continuing operations	459,118	455,928		86,214	79,087	
Acquired/disposed revenue/profit	(942)	–		(5)	–	
	458,176	455,928	0.5%	86,209	79,087	9.0%

* Before amortisation of acquired intangible assets.

4 Finance income

	2010 £000	2009 £000
Interest receivable	189	643
Expected return on pension scheme assets	6,377	7,762
	6,566	8,405

5 Finance expense

	2010 £000	2009 £000
Interest payable on bank loans and overdrafts	972	3,231
Interest charge on pension scheme liabilities	8,375	8,521
Other interest payable	75	74
	9,422	11,826
Fair value movement on derivative financial instruments	52	–
Unwinding of discount on provisions	13	–
	9,487	11,826

6 Profit before taxation

Profit before taxation comprises:

	2010 £000	2009 £000
Revenue	459,118	455,928
Cost of sales	(310,530)	(313,842)
Gross profit	148,588	142,086
Distribution costs	(9,616)	(10,725)
Administrative expenses	(55,059)	(55,737)
Other operating income	382	583
Net finance expense	(2,921)	(3,421)
Profit before taxation	81,374	72,786

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

Notes to the Accounts

continued

6 Profit before taxation continued

	2010 £000	2009 £000
Profit before taxation is stated after charging/(crediting):		
Depreciation	11,461	10,260
Amortisation	9,771	10,080
Research and development ¹	18,299	19,062
Foreign exchange gain	(138)	(61)
Profit on disposal of operations ²	(382)	(357)
Loss/(profit) on sale of property, plant and equipment and computer software	42	(14)
Cost of inventories recognised as an expense	232,285	235,971
Auditors' remuneration ³		
Audit services to the Company	98	88
Audit services to the Group	510	566
Total audit services pursuant to legislation	608	654
Other services pursuant to legislation ⁴	12	12
Tax services	230	275
Other services	9	60
Operating lease rents:		
Property	5,672	4,993
Other	739	567

¹ A further £3,072,000 (2009: £3,846,000) of development costs have been capitalised in the year. See note 12.

² During the year, the Group disposed of part of its Asset Monitoring business for a profit of £407,000. There was also a write down of £25,000 on a prior year disposal. In 2009, the Group disposed of two operations: (a) the assets of the South Africa-based portion of Texecom Limited at book value, but with a foreign exchange loss of £270,000; and (b) the high-power resistors business of Fortress Systems Pty Limited, Australia, for a profit of £627,000.

³ Enil (2009: Enil) non-audit fees were paid to the auditors in respect of acquisition advice, which otherwise would have been included in cost of investments.

⁴ Audit of the Halma Group Pension Plan.

7 Employee information

The average number of persons employed by the Group (including Directors) was:

	2010 Number	2009 Number
United Kingdom	1,755	2,062
Overseas	1,934	1,956
	3,689	4,018

Group employee costs comprise:

	2010 £000	2009 £000
Wages and salaries	103,530	105,980
Social security costs	15,692	15,928
Pension costs (note 27)	4,636	5,119
Share-based payment charge (note 22)	2,067	2,307
	125,925	129,334

8 Directors' remuneration

The remuneration of the Directors, who are the key management personnel of the Group, is set out on pages 57 to 64 within the Remuneration report described as being audited and forms part of these financial statements.

Directors' remuneration comprises:

	2010 £000	2009 £000
Wages, salaries and fees	1,875	1,625
Pension costs	75	90
Share-based payment charge	580	726
	2,530	2,441

9 Taxation

	2010 £000	2009 £000
Current tax		
UK corporation tax at 28% (2009: 28%)	8,608	7,710
Overseas taxation	10,941	8,782
Adjustments in respect of prior years	238	(294)
Total current tax charge	19,787	16,198
Deferred tax		
Origination and reversal of timing differences	1,013	3,808
Adjustments in respect of prior years	137	199
Total deferred tax charge	1,150	4,007
Total tax charge recognised in the Consolidated income statement	20,937	20,205
Reconciliation of the effective tax rate:		
Profit before tax	81,374	72,786
Tax at the UK corporation tax rate of 28% (2009: 28%)	22,785	20,380
Overseas tax rate differences	2,144	476
Permanent differences	(4,367)	(556)
Adjustments in respect of prior years	375	(95)
	20,937	20,205
Effective tax rate (after amortisation of acquired intangible assets)	25.7%	27.8%
Profit before tax (before amortisation of acquired intangible assets)	86,214	79,087
Total tax charge (before amortisation of acquired intangible assets)	22,807	21,888
Effective tax rate (before amortisation of acquired intangible assets)	26.5%	27.7%

In addition to the amount charged to the Consolidated income statement, the following amounts relating to tax have been recognised directly in the Consolidated statement of comprehensive income:

	2010 £000	2009 £000
Current tax		
Corporation tax deduction on foreign exchange loss reclassified to Other comprehensive income on consolidation	1,592	3,251
Other	9	–
	1,601	3,251
Deferred tax (note 20)		
Retirement benefit obligations	1,300	3,064
Short-term timing differences	16	–
	1,316	3,064
	2,917	6,315

In addition to the amounts charged to the Consolidated income statement and the Consolidated statement of comprehensive income, the following amounts relating to tax have been recognised directly in equity:

	2010 £000	2009 £000
Current tax		
Excess tax deductions related to share-based payments on exercised options	73	–
Deferred tax (note 20)		
Change in estimated excess tax deductions related to share-based payments	949	(659)
	1,022	(659)

Notes to the Accounts

continued

10 Dividends

	Per ordinary share		2010 £000	2009 £000
	2010 pence	2009 pence		
Amounts recognised as distributions to shareholders in the year				
Final dividend for the year to 28 March 2009 (29 March 2008)	4.78	4.55	17,935	16,997
Interim dividend for the year to 3 April 2010 (28 March 2009)	3.31	3.15	12,459	11,788
	8.09	7.70	30,394	28,785
Dividends declared in respect of the year				
Interim dividend for the year to 3 April 2010 (28 March 2009)	3.31	3.15	12,459	11,788
Proposed final dividend for the year to 3 April 2010 (28 March 2009)	5.19	4.78	19,525	17,935
	8.50	7.93	31,984	29,723

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.

11 Goodwill

	2010 £000	2009 £000
Cost		
At beginning of year	198,084	161,230
Additions (note 23)	4,585	5,509
Exchange adjustments	(7,335)	31,345
At end of year	195,334	198,084
Provision for impairment		
At beginning and end of year	–	–
Carrying amounts	195,334	198,084

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill has been allocated as follows:

	2010 £000	2009 £000
Infrastructure Sensors		
Fire Detection	10,961	11,363
Security Sensors	15,795	15,795
Automatic Door Sensors	45,433	47,537
Elevator Safety	10,018	9,706
	82,207	84,401
Health and Analysis		
Water	7,841	7,972
Photonics	42,755	43,889
Health Optics	32,044	30,142
Fluid Technology	6,676	7,142
	89,316	89,145
Industrial Safety		
Bursting Disks	7,570	8,100
Safety Interlocks	5,610	5,806
Asset Monitoring	10,631	10,632
	23,811	24,538
	195,334	198,084

Goodwill values have been tested for impairment by comparing them against the value in use in perpetuity of the relevant CGUs. The value in use calculations were based on projected cash flows, derived from the latest budget approved by the Board, discounted at the Group's pre-tax estimated short-term discount rate to calculate their net present value.

Key assumptions used in 'value in use' calculations

The calculation of 'value in use' is most sensitive to the following assumptions, which are the same for all CGUs:

- Discount rates;

11 Goodwill continued

- Market share during the budget period for the financial year to March 2011; and
- Growth rate used to extrapolate risk adjusted cash flows beyond the budget period.

Discount rates are based on the Group's borrowing and equity profile. The Directors do not currently expect any significant change in the present discount rate of 9.84% (2009: 10.25%). The discount rate of 9.84%, which is pre-tax and is based on short-term variables, may differ from the Weighted Average Cost of Capital (WACC) used in long-term return measures such as ROTIC.

Market share assumptions are important because, as well as the growth rates (as noted below), management assess how each unit's relative position to its competitors might change over the budget period. Management expects each unit's position to be stable over the projected period.

Growth rate estimates of respectively 3.25%, 2.0% and 1.25% for the first, second and third year onwards into perpetuity following the budget year are based on conservative estimates keeping in view past performance growth.

Sensitivity to changes in assumptions

Management believes that no reasonable potential change in any of the above key assumptions would cause the carrying value of any unit to exceed its recoverable amount.

12 Other intangible assets

	Acquired intangibles			Internally generated capitalised development costs £000	Computer software £000	Other intangibles*** £000	Total £000
	Customer relationships* £000	Trademarks** £000	Total £000				
Cost							
At 29 March 2008	19,307	13,906	33,213	13,780	5,389	–	52,382
Assets of businesses acquired	1,429	5,067	6,496	–	–	–	6,496
Assets of business sold	–	–	–	–	(27)	–	(27)
Additions at cost	–	–	–	3,846	1,631	220	5,697
Disposals	–	–	–	–	(89)	–	(89)
Retirements	–	–	–	(971)	–	–	(971)
Exchange adjustments	2,177	2,898	5,075	1,631	869	44	7,619
At 28 March 2009	22,913	21,871	44,784	18,286	7,773	264	71,107
Assets of businesses acquired (note 23)	–	–	–	–	6	–	6
Additions at cost	–	–	–	3,072	1,260	38	4,370
Disposals	–	–	–	–	(313)	–	(313)
Retirements	–	–	–	(640)	–	–	(640)
Exchange adjustments	(662)	(973)	(1,635)	(371)	(205)	(15)	(2,226)
At 3 April 2010	22,251	20,898	43,149	20,347	8,521	287	72,304
Accumulated amortisation							
At 29 March 2008	7,549	2,563	10,112	5,540	3,478	–	19,130
Assets of business sold	–	–	–	–	(11)	–	(11)
Charge for the year	3,710	2,591	6,301	2,868	903	8	10,080
Disposals	–	–	–	–	(87)	–	(87)
Retirements	–	–	–	(738)	–	–	(738)
Exchange adjustments	509	438	947	422	468	2	1,839
At 28 March 2009	11,768	5,592	17,360	8,092	4,751	10	30,213
Charge for the year	2,260	2,580	4,840	3,762	1,116	53	9,771
Disposals	–	–	–	–	(286)	–	(286)
Retirements	–	–	–	(621)	–	–	(621)
Exchange adjustments	(155)	(126)	(281)	(88)	(110)	1	(478)
At 3 April 2010	13,873	8,046	21,919	11,145	5,471	64	38,599
Carrying amounts							
At 3 April 2010	8,378	12,852	21,230	9,202	3,050	223	33,705
At 28 March 2009	11,145	16,279	27,424	10,194	3,022	254	40,894

* Customer relationship assets are amortised over their useful economic lives estimated to be between three and eight years.

** Trademarks (including protected technical knowledge) are amortised over their useful economic lives estimated to be between three and ten years.

*** Other intangibles comprise a licence and product registration costs amortised over their useful economic lives estimated to be between three and five years.

Notes to the Accounts

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13 Property, plant and equipment

	Land and buildings			Plant, equipment and vehicles £000	Total £000
	Freehold properties £000	Long leases £000	Short leases £000		
Cost					
At 29 March 2008	30,746	1,613	4,541	83,200	120,100
Assets of businesses acquired	(125)	–	24	2,171	2,070
Assets of businesses sold	–	–	(44)	(538)	(582)
Additions at cost	855	100	859	13,395	15,209
Disposals	–	(92)	(235)	(3,857)	(4,184)
Exchange adjustments	3,767	44	537	11,688	16,036
At 28 March 2009	35,243	1,665	5,682	106,059	148,649
Assets of businesses acquired (note 23)	21	–	–	90	111
Assets of businesses sold	–	(19)	–	(575)	(594)
Additions at cost	44	104	217	9,416	9,781
Disposals	–	(12)	(151)	(7,806)	(7,969)
Reclassification of category	–	450	–	(450)	–
Exchange adjustments	(964)	18	(123)	(3,001)	(4,070)
At 3 April 2010	34,344	2,206	5,625	103,733	145,908
Accumulated depreciation					
At 29 March 2008	5,334	535	2,492	54,287	62,648
Assets of businesses sold	–	–	(32)	(305)	(337)
Charge for the year	674	53	499	9,034	10,260
Disposals	–	(91)	(236)	(3,289)	(3,616)
Exchange adjustments	943	19	367	6,957	8,286
At 28 March 2009	6,951	516	3,090	66,684	77,241
Assets of businesses sold	–	(11)	–	(470)	(481)
Charge for the year	747	159	607	9,948	11,461
Disposals	–	(1)	(136)	(6,963)	(7,100)
Reclassification of category	–	91	–	(91)	–
Exchange adjustments	(225)	6	(89)	(1,691)	(1,999)
At 3 April 2010	7,473	760	3,472	67,417	79,122
Carrying amounts					
At 3 April 2010	26,871	1,446	2,153	36,316	66,786
At 28 March 2009	28,292	1,149	2,592	39,375	71,408

14 Inventories

	2010 £000	2009 £000
Raw materials and consumables	26,166	25,766
Work in progress	5,738	7,301
Finished goods and goods for resale	15,110	18,314
	47,014	51,381

The above is stated net of provision for slow-moving and obsolete stock, movements of which are shown below:

	2010 £000	2009 £000
At beginning of the year	8,616	7,761
Amounts reversed against inventories previously impaired	(700)	(619)
Write downs of inventories recognised as an expense	1,029	30
Exchange adjustments	(343)	1,444
At end of the year	8,602	8,616

There is no material difference between the balance sheet value of inventories and their cost of replacement. None of the inventory has been pledged as security.

15 Trade and other receivables

	2010 £000	2009 £000
Trade receivables	89,597	94,344
Allowance for doubtful debts	(1,566)	(1,457)
	88,031	92,887
Other receivables	2,868	3,547
Prepayments and accrued income	7,178	7,110
	98,077	103,544

The movement in the allowance for doubtful debts in respect of trade receivables during the year was as follows:

	2010 £000	2009 £000
At beginning of the year	1,457	980
Net impairment loss recognised	416	512
Amounts recovered against trade receivables previously written down	(289)	(204)
Exchange adjustments	(18)	169
At end of the year	1,566	1,457

An impairment has been recorded against the trade receivables which the Group believes may not be recoverable. In the case of trade receivables that are past due, management makes an assessment of the risk of non-collection, taking into account factors such as previous default experience, any disputes or other factors delaying payment and the risk of bankruptcy or other failure of the customer to meet their obligations. For trade receivables that are not past due, taking into account good historic collection experience, management records an impairment charge only where there is a specific risk of non-collection.

The fair value of trade and other receivables approximates to book value due to the short-term maturities associated with these items. There is no impairment risk identified with regards to prepayments and accrued income or other receivables where no amounts are past due.

The ageing of trade receivables was as follows:

	Gross trade receivables		Trade receivables net of doubtful debts	
	2010 £000	2009 £000	2010 £000	2009 £000
Not yet due	65,610	70,687	65,362	70,372
Up to 1 month overdue	16,420	14,384	16,401	14,402
Up to 2 months overdue	3,176	4,053	3,149	4,006
Up to 3 months overdue	843	1,390	811	1,349
Over 3 months overdue	3,548	3,830	2,308	2,758
	89,597	94,344	88,031	92,887

16 Borrowings

	2010 £000	2009 £000
Unsecured bank overdraft falling due within one year	317	–
Unsecured bank loans:		
Falling due within one year	–	6,559
Falling due after more than one year	21,924	79,614
Total borrowings	22,241	86,173

Information concerning the security, currency, interest rates and maturity of the Group's borrowings is given in note 25 to the accounts.

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17 Trade and other payables: falling due within one year

	2010 £000	(Restated)* 2009 £000
Trade payables	40,210	37,093
Other taxation and social security	4,641	4,880
Provision for deferred purchase consideration	1,082	12
Other payables	2,092	1,836
Accruals and deferred income	18,930	17,540
	66,955	61,361

* Provisions previously within 'Other payables' and 'Accruals and deferred income' have been reclassified in the prior year and shown separately in note 18. As provisions have increased, management consider it appropriate to disclose them separately.

18 Provisions

Provisions are presented as:

	2010 £000	2009 £000
Current	1,515	2,018
Non-current	1,954	719
	3,469	2,737

	Dilapidations and empty property £000	Product warranty £000	Legal, contractual and other £000	Total £000
At beginning of the year	1,089	1,515	133	2,737
Additional provision in the year	919	246	374	1,539
Acquired on acquisition	42	-	-	42
Utilised during the year	(114)	(82)	(91)	(287)
Released during the year	(107)	(357)	(12)	(476)
Exchange adjustments	(27)	(53)	(6)	(86)
At end of the year	1,802	1,269	398	3,469

Dilapidations and empty property provisions

Dilapidations and empty property provisions exist where the Group has lease contracts under which the unavoidable costs of meeting its obligations under the contracts exceed the economic benefits expected to be received under them. The provisions comprise the Directors' best estimates of future payments:

- a) to restore the fabric of buildings to their original condition where it is a condition of the leases prior to return of the properties; and
- b) on vacant properties, the rental costs of which are not expected to be recoverable from subleasing the properties.

These commitments cover the period from 2010 to 2028, though they predominantly fall due within five years.

Product warranty

Product warranty provisions reflect commitments made to customers on the sale of goods in the ordinary course of business and included within the Group companies' standard terms and conditions. Warranty commitments typically apply for a 12-month period. Any warranties longer than 12 months are not significant and the provision represents the Directors' best estimate of the Group's liability based on past experience.

Legal, contractual and other

Legal, contractual and other comprise mainly amounts reserved against open legal and contractual disputes. The Company has on occasion been required to take legal or other actions to defend itself against proceedings brought by other parties. Provisions are made for the expected costs associated with such matters, based on past experience of similar items and other known factors, taking into account professional advice received, and represent Directors' best estimate of the likely outcome. The timing of utilisation of these provisions is frequently uncertain reflecting the complexity of issues and the outcome of various court proceedings and negotiations. Contractual and other provisions represent the Directors' best estimate of the cost of settling future obligations. Unless specific evidence exists to the contrary, these reserves are shown as current.

However, no provision is made for proceedings which have been or might be brought by other parties against Group companies unless the Directors, taking into account professional advice received, assesses that it is more likely than not that such proceedings may be successful.

19 Trade and other payables: falling due after one year

	2010 £000	(Restated)* 2009 £000
Provision for deferred purchase consideration	1,839	56
Other payables	2,715	2,957
	4,554	3,013

* Provisions previously within 'Other payables' have been reclassified in the prior year and shown separately in note 18.

20 Deferred tax

	Retirement benefit obligations £000	Acquired intangible assets £000	Accelerated tax depreciation £000	Short-term timing differences £000	Share-based payment £000	Goodwill timing differences £000	Total £000
At 28 March 2009	11,920	(8,807)	(8,247)	3,021	1,218	(3,455)	(4,350)
(Charge)/credit to Consolidated income statement	(1,160)	1,869	(676)	61	(366)	(878)	(1,150)
Credit to Consolidated statement of comprehensive income	1,300	-	-	16	-	-	1,316
Credit to equity	-	-	-	-	949	-	949
Acquired (note 23)	-	-	-	140	-	(277)	(137)
Exchange adjustments	-	445	344	(266)	-	268	791
At 3 April 2010	12,060	(6,493)	(8,579)	2,972	1,801	(4,342)	(2,581)

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2010 £000	2009 £000
Deferred tax liability	(13,193)	(14,353)
Deferred tax asset	10,612	10,003
Net deferred tax liability	(2,581)	(4,350)

Movement in deferred tax (liability)/asset:

	2010 £000	2009 £000
At beginning of year	(4,350)	3,961
Charge to Consolidated income statement:		
UK	(107)	(1,788)
Overseas	(1,043)	(2,219)
Credit to Consolidated statement of comprehensive income	1,316	3,064
Credit/(charge) to equity	949	(659)
Acquired (note 23)	(137)	(3,989)
Exchange adjustments	791	(2,720)
At end of year	(2,581)	(4,350)

No deferred tax liability is recognised on temporary differences of £13,921,000 (2009: £22,421,000) relating to the unremitted earnings of overseas subsidiaries as the Group is able to control the timings of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future. The temporary differences at 3 April 2010 are significantly reduced from the previous year as a result of a change to UK tax legislation which largely exempts from UK tax overseas dividends received on or after 1 July 2009.

At 3 April 2010 the Group had unused capital tax losses of £871,000 (2009: £889,000) for which no deferred tax asset has been recognised.

Notes to the Accounts

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21 Share capital

	Authorised		Issued and fully paid	
	2010 £000	2009 £000	2010 £000	2009 £000
Ordinary shares of 10p each	43,656	43,656	37,765	37,539

The number of ordinary shares in issue at 3 April 2010 was 377,654,037 (2009: 375,390,677), including treasury shares of 1,130,036 (2009: 1,274,108).

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

	Issued and fully paid £000
At 28 March 2009	37,539
Share options exercised	226
At 3 April 2010	37,765

The total consideration received in cash in respect of share options exercised amounted to £3,039,000.

At 3 April 2010 options in respect of 4,133,788 (2009: 6,776,695) ordinary shares remained outstanding. Further details of these are given in note 22 to the accounts.

At the date of these accounts, the number of ordinary shares in issue was 377,721,994, including treasury shares of 1,523,217.

22 Share-based payments

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

	2010			2009		
	Equity-settled £000	Cash-settled £000	Total £000	Equity-settled £000	Cash-settled £000	Total £000
Share incentive plan	337	-	337	306	-	306
Share option plans	(33)	-	(33)	39	-	39
Performance share plan	1,509	254	1,763	1,711	251	1,962
	1,813	254	2,067	2,056	251	2,307

The Group has recorded liabilities of £398,000 (2009: £400,000) in respect of the cash settled portion of the awards granted under the performance share plan.

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.

22 Share-based payments continued

Options in respect of 4,133,788 ordinary shares remained outstanding at 3 April 2010 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
130,100	111.0p		2003
351,100	163.5p		2004
184,354	144.33p		2005
330,162	134.0p		2006
396,482	142.25p		2007
104,528	145.67p		2008
497,700	111.0p	2005	
381,400	163.5p	2006	
535,536	144.33p	2007	
578,826	134.0p	2008	
643,600	142.25p	2009	

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

	2010		2009	
	Number of share options	Weighted average option price	Number of share options	Weighted average option price
Outstanding at beginning of year	6,776,695	137.98p	8,388,631	136.87p
Exercised during the year	(2,263,360)	134.28p	(932,179)	138.47p
Lapsed during the year	(379,547)	139.12p	(679,757)	123.63p
Outstanding at end of year	4,133,788	139.90p	6,776,695	137.98p
Exercisable at end of year	1,496,726	143.19p	3,286,986	140.26p

The weighted average share price at the date of exercise for share options exercised during the year was 225.03p.

The options outstanding at 3 April 2010 had exercise prices from 111.0p to 163.5p and a weighted average remaining contractual life of 2.6 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	
	A	A	B	A	B	
Option section						
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.

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 the FTSE 250 excluding financial companies, combined with an absolute Return on Total Invested Capital measure. Awards which do not vest on the third anniversary of their award lapse.

Notes to the Accounts

continued

22 Share-based payments continued

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

	2010 Number of shares awarded	2009 Number of shares awarded
Outstanding at beginning of year	3,939,960	4,493,694
Granted during the year	1,640,315	1,572,194
Vested during the year (pro-rated for 'good leavers')	(1,180,518)	(933,950)
Lapsed during the year	(136,085)	(1,191,978)
Outstanding at end of year	4,263,672	3,939,960
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:

	2010	2009	2008
Expected volatility (%)	27.5%	25%	19%
Expected life (years)	3	3	3
Share price on date of grant (p)	196.90	192.75	240.67
Option price (p)	nil	nil	nil
Fair value per option (%)	61.8%	56%	55%
Fair value per option (p)	121.68	107.94	132.37

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

23 Acquisitions

	Book value £000	Fair value adjustments £000	Total £000
Non-current assets			
Intangible assets	6	-	6
Property, plant and equipment	111	-	111
Current assets			
Inventories	339	(153)	186
Trade and other receivables	568	-	568
Cash and cash equivalents	38	-	38
Deferred tax	-	91	91
Total assets	1,062	(62)	1,000
Current liabilities			
Trade and other payables	(532)	(193)	(725)
Corporation tax	-	(242)	(242)
Non-current liabilities			
Provisions	-	(42)	(42)
Total liabilities	(532)	(477)	(1,009)
Net assets/(liabilities) of businesses acquired	530	(539)	(9)
Cash consideration, including costs			1,703
Deferred purchase consideration			1,730
Total consideration			3,433
Goodwill arising on current year acquisition			3,442
Goodwill arising on prior year acquisition			1,143
Goodwill arising on acquisitions			4,585

The goodwill in the current year arose on the acquisition of the assets and liabilities of SphereOptics LLC and its French subsidiary SphereOptics SARL in January 2010 for an initial cash consideration (excluding expenses) of \$2,500,000. Their principal activity relates to the Health and Analysis sector. Solely goodwill arose from the acquisition of SphereOptics assembled workforce and consequently no acquired intangible assets were recognised.

23 Acquisitions continued

This acquisition contributed £509,000 of revenue and £54,000 of loss after tax for the year ended 3 April 2010. If this acquisition had been held since the start of the financial year, it is estimated the Group's reported revenue would have been £2,484,000 higher and profit after tax £24,000 lower.

Adjustments were made to the book value of the net assets of the company acquired to reflect its 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 those of the Group where appropriate.

The adjustment to goodwill arising on prior year acquisitions related to an additional deferred tax liability fair value adjustment (£228,000) on the acquisition of Fiberguide Industries, Inc and a revision to its estimated deferred purchase consideration (£915,000).

The best estimates of the deferred purchase considerations for SphereOptics LLC and Fiberguide Industries, Inc are \$2,800,000 and \$1,638,000 and the minimum and maximum values payable are \$nil (both) and \$3,500,000 and \$5,000,000 respectively. The considerations for both acquisitions are based on profit before tax results and are payable June 2011 and 2012, and November 2010 respectively.

24 Notes to the Consolidated Cash Flow Statement

	2010 £000	2009 £000
Reconciliation of profit from operations to net cash inflow from operating activities		
Profit on continuing operations before finance income and expense	84,295	76,207
Profit on disposal of operations before taxation	(382)	(357)
Depreciation of property, plant and equipment	11,461	10,260
Amortisation of computer software	1,116	903
Amortisation of capitalised development costs and other intangibles	3,815	2,876
Retirement of capitalised development costs	19	233
Amortisation of acquired intangible assets	4,840	6,301
Share-based payment expense in excess of amounts paid	1,333	1,634
Additional payments to pension plans	(6,902)	(6,224)
Loss/(profit) on sale of property, plant and equipment and computer software	42	(14)
Operating cash flows before movement in working capital	99,637	91,819
Decrease/(increase) in inventories	2,990	(1,055)
Decrease in receivables	3,636	7,440
Increase/(decrease) in payables and provisions	6,427	(11,779)
Cash generated from operations	112,690	86,425
Taxation paid	(12,352)	(20,494)
Net cash inflow from operating activities	100,338	65,931

The cash outflow on page 73 of £1,676,000 (2009: £12,388,000) on the acquisition of businesses includes cash acquired of £38,000 (2009: £nil) and the payment of £11,000 (2009: £18,000) of deferred purchase consideration which arose from acquisitions made in earlier years, and where provision was made in prior years' financial statements.

	2010 £000	2009 £000
Reconciliation of net cash flow to movement in net cash/(debt)		
(Decrease)/increase in cash and cash equivalents	(3,425)	2,193
Cash outflow from borrowings	58,845	3,519
Exchange adjustments	4,848	(12,623)
	60,268	(6,911)
Net debt brought forward	(51,186)	(44,275)
Net cash/(debt) carried forward	9,082	(51,186)

	2010 £000	2009 £000
Analysis of cash and cash equivalents		
Cash and bank balances	31,323	34,987
Bank overdraft	(317)	-
	31,006	34,987

Notes to the Accounts

continued

24 Notes to the Consolidated Cash Flow Statement continued

	At 28 March 2009 £000	Cash flow £000	Exchange adjustments £000	At 3 April 2010 £000
Analysis of net cash/(debt)				
Cash and cash equivalents	34,987	(3,425)	(556)	31,006
Bank loans	(86,173)	58,845	5,404	(21,924)
	(51,186)	55,420	4,848	9,082

The cash outflow from bank loans in 2010 and 2009 of £58,845,000 and £3,519,000 respectively related solely to repayment of borrowings.

Included within cash and cash equivalents is an amount of £1,418,000 (2009: £893,000) which is restricted.

25 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. Other than entering into forward foreign exchange contracts in designated cash flow hedges, policies have remained unchanged since the beginning of the financial year.

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases of recognition income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in the Accounting policies note.

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') currencies. 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 a proportion of the net exposure is 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, Singapore, China and India. 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.

25 Financial instruments continued

Credit risk

Credit risk is defined as the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties, as a means of mitigating the risk of financial loss from defaults. Credit ratings are supplied by independent agencies where available, and if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed regularly.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

The carrying amount of trade, tax and other receivables, derivative financial instruments and cash of £130,699,000 (2009: £141,806,000) represents the Group's maximum exposure to credit risk as no collateral or other credit enhancements are held.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk

The main source of long-term funding for the Group is its unsecured revolving credit facility for £165m, which is a five-year facility to February 2013, with a small syndicate of its principal bankers.

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 £285,000 (2009: £185,000) 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 £204,000 (2009: £210,000) impact on the Group's profit before tax for the year ended 3 April 2010.

Transactional exposures

The Group has net foreign currency monetary assets and liabilities that are assets and liabilities not denominated in the functional currency of the underlying company. These comprise cash and overdrafts as well as certain trade receivable and payable balances. 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. The exposures are predominantly Euro and US Dollar. Group policy is for the majority of foreign currency exposures, including sales and purchases, to be hedged by forward foreign exchange contracts in the company in which the transaction is recorded.

Interest rate risk profile

The Group's financial assets which are subject to interest rate fluctuations comprise interest bearing cash equivalents which totalled £2,344,000 at 3 April 2010 (2009: £8,100,000). These comprised Sterling denominated deposits of £1,591,000 (2009: £6,980,000), and Euro, US Dollar and other currency deposits of £753,000 (2009: £1,120,000) which are placed on local money markets and earn interest at market rates. Cash balances of £28,979,000 (2009: £26,887,000) earn interest at local market rates.

The financial liabilities which are subject to interest rate fluctuations comprise bank loans, bank overdrafts and certain unsecured loans, which totalled £22,241,000 at 3 April 2010 (2009: £86,173,000). All bear interest at floating rates or fixed rates where the fixed period is typically no more than three months. Interest rates are based on LIBOR plus a small margin. These liabilities comprise US Dollar denominated bank loans of £8,081,000 (2009: £39,182,000) which bear interest with reference to the US Dollar LIBOR rates, Euro denominated bank loans of £13,843,000 (2009: £46,991,000) which bear interest with reference to the EURIBOR rates and overdrafts of £317,000 (mainly in Euros), which bear interest at local base rates.

Notes to the Accounts

continued

25 Financial instruments continued

Maturity of financial liabilities

With the exception of the deferred purchase consideration, other payables, provisions and borrowings 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 £946,000 (2009: £13,000) due between one and two years, with the balance of £893,000 (2009: £43,000) due between two and five years. Other creditors due after more than one year include £1,758,000 (2009: £1,721,000) due between one and two years, £279,000 (2009: £817,000) due between two and five years, with the balance of £678,000 (2009: £1,138,000) 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 undrawn committed facilities available at 3 April 2010 were £158,762,000 (2009: £97,009,000) of which £15,686,000 (2009: £11,622,000) mature within one year and £143,076,000 (2009: £85,387,000) between two and five years.

UK companies have cross-guaranteed £20,684,000 (2009: £21,023,000) of overdraft facilities of which £169,000 (2009: £242,000) was drawn.

Fair values of financial assets and financial liabilities

As at 3 April 2010 and 28 March 2009 there were no significant differences between the book value and fair value (as determined by market value) of the Group's financial assets and liabilities.

	2010		2009	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Fair value and carrying amount of financial instruments				
Trade and other receivables	98,077	98,077	103,544	103,544
Trade, other payables and provisions (falling due within one year)	(68,470)	(68,470)	(63,379)	(63,379)
Trade, other payables and provisions (falling due after one year)	(6,508)	(6,508)	(3,732)	(3,732)
Cash and cash equivalents	31,323	31,323	34,987	34,987
Floating rate borrowings	(317)	(317)	-	-
Fixed rate borrowings	(21,924)	(21,924)	(86,173)	(86,173)
Derivative financial instruments (in a designated cash flow hedge)	(71)	(71)	-	-
Derivative financial instruments (not in a designated cash flow hedge)	(28)	(28)	-	-
	32,082	32,082	(14,753)	(14,753)

The fair value of the floating and fixed rate borrowings approximate to the carrying value because interest rates are reset to market rates at intervals of less than one year.

The fair value of the derivative financial instruments is estimated by discounting the future contracted cash flow, using readily available market data and represents a level 2 measurement in the fair value hierarchy under IFRS 7.

25 Financial instruments continued

Hedging

As explained previously, 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 fair value, which is typically £nil, and subsequent changes in fair value are taken to the Consolidated income statement, unless hedge accounted.

The following table details the forward foreign currency contracts outstanding as at the year end, which all mature within one year and therefore the cash flows and resulting effect on profit and loss are expected to occur within the next 12 months:

	Average exchange rate/£		Foreign currency		Contract value		Fair value	
	2010	2009	2010 000	2009 000	2010 £000	2009 £000	2010 £000	2009 £000
<i>Forward contracts not in a designated cash flow hedge</i>								
US Dollars	1.55	1.43	2,342	5,131	1,516	3,578	(17)	(11)
Euros	1.13	1.10	4,653	9,422	4,116	8,535	(2)	(189)
Other currencies	-	-	-	-	233	1,957	(9)	(69)
					5,865	14,070	(28)	(269)
<i>Forward contracts in a designated cash flow hedge</i>								
US Dollars	1.64	-	4,322	-	2,643	-	(186)	-
Euros	1.14	-	11,288	-	9,913	-	(89)	-
Czech Koruna	29.93	-	(70,815)	-	(2,366)	-	121	-
Other currencies	-	-	-	-	(1,415)	-	83	-
					8,775	-	(71)	-
<i>Total forward contracts</i>								
US Dollars	1.60	1.43	6,664	5,131	4,159	3,578	(203)	(11)
Euros	1.14	1.10	15,940	9,422	14,029	8,535	(91)	(189)
Czech Koruna	29.93	-	(70,815)	-	(2,366)	-	121	-
Other currencies	-	-	-	-	(1,182)	1,957	74	(69)
					14,640	14,070	(99)	(269)
Amounts recognised in the Consolidated income statement							(52)	(269)
Amounts recognised in the Consolidated statement of comprehensive income and expenditure							(47)	-
							(99)	(269)

In 2009, the fair values of the contracts were not separately disclosed and any movement was charged/(credited) to Administrative expenses. The fair values of the forward contracts are disclosed as a £232,000 asset and £331,000 liability in the Consolidated balance sheet.

In 2010, the Group commenced entering into forward exchange contracts to hedge forecast transactions. The fair values of the contracts are now separately disclosed and any movements recognised in equity until the hedge transaction occurs, when gains/losses are recycled to finance income or finance expense.

	2010 £000	2009 £000
Analysis of movement in hedging reserves		
At beginning of year	-	-
Amounts recognised in the Consolidated statement of comprehensive income and expenditure	(47)	-
At end of year	(47)	-

There was no ineffectiveness arising with regards to forward contracts in a designated cash flow hedge.

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

Notes to the Accounts

continued

25 Financial instruments continued

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Group enters into derivative financial instruments to manage its exposure to foreign currency risk, including:

- forward foreign exchange contracts to hedge the exchange rate risk arising on the export of goods to and from the USA, mainland Europe and the UK; and
- foreign exchange loans to hedge the exchange rate risk arising on translation of the Group's investment in foreign operations which have the Euro and US Dollar as their functional currencies.

Market risk exposures are measured using sensitivity analysis as described below.

There has been no change to the Group's exposure to market risks or in the manner in which these risks are managed and measured.

Foreign currency sensitivity analysis

The Group is mainly exposed to the currency of the USA (US Dollar currency) and the currency of Mainland Europe (Euro currency).

The carrying amount of the Group's Euro and US Dollar denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2010 £000	2009 £000	2010 £000	2009 £000
Euro	62,463	70,018	13,601	14,398
US Dollar	82,589	87,965	16,973	19,450

If Sterling increased by 10% against the US Dollar and the Euro, profits before taxation and other equity would decrease as follows:

	US Dollar		Euro	
	2010 £000	2009 £000	2010 £000	2009 £000
Profit	2,620	1,696	1,871	1,930
Other equity	6,951	7,245	13,706	13,616

The profit sensitivity arises mainly from the translation of overseas profits earned during the year. 10% is the sensitivity rate which management assesses to be a reasonably possible change in foreign exchange rates. The Group's profit sensitivity has increased significantly against the US Dollar because more of the Group's profits are earned in this currency.

26 Commitments

Capital commitments

Capital expenditure authorised and contracted at 3 April 2010 but not provided in these accounts amounts to £740,000 (2009: £1,841,000).

Commitments under operating leases

The Group has entered into commercial leases on properties and other equipment. The former expire between April 2010 and November 2028 and the latter between April 2010 and November 2014. Only certain property agreements contain an option for renewal at rental prices based on market prices at the time of exercise.

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

	Land and buildings		Other	
	2010 £000	2009 £000	2010 £000	2009 £000
Within one year	5,303	5,160	459	520
Within two to five years	10,535	12,367	675	766
After five years	3,025	4,354	–	–
	18,863	21,881	1,134	1,286

27 Retirement benefits

Group companies operate both defined benefit and defined contribution pension schemes. 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.

Defined contribution schemes

The amount charged to the Consolidated income statement in respect of defined contribution schemes was £2,433,000 (2009: £2,388,000) and represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. The assets of the schemes are held separately from those of the Group in funds under the control of trustees. Where there are employees who leave the schemes prior to vesting fully in the contributions, the ancillary contributions payable by the Group are reduced by the amount of forfeited contributions.

Defined benefit schemes

The Group operates defined benefit schemes for qualifying employees of its UK subsidiaries. Under the schemes, the employees are entitled to retirement benefits of up to two-thirds of final pensionable salary on attainment of a retirement age of 60, for members of the Executive Board, and 65, for all other qualifying employees. No other post-retirement benefits are provided. The schemes are funded schemes.

The most recent actuarial valuation of the Halma Group Pension Plan assets and the present value of the defined benefit obligation was carried out at 1 December 2008 by Mr Adrian Gibbons, Fellow of the Institute of Actuaries. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method. Mr Gibbons also carried out the 1 April 2009 actuarial valuation of the Apollo Pension and Life Assurance Plan on the same basis.

The projected unit credit method is an accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. The accumulated benefit obligation (ABO) is an actuarial measure of the present value for service already rendered but differs from the projected unit credit method in that it includes no assumptions for future salary increases. At the balance sheet date the gross accumulated benefit obligation was £171 million.

An alternative method of valuation is a solvency basis, often estimated using the cost of buying out benefits at the balance sheet date with a suitable insurance company. This amount represents the amount that would be required to settle the scheme liabilities at the balance sheet date rather than the Group continuing to fund the on-going liabilities of the scheme. The Group estimates that this would amount to £240 million.

	2010	2009	2008
Key assumptions used:			
Discount rate	5.60%	6.40%	5.85%
Expected return on scheme assets	7.00%	6.80%	7.01%
Expected rate of salary increases	4.50%	4.45%	4.75%
Future pension increases	3.40%	3.20%	3.50%
Inflation	3.50%	3.20%	3.50%

Notes to the Accounts

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27 Retirement benefits continued

Mortality assumptions:

Investigations have been carried out within the past three years into the mortality experience of the Group's defined benefit schemes. These investigations concluded that the current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement at age 65 are:

	2010 years	2009 years	2008 years
Retiring today:			
Males	21.9	22.0	22.0
Females	24.7	24.9	24.8
Retiring in 20 years:			
Males	23.8	23.1	23.1
Females	26.6	25.9	25.9

The Halma Group Pension Plan baseline mortality assumption is derived from the SN03 tables less one year (2009 and 2008: PA92 medium cohort).

The Apollo Pension and Life Assurance Plan baseline mortality assumption is derived from the PA92 medium cohort tables plus one year (2009 and 2008: PA92 medium cohort tables plus one year).

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 10.8 %
Rate of inflation	Increase/decrease by 0.5%	Increase/decrease by 7.0 %
Rate of salary growth	Increase/decrease by 0.5%	Increase/decrease by 2.6 %
Rate of mortality	Increase by 1 year	Increase by 2.3%

Amounts recognised in income in respect of these defined benefit schemes are as follows:

	2010 £000	2009 £000
Current service cost	2,203	2,731
Interest cost	8,375	8,521
Expected return on scheme assets	(6,377)	(7,762)
	4,201	3,490

Actuarial gains and losses have been reported in Comprehensive Income and Expenditure.

The actual return on scheme assets was £32.9 million (2009: £25.9 million).

The cumulative amount of actuarial losses recognised in the other comprehensive income since the date of transition to IFRSs is £23 million (2009: £18 million).

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit retirement benefit schemes is as follows:

	2010 £000	2009 £000	2008 £000
Present value of defined benefit obligations	(170,901)	(132,379)	(145,992)
Fair value of scheme assets	127,830	89,811	110,035
Deficit in scheme	(43,071)	(42,568)	(35,957)
Past service cost not yet recognised in balance sheet	-	-	-
Liability recognised in the balance sheet	(43,071)	(42,568)	(35,957)

27 Retirement benefits continued

Movements in the present value of defined benefit obligations were as follows:

	2010 £000	2009 £000
At beginning of year	(132,379)	(145,992)
Service cost	(2,203)	(2,731)
Interest cost	(8,375)	(8,521)
Actuarial gains and losses	(31,952)	21,586
Contributions from scheme members	(1,094)	(1,212)
Benefits paid	4,766	4,092
Expenses paid	180	102
Premiums paid	156	297
At end of year	(170,901)	(132,379)

Movements in the fair value of scheme assets were as follows:

	2010 £000	2009 £000
At beginning of year	89,811	110,035
Expected return on scheme assets	6,377	7,762
Actuarial gains and losses	27,308	(32,678)
Movement on section 75 receivable	(763)	(984)
Contributions from the sponsoring companies	9,105	8,955
Contributions from scheme members	1,094	1,212
Benefits paid	(4,766)	(4,092)
Expenses paid	(180)	(102)
Premiums paid	(156)	(297)
At end of year	127,830	89,811

The analysis of the scheme assets and the expected rate of return at the balance sheet date was as follows:

	Expected return			Fair value of assets		
	2010 %	2009 %	2008 %	2010 £000	2009 £000	2008 £000
Equity instruments	7.80	7.50	7.50	83,641	57,407	76,753
Debt instruments	5.20	6.00	5.85	33,604	28,880	29,742
Property	6.30	7.50	6.00	10,585	3,524	3,540
	7.00	6.80	7.01	127,830	89,811	110,035

The overall expected rate of return is a weighted average.

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continued

27 Retirement benefits continued

In conjunction with the trustees, the Group has recently conducted an asset-liability review for its defined benefit pension scheme. The results of this review are used to assist the trustees and the Group to determine the optimal long-term asset allocation with regard to the structure of the liabilities of the scheme. They are also used to assist the trustees in managing the volatility in the underlying investment performance and risk of a significant increase in the defined benefit deficit by providing information used to determine the scheme's investment strategy.

As a consequence, the Group will be giving more emphasis to a closer return matching of scheme assets and liabilities, both to ensure the long-term security of our defined benefit commitment and to reduce earnings and balance sheet volatility.

The five-year history of experience adjustments was as follows.

	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
Present value of defined benefit obligations	(170,901)	(132,379)	(145,992)	(145,601)	(141,580)
Fair value of scheme assets	127,830	89,811	110,035	108,341	95,561
Deficit in the scheme	(43,071)	(42,568)	(35,957)	(37,260)	(46,019)
Experience adjustments on scheme liabilities					
Amount	(136)	-	273	536	52
Percentage of scheme liabilities	-	-	-	-	-
Experience adjustments on scheme assets					
Amount	27,648	(33,696)	12,327	1,321	11,271
Percentage of scheme assets	22%	(37)%	11%	1%	12%

The estimated amounts of contributions expected to be paid to the schemes during the year ending 2 April 2011 is £8.8 million.

The levels of contributions are based on the current service cost and the expected future cash flows of the defined benefit scheme. The Group estimates the scheme liabilities on average to fall due over 22 years.

28 Disposal of businesses

In 2010 the Group disposed of part of its Asset Monitoring business for £520,000 with a profit on disposal of £407,000. There was an additional write down on a prior year disposal of £25,000.

During 2009, the Group disposed of two operations: the assets of the South Africa-based portion of Texecom Limited and the high-power resistors business of Fortress Systems Pty Limited, Australia. Total consideration for the disposed businesses was £2,652,000 comprising assets with a value of £1,951,000. After costs and recycling of foreign exchange losses from reserves to the Consolidated income statement, the profit on disposal was £357,000.

Due to the nature and size of these disposed operations, they have not been separately disclosed as discontinued operations as defined by IFRS 5.

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 53 week period ended 3 April 2010 which comprise the Parent Company Balance Sheet and the related notes C1 to C12. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on Financial Statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 3 April 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Halma p.l.c. for the 53 week period ended 3 April 2010.

Mark Mullins (Senior Statutory Auditor)
for and on behalf of **Deloitte LLP**
Chartered Accountants and Statutory Auditors
Reading, UK
22 June 2010

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 information differs from legislation in other jurisdictions.

Company Balance Sheet

	Notes	3 April 2010 £000	28 March 2009 £000
Fixed assets			
Tangible assets	C3	2,128	2,086
Investments	C4	90,191	120,317
		92,319	122,403
Current assets			
Debtors (amounts falling due within one year)	C5	23,087	31,109
Debtors (amounts falling due after more than one year)	C5	140,605	106,630
Short-term deposits		1,591	7,924
Cash at bank and in hand		12	208
		165,295	145,871
Creditors: amounts falling due within one year			
Borrowings	C6	2,334	6,019
Creditors	C7	25,494	13,190
Current tax payable		3,338	1,736
		31,166	20,945
Net current assets		134,129	124,926
Total assets less current liabilities		226,448	247,329
Creditors: amounts falling due after more than one year			
Borrowings	C6	21,924	79,613
Creditors	C8	26,538	33,479
Net assets		177,986	134,237
Capital and reserves			
Share capital	C10	37,765	37,539
Share premium account	C11	20,959	18,146
Treasury shares	C11	(2,581)	(2,759)
Capital redemption reserve	C11	185	185
Other reserves	C11	1,061	2,000
Profit and loss account	C11	120,597	79,126
Shareholders' funds	C12	177,986	134,237

The financial statements of Halma p.l.c., company number 40932, were approved by the Board of Directors on 22 June 2010.

A J Williams
Director

K J Thompson
Director

Notes to the Company Accounts

C1 Accounting Policies

Basis of accounting

The separate Company financial statements are presented as required by the Companies Act 2006 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.

Share-based payments

The Company has adopted FRS 20 and the accounting policies followed are in all material respects the same as the Group's policy under IFRS 2. This policy is shown on page 78.

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 property	2%
Plant, equipment and vehicles	8% to 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.

Taxation

Taxation comprises current and deferred tax.

Current tax is the expected tax payable, on the taxable income for the year, using tax rates enacted, or substantially enacted, at the balance sheet date, and any adjustments to tax payable in respect of previous years.

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.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including direct issue costs, are accounted for on an accruals basis in profit or loss and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

C2 Result for the year

As permitted by Section 408(3) of the Companies Act 2006, the Profit and Loss Account of Halma p.l.c. is not presented as part of these accounts. The Company has reported a profit after taxation of £71,570,000 (2009: loss of £1,733,000).

Auditors' remuneration for audit services to the Company was £98,000 (2009: £88,000).

Total employee costs (including Directors) were:

	2010 £000	2009 £000
Wages and salaries	3,102	3,097
Social security costs	386	531
Pension costs	423	386
	3,911	4,014

Notes to the Company Accounts

continued

C2 Result for the year continued

	2010 Number	2009 Number
Number of employees	41	42

Details of Directors' remuneration are set out on pages 57 to 64 within the Remuneration Report and form part of these financial statements.

C3 Fixed assets – tangible assets

	Freehold properties £000	Plant equipment and vehicles £000	Total £000
Cost			
At 28 March 2009	1,780	1,866	3,646
Additions at cost	–	344	344
Disposals	–	(489)	(489)
At 3 April 2010	1,780	1,721	3,501
Accumulated depreciation			
At 28 March 2009	356	1,204	1,560
Charge for the year	20	256	276
Disposals	–	(463)	(463)
At 3 April 2010	376	997	1,373
Carrying amounts			
At 3 April 2010	1,404	724	2,128
At 28 March 2009	1,424	662	2,086

C4 Investments

Shares in Group companies

	2010 £000	2009 £000
At cost less amounts written off at beginning of year	120,317	121,332
Reduction	(30,126)	(1,015)
At cost less amounts written off at end of year	90,191	120,317

The reduction in the current year related to write down of investments in non-trading subsidiary companies after one company's reserves were distributed as dividends to Halma p.l.c. and three other companies' trade, assets and liabilities were transferred to fellow subsidiary companies. The reduction in the prior year related to downward revisions in the estimates of deferred purchase consideration payable in respect of acquisitions made in prior years.

Details of principal subsidiary companies are set out on pages 114 and 115. All these subsidiaries are wholly owned subsidiaries of Halma p.l.c. and are incorporated in Great Britain, other than those listed below, where they principally operate. All of the companies' interests below are held by subsidiary companies.

C4 Investments continued

Name of company	Country of incorporation
Fortress Interlocks Pty Limited	Australia
Hydreka S.A.S.	France
SERV Trayvou Interverrouillage S.A.S.	France
Apollo Gesellschaft für Meldetechnologie mbH	Germany
Rudolf Riester GmbH	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
Fiberguide 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
SphereOptics Inc.	USA
Volk Optical Inc.	USA

C5 Debtors

	2010 £000	2009 €000
Amounts falling due within one year:		
Amounts due from Group companies	20,284	28,819
Other debtors	11	18
Prepayments and accrued income	1,987	1,795
Deferred tax asset (note C9)	805	477
	23,087	31,109
Amounts falling due after more than one year:		
Amounts due from Group companies	140,605	106,630

Notes to the Company Accounts

continued

C6 Borrowings

	2010 £000	2009 £000
Falling due within one year:		
Overdrafts	2,334	6,019
Falling due after more than one year:		
Unsecured bank loans	21,924	79,613
Total borrowings	24,258	85,632

The facility under which the bank loans are drawn expires within two to five years (2009: within two to five years) and at 3 April 2010 £143,076,000 (2009: £85,387,000) remained committed and undrawn.

The bank overdrafts, which are unsecured, at 3 April 2010 and 28 March 2009 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.

The Company is part of an arrangement between UK subsidiaries whereby overdraft facilities of £20,684,000 (2009: £21,023,000) are cross-guaranteed. Of these facilities £169,000 (2009: £242,000) was drawn.

C7 Creditors: amounts falling due within one year

	2010 £000	2009 £000
Trade creditors	1,075	784
Amounts owing to Group companies	21,151	8,498
Other taxation and social security	1,308	977
Other creditors	694	1,550
Accruals and deferred income	1,266	1,381
	25,494	13,190

C8 Creditors: amounts falling due after more than one year

	2010 £000	2009 £000
Amounts owing to Group companies	26,158	33,094
Other creditors	380	385
	26,538	33,479
These liabilities fall due as follows:		
Within one to two years	309	385
Within two to five years	71	–
After more than five years	26,158	33,094

C9 Deferred tax

	2010 £000	2009 £000
Movement in deferred tax asset:		
At beginning of year	477	(370)
Credit to profit and loss account	33	651
Credit to reserves	295	196
At end of year (note C5)	805	477

Deferred tax comprises short-term timing differences.

C10 Share capital

	Authorised		Issued and fully paid	
	2010 £000	2009 £000	2010 £000	2009 £000
Ordinary shares of 10p each	43,656	43,656	37,765	37,539

The number of ordinary shares in issue at 3 April 2010 was 377,654,037 (2009: 375,390,677), including treasury shares of 1,130,036 (2009: 1,274,108). Changes during the year in the issued ordinary share capital were as follows:

	Issued and fully paid £000
At 28 March 2009	37,539
Share options exercised	226
At 3 April 2010	37,765

The total consideration received in cash in respect of share options exercised amounted to £3,039,000 (2009: £1,290,000). At the date of these accounts, the number of ordinary shares in issue was 377,721,994 (2009: 375,413,293), including treasury shares of 1,523,217 (2009: 1,438,837). Details of share options in issue on the Company's share capital and share-based payments are included in note 22 to the Group accounts.

C11 Reserves

	Non-distributable				Distributable
	Share premium account £000	Treasury shares £000	Capital redemption reserve £000	Other reserves £000	Total profit and loss account £000
At 28 March 2009	18,146	(2,759)	185	2,000	79,126
Profit transferred to reserves	-	-	-	-	71,570
Dividends paid	-	-	-	-	(30,394)
Issue of shares	2,813	-	-	-	-
Movement in other reserves	-	-	-	(939)	-
Net movement in treasury shares	-	178	-	-	-
Deferred tax to equity	-	-	-	-	295
At 3 April 2010	20,959	(2,581)	185	1,061	120,597

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.

C12 Reconciliation of movement in shareholders' funds

	2010 £000	2009 £000
At beginning of year	134,237	158,012
Profit/(loss) after taxation	71,570	(1,733)
Dividends paid	(30,394)	(28,785)
Exchange adjustments	-	5,307
Issue of shares	3,039	1,290
Net movement in treasury shares	178	533
Movement in other reserves	(939)	(583)
Deferred tax to equity	295	196
At end of year	177,986	134,237

Summary 2001 to 2010

	UK GAAP 2000/01 £000	UK GAAP 2001/02 £000
Revenue (note 2)	268,322	267,597
Overseas sales (note 2)	181,831	183,259
Profit before taxation, acquired intangibles amortisation and goodwill written off (note 3)	49,698	48,255
Net tangible assets/capital employed	99,991	117,515
Borrowings	7,758	15,047
Cash and cash equivalents	21,484	45,657
Employees (note 2)	3,059	2,859
Earnings per ordinary share (note 2)	8.91p	8.58p
Adjusted earnings per ordinary share (note 3)	9.34p	9.10p
Year on year increase/(decrease) in adjusted earnings per ordinary share	11.1%	(2.6%)
Return on sales (notes 2 and 4)	18.5%	18.0%
Return on capital employed (note 5)	48.4%	45.7%
Year on year increase in dividends per ordinary share (paid and proposed)	15%	15%
Ordinary share price at financial year end	129p	164p
Market capitalisation at financial year end	£465.7m	£598.2m

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.

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	IFRS 2008/09 £000	IFRS 2009/10 £000
267,293	292,640	299,119	299,119	337,348	354,606	397,955	455,928	459,118
188,161	206,102	218,745	218,745	249,055	258,050	288,701	351,522	360,779
46,508	50,284	50,389	49,912	59,641	66,091	73,215	79,087	86,214
86,854	95,935	80,750	104,417	105,396	113,048	134,320	173,128	145,519
27,667	26,934	33,344	33,344	32,308	29,762	72,393	86,173	21,924
27,574	48,482	45,348	45,348	35,826	22,051	28,118	34,987	31,006
2,793	2,925	3,002	3,002	3,187	3,326	3,683	4,018	3,689
7.76p	6.09p	7.97p	9.38p	11.08p	11.86p	13.49p	14.07p	16.10p
8.55p	9.44p	9.42p	9.45p	11.27p	12.42p	13.86p	15.30p	16.89p
(6.0%)	10.4%	(0.2%)	N/A	19.3%	10.9%	11.5%	10.4%	10.4%
17.4%	17.2%	16.8%	16.7%	17.7%	18.6%	18.4%	17.3%	18.8%
41.7%	50.5%	52.1%	48.8%	56.9%	60.1%	55.8%	47.7%	61.3%
10%	7%	5%	5%	5%	5%	5%	5%	7%
114p	149p	161p	161p	188p	220p	192p	156p	259p
£416.7m	£546.5m	£593.8m	£593.8m	£693.4m	£821.8m	£717.7m	£583.7m	£978.1m

Halma Group Directory

Principal operating companies	Main products
Infrastructure Sensors	
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
Bureau D'Electronique Appliquée S.A.	Sensors for automatic doors
Fire Fighting Enterprises Limited	Beam smoke detectors and specialist fire extinguishing systems
Janus Elevator Products Inc.	Elevator safety components including fixtures, displays, door systems and emergency communications
Memco Limited	Infrared safety systems for elevator doors and elevator emergency communications
Texecom Limited	Security sensor and signalling products
TL Jones Asia Pacific Limited	Elevator infrared safety systems, emergency communications and electronic information displays for passengers
Health and Analysis	
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
Diba Industries, Inc.	Specialised components and complete fluid transfer subassemblies for medical, life science and scientific instruments
Fiberguide Industries, Inc.	Optical fibre cables and assemblies
Hanovia Limited	Ultraviolet light equipment for treating water used in the manufacture of food, drinks, pharmaceuticals and electronic components
HWM-Water Limited	Instrumentation for recording data, and quantifying, detecting and controlling leakage in underground water pipelines
Hydreka S.A.S.	Equipment and software for flow analysis of water and sewerage systems and leak detection systems
Keeler Limited	Ophthalmic instruments for diagnostic assessment of eye conditions
Labsphere, Inc.	Light testing and measurement products and specialised optical coatings
Ocean Optics, Inc.	Miniature fibre optic spectrometers for consumer electronics, process control, environmental monitoring, life sciences and medical diagnostics
Ocean Thin Films, Inc.	Dichroic optical filters and precision optics for scientific, defence, metrology and entertainment applications
Palintest Limited	Instruments for analysing water and measuring environmental pollution
Perma Pure LLC	Gas dryers and humidifiers for fuel cell, medical, scientific and industrial use
Rudolf Riester GmbH	Diagnostic medical devices for ophthalmology, blood pressure measurement and ear, nose and throat diagnostics
Volk Optical Inc.	Ophthalmic equipment and lenses as aids to diagnosis and surgery
Vomatic Limited	Cash handling and security from point of sale to cash centre
Industrial Safety	
Castell Safety International Limited	Safety systems for controlling hazardous industrial processes
Crowcon Detection Instruments Limited	Gas detection instruments for personnel and plant safety
Elfab Limited	Pressure sensitive relief devices to protect process plant
Fortress Interlocks Limited	Safety systems for controlling access to dangerous machines
Netherlocks Safety Systems B.V.	Process safety systems for petrochemical and industrial applications
Oklahoma Safety Equipment Co. Inc.	Pressure sensitive relief devices to protect process plant
Radio-Tech Limited	Wireless radio technology for smart meters, intelligent street lighting, legionella monitoring and rail temperature monitoring
SERV Trayvou Interferrouillage S.A.S.	Safety systems for controlling access to dangerous machines
Smith Flow Control Limited	Process safety systems for petrochemical and industrial applications
Tritech International Limited	Equipment for underwater surveying, condition monitoring, ROV piloting, infrastructure maintenance, construction and security
Group	
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Halma International Limited Shanghai Representative Office	Halma China hub
Halma Trading and Services India Pvt Ltd	Halma India hub

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Shareholder Information and Advisers

Financial calendar

2009/10 Interim results	3 December 2009
2009/10 Interim dividend paid	10 February 2010
Interim management statement	11 February 2010
2009/10 Preliminary results	22 June 2010
2009/10 Report and Accounts issued	28 June 2010
Annual General Meeting and interim management statement	29 July 2010
2009/10 Final dividend payable	25 August 2010
2010/11 Interim results	30 November 2010
2010/11 Interim dividend payable	February 2011
Interim management statement	February 2011
2010/11 Preliminary results	16 June 2011

Analysis of shareholders

at 28 May 2010	Shareholders Number	%	Shares Number	%
Number of shares held				
1 – 7,500	5,160	81.3	9,763,893	2.6
7,501 – 25,000	637	10.0	8,373,105	2.2
25,001 – 100,000	312	4.9	16,236,657	4.3
100,001 – 750,000	164	2.6	45,569,053	12.1
750,001 and over	76	1.2	297,779,286	78.8
	6,349	100.0	377,721,994	100.0

Share price

London Stock Exchange, pence per 10p share	2010	2009	2008	2007	2006
Highest	264	222	246	240	194
Lowest	156	143	182	172	139

Dividends

Pence per 10p share	2010	2009	2008	2007	2006
Interim	3.31	3.15	3.00	2.85	2.71
Final	5.19*	4.78	4.55	4.33	4.12
Total	8.50	7.93	7.55	7.18	6.83

* Proposed.

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Website: www.investorcentre.co.uk

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 Half year reports, analyst presentations, find contact details for Halma senior executives and subsidiary companies and access links to Halma subsidiary websites. You can also subscribe to an e-mail news alert service to automatically receive an e-mail when significant announcements are made.

Shareholding information

Please contact our registrars, Computershare, 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 direct using the dedicated telephone number for Halma shareholders (+44(0)870 707 1046).

Dividend mandate

Shareholders can arrange to have their dividends paid directly into their bank or building society account by completing a bank mandate form. The advantages to using this service are: the payment is more secure than sending a cheque through the post; it avoids the inconvenience of paying in a cheque and there is no risk of lost, stolen or out of date cheques. A mandate form can be obtained from Computershare or you will find one on the reverse of the tax voucher of your last dividend payment.

Dividend reinvestment plan

The Company operates a dividend reinvestment plan ('DRIP') which offers shareholders the option to elect to have their cash dividends reinvested in Halma ordinary shares purchased in the market. You can register for the DRIP online by visiting Computershare's Investor Centre website (as above) or by requesting an application form direct from Computershare. Shareholders who wish to elect for the DRIP for the forthcoming final dividend, but have not already done so, should return a DRIP application form to Computershare no later than 4 August 2010.

American Depositary Receipts

The Halma p.l.c. American Depositary Receipts (ADRs) are traded on the Over The Counter market (OTC) under the symbol HLMLY. One ADR represents three Halma p.l.c. ordinary shares. JPMorgan Chase Bank, N.A. is the depository. If you should have any queries, please contact:

JPMorgan Chase & Co, PO Box 64504, St Paul, MN 55164-0504, USA. E-mail: jpmorgan.adr@wellsfargo.com. General queries: (800) 990 1135. From outside the USA: +1 651 453 2128.

Electronic communications

All shareholder communications, including the Company's Annual Report and Accounts, are made available to shareholders on the Halma website and you may opt to receive e-mail notification that documents and information are available to view and download rather than to receive paper copies through the post. Using electronic communications helps us to limit the amount of paper we use and assists us in reducing our costs. If you would like to sign up for this service, visit Computershare's Investor Centre website, selecting 'Electronic Shareholder Communications' and follow the registration process. You may change the way you receive communications at any time by contacting Computershare.

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 116th Annual General Meeting of Halma p.l.c. will be held in the Ballroom, at The Berkeley Hotel, Wilton Place, London SW1X 7RL on Thursday, 29 July 2010 at 11.30 am.

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