HALMA

Annual Report
& Accounts 2005

Halma p.l.c.

Annual Report and Accounts 2005

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Financial Highlights

	Change	2005	2004
Turnover	**+2%**	£299.1m	£292.6m
Profit before taxation[(1)]	**0%**	£50.4m	£50.3m
Earnings per share[(2)]	**0%**	9.42p	9.44p
Earnings per share – statutory	**+31%**	7.97p	6.09p
Dividend per share	**+5%**	6.50p	6.19p
Return on sales[(3)]		16.8%	17.2%
Return on total invested capital[(4)]		13.1%	13.7%
Return on capital employed[(5)]		62.4%	52.4%

Pro-forma information:
1. Before goodwill amortisation of £5,491,000 (2004: £4,220,000) and exceptional items on disposal of non-core businesses of £nil (2004: £9,149,000).
2. Before goodwill amortisation of 1.45p (2004: 1.07p) and exceptional items of nil (2004: 2.28p) per share.
3. Return on sales is defined as profit[(1)] before taxation expressed as a percentage of turnover.
4. Return on total invested capital is defined as profit before goodwill amortisation and exceptional items and after taxation of £34,690,000 (2004: £34,557,000) expressed as a percentage of net assets plus goodwill in reserves of £70,931,000 (2004: £70,931,000) and cumulative goodwill amortisation of £18,668,000 (2004: £13,177,000).
5. Return on capital employed is defined as profit[(1)] before taxation expressed as a percentage of net tangible assets (being equity shareholders' funds less intangible assets).

Highlights of the year

- Pre-tax profits[(1)] of £50.4m marginally exceed last year's record level (2004 – 53 week period: £50.3m). On a statutory basis, profit before taxation was £44.9 million (2004: £36.9 million).
- Turnover from ongoing operations up 7% at £299.1m (2004: £279.6m), reflecting an increased contribution from the Group's enlarged Optics and Specialist business.
- Healthy margins maintained as Halma consistently delivers strong returns, with return on capital employed[(5)] of 62% and return on total invested capital[(4)] of 13%.
- Strong cash generation with two high quality acquisitions made and no gearing at year end (net cash £12m).
- Continuation of progressive dividend policy with an increase of 5%.

Halma at a glance

Business profile

Halma is a strongly cash generative and highly profitable group which develops, makes and markets products that are used to protect lives, or improve the quality of life, for individuals and businesses worldwide.

Our six specialist business groupings are:

Fire and Gas detection

Water leak detection and UV treatment

Elevator and Door Safety

Bursting discs and sequential locking for Process Safety

High power electrical Resistors

Optics and Specialist technology

Value creation strategy

Our over-riding objective is to create shareholder value by:

Building global businesses that sustain a leading position in specialised markets in areas of long-term sales growth

Concentrating on high margin activities where products and services are differentiated on the basis of performance, not price, and where barriers to entry are high

Tightly managing our asset base in order to maintain our outstanding operating ratios and powerful cash generation

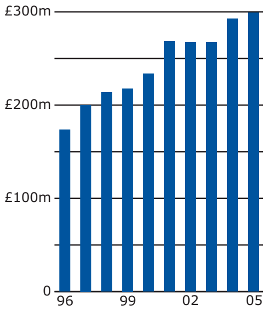
Investing in marketing, new product development and innovation to create high organic growth

Acquiring businesses and intellectual assets that extend our existing activities, add value, contribute to growth and will produce our exceptional operating ratios

Maintaining a high return on capital employed to fund organic growth, acquisition activity and rising dividends

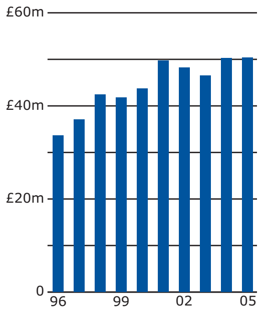
Recruiting and retaining top quality management by preserving an entrepreneurial culture within a framework of rigorous financial planning, reporting and control

Sales



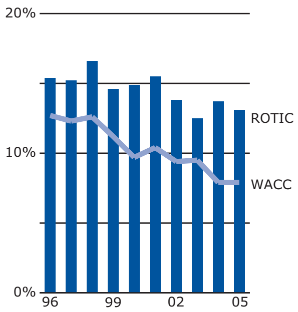
Growing sales worldwide.

Profit growth
(before goodwill amortisation and exceptional items)*



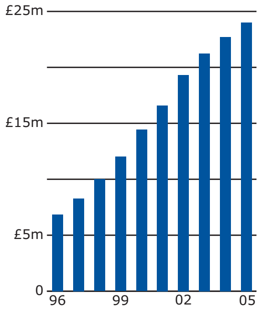
Long-term profit growth accompanied by excellent cash generation.

ROTIC*



ROTIC* consistently above weighted average cost of capital (WACC) delivering real shareholder value.

Dividend growth



An exceptional record of unbroken dividend growth over more than 20 years.

*see Financial Highlights

Chairman's Statement

"We are having success but it is patchy, we need to do more – faster."

The Group produced a profit before tax* of £50.4 million, another record profit for Halma – just.

The year was characterised by significant change within the Group – some of it visible, some less so. The most visible change was the appointment of Andrew Williams as CEO at the end of February 2005, having been appointed Deputy CEO in December 2004. Andrew succeeded Stephen O'Shea who reaches the normal retirement age for Halma this year, and on behalf of the Board I should like to record our gratitude to Stephen for all that he has contributed to the Group during his career with us. The succession process has gone extremely smoothly and Andrew is bringing a fresh impetus to our operations – I encourage those of you that can, to meet him at our AGM.

Last year I referred to a number of factors that the Board and senior management felt could possibly be holding back our performance. Some of them were issues that could be quickly addressed e.g. incentives, span of control; others were more long-term, such as resource allocation and the efficiency of our balance sheet. We are continuing to upgrade the quality of our management right across the Group and particularly at subsidiary board level.

All aspects of selling have received particular attention and we are disappointed not to see better progress on the revenue line. However, in common with many sectors, we face continuing pressure from price transparency via the internet and deflationary trends through lower manufacturing costs. Our response is the continual re-design and improvement of our products, allowing more outsourcing and 'off-shore' production as we re-double our efforts on innovation. We are having success but it is patchy, we need to do more – faster.

In terms of our sectoral performance (more detail is given in the Chief Executive's Review): Resistors continued to have a difficult year and the problems there are being tackled

*see Financial Highlights

in new ways and with renewed vigour. Water too had a tough year. Other sectors held their own or better.

Our two new acquisitions Diba Industries, Inc. and Ocean Optics, Inc. performed extremely well, exceeding our expectations.

The results

Profit before tax* was a record £50.4 million (previous year £50.3 million) and earnings per share* were slightly down at 9.42p (previous year 9.44p). On a statutory basis, profit before taxation and earnings per share were £44.9 million and 7.97p respectively. These results were produced despite adverse currency translation impacts and raw material movements of the order of £2.5 million. The return on the capital* that our managers control was a clear all time record for a full year at 62% – a staggering achievement, and return on total invested capital* (including all goodwill) was 13.1% – far exceeding our cost of capital. Net cash at the year end was £12 million. Turnover edged ahead by 2% to £299 million (previous year £293 million). Excluding discontinued operations, sales increased by 7%.

The Board recommend a final dividend of 3.92 pence per share giving an increase of 5% for the year.

On behalf of the Board, I should like to thank all our employees for their dedication in producing this record result, and also for their imagination in continually improving our products and service to our customers.

Prospects

We have strong market positions and we are highly cash generative. We are accelerating our own rate of change – particularly on innovation.

Overall, despite little fundamental help from our markets, we remain cautiously optimistic for the year ahead.

Geoff Unwin

*see Financial Highlights

Chief Executive's Review

"Actions to reposition the Group for higher growth will continue both operationally and structurally."

Record sales, profits and ROCE, but …..

The Group delivered record sales, record profits and a ROCE* of 62% despite the headwind of currency and rising raw material prices – particularly stainless steel. It is always pleasing to report such achievements together with a record dividend payment for shareholders, but there is more to be done if we are to achieve the performance levels we really aspire to.

The Group did do well to compensate for some adverse factors, achieve excellent cash generation and make two high quality acquisitions. However, the underlying level of organic growth was inconsistent with parts of the business failing to make satisfactory progress, thereby eroding the growth delivered elsewhere.

We take encouragement from our achievements but do not shy away from the challenges. Setting high standards and expectations of our performance has been a key element of Halma's continuing success in delivering outstanding returns.

Strong cash generation and a record dividend

The Group's excellent cash generation and outstanding ROCE* record is not achieved easily but by the disciplined management of our assets at all levels. During the year this enabled us to make £9 million of capital investment in our existing operations, pay a record dividend to shareholders for the twenty-sixth consecutive year, make two significant acquisitions and still have £12 million of net cash available at the year end.

Flat sales performance in continuing operations

Sales from continuing operations, excluding acquisitions, increased to all territories except for the US where turnover fell by 10%. Clearly currency was a key factor, but again, is not the whole story. We must become more

*see Financial Highlights

active in the way we build the distribution channels of our businesses, particularly in the US and other key markets. We have sometimes lacked clarity and speed of action in this area in the past and not allocated a significant proportion of our resources to make it happen.

Exciting value-adding acquisitions strengthen Optics and Specialist sector

During the year we acquired Ocean Optics, based in Florida, and Diba Industries, based in Connecticut, for a total of £22 million. They have significantly enhanced our capability in optical sensing and fluid technology and have performed well since joining the Group. We remain committed to making such high quality acquisitions as they become available in accordance with our strategy of focussing more closely on those markets offering the best growth opportunities.

Excluding these acquisitions and costs of holding companies, the Optics and Specialist sector achieved underlying profit growth of 12%. New product innovation, improved sales processes and increasing efficiencies in manufacturing contributed to an excellent result.

Elevator and Door safety maintains market leadership

At constant currency, the sector reported marginal increases in both profits and sales. In the US, our voice communications equipment sales fell significantly. Since the year end we have merged this business with our US elevator safety products company to benefit from its well-developed sales channels.

BEA, the door safety business, performed slightly better in the second half than flagged at the Interim stage. After rapid growth since acquisition, this was encouraging and underpinned a reasonable sector performance overall.

Water sector repositioned for new market needs

We have taken actions to position the business for better growth in the future. There were significant changes to senior management and to the product range, which had short-term consequences for operating costs and margins. For example, it was necessary to rationalise our range of instruments which measure flow and pressure in water networks to meet more precisely the growing demand for these products worldwide. This resulted in additional costs associated with stock write downs, field service replacements, and adjustments to product design and selling resources. In addition, there was no repeat of a major US leak detection contract this year following last year's success in Las Vegas. However, we continue with our investment in the US for leak detection, UV treatment and water quality. Our water business is now in better shape to meet the opportunities presented by this long-term growth market.

Resistors struggle against impact of currency and raw material prices

As indicated at the half year, the margins on our Resistor business came under intense pressure from stainless steel price increases. In the second half, we had some success in mitigating these increases although in certain cases long-term contract terms proved difficult to renegotiate. We have recognised for some time that our Resistors business has been struggling against rising raw material prices, currency and tough market conditions. Since the year end, more vigorous action is being taken and already we have consolidated two of our manufacturing operations based near Cincinnatti, Ohio.

Fire and Gas delivers solid result in changing market

We responded positively to the major M&A activity in the global Fire and Gas market. New product developments and industry-leading customer service levels helped us to compete with US based rivals who benefited from a weaker dollar when selling into export markets. Whilst the market is undergoing a period of significant consolidation we continue to find, and exploit, new opportunities.

Process Safety introduces new products for new applications

A number of products were launched targeting new applications for our safety interlock products. The roll out was more gradual than expected in some cases, but the year ended with greater momentum than it started, particularly in the oil and petrochemical market. Overall, the sector continues to deliver a satisfactory return on sales and excellent ROCE.

Talented people and excellent products

During the year, I visited all of Halma's principal subsidiaries and saw how hard our people are working towards our goal of higher growth. Halma has a talented workforce that creates, builds and sells excellent products covering a huge range of applications. Improving the timing of new product introductions is an area we need to improve continually and, although great strides have been made recently, a further improvement will have a significant impact on our organic growth prospects.

It is encouraging to see the increasing commitment of our businesses towards exceeding the expectation of customers. Our innovation often makes a big difference to our customers' success and quicker new product introduction is another way in which we can exceed their expectation for our mutual benefit.

Stephen O'Shea's retirement

I would also like to record my thanks to Stephen O'Shea for his generous help during the recent handover period and for his contribution to the Group's many successes since he joined us as MD of Apollo Fire Detectors 22 years ago. I am sure you will join me in wishing him a long and happy retirement.

A robust strategy although striving for greater growth

Our ability to maintain strong returns reflects well on our strategy of creating unique, high value products which protect lives, or improve the quality of life, for individuals and businesses worldwide. We will continue to invest in, and develop, high return technology businesses which operate in niche, 'demand driven' global markets with strong barriers to entry.

Actions to reposition the Group for higher growth will continue both operationally and structurally. I am looking for greater consistency of performance across the Group to deliver the sustained organic growth which provides valuable returns for shareholders. Whilst there is still much work to be done, there are good opportunities available to us and I am very much looking forward to leading the Group in the year ahead.

Andrew J Williams

Financial Review

"We maintained healthy margins, strong returns and good cash flow, but we aim for greater improvement."

Some underlying organic sales growth with marginal profit growth to a new high

Group turnover was 2% higher than last year at £299 million (2003/04: £293 million) and ongoing turnover grew by 5% on a constant currency basis, excluding the turnover of new businesses at the time of acquisition. Profit before tax* at £50.4 million (2003/04: £50.3 million) was the highest ever made by the Group, by a small amount. On a statutory basis profit before taxation increased to £44.9 million (2003/04: £36.9 million). These results were achieved in 52 weeks rather than 53 weeks last year. We maintained healthy margins, strong returns and good cash flow, but we aim for greater improvement.

The currency headwind played a notable part in the results this year

Around one-third of Halma's turnover and profits are made in US Dollars and US Dollar-related currencies, with around 15% in Euros. The average rate at which we translate US Dollars has deteriorated by 9% in the year and even though the Euro translation rate was reasonably stable, the total currency impact reduced turnover by £10 million (3.7%) and profits by £1.6 million (3.2%). The commercial effects of currency movements on transactions, which show themselves for example in the advantage gained by US competitors, are difficult to quantify, but have a notable adverse impact on our business.

Measured at constant exchange rates, four of our sectors moved ahead in sales and profits, the exceptions being Resistors and Water – these are discussed in the Chief Executive's Review.

Whilst the adverse currency effect was not as bad as we feared at the Interim stage, it impeded our progress.

*see Financial Highlights

Our acquisitions exceeded expectations and helped development of the Optics sector

In May 2004 we acquired Diba Industries, Inc. for £8 million and in June 2004 we paid an initial consideration of £14 million for Ocean Optics, Inc. In both cases the purchase price was approximately equal to their turnover at the time of acquisition, and pro-rata they would have added £17 million to our 2004/05 turnover. Up to a further £14 million is payable for Ocean Optics, with the maximum reached if it doubles its profit in the two years post acquisition. In the first year, it met its target.

Both are high-return businesses and have developed well since acquisition, contributing to the ongoing development of our Optics and Specialist sector which started with the disposal of three non-core businesses last year. Within the Optics and Specialist sector we also report holding company costs which increased this year, in part due to the cost of management changes.

Healthy margins and high returns continue shareholder value creation

Return on sales* at 16.8% was slightly below last year's figure of 17.2%. High and consistent margins are a feature of the Group and all sectors except Resistors and Water maintained their return on sales. The benefit to Group margins from the disposals mentioned above was eliminated this year by the impact of those two sector performances. One important factor which affected the Resistors sector in particular, was the increase in stainless steel prices this year taking £0.9 million from Group profit.

A key indicator used internally in managing our businesses is Return on Capital Employed (ROCE*) and we have therefore published its progress over many years. It demonstrates the effectiveness of our managers in utilising the tangible assets under their direct control. At 62% for the Group this year, ROCE* is high even for Halma reflecting the good management of resource at operating company level.

We recognise the value to shareholders in reporting Return on Total Invested Capital (ROTIC*) and so this year we are also reporting that figure. We are reporting a post-tax ROTIC* which includes goodwill going back over the years. ROTIC* recognises that businesses must use both retained earnings and debt wisely to give shareholders good returns. As the graph on page three of this Annual Report shows, this year's ROTIC* of 13.1% is far in excess of our weighted average cost of capital, continuing the trend established over many years.

Our strong cash flow funded increased dividends with no year end net debt

Halma has a history of good cash generation and this year was no exception. Operating cash flow net of capital expenditure as a percentage of operating profit was 101%. We finished the year with net cash of £12 million. As noted below we do carry loans to hedge our currency assets but overall we are currently ungeared.

These strong cash flows will finance another record dividend. The Board recommends a final dividend of 3.92p per share, giving a dividend for the full year of 6.5p, 5% up on last year. We have continued our progressive dividend policy, dividends having increased every year for more than 25 years.

As the dividend increase is above the earnings increase, dividend cover has reduced a little. Our task is to deliver

*see Financial Highlights

the earnings growth in the coming years so that we can raise that cover again. If approved, this final dividend will be paid on 24 August 2005 to shareholders on the register at the close of business on 22 July 2005.

Treasury, tax and pensions continue on a prudent path

Our operating companies hedge their trading transactions back into their local reporting currency. Our policy is to hedge our US Dollar and Euro net investment in overseas operations through currency denominated loans, but not to hedge the effects of currency movements on the translation of overseas earnings into Sterling. The philosophy behind our treasury activities is one of risk management and control; no speculative transactions are undertaken.

As anticipated, the effective tax rate on profits* was in line with last year at 31.2%. Depending on the precise mix of profits earned in various tax jurisdictions, we expect the effective rate going forward to be broadly similar but perhaps a little higher.

Pending the introduction of International Financial Reporting Standards (IFRS) next year, we have continued to adopt the transitional provisions of FRS 17 (Retirement Benefits) and these disclosures are given in Note 26. Under FRS 17, the net pension deficit has remained at £29 million net of the related deferred tax. The increase in the market value of scheme assets has been offset by higher calculated liabilities in part due to lower discount rates. New cash going into the main (defined benefit) pension scheme is being invested in fixed interest securities so that over time the profile of assets is more closely matched with the scheme's liabilities, the scheme having been closed to new members several years ago.

*see Financial Highlights

Internal audit builds on a history of sound Group controls

A critical feature of Halma is the entrepreneurial and autonomous nature of our operating companies. To underpin that approach we install high-quality finance executives in each business to monitor and assist development.

Responsibility and accountability of local management has always been paramount but this has been further emphasised over the past year with strengthened local accounts sign-off and by widespread use of relevant financial warning signs across the Group.

We have further enhanced our internal review procedures this year, continuing to use senior finance staff to review other operating businesses but adding more rigorous feedback and follow-up. Together with the independent reporting route to the Audit Committee introduced in 2003/04, I can now confirm that our internal audit function is fully established.

IFRS preparations are well advanced

For 2005/06 the Group is required to prepare its consolidated accounts in accordance with International Financial Reporting Standards (IFRS). Halma's Interim Report and Annual Report and Accounts for 2005/06 will therefore contain financial statements for 2005/06 and comparatives for 2004/05 prepared under IFRS. There will be some presentational differences, but in summary the impact on trading results is not expected to be material and net assets will be reduced mainly by the inclusion in the Balance Sheet of the pension deficit noted above. Cash flows and the underlying economics of the business remain unchanged.

In a little more detail, the main effects of IFRS on Halma are as follows: since Research and Development is an important part of our business (we spend 4% of sales on R&D) we will recognise this asset by capitalising appropriate costs, although we anticipate expensing most of the cost as we go; share-based payments will add a new charge against our profits, starting off low but expected to increase as each new year falls under these rules and as we transition away from share options to our proposed performance share plan; goodwill on acquisitions will be frozen, goodwill amortisation no longer appearing in the Profit and Loss Account; pension costs are likely to be a little more volatile and as mentioned above, the pension deficit will come onto the Balance Sheet. The new rules on financial instruments will have a negligible effect on us.

In late summer, ahead of our half year end, we will publish a full quantification, reconciliation and explanation of the impacts on Halma of IFRS.

We continue to focus on high returns for our shareholders

This year has seen a fair amount of change, with some repositioning and a lot of investment – there has been associated cost. Our pursuit of positive change and improvement will continue. Our key objective is to continue creating wealth for our shareholders through investment in high performance businesses and the generation of strong cash flows.

Kevin J Thompson

Directors and Advisers

Board of Directors	E Geoffrey Unwin *Chairman* Andrew J Williams *Chief Executive* Kevin J Thompson BSc FCA Neil Quinn BSc Richard A Stone MA FCA* Keith J Roy MSc Andrew J Walker MA CEng* Stephen R Pettit MSc* *Non-executive
Secretary	Carol T Chesney BA FCA
Executive Board	Andrew J Williams *Chief Executive* Nigel J Young *Specialist Products* Neil Quinn *Fire* Kevin J Thompson *Finance Director* John S Campbell *Resistors* Keith J Roy *Water and Gas Technology* William J Seymour *Elevator and Door Safety* Adam J Meyers *Fluid Technology* Nigel J B Trodd *Process Safety* Andrew J Richardson *Water Management*
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Registered Number	40932
Auditors	Deloitte & Touche LLP Abbots House Abbey Street Reading Berks RG1 3BD
Bankers	The Royal Bank of Scotland plc 280 Bishopsgate London EC2M 4RB
Financial Advisers	Lazard Brothers & Co., Limited 50 Stratton Street London W1J 8LL
Brokers and Joint Financial Advisers	Dresdner Kleinwort Wasserstein Limited 20 Fenchurch Street London EC3P 3DB
Solicitors	CMS Cameron McKenna Mitre House 160 Aldersgate Street London EC1A 4DD
Registrars	Computershare Investor Services PLC PO Box 82 The Pavilions Bridgwater Road Bristol BS99 7NH Telephone: +44 (0)870 702 0000

Halma Management Team

1 Andrew Williams
(aged 38) is Chief Executive of the Halma Group. He joined Halma in 1994 as Manufacturing Director of Reten Acoustics (now Palmer Environmental) and became Managing Director of that company in 1997. He became Divisional Chief Executive of the Optics and Water Instrumentation Division and a member of the Executive Board in 2002. He was appointed as Deputy Chief Executive in 2004 and Group Chief Executive in February 2005. Andrew is a Chartered Engineer and a production engineering graduate of Birmingham University.

2 Geoff Unwin
(aged 62) is Chairman of the Halma Group and serves on the Audit Committee, Remuneration Committee and the Nomination Committee (Chairman). He was appointed Deputy Chairman and Chairman Elect in September 2002 and Chairman in July 2003. He is Chairman of United Business Media plc and Liberata plc and a non-voting board director of Capgemini Group. He is also an advisory board member of Hartwell plc and Palamon Capital Partners LLP.

3 Kevin Thompson
(aged 45) is Finance Director of the Halma Group. He joined the Group in 1987 as Group Financial Controller and in 1995 was appointed to the Executive Board as Finance Director. In 1997 he became Group Finance Director and in 1998 was appointed to the Halma p.l.c. Board. An economics and accounting graduate of Bristol University, Kevin qualified as a Chartered Accountant with Price Waterhouse.

4 Andrew Walker
(aged 53) was appointed a non-executive Director of Halma in May 2003 and serves on the Audit Committee (Chairman) and Remuneration Committee. He is Chairman of Bioganix Limited, a non-executive Director of Ultra Electronics Holdings plc, Manganese Bronze plc, API Group plc, Delta plc and Porvair plc.

5 Keith Roy
(aged 55) is Chief Executive of the Water and Gas Technology Division. He joined Halma having been joint owner of Reten Acoustics when Halma acquired it in 1992 and was appointed Managing Director and subsequently Chairman of Palmer Environmental Limited. He became Assistant Divisional Chief Executive in 1998. In 2000 Keith was appointed Divisional Chief Executive of the Water Technology Division and was appointed to the Halma p.l.c. Board in 2001. He is an electronic engineering graduate of both Nottingham University (BSc) and Aston University (MSc).

6 Neil Quinn
(aged 55) is Chief Executive of the Fire Division. He joined the Group as Sales Director of Apollo Fire Detectors Limited in 1987, becoming Managing Director in 1992. In 1994 he was appointed Chief Executive of the Fire Detection Division and was appointed to the Halma p.l.c. Board in 1998. He is a material science graduate from Sheffield University.

7 Adam Meyers
(aged 43) is Chief Executive of the Fluid Technology Division. He joined Halma in 1996 as President of Bio-Chem Valve Inc. He was appointed Assistant Divisional Chief Executive in April 2001 and became Divisional Chief Executive of the newly formed Fluid Technology Division and a member of the Executive Board in April 2003. He is a systems engineering graduate of the University of Pennsylvania and gained his MBA from Harvard Business School.

8 Nigel Young
(aged 55) is Chief Executive of the Specialist Products Division. He joined Halma as Managing Director of Fortress Interlocks Limited when the company joined the Group in 1987. Nigel was appointed Assistant Divisional Chief Executive in 1990 and took up his current position as Divisional Chief Executive in 1992. He was appointed to the Executive Board in 1994. He has an MBA from Aston University.

9 Richard Stone
(aged 62) was appointed a non-executive Director of Halma in January 2001. He serves on the Audit Committee, Remuneration Committee (Chairman) and Nomination Committee and is the Senior Independent Director. He is Chairman of CSW Group Limited, a non-executive Director of Gartmore Global Trust p.l.c., Trust Union Finance (1991) plc, Engandscot Limited and TR Property Investment Trust plc.

10 Carol Chesney
(aged 42) is Company Secretary of Halma p.l.c. She spent three years with English China Clays p.l.c. before joining Halma in 1995 as Group Finance Manager. Carol was appointed Company Secretary in 1998. She is a maths graduate of Randolph-Macon Woman's College, Virginia and qualified as a Chartered Accountant with Arthur Andersen.

11 Andrew Richardson
(aged 40) is Chief Executive of the Water Management Division. He joined Halma in April 2004 and is a member of the Executive Board. Andrew is an engineering graduate of Cambridge University. Prior to joining Halma he was Divisional Managing Director of the Clutch Division for the Automotive Products Group.

12 Nigel Trodd
(aged 47) is Chief Executive of the Process Safety Division. He joined Halma in July 2003 and is a member of the Executive Board. Prior to joining Halma he was V.P. Europe, Middle East and Africa for Tyco Suppression Systems based in Frankfurt. Nigel is a business studies graduate of Thames Valley University and is a member of the Chartered Institute of Marketing.

13 Bill Seymour
(aged 45) is Chief Executive of the Elevator and Door Safety Division. He joined Halma on the acquisition of Janus Elevator Products in December 1990 and became Vice President of that company in 1991. In 1993 he was appointed Joint President of Janus and in 1999 became an Assistant Divisional Chief Executive. In 2000 Bill was appointed Divisional Chief Executive of the Elevator Electronics Division and a member of the Executive Board. He is an electrical engineering graduate of Limerick College of Technology.

14 John Campbell
(aged 46) joined the Group in 1995 as President of IPC Resistors Inc. and became Chief Executive of the Resistors Division upon its formation in 1998 and a member of the Executive Board. He is an electrical engineering graduate of the University of Toronto and before joining Halma was a senior sales and marketing executive within the Industrial Power Group of Rolls-Royce p.l.c.

15 Stephen Pettit
(aged 54) was appointed a non-executive Director of Halma in September 2003 and serves on the Audit Committee and Remuneration Committee. He is Chairman of ROK Property Solutions plc and a non-executive Director of National Grid Transco plc and National Air Traffic Services.

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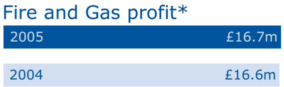
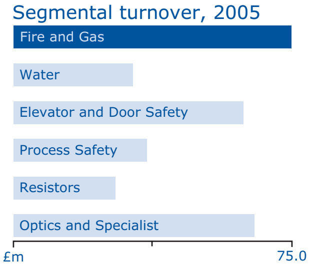
Operating Review – Fire and Gas

Fire and Gas turnover

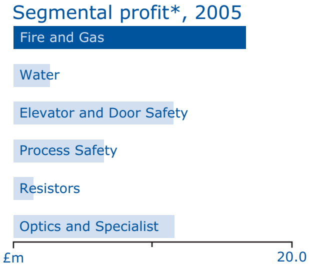
Fire and Gas profit*



Segmental turnover, 2005



Segmental profit*, 2005



*before interest, tax and goodwill amortisation – see Note 1 on the Accounts

Sector Overview

We are world leaders in sensors that detect life-threatening fire and gas hazards. Our products warn people of imminent danger and give them time to escape. Now sold in 80 countries, our fire detectors protect people and buildings from the risk of fire. Our gas detectors safeguard the lives of industrial workers by alerting them to the presence of toxic or explosive gases. We also make specialist products for conditioning gas samples. The principal sales channels for fire detectors are distributors and fire alarm installers; gas detector customers range from lone contractors to multinationals. During 2004/05 our Fire and Gas sector companies produced 25% of Group turnover and 33% of operating profit*.

Our businesses in the Fire and Gas sector achieved record sales during 2004/05, with profits slightly ahead. The fire detector market is a very competitive environment mostly dominated by large multinationals. During 2004/05 there were many competitor acquisitions and consolidations. Despite such market pressures, we increased market share and remain the second largest maker of commercial grade fire detectors worldwide.

We achieved double-digit fire detector sales growth in Eastern Europe and major increases in the Middle East, India and the Far East. This compensated for subdued sales in Central Europe. A key differentiator for our fire products companies is industry-leading customer service. To reinforce this competitive advantage, in 2004/05 we set up technical centres in Spain, the US, Ireland, India and China.

Increasing regulatory product testing and approval is a major driver in the fire industry (and a powerful barrier to market entry). Our businesses invest considerable time in maintaining close relations with approval and regulatory authorities. To sell fire detectors on a worldwide basis, we hold 1500 product approvals. An important recent project has been product development to satisfy the new EU Construction Products Directive. This applies to all 25 member states from June 2005.

Continuous product innovation is a key sales growth factor in this sector. Alongside new fire detector ranges, we launched new emergency evacuation products, including directional and programmable sounders, and devices to guide people out of smoke-filled buildings.

Gas detector profits continued to rise, supported by new product launches in the portable and fixed systems markets. Gasman, a single gas detection instrument and market leader in terms of size, weight and performance, is a key new product.

Last year's restructuring of our European gas detector sales operations delivered improved sales and profits. We strengthened our sales routes in the US, producing record revenues and an excellent platform for future growth. Pricing pressure, particularly in portable gas detectors, remained strong, but operational improvements ensured an increase in gross margins.

The small-scale power generation market based on fuel cells is now commercialised and sales of gas conditioning products are growing. However, most business continues to be for prototyping projects. Within this market, our hydrogen humidification systems are being extended to handle high pressure fuel cells as developers attempt to produce more efficient, lower cost systems. This is a long-term growth opportunity.

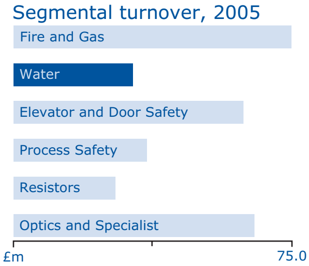
Our fire and gas products protect people and plant worldwide.

Operating Review – Water

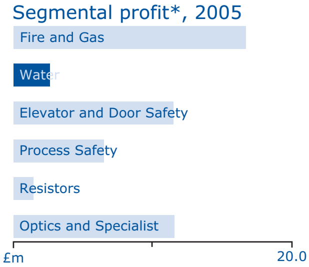
Water turnover

Water profit*

Segmental turnover, 2005



Segmental profit*, 2005



*before interest, tax and goodwill amortisation – see Note 1 on the Accounts

Sector Overview

We own world-leading businesses in three water industry sectors: ultraviolet light (UV) water treatment, instruments for monitoring and controlling water distribution, and water quality analysis. These markets are global and we make substantial sales worldwide. Our principal customers are drinking water supply companies, municipal authorities, food manufacturers and the process industries. Based in the UK, the Netherlands, France and the US, during 2004/05 our Water sector companies produced 11% of Group turnover and 5% of operating profit*.

While Water sector sales were maintained at a slightly reduced level, profits in this sector were substantially below the prior year.

During 2004/05 we saw significant changes in the market for instruments to conserve water in distribution networks. Our water supply customers faced pressures to cut costs. This created demand for lower margin instruments to monitor and control water networks in a preventative way, in addition to diagnostic leak location instruments. In response, we restructured the product ranges and organisation of several companies in this sector. As part of this process we upgraded a number of products in the field which led to some stock write-offs. This involved substantial costs but has produced a much stronger base for growth. An important contract for leak detection equipment in the city of El Paso, Texas, was smaller in scale than the very successful Las Vegas contract in the previous year. However, it represented useful progress in a market where we continue to make a significant investment in anticipation of future returns. Acquisition of data logging and data transmission businesses in recent years has led to a 50% increase in sales of these instruments in 2004/05 and allowed us to penetrate the fast-growing market for monitoring wastewater and flow.

Sales of UV equipment outside of the US market returned to growth. However, delays in closing US contracts led to a decline in total UV equipment sales. We won an important contract, phase II of the Houston CrossFlow drinking water project. A reorganisation of the US sales operation has started to deliver major improvements, with the 2005/06 order book substantially ahead.

Outbreaks of water-borne disease create demand for our disinfection technology. Following an outbreak of giardiasis in the Norwegian city of Bergen's drinking water supply, we won a significant order. UV sales to the swimming pool sector, where our companies are dominant, continued strongly, benefiting from increased awareness of health risks from chlorination by-products. Continued investment in product approvals has created an excellent foundation for securing future drinking water projects. We believe we are the first company with medium pressure UV technology that complies with the new European testing criteria. UV sales to South East Asia continued to grow because our equipment provides significant performance advantages and lower capital costs than competing systems. Further capital investment expanded our UV lamp manufacturing capacity to meet growing demand.

Sales and profits at our water testing business reached record levels. We launched an innovative new product, called Cool Pool Tester. This transfers advanced photometric water analysis technology developed for professional laboratory users into the domestic swimming pool market.

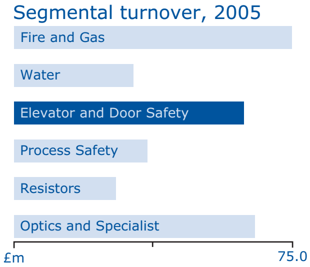
We are the world leader in UV treatment of swimming pool water.

Operating Review – Elevator and Door Safety

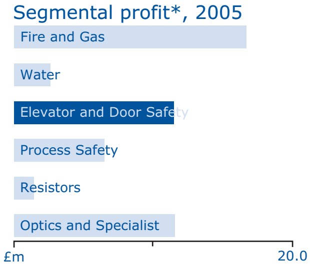
Elevator and Door Safety turnover

Elevator and Door Safety profit*

Segmental turnover, 2005



Segmental profit*, 2005



*before interest, tax and goodwill amortisation – see Note 1 on the Accounts

Sector Overview

Our businesses in this sector are world leaders in products that protect people using elevators and automatic doors from harm. We make infrared and microwave based sensors that control the operation of elevator doors and automatic pedestrian and industrial doors. They safeguard users, improve accessibility for the disabled and optimise traffic flow. We also make voice communication and display products for elevators. These businesses are based in Belgium, the UK, New Zealand, the US, Singapore and China.

The elevator and automatic door markets separate into new construction and building refurbishment, with our sales equally split between the two. Customers in the new-build sector are generally multinational elevator and door manufacturers. Refurbishment customers tend to be local contractors. During 2004/05, this sector produced 21% of Group turnover and 23% of operating profit*.

Although overall sales and profit in this sector fell slightly, we generated significant sales growth in the core elevator and door product groups, particularly in Asia and Europe. An underlying sector-wide advance in sales and profit was offset by unfavourable currency movements and a disappointing performance by our emergency telecoms business. With less than 10% of sales in this sector in the UK, its headline performance is vulnerable to Sterling exchange rates.

We maintained our market share in automatic door control sensors despite lower door control sales in the US (due to a large refurbishment contract in 2003/04). Record profits were achieved, aided by rising sales in China and also in Japan where we now have three sales offices.

We won worthwhile new business from the New York City Transit Authority for station platforms emergency communications systems, most of which will be shipped in 2005/06. However, voice communication equipment sales fell significantly. To turn this around, we have merged this telecoms business with our US elevator safety products company to benefit from its strong sales management skills and well developed sales channels.

Recent European legislation mandates that elevators must be fitted with emergency voice communication systems. This has created a valuable new market; we estimate that 90,000 new elevators are commissioned every year in the EU. We have developed a new elevator telephone system which enables building operators to comply fully with the new regulations. We have also opened a new sales office in Italy where an estimated 90% of elevators do not meet EU standards.

The more prominent risk in this sector relative to others is the unpredictable impact of the proposed Chinese currency revaluation. A significant proportion of our elevator and door products are made in China and a revaluation of the Yuan may increase production costs and squeeze margins.

Given continued global economic development, market prospects for elevator and automatic door safety products are positive in the long term. The key drivers are urbanisation, population growth and accessibility for the disabled. These factors create demand for high rise buildings, requiring elevator controls, and also large buildings with automatic doors. Demand for our products is continually rising due to concern in most countries about public safety.

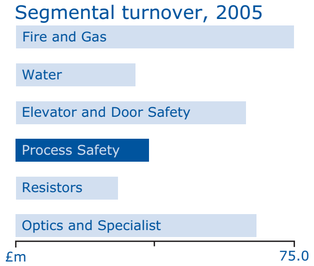
At the Jin Mao Tower, Shanghai, visitors are protected by our door safety products.

Operating Review – Process Safety

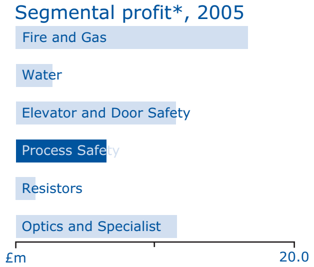
Process Safety turnover

Process Safety profit*

Segmental turnover, 2005



Segmental profit*, 2005



*before interest, tax and goodwill amortisation – see Note 1 on the Accounts

Sector Overview

Our Process Safety businesses help customers protect their human and capital assets. We create safe workplaces where employees are safeguarded from injury and plant is protected from damage. We are world leaders in access control products called trapped-key interlocks. These separate people from hazards, such as moving machinery, and prevent dangerous operation of industrial equipment. Our second Process Safety specialism is bursting discs. These products minimise explosion risks, for example in chemical plants, protecting workers and capital investment, and preventing environmental pollution. Customers for Process Safety products range from one-man businesses to multinational corporations; the markets are global. Based in the UK, the US, Mainland Europe and Australia, our Process Safety companies generated 12% of Group turnover and 13% of operating profit* in 2004/05.

Overall sectoral performance was in line with the prior year. Bursting disc sales moved significantly ahead, benefiting from last year's reorganisation and investment. Interlock sales in the US and France were disappointing although in the UK and the rest of Europe they grew modestly. Our growth strategy in this sector centres on increasing sales of our established technologies into the new markets of the developing world, where increased safety awareness and health and safety legislation is following industrial expansion. We aim to maintain our position of niche market leadership in the mature industrial markets through innovative new products and new applications.

The oil and gas business is an important market where our products safeguard exploration, production and refining operations worldwide. We are the world leader in valve interlock control systems and satisfy a significant percentage of total world demand. With steady global economic development, demand for oil and gas will continue to rise, with production set to double by 2020. Gas flaring, where gas from oil wells is simply burned, will be outlawed worldwide by 2008 and new infrastructure projects should underwrite long-term market growth.

In the general industrial market, sales and profit growth will be achieved by product innovation and penetration of new markets. The Chinese process safety market is growing, but not as fast as more developed parts of Eastern Europe. Our Salvo safety system is an example of product innovation and entry into a completely new market. This product ensures that a vehicle cannot leave a loading bay until it is safe to do so, preventing potentially fatal accidents to fork-lift operators. Salvo has generated substantial sales in its first year, in a market sector with significant potential.

With double-digit profit growth our bursting disc businesses had an excellent year. Further growth will come from extending sales into high growth markets in Eastern Europe and Asia.

A slowdown or reverse in global economic development, or slow adoption of health and safety legislation in Eastern Europe and Asia, could delay progress in this sector, as could a downturn in key markets. However, we believe that prospects for steady growth in this sector still exist. With continued global economic development, and rapid industrial development in the enlarged EU and China, the longer term market drivers remain.

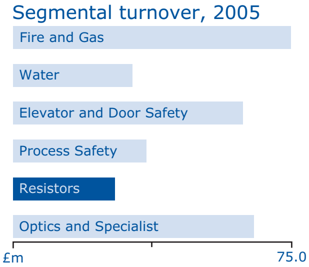
Our valve interlocks help ensure that oil and gas plants are operated safely.

Operating Review – Resistors

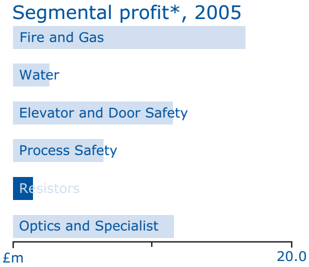
Resistors turnover

Resistors profit*

Segmental turnover, 2005



Segmental profit*, 2005



*before interest, tax and goodwill amortisation – see Note 1 on the Accounts

Sector Overview

Our high power resistors are used to dissipate excess electrical energy, control the speed of large electric motors, protect electrical power distribution systems from damage and for electrical safety.

The combined engineering and marketing resources of our five businesses in this sector make us the world leader in power resistors. Our customers in this sector are mainly in power generation, the process industries and transit systems manufacturers. Large contracts, won via competitive tendering, account for a higher than average proportion of sales. Based in the US, Canada, Australia and the UK, our Resistor businesses contributed 9% of Group sales and 3% of operating profit* in 2004/05.

While overall sales edged 7% ahead in this sector, profits fell back. This was partly due to a steep rise in stainless steel raw materials costs. We were able to increase prices, but part of the steel price rise had to be absorbed and margins suffered. Together with the impact of unfavourable exchange rate movements, these factors hindered any underlying profit progress. Our long-term goal of reducing dependency on the US market by increasing the proportion of US export sales is succeeding. Resistor exports rose by 40% in 2004/05 and non-US sales now contribute 51% of sectoral sales.

A major growth target is the development of new markets and products to safeguard workers and protect capital equipment from damage caused by electrical earth faults. Recognition of the danger posed by earth faults is growing among heavy electrical users and our products are the most efficient method of mitigating this hazard. A positive trend is the adoption of this technology in hospitals and data centres. Sales into this market rose 15% in 2004/05 and we sold earth fault protection systems into South East Asia for the first time.

During 2004/05 sales of transit resistors, which are used to control braking on locomotives and trams, generated poor margins. We took action to cut overheads and increase manufacturing efficiency by consolidating all transit resistor production at a single US location. However, a combination of competitive pricing and margin volatility due to unpredictable raw material costs has made this niche market relatively unattractive. We may consider withdrawing from transit resistor production during 2005.

A market targeted for growth two years ago, braking resistors on the huge trucks used to transport ore in open-cast mines, is now generating significant sales. We are now the established leader in the replacement aftermarket and we are working with several truck makers to become the original equipment supplier too.

We plan to maintain sales growth in 2005/06, focussing on the launch of innovative dynamic braking and electronic ground fault relay products. We will also aim to grow sales of filter resistors which are used by power companies to control the quality of their electrical supplies. Our primary geographical growth target is Asia, particularly China where we have established a local partnership.

While returns and prospects for Resistors are still good by peer standards, the sector is under particular scrutiny as part of our normal strategic reviews.

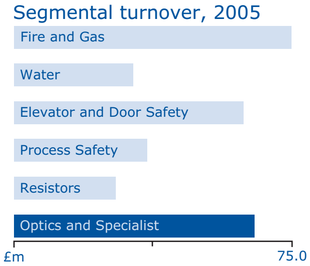
Internet switching and data centres are a growing market for our resistor systems.

Operating Review – Optics and Specialist

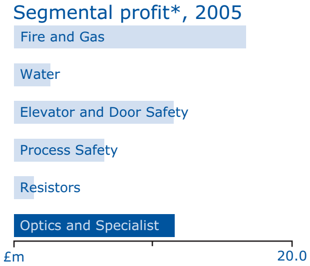
Optics and Specialist turnover

Optics and Specialist profit*

Segmental turnover, 2005



Segmental profit*, 2005



*before interest, tax and goodwill amortisation – see Note 1 on the Accounts

Sector Overview

We are world leaders in two areas of optical technology. We make ophthalmic instruments and special lenses for the medical market. These test eyesight, diagnose ocular disease and enable eye surgery. Our second optical specialism is electro-optical instruments (spectrometers) mainly used for colour measurement and material analysis. We sell our optical products into global markets and exports are a high proportion of sales. Our other main focus in this sector is on high precision, miniature fluid control products used in analytical instrumentation. These fluid technology products are sold primarily to high tech instrument manufacturers. Based in the US and the UK our Optics and Specialist companies contributed 22% of Group turnover and 23% of operating profit*.

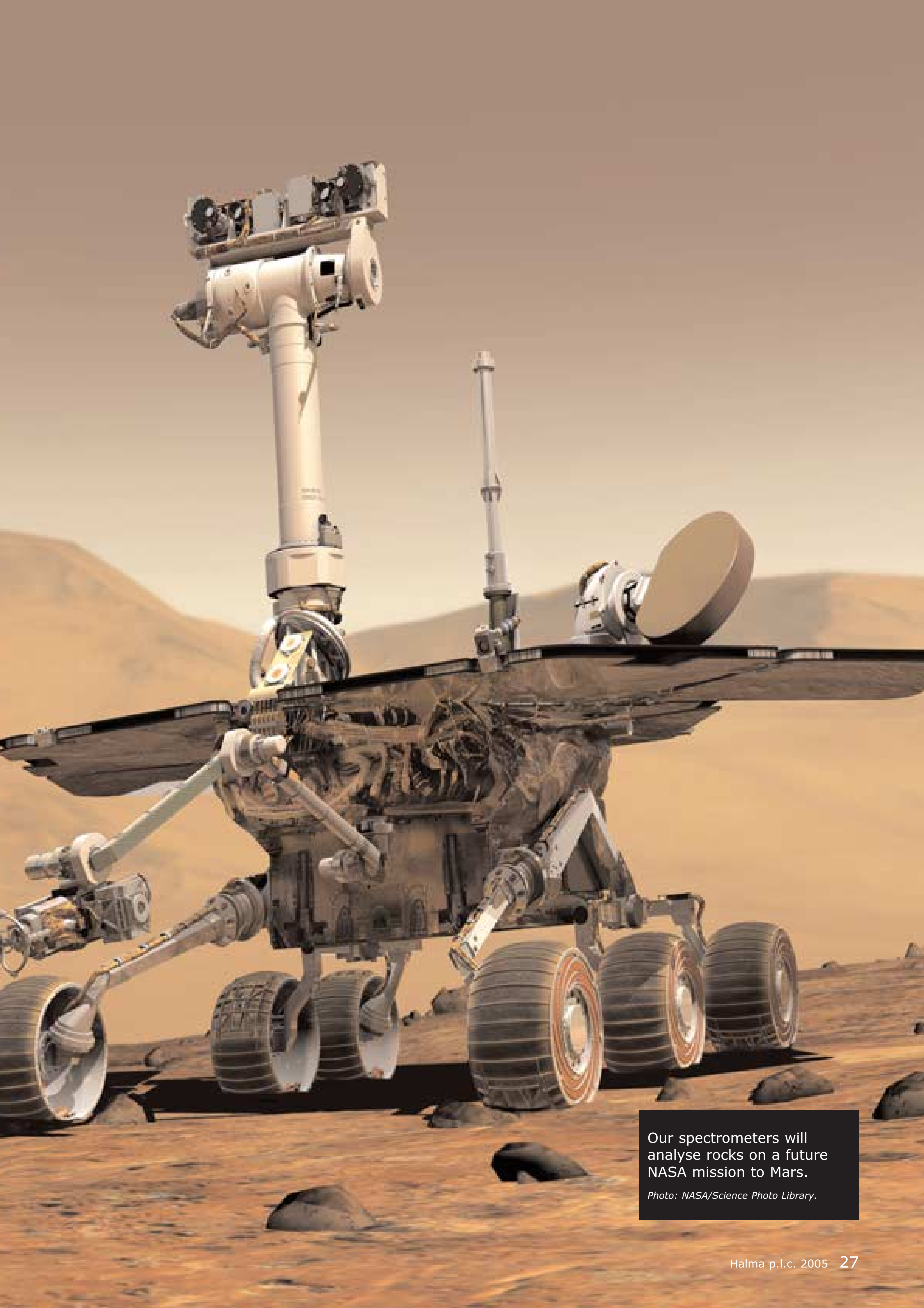
The Optics and Specialist businesses produced excellent results, establishing new sales and profit records. Overall sectoral profit growth was reduced by increased corporate management charges which are included as part of this sector and a lower level of performance from certain Specialist businesses.

Our ophthalmic optics companies benefited from market expansion due to global population growth and produced strong results. Export sales grew significantly; future export growth is targeted on Asia. Ophthalmic lens sales produced record profits, aided by a very successful new product launch. Demand for ophthalmic instruments was boosted by a new cordless, battery-powered indirect ophthalmoscope. A unique product, it continues to sell very well in the US, its target market. Close relationships with leading ophthalmologists help us develop new products that complement medical advances.

Our fluid technology companies maintained growth in core markets and in new applications, delivering record sales. The primary market, life science instrumentation, continues to grow in the high single digit range. We expect this growth pattern to continue, driven by increased testing and discovery requirements due to increases in population, and both pharmaceutical and biotech research. During 2004/05 the United States Postal Service completed installation of biological hazard detection equipment containing our components, creating an ongoing spares business. The acquisition of Diba Industries in May 2004 strengthened our presence in this market. The company continues to perform to expectations and recently won an important contract to supply a world-leading manufacturer of blood analysis instruments, with deliveries starting in 2005/06.

Since its acquisition in June 2004, spectrometer manufacturer Ocean Optics has achieved record sales and profits, exceeding expectations at the time of acquisition. Strong growth continued in all export markets, including Europe and Japan. This company has maintained its market position of "disruptive innovator", extending the analytical capability of its core product line.

During 2004/05 we launched an unrivalled optical colour changing system for theatrical and entertainment industry lighting based on patented thin film coating technology. Significant sales were achieved into research laboratories of products based on an advanced analytical technique which uses lasers to vaporise samples for analysis. The product line is now being developed for volume production to open up this market in 2005/06. Our spectrometers will be built into a forthcoming NASA space project designed to search for signs of life on the planet Mars.



Our spectrometers will analyse rocks on a future NASA mission to Mars.

Photo: NASA/Science Photo Library.

Report of the Directors

The Directors present their annual report on the affairs of the Group, together with the Accounts and the Independent Auditors' Report, for the 52 weeks to 2 April 2005.

Activities

Halma p.l.c. is a holding company. A list of its principal subsidiary companies and their activities is set out on pages 78 and 79.

Results of the period

The Consolidated Profit and Loss Account for the 52 weeks to 2 April 2005 is set out on page 48. The Group profit before taxation, goodwill amortisation and exceptional items is £50,389,000 (2003/04: £50,284,000). The profit after taxation amounts to £29,358,000 (2003/04: £22,322,000).

Ordinary dividends

The Directors will submit a resolution at the Annual General Meeting proposing a final dividend of 3.92p per share and if approved this dividend will be paid on 24 August 2005 to ordinary shareholders on the register at the close of business on 22 July 2005. Together with the interim dividend of 2.58p per share already paid, this will make a total of 6.5p per share for the financial year.

Review

A review of activities together with business and future developments is included on pages 4 to 12 and 16 to 27 inclusive.

Share capital

Details of share capital issued in the financial year are set out in note 19 on the Accounts.

Performance share plan

The Directors will propose a resolution at the Annual General Meeting recommending the approval and adoption of a Performance Share Plan ("PSP"), details of which are contained in the circular which has been sent to shareholders.

Allotment authority

The special business of the Annual General Meeting includes a special resolution to disapply Section 89(1) of the Companies Act 1985 with respect to certain allotments. The effect of this special resolution, if approved, will be to give the Directors authority until the date of the next Annual General Meeting, firstly to issue shares to employees under share schemes previously approved in general meeting, and secondly, to allot up to 5% of the issued ordinary share capital for cash otherwise than pro-rata to existing shareholders.

Purchase of own shares

The Company was authorised at the 2004 Annual General Meeting to purchase up to 36,000,000 (approximately 10%) of its own 10p ordinary shares in the market. This authority expires at the end of the 2005 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 the next Annual General Meeting. The Directors consider it desirable that the possibility of making such purchases, under appropriate circumstances, is available. If the Performance Share Plan is approved, the Directors intend to make routine purchases of Halma shares in the market and hold them in treasury until required for shares that vest under the PSP. 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.

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 2 April 2005 the Company's trade creditors represented 34 days (2004: 35 days) of its annual purchases.

Employees

Matters which affect the Group are communicated to employees through formal and informal meetings, internal announcements, the Group Intranet, the Group bulletin board on our secure Virtual Private Network (VPN) and regular contact with Directors and Divisional Chief Executives.

An employee share scheme is open to all UK employees of the Group following a qualifying period and has been operating since 1980.

The Company is an equal opportunity employer with particular reference to non-discrimination and non-harassment on the basis of ethnic origin, religion, gender, age, disability and sexual orientation. Halma gives disabled people the same consideration as other individuals.

Directors' remuneration

The Directors support shareholders approving the remuneration of Directors as set out in the Report on Remuneration on pages 39 to 45. An ordinary resolution will be proposed at the Annual General Meeting seeking such shareholder approval.

Corporate responsibility

The Group's Corporate Responsibility report is set out on pages 31 to 33.

Research and development

Group companies have continuous research and development programmes established with the objective of the improvement of their product ranges and increasing the profitability of their operations.

Donations

Group companies made charitable donations amounting to £11,913 (2003/04: £9,923) during the financial year. There were no political donations (2004/05: £nil).

Directors

The Directors of the Company are listed on page 13. Brief biographies are set out on page 14.

Mr S R O'Shea retired from service with the Group and resigned as a Director and Group Chief Executive on 28 February 2005. Following the resignation of Mr O'Shea, Mr A J Williams, who was appointed a Director on 13 July 2004, was appointed Group Chief Executive with effect from 28 February 2005.

Directors proposed for re-election

Mr K J Thompson, Mr N Quinn and Mr E G Unwin retire by rotation and being eligible offer themselves for re-election.

Mr A J Williams, who joined the Board between the date of issue of the Notice of Meeting and the last Annual General Meeting, retires under Clause 95 of the Articles of Association and being eligible offers himself for re-election.

Shareholdings

As at 10 June 2005 the Company has been notified under Section 198 of the Companies Act 1985 of the following notifiable holdings of the Company's ordinary shares:

	shares	per cent
Silchester International Investors Limited	65,887,378	17.8
Sprucegrove Investment Management Limited	25,267,545	6.8
Legal & General Investment Management Limited	12,320,633	3.3

No other notification has been received in respect of a holding of 3% or more of the Company's ordinary share capital.

Auditors

Resolutions will be proposed at the Annual General Meeting to re-appoint Deloitte & Touche LLP as Auditors and to authorise the Directors to determine their remuneration.

By Order of the Board
C T Chesney Secretary
Misbourne Court Rectory Way Amersham Bucks HP7 0DE
21 June 2005

Corporate Responsibility Report

Socially 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 and business partners.

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.

In each of the following areas, the 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.

The environment

In response to the December 2004 South East Asian tsunami, Hanovia directed its efforts into converting existing technology designed for fixed installations into a standalone UV water disinfection system. UV water disinfection systems are particularly effective in killing cholera and typhoid bacteria and other water-borne bacteria and viruses that may be immune to chlorine. The system is fully portable and can be used to provide primary disinfection of contaminated water or be used as a point-of-use disinfection barrier from storage tanks. It can produce up to 6 tonnes per hour of low quality filtered drinking water. It may also be combined with chemical treatment to provide multi-barrier disinfection. The first system was donated to Mercy Malaysia for use at an Internally Displaced Person camp in Banda Aceh province.

Across the Group we continue to operate programmes, where commercially viable, to ensure the responsible disposal of packaging, including the re-use and recycling of all packaging types and, where necessary, the use of licensed contractors to dispose of non-recyclable waste packaging safely.

Within Halma, 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 fibre optic spectrometers. 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.

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

A senior executive in each of our business units is responsible for implementing the environmental policy at local level. The Group Finance Director, Mr K J 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 are developing performance indicators that will assist local management in implementing the policy and developing an EMS. The requirement for an EMS and the related

The BEA group of companies has always sought to minimise the environmental impact of their buildings. This objective was designed into BEA SA's main facility in Liège, which already uses collected rainwater for everything other than drinking water, and heat exchangers to minimise the energy needed to heat and cool the building. During this year the technologies used in the heating and lighting systems of the building have been further upgraded to improve their energy efficiency. These kinds of initiatives to reduce energy use, applied across the Group, lead to the double benefits of lower environmental impact and lower costs.

Demonstrating the Group's commitment to ensure all companies comply with applicable regulations, Apollo Fire Detectors is now well advanced in its compliance plan for the Waste Electrical and Electronic Equipment ('WEEE') Directive that comes into force in August 2005. Apollo will be introducing new product labelling this year to meet its immediate obligations under the WEEE Directive and is arranging to join a collaborative compliance scheme early next year by which Apollo can offer its customers a simple product return service.

reporting has been rolled out to all UK business units which represent over 50% of Group production facilities in terms of external turnover. All Group companies are encouraged to undertake ISO 14001, the international environmental standard, accreditation where warranted. During the year, Fortress Interlocks obtained ISO 14001 approval. The requirement to implement an EMS will be extended to the rest of the Group in the medium term.

Our impacts

We support the concept of sustainability and recognise that, in common with all businesses, our activities have an environmental impact. Our products do not require capital-intensive manufacturing processes, so the environmental effect of our operations is relatively low compared to manufacturers in other sectors.

During the year, the Group successfully introduced an Innovation Initiative which encourages the research and development teams at each Group company to re-examine their product designs with a view to being more efficient and effective using components which are more environmentally acceptable. The winning team in 2004 comprised Roger Copeland, Duncan Johnson and Stan Ramage from Volumatic whose Compact Counter Cache product development was voted, by a peer group, as the most successful product innovation of the year.

Group companies are encouraged to improve energy efficiency, reduce waste and emissions and to reduce the use of materials in order to reduce their environmental impact. The Group carried out an exercise in 2004/05 to establish baseline data on emissions to air and water, water and energy consumption and waste production. The data collected will enable the Group to set objectives for reducing its environmental impacts in those areas and to look at setting targets for reduction in key areas. The Group plans to publish the results of this exercise on its website in July 2005.

The baseline data has confirmed that the main areas of impact on the environment are energy consumption and waste disposal. The Group does not operate a fleet of distribution vehicles although we do own a number of company cars. Few of our assembly processes require water, so there are not large quantities of waste water to manage.

After the results of the 2004/05 exercise are analysed and targets have been set in key areas of environmental impact, the Group is committed to examining the establishment of "green" procurement policies.

The Group's environmental performance will continue to be reported in both the Annual Report and on our website.

Health and safety

The Group recognises the necessity of safeguarding the health and safety of our own employees whilst at work and operates so as to provide a safe and comfortable working environment for employees, visitors and the public. The Group has a health and safety policy, which is set out on the Company's website. It is the Group's policy to manage its activities to avoid causing any unnecessary or unacceptable risks to health and safety. The policy is understood by all Group companies. 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. Health and safety training is carried out within companies as appropriate. Adequate internal reporting exists in order that the Group Finance Director may monitor each company's compliance with this policy.

The Group has collected details of its worldwide reported health and safety incidents which will be available on its website in July 2005.

Ethics

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

FTSE4Good index

Halma was designated a member of the FTSE4Good UK index on its establishment in July 2001. The FTSE4Good index measures and benchmarks the performance of companies with good records of corporate social responsibility and aids investors who use socially responsible investment criteria. The FTSE4Good Selection Criteria cover three areas: working towards environmental sustainability; developing positive relationships with stakeholders; and upholding and supporting universal human rights.

Business in the community

Halma participated in the 2004 Environment Index for the first time signalling the Group's commitment to integrating environmental considerations into the way that the Group is operated.

Corporate Governance

The Board is committed to the maintenance of high standards of Corporate Governance. The policy of the Board is to manage the affairs of the Company in accordance with the principles of corporate governance contained in the Combined Code on Corporate Governance which is appended to the Listing Rules of the Financial Services Authority and for which the Board is accountable to shareholders.

Compliance with the code of best practice

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

Application of the principles of good governance

The Group is controlled and directed by a Board consisting of a Chairman, four executive Directors and three non-executive Directors. Their biographies appear on page 14. The Board considers the Chairman and each of the non-executive Directors to be independent. In assessing independence, the Board considers that the Chairman and non-executive Directors are independent of management and free from business and other relationships which could interfere with the exercise of independent judgment now and in the future. The Board believes that any shareholdings of the Chairman and non-executive Directors serve to align their interests with those of all shareholders. Mr Stone is acknowledged as the Senior Independent Director. Upon appointment and at regular intervals, all Directors are offered appropriate training. Each Director is subject to re-election at least every three years.

The Directors retain responsibility for the formulation of corporate strategy, investment decisions, and treasury and risk management policies. There is a formal schedule of matters reserved for the Board's decision and the Board meets at least six times each year with further ad hoc meetings as required. Directors are issued an agenda and comprehensive board papers in the week preceding each Board Meeting. All Directors have access to the advice and services of the Company Secretary as well as there being an agreed procedure for obtaining independent professional advice.

Board and committee meeting attendance

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

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

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

Committees of the Board

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

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

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

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

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

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

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

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

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

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

Board effectiveness

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

Investor relations

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

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

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

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

The Financial Calendar is set out on page 80.

Going concern

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

Internal control

The Board of Directors has overall responsibility to the shareholders for the Group's system of internal control and responsibility for reviewing its effectiveness has been delegated to the Audit Committee. Any system of internal control can provide only reasonable but not absolute assurance against material misstatement or loss.

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

The Group's external auditors, Deloitte & Touche LLP, have audited the financial statements and have reviewed the internal financial control systems to the extent they consider necessary to support their audit report.

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

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

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

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

- Operating companies carry out a detailed risk assessment each year and identify mitigating actions in place or proposed for each significant risk. A risk register is compiled from this information, against which action is monitored through to resolution. In addition, Divisional Chief Executives carry out an independent risk assessment for each operating company. A review of Group risks is also conducted.
- Each month the board of each operating company meets, discusses and reports on its operating performance, its opportunities, the risks facing it and the resultant actions. The relevant Divisional Chief Executive chairs this meeting. Divisional Chief Executives meet regularly with the Group Chief Executive and Group Finance Director and report progress to the Executive Board.
- A set of "warning signs" which are specifically relevant to every Halma operating company has been developed and these are reported and monitored each month with actions taken at senior level where required.
- The Group Chief Executive submits a report to each Halma p.l.c. Board meeting which includes financial information, the main features of Group operations and an analysis of the significant risks facing the Group at that time.
- Cyclical internal control visits are carried out by senior finance staff resulting in actions fed back to each company and followed up by Divisional Finance Directors and Divisional Chief Executives with the feedback process having been further strengthened during the year; visit reports are coded in terms of risk with any significant control failings reported directly to the Audit Committee and a summary of all such visits reported to the Audit Committee regularly; senior finance staff also carry out financial reviews at each operating company prior to publication of half year and year end figures.
- The Group Finance Director and Group Chief Executive report to the Audit Committee on all aspects of Internal Control for its review. The Board receives the minutes of the Audit Committee meetings and uses these as a basis for its annual review of internal control.

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

Auditor independence

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

Report on Remuneration

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

Remuneration Committee

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

The Committee makes recommendations to the Board on the framework for executive remuneration based on proposals formulated by the Group Chief Executive and determines the terms of service and remuneration of executive Directors and senior executives. The Committee's Terms of Reference, which are available from the Company Secretary on request, include:

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

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

The Committee has appointed Ernst & Young LLP to advise on certain aspects of executive remuneration. This firm did not provide any other services to the Company during the year.

Remuneration policy

The policy on Directors' Remuneration is to provide the remuneration packages necessary to attract, retain and motivate Directors of the quality required to run the Group successfully, manage the business of the Group and to align the interests of the Directors with those of the shareholders. In determining such packages, the Committee considers whether members of the executive management of the Group are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Group.

In accordance with rule 12.43A(c) of the Listing Rules of the Financial Services Authority the Board presents its Report on Remuneration to the shareholders. The Board confirms that when determining the remuneration policy for executive Directors for 2004/05 full consideration was given to the Combined Code appended to the Listing Rules of the Financial Services Authority.

Basic salary and benefits

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

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

Share plans

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

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

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

The granting of options was spread over the life of the plan. Executive Directors received a triennial award of 'A' options, an annual award of 'B' options and the possibility of further 'A' options under the Performance Related Bonus Scheme.

Performance related bonus scheme

This scheme, which applies to executive Directors and Divisional Chief Executives, is reviewed annually by the Remuneration Committee and approved by the Board. Without approval of this scheme there is no alternative bonus arrangement for Directors and Divisional Chief Executives. During the year the Remuneration Committee carefully reconsidered existing bonus arrangements and determined that incentive levels are appropriately set.

In the case of a Divisional Chief Executive a bonus would be earned if the profit of the Division for which he is responsible exceeds a target calculated from the profits of the three preceding financial years. The profits calculated for this purpose regard each Division as a stand-alone group of companies charging it with the cost of capital it utilises including the cost of acquisitions.

For the Group Chief Executive and Group Finance Director, bonuses are calculated as above but based on the aggregated profit of the Divisions exceeding a target calculated from the profits of the Divisions for the three preceding financial years.

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

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

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

Directors' remuneration

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

+to date of resignation, see below
*from date of appointment

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

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

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

Pension benefits

The executive Directors participate in the appropriate section of the Halma Group Pension Plan. This section is a funded, Inland Revenue approved, final salary occupational pension scheme, which provides a pension equal to the lower of two-thirds of final pensionable salary and the Inland Revenue maximum pension at normal pension age (60). Pensionable salary is the greatest salary of the last three complete tax years immediately before retirement or leaving service. Bonuses and other fluctuating emoluments and benefits in kind are not pensionable. The scheme also provides for life cover of three times pensionable salary, pensions in the event of early retirement through ill health and dependants' pensions of one-half of the member's prospective pension. Early retirement pensions, possible from age 50 with the consent of the Company and the Trustees of the Halma Group Pension Plan, are subject to actuarial reduction. Pensions in payment increase by 3% per annum for service up to 5 April 1997 and by price inflation thereafter subject to a maximum of 5%.

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

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

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

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

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

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

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

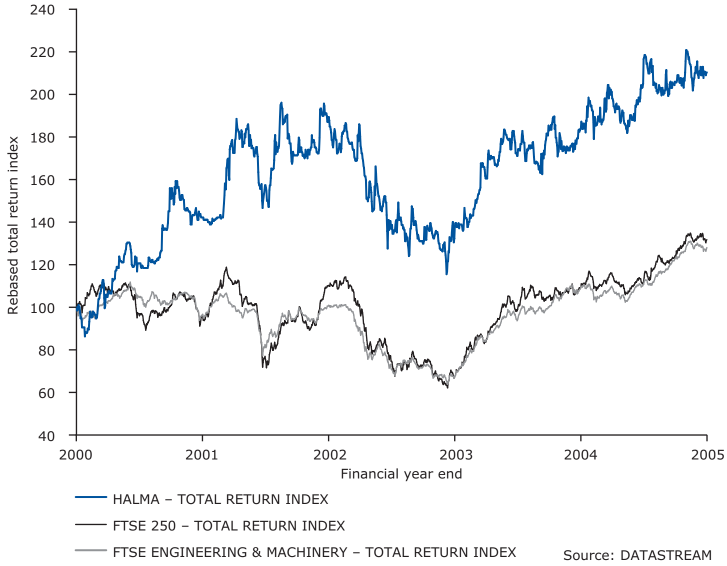
The transfer values disclosed above do not represent a sum paid or payable to the individual Director. Instead they represent a potential liability of the pension scheme.

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

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

Total shareholder return

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



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

Directors' interests in shares

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

	Shares 2.4.05	Shares 3.4.04
E G Unwin	38,250	38,250
A J Williams	19,493	–*
K J Thompson	60,857	49,749
N Quinn	43,586	33,788
R A Stone	5,000	5,000
K J Roy	744,587	744,587
A J Walker	5,500	35,714
S R Pettit	2,000	1,000

*as at date of appointment

There are no non-beneficial interests of Directors.

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

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

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

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

There were no share option lapses during the financial year.

The gains are calculated by deducting the exercise price from the closing middle market price at the date of exercise or the actual gross sales proceeds if appropriate.

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

Details of Directors' options outstanding at 2 April 2005 are set out in the table below. The status of the options can be summarised as follows:

1 Exercisable at that date at a price less than 161p

2 Not yet exercisable, will only be exercisable when the performance criteria, set out on note 19, have been met and have an exercise price per share of less than 161p.

3 Not yet exercisable, will only be exercisable when the performance criteria, set out on note 19, have been met and have an exercise price per share of greater than 161p.

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

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

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

Service contracts

It is the Company's policy that executive Directors have contracts with an indefinite term up to the normal retirement age of 60 and providing for a maximum of one year's notice. There are no exceptions to this policy. None of the contracts has pre-determined compensation clauses in the event of early termination. The Board and the Remuneration Committee confirm that these contracts are appropriate.

Chairman and non-executive Directors

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

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

The non-executive Directors do not have service contracts.

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

By Order of the Board

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

Responsibilities of the Directors

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

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

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

The Directors consider that, in preparing the financial statements on pages 48 to 73 and the disclosures on pages 39 to 45 relating to the remuneration of the Directors, appropriate accounting policies have been used, which have been consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

Independent Auditors' Report

To the Members of Halma p.l.c.
We have audited the financial statements of Halma p.l.c. for the 52 weeks to 2 April 2005 which comprise the Consolidated Profit and Loss Account, the Balance Sheets, the Consolidated Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the reconciliation of Movements in Equity Shareholders' Funds together with the statement of Accounting Policies and the related Notes numbered 1 to 26. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members on 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 described in the statement of Directors' Responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards. They are also responsible for the preparation of the other information contained in the Annual Report including the Directors' Remuneration Report. Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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

We review whether the Corporate Governance statement reflects the Company's compliance with the nine provisions of the July 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Directors' Report and the other information contained in the Annual Report for the above period as described in the contents section including the unaudited part of the Directors' Remuneration Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

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

Opinion
In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 2 April 2005 and of the profit of the Group for the 52 week period then ended; and
- the financial statements and part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Reading
21 June 2005

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

Consolidated Profit and Loss Account

£000

	Notes	52 weeks to 2 April 2005 Before goodwill amortisation and exceptional items	Goodwill amortisation and exceptional items	Total	53 weeks to 3 April 2004 Before goodwill amortisation and exceptional items	Goodwill amortisation and exceptional items	Total
Turnover	1						
Continuing operations		277,505	–	277,505	279,611	–	279,611
Acquisitions		21,614	–	21,614	–	–	–
Ongoing operations		299,119	–	299,119	279,611	–	279,611
Discontinued operations		–	–	–	13,029	–	13,029
		299,119	–	299,119	292,640	–	292,640
Operating profit	3						
Continuing operations		45,774	(4,280)	41,494	50,422	(4,209)	46,213
Acquisitions		4,570	(1,211)	3,359	–	–	–
Ongoing operations		50,344	(5,491)	44,853	50,422	(4,209)	46,213
Discontinued operations		–	–	–	(370)	(11)	(381)
		50,344	(5,491)	44,853	50,052	(4,220)	45,832
Exceptional items	4						
Loss on sale of businesses		–	–	–	–	(3,394)	(3,394)
Associated goodwill		–	–	–	–	(5,755)	(5,755)
Loss on disposal of discontinued operations		–	–	–	–	(9,149)	(9,149)
Profit on ordinary activities before interest and taxation		50,344	(5,491)	44,853	50,052	(13,369)	36,683
Interest	7	45	–	45	232	–	232
Profit on ordinary activities before taxation	1	50,389	(5,491)	44,898	50,284	(13,369)	36,915
Taxation	8	(15,699)	159	(15,540)	(15,727)	1,134	(14,593)
Profit for the financial year		34,690	(5,332)	29,358	34,557	(12,235)	22,322
Ordinary dividends	9			(24,015)			(22,725)
Profit/(loss) transferred to/(from) reserves	10			5,343			(403)
Earnings per ordinary share before goodwill amortisation and exceptional items	2			9.42p			9.44p
Earnings per ordinary share	2			7.97p			6.09p
Diluted earnings per ordinary share	2			7.96p			6.09p

The notes on pages 53 to 73 form part of these Accounts.

Consolidated Balance Sheet

£000

	Notes	At 2 April 2005	At 3 April 2004
Fixed assets			
Intangible assets	11	94,848	71,425
Tangible assets	12	48,896	47,139
		143,744	118,564
Current assets			
Stocks	13	35,502	31,208
Debtors	14	69,062	67,080
Short-term deposits		35,581	33,898
Cash at bank and in hand		9,767	14,584
		149,912	146,770
Creditors: amounts falling due within one year			
Borrowings	15	33,344	26,934
Creditors	16	53,399	44,394
Current taxation		5,137	5,563
Dividends payable		14,457	13,762
		106,337	90,653
Net current assets		43,575	56,117
Total assets less current liabilities		187,319	174,681
Creditors: amounts falling due after one year	17	5,535	1,254
Provisions for liabilities and charges	18	6,186	6,067
		175,598	167,360
Capital and reserves			
Called up share capital	19	36,880	36,677
Share premium account	10	10,111	7,768
Capital redemption reserve	10	185	185
Profit and loss account	10	128,422	122,730
Equity shareholders' funds		175,598	167,360

Approved by the Board of Directors on 21 June 2005

E G Unwin K J Thompson Directors

HALMA

Statement of Total Recognised Gains and Losses £000

	2005 52 weeks	2004 53 weeks
Profit for the financial year	29,358	22,322
Other recognised gains and losses		
Exchange adjustments	349	(2,799)
Recognised gains and losses relating to the year	29,707	19,523

Movements in Equity Shareholders' Funds

	Notes	2005 52 weeks	2004 53 weeks
Profit for the financial year		29,358	22,322
Dividends		(24,015)	(22,725)
Profit/(loss) transferred to/(from) reserves	10	5,343	(403)
Total other recognised gains and losses		349	(2,799)
Net proceeds of shares issued		2,546	1,521
Goodwill transferred to the Consolidated Profit and Loss Account in respect of businesses sold		–	5,595
Increase in equity shareholders' funds		8,238	3,914
Equity shareholders' funds brought forward		167,360	163,446
Equity shareholders' funds carried forward		175,598	167,360

Consolidated Cash Flow Statement

£000

	Notes	2005 52 weeks	2004 53 weeks
Cash flow from operating activities	23	60,316	59,782
Return on investments and servicing of finance			
Interest received		1,086	952
Interest paid		(889)	(731)
		197	221
Taxation			
Current taxation paid		(14,494)	(14,093)
Capital expenditure			
Purchase of tangible fixed assets		(9,419)	(9,686)
Sale of tangible fixed assets		418	1,004
		(9,001)	(8,682)
Acquisitions and disposals			
Acquisition of businesses	23	(25,026)	(2,947)
Cash acquired		1,490	–
Disposal of businesses		(1,681)	4,567
		(25,217)	1,620
Equity dividends paid		(23,320)	(21,855)
		(11,519)	16,993
Management of liquid resources			
Increase in short-term deposits	23	(1,663)	(19,662)
Financing			
Issue of ordinary share capital		2,546	1,521
Increase in loans		5,764	2,683
		8,310	4,204
(Decrease)/increase in cash	23	(4,872)	1,535

Halma p.l.c. Balance Sheet

£000

	Notes	At 2 April 2005	At 3 April 2004
Fixed assets			
Tangible assets	12	4,191	3,136
Investments	21	48,967	40,959
		53,158	44,095
Current assets			
Debtors	14	133,867	124,042
Short-term deposits		22,950	32,410
Cash at bank and in hand		90	–
		156,907	156,452
Creditors: amounts falling due within one year			
Borrowings	15	33,104	26,758
Creditors	16	24,074	21,376
Current taxation		849	1,138
Dividends payable		14,457	13,762
		72,484	63,034
Net current assets		84,423	93,418
Total assets less current liabilities		137,581	137,513
Creditors: amounts falling due after one year	17	1,266	1,157
Provisions for liabilities and charges	18	–	294
		136,315	136,062
Capital and reserves			
Called up share capital	19	36,880	36,677
Share premium account	10	10,111	7,768
Capital redemption reserve	10	185	185
Profit and loss account	22	89,139	91,432
Equity shareholders’ funds		136,315	136,062

Approved by the Board of Directors on 21 June 2005

E G Unwin K J Thompson Directors

Accounting Policies

Basis of accounting
The accounts set out on pages 48 to 73 are prepared under the historical cost convention and comply with applicable United Kingdom Accounting Standards. The principal Group accounting policies have been applied consistently throughout the current and preceding year and are described below. The accounts also reflect the transitional requirements of FRS 17 (Retirement Benefits).

Basis of consolidation
The consolidated accounts include the accounts of Halma p.l.c. and its subsidiary companies made up to 2 April 2005. The results of subsidiary companies acquired are included from the month of acquisition.

Acquisitions
Fair values are ascribed to tangible assets and liabilities of subsidiary companies and businesses at the dates of acquisition and the resultant goodwill is capitalised as an intangible asset. Prior to 28 March 1998 any goodwill surplus or deficiency was taken to reserves as a matter of accounting policy.

Intangible assets
Goodwill arising on acquisitions after 28 March 1998 is capitalised and is classified as an intangible asset in the Consolidated Balance Sheet. Goodwill arising on acquisitions prior to that date was written off to reserves, and would be included in the determination of profit or loss arising from the sale or closure of the business to which it relates. Capitalised goodwill is amortised through the Consolidated Profit and Loss Account on a straight line basis over its estimated economic life of 20 years.

Foreign currencies
Transactions in foreign currency are recorded at the rate of exchange at the date of the transaction unless matched by a forward currency contract. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates prevailing at that date, or, where appropriate, at the forward currency contract rate. Any gain or loss arising from subsequent exchange rate movements is included as an exchange gain or loss in the Consolidated Profit and Loss Account.

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. Exchange gains or losses arising on these translations, together with those on foreign currency borrowings which are taken out to hedge the Group’s overseas investments, are taken to the Statement of Total Recognised Gains and Losses.

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

Investments
Investments are stated at cost less provision for impairment.

Tangible fixed assets and depreciation

Tangible 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 tangible fixed assets on the straight line method, each item being written off over its estimated life. The principal annual rates used for this purpose are:

Freehold buildings	2%
Leasehold properties –	
more than 50 years unexpired	2%
less than 50 years unexpired	Period of lease
Plant, machinery and equipment	8% to 20%
Motor vehicles	20%
Short-life tooling	33⅓%

Leases

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

Pensions

The Group makes contributions to various pension schemes, covering the majority of its employees, which are charged against profits on a systematic and rational basis over the period during which benefit is derived from the service. Any differences between this charge and amounts payable to the schemes are recorded as provisions or prepayments as appropriate. Actuarial valuations of defined benefit schemes are performed at least triennially.

Research and development

Expenditure on research and development is written off in the financial year in which it is incurred.

Stocks

Stocks and work in progress of subsidiary companies are included at the lower of cost and net realisable value. Cost includes the appropriate proportion of production and other overheads considered by the Directors to be attributable to bringing the stock to its location and condition at the year end.

Deferred taxation

The Group provides for taxation deferred because of timing differences between profits as computed for taxation purposes and profits as stated in the accounts, on an undiscounted basis. Deferred taxation 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 reasonably certain.

The principal timing differences in the Group accounts arise on the excess of tax allowances on tangible fixed assets over the corresponding depreciation charged in the accounts; and on goodwill arising in jurisdictions where it is eligible for deduction against tax, where it has been charged against reserves in the Group accounts but would be accounted for through the Consolidated Profit and Loss Account on a sale or closure of the business to which it relates.

Notes on the Accounts £000

1 Segmental analysis

Geographical analysis

	By destination 2005	By destination 2004	By origin 2005	By origin 2004
Turnover				
United Kingdom	80,374	77,534	159,756	159,462
United States of America	90,477	84,047	102,564	87,958
Europe excluding UK	74,772	70,730	43,112	43,690
Far East and Australasia	31,648	28,054	14,536	14,133
Africa, Near and Middle East	10,392	9,944	–	–
Other	11,456	9,302	3,688	2,853
Inter-segmental sales	–	–	(24,537)	(28,485)
Turnover from ongoing operations	299,119	279,611	299,119	279,611
Discontinued operations	–	13,029	–	13,029
Group turnover	299,119	292,640	299,119	292,640
Profit before taxation				
United Kingdom			26,425	26,601
United States of America			13,414	13,617
Europe excluding UK			7,039	7,111
Other countries			3,466	3,093
Ongoing operations			50,344	50,422
Discontinued operations			–	(370)
Segmental profit			50,344	50,052
Goodwill amortisation and exceptional items			(5,491)	(13,369)
Interest			45	232
Profit on ordinary activities before taxation			44,898	36,915
Net assets				
United Kingdom			41,859	41,348
United States of America			10,113	16,873
Europe excluding UK			12,033	11,494
Other countries			4,741	4,672
			68,746	74,387
Net cash			12,004	21,548
Net tangible assets			80,750	95,935
Intangible assets			94,848	71,425
Equity shareholders' funds			175,598	167,360

Notes on the Accounts continued £000

1 Segmental analysis continued

Sector analysis

	2005	2004
Turnover		
Fire and Gas	75,539	74,998
Water	32,466	34,485
Elevator and Door Safety	62,529	65,070
Process Safety	36,214	36,030
Resistors	27,699	27,195
Optics and Specialist	65,442	42,824
Inter-segmental sales	(770)	(991)
Turnover from ongoing operations	299,119	279,611
Discontinued operations	–	13,029
Group turnover	299,119	292,640
Profit before taxation		
Fire and Gas	16,713	16,621
Water	2,616	5,767
Elevator and Door Safety	11,510	12,102
Process Safety	6,503	6,579
Resistors	1,419	2,218
Optics and Specialist including holding companies	11,583	7,135
Ongoing operations	50,344	50,422
Discontinued operations	–	(370)
Segmental profit	50,344	50,052
Goodwill amortisation and exceptional items	(5,491)	(13,369)
Interest	45	232
Profit on ordinary activities before taxation	44,898	36,915
Net assets		
Fire and Gas	21,097	19,578
Water	11,424	14,279
Elevator and Door Safety	16,407	16,130
Process Safety	10,306	10,504
Resistors	7,780	7,347
Optics and Specialist including holding companies	1,732	6,549
	68,746	74,387
Net cash	12,004	21,548
Net tangible assets	80,750	95,935
Intangible assets	94,848	71,425
Equity shareholders' funds	175,598	167,360

Included within the net tangible assets of the sector described as Optics and Specialist including holding companies are holding company net assets and all of the Group's land and buildings, dividends payable, taxation (including provisions for deferred taxation) and deferred purchase consideration which in 2005 amounted to a net liability of £15,650,000 (2004: net liability of £6,513,000).

Notes on the Accounts continued £000

2 Earnings per ordinary share

Earnings per ordinary share on a statutory basis are calculated by dividing the profit for the financial year of £29,358,000 (2004: £22,322,000) by the weighted average of 368,181,035 shares in issue during the year (2004: 366,237,803).

Diluted earnings per ordinary share are calculated using the same earnings as for earnings per ordinary share, divided by 368,697,347 shares (2004: 366,686,599) which includes dilutive potential ordinary shares of 516,312 (2004: 488,796). The Company's dilutive potential ordinary shares are calculated from those exercisable share options where the exercise price is less than the average price of the Company's ordinary shares during the year.

Earnings per ordinary share before goodwill amortisation and exceptional items as presented on the Consolidated Profit and Loss Account, represents a more consistent measure of underlying performance. A reconciliation of earnings and the effect on per share figures is presented below:

			Per ordinary share	
	2005	2004	2005 p	2004 p
Earnings	29,358	22,322	7.97	6.09
Add back: goodwill amortisation (after tax)	5,332	3,880	1.45	1.07
exceptional items (after tax)	–	8,355	–	2.28
Earnings before goodwill amortisation and exceptional items	34,690	34,557	9.42	9.44

3 Operating profit

	2005	2004
Operating profit comprises:		
Turnover	299,119	292,640
Cost of sales	(208,057)	(205,118)
Gross profit	91,062	87,522
Distribution costs	(7,392)	(7,545)
Administrative expenses (including goodwill amortisation)	(39,086)	(34,320)
Other operating income	269	175
	44,853	45,832

Included in the 2005 figures above are the folllowing amounts relating to acquired operations: cost of sales £14,285,000; gross profit £7,329,000; distribution costs £217,000; administrative expenses £3,901,000 (including goodwill amortisation £1,211,000); other operating income £148,000.

Included in the 2004 figures above are the following amounts related to discontinued operations: cost of sales £11,679,000; gross profit £1,350,000; distribution costs £416,000; administrative expenses £1,315,000 (including goodwill amortisation £11,000).

3 Operating profit continued

	2005	2004
Operating profit is arrived at after charging:		
Depreciation	7,901	7,879
Goodwill amortisation	5,491	4,220
Research and development	11,763	11,242
Auditors' remuneration: Audit services	455	463
Non-audit services	58	44
Operating lease rents – property	3,261	3,138
other	446	300

Auditors' remuneration includes £68,000 (2004: £65,000) in respect of the Company. A further £193,000 (2004: £nil) of non-audit fees paid to the auditors in respect of acquisition advice have been included in cost of investments.

4 Exceptional items

Exceptional items arose in 2004 on the sale of three non-core businesses.

5 Employee information

	2005 Number	2004 Number
The average number of persons employed by the Group during the year was:		
United Kingdom	1,560	1,788
Overseas	1,442	1,137
	3,002	2,925
Group employee costs comprise:	£000	£000
Wages and salaries	68,496	68,207
Social security costs	10,684	10,137
Other pension costs (note 26)	5,115	5,095
	84,295	83,439

6 Directors' remuneration

Details of Directors' remuneration are set out on pages 39 to 45 within the Report on Remuneration and form part of these financial statements.

7 Interest

	2005	2004
Interest receivable on short-term deposits	1,080	995
Interest payable on bank loans and overdrafts	(780)	(700)
Other interest payable	(255)	(63)
	45	232

Notes on the Accounts continued £000

8 Taxation

			2005	2004
Current tax				
UK corporation tax at 30% (2004: 30%)			7,615	7,573
Overseas taxation			6,971	7,434
Adjustments in respect of prior years			(28)	(383)
Total current tax			14,558	14,624
Deferred tax				
Origination and reversal of timing differences			963	(49)
Adjustments in respect of prior years			19	18
Total deferred tax charge/(credit)			982	(31)
			15,540	14,593

Reconciliation of effective tax rate on ordinary activities:	Before goodwill amortisation and exceptional items		After goodwill amortisation and exceptional items	
	2005 %	2004 %	2005 %	2004 %
UK corporation tax rate	30.0	30.0	30.0	30.0
Higher tax rates on overseas profits	2.2	2.7	2.5	3.6
Adjustments in respect of prior years	(0.1)	(0.8)	(0.1)	(1.0)
Other timing differences	(2.4)	(2.0)	–	7.0
Current tax	29.7	29.9	32.4	39.6
Deferred tax	1.5	1.4	2.2	(0.1)
Effective tax rate	31.2	31.3	34.6	39.5

9 Ordinary dividends

	2005 p	2004 p	2005	2004
Interim paid	2.58	2.44	9,510	8,945
Final proposed	3.92	3.75	14,457	13,762
Balance of final dividend	–	–	48	18
	6.50	6.19	24,015	22,725

The accrual for the final dividend takes into account any shares issued since year end.

10 Reserves

	Share premium account	Capital redemption reserve	Profit and loss account
At 3 April 2004	7,768	185	122,730
Profit transferred to reserves	–	–	5,343
Share options exercised	2,343	–	–
Exchange adjustments	–	–	349
At 2 April 2005	10,111	185	128,422

Notes on the Accounts continued £000

11 Fixed assets – intangible assets

	Goodwill
Cost	
At 3 April 2004	84,602
Additions (note 20)	28,914
At 2 April 2005	113,516
Amortisation	
At 3 April 2004	13,177
Charge for the year	5,491
At 2 April 2005	18,668
Net book amounts	
At 2 April 2005	94,848
At 3 April 2004	71,425

12 Fixed assets – tangible assets

	Land and buildings				
Group	Freehold properties	Long leases	Short leases	Plant equipment & vehicles	Total
Cost					
At 3 April 2004	26,406	1,448	2,593	64,372	94,819
Assets of businesses acquired	–	171	–	2,478	2,649
Additions at cost	1,291	65	164	7,899	9,419
Disposals	–	–	–	(5,172)	(5,172)
Exchange adjustments	(16)	–	(16)	(314)	(346)
At 2 April 2005	27,681	1,684	2,741	69,263	101,369
Accumulated depreciation					
At 3 April 2004	4,626	350	1,452	41,252	47,680
Assets of businesses acquired	–	47	–	1,797	1,844
Charge for the year	416	112	233	7,140	7,901
Disposals	–	–	–	(4,775)	(4,775)
Exchange adjustments	(4)	–	(11)	(162)	(177)
At 2 April 2005	5,038	509	1,674	45,252	52,473
Net book amounts					
At 2 April 2005	22,643	1,175	1,067	24,011	48,896
At 3 April 2004	21,780	1,098	1,141	23,120	47,139

Notes on the Accounts continued £000

12 Fixed assets – tangible assets continued

Halma p.l.c.	Land and buildings Freehold properties	Short leases	Plant equipment & vehicles	Total
Cost				
At 3 April 2004	3,043	167	1,184	4,394
Additions at cost	1,174	–	152	1,326
Disposals	–	–	(82)	(82)
At 2 April 2005	4,217	167	1,254	5,638
Accumulated depreciation				
At 3 April 2004	543	57	658	1,258
Charge for the year	54	11	178	243
Disposals	–	–	(54)	(54)
At 2 April 2005	597	68	782	1,447
Net book amounts				
At 2 April 2005	3,620	99	472	4,191
At 3 April 2004	2,500	110	526	3,136

13 Stocks

	2005	2004
Raw materials and consumables	19,086	15,337
Work in progress	5,474	6,000
Finished goods and goods for resale	10,942	9,871
	35,502	31,208

14 Debtors

	Group 2005	Group 2004	Halma p.l.c. 2005	Halma p.l.c. 2004
Falling due within one year:				
Trade debtors	63,500	61,772	–	–
Amounts due from Group companies	–	–	132,494	122,857
Deferred taxation (note 18)	–	–	349	–
Other debtors	1,508	1,705	71	89
Prepayments and accrued income	4,054	3,603	953	1,096
	69,062	67,080	133,867	124,042

15 Borrowings

	Group 2005	Group 2004	Halma p.l.c. 2005	Halma p.l.c. 2004
Falling due within one year:				
Unsecured bank loans and overdrafts	33,344	26,934	33,104	26,758

Notes on the Accounts continued £000

16 Creditors

	Group		Halma p.l.c.	
	2005	2004	2005	2004
Trade creditors	28,743	26,971	410	428
Amounts owing to Group companies	–	–	19,663	15,163
Other taxation and social security	3,563	3,574	1,206	1,208
Other creditors	9,962	4,760	1,186	2,764
Accruals and deferred income	11,131	9,089	1,609	1,813
	53,399	44,394	24,074	21,376

17 Creditors: amounts falling due after one year

	Group		Halma p.l.c.	
	2005	2004	2005	2004
Deferred purchase consideration	4,028	159	25	62
Other creditors	1,507	1,095	1,241	1,095
	5,535	1,254	1,266	1,157

18 Provisions for liabilities and charges

	Group		Halma p.l.c.	
	2005	2004	2005	2004
Deferred taxation	6,186	6,067	–	294

Analysis of Group deferred tax provided is as follows:

	2005	2004
Accelerated capital allowances	3,216	3,098
Short-term timing differences	(3,176)	(2,468)
Goodwill timing differences	6,146	5,437
Net deferred tax liability	6,186	6,067

Movement in deferred tax liability/(asset):

	Group	Halma p.l.c.
At 3 April 2004	6,067	294
Charge/(credit) to profit and loss account:		
UK	202	(643)
Overseas	780	–
Acquired (note 20)	(1,049)	–
Exchange adjustments	186	–
At 2 April 2005	6,186	(349)

No provision is made for taxation which might become payable if profits retained by overseas subsidiary companies are distributed as dividends. There are no plans to pay such dividends.

The deferred tax asset in the books of the Company represents short-term timing differences.

Notes on the Accounts continued £000

19 Called up share capital

	Authorised 2005	Authorised 2004	Issued and fully paid 2005	Issued and fully paid 2004
Ordinary shares of 10p each	43,656	43,656	36,880	36,677

The number of ordinary shares in issue at 2 April 2005 was 368,800,919 (2004: 366,773,945).

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

	Issued and fully paid
At 3 April 2004	36,677
Share options exercised	203
At 2 April 2005	36,880

The total consideration received in respect of share options exercised amounted to £2,546,000.

Options in respect of 380,061 ordinary shares remained outstanding at 2 April 2005 under the share option plan approved by shareholders in 1990. 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
98,666	111.75p – 113.25p		1998
31,999	138.01p – 144.76p		1999
60,600	122.5p – 126.5p		2000
11,400	101.5p		2001
45,400	120p – 129p		2002
127,196	111.75p – 113.25p	2000	
4,800	120p	2004	

Options in respect of 2,909,529 ordinary shares remained outstanding at 2 April 2005 under the share option plan approved by shareholders in 1996. 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
96,531	138p – 144.75p		1999
451,000	122.5p – 138.5p		2000
243,100	101.5p – 123.5p		2001
464,900	120p – 136p		2002
214,398	138p – 144.75p	2001	
354,600	122.5p – 137p	2002	
358,200	101.5p – 123.5p	2003	
726,800	120p – 136p	2004	

Notes on the Accounts continued £000

19 Called up share capital continued

Options in respect of 13,690,749 ordinary shares remained outstanding at 2 April 2005 under the share option plan approved by shareholders in 1999. 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
1,733,400	111p		2003
970,300	163.5p		2004
1,733,331	132p – 144.33p		2005
2,378,603	134p		2006
2,078,237	142.25p		2007
256,692	157.92p		2008
888,300	111p	2005	
665,600	163.5p	2006	
924,081	144.33p	2007	
978,828	134p	2008	
1,083,377	142.25p	2009	

The 1990, 1996 and 1999 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 Company'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 10 years from the date of grant.

Notes on the Accounts continued £000

20 Goodwill arising on acquisition

	Book value	Fair value adjustments	Total
Tangible fixed assets	848	(43)	805
Current assets:			
Stocks	4,886	(1,321)	3,565
Debtors	3,803	(104)	3,699
Deferred tax	360	689	1,049
Cash	1,490	–	1,490
Total assets	11,387	(779)	10,608
Current liabilities			
Bank loans	(1,125)	–	(1,125)
Creditors	(2,515)	(630)	(3,145)
Total liabilities	(3,640)	(630)	(4,270)
Net assets of businesses acquired	7,747	(1,409)	6,338
Deferred purchase consideration			(12,045)
Cash consideration, including costs			(22,815)
Total consideration			(34,860)
Goodwill arising on current year acquisitions			(28,522)
Adjustments relating to prior years' acquisitions			(392)
Goodwill arising on acquisition			(28,914)

The goodwill on current year acquisitions arose on the purchase, in May 2004, of the whole of the issued share capital of Diba Industries, Inc. ('Diba') and in June 2004 of the whole of the issued share capital of Ocean Optics, Inc. ('Ocean Optics'). In the year to February 2004 Diba made profits before taxation, adjusted for non-recurring items, of $1.8 million on sales of $12 million. Ocean Optics generated profits before taxation of $4.6 million on sales of $25 million in the year to December 2003. Total purchase consideration, including deferred amounts, was £26,512,000 for Ocean Optics with the balance relating to Diba.

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

Deferred purchase consideration is payable in cash to the vendors of Ocean Optics and has been provided at the estimated amount payable. The amount ultimately payable is dependent upon the profit growth of Ocean Optics between April 2004 and March 2006.

The adjustments to goodwill relating to prior years' acquisitions comprise revisions to the estimate of deferred purchase consideration payable.

Cumulative goodwill written off against reserves on acquisitions prior to 28 March 1998, net of that attributable to closures and sales, amounts to £70,931,000 (2004: £70,931,000).

Notes on the Accounts continued £000

21 Investments

Shares in Group companies	2005	2004
At cost less amounts written off at beginning of year	40,959	42,760
Additions	8,090	–
Amounts written off in financial year	(82)	–
Disposals	–	(1,801)
At cost less amounts written off at end of year	48,967	40,959

The principal movement in the year relates to an increase in the Company's investment in a subsidiary undertaking.

Details of principal subsidiary companies are set out on pages 78 and 79. All these subsidiaries are wholly owned and, apart from the following, are subsidiaries of Halma p.l.c. and are incorporated in Great Britain where they principally operate.

Name of company	Country of incorporation
Fortress Systems Pty. Limited	Australia
*IPC Resistors Inc.	Canada
*HF Sécurité S.A.S.	France
*Hydreka S.A.S.	France
*S.E.R.V. Trayvou Interverrouillage S.A.S.	France
*Apollo Gesellschaft für Meldetechnologie mbH	Germany
*Berson Milieutechniek 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 Valve Inc.	USA
*Diba Industries, Inc.	USA
*Electronic Micro Systems Inc.	USA
*IPC Power Resistors Inc.	USA
*Janus Elevator Products Inc.	USA
*Marathon Sensors Inc.	USA
*Monitor Controls Inc.	USA
*Mosebach Manufacturing Company	USA
*Ocean Optics, Inc.	USA
*Oklahoma Safety Equipment Co. Inc.	USA
*Perma Pure LLC	USA
*Post Glover Resistors Inc.	USA
*Volk Optical Inc.	USA

*Interests held by subsidiary companies.

Notes on the Accounts continued £000

22 Profit and loss account of Halma p.l.c.

As permitted by Section 230 of the Companies Act 1985, the Profit and Loss Account of Halma p.l.c. is not presented as part of these accounts. The movements on that account during the year were:

	2005	2004
At beginning of year	91,432	77,733
Profit after taxation	20,763	34,094
Dividends	(24,015)	(22,725)
Exchange adjustments	959	2,330
At end of year	89,139	91,432

23 Consolidated cash flow statement

	2005	2004
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	44,853	45,832
Depreciation	7,901	7,879
Goodwill amortisation	5,491	4,220
(Profit)/loss on sale of tangible fixed assets	(21)	109
Decrease in SSAP 24 pension prepayment	70	112
Property sale receivable	–	1,100
(Increase)/decrease in stocks	(1,000)	744
Decrease/(increase) in debtors	1,355	(1,404)
Increase in creditors	1,667	1,190
Net cash inflow from operating activities	60,316	59,782

The cash outflow of £25,026,000 on the acquisition of businesses includes the payment of £2,211,000 of deferred purchase consideration which arose from acquisitions made in earlier years, and where provision was made in prior years' financial statements.

	2005	2004
Reconciliation of net cash flow to movement in net cash/(debt)		
(Decrease)/increase in cash	(4,872)	1,535
Increase in liquid resources	1,663	19,662
Cash inflow from loans	(5,764)	(2,683)
Loans acquired	(1,125)	–
Exchange adjustments	554	3,127
	(9,544)	21,641
Net cash/(debt) brought forward	21,548	(93)
Net cash carried forward	12,004	21,548

Notes on the Accounts continued £000

23 Consolidated cash flow statement continued

	At 3 April 2004	Cash flow	Acquisition (excluding cash and overdrafts)	Exchange adjustments	At 2 April 2005
Analysis of net cash/(debt)					
Cash	14,584	(4,896)	–	79	9,767
Overdrafts	(258)	24	–	(6)	(240)
		(4,872)			
Short-term deposits	33,898	1,663	–	20	35,581
Bank loans	(26,676)	(5,764)	(1,125)	461	(33,104)
	21,548	(8,973)	(1,125)	554	12,004

24 Financial instruments

Policy

The Group does not use complex derivative financial instruments. No trading or speculative transactions in financial instruments are undertaken. Where it does use financial instruments these are mainly to manage the currency risks arising from normal operations and its financing. Operations are financed mainly through retained profits and in certain geographical locations, bank borrowings. Foreign currency risk is the most significant aspect for the Group in the area of financial instruments. It is exposed to a lesser extent to other risks such as interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and these policies are summarised below. Policies have remained unchanged since the beginning of the financial year.

Foreign currency risk

The Group 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 are hedged at the date of invoicing by means of matched borrowings and forward currency contracts. Significant purchases are hedged by means of forward currency contracts.

The Group which is based in the UK and reports in Sterling, has a significant investment in overseas operations in the USA and Europe, with further investments in Australia, New Zealand, Canada, Malaysia, 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. The Group does not hedge future currency profits, so the Sterling value of overseas profits earned during the year is sensitive to the strength of Sterling, particularly against the US Dollar and the Euro.

Finance and interest rate risk

The Group does not have significant exposure to interest rate fluctuations. Where bank borrowings are used to finance operations they tend to be short-term with floating interest rates. Borrowings used to manage foreign currency risk are drawn on the Group's loan facilities and have fixed interest rates with maturities of not more than one year.

Notes on the Accounts continued £000

24 Financial instruments continued

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

Liquidity risk

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. Borrowing facilities, including the Group's revolving loan facilities, are typically renewed annually.

Currency exposures

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

2005	Net foreign currency monetary assets/(liabilities)				
Functional currency of operation	Sterling	US Dollar	Euro	Other	Total
Sterling	–	1,137	(387)	(568)	182
US Dollar	829	–	288	–	1,117
Euro	(60)	536	–	505	981
Other	(24)	699	78	200	953
Total	745	2,372	(21)	137	3,233

2004	Net foreign currency monetary assets/(liabilities)				
Functional currency of operation	Sterling	US Dollar	Euro	Other	Total
Sterling	–	747	1,850	(115)	2,482
US Dollar	5	–	(3)	–	2
Euro	(79)	1,509	–	77	1,507
Other	79	1,249	13	(2)	1,339
Total	5	3,505	1,860	(40)	5,330

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

Interest rate risk profile

The Group's financial assets which are subject to interest rate fluctuations comprise cash deposits which totalled £35,581,000 at 2 April 2005 (2004: £33,898,000). These comprised Sterling denominated deposits of £24,073,000 (2004: £32,531,000), US Dollar denominated deposits of £3,663,000 (2004: £nil), Euro and other currency deposits of £7,845,000 (2004: £1,367,000) which are placed on local money markets and earn interest at market rates.

24 Financial instruments continued

The financial liabilities which are subject to interest rate fluctuations are bank loans, bank overdrafts and certain unsecured loans, which totalled £33,344,000 at 2 April 2005 (2004: £26,934,000). All are subject to floating rates of interest. These comprise US Dollar denominated bank loans of £19,577,000 (2004: £20,218,000) which bear interest with reference to the US Dollar LIBOR rates, US Dollar denominated bank overdrafts of £13,000 (2004: £76,000) which bear interest at rates referenced to US Dollar base rates, Euro denominated bank loans of £13,527,000 (2004: £6,458,000) which bear interest with reference to the Euro LIBOR rates, Euro denominated bank overdrafts of £111,000 (2004: £142,000) which bear interest at rates referenced to Euro base rates and Sterling denominated bank overdrafts of £116,000 (2004: £40,000) which bear interest at rates referenced to UK base rates.

Maturity of financial liabilities

With the exception of the deferred purchase consideration and other creditors 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 £3,948,000 (2004: £44,000) due between one and two years, with the balance of £80,000 (2004: £115,000) due between two and five years. Other creditors due after more than one year include £507,000 (2004: £105,000) due between one and two years, £786,000 (2004: £379,000) due between two and five years, with the balance of £214,000 (2004: £611,000) due after more than five years.

Borrowing facilities

The Group's principal source of borrowing facilities is through 'on demand' bank overdrafts which are, by definition, uncommitted. These facilities are generally reviewed on an annual or ongoing basis and hence the facilities expire within one year or less.

The Group also has committed borrowing facilities which are used for the purpose of managing foreign currency risk. At 2 April 2005 committed facilities of this type amounted to £53,757,000 of which £33,104,000 was drawn down. The borrowing facilities are reviewed annually, and as such the weighted average maturity of the facilities is less than one year.

Fair values of financial assets and financial liabilities

As at 2 April 2005 there was no significant difference between the book value and fair value (as determined by market value) of the Group's financial assets and liabilities.

Hedging

As explained above, the Group's policy is to hedge significant sales and purchases denominated in foreign currency using forward currency contracts. The gains and losses on these instruments are recognised upon recognition of the underlying exposure. The amounts of unrecognised gains or losses on instruments used for hedging at 2 April 2005 and 3 April 2004 are not significant.

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

25 Commitments

Capital commitments

Capital expenditure authorised and contracted at 2 April 2005 but not provided in these accounts amounts to £2,070,000 (2004: £523,000).

Notes on the Accounts continued £000

25 Commitments continued

Commitments under operating leases

Annual commitments under non-cancellable operating leases expire as follows:

	Land and buildings		Other	
	2005	2004	2005	2004
Within one year	457	352	196	39
Within two to five years	2,186	1,482	262	193
After five years	838	930	1	8
	3,481	2,764	459	240

Total annual commitments under non-cancellable operating leases amount to £3,940,000 (2004: £3,004,000).

26 Pensions

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 sections of the defined benefit type with assets held in separate trustee administered funds. During 2002/03, both of these defined benefit sections were closed to new entrants and a defined contribution section was established within the Halma Group Pension Plan. Defined contribution schemes are mainly adopted in overseas subsidiaries. Pension contributions for the Group are paid in accordance with the advice of professionally qualified actuaries.

The total pension cost for the Group was £5,115,000 (2004: £5,095,000) of which £1,143,000 (2004: £812,000) relates to overseas schemes.

The Halma Group Pension Plan was last assessed as at 1 December 2002, and the Apollo Pension and Life Assurance Plan as at 1 April 2004, using the projected unit method. The principal actuarial assumptions adopted in the valuations were firstly that the investment return would exceed the rate of salary growth by 3.25% (Apollo: 2.50%) per annum dependent on the scheme membership category, and secondly that pensions in the course of payment would increase at 2.5% (Apollo: 2.75%) per annum or, for future service, in accordance with the requirements of the Pension Act 1995.

At 1 December 2002 the market value of the Halma Group Pension Plan’s assets was £42,533,000. The actuarial value of the scheme’s assets represented 69% of the benefits that had accrued to members after allowing for expected future increases in earnings. The shortfall is being addressed by increased company contributions.

At 1 April 2004 the market value of the Apollo Pension and Life Assurance Plan’s assets was £8,278,000. The actuarial value of the scheme’s assets represented 59% of the benefits that had accrued to members after allowing for expected future increases in earnings. The shortfall is being addressed by increased company contributions.

Financial Reporting Standard 17 (Retirement Benefits)

The Group has adopted the transitional provisions of FRS 17 (Retirement Benefits), and the following transitional disclosures are required.

Notes on the Accounts continued £000

26 Pensions continued

The financial assumptions used to calculate scheme liabilities at 2 April 2005 under FRS 17 are:

	2005	2004	2003
Rate of increase in salaries	4.25%	4.25%	4.00%
Rate of increase in pensions in payment (pre April 1997)	2.75%	2.75%	3.00%
Rate of increase of pensions in payment (post April 1997)	2.75%	2.75%	2.50%
Discount rate	5.40%	5.50%	5.50%
Inflation assumption	2.75%	2.75%	2.50%

The expected rates of return and the aggregated assets in the UK defined benefit schemes were:

	Expected rate of return 2005	Market value 2005	Expected rate of return 2004	Market value 2004	Expected rate of return 2003	Market value 2003
Equities	7.75%	55,649	7.75%	51,323	7.50%	37,301
Bonds	4.75%	13,876	4.75%	8,349	4.50%	7,569
Property	6.25%	2,544	6.25%	1,755	6.00%	1,704
Total market value of assets		72,069		61,427		46,574
Present value of scheme liabilities		(112,914)		(102,196)		(90,545)
Deficit in schemes		(40,845)		(40,769)		(43,971)
Related deferred tax asset		12,253		12,231		13,191
		(28,592)		(28,538)		(30,780)

Analysis of the amount that would have been charged to operating profit under FRS 17 in respect of the UK defined benefit schemes:

	2005	2004
Current service cost	2,919	3,160
Curtailment gain	–	(979)
Total operating charge	2,919	2,181

Analysis of the amount that would have been charged to net finance income under FRS 17:

	2005	2004
Expected return on pension scheme assets	4,583	3,377
Interest on scheme liabilities	(5,680)	(5,032)
Net finance cost	(1,097)	(1,655)

Analysis of the actuarial (loss)/gain that would have been recognised in the Statement of Total Recognised Gains and Losses:

	2005	2004
Actual return less expected return on scheme assets	2,821	7,717
Experience losses arising on scheme liabilities	52	–
Changes in assumptions	(2,921)	(4,731)
Net (loss)/gain recognised	(48)	2,986

Notes on the Accounts continued £000

26 Pensions continued

Movement in deficit during the year:

	2005	2004
Deficit at beginning of year	(40,769)	(43,971)
Current service cost	(2,919)	(3,160)
Contributions paid	3,988	4,052
Curtailment gain	–	979
Net finance cost	(1,097)	(1,655)
Actuarial (loss)/gain	(48)	2,986
Deficit at end of year	(40,845)	(40,769)

History of experience gains/(losses):

	2005	2004	2003
Difference between expected and actual return on scheme	2,821	7,717	(17,042)
Percentage of scheme assets	4%	13%	(37)%
Experience gains/(losses) on scheme liabilities	52	–	(3,260)
Percentage of scheme liabilities	–%	–%	(4)%
Total actuarial (loss)/gain recognised in the Statement of Total Recognised Gains and Losses	(48)	2,986	(32,729)
Percentage of scheme liabilities	–%	3%	(36)%

If the above amount were recognised in the accounts, the Group's net assets and profit and loss account reserve would be as follows:

	2005	2004
Net assets excluding pension liability	175,598	167,360
SSAP 24 pension prepayment	(860)	(930)
SSAP 24 accrual in respect of discontinued operations	627	1,557
Pension liability	(28,592)	(28,538)
Net assets including pension liability	146,773	139,449
Profit and loss account reserve excluding pension liability	128,422	122,730
SSAP 24 pension prepayment	(860)	(930)
SSAP 24 accrual in respect of discontinued operations	627	1,557
Pension liability	(28,592)	(28,538)
Profit and loss account reserve including pension liability	99,597	94,819

Other post retirement benefits liabilities are already fully included in net assets.

Notice of Meeting

Notice is hereby given that the one hundred and eleventh Annual General Meeting of Halma p.l.c. will be held at The Ballroom, The Berkeley Hotel, Wilton Place, London SW1X 7RL on Wednesday, 3 August 2005 at 12 noon for the following purposes:

Ordinary business

1 To approve the Report of the Directors, the audited part of the Report on Remuneration and the Accounts for the period of 52 weeks to 2 April 2005.

2 To declare a dividend on the ordinary shares.

3 To approve the Report on Remuneration as set out on pages 39 to 45 of the Report and Accounts for the 52 weeks to 2 April 2005 be approved.

4 To re-elect as a Director Mr K J Thompson who retires from the Board by rotation and being eligible offers himself for re-election.

5 To re-elect as a Director Mr N Quinn who retires from the Board by rotation and being eligible offers himself for re-election.

6 To re-elect as a Director Mr E G Unwin* who retires from the Board by rotation and being eligible offers himself for re-election.

7 To re-elect as a Director Mr A J Williams who was appointed in July 2004 and who retires in accordance with the Articles of Association.

8 To re-appoint Deloitte & Touche LLP as Auditors.

9 To authorise the Directors to determine the remuneration of the Auditors.

Special business

To consider, and if thought fit, pass the following ordinary resolution:

10 That:

(a) the Halma p.l.c. Performance Share Plan 2005 (the "Plan"), a summary of the proposed Rules of which is set out in the Appendix to the Circular from the Chairman to shareholders dated 4 July 2005, be and is hereby approved and adopted and that the Directors be authorised to establish and carry the Plan into effect;

(b) the Directors be and are hereby authorised to vote, and to be counted in the quorum, in relation to any resolution of the Board of Directors of the Company on any matter concerning or connected with the Plan notwithstanding that they may be interested in the same (except that no Director may be counted in the quorum or vote in respect of his own participation in the Plan) and that the prohibitions on voting by interested Directors contained in the Articles of Association of the Company be accordingly relaxed to that extent;

(c) that the Directors be authorised to establish schedules to the Plan or to establish other plans based on the Plan but modified to take account of local tax, exchange control or securities laws outside the UK, provided that any shares issued under the schedules or other plans must be treated as counting against any individual or overall limits on participation contained in the Plan.

To consider, and if thought fit, pass the following special resolutions:

11 That the Directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot or to make any offer or agreement to allot equity securities (as defined in Section 94(2) of the Companies Act 1985) of the Company pursuant to the authority contained in Resolution 10 passed at the Company's Annual General Meeting on 1 August 2002 and/or sell equity securities held as treasury shares for cash pursuant to Section 162O of the Companies Act 1985, in each case as if Section 89(1) of the Companies Act 1985 did not apply to any such allotment or sale, provided that such power shall be limited to the allotment and/or sale of equity securities:

(a) pursuant to the terms of any share scheme for employees approved by the Company in general meeting; and

(b) otherwise than pursuant to sub-paragraph (a) above, up to an aggregate nominal amount of £1,844,000,

and shall expire at the conclusion of the next Annual General Meeting of the Company, save that the Company may make any offer or agreement before such expiry which would or might require equity securities to be allotted or equity securities held as treasury shares to be sold after such expiry; and the Directors may allot equity securities and/or sell equity securities held as treasury shares in pursuance of any such offer or agreement notwithstanding that the power conferred hereby has expired; words and expressions defined in or for the purposes of Section 89 to 96 inclusive of the Companies Act 1985 shall bear the same meanings in this resolution.

12 That the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of ordinary shares of 10p each ("ordinary shares") provided that:

(a) the maximum number of shares hereby authorised to be acquired is 36,000,000 ordinary shares, having an aggregate nominal value of £3,600,000;

(b) the maximum price which may be paid for any ordinary share is an amount equal to 105 per cent of the average of the middle market quotations for such an ordinary share as derived from the London Stock Exchange's Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased and the minimum price which may be paid for any such ordinary share shall be the nominal value of that share; and

(c) the authority hereby conferred shall expire at the conclusion of the Company's next Annual General Meeting (except in relation to the purchase of ordinary shares the contract for which was concluded before such date and which would or might be executed wholly or partly after such date), unless such authority is renewed prior to such time.**

A shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and on a poll, vote on his or her behalf. A proxy need not be a shareholder of the Company. A personalised form of proxy is enclosed. Completion of a form of proxy (or submission of proxy instructions electronically) will not prevent a shareholder from attending the meeting and voting in person.

By Order of the Board

C T Chesney Secretary
Misbourne Court Rectory Way Amersham Bucks HP7 0DE
4 July 2005

In accordance with the requirements of the Companies Act 1985, a summary of any transactions during the past year by the Directors and their family interests in the Company's shares and copies of Directors' service contracts will be available for inspection at the registered office of the Company from the date of the above notice until 3 August 2005 and at The Berkeley Hotel from 11:45 am on the day of the meeting until the close of the meeting.

Copies of the proposed Rules of Halma p.l.c. Performance Share Plan 2005 are available for inspection at the offices of CMS Cameron McKenna LLP, Mitre House, 160 Aldersgate Street, London EC1A 4DD from the date of the above notice until the close of the meeting and will also be available for inspection at the Berkeley Hotel 15 minutes prior to and during the meeting.

Full biographical information of the Directors proposed for re-election appears on page 14 of the Report and Accounts.

* denotes Chairman and membership of the Remuneration, Audit and Nomination Committees of the Board

** The Board's present intention is that the shares purchased under the authority will (to the extent statutory requirements are met) be held in treasury for future cancellation, sale for cash or transfer for the purposes of, or pursuant to, an employee share scheme, although in the light of circumstances at the time it may be decided to cancel them immediately on repurchase.

HALMA

Summary 1996 to 2005

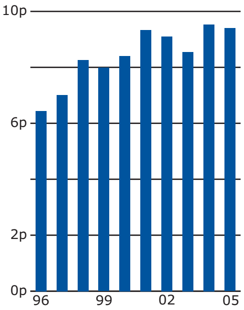
	95/96	96/97	97/98	98/99	99/00	00/01
Turnover	173,652	200,140	213,777	217,758	233,485	268,322
Overseas sales	104,432	119,235	126,863	134,189	150,727	181,831
Profit before taxation, goodwill amortisation and exceptional items	33,619	37,076	42,391	41,823	43,751	49,698
Net tangible assets	77,650	81,209	98,249	102,101	89,755	99,991
Borrowings	8,350	3,763	2,784	7,730	14,700	7,758
Cash and short-term deposits	27,459	13,447	22,639	29,894	21,900	21,484
Employees	2,384	2,677	2,861	2,827	2,975	3,059
Earnings per ordinary share (Note 1)	6.44p	7.01p	6.87p	7.91p	6.08p	8.91p
Earnings per ordinary share before goodwill amortisation and exceptional items (Note 1)	6.44p	7.01p	8.26p	7.99p	8.41p	9.34p
Year on year increase/(decrease) in earnings per ordinary share before goodwill amortisation and exceptional items	15.2%	8.9%	17.8%	(3.3%)	5.3%	11.1%
Net tangible assets per ordinary share (Note 1)	21.7p	22.5p	27.1p	28.2p	24.9p	27.7p
Year on year increase/(decrease) in net tangible assets per ordinary share	21.2%	3.7%	20.4%	4.1%	(11.7%)	11.2%
Return on sales (Note 2)	19.4%	18.5%	19.8%	19.2%	18.7%	18.5%
Return on capital employed (Note 3)	43.3%	45.7%	43.1%	41.0%	48.7%	49.7%
Year on year increase in dividends per ordinary share	20%	20%	20%	20%	20%	15%
Ordinary share price at financial year end (Note 1)	138p	134p	124p	92p	95p	129p
Market capitalisation at financial year end	£492.1m	£479.2m	£447.3m	£330.6m	£340.1m	£465.7m

Notes:
1. Restated for the capitalisation issue made in 1997.
2. Return on sales is defined as profit before taxation, goodwill amortisation and exceptional items expressed as a percentage of turnover.
3. Return on capital employed is defined as profit before taxation, goodwill amortisation and exceptional items expressed as a percentage of net tangible assets (being equity shareholders' funds less intangible assets).
4. Figures prior to 2000/01 have not been restated for the adoption of FRS 19 (Deferred Taxation).

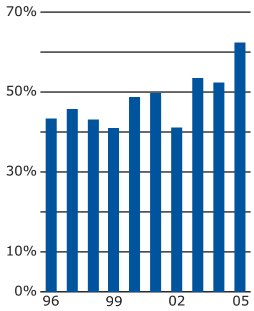
£000

01/02	02/03	03/04	04/05
267,597	267,293	292,640	299,119
183,259	188,161	206,102	218,745
48,255	46,508	50,284	50,389
117,515	86,854	95,935	80,750
15,047	27,667	26,934	33,344
45,657	27,574	48,482	45,348
2,859	2,793	2,925	3,002
8.58p	7.76p	6.09p	7.97p
9.10p	8.55p	9.44p	9.42p
(2.6%)	(6.0%)	10.4%	(0.2%)
32.2p	23.8p	26.2p	21.9p
16.2%	(26.1%)	10.1%	(16.4%)
18.0%	17.4%	17.2%	16.8%
41.1%	53.5%	52.4%	62.4%
15%	10%	7%	5%
164p	114p	149p	161p
£598.2m	£416.7m	£546.5m	£593.8m

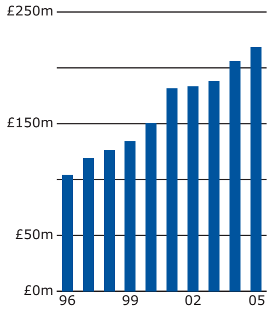
Earnings per share
(before goodwill amortisation and exceptional items)



Return on capital employed



Overseas sales



HALMA

	Main products
Air Products and Controls Inc.	Duct detectors and control relays for smoke control systems
Apollo Fire Detectors Limited	Smoke and heat detectors for commercial fire alarm systems
Apollo Gesellschaft für Meldetechnologie mbH	Smoke and heat detectors for commercial fire alarm systems
Aquionics Inc.	Ultraviolet light equipment for water sterilisation
Berson Milieutechniek B.V.	Ultraviolet light equipment for treating waste water and process water used in the manufacture of food and drinks
Bio-Chem Valve Inc.	Miniature valves, micro pumps and fluid components for medical, life science and scientific instruments
Bureau D'Electronique Appliquée S.A.	Sensors for automatic doors
Castell Safety International Limited	Safety systems for controlling the use of and access to dangerous machines
Cressall Resistors Limited	High power electrical resistors
Crowcon Detection Instruments Limited	Gas detection instruments for personnel and plant safety
Diba Industries, Inc.	Specialist components and complete fluid transfer subassemblies for medical, life science and scientific instruments
Electronic Micro Systems Inc.	Emergency communication systems
Elfab Limited	Pressure sensitive relief devices to protect process plant
E-Motive Display Pte Limited	Electronic displays for providing information to elevator passengers
Fire Fighting Enterprises Limited	Beam smoke detectors and specialist fire extinguishing systems
Fortress Interlocks Limited	Safety systems for controlling access to dangerous machines
Fortress Systems Pty. Limited	Machinery and process safety systems and high power electrical resistors
Halma Holdings Inc.	American holding company
Hanovia Limited	Ultraviolet light equipment for treating drinking water and water used in the manufacture of food, drinks, pharmaceuticals and electronic components
HF Sécurité S.A.S.	Safety systems and high security locks
Hydreka S.A.S.	Equipment and software for flow analysis of water and sewerage systems and leak detection systems
IPC Resistors Inc.	High power electrical resistors and ground fault detection equipment
Janus Elevator Products Inc.	Infrared safety systems for elevator doors and elevator electronic displays
Keeler Limited	Ophthalmic instruments for diagnostic assessment of eye conditions
Klaxon Signals Limited	Audio/visual warning systems for industrial security
Marathon Sensors Inc.	Sensors and instruments for combustion control and heat treatment processes
Memco Limited	Infrared safety systems for elevator doors and elevator emergency communications
Monitor Controls Inc.	Elevator signal fixtures
Mosebach Manufacturing Company	High power electrical resistors
Ocean Optics, Inc.	Miniature fibre optic spectrometers for consumer electronics, process control, environmental monitoring, life sciences and medical diagnostics
Oklahoma Safety Equipment Co. Inc.	Pressure sensitive relief devices to protect process plant
Palintest Limited	Instruments for analysing water and measuring environmental pollution
Palmer Environmental Limited	Instrumentation for quantifying, detecting and controlling leakage in underground water pipelines
Perma Pure LLC	Gas dryers and humidifiers for fuel cell, medical, scientific and industrial use
Post Glover IPC Resistors	High power electrical resistors
Post Glover Lifelink	Electrical isolation panels and electrical raceways for hospital, laboratory and industrial facilities
Radcom (Technologies) Limited	Instrumentation for recording data, and detecting and controlling leakage, in water distribution pipelines
SEAC Limited	Specialist fasteners for the building trade
Secomak Limited	Industrial heaters, fans, drying systems, heat tunnels, loudspeakers and microphones
SERV Trayvou Interverrouillage S.A.S.	Safety systems for controlling access to dangerous machines
Smith Flow Control Limited	Process safety systems for petrochemical and industrial applications
TL Jones Limited	Infrared safety systems for elevator doors
Volk Optical Inc.	Ophthalmic lenses as aids to diagnosis and surgery
Volumatic Limited	Cash security and handling from point-of-sale to cash office

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Shareholder Information

Financial calendar

2004/05 Interim results	7 December 2004
2004/05 Interim dividend paid	8 February 2005
Trading update	28 April 2005
2004/05 Preliminary results	21 June 2005
2004/05 Report and Accounts issued	4 July 2005
Annual General Meeting	3 August 2005
2004/05 Final dividend payable	24 August 2005
Trading update	end October 2005
2005/06 Interim results	6 December 2005
2005/06 Interim dividend payable	February 2006
Trading update	end April 2006
2005/06 Preliminary results	June 2006

Analysis of shareholders

at 2 June 2005

	Shareholders		Shares	
	Number	%	Number	%
Number of shares held				
1 – 7,500	5,289	79.6	10,180,548	2.7
7,501 – 25,000	766	11.5	10,020,319	2.7
25,001 – 100,000	335	5.0	16,553,861	4.5
100,001 – 750,000	183	2.9	52,978,212	14.4
750,000 and over	67	1.0	279,067,979	75.7
	6,640	100.0	368,800,919	100.0

Share price

London Stock Exchange, pence per 10p share					
	2005	2004	2003	2002	2001
Highest	**170**	151	166	175	145
Lowest	**142**	109	97	126	82
Year end	**161**	149	114	164	129

Dividends

Pence per 10p share					
	2005	2004	2003	2002	2001
Interim	**2.58**	2.44	2.285	2.077	1.806
Final	**3.92**	3.75	3.527	3.206	2.787
Total	**6.50**	6.19	5.812	5.283	4.593

Share dealing facilities

A low cost telephone dealing service has been arranged with Stocktrade which provides a simple way of buying or selling Halma shares. Basic commission is 0.5% up to £10,000, reducing to 0.2% thereafter. For further information please call 0845 601 0995 and quote reference Low Co0198.

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 analyst presentations and find contact details for Halma senior executives and subsidiary companies.

E-mail news alert

You can subscribe to an e-mail news alert service on our website www.halma.com to automatically receive an e-mail when significant announcements are made.

Shareholding information

Please contact our registrars directly for all enquiries about your shareholding. Visit www.computershare.com for online information about your shareholding. (You will need your shareholder reference number which can be found on your share certificate).

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Annual General Meeting

The 111th Annual General Meeting of Halma p.l.c. will be held at The Ballroom, The Berkeley Hotel, Wilton Place, London SW1X 7RL on Wednesday, 3 August 2005 at 12 noon. The Notice convening the Meeting is on page 74.

Halma p.l.c.

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