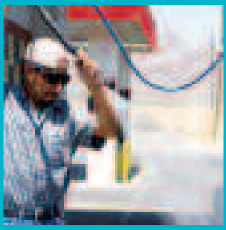
Halma p.l.c. Annual report and accounts 2006

We are protecting lives and improving the quality of life for people worldwide.






HALMA

01_Our performance

→ **Strong organic growth**
Delivering good growth not only from acquisitions but widespread across the Group

→ **A clearer strategy**
Reporting in three sectors each with clear strategic objectives

→ **Important acquisitions and disposals**
Entry made into the security market and disposal of underperforming Resistors business

02_Our results

→ **Dividend grows further**
Progressive dividend policy with 5% growth and dividend cover raised

03_Our governance

→ **Further strengthening of Internal Control**
"Warning signs" embraced across the Group stimulating positive action to reduce risk

We protect lives and improve quality of life for people worldwide.

We do this through innovation in market leading products. We make our customers: safer, more competitive, and more profitable. We invest in and develop businesses where: people are creating innovative products; there are significant barriers to entry; and the market is demand driven and global.

We are continually growing.

01_Our performance

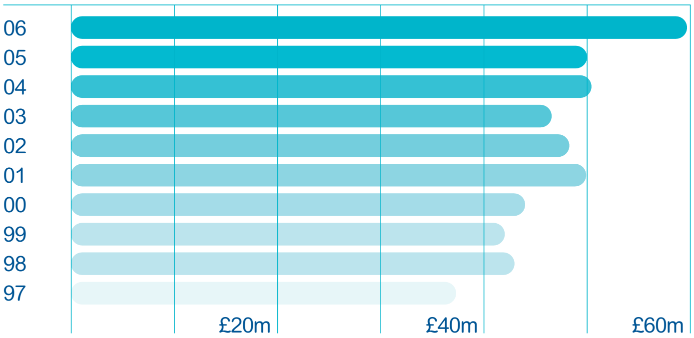
Financial highlights

	Change	2006	2005 (restated)
Continuing operations:			
Revenue	+16%	£310.8m	£268.7m
Adjusted profit before taxation(1)	+20%	£58.1m	£48.3m
Statutory profit before taxation	+18%	£56.6m	£48.0m
Adjusted earnings per share(2)	+20%	11.01p	9.16p
Statutory earnings per share	+18%	10.73p	9.10p
Total dividends (paid and proposed) per share	+5%	6.83p	6.50p
Return on sales(3)		18.7%	18.0%
Return on total invested capital(4)		12.8%	12.1%
Return on capital employed(4)		56.9%	48.8%

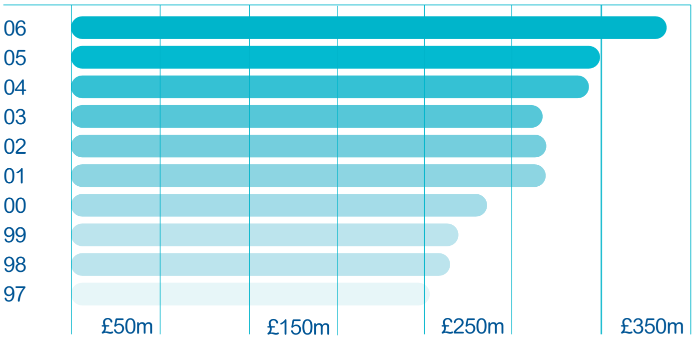
The comparative figures for the 52 weeks to 2 April 2005 have been restated to reflect the adoption of International Financial Reporting Standards. See note 29 for details.

Pro-forma information:
(1) Adjusted to remove the amortisation of acquired intangible assets of £1,500,000 (2005: £343,000).
(2) Adjusted to remove the amortisation of acquired intangible assets. See note 2 for details.
(3) Return on sales is defined as adjusted(1) profit before taxation from continuing operations expressed as a percentage of revenue from continuing operations.
(4) Organic growth rates, return on total invested capital and return on capital employed are non-GAAP performance measures used by management in measuring the returns achieved from the Group's asset base. See note 3 for details.

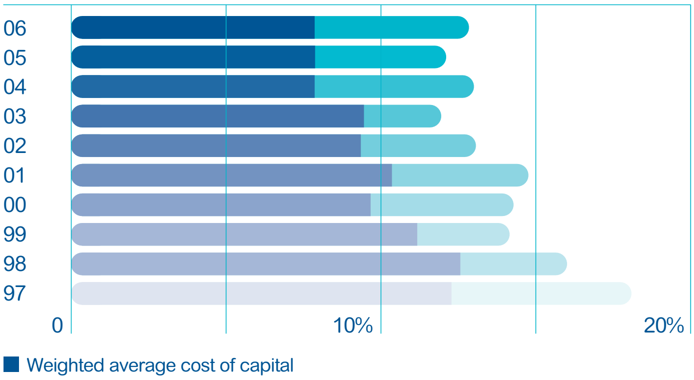
Profit* £m



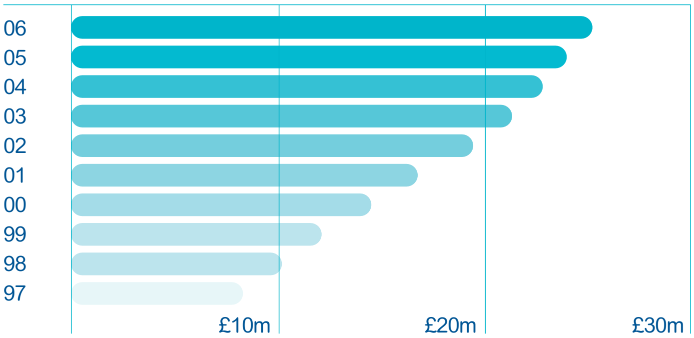
Revenue* £m



ROTIC** %



Dividends*** £m



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

** Return on Total Invested Capital ("ROTIC") prior to 2005 has not been restated for IFRS.

*** Dividends paid and proposed.

Chairman's statement

During the last year, Halma has made significant progress.

During the last year, Halma has made significant progress. First of all, the headline numbers. The total Group including discontinued operations, which is what we were responsible for throughout the year, increased revenue by 12.8% to £337.3 million (2004/05: £299.1 million). Profit before tax and amortisation of acquired intangibles on this basis increased by 19.4% to £59.6 million (2004/05: £49.9 million*). Revenue and profit before tax and amortisation of acquired intangibles from continuing operations increased by 15.7% to £310.8 million and 20.3% to £58.1 million respectively. Statutory profit before tax increased by 17.9% to £56.6 million. All these figures are clear records for the Group. These results reflect organic revenue growth** of 10.8% and organic profit growth** of 14.9%. The Board is recommending a final dividend of 4.12p per share, an increase of 5% for the year, in line with our policy of progressively increasing the dividend but also increasing cover which now moves to 1.6 times (2004/05: 1.5 times). Return on total invested capital** improved to 12.8% (2004/05: 12.1%).

Over the last few years our focus has been on re-establishing organic growth; a point emphasised and supported by shareholders at last year's annual general meeting. In previous statements I highlighted some of the areas that may have been holding us back and some of our actions to address them, for example – more and faster innovation, upgrading our sales capabilities, more investment in training our people, sharpening and simplifying our devolved management structures, rethinking management incentives and so on. Well, the action we took certainly worked last year. The statistician in me would love to be able to determine what benefit we got from what changes – intriguing, but impossible to do with precision. What I can say, is that we are not resting on one year's results and we continue to examine and debate each and every factor that may be impeding us.

*Restated under IFRS see note 1 to the accounts.
**See Financial highlights.

What is also very noticeable is the impact of our new CEO Andrew Williams. Our strategy is clearer than it has been since I arrived on the Board (this is articulated later in this report both at the Group level and for each of the three new major operating sectors). Speed of decision making has improved dramatically (the same piece of paper rarely gets picked up off his desk twice) and this is spreading throughout the Group, although Andrew would be the first to modestly say "it's a team effort", and he's right.

With this strategy as a template, the direction of cash allocation is much clearer. In line with this, we have disposed of eight businesses during the year and acquired three, so, in turn, our structures and focus are also far clearer. Our balance sheet remains strong – at the year end we had net cash of £4 million despite investing £36 million in acquisitions and receiving £15 million from disposals. Including £60 million of debt capacity, we have significant firepower to acquire more companies in line with our strategic directions. We are also investing in more sales and production infrastructure in the new fast-growing economies – particularly China, the aim being to make it easier for our individual companies to make further, and in some cases first, steps there in developing more business.

I should like to thank all of our employees for their dedication to our customers and their constant ability to come up with innovative ideas. The increased investment in people seems to be having a very significant payback with a healthy queue of excellent internal candidates now clamouring to participate in our customised management training.

So, behind these record results also lies record investment – in people, innovation and new markets as well as new acquisitions. This, together with clarity of direction and increased momentum gives us confidence for the future.

All in all, an excellent vintage.

Geoff Unwin Chairman

Chief Executive's strategic review

Record profit and revenues achieved against a background of major strategic change.

We have had an outstanding year producing profit growth from continuing operations* of 20% (18% on a statutory basis) and revenue growth of 16%. Organic growth* was 15% and 11% for profit and revenue respectively.

This is a record performance by a significant margin and was achieved against a background of major strategic change. This is a testament to the robustness of our growth strategy and the quality of the contributions made by our employees.

We now report our results under three market-defined sectors: Infrastructure Sensors, Health and Analysis and Industrial Safety. These replace the previous six product-based divisions and more closely reflect the coherent nature of our activities and the way we operate, as well as making it easier for shareholders to gain a better understanding of what we do. You will find details about each sector in the comprehensive business review which follows.

Our return to organic growth was widespread across the Group and was underpinned by a tremendous performance in the Health and Analysis sector. Strong organic growth was boosted further by a rapid recovery by our Water business. Infrastructure Sensors started to show promising revenue growth in the second half, although continued investment in the sales and support structure for the longer term suppressed short-term profits. All parts of our Industrial Safety sector performed strongly with the buoyant oil and petrochemical market contributing to healthy revenue and profit growth.

I am very pleased with the record Return on Capital Employed ("ROCE")* of 57% achieved during the year. Our success in achieving growth has not come at the expense of diluting the quality of our returns. Another year of strong cash generation has funded organic growth, acquisitions and, for the 27th consecutive year, enabled a further increase in our dividend of 5%. Between self-generated cash and a longer term debt facility of £60 million, we have sufficient capital resources to support our growth plans for the coming year.

*See Financial highlights.

Strategic achievements

- → Organic profit growth* 15%, organic revenue growth* 11%
- → 3 acquisitions inject new technology and new markets
- → 8 disposals generate £15 million cash
- → New Chinese, Indian and Middle East sales offices
- → New manufacturing facilities in low cost areas
- → Over 100 new products launched
- → Management development programme launched
- → 57% ROCE* funds organic growth, acquisitions and dividend increase
- → Ungeared at year end

Strategic directions

- → Organic growth to exceed 5% p.a.
- → Continued management development
- → Establish "hubs" in China
- → Maintain strong new product innovation
- → Acquisitions – particularly in Health and Analysis

We completed three acquisitions, all of which are performing ahead of expectations. Netherlocks, acquired in July, increased our presence in the oil and petrochemical market and strengthened further our leadership in valve safety interlocks. Radio-Tech, acquired in August, brought important wireless communications technology to our Water business and offers new opportunities elsewhere in the Group. In November, we acquired Texecom giving us an entry into the strategically important security sensor market. Texecom offers us attractive growth potential in its own right. It has common sales distribution channels with Fire and similar technology platforms to our Door Safety activities, providing additional opportunities for the longer term.

The disposal of eight businesses demonstrated our commitment to actively allocate capital and people resources. In February we sold our high power Resistors business for £14 million. While this business had generated good value for shareholders over many years, its recent performance relative to other Halma companies, and in absolute terms, fell short of expectations. The net result of the acquisitions and disposals made this year is that we are making more profit, we have allocated more resource to markets with higher growth potential and we have 10% fewer companies.

We are expanding geographically. We have opened additional sales and technical support offices in China, India, Malaysia, Spain, Ireland, US and, most recently, Dubai. In addition, we have established new manufacturing facilities in Eastern Europe and Tunisia. Although we have manufactured Infrastructure Sensor products in China for over a decade, we are increasing our direct presence in this important long-term growth market at a faster pace. For example, we are creating new Halma "hubs" in Shanghai and Beijing to help our companies get new activities established or develop their existing activities more rapidly. We expect those companies which are successful to spin-out and develop as strong, independent operations in their own right.

Last year, I mentioned the need for us not only to maintain our high level of investment in Research & Development ("R&D"), currently 4% of revenues, but improve speed to market too. This year we launched over 100 new products. There are some early signs of improvement in speed to market in some parts of the Group, although we can still do more. For example, high quality R&D resources in lower cost territories, such as India, can supplement our essential in-house technical capabilities to achieve shorter product development cycles.

Our highly decentralised operating structure makes us particularly dependent on the quality of our local management teams. Following the significant people changes made at operating company board level over the past two years, it is pleasing to see this action translate into improved results. To build further momentum, we have created a bespoke development programme for our senior management at Henley Management College, a leading UK business school. This leadership development programme not only helps our management become even more successful in their current role, but also gives us a stronger pool of talent to draw on as new opportunities arise.

I thank all the employees for their contribution during an exciting and successful year. We can take great confidence in the exceptional results that have been achieved during the year but recognise there is no room for complacency. Our goal is to achieve growth and create value for shareholders every year.

We have made tremendous progress in 2005/06 in terms of both achieving organic growth in the short term and improving our growth potential for the future. Our underlying growth prospects remain good and we enter the new year better placed to exploit them due to the rapid recovery in our Water business and new acquisitions. I look forward to the year ahead with confidence.

Andrew Williams Chief Executive

*See Financial highlights.

We have three sectors...

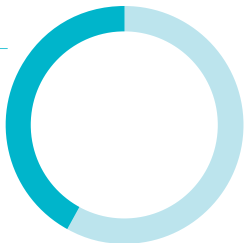
Infrastructure Sensors

We make products which detect hazards to protect people and property in public and commercial buildings.

Infrastructure Sensors revenue 2006 £m

£132m

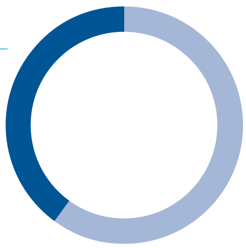
42%



Infrastructure Sensors profit* 2006 £m

£24m

40%



Sub-sectors

Fire detection
Security sensors
Automatic door sensors
Elevator safety

*See note 1 to the accounts.

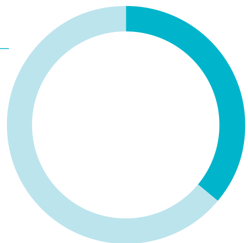
Health and Analysis

We make components and products used to improve personal and public health. We also develop technologies and products which are used for analysis in safety, environmental and leisure related markets, including Water.

Health and Analysis revenue 2006 £m

£112m

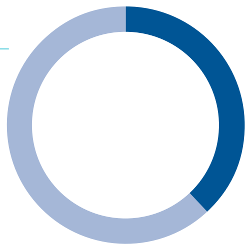
36%



Health and Analysis profit* 2006 £m

£23m

38%



Sub-sectors

Water
Fluid technology
Photonics
Health optics
Specialist

Industrial Safety

We make products which protect property and people at work.

Industrial Safety revenue 2006 £m

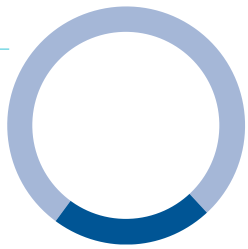
£67m

22%

Industrial Safety profit* 2006 £m

£13m

22%



Sub-sectors

Gas detection
Bursting discs
Safety interlocks

...and
one approach

As a group we are:

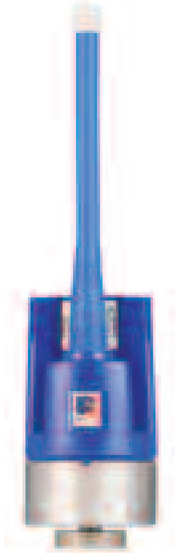
→ Autonomous and entrepreneurial
→ Highly cash generative
→ Financially strong
→ Successful acquisition integrators
→ Effective people/team builders
→ Good at sharing opportunities

Our businesses have:

→ Robust growth drivers
→ Worldwide opportunities
→ High performance products
→ Innovative product development
→ Market leading positions
→ High barriers to entry
→ Empowered local management

Take a look at what we have been doing →

This is saving El Paso 6 million gallons of water per day.



→ Health and Analysis

City-wide electronic surveillance cuts water wastage

The 700,000 residents of the city of El Paso, Texas, are benefiting from our water pipework leak location technology which is credited with saving the city about 6 million gallons of water a day.

El Paso has invested in the world's largest permanently installed network of underground water pipework leak detectors. About 11,000 of our Permalog sensors monitor the city's water distribution network. On top of the environmental benefit of conserving water resources, the city has made financial savings in reduced water treatment costs, and also energy and cost savings from reduced pumping.

This is helping to keep Shanghai safely on the move.

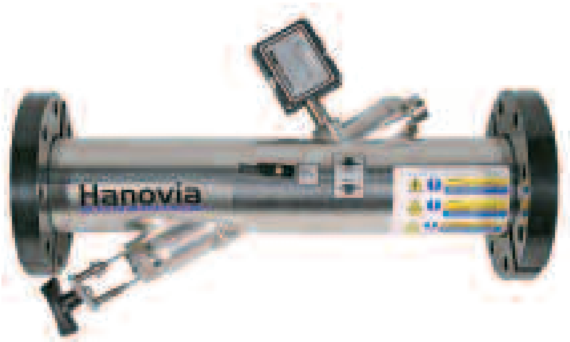
→ Infrastructure Sensors

High speed trains run safely with our door sensors

Protected by our automatic door control products, passengers on China's revolutionary magnetic levitation railway in Shanghai enter and exit carriages in safety. Our infrared sensors protect passengers from harm by ensuring that the doors cannot close while people enter or exit the train.

Claimed to be the fastest train in the world, the Maglev transports passengers from Longyang Road Station in downtown Shanghai to Pudong International Airport at extraordinary speeds of up to 430 kph (267mph). The 30 kilometre (19 mile) journey takes just 7 minutes.

This is protecting thousands of holiday makers in Slovakia every day.



→ Health and Analysis

We keep the water safe at AquaCity

Holiday makers enjoying the pools and spas at AquaCity, a luxury holiday resort recently opened in Slovakia, have fun and relax in sparkling clear water treated by our UV water disinfection systems.

A modern alternative to chlorination, ultraviolet light treatment of pool water has many benefits for swimmers and pool operators. A unique feature of this resort is that the pools, whirlpools, saunas and spas are fed from a naturally pressurised and geothermally heated underground lake. AquaCity's developers chose our non-chemical UV water treatment technology partly because it complements their desire to minimise the environmental impact of the resort.


skákať zo strán zakázané

This is preventing injury to the staff at Walkers Snack Foods.

→ Industrial Safety

Forklift operators can load lorries safely

Forklift truck operators at Walkers, Britain's biggest snacks maker, are now protected from the danger of lorries driving away while they are still loading them by a unique safety product that we launched last year. Our Salvo safety system has been fitted across six of Walkers' UK logistics centres.

Salvo makes workplaces safer by imposing rigorous control on people's behaviour, which could otherwise lead to accidents. It simply removes the opportunity for human error. You can find out more about Salvo on our dedicated website www.salvosafe.com.


26

This is protecting the lives of shoppers in Dubai.

→ Health and Analysis

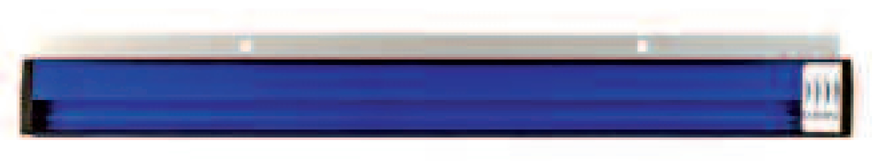
We provide instant warning of gas hazards at this shopping mall in the United Arab Emirates

If potentially deadly carbon monoxide gas from car exhausts reaches danger levels in the car parks of the Mall of the Emirates shopping and leisure complex in Dubai, a network of 660 gas sensors will activate the ventilation system and trigger an alarm.

Dubai, part of the United Arab Emirates, is fast becoming the business capital of the Middle East and is a key trading route between East and West. With a rapidly expanding economy founded on oil exports, the UAE is investing heavily in tourism infrastructure. Dubai's recently announced £14 billion Bawadi Project will see the construction of 31 luxury hotels, 100 theatres and 1,500 restaurants.


← Park موقف
↑ Park موقف
Exit مخرج

This is keeping lift passengers in Mumbai safe.



→ Infrastructure Sensors

High-rise buildings in India are being fitted with our lift safety sensors

The Hinduja Hospital in India's fast-expanding capital, Mumbai, is one of hundreds of high-rise offices and residential buildings throughout India where our infrared lift door sensors have been installed to protect people from contact with moving doors.

India's rapid economic growth, estimated at around 8% per year, plus a constant population drift to metropolitan centres, is driving a construction boom and demand for our elevator products. During 2005/06 we opened a new sales and technical support centre in Mumbai which has the largest number of skyscrapers in South Asia and a population estimated at 13 million.

Group overview

Halma protects lives and improves quality of life for people worldwide through innovation in market leading products which make our customers safer, more competitive and more profitable.

Business overview

Halma is made up of three sectors each comprising autonomous operating companies which mainly manufacture innovative electronic and electrical products for niche markets with global dimensions. We are an international group with businesses in 20 countries and major operations in Europe, the USA, Asia and, most recently, Africa. You will find a description of our products, the industries in which we operate and trends in our markets in the sector reviews on pages 26 to 31. These sectors are:

→ Infrastructure Sensors	detecting hazards, and protecting people and property in buildings
→ Health and Analysis	improving public and personal health; protecting the environment
→ Industrial Safety	protecting property and people at work

KPI	Group target	2006	2005
Organic revenue growth[1]	>5%	11%	5%
Organic profit growth[1]	>5%	15%	1%
Return on sales[2]	~18%	18.7%	18.0%
ROCE[3] (Return on Capital Employed)	>45%	56.9%	48.8%
ROTIC[3] (Return on Total Invested Capital)	>12%	12.8%	12.1%
R&D as a % of sales[4]	~4%	4.3%	4.2%
Operating cash to operating profit[5]	100%	117%	121%

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

Key performance indicators

Financial key performance indicators (KPIs) used by the Board to monitor progress are listed in the table on the left. Similar indicators are used to review performance in our three sectors. KPIs are calculated on results from continuing operations.

We have performed well this year against our KPI targets. This impressive operating performance is not uncommon for Halma although 2005/06 demonstrated levels of organic revenue and profit growth well above those seen in recent years. The stated targets represent the shape we aim for in our business.

We achieved a higher percentage of organic profit growth (15%) than organic revenue growth (11%) and this is a relationship we expect to see because of our high operating leverage. Our ROCE and ROTIC both increased this year and these are important measures of our creation of value for shareholders. Further discussion of the Group's financial performance can be found in the Financial review below.

This Business and financial review is based on the guidelines for Operating and Financial Reviews published by the Accounting Standards Board. To help shareholders get a clear insight into our business we look at issues affecting the Group as a whole on pages 22 to 25, followed by an analysis of our three principal operating sectors in more detail on pages 26 to 31, and then we summarise Operating environment, risks and uncertainties, concluding with a Financial review.

Strategy and business objectives

Our strategy for driving growth and creating shareholder value centres on five key principles:

→ Operate in specialised global markets offering long-term growth underpinned by robust growth drivers;

→ Build businesses which lead specialised global markets through innovative products differentiated on performance and quality rather than price alone;

→ Recruit and develop top quality boards to lead our businesses and nurture an entrepreneurial culture within a framework of rigorous financial discipline;

→ Acquire companies and intellectual assets that extend our existing activities, enhance our entrepreneurial culture, fit into our decentralised operating structure and meet our demanding financial performance expectations;

→ Achieve a high Return on Capital Employed to generate cash efficiently and to fund organic growth, closely targeted acquisitions and sustained dividend growth.

Organic growth is the key to our value creation strategy. The "blended" long-term growth rate of our markets is around 5% per year and our aim is grow faster than our markets. Achieving organic revenue and profit growth above 10% this year was, therefore, a very good performance, especially since organic growth has been disappointing in recent years.

R&D and innovation play an important role. Strategically, we aim to provide technical resources within each business as close as possible to the customer. We encourage collaboration between Halma companies and see this as a potential competitive advantage that has been under-utilised in the past. The creation of three major market-focused sectors will provide greater transparency and already we are seeing new collaboration opportunities.

Growth drivers

→ Safety regulations and legislation
→ Risk and cost of accidents
→ Construction industry growth (new build and refurbishment)
→ Capital investment in industrial facilities
→ Population growth, ageing and urbanisation
→ Rising expectations of health and safety
→ Industrial growth in developed countries
→ Industrialisation of developing world
→ Energy and water resources markets growth
→ New technology

Group overview continued

Our businesses build competitive advantage and strengthen barriers-to-entry in many ways including patents, product approvals, technical innovation, product quality, customer service levels and branding. We look for these qualities in the businesses we seek to acquire. We like regulated markets which require suppliers to achieve compliance with demanding product standards but also look for other long-term growth drivers such as demographic change. For example, during the year our Fire detectors business added 500 new product approvals totalling over 2,500 international, national and local approvals.

We cultivate a highly decentralised operating culture which encourages our businesses to focus on establishing market leadership in their selected niche within a global market. Each subsidiary is led by a management team who enjoy genuine autonomy and the freedom to grow in an entrepreneurial environment.

These management teams are chaired by Halma's Divisional Chief Executives (DCEs) who understand the market needs and can contribute broadly to the individual company's strategy in technical, operational and commercial areas. These DCEs meet with the Group Chief Executive regularly to review progress against their operating division's strategic objectives.

When new acquisitions join Halma they invariably retain their name and identity, and vendors often continue to work with us. Elsewhere entrepreneurs typically find working in a large international organisation too constraining but our autonomous culture and decentralised structure allows them to develop further. Over the years, many of our top executives have joined us through acquisition.

Results

The 2005/06 results are summarised as follows:

	Revenue			Profit before taxation		
£ million	2006	2005	% change	2006	2005	% change
Infrastructure Sensors	131.9	118.2	11.6%	24.1	23.7	1.7%
Health and Analysis	111.7	93.1	20.0%	23.4	15.0	56.0%
Industrial Safety	67.6	57.9	16.8%	12.9	10.1	27.7%
Inter-segmental sales	(0.4)	(0.5)		–	–	
Central companies	–	–		(0.4)	0.6	
	310.8	268.7	15.7%	60.0	49.4	21.5%
Amortisation of acquired intangibles	–	–		(1.5)	(0.3)	
Net finance expense	–	–		(1.9)	(1.1)	
Continuing operations	310.8	268.7	15.7%	56.6	48.0	17.9%
Taxation	–	–		(17.0)	(14.5)	
	–	–		39.6	33.5	
Discontinued operations	26.5	30.4		1.3	1.1	
Result for the year	337.3	299.1	12.8%	40.9	34.6	18.2%

See the individual sector reviews and the Financial review below for a discussion of these results.

Outlook

As well as achieving excellent short-term progress during 2005/06 by substantially raising organic growth, we established firm foundations for the long-term growth of our business.

We will pursue geographic expansion and new product development energetically. Continued investment to extend our presence in key developing markets and continuing development of senior management are key actions aimed at sustaining profitable revenue growth.

Key growth drivers, like regulation, legislation and attitudes to the risk of accidents, will continue to play an important role in creating favourable market conditions. Growth in the coming year will be aided by a full year's contribution from our new acquisitions and we will continue to explore collaboration opportunities between our businesses.

Our underlying growth prospects are positive and we are in a better position to exploit them following the rapid recovery of our Water business and the acquisitions and disposals completed during the year. We enter the new year in good shape.

Infrastructure Sensors sector review

We make products which detect hazards to protect people and property in public and commercial buildings.

KPI	Group target	2006	2005
Revenue growth[1]	>5%	12%	(2%)
Profit growth[2]	>5%	2%	(3%)
Return on sales[3]	~18%	18.3%	20.1%
ROCE[4] (Return on Capital Employed)	>45%	60%	70%
R&D as a % of sales[5]	~4%	4.4%	4.2%

KPIs are calculated on results from continuing operations.

1. Sector revenue compared with the prior year.
2. Adjusted[6] sector profit before finance expense compared with the prior year.
3. Return on sales is defined as adjusted[6] sector profit before finance expense and taxation expressed as a percentage of sector revenue.
4. Adjusted[6] sector profit before finance expense expressed as a percentage of sector operating assets.
5. Sector research and development expenditure expressed as a percentage of sector revenue.
6. Adjusted to remove the amortisation of acquired intangible assets.

Sector overview
Infrastructure Sensors is our largest business contributing 42% of Group revenue (£132 million) and 40% (£24 million) of Group profit. There are four main sub-sectors:

Fire detectors We make fire and smoke detectors and audible/visual warning devices. We are the second largest manufacturer of point smoke detectors in the world. We make fire products in the UK and US with sales offices in the US, Europe, Africa, the Near East and Asia.

Security sensors Through our acquisition of Texecom, we have established a strong presence in this strategically important and fast growing market. We are the market leaders in the UK and South Africa for security sensors used in public and commercial property. These products are made in the UK.

Automatic door sensors We are the world's largest manufacturer of sensors used on automatic doors in public and commercial buildings. These products are made in China, Europe and the US.

Elevator safety We are the world's largest manufacturer of elevator/lift door safety sensors. We also make emergency communication devices, display modules and control panels for elevators. These products are made in the UK, Eastern Europe, New Zealand, the US, China and Singapore.

Sector strategy
In this sector, our strategy is to be the leading supplier of sensors (and other critical components) and not an installer of complete fire, security, automatic door or elevator systems. Our strong focus on safety-critical sensor components enables us to sell to the major global players in the building infrastructure markets who supply complete, installed systems such as GE, Honeywell and Tyco in Fire, and OTIS, Mitsubishi and Kone in Elevator Safety. By concentrating all our efforts on a single system component, we can offer high performance products complying with all the major international and national regulations and standards.

Strategic achievements

→ Revenue increased by 12%, profit by 2%
→ New sales and technical support offices in China, India, USA, Spain, Ireland, Dubai and South Africa
→ New low cost manufacturing in Czech Republic for Elevator Safety
→ Texecom acquired for £26 million in November 2005. The strategically important Security market has relatively higher growth potential and increasing legislation and regulation
→ Over 30 new products launched

Strategic directions

→ Organic profit growth driven by revenue growth
→ Increase direct presence further in China and Asia regions
→ Devise and implement revised growth strategies for Elevator and Door Safety businesses
→ Continue to reduce manufacturing costs
→ Complete integration of Texecom and develop technical/commercial collaboration opportunities

Our Infrastructure Sensor products are used in both new build and refurbishment projects, so we work hard to ensure new sensor products are backwards-compatible with existing installations.

R&D investment and product innovation is central to maintaining competitive advantage in this sector. This is because constantly changing technical standards and regulations drive our infrastructure sensor markets. We make an active contribution to the development of international technical standards. In the past year we worked closely with trade bodies such as CENELEC and EURALARM which set standards in the EU for intruder alarms, and also with the British Security Industry Association and the British Standards Institute on the interpretation and implementation of EU standards.

To enhance public safety, governments worldwide set increasingly stringent standards for fire protection products. In the past year alone, our fire products companies have added 500 new technical approvals which allow us to sell our products worldwide.

Market trends
Our security sensors sell into a global market, worth approximately £2 billion annually, which is growing at 6% to 7% per year. Since acquisition, Texecom has continued to grow faster than the market and we hold a dominant market share in the UK and South Africa.

A global fire detection market growth of 4% per year is expected to continue for the foreseeable future. Demand for fire detectors is particularly strong in China and India, where infrastructure investment is generating annual market growth of 15%, and in the Middle East which is growing by 8% per year. Conversely, demand in developed markets such as Europe and the US has lagged behind the global market growth rate. Falling end-user fire detector prices coupled with shorter product life cycles have been characteristics of this market since we first entered it over 20 years ago. However, we believe that our investment in product development, manufacturing and the supply chain will continue to deliver organic growth and maintain our excellent margins.

During 2005/06 we saw continuing price competition in our elevator products and automatic door sensor markets. The Middle East, China and India are experiencing some of the highest rates of high-rise building development in the world. To strengthen our local presence, we recently established new elevator product sales offices in Dubai, Mumbai and Chongqing (our fourth regional office in China).

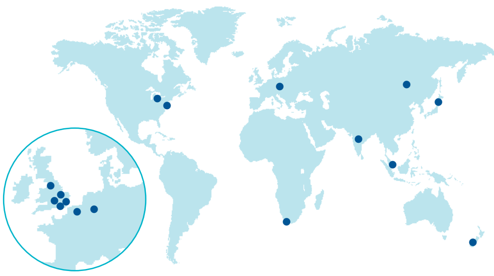
In our 2004/05 Operating review we identified growing demand for products which assist evacuation during fire emergencies. Our investment in advanced technology audible and visual devices which assist safe building evacuation produced double-digit sales growth for these products.

Sector performance
Revenue growth at 12% for this sector included the benefit of the Texecom acquisition made in the year. Despite this, profit growth at 2% was below our target largely because of the extra investment in overheads made this year to improve longer-term growth potential. This also has had the effect of reducing the return on sales although this remains at a high level because product margins were sustained. ROCE continues to be excellent.

Sector outlook
Investment to increase our direct presence in key developing markets and changes to senior management are aimed at accelerating profitable revenue growth. In the coming year, we expect those actions taken in 2005/06 to start to deliver organic profit growth. Growth in this sector will also be boosted by a full year's contribution from our new security business, Texecom. We will continue to explore collaboration opportunities across all Infrastructure Sensor businesses.

Geographic regions

Belgium
China
Czech Republic
Germany
India
Japan
New Zealand
Singapore
South Africa
UK
USA



Main growth drivers

→ Safety regulations and legislation
→ Risk and cost of accidents
→ Construction industry growth (new build and refurbishment)
→ Capital investment in industrial facilities
→ Population growth, ageing and urbanisation
→ Rising expectations of health and safety
→ Industrial growth in developed countries
→ Industrialisation of developing world
→ Energy and water resources markets growth
→ New technology

Health and Analysis sector review

We make components and products used to improve personal and public health. We also develop technologies and products which are used for analysis in safety, environmental and leisure related markets, including Water.

KPI	Group target	2006	2005
Revenue growth[1]	>5%	20%	27%
Profit growth[2]	>5%	56%	17%
Return on sales[3]	~18%	21.0%	16.1%
ROCE[4] (Return on Capital Employed)	>45%	79%	58%
R&D as a % of sales[5]	~4%	4.9%	4.6%

KPIs are calculated on results from continuing operations.

1. Sector revenue compared with the prior year.
2. Adjusted[6] sector profit before finance expense compared with the prior year.
3. Return on sales is defined as adjusted[6] sector profit before finance expense and taxation expressed as a percentage of sector revenue.
4. Adjusted[6] sector profit before finance expense expressed as a percentage of sector operating assets.
5. Sector research and development expenditure expressed as a percentage of sector revenue.
6. Adjusted to remove the amortisation of acquired intangible assets.

Sector overview

Health and Analysis is our fastest growing business sector and contributed 36% (£112 million) of Group revenue and 38% (£23 million) of Group profit.

We serve a very wide range of specialised applications in areas such as eye health, food and beverage manufacturing, clinical and medical diagnostics, bio-hazard detection, water purification, water conservation and leisure industries. There are four major sub-sector businesses.

Water We are the world leaders in monitoring and finding leaks in underground water pipelines and among the world leaders in UV technology used to disinfect and treat water. We manufacture water instrumentation in the UK, Europe and the US.

Fluid technology We make critical components such as pumps, probes, valves, connectors and tubing used by the major scientific, environmental and medical diagnostic instrument manufacturers for demanding fluid handling applications. These products are made in the US and UK.

Photonics We have market-leading technologies and products which generate light, condition light and analyse the interaction of light on substances. The range of applications is vast, ranging from cancer detection to specialised architectural and theatre lighting filters. We have three manufacturing sites in the US and two in Europe.

Health optics We make handheld devices used to assess eye health, diagnose disease and assist with eye surgery. Our Keeler and Volk brands are used by the world's leading ophthalmologists and eye surgeons. Our ophthalmic products are made in the UK and US.

Sector strategy

After a year of restructuring, our Water business recovered ahead of schedule. The costly product rationalisation completed on our network monitoring and leak detection product range and the changes to US management in our ultraviolet ("UV") business, enabled double-digit organic revenue and profit growth to be delivered this year. Market conditions helped because UK water companies increased capital investment as they started a new five-year AMP period (a five-yearly capital investment cycle regulated by the Drinking Water Inspectorate).

The acquisition of Radio-Tech brought new RF wireless communications technology to our Water business and a broader asset monitoring and wireless connectivity opportunity to many other businesses across the Group.

Strategic achievements

- → Revenue increased by 20% and profit by 56%
- → Water business recovered profitability ahead of schedule with revenue growth of 13% and profit growth of 134%
- → Radio-Tech acquired in August 2005 bringing new wireless communications technology to our Water business and other Group companies
- → Over 60 new products launched during the year
- → £1 million+ investment in expanding our leading edge optical coating manufacturing facility at Ocean Optics, US

Strategic directions

- → Organic profit growth driven by revenue growth
- → Target further acquisitions
- → Increase sales and operational resources in China and Asia regions
- → Launch new products in Photonics and Water
- → Increase investment in Optics/Photonics manufacturing to secure and leverage IP further

Our rate of innovation and that of our customers, in new products and processes, is a major driver of success in this sector. During the year we increased our investment in R&D at 4.9% of revenue and launched over 60 new products.

Relative to our other two sectors, Health and Analysis has a larger proportion of revenue and profit made in US Dollars, hence significant movement in this currency can have an impact on Sterling results.

Market trends

We sell fluid technology products into the analytical, life science and medical instrumentation markets which continue to grow at high single-digit rates. Demand is driven by growing populations, improving conditions in developing countries and biotech/pharmaceutical research. Typically, instrumentation for these markets must meet stringent testing and regulatory requirements which make it difficult for the instrumentation manufacturer to change key components once they are designed-in and certified. Our primary global market, life science instrumentation, continued to grow in the high single-digit range.

As we indicated in our 2004/05 Operating review, the United States Postal Service awarded further contracts for biohazard detection equipment which created additional demand for our components. Also predicted last year, the fuel cell market is moving slowly from prototyping towards low production volumes.

Markets for our ophthalmic instruments are heavily regulated. New health optics products require lengthy technical approvals, and instruments using new diagnostic methods need clinical trials. These factors add cost and time to new product development, but are a strong disincentive to new competitors.

There are very strong underlying drivers for moderate growth to continue in the health optics sector. The increasing number of older people in the developed world inevitably promotes demand for eye care. Added to this, as GDP rises in developing countries, demand for healthcare rises too.

We estimate the size of the global market for UV water treatment systems to be in the region of £350 million per year. Forecast growth rates vary from 5% to 15%, with highest growth predicted in the municipal sector. Demand for UV drinking water treatment systems in the US was boosted in 2005/06 when the Environmental Protection Agency (the principal regulator) approved UV technology for controlling the cryptosporidium micro-organism in drinking water.

UV water treatment is another market dominated by product certifications. During 2005/06 we launched new products to satisfy the latest European DVGW and Önorm approvals and a product line complying with the new US National Water Research Institute standards will be launched in 2006/07. The forecast recovery in our UV business, following reorganisation in the US, delivered 20% sales growth. The leisure industry is showing high growth and sales to semiconductor fabricators were the highest for several years.

Our photonics business saw record revenue and profit with the latter 24% ahead. Our core photonics products, miniature spectrometers which measure light, are sold into a highly fragmented but rapidly growing global market valued at between £50 million and £150 million per year.

The largest market for water leakage control products remains the UK due to its ageing water network, environmental and regulatory pressures on water companies, regional population growth and recent drought conditions. We expect these factors to drive UK demand for the foreseeable future. The US is our second largest leakage control market where we won further large contracts in 2005/06, notably for the cities of Albuquerque, New Mexico, and Birmingham, Alabama, and for the island of Hawaii. There is little regulatory pressure on US water companies to reduce leakage and rising US demand for our products is driven by water shortages and increasing energy costs.

Sector performance

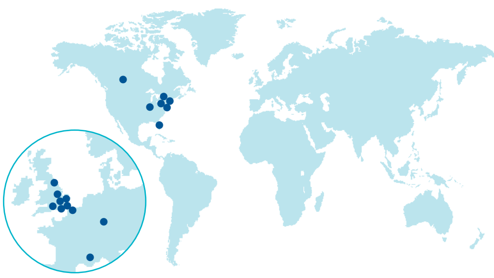
The strong revenue and profit growth (20% and 56% respectively) continued the trend of the previous year. This growth came in part from acquisitions but predominantly from the recovery in our Water businesses and strong performances across the sector. These factors restored the return on sales to a more typically high figure of 21%. ROCE and investment in new products were both at good levels.

Sector outlook

The exceptional growth levels achieved in 2005/06 included the benefit of a rapid recovery in our Water business. We expect the Health and Analysis sector to make further progress in the coming year albeit without this one-off extra boost to profits.

Geographic regions

Canada
France
Germany
Netherlands
UK
USA



Main growth drivers

→ Safety regulations and legislation
→ Risk and cost of accidents
→ Construction industry growth (new build and refurbishment)
→ Capital investment in industrial facilities
→ Population growth, ageing and urbanisation
→ Rising expectations of health and safety
→ Industrial growth in developed countries
→ Industrialisation of developing world
→ Energy and water resources markets growth
→ New technology

Industrial Safety sector review

We make products which protect property and people at work

KPI	Group target	2006	2005
Revenue growth[1]	>5%	17%	1%
Profit growth[2]	>5%	28%	(6%)
Return on sales[3]	~18%	19.0%	17.4%
ROCE[4] (Return on Capital Employed)	>45%	75%	59%
R&D as a % of sales[5]	~4%	3.1%	3.3%

KPIs are calculated on results from continuing operations.

1. Sector revenue compared with the prior year.
2. Adjusted[6] sector profit before finance expense compared with the prior year.
3. Return on sales is defined as adjusted[6] sector profit before finance expense and taxation expressed as a percentage of sector revenue.
4. Adjusted[6] sector profit before finance expense expressed as a percentage of sector operating assets.
5. Sector research and development expenditure expressed as a percentage of sector revenue.
6. Adjusted to remove the amortisation of acquired intangible assets.

Sector overview

This is our smallest sector, contributing 22% of Group revenue (£67 million) and 22% of Group profit (£13 million). Following the sale of our high power Resistor business in February 2006, there are now three sub-sectors.

Gas detection We make portable instruments and fixed systems which detect flammable and hazardous gases. We have a leading position in the UK market. We make our gas detectors in the UK.

Bursting discs We make 'one time use' pressure relief devices used to protect large vessels and pipe work in process industries. We are UK market leaders and number four in the world market. Our bursting discs are made in the UK and US.

Safety interlocks We make specialised mechanical, electrical and electromechanical locks which ensure that critical processes operate safely and prevent accidents. We have significant market strength in petrochemical, oil and gas and significant geographic market share in Western Europe and Australasia. We manufacture interlocks in the UK, The Netherlands, France, Tunisia and Australia.

Sector strategy

Competition in the portable gas detectors sector is stepping up, particularly for fixed-life disposable products. Our response has been to differentiate our offering through technical innovation and high quality customer service. To maintain competitive position in gas detectors, we are strengthening management, focusing on reducing manufacturing costs and sharpening procurement. This strategy led to improved margins and gas detector profit 7% ahead in 2005/06.

Speeding up product development cycles to continually refresh product lines is a key strategic objective to drive gas detector growth during the next five years. Our R&D function has been extended and we are also using development resources in China and India to help cut development timescales.

Strategic achievements

- → Profit grew by 27% and revenue by 17%
- → Underperforming high power Resistors business group sold for £14 million in February 2006
- → Netherlocks acquired in July 2005 adding to our presence in the oil and petrochemical safety market
- → New low cost safety interlocks manufacturing operation established in Tunisia
- → Major new products launched including the Tetra 3 gas detector and new e-Gard interlock and machine control system

Strategic directions

- → Organic profit growth driven by revenue growth
- → Increase direct international sales presence in Eastern Europe and Asia
- → Develop low cost manufacturing operation in Tunisia
- → Continue to exploit the fast growing oil and petrochemical market opportunity

Our bursting disc competitors consolidated during 2005/06; we now compete with just six other manufacturers worldwide. On a global scale, we rank fourth. To realise our aim of raising global market share, we will extend our sales operations and continue to improve our operating efficiencies.

During the year, one of our French safety interlock businesses established a new manufacturing operation in Tunisia. This offers an interesting alternative to "traditional" low cost locations giving us a highly educated work force and no language or time zone issues. The early signs of this strategic move are positive.

Market trends

The trend towards higher levels of health, safety and environmental awareness globally provides long-term growth prospects for our Industrial Safety businesses. While a lot of manufacturing industry is moving East, much of it is still driven by the relocation of Western companies who are "exporting" safety standards. Overall, we believe the long-term growth rate of the market to be 3% to 4% per year.

The global market for portable personal protection gas detectors is estimated to be valued at £275 million per year. We also sell fixed gas detection systems into a global market worth approximately £250 million per year. Both markets are expanding annually at about 3%. Because gas detection equipment is safety-critical, it requires regular servicing and calibration. Service is a key component of our gas instrumentation offer and makes a substantial contribution to sales.

We have built a market-leading position in the UK for boiler combustion test instruments which optimise gas burning efficiency and minimise energy use. We recently won a tender valued at £1 million to supply these instruments to British Gas.

The world market for bursting disc pressure safety devices continues to grow slowly. We are seeing a gradual relocation of our customers' manufacturing activities to low labour cost countries. Our response is to step up selling operations in Eastern Europe, India and China. We won significant new business in both Europe and the US due to our strategy of providing industry-leading technical support and fast deliveries. This contributed to bursting disc profit growth of 30% in 2005/06.

The acquisition of Netherlocks, based in The Netherlands, extended our presence in the growing petrochemical, oil and gas market. We believe this market offers attractive prospects for the next decade and beyond. Adoption of Western safety standards in China and Eastern Europe is a clear trend but sales of interlocks to these territories will build more slowly than for petrochemical, oil and gas.

Over the past two years we have been creating a new market for interlocking devices in the logistics industry. Our Salvo safety system, which prevents accidents to forklift truck operators, has been very well received by the market and has contributed over £1 million of revenue.

Sector performance

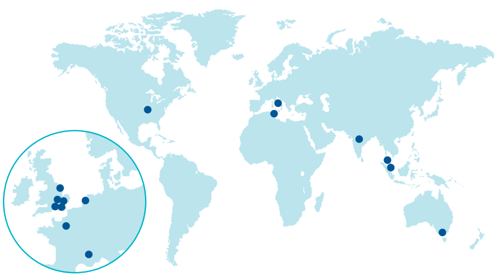
Following the sale of our Resistors business, we achieved organic growth in all sub-sectors and in all major geographic territories. Revenue growth was particularly strong in our traditional markets of the UK, mainland Europe and the USA. Revenue and profit growth included some benefit from acquisitions but also strong organic growth in our businesses serving the oil and gas markets. Return on sales improved and product margins increased. ROCE continued to be very strong. As planned a relatively lower percentage of sales was invested in R&D in this sector than in our other sectors as the markets served here tend to be more mature and conservative. However, good growth opportunities continue to exist.

Sector outlook

Whilst we have had an excellent year, we will continue to pursue our geographic expansion and new product development plans energetically. Regulation and legislation and reducing the risk of accidents play an increasingly important role in the working environment. We are well placed to deliver growth in line with market growth rates, at least, for the coming year.

Geographic regions

Australia
France
India
Italy
Malaysia
Netherlands
Singapore
Tunisia
UK
USA



Main growth drivers

- → Safety regulations and legislation
- → Risk and cost of accidents
- → Construction industry growth (new build and refurbishment)
- → Capital investment in industrial facilities
- → Population growth, ageing and urbanisation
- → Rising expectations of health and safety
- → Industrial growth in developed countries
- → Industrialisation of developing world
- → Energy and water resources markets growth
- → New technology

Operating environment, risks and uncertainties

Macro-economic, regulatory and competitive environment
With a world economic growth rate forecast to be in the region of 4.8%, we anticipate that the 2006/07 macro-economic environment will be broadly favourable to our growth strategy. In global terms, we see the US and Chinese economies as the principal growth drivers. We also expect that the continuing development of the Indian economy will create growth in demand for several core products, albeit from a low base.

Safety and environmental legislation is constantly evolving, worldwide, towards increased safeguards and protection. This favours us because it relentlessly drives demand growth in many of our core markets. Legislative change challenges us to continually refresh our product portfolio whilst regulatory compliance is also a powerful barrier-to-entry for competitors. Our well developed capacity to innovate, coupled with strong R&D resources, positions our companies for leadership of chosen markets dominated by regulatory control.

The markets we operate in are generally highly competitive. Our diversified product portfolio and wide geographic coverage means that competitive product manufacturers are analysed at subsidiary company or operating sector level. We have commented on the competitive environment in the sector reviews.

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

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

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

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

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

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

We like regulated markets which require suppliers to achieve compliance with demanding product standards but also look for other long-term growth drivers such as demographic change.

We seek to continuously grow our profit, generating a high return for shareholders over the long term. We view risk within the context of this objective as well as in absolute terms.

In any business the inherent risks that are an integral component of business activities must be identified, managed and mitigated. Our key means of risk control is the choice of the markets in which we operate and the people and methods we use to exploit those market opportunities. We perceive our primary operational risks to emanate from remoteness of operation and the actions and quality of our people.

Our choice to operate in the safety products and health-related technology markets, and the depth of market knowledge we have built up within the Group, allows us to adequately evaluate and assess the risks we encounter throughout our operations.

We do not place undue reliance on any one Group company nor does any one Group company rely heavily on one customer or transaction. In managing the portfolio of companies within the Group and in managing the transactions in any one company, we seek to spread our risks. We have processes in place to ensure any major transactions are reviewed at the appropriate level, including at Board level if necessary.

Another factor limiting risk is that our products are predominantly critical components or instruments which are warranted as fit for the purpose rather than systems or intangible products where satisfactory performance is contingent upon third parties.

Our procedures to identify, manage and mitigate the risks within the Group address the following major risk factors:

Organic growth and competition The Group is affected by competition in the form of pricing, service, reliability and substitution. Our focus on improving our rate of innovation is a direct result of assessing this risk and determining how best to concentrate our efforts. In addition, all businesses analyse revenue and margin by product line on a monthly basis. By ensuring that management are well resourced and responsive to their markets, we feel that the adverse impact of competition can be mitigated.

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

Financial irregularities We recognise that the size and remoteness of some operations may not permit full segregation of duties and that Internal and External Audit procedures may not always identify a financial irregularity. Therefore the Group regularly reiterates to the operating company officers their fiduciary responsibilities and ensures they are adequately trained in financial matters whilst maintaining a culture of openness to promote disclosure.

Pension deficit Monitoring the funding needs of the pension obligations is essential to controlling the cash the pension plan requires from Halma. We are currently awaiting the final results of the main scheme's December 2005 Actuarial Valuation at which time the Company will examine its options to deliver on its pension obligations at an acceptable cost.

Laws and regulations Group operations are subject to wide-ranging laws and regulations including employment, environmental and health and safety legislation. All Group companies have an employee handbook detailing employment practices and, we consider our relations with our employees to be good. Each operating company has a health and safety manager responsible for compliance and our performance in this area is excellent.

Financial review

Kevin Thompson Finance Director

Revenue from continuing operations by destination

£ million	Revenue	% change
United States of America	94.0	19.4%
United Kingdom	82.9	18.0%
Mainland Europe	77.2	6.2%
Asia Pacific and Australasia	33.3	10.2%
Africa, Near and Middle East	14.8	49.5%
Other	8.6	23.6%
	310.8	15.7%

Organic growth* in revenue of 11% and profit of 15%
Revenue from continuing operations increased by £42.0 million (15.7%) to £310.8 million of which £13.1 million (4.9%) came from acquisitions made this year and from the extra months' benefit of acquisitions made last year. Underlying organic revenue growth* was therefore 10.8%. Profit before tax from continuing operations before amortisation of acquired intangibles grew by 20.3% to the record figure of £58.1 million and after adjusting for acquisitions, organic profit growth* was 14.9%. Statutory profit before tax was 17.9% higher at £56.6 million. Currency translation contributed a modest 1% to revenue and profit growth.

We disposed of eight businesses in the year. The table on the opposite page shows the results both excluding and including those businesses.

In overview, revenue growth was strong in the year and gross margins held firm. Overheads were increased, in particular in the Infrastructure Sensors sector, to accelerate future opportunity across the world. The net result of our operational activity, acquisitions and disposals was to grow the return on sales to 18.7% and increase profit on continuing operations before amortisation of acquired intangibles and tax by £9.8 million.

During the year under review we increased revenues in all territories, with 73% of sales being made outside the UK. Indeed, sales outside of our traditional primary markets in the UK, mainland Europe and the USA grew by 20%.

Revenue from continuing operations increased to all of our geographic destinations and is shown on the table to the left.

The biggest absolute revenue growth came in our largest geographic sectors of the USA and UK where organic growth was strong. There was double-digit organic growth in Africa, Near and Middle East, in addition to the extra revenue in that region coming from the acquisition of our security sensor business, Texecom, which has a substantial branch network in South Africa. Mainland Europe showed a lower rate of growth and although Asia Pacific and Australasia grew by more than 10%, we see the opportunity for higher rates of growth here in the future.

All three of our sectors increased revenue by more than 10%, with the Infrastructure Sensors sector benefiting from the acquisition of Texecom. The Industrial Safety sector grew revenues by 16.8% and the Health and Analysis sector increased by the highest rate at 20.0%, with the growth in these two sectors predominantly organic. All three sectors increased profits.

Revenue, profit and returns are discussed on a sector basis in the Sector reviews on pages 26 to 31.

Adjusted earnings per share* (which we consider gives a more consistent measure of underlying performance) and statutory earnings per share on continuing operations increased by 20% and 18% respectively, very good rates of growth. A reconciliation of adjusted earnings figures to statutory figures is given in note 2 to the accounts.

*See Financial highlights.

Important acquisitions and disposals were completed in the year
We paid out cash of £36 million on acquisitions and received £15 million for disposals in 2005/06, a net outflow of £21 million. The acquisition payments included £8 million in deferred consideration, mainly in relation to Ocean Optics which we acquired in 2004/05 and which achieved its maximum targets. These acquisitions and disposals were an important part of reallocating Group resources and positioning us for higher rates of growth.

The largest acquisition in the year was that of Texecom Limited (UK) in November 2005. We paid a total cash consideration of £26 million with the last audited accounts showing revenues of £19.2 million and earnings before interest and tax of £3.9 million. Prior to this we acquired Netherlocks Safety Systems B.V. (The Netherlands) in July 2005 for €3 million (£2.1 million) and Radio-Tech Limited (UK) in August 2005 for £2 million, these two businesses having a combined annual profit of £0.7 million on revenue of £3.2 million in their last audited accounts. There is no deferred consideration for Texecom but there is the potential to pay a further £7.3 million of consideration for the other two businesses conditional on substantial profit growth. The performance of each business has exceeded our expectations with all achieving very good growth and all delivering a return well in excess of the Group weighted average cost of capital which is calculated as being 8%.

In April 2006, early in the new financial year, we purchased Mikropack GmbH Aufbautechnik in der Sensorik ("Mikropack") for €2.3 million (£1.5 million) with up to a further €2.3 million (£1.5 million) payable depending on performance. Mikropack manufactures light sources and photonic accessories and joins our Ocean Optics business.

Disposal of the eight businesses converted assets, which were performing below acceptable Group levels, into cash. In aggregate the businesses sold contributed operating profit of £1.5 million to total Group profit in 2005/06 and £1.6 million in the prior year. The largest element of the disposal proceeds came from the sale of our group of five high power Resistor businesses, sold for £14 million in February 2006. The Consolidated income statement shows a profit from discontinued operations of £1.3 million. This comprises a pre-tax gain on disposal of £5.9 million, tax on disposal of £0.1 million, operating profit less tax of £0.9 million and is after writing off goodwill of £5.4 million attributable to these businesses.

Growing investment in new products and business assets
Expenditure on Research & Development ("R&D") in our continuing operations increased by 20% to £13.5 million, representing 4.3% of revenue – a little higher than the prior year. R&D expenditure as a percentage of revenue in each of our three sectors was consistent with last year, with Health and analysis the highest at 4.9% of sales and Infrastructure sensors at a similar rate. Under IFRS we are required to capitalise certain development expenditure and include it as an asset on the Consolidated balance sheet and also to amortise expenditure from prior years. In the year we capitalised £2.5 million of such expenditure and amortised £1.4 million, resulting in an asset of £3.8 million on the closing balance sheet. All of these figures are at higher levels than in the prior year, demonstrating the increase in the amount of development work which we believe will have a future benefit. The net impact is that the Consolidated income statement was charged with an 11% higher cost than last year.

Expenditure on property, plant, equipment and computer software was 34% (£3.2 million) higher than 2004/05 at £12.6 million. There was less expenditure on property this year but more investment in operating assets to improve the performance of our businesses. The year's expenditure was 150% of depreciation/amortisation, a higher ratio than typical but indicative of our continued intention to invest for future growth.

Strong cash flow with significant financial resource available
Cash flow was once again very good. Cash generated from operations was £70 million, including a small cash outflow (£0.7 million, 2005: £2.5 million inflow) into working capital despite high rates of growth in the business overall. We started and finished the year ungeared. The table on the next page summarises the change in net cash, the main elements of which are discussed in this financial review.

During the year we started to purchase Halma shares to be held in Treasury to fund the new performance share plan. In the coming year we would expect to purchase £1 million to £2 million of Halma shares for this purpose and this is likely to be an ongoing activity. We also expect to increase the amount of cash paid into the Halma pension schemes following the anticipated outcome of the main scheme valuation now in progress. The additional cash contributions in 2006/07 are expected to be in the order of £4 million. These additional demands on our cash will have some impact on our financial position but we do not believe they will significantly affect our investment or growth potential.

		Continuing operations			Including discontinued operations	
£ million	2006	2005	% change	2006	2005	% change
Revenue	310.8	268.7	15.7%	337.3	299.1	12.8%
Profit before tax*	58.1	48.3	20.3%	59.6	49.9	19.4%
Return on sales	18.7%	18.0%		17.7%	16.7%	

*Excludes amortisation of acquired intangibles and profit on disposal of operations.
Comparatives have been restated on an IFRS basis. See Financial highlights on page 4.

Financial review continued

Change in net cash

£ million	2006	2005
Cash generated from operations	70.2	61.4
Acquisition of businesses	(36.2)	(24.6)
Disposal of businesses	14.6	(1.7)
Development costs capitalised	(2.5)	(1.1)
Net capital expenditure	(11.6)	(9.0)
Dividends paid	(24.5)	(23.3)
Taxation paid	(16.8)	(14.5)
Issue of shares	0.6	2.5
Net finance (expense)/income	(0.4)	0.2
Exchange adjustments	(1.9)	0.6
	(8.5)	(9.5)
Net cash brought forward	12.0	21.5
Net cash carried forward	3.5	12.0

The Group finances its operations from retained earnings and third party borrowings when needed. There are no material funds outside the UK where repatriation is restricted. The Group's Treasury policies seek to minimise financial risks and ensure sufficient liquidity for foreseeable needs. No speculative transactions are undertaken. Day to day implementation of the policy is largely delegated to the operating companies, overseen by Halma Head Office and co-ordinated in areas where we feel value will be added. Purchase and sale transactions are hedged into the functional currency of the relevant operating company and balance sheet net currency assets are hedged but foreign currency profits are not hedged.

Whilst we were again ungeared at the year end we seek to maintain financial flexibility so that short and long-term funding needs can be met and to allow opportunities to be taken as they arise. The Group is able to borrow at competitive rates and therefore consider this the most effective means of funding increased investment in the immediate future. During the year we secured a £60 million five-year debt facility from our well-established banking partners, improving our ability to fund our medium-term growth plans.

Strong margins and returns with ROTIC increased to 12.8%
High margins and strong returns underpin the resilience and strength of Halma. We have benefited from the improvement in returns resulting from the sale of lower return businesses and this is demonstrated by the fact that return on sales for the total Group, including discontinued operations, would have increased from 16.7% to 17.7% in the year. Return on sales* on continuing operations increased from 18% to 18.7% this year with Health and Analysis growing sharply from 16.1% to 21.0%, in part benefiting from the recovery in our Water business but across the Group we achieved a widespread improvement.

We do not specifically target improvement in return on sales however we have found that as our businesses grow, many of them generate higher returns and higher margins due to significant operational leverage – we have high-margin businesses which benefit greatly from sales growth.

Return on Capital Employed ("ROCE") is our measure of operating performance (see the calculation in note 3 to the accounts) and it increased to 56.9% (2004/05: 48.8%), a high rate but not untypical for Halma. ROCE measures our stewardship of the assets we use and the efficiency with which we run our businesses to generate the Group's strong cash flows.

Return on Total Invested Capital ("ROTIC") increased to 12.8% (2004/05: 12.1%). The calculation basis is described in note 3 to the accounts – it is a post-tax measure and includes in the denominator all historic goodwill but excludes the pension deficit and also excludes the creditor relating to the pension obligations for companies sold. We feel that a basis where an increased pension deficit improved ROTIC would not be appropriate. The increased ROTIC arises because we have grown earnings faster than the underlying capital base and we continue to exceed our weighted average cost of capital ("WACC") by a large margin, sustaining the generation of significant value for shareholders. Together with Total Shareholder Return, ROTIC is the key measure of performance which we employ in our performance share plan, aligning our senior executives with shareholders.

5% dividend increase and dividend cover raised
We have a progressive dividend policy; growing our dividend but with the objective of increasing cover towards a figure of around 2 over time, a level we feel is appropriate for our business. With the high level of earnings growth this year we have taken a good step towards this objective. The Board has recommended a 5% increase in the final dividend to 4.12p which together with the interim dividend (which was also 5% higher than last year) will give a total dividend of 6.83p per share, assuming the final dividend is approved. The total cost of the final dividend is expected to be £15.2 million, giving a total cost of £25.2 million for the dividends paid in respect of the year ended 1 April 2006. We believe we have adequate distributable reserves for the foreseeable future after taking into account the impact of inclusion of the pension deficit discussed below. Dividend cover, based on continuing operations before amortisation of acquired intangibles, is 1.6 times (2004/05: 1.5 times).

IFRS adopted with little impact on profits
During 2005/06 the Group adopted International Financial Reporting Standards ("IFRS") in common with other listed companies in the European Union. This has required restatement of the 2004/05 results reported previously under UK GAAP. The financial information in respect of the Company, Halma p.l.c., is not required to be reported under IFRS and has therefore been prepared under UK GAAP and is included from page 74 to 80, at the end of the financial section of this Annual report.

There was little overall impact on Halma's reported financial results from the adoption of IFRS. The Group's underlying business economics are unchanged.

Profit before taxation and amortisation of acquired intangibles/goodwill under IFRS was £0.1 million higher than under the accounting policies used in 2004/05. The two main elements of these IFRS adjustments are as follows:

*See Financial highlights.

Share-based payments Under IFRS an expense is now included in the Consolidated income statement in relation to employee share related schemes operated by the Group. A performance share plan ("PSP") was introduced in 2005 and phasing it in has caused the major element of the year on year increase in the share-based payment expense. There would have been an extra element of cost for this and future years under the old share option plans which the PSP replaces. The total cost of all share-based payments is expected to have an annual run rate of approximately £2 million by March 2008, depending on performance.

Development costs Certain development costs are capitalised and amortised although the majority of R&D continues to be expensed as incurred. Capitalisation of development costs exceeded amortisation by £1.1 million in the year.

The main IFRS changes on the Consolidated balance sheet are as follows:

Dividends Now only accrued when the dividend is approved.

Pensions The net pension liability on the Group's two defined benefit schemes, which are closed to new members, is now included in the Consolidated balance sheet. At 1 April 2006 the liability amounts to £46.0 million with £13.8 million deferred tax asset (2 April 2005: £40.8 million with £12.3 million deferred tax asset). In addition to the Consolidated balance sheet includes a creditor of £4.8 million relating to the pension obligations for the businesses sold during the year. The total pensions related liability at 1 April 2006 was £50.8 million (2005: £41.4 million). Although the value of scheme assets has grown over the year, the deficit has increased as a result of the decrease in the discount rate being applied to the scheme liabilities and by longer life expectancy. The net charge included in the Consolidated income statement is now split between an operating charge and a finance charge.

An unaudited summary of the restatement to IFRS was issued by the Group on 2 September 2005. There are a number of disclosure changes throughout these financial statements and note 29 below gives the restatement of opening figures in further detail.

Tax rate stays at 30%
The effective rate of tax on profit from continuing operations, before amortisation of acquired intangibles, is 30.1% (2004/05: 30.2%). This year's tax rate is expected to be representative of the tax rate in the near future, depending on the actual mix of profits made across the world.

Foreign exchange movements were not significant this year
The Group has both translational and transactional currency exposures. Translational exposures arise on the consolidation of overseas company results into Sterling. Transactional exposures arise where the currency of sale or purchase differs from the functional currency in which each company prepares its local accounts and these exposures are the responsibility of local management. The largest translational exposures are to the US Dollar and to a lesser extent the Euro.

Translational impacts on the 2005/06 results were modest and increased revenue and profit by approximately 1%. US Dollar results were translated into Sterling at a rate of 1.78 (2004/05: 1.84) and Euros were translated at 1.47 (2004/05: 1.47). Around one-third of Halma's revenue and profit is generated in US Dollars and so a 1% weakening of the US Dollar relative to Sterling would reduce revenue and profit by approximately 0.33% which represents £1 million in terms of revenue and £0.2 million of profit.

Sector reporting changed to improve clarity and collaboration
On 28 November 2005 we announced the change to reporting the Group's financial performance under three new sectors, defined by markets rather than product type. A restatement of the last three years' financial results under the new sector headings was given at that time together with growth drivers and market characteristics by sector.

Each new sector, Infrastructure Sensors, Health and Analysis and Industrial Safety, includes businesses with similar operating and market characteristics. This makes the Group more simple to understand, helps us further develop our market driven strategies and enables more proactive collaboration across the Group.

FTSE sector classification changed
Halma has recently disposed of a number of non-core businesses including its high power Resistors businesses and over the past two years acquired significant new electronics based businesses so that now over 60% of Group revenues are generated from electronics based businesses. As a result Halma has been reclassified into the Electronic and Electrical Equipment Sector of the FTSE.

Key risks are actively managed
The main risks and uncertainties facing Halma are discussed above. The structure of the Group, with a number of relatively small autonomous companies, is designed to spread risk. High quality local teams manage each business, including a finance professional, so that they can respond quickly and effectively to risks as they emerge.

Our internal control processes have been strengthened even further during the year. There has been a widespread positive response to the use of financial "warning signs" in each business which highlight potential risks at an early stage for corrective action. The actions taken have actively reduced risk across the Group. However, we must never be complacent and our internal control processes, discussed in more detail on pages 93 and 94 remain under constant review.

Cautionary note
This Business and financial review has been prepared solely to assist shareholders to assess the Board's strategies and their potential to succeed. It should not be relied on by any other party, for other purposes. Forward-looking statements have been made by the Directors in good faith using information available up until the date that they approved the Report. Forward-looking statements should be regarded with caution because of the inherent uncertainties in economic trends and business risks.

In preparing this Business and financial review, the Directors have aimed to comply with the Accounting Standards Board's 2006 Reporting Statement guidance on Operating and Financial Reviews. However, non-financial Key Performance Indicators have not been included in this Annual Report as they are not at a sufficiently advanced stage of development. See pages 100 to 103 for commentary on employee and environmental issues.

We are achieving good results

02_Our results

Consolidated income statement

		52 weeks to 1 April 2006			52 weeks to 2 April 2005		
	Notes	Before acquired intangibles amortisation and goodwill written off £000	Amortisation of acquired intangibles and goodwill written off £000	Total £000	Before acquired intangibles amortisation and goodwill written off (restated) £000	Amortisation of acquired intangibles and goodwill written off (restated) £000	Total (restated) £000
Continuing operations							
Revenue	1	310,768	–	310,768	268,719	–	268,719
Operating profit		59,960	(1,500)	58,460	49,358	(343)	49,015
Finance income	4	6,207	–	6,207	5,663	–	5,663
Finance expense	5	(8,027)	–	(8,027)	(6,715)	–	(6,715)
Profit before taxation	7	58,140	(1,500)	56,640	48,306	(343)	47,963
Taxation	10	(17,507)	473	(17,034)	(14,585)	120	(14,465)
Profit for the year from continuing operations		40,633	(1,027)	39,606	33,721	(223)	33,498
Discontinued operations							
Net profit for the year from discontinued operations	6	6,739	(5,470)	1,269	1,065	(12)	1,053
Profit for the year attributable to equity shareholders	1	47,372	(6,497)	40,875	34,786	(235)	34,551
Earnings per ordinary share	2						
From continuing operations							
Basic		11.01p		10.73p	9.16p		9.10p
Diluted				10.69p			9.09p
From continuing and discontinued operations							
Basic				11.08p			9.38p
Diluted				11.03p			9.37p
Dividends in respect of the year	11						
Paid and proposed (£000)				25,216			23,972
Paid and proposed per share				6.83p			6.50p

The comparative figures for the 52 weeks to 2 April 2005 have been restated for the adoption of International Financial Reporting Standards. See note 29 to the accounts.

Consolidated balance sheet

	Notes	1 April 2006 £000	2 April 2005 (restated) £000
Non-current assets			
Goodwill	12	122,038	99,276
Other intangible assets	13	12,166	4,817
Property, plant and equipment	14	50,054	47,784
Deferred tax assets	20	13,803	12,253
		198,061	164,130
Current assets			
Inventories	15	36,660	35,502
Trade and other receivables	16	77,523	69,816
Cash and cash equivalents		35,826	45,348
		150,009	150,666
Total assets		348,070	314,796
Current liabilities			
Borrowings	17	32,308	33,344
Trade and other payables	18	66,035	54,228
Tax liabilities		7,316	5,137
		105,659	92,709
Net current assets		44,350	57,957
Non-current liabilities			
Retirement benefit obligations		46,019	40,845
Trade and other payables	19	5,096	5,768
Deferred tax liabilities	20	3,216	2,215
		54,331	48,828
Total liabilities		159,990	141,537
Net assets		188,080	173,259
Shareholders' equity			
Called up share capital	21	36,933	36,880
Share premium account	22	10,702	10,111
Treasury shares	22	(379)	–
Capital redemption reserve	22	185	185
Translation reserve	22	5,944	144
Other reserves	22	1,592	513
Retained earnings	22	133,103	125,426
Total shareholders' equity		188,080	173,259

The comparative figures as at 2 April 2005 have been restated for the adoption of International Financial Reporting Standards. See note 29 to the accounts.

Approved by the Board of Directors on 20 June 2006.

E G Unwin **K J Thompson**
Directors

Statement of recognised income and expense

	52 weeks to 1 April 2006 £000	52 weeks to 2 April 2005 (restated) £000
Exchange differences on translation of foreign operations	5,826	144
Exchange differences recycled from reserves on disposal of operations	(26)	–
Actuarial losses on defined benefit pension schemes	(10,355)	(48)
Tax on items taken directly to equity	1,625	(4)
Net (loss)/income recognised directly in equity	(2,930)	92
Profit for the year	40,875	34,551
Total recognised income and expense for the year	37,945	34,643

Reconciliation of movements in shareholders' equity

	52 weeks to 1 April 2006 £000	52 weeks to 2 April 2005 (restated) £000
Shareholders' equity brought forward	173,259	159,027
Profit for the year	40,875	34,551
Dividends paid	(24,468)	(23,320)
Exchange differences on translation of foreign operations	5,826	144
Exchange differences recycled from reserves on disposal of operations	(26)	–
Actuarial losses on defined benefit pension schemes	(10,355)	(48)
Tax on items taken directly to equity	1,625	(4)
Net proceeds of shares issued	644	2,546
Treasury shares purchased	(379)	–
Movement in other reserves	1,079	363
Total movement in shareholders' equity	14,821	14,232
Shareholders' equity carried forward	188,080	173,259

Consolidated cash flow statement

	Notes	52 weeks to 1 April 2006 £000	52 weeks to 2 April 2005 (restated) £000
Net cash inflow from operating activities	25	53,362	46,944
Cash flows from investing activities			
Purchase of property, plant and equipment		(11,878)	(8,896)
Purchase of computer software		(717)	(523)
Proceeds from sale of property, plant and equipment		1,032	418
Development costs capitalised		(2,500)	(1,122)
Interest received		1,026	1,086
Acquisition of businesses	25	(36,178)	(23,536)
Disposal of businesses		14,641	(1,681)
Net cash used in investing activities		(34,574)	(34,254)
Financing activities			
Dividends paid		(24,468)	(23,320)
Proceeds from issue of share capital		644	2,546
Interest paid		(1,455)	(889)
(Repayment)/drawdown of borrowings	25	(3,050)	5,764
Net cash used in financing activities		(28,329)	(15,899)
Decrease in cash and cash equivalents	25	(9,541)	(3,209)
Cash and cash equivalents brought forward		45,348	48,482
Exchange adjustments		19	75
Cash and cash equivalents carried forward		35,826	45,348

The comparative figures for the 52 weeks to 2 April 2005 have been restated for the adoption of International Financial Reporting Standards. See note 29 to the accounts.

Accounting policies

Basis of accounting

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

Halma p.l.c. and its subsidiary companies (the "Group") adopted IFRS for their consolidated ("Group") accounts with a transition date of 4 April 2004. Comparative figures for the year ended 2 April 2005 and the Consolidated balance sheet as at 2 April 2005 that were previously reported under applicable United Kingdom Generally Accepted Accounting Principles ("UK GAAP") have been restated to comply with IFRS. Details of this restatement are given in note 29 to the accounts.

IFRS 1 "First Time Adoption of IFRS" allows certain exemptions from the retrospective application of IFRS prior to 4 April 2004. Where these exemptions have been used, they are explained under the relevant headings below.

The principal Group accounting policies are explained below and have been applied consistently in preparing an opening IFRS Consolidated balance sheet at 3 April 2004 and throughout the years ended 2 April 2005 and 1 April 2006.

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

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

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

Basis of consolidation

The Group accounts include the accounts of Halma p.l.c. and its subsidiary companies made up to 1 April 2006, adjusted to eliminate intra-Group transactions, balances, income and expenses. The results of subsidiary companies acquired or discontinued are included from the month of their acquisition or to the month of their discontinuation.

Goodwill

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

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

Other intangible assets

(a) Product development costs

Research expenditure is written off in the financial year in which it is incurred.

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

(b) Acquired intangible assets

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

(c) Computer software

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

Impairment of non-current assets

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

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

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

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

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

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

Financial instruments
The Group does not hold or issue derivatives for speculative or trading purposes, but uses forward foreign currency contracts to reduce its exposure to exchange rate movements. Under UK GAAP, transactions in foreign currency that were matched by a forward currency contract were translated at the contracted rate. From 4 April 2004, forward currency contracts are measured at cost (usually zero) and subsequently remeasured at fair value. Where a forward currency contract is designated as a hedge against variability in the cash flows of a recognised asset or liability or a highly probable forecasted transaction, the effective part of any gain or loss on the forward contract is recognised in Shareholders' equity. The cumulative gain or loss is removed from Shareholders' equity and recognised in the Consolidated income statement at the same time as the hedged transaction. The ineffective part of any gain or loss, or gains or losses on forward currency contracts that are not designated as hedges, are recognised immediately in the Consolidated income statement.

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

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

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

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

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

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

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

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

Accounting policies continued

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

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

All actuarial gains and losses as at 3 April 2004 were recognised in full in the Consolidated balance sheet at that date. All actuarial gains and losses arising after 4 April 2004 are taken to Shareholders' equity.

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

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

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

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

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

The fair value of awards under these plans has been measured at the date of grant using the Black-Scholes model and will not be subsequently remeasured. The fair value is charged to the Consolidated income statement on a straight-line basis over the expected vesting period, with adjustments being made during this period to reflect expected and actual forfeitures and changes to the vesting period itself arising from non-market based performance conditions. The corresponding credit is to Shareholders' equity.

No further awards will be made under the share option plans after 3 August 2005.

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

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

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

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

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

Cash and cash equivalents
Cash and cash equivalents comprise cash balances, deposits with an initial maturity of less than three months, and bank overdrafts that are repayable on demand. Bank overdrafts are shown within borrowings in current liabilities in the Consolidated balance sheet.

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

Notes to the accounts

1 Segmental analysis

Sector analysis

	Revenue 2006 £000	Revenue 2005 (restated) £000	Profit 2006 £000	Profit 2005 (restated) £000
Infrastructure Sensors	131,860	118,200	24,106	23,739
Health and Analysis	111,653	93,149	23,395	15,002
Industrial Safety	67,648	57,923	12,857	10,089
Inter-segmental sales	(393)	(553)	–	–
Central companies	–	–	(398)	528
Continuing operations	310,768	268,719	59,960	49,358
Discontinued operations (note 6)	26,580	30,400	1,501	1,606
Net finance expense	–	–	(1,820)	(1,052)
Group revenue/profit before amortisation of acquired intangibles	337,348	299,119	59,641	49,912
Amortisation of acquired intangible assets	–	–	(1,529)	(361)
Profit on disposal of operations before tax (note 6)	–	–	494	–
Taxation	–	–	(17,731)	(15,000)
Revenue/profit for the year	337,348	299,119	40,875	34,551

Inter-segmental sales are charged at prevailing market prices.

	Assets 2006 £000	Assets 2005 (restated) £000	Liabilities 2006 £000	Liabilities 2005 (restated) £000
Infrastructure Sensors	63,542	49,652	23,223	15,519
Health and Analysis	47,965	40,064	18,467	14,198
Industrial Safety	29,593	26,208	12,379	9,028
Central companies	41,980	39,413	73,613	64,192
Continuing operations	183,080	155,337	127,682	102,937
Discontinued operations	–	13,869	–	5,256
Cash and cash equivalents/borrowings	35,826	45,348	32,308	33,344
Goodwill	122,038	99,276	–	–
Acquired intangible assets	7,126	966	–	–
Total Group	348,070	314,796	159,990	141,537

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

Notes to the accounts continued

1 Segmental analysis continued

	Capital additions		Depreciation and amortisation	
	2006 £000	2005 (restated) £000	2006 £000	2005 (restated) £000
Infrastructure Sensors	5,015	2,832	3,111	2,672
Health and Analysis	4,862	2,496	2,479	2,409
Industrial Safety	3,500	2,819	2,558	2,091
Central companies	1,341	1,706	2,468	1,319
Continuing operations	14,718	9,853	10,616	8,491
Discontinued operations	377	688	727	825
Total Group	15,095	10,541	11,343	9,316

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

Geographical analysis

	Revenue by destination		Revenue by origin	
	2006 £000	2005 (restated) £000	2006 £000	2005 (restated) £000
United Kingdom	82,930	70,260	173,168	149,790
United States of America	94,043	78,758	104,295	85,245
Mainland Europe	77,183	72,702	45,788	43,112
Asia Pacific and Australasia	33,293	30,198	15,455	14,536
Africa, Near and Middle East	14,709	9,838	–	–
Other countries	8,610	6,963	–	–
Inter-segmental sales	–	–	(27,938)	(23,964)
Revenue from continuing operations	310,768	268,719	310,768	268,719
Discontinued operations (note 6)	26,580	30,400	26,580	30,400
Group revenue	337,348	299,119	337,348	299,119

Inter-segmental sales are charged at prevailing market prices.

1 Segmental analysis continued

	Profit	
	2006 £000	2005 (restated) £000
United Kingdom	30,354	25,758
United States of America	20,149	13,674
Mainland Europe	7,632	7,258
Asia Pacific and Australasia	1,825	2,668
Profit from continuing operations	59,960	49,358
Discontinued operations (note 6)	1,501	1,606
Net finance expense	(1,820)	(1,052)
Group profit before amortisation of acquired intangibles	59,641	49,912
Amortisation of acquired intangible assets	(1,529)	(361)
Profit on disposal of operations before tax (note 6)	494	–
Taxation	(17,731)	(15,000)
Profit for the year	40,875	34,551

	Net assets		Capital additions	
	2006 £000	2005 (restated) £000	2006 £000	2005 (restated) £000
United Kingdom	18,035	23,037	9,510	6,769
United States of America	22,284	12,229	3,050	1,525
Mainland Europe	11,597	13,450	1,659	1,350
Asia Pacific and Australasia	3,482	3,685	499	209
Continuing operations	55,398	52,401	14,718	9,853
Discontinued operations	–	8,612	377	688
Net cash	3,518	12,004	–	–
Goodwill	122,038	99,276	–	–
Acquired intangible assets	7,126	966	–	–
Total Group	188,080	173,259	15,095	10,541

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

Notes to the accounts continued

2 Earnings per ordinary share

Basic earnings per ordinary share are calculated using the weighted average of 369,053,181 shares in issue during the year (net of shares purchased by the Company and held as treasury shares) (2005: 368,181,035). Diluted earnings per ordinary share are calculated using the weighted average of 370,435,138 shares (2005: 368,697,347) which includes dilutive potential ordinary shares of 1,381,957 (2005: 516,312). Dilutive potential ordinary shares are calculated from those exercisable share options where the exercise price is less than the average price of the Group's ordinary shares during the year.

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

			Per ordinary share	
	2006 £000	2005 (restated) £000	2006 pence	2005 (restated) pence
Earnings from continuing and discontinued operations	40,875	34,551	11.08	9.38
Remove earnings from discontinued operations	(1,269)	(1,053)	(0.35)	(0.28)
Earnings from continuing operations	39,606	33,498	10.73	9.10
Add back amortisation of acquired intangibles (after tax)	1,027	223	0.28	0.06
Adjusted earnings	40,633	33,721	11.01	9.16

3 Non-GAAP measures

Return on capital employed

	2006 £000	2005 (restated) £000
Operating profit from continuing operations before amortisation of acquired intangibles	59,960	49,358
Operating profit from discontinued operations in prior period before amortisation of acquired intangibles	–	1,606
Operating return	59,960	50,964
Computer software costs within intangible assets	1,213	1,112
Capitalised development costs within intangible assets	3,827	2,739
Property, plant and equipment	50,054	47,784
Inventories	36,660	35,502
Trade and other receivables	77,523	69,816
Trade and other payables	(66,035)	(54,228)
Tax liabilities	(7,316)	(5,137)
Non-current trade and other payables	(5,096)	(5,768)
Add back retirement benefit accruals included within payables	4,763	558
Add back accrued deferred purchase consideration	9,803	12,039
Capital employed	105,396	104,417
Return on capital employed	56.9%	48.8%

3 Non-GAAP measures continued

Return on total invested capital

	2006 £000	2005 (restated) £000
Profit from continuing operations before amortisation of acquired intangibles after taxation	40,633	33,721
Profit from discontinued operations in prior period before amortisation of acquired intangibles after taxation	–	1,065
Return	40,633	34,786
Total shareholders' equity	188,080	173,259
Add back retirement benefit accruals included within payables	4,763	558
Add back retirement benefit obligations	46,019	40,845
Less associated deferred tax assets	(13,803)	(12,253)
Cumulative amortisation of acquired intangibles	1,890	361
Goodwill on disposals	5,441	–
Goodwill amortised prior to 3 April 2004	13,177	13,177
Goodwill taken to reserves prior to 28 March 1998	70,931	70,931
Total invested capital	316,498	286,878
Return on total invested capital	12.8%	12.1%

Organic growth

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

	Revenue			Profit* before taxation		
	2006 £000	2005 (restated) £000	% growth	2006 £000	2005 (restated) £000	% growth
Continuing operations	310,768	268,719		58,140	48,306	
Acquired revenue/profit	(13,085)	–		(2,638)	–	
	297,683	268,719	10.8%	55,502	48,306	14.9%

*Before amortisation of acquired intangible assets.

4 Finance income

	2006 £000	2005 (restated) £000
Interest receivable	1,027	1,080
Expected return on pension scheme assets	5,180	4,583
	6,207	5,663

5 Finance expense

	2006 £000	2005 (restated) £000
Interest payable on bank loans and overdrafts	1,456	780
Interest charge on pension scheme liabilities	6,138	5,680
Other interest payable	433	255
	8,027	6,715

Notes to the accounts continued

6 Discontinued operations

During 2005/06 the Group sold the following non-core businesses:

Company	Date of disposal	Principal activity	Country of incorporation
SEAC Limited	September 2005	Industrial Safety	United Kingdom
Secomak Limited	December 2005	Industrial Safety	United Kingdom
Marathon Sensors Inc.	December 2005	Health and Analysis	USA
Cressall Resistors Limited	February 2006	Industrial Safety	United Kingdom
IPC Resistors Company	February 2006	Industrial Safety	Canada
IPC Power Resistors Inc.	February 2006	Industrial Safety	USA
Mosebach Manufacturing Company	February 2006	Industrial Safety	USA
Post Glover Resistors Inc.	February 2006	Industrial Safety	USA

The results of these discontinued operations, which have been included in the Consolidated income statement, were as follows:

	2006 £000	2005 (restated) £000
Revenue	26,580	30,400
Operating expenses	(25,079)	(28,794)
Operating profit before amortisation of acquired intangibles	1,501	1,606
Amortisation of acquired intangible assets	(29)	(18)
Operating profit	1,472	1,588
Taxation	(552)	(535)
Profit from operations after taxation	920	1,053
Profit on disposal of operations	5,909	–
Foreign exchange differences recycled from reserves	26	–
Associated goodwill and acquired intangible assets	(5,441)	–
Profit on disposal of operations before taxation	494	–
Tax on profit on disposal of operations	(145)	–
Profit on disposal of operations after taxation	349	–
Net profit from discontinued operations	1,269	1,053

The profit on disposal of operations includes gross disposal proceeds received and receivable of £17,291,000. The net cash inflow in the year on disposal of operations was £14,641,000.

The net assets of these businesses at the date of disposal were as follows:

	£000
Intangible assets recognised on acquisition of business	83
Property, plant and equipment	2,902
Computer software	156
Inventories	4,158
Receivables	6,049
Cash and cash equivalents	124
Payables	(3,368)
Deferred taxation	(477)
	9,627

7 Profit before taxation

Profit before taxation comprises:

	2006			2005		
	Continuing operations £000	Discontinued operations £000	Total £000	Continuing operations (restated) £000	Discontinued operations (restated) £000	Total Group (restated) £000
Revenue	310,768	26,580	337,348	268,719	30,400	299,119
Cost of sales	(207,441)	(21,437)	(228,878)	(183,629)	(24,428)	(208,057)
Gross profit	103,327	5,143	108,470	85,090	5,972	91,062
Distribution costs	(7,072)	(1,081)	(8,153)	(6,328)	(1,064)	(7,392)
Administrative expenses	(38,063)	(2,590)	(40,653)	(30,016)	(3,320)	(33,336)
Other operating income	268	–	268	269	–	269
Net finance expense	(1,820)	–	(1,820)	(1,052)	–	(1,052)
Profit before taxation	56,640	1,472	58,112	47,963	1,588	49,551

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

Profit before taxation is stated after charging:

		Continuing operations		Total Group	
		2006 £000	2005 (restated) £000	2006 £000	2005 (restated) £000
Depreciation		7,246	7,094	7,892	7,901
Amortisation		3,370	1,397	3,451	1,415
Research and development[1]		10,951	10,087	11,705	10,641
Auditors' remuneration[2]:	Audit services	548	415	558	455
	Tax compliance services	44	58	44	58
	Tax advice on disposals	148	–	148	–
	Other assurance services	61	–	61	–
Operating lease rents:	Property	3,779	3,020	4,014	3,261
	Other	581	382	617	446

1 A further £2,500,000 (2005: £1,122,000) of development expenditure has been capitalised in the period. See note 13.
2 A further £1,000 (2005: £193,000) of non-audit fees paid to the auditors in respect of acquisition advice have been included in cost of investments. In addition, the auditors received £11,000 (2005: £10,000) for their audit of the Halma Group Pension Plan.

8 Employee information

	Continuing operations		Total Group	
	2006 Number	2005 Number	2006 Number	2005 Number
The average number of persons employed by the Group (including Directors) was:				
United Kingdom	1,637	1,415	1,736	1,560
Overseas	1,254	1,207	1,451	1,442
	2,891	2,622	3,187	3,002

Group employee costs comprise:

	Continuing operations		Total Group	
	2006 £000	2005 £000	2006 £000	2005 £000
Wages and salaries	69,829	61,395	76,291	68,496
Social security costs	9,914	9,266	11,170	10,684
Other pension costs (note 28)	4,799	4,683	5,130	5,115
	84,542	75,344	92,591	84,295

Notes to the accounts continued

9 Directors' remuneration

Details of Directors' remuneration are set out on pages 96 to 98 within the Report on remuneration and form part of these financial statements.

10 Taxation

	2006 £000	2005 (restated) £000
Current tax		
UK corporation tax at 30% (2005: 30%)	9,246	7,615
Overseas taxation	8,271	6,436
Adjustments in respect of prior years	133	(28)
Total current tax charge	17,650	14,023
Deferred tax		
Origination and reversal of timing differences	(558)	423
Adjustments in respect of prior years	(58)	19
Total deferred tax (credit)/charge	(616)	442
Tax on profit from continuing operations	17,034	14,465
Tax on profit from discontinued operations	697	535
Total tax charge recognised in the Consolidated income statement	17,731	15,000
Reconciliation of the effective tax rate:		
Profit before tax – continuing operations	56,640	47,963
Profit before tax – discontinued operations	1,966	1,588
	58,606	49,551
Tax at the UK corporation tax rate of 30% (2005: 30%)	17,582	14,865
Overseas tax rate differences	1,116	840
Items not subject to tax	(1,042)	(696)
Adjustments in respect of prior years	75	(9)
	17,731	15,000
Effective tax rate	30.3%	30.3%

11 Ordinary dividends

	Per ordinary share			
	2006 pence	2005 pence	2006 £000	2005 £000
Amounts recognised as distributions to shareholders in the year				
Final dividend for the year to 2 April 2005 (3 April 2004)	3.92	3.75	14,462	13,810
Interim dividend for the year to 1 April 2006 (2 April 2005)	2.71	2.58	10,006	9,510
	6.63	6.33	24,468	23,320
Dividends declared in respect of the year				
Interim dividend for the year to 1 April 2006 (2 April 2005)	2.71	2.58	10,006	9,510
Proposed final dividend for the year to 1 April 2006 (2 April 2005)	4.12	3.92	15,210	14,462
	6.83	6.50	25,216	23,972

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

12 Goodwill

	2006 £000	2005 (restated) £000
Cost		
At beginning of year	99,276	71,425
Additions (note 24)	23,195	27,924
Disposals	(5,358)	–
Exchange adjustments	4,925	(73)
At end of year	122,038	99,276
Provision for impairment		
At beginning and end of year	–	–
Net book amount	122,038	99,276

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

	2006 £000	2005 (restated) £000
Infrastructure Sensors	69,833	53,007
Health and Analysis	41,054	33,791
Industrial Safety	11,151	7,488
Disposed companies	–	4,990
	122,038	99,276

Goodwill values have been tested for impairment by comparing them against the value in use of the relevant cash generating units. The value in use calculations were based on projected post-tax cash flows, derived from the latest budget approved by the Board, discounted at 8% per annum to calculate their net present value.

Notes to the accounts continued

13 Other intangible assets

	Acquired intangibles £000	Development costs £000	Computer software £000	Total £000
Cost				
At 3 April 2004 (restated)	–	4,235	2,728	6,963
Assets of businesses acquired	1,352	–	61	1,413
Additions at cost	–	1,122	523	1,645
Disposals	–	–	(53)	(53)
Exchange adjustments	(33)	19	(5)	(19)
At 2 April 2005 (restated)	1,319	5,376	3,254	9,949
Assets of businesses acquired	7,695	–	16	7,711
Assets of businesses sold	(129)	–	(394)	(523)
Additions at cost	–	2,500	717	3,217
Disposals	–	–	(158)	(158)
Exchange adjustments	121	39	86	246
At 1 April 2006	9,006	7,915	3,521	20,442
Accumulated amortisation				
At 3 April 2004 (restated)	–	1,583	1,759	3,342
Assets of businesses acquired	–	–	9	9
Charge for the year	361	1,054	430	1,845
Disposals	–	–	(53)	(53)
Exchange adjustments	(8)	–	(3)	(11)
At 2 April 2005 (restated)	353	2,637	2,142	5,132
Assets of businesses acquired	–	–	6	6
Assets of businesses sold	(46)	–	(238)	(284)
Charge for the year	1,529	1,441	481	3,451
Disposals	–	–	(140)	(140)
Exchange adjustments	44	10	57	111
At 1 April 2006	1,880	4,088	2,308	8,276
Net book amounts				
At 1 April 2006	7,126	3,827	1,213	12,166
At 2 April 2005 (restated)	966	2,739	1,112	4,817

14 Property, plant and equipment

	Land and buildings				
	Freehold properties £000	Long leases £000	Short leases £000	Plant, equipment and vehicles £000	Total £000
Cost					
At 3 April 2004 (restated)	26,406	1,448	2,593	61,644	92,091
Assets of businesses acquired	–	171	–	2,417	2,588
Additions at cost	1,291	65	164	7,376	8,896
Disposals	–	–	–	(5,119)	(5,119)
Exchange adjustments	(16)	–	(16)	(309)	(341)
At 2 April 2005 (restated)	27,681	1,684	2,741	66,009	98,115
Assets of businesses acquired	410	–	23	5,496	5,929
Assets of businesses sold	(264)	–	(241)	(7,566)	(8,071)
Additions at cost	179	73	767	10,859	11,878
Disposals	(450)	–	(62)	(6,696)	(7,208)
Exchange adjustments	577	18	84	1,878	2,557
At 1 April 2006	28,133	1,775	3,312	69,980	103,200
Accumulated depreciation					
At 3 April 2004 (restated)	4,626	350	1,452	39,493	45,921
Assets of businesses acquired	–	47	–	1,788	1,835
Charge for the year	416	112	233	6,710	7,471
Disposals	–	–	–	(4,722)	(4,722)
Exchange adjustments	(4)	–	(11)	(159)	(174)
At 2 April 2005 (restated)	5,038	509	1,674	43,110	50,331
Assets of businesses acquired	–	–	18	4,762	4,780
Assets of businesses sold	(54)	–	(91)	(5,024)	(5,169)
Charge for the year	439	68	261	7,124	7,892
Disposals	(365)	–	(56)	(5,599)	(6,020)
Exchange adjustments	102	14	48	1,168	1,332
At 1 April 2006	5,160	591	1,854	45,541	53,146
Net book amounts					
At 1 April 2006	22,973	1,184	1,458	24,439	50,054
At 2 April 2005 (restated)	22,643	1,175	1,067	22,899	47,784

Notes to the accounts continued

15 Inventories

	2006 £000	2005 £000
Raw materials and consumables	18,538	19,086
Work in progress	5,379	5,474
Finished goods and goods for resale	12,743	10,942
	36,660	35,502

16 Trade and other receivables

	2006 £000	2005 (restated) £000
Falling due within one year:		
Trade receivables	70,076	63,500
Other receivables	2,664	1,508
Prepayments and accrued income	4,783	4,808
	77,523	69,816

Trade receivables are stated net of provisions for estimated irrecoverable amounts of £1,051,000 (2005: £905,000). This provision has been determined by reference to previous default experience.

17 Borrowings

	2006 £000	2005 £000
Falling due within one year:		
Unsecured bank loans and overdrafts	32,308	33,344

18 Trade and other payables

	2006 £000	2005 (restated) £000
Falling due within one year:		
Trade payables	33,529	28,743
Other taxation and social security	3,748	3,563
Provision for deferred purchase consideration	8,391	8,011
Other payables	3,857	1,951
Accruals and deferred income	16,510	11,960
	66,035	54,228

19 Trade and other payables: falling due after one year

	2006 £000	2005 (restated) £000
Provision for deferred purchase consideration	1,412	4,028
Other payables	3,684	1,740
	5,096	5,768

20 Deferred taxation

An analysis of Group deferred taxation is as follows:

	2006 £000	2005 (restated) £000
Employee benefits	13,803	12,253
Acquired intangible assets	(2,122)	(260)
Accelerated capital allowances	(3,369)	(3,216)
Short-term timing differences	3,836	2,597
Goodwill timing differences	(1,561)	(1,336)
Net deferred taxation asset	10,587	10,038

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

	2006 £000	2005 (restated) £000
Non-current deferred taxation assets	13,803	12,253
Non-current deferred taxation liabilities	(3,216)	(2,215)
Net deferred taxation asset	10,587	10,038

Movement in deferred taxation asset:

	2006 £000	2005 (restated) £000
At beginning of year	10,038	10,087
Credit/(charge) to Consolidated income statement:		
UK	1,387	194
Overseas	(771)	(636)
Credit/(charge) to Shareholders' equity	1,663	(166)
Acquired	(2,159)	649
Disposed	477	–
Exchange adjustments	(48)	(90)
At end of year	10,587	10,038

No provision is made for taxation which might become payable if profits retained by overseas subsidiary companies are distributed as dividends unless there is an intention to distribute such profits.

At 1 April 2006 the Group had unused capital tax losses of £1,927,000 (2005: £924,000) for which no deferred tax asset has been recognised. None of these losses has an expiry date.

Notes to the accounts continued

21 Share capital

	Authorised		Issued and fully paid	
	2006 £000	2005 £000	2006 £000	2005 £000
Ordinary shares of 10p each	43,656	43,656	36,933	36,880

The number of ordinary shares in issue at 1 April 2006 was 369,330,680 (2005: 368,800,919).

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

	Issued and fully paid £000
At 2 April 2005	36,880
Share options exercised	53
At 1 April 2006	36,933

The total consideration received in cash in respect of share options exercised amounted to £644,000.

At 1 April 2006 options in respect of 15,199,515 (2005: 16,980,339) ordinary shares remained outstanding. Further details of these are given in note 23 to the accounts.

22 Reserves

	Share premium account £000	Translation reserve £000	Capital redemption reserve £000	Treasury shares £000	Other reserves £000	Retained earnings £000
At 3 April 2004 (restated)	7,768	–	185	–	150	114,247
Profit for the year	–	–	–	–	–	34,551
Share options exercised	2,343	–	–	–	–	–
Foreign exchange translation differences	–	144	–	–	–	–
Dividends paid	–	–	–	–	–	(23,320)
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	(48)
Share-based payments	–	–	–	–	363	–
Tax on items taken directly to equity	–	–	–	–	–	(4)
At 2 April 2005 (restated)	10,111	144	185	–	513	125,426
Profit for the year	–	–	–	–	–	40,875
Share options exercised	591	–	–	–	–	–
Foreign exchange translation differences	–	5,826	–	–	–	–
Exchange differences recycled from reserves on disposal of operations	–	(26)	–	–	–	–
Dividends paid	–	–	–	–	–	(24,468)
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	(10,355)
Share-based payments	–	–	–	–	1,079	–
Treasury shares purchased	–	–	–	(379)	–	–
Tax on items taken directly to equity	–	–	–	–	–	1,625
At 1 April 2006	10,702	5,944	185	(379)	1,592	133,103

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

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

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

Treasury shares are ordinary shares in Halma p.l.c. purchased by the Company and held to fulfil the Company's obligations under the performance share plan. At 1 April 2006 the market value of the treasury shares held was £375,500.

23 Share-based payments

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

	2006 £000	2005 (restated) £000
Share incentive plan	375	209
Share option plans	447	342
Performance share plan	296	–
	1,118	551

Share incentive plan

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

Share option plans

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

Section A options are exercisable after three years if the Group's earnings per share growth exceeds, for the 1990 Plan, the growth in the Retail Price Index, for the 1996 Plan, the growth in the Retail Price Index plus 2% per annum and, for the 1999 Plan, the growth in the Retail Price Index plus 3% per annum. Section B options are exercisable after five years if the Company's earnings per share growth exceeds the earnings per share of, for the 1990 and 1996 Plans, all but the top quarter of companies which were within the FTSE 100 at the date of grant of any option and for the 1999 Plan, all but the top quarter of companies which were within a peer group at the date of grant of any option.

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

No further awards will be made under the Company share option plans after 3 August 2005.

Options in respect of 67,133 ordinary shares remained outstanding at 1 April 2006 under the 1990 Plan. Subject to the performance restrictions on the exercise of options granted under this Plan, options are exercisable for the periods and at the prices set out below:

Number of shares	Option price	Five years from	Seven years from
9,333	144.76p		1999
17,600	122.50p		2000
11,400	101.50p		2001
24,000	120.0p – 129.0p		2002
4,800	120.0p	2004	

Options in respect of 2,443,996 ordinary shares remained outstanding at 1 April 2006 under the 1996 Plan. Subject to the performance restrictions on the exercise of options granted under this Plan, options are exercisable for the periods and at the prices set out below:

Number of shares	Option price	Five years from	Seven years from
83,998	138.0p – 139.5p		1999
385,200	122.5p – 138.5p		2000
238,200	101.5p – 123.5p		2001
397,700	120.0p – 136.0p		2002
133,198	138.0p – 139.5p	2001	
290,400	122.5p – 133.0p	2002	
299,200	101.5p – 123.5p	2003	
616,100	120.0p – 136.0p	2004	

Notes to the accounts continued

23 Share-based payments continued

Options in respect of 12,688,386 ordinary shares remained outstanding at 1 April 2006 under the 1999 Plan. Subject to the performance restrictions on the exercise of options granted under this Plan, options are exercisable for the periods and at the prices set out below:

Number of shares	Option price	Five years from	Seven years from
1,709,500	111.0p		2003
835,500	163.5p		2004
1,203,901	144.33p		2005
2,198,136	134.0p		2006
2,045,302	142.25p		2007
753,399	145.67 – 157.92p		2008
788,000	111.0p	2005	
658,900	163.5p	2006	
775,367	144.33p	2007	
823,751	134.0p	2008	
896,630	142.25p	2009	

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

	2006		2005	
	Number of share options	Weighted average option price	Number of share options	Weighted average option price
Outstanding at beginning of year	16,980,339	134.24p	16,580,213	131.27p
Exercised during the year	(529,761)	121.56p	(2,026,974)	125.60p
Granted during the year	496,707	145.67p	3,444,072	143.42p
Lapsed during the year	(1,747,770)	136.62p	(1,016,972)	134.06p
Outstanding at end of year	15,199,515	134.62p	16,980,339	134.24p
Exercisable at end of year	1,300,629	123.29p	1,845,190	122.82p

The options outstanding at 1 April 2006 had exercise prices from 101.5p to 163.5p and a weighted average remaining contractual life of six years.

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

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

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

23 Share-based payments continued

Performance share plan

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

Awards made in 2005/06 under this Plan vest after three years on a sliding scale subject to the Group's relative Total Shareholder Return 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.

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

	2006 Number of shares awarded
Outstanding at beginning of year	–
Granted during the year	1,932,060
Vested during the year (pro-rated for "good leavers")	(15,403)
Lapsed during the year	(181,405)
Outstanding at end of year	1,735,252
Exercisable at end of year	–

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

Expected volatility (%)	25%
Expected life (years)	3
Share price on date of grant (p)	148.42
Option price (p)	nil
Fair value per option (% of Present Economic Value)	46%

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

Notes to the accounts continued

24 Acquisitions

	Book value £000	Fair value adjustments £000	Total £000
Non-current assets			
Intangible assets	10	7,695	7,705
Property, plant and equipment	1,149	–	1,149
Current assets			
Inventories	4,741	(193)	4,548
Receivables	4,797	(15)	4,782
Deferred tax	51	(51)	–
Cash and cash equivalents	2,756	–	2,756
Total assets	13,504	7,436	20,940
Current liabilities			
Payables	(6,358)	(336)	(6,694)
Deferred tax	–	(2,159)	(2,159)
Total liabilities	(6,358)	(2,495)	(8,853)
Net assets of businesses acquired	7,146	4,941	12,087

Cash consideration, including costs	30,390
Deferred purchase consideration	3,844
Total consideration	34,234
Goodwill arising on current year acquisitions	22,147
Goodwill arising on prior year acquisitions	1,048
Goodwill arising on acquisition	23,195

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

Company	Date of acquisition	Country of incorporation	Principal activity	Initial consideration
Netherlocks Safety Systems B.V.	July 2005	The Netherlands	Industrial Safety	€3,000,000
Radio-Tech Limited	August 2005	United Kingdom	Health and Analysis	£2,000,000
Texecom Limited	November 2005	United Kingdom	Infrastructure Sensors	£26,000,000

Together these acquisitions contributed £14,116,000 of revenue and £3,406,000 of profit before tax and amortisation of acquired intangible assets to the Group results for the year ended 1 April 2006.

Additional purchase consideration of up to €7,000,000 and £2,500,000 is payable in respect of Netherlocks and Radio-Tech respectively, and has been provided at the estimated amount payable. The amount ultimately payable is dependent upon the profit growth of the businesses over the financial years ending March 2006 and March 2007. The adjustments to goodwill relating to prior years' acquisitions comprise revisions to the estimate of deferred purchase consideration payable.

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

25 Notes to the consolidated cash flow statement

	2006 £000	2005 (restated) £000
Reconciliation of profit from operations to net cash inflow from operating activities		
Profit from continuing operations before taxation	58,460	49,015
Profit from discontinued operations before taxation	1,472	1,588
Depreciation and amortisation of computer software	8,373	7,901
Amortisation of capitalised development costs	1,441	1,054
Amortisation of acquired intangible assets	1,529	361
Share-based payment expense in excess of amounts paid	742	192
Additional payments to pension scheme	(1,357)	(1,139)
Loss/(profit) on sale of property, plant and equipment and computer software	174	(21)
Operating cash flows before movement in working capital	70,834	58,951
Decrease/(increase) in inventories	647	(1,000)
(Increase)/decrease in receivables	(6,225)	780
Increase in payables	4,921	2,707
Cash generated from operations	70,177	61,438
Taxation paid	(16,815)	(14,494)
Net cash inflow from operating activities	53,362	46,944

The cash outflow of £36,178,000 on the acquisition of businesses includes cash acquired of £2,756,000 and the payment of £8,544,000 of deferred purchase consideration which arose from acquisitions made in earlier years, and where provision was made in prior years' financial statements.

	2006 £000	2005 (restated) £000
Reconciliation of net cash flow to movement in net cash		
Decrease in cash and cash equivalents	(9,541)	(3,209)
Loans acquired	–	(1,125)
Cash outflow/(inflow) from borrowings	3,050	(5,764)
Exchange adjustments	(1,995)	554
	(8,486)	(9,544)
Net cash brought forward	12,004	21,548
Net cash carried forward	3,518	12,004

	At 2 April 2005 (restated) £000	Cash flow £000	Exchange adjustments £000	At 1 April 2006 £000
Analysis of net cash				
Cash and cash equivalents	45,348	(9,541)	19	35,826
Overdrafts	(240)	241	(1)	–
	45,108	(9,300)	18	35,826
Bank loans	(33,104)	2,809	(2,013)	(32,308)
	12,004	(6,491)	(1,995)	3,518

Notes to the accounts continued

26 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, Malaysia, Singapore, China, India and Africa. As a result, the Group's balance sheet can be affected by movements in these countries' exchange rates. Where significant and appropriate, currency denominated net assets are hedged by currency borrowings. These currency exposures are reviewed regularly. 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.

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. Overdraft 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 Consolidated income statement as a result of movement in exchange rates. As at year end these exposures were as follows:

	Net foreign currency monetary assets/(liabilities)				
2006 Functional currency of operation	Sterling £000	US Dollar £000	Euro £000	Other £000	Total £000
Sterling	–	2,151	1,213	140	3,504
US Dollar	(93)	–	1	(2)	(94)
Euro	(24)	212	–	(33)	155
Other	6	246	46	302	600
Total	(111)	2,609	1,260	407	4,165

26 Financial instruments continued

2005 Functional currency of operation	Net foreign currency monetary assets/(liabilities) Sterling £000	US Dollar £000	Euro £000	Other £000	Total £000
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

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 interest bearing cash equivalents which totalled £11,501,000 at 1 April 2006 (2005: £35,581,000). These comprised Sterling denominated deposits of £11,386,000 (2005: £24,073,000), US Dollar denominated deposits of £nil (2005: £3,663,000), and Euro and other currency deposits of £115,000 (2005: £7,845,000) which are placed on local money markets and earn interest at market rates. Cash balances of £24,325,000 (2005: £9,767,000) earn interest at local market rates.

The financial liabilities which are subject to interest rate fluctuations are bank loans, bank overdrafts and certain unsecured loans, which totalled £32,308,000 at 1 April 2006 (2005: £33,344,000). All are subject to floating rates of interest. These comprise US Dollar denominated bank loans of £18,497,000 (2005: £19,577,000) which bear interest with reference to the US Dollar LIBOR rates, US Dollar denominated bank overdrafts of £nil (2005: £13,000) which bear interest at rates referenced to US Dollar base rates, Euro denominated bank loans of £13,811,000 (2005: £13,527,000) which bear interest with reference to the Euro LIBOR rates, Euro denominated bank overdrafts of £nil (2005: £111,000) which bear interest at rates referenced to Euro base rates and Sterling denominated bank overdrafts of £nil (2005: £116,000) which bear interest at rates referenced to UK base rates.

Maturity of financial liabilities

With the exception of the deferred purchase consideration and other payables due after one year, all of the Group's financial liabilities mature in one year or less or on demand. The total of deferred purchase consideration due after one year includes £1,346,000 (2005: £3,948,000) due between one and two years, with the balance of £66,000 (2005: £80,000) due between two and five years. Other creditors due after more than one year include £1,220,000 (2005: £740,000) due between one and two years, £2,279,000 (2005: £786,000) due between two and five years, with the balance of £185,000 (2005: £214,000) 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.

In September 2005 the Group cancelled its existing £40 million of 364-day bilateral bank facilities and entered into a £60 million, five-year unsecured revolving credit facility with a small syndicate of its principal bankers.

The Group's undrawn committed facilities available at 1 April 2006 were £42,721,000, of which £15,029,000 mature within one year and £27,692,000 between four and five years.

Fair values of financial assets and financial liabilities

As at 1 April 2006 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 1 April 2006 and 2 April 2005 are not significant.

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

Notes to the accounts continued

27 Commitments

Capital commitments

Capital expenditure authorised and contracted at 1 April 2006 but not provided in these accounts amounts to £2,187,000 (2005: £2,070,000).

Commitments under operating leases

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

	Land and buildings		Other	
	2006 £000	2005 £000	2006 £000	2005 £000
Within one year	3,947	2,777	492	428
Within two to five years	8,075	6,338	522	501
After five years	2,767	3,204	3	13
	14,789	12,319	1,017	942

28 Retirement benefits

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

Full actuarial valuations of the defined benefit schemes are carried out every three years. 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. At those dates the market value of the scheme assets were £42,533,000 for the Halma Group Pension Plan and £8,278,000 for the Apollo Pension and Life Assurance Plan. The actuarial value of these assets represented 69% and 59% respectively of the benefits that had accrued to members after allowing for expected future increases in earnings. These shortfalls are being addressed by increased company contributions.

Defined contribution schemes

The amount charged to the Consolidated income statement in respect of defined contribution schemes was £1,685,000 (2005: £1,499,000).

Defined benefit schemes

The assumptions used to calculate scheme liabilities are:

	2006	2005	2004
Rate of increase in salaries	4.25%	4.25%	4.25%
Rate of increase of pensions in payment (pre-April 1997)	2.75%	2.75%	2.75%
Rate of increase of pensions in payment (post-April 1997)	2.75%	2.75%	2.75%
Discount rate	5.00%	5.40%	5.50%
Inflation assumption	2.75%	2.75%	2.75%

The mortality assumption of the Halma Group Pension Plan was strengthened during the year to be consistent with the provisional assumption the Trustees agreed for the December 2005 actuarial valuation currently under review. The actuary has used PA 92 tables with the Medium Cohort improvement factors plus one year for future mortality as compared with PA 92 tables for pensioners and PA 92 less three years for non pensioners in previous years. The future life expectancies are around four years longer than those assumed at the previous financial year end. For the Apollo Pension and Life Assurance Plan, the actuary has used PA 92 tables C=2020 for non pensioners and C=2010 for pensioners; this will be strengthened in accordance with the next actuarial valuation.

28 Retirement benefits continued

If assumed life expectancies had been one year greater in the defined benefit schemes, the gross deficit would have increased by £3.5 million.

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

	2006		2005	
	Expected rate of return %	Fair value £000	Expected rate of return %	Fair value £000
Equities	7.25	70,447	7.75	55,649
Bonds	4.75	22,071	4.75	13,876
Property	5.75	3,043	6.25	2,544
Total fair value of assets		95,561		72,069
Present value of scheme liabilities		(141,580)		(112,914)
Net deficit		(46,019)		(40,845)

The fair value of scheme assets includes a receivable of £4,763,000 (2005: £558,000) in respect of pension scheme liabilities that Halma p.l.c. has assumed on discontinued UK operations. The equivalent liability is included in the Consolidated and Company balance sheets within trade and other payables/other creditors.

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

	2006 £000	2005 £000
Current service cost (administrative expenses)	2,741	2,919
Curtailment gain (profit on disposal of operations)	(577)	–
Expected return on pension scheme assets	(5,180)	(4,583)
Interest on scheme liabilities	6,138	5,680
Net finance cost	958	1,097
Total charge	3,122	4,016

The amount charged to the Statement of recognised income and expenses in respect of the actuarial losses of the schemes was £10,355,000 (2005: £48,000).

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

	2006			2005		
	Fair value of scheme assets £000	Present value of scheme liabilities £000	Net deficit £000	Fair value of scheme assets £000	Present value of scheme liabilities £000	Net deficit £000
At beginning of year	72,069	(112,914)	(40,845)	61,427	(102,196)	(40,769)
Current service cost	–	(2,741)	(2,741)	–	(2,919)	(2,919)
Contributions paid	4,098	–	4,098	3,988	–	3,988
Curtailment gain	–	577	577	–	–	–
Net finance cost	5,180	(6,138)	(958)	4,583	(5,680)	(1,097)
Actuarial (loss)/gain	10,009	(20,364)	(10,355)	2,071	(2,119)	(48)
Receivable from principal employer	4,205	–	4,205	–	–	–
At end of year	95,561	(141,580)	(46,019)	72,069	(112,914)	(40,845)

Notes to the accounts continued

28 Retirement benefits continued

History of experience adjustments:

	2006 £000	2005 £000	2004 £000	2003 £000	2002 £000
Present value of defined benefit obligations	(141,580)	(112,914)	(102,196)	(90,545)	(67,705)
Fair value of scheme assets	95,561	72,069	61,427	46,574	55,144
Deficit in the scheme	(46,019)	(40,845)	(40,769)	(43,971)	(12,561)
Experience adjustments on scheme liabilities:					
Amount	536	52	–	(3,260)	*
Percentage of scheme liabilities	–	–	–	(4)%	*
Experience adjustments on scheme assets:					
Amounts	11,271	2,821	7,717	(17,042)	*
Percentage of scheme assets	12%	4%	13%	(37)%	*

*Not available.

Amounts disclosed for 2004 and earlier are under UK GAAP as it is not practicable to restate these amounts prior to the date of transition to IFRS.

The principal differences between UK GAAP and IFRS are explained in note 29 to the accounts.

29 Transition to IFRS

The following reconciliations of equity at 3 April 2004 (the date of transition to IFRS) and 2 April 2005 and of the income statement for the 52 weeks ended 2 April 2005 complement the summary reconciliations given in the document "Adoption of International Financial Reporting Standards", released by the Company on 2 September 2005, and available from its website www.halma.com or from the Company Secretary, which includes further explanations on the adjustments.

Reconciliation of profit

	As reported under UK GAAP £000	Defined benefit pension schemes £000	Share-based payments £000	Development costs capitalised £000	Reverse goodwill amortisation £000	Amortisation of acquired intangibles £000	Deferred tax on goodwill in reserves £000	Other restatements £000	As restated under IFRS £000
52 weeks to 2 April 2005									
Revenue from continuing operations	268,719	–	–	–	–	–	–	–	268,719
Revenue from discontinued operations	30,400	–	–	–	–	–	–	–	30,400
Total revenue	299,119	–	–	–	–	–	–	–	299,119
Profit from continuing operations	43,247	767	(192)	68	5,491	(343)	–	(23)	49,015
Loss from discontinued operations	1,606	–	–	–	–	(18)	–	–	1,588
	44,853	767	(192)	68	5,491	(361)	–	(23)	50,603
Net finance income/(charges)	45	(1,097)	–	–	–	–	–	–	(1,052)
Profit before taxation	44,898	(330)	(192)	68	5,491	(361)	–	(23)	49,551
Taxation	(15,540)	–	–	–	–	–	344	196	(15,000)
Profit for the period	29,358	(330)	(192)	68	5,491	(361)	344	173	34,551

29 Transition to IFRS continued

Reconciliation of equity

	As reported under UK GAAP £000	Defined benefit pension schemes £000	Share-based payments £000	Release dividend accrual £000	Development costs capitalised £000	Holiday pay accrual £000	Acquired intangible assets £000	Goodwill £000	Other restatements £000	As restated under IFRS £000
As at 4 April 2004										
Goodwill	71,425	–	–	–	–	–	–	–	–	71,425
Other intangible assets	–	–	–	–	2,653	–	–	–	969	3,622
Property, plant and equipment	47,139	–	–	–	–	–	–	–	(969)	46,170
Deferred tax asset	–	12,231	–	–	–	–	–	–	–	12,231
Total non-current assets	118,564	12,231	–	–	2,653	–	–	–	–	133,448
Inventories	31,208	–	–	–	–	–	–	–	–	31,208
Trade and other receivables	67,080	–	604	–	–	–	–	–	–	67,684
Cash and cash equivalents	48,482	–	–	–	–	–	–	–	–	48,482
Total current assets	146,770	–	604	–	–	–	–	–	–	147,374
Total assets	265,334	12,231	604	–	2,653	–	–	–	–	280,822
Borrowings	26,934	–	–	–	–	–	–	–	–	26,934
Trade and other payables	45,648	(69)	–	–	–	806	–	–	–	46,385
Current taxation	5,563	–	–	–	–	–	–	–	–	5,563
Dividends payable	13,762	–	–	(13,762)	–	–	–	–	–	–
Retirement benefit obligations	–	40,769	–	–	–	–	–	–	–	40,769
Deferred tax liability	6,067		156		816	(259)		(4,636)		2,144
Total liabilities	97,974	40,700	156	(13,762)	816	547	–	(4,636)	–	121,795
Net assets	167,360	(28,469)	448	13,762	1,837	(547)	–	4,636	–	159,027
Share capital	36,677	–	–	–	–	–	–	–	–	36,677
Share premium	7,768	–	–	–	–	–	–	–	–	7,768
Capital redemption reserve	185	–	–	–	–	–	–	–	–	185
Currency translation reserve	–	–	–	–	–	–	–	–	–	–
Other reserves	–	–	150	–	–	–	–	–	–	150
Retained earnings	122,730	(28,469)	298	13,762	1,837	(547)	–	4,636	–	114,247
Total equity	167,360	(28,469)	448	13,762	1,837	(547)	–	4,636	–	159,027

Notes to the accounts continued

29 Transition to IFRS continued

Reconciliation of equity

	As reported under UK GAAP £000	Defined benefit pension schemes £000	Share-based payments £000	Release dividend accrual £000	Development costs capitalised £000	Holiday pay accrual £000	Acquired intangible assets £000	Goodwill £000	Other restatements £000	As restated under IFRS £000
As at 2 April 2005										
Goodwill	94,848	–	–	–	–	–	(990)	5,418	–	99,276
Other intangible assets	–	–	–	–	2,739	–	966	–	1,112	4,817
Property, plant and equipment	48,896	–	–	–	–	–	–	–	(1,112)	47,784
Deferred tax asset	–	12,253	–	–	–	–	–	–	–	12,253
Total non-current assets	143,744	12,253	–	–	2,739	–	(24)	5,418	–	164,130
Inventories	35,502	–	–	–	–	–	–	–	–	35,502
Trade and other receivables	69,062	–	754	–	–	–	–	–	–	69,816
Cash and cash equivalents	45,348	–	–	–	–	–	–	–	–	45,348
Total current assets	149,912	–	754	–	–	–	–	–	–	150,666
Total assets	293,656	12,253	754	–	2,739	–	(24)	5,418	–	314,796
Borrowings	33,344	–	–	–	–	–	–	–	–	33,344
Trade and other payables	58,934	233	–	–	–	829	–	–	–	59,996
Current taxation	5,137	–	–	–	–	–	–	–	–	5,137
Dividends payable	14,457	–	–	(14,457)	–	–	–	–	–	–
Retirement benefit obligations	–	40,845	–	–	–	–	–	–	–	40,845
Deferred tax liability	6,186		63		854	(266)	260	(4,882)		2,215
Total liabilities	118,058	41,078	63	(14,457)	854	563	260	(4,882)	–	141,537
Net assets	175,598	(28,825)	691	14,457	1,885	(563)	(284)	10,300	–	173,259
Share capital	36,880	–	–	–	–	–	–	–	–	36,880
Share premium	10,111	–	–	–	–	–	–	–	–	10,111
Capital redemption reserve	185	–	–	–	–	–	–	–	–	185
Currency translation reserve	–	–	–	–	–	–	–	(171)	315	144
Other reserves	–	–	513	–	–	–	–	–	–	513
Retained earnings	128,422	(28,825)	178	14,457	1,885	(563)	(284)	10,471	(315)	125,426
Total equity	175,598	(28,825)	691	14,457	1,885	(563)	(284)	10,300	–	173,259

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

We have audited the Group financial statements of Halma p.l.c. for the 52 weeks to 1 April 2006 which comprise the Consolidated income statement, the Consolidated balance sheet, the Consolidated cash flow statement, the Statement of recognised income and expense and the Reconciliation of movements in shareholders' equity together with the statement of Accounting policies and the related notes numbered 1 to 29. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Directors' Report on remuneration that is described as having been audited. We have reported separately on the individual Company financial statements of Halma p.l.c. for the 52 weeks to 1 April 2006.

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

Respective responsibilities of Directors and Auditors

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

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements and the part of the Directors' Report on remuneration described as having been audited have been properly prepared in accordance with the Companies Act 1985 and article 4 of the IAS Regulations. We report to you if, in our opinion, the information given in the Report of the Directors is not consistent with the Group financial statements. We also report to you if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' transactions with the Company and other members of the Group is not disclosed. We also report to you if, in our opinion, the Group has not complied with any of the four Directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long-term incentive schemes, and money purchase and defined benefit retirement benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

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

We review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the 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 Report of the Directors 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' Report on remuneration and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements and the part of the Directors' Report on remuneration 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 Group financial statements and the part of the Directors' Report on remuneration described as having been audited.

Opinion

In our opinion:

– the financial statements give a true and fair view, in accordance with International Financial Reporting Standards as adopted for use in the European Union, of the state of affairs of the Group as at 1 April 2006 and of its profit for the 52 week period then ended;

– the Group financial statements and part of the Directors' Report on remuneration described as having been audited have been properly prepared in accordance with the Companies Act 1985 and article 4 of the IAS Regulations; and

– the information given in the Report of the Directors is consistent with the Group financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Reading

20 June 2006

Company balance sheet

	Notes	1 April 2006 £000	2 April 2005 (restated) £000
Fixed assets			
Tangible assets	C3	4,115	4,191
Investments	C4	102,566	48,967
		106,681	53,158
Current assets			
Debtors	C5	115,242	134,689
Current taxation receivable		307	–
Short-term deposits		11,386	22,950
Cash at bank and in hand		–	90
		126,935	157,729
Creditors: amounts falling due within one year			
Borrowings	C6	44,814	33,104
Creditors	C7	61,383	24,074
Current taxation payable		–	849
		106,197	58,027
Net current assets		20,738	99,702
Total assets less current liabilities		127,419	152,860
Creditors: amounts falling due after more than one year	C8	4,507	1,266
Net assets		122,912	151,594
Capital and reserves			
Called up share capital	C10	36,933	36,880
Share premium account	C11	10,702	10,111
Treasury shares	C11	(379)	–
Capital redemption reserve	C11	185	185
Other reserves	C11	569	126
Profit and loss account	C11	74,902	104,292
Equity shareholders' funds	C12	122,912	151,594

Approved by the Board of Directors on 20 June 2006.

E G Unwin **K J Thompson**
Directors

Notes to the Company accounts

C1 Accounting policies

Basis of accounting

The separate Company accounts are presented as required by the Companies Act 1985 and have been prepared in accordance with applicable United Kingdom Accounting Standards. The accounts are prepared on the historical cost basis, and reflect the adoption of Financial Reporting Standard ("FRS") 17 "Retirement Benefits", FRS 20 "Share-Based Payment", FRS 21 "Events after the Balance Sheet Date", FRS 23 "The Effects of Changes in Foreign Exchange Rates", FRS 25 "Financial Instruments: Disclosure and Presentation", FRS 26 "Financial Instruments: Measurement" and FRS 28 "Corresponding Amounts". Further information is given in Note C13 to the Company Accounts.

Foreign currencies

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

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

Share-based payments

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

Investments

Investments are stated at cost less provision for impairment.

Fixed assets and depreciation

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

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

Leases

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

Pensions

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

Deferred taxation

The Company 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.

Notes to the accounts continued

C2 Profit before taxation

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

Auditors' remuneration for audit services to the Company was £91,000 (2005: £68,000).

Total employee costs (including Directors) were:

	2006 £000	2005 £000
Wages and salaries	3,068	3,317
Social security costs	417	370
Other pension costs	550	721
	4,035	4,408

	2006 Number	2005 Number
Number of employees	27	26

Details of Directors' remuneration are set out on pages 96 to 98 within the Report on remuneration and form part of these financial statements.

C3 Fixed assets – tangible assets

	Land and buildings			
	Freehold properties £000	Short leases £000	Plant equipment and vehicles £000	Total £000
Cost				
At 2 April 2005	4,217	167	1,254	5,638
Assets of businesses sold	(264)	–	–	(264)
Additions at cost	41	–	369	410
Disposals	–	–	(197)	(197)
At 1 April 2006	3,994	167	1,426	5,587
Accumulated depreciation				
At 2 April 2005	597	68	782	1,447
Assets of businesses sold	(54)	–	–	(54)
Charge for the year	33	6	179	218
Disposals	–	–	(139)	(139)
At 1 April 2006	576	74	822	1,472
Net book amounts				
At 1 April 2006	3,418	93	604	4,115
At 2 April 2005	3,620	99	472	4,191

C4 Investments

Shares in Group companies

	2006 £000	2005 £000
At cost less amounts written off at beginning of year	48,967	40,959
Additions	54,649	8,090
Amounts written off in financial year	–	(82)
Disposals	(1,050)	–
At cost less amounts written off at end of year	102,566	48,967

Additions in the year relate to the acquisitions of Radio-Tech Limited and Texecom Limited, and the acquisition of a Group subsidiary from an intermediate holding company. Disposals relate to the sale of SEAC Limited, Secomak Limited and Cressall Resistors Limited.

Details of principal subsidiary companies are set out on pages 104 and 105. All these subsidiaries are wholly owned and, apart from the following, are subsidiaries of Halma p.l.c. and are incorporated in Great Britain where they principally operate.

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

*Interests held by subsidiary companies.

Notes to the accounts continued

C5 Debtors

	2006 £000	2005 (restated) £000
Amounts due from Group companies	112,179	132,494
Deferred taxation (note C9)	64	52
Other debtors	385	71
Prepayments and accrued income	2,614	2,072
	115,242	134,689

C6 Borrowings

	2006 £000	2005 £000
Falling due within one year:		
Bank loans	32,308	33,104
Overdrafts	12,506	–
	44,814	33,104

The bank loans at 1 April 2006 and 2 April 2005 mature within one year. The facility under which they are drawn expires within two to five years (2005: within one year) and at 1 April 2006 £27,692,000 (2005: £6,896,000) remained committed and undrawn.

The bank overdrafts at 1 April 2006 were drawn on uncommitted facilities which all expire within one year, and were held pursuant to a Group pooling arrangement which offsets them against credit balances in subsidiary undertakings.

C7 Creditors

	2006 £000	2005 £000
Falling due within one year:		
Trade creditors	704	410
Amounts owing to Group companies	51,371	19,663
Other taxation and social security	1,174	1,206
Other creditors	3,602	1,186
Accruals and deferred income	4,532	1,609
	61,383	24,074

C8 Creditors: amounts falling due after one year

	2006 £000	2005 £000
Deferred purchase consideration	1,061	25
Other creditors	3,446	1,241
	4,507	1,266
These liabilities fall due as follows:		
Within two to five years	4,322	1,178
After more than five years	185	88
	4,507	1,266

C9 Deferred taxation

	2006 £000	2005 (restated) £000
Movement in deferred taxation asset:		
At 2 April 2005	52	294
Credit/(charge) to profit and loss account	12	(242)
At 1 April 2006	64	52

Deferred taxation comprises short-term timing differences.

C10 Called up share capital

	Authorised		Issued and fully paid	
	2006 £000	2005 £000	2006 £000	2005 £000
Ordinary shares of 10p each	43,656	43,656	36,933	36,880

The number of ordinary shares in issue at 1 April 2006 was 369,330,680 (2005: 368,800,919).

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

	Issued and fully paid £000
At 2 April 2005	36,880
Share options exercised	53
At 1 April 2006	36,933

The total consideration received in cash in respect of share options exercised amounted to £644,000.

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

C11 Reserves

	Share premium account £000	Treasury shares £000	Capital redemption reserve £000	Other reserves £000	Profit and loss account £000
At 2 April 2005 (as originally stated)	10,111	–	185	–	89,139
Prior year adjustment (note C13)	–	–	–	126	15,153
At 2 April 2005 (restated)	10,111	–	185	126	104,292
Loss transferred to reserves	–	–	–	–	(26,629)
Share options exercised	591	–	–	–	–
Movement in other reserves	–	–	–	443	–
Treasury shares purchased	–	(379)	–	–	–
Exchange adjustments	–	–	–	–	(2,761)
At 1 April 2006	10,702	(379)	185	569	74,902

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

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

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

Notes to the accounts continued

C12 Reconciliation of movement in equity shareholders' funds

	2006 £000	2005 (restated) £000
At beginning of year (as originally stated)		136,062
Prior year adjustment (note C13)		14,245
At beginning of year (restated)	151,594	150,307
(Loss)/profit after taxation	(2,161)	21,008
Dividends paid	(24,468)	(23,320)
Exchange adjustments	(2,761)	959
Net proceeds of shares issued	644	2,546
Treasury shares purchased	(379)	–
Movement in other reserves	443	94
At end of year	122,912	151,594

C13 Prior year adjustment

The Company's accounting policies for share-based payments and dividends were changed during the year in order to implement FRS 20 "Share-Based Payment" and FRS 21 "Events after the Balance Sheet Date". The comparative figures in the primary statements and notes have been restated to reflect the new policies. The effects of the changes in policies are as follows:

	2006 £000	2005 £000
Profit and loss account		
Share-based payments	(5)	(450)
Dividends	747	695
Increase in profit for the year	742	245
Balance sheet		
Dividends payable	15,210	14,457
Prepayments	1,469	1,119
Deferred tax	(209)	(297)
Increase in net assets	16,470	15,279
Reserves		
Other reserves	569	126
Profit and loss account	15,901	15,153
Increase in net assets	16,470	15,279

The adoption of FRS 17 "Retirement Benefits", FRS 23 "The Effects of Changes in Foreign Exchange Rates", FRS 25 "Financial Instruments: Disclosure and Presentation", FRS 26 "Financial Instruments: Measurement" and FRS 28 "Corresponding Amounts" had no effect on profit or net assets.

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

We have audited the individual Company financial statements of Halma p.l.c. for the 52 weeks to 1 April 2006 which comprise the Balance sheet together with the statement of Accounting policies and the related notes numbered C1 to C13. These individual Company financial statements have been prepared under the accounting policies set out therein. The Corporate governance statement and the Directors' Report on remuneration are included in the Group Annual report of Halma p.l.c. for the 52 weeks to 1 April 2006. We have reported separately on the Group financial statements of Halma p.l.c. for the 52 weeks to 1 April 2006 and on the information in the Directors' Report on remuneration that is described as having been audited.

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

Respective responsibilities of Directors and Auditors

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

– the individual Company financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Principles of the state of affairs of the Company as at 1 April 2006;

– the individual Company financial statements have been properly prepared in accordance with the Companies Act 1985; and

– the information given in the Report of the Directors is consistent with the individual Company financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Reading

20 June 2006

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

Summary 1997 to 2006

	UK GAAP 1996/97 £000	UK GAAP 1997/98 £000
Revenue (note 2)	200,140	213,777
Overseas sales (note 2)	119,235	126,863
Profit before taxation, acquired intangibles amortisation and goodwill written off (note 3)	37,076	42,391
Net tangible assets/capital employed	81,209	98,249
Borrowings	3,763	2,784
Cash and cash equivalents	13,447	22,639
Employees	2,677	2,861
Earnings per ordinary share (note 2)	7.01p	6.87p
Adjusted earnings per ordinary share (note 3)	7.01p	8.26p
Year on year increase/(decrease) in adjusted earnings per ordinary share	8.9%	17.8%
Return on sales (notes 2 and 4)	18.5%	19.8%
Return on capital employed (note 5)	48.2%	49.5%
Year on year increase in dividends per ordinary share	20%	20%
Ordinary share price at financial year end	134p	124p
Market capitalisation at financial year end	£479.2m	£447.3m

Notes:
1. The amounts disclosed for periods up to and including 2003/04 are stated on the basis of UK GAAP, as it is not practicable to restate amounts prior to the date of transition to IFRS. The principal differences between UK GAAP and IFRS are explained in note 29 to the accounts, which explains the transition to IFRS.
2. From continuing and discontinued operations.
3. Adjusted to remove amortisation of goodwill and acquired intangible assets. IFRS figures include results of discontinued operations up to the date of their sales or closure but exclude profit on sale or closure.
4. Return on sales is defined as profit before taxation, goodwill amortisation and exceptional items expressed as a percentage of revenue.
5. Return on capital employed is defined in note 3 to the accounts.
6. UK GAAP figures prior to 2000/01 have not been restated for the adoption of FRS 19 (Deferred Taxation).

UK GAAP 1998/99 £000	UK GAAP 1999/00 £000	UK GAAP 2000/01 £000	UK GAAP 2001/02 £000	UK GAAP 2002/03 £000	UK GAAP 2003/04 £000	UK GAAP 2004/05 £000	IFRS 2004/05 £000	IFRS 2005/06 £000
217,758	233,485	268,322	267,597	267,293	292,640	299,119	299,119	337,348
134,189	150,727	181,831	183,259	188,161	206,102	218,745	218,745	249,055
41,823	43,751	49,698	48,255	46,508	50,284	50,389	49,912	59,641
102,101	89,755	99,991	117,515	86,854	95,935	80,750	104,417	105,396
7,730	14,700	7,758	15,047	27,667	26,934	33,344	33,344	32,308
29,894	21,900	21,484	45,657	27,574	48,482	45,348	45,348	35,826
2,827	2,975	3,059	2,859	2,793	2,925	3,002	3,002	3,187
7.91p	6.08p	8.91p	8.58p	7.76p	6.09p	7.97p	9.38p	11.08p
7.99p	8.41p	9.34p	9.10p	8.55p	9.44p	9.42p	9.45p	11.27p
(3.3%)	5.3%	11.1%	(2.6%)	(6.0%)	10.4%	(0.2%)	N/A	19.3%
19.2%	18.7%	18.5%	18.0%	17.4%	17.2%	16.8%	16.7%	17.7%
45.4%	44.7%	48.4%	45.7%	41.7%	50.5%	52.1%	48.8%	56.9%
20%	20%	15%	15%	10%	7%	5%	5%	5%
92p	95p	129p	164p	114p	149p	161p	161p	188p
£330.6m	£340.1m	£465.7m	£598.2m	£416.7m	£546.5m	£593.8m	£593.8m	£693.4m

We are aware of our responsibilities

03_Our governance

Management team, Directors and advisers

Management team

01 **Geoff Unwin**
(aged 63) is Chairman of the Halma Group and serves on the Nomination Committee (Chairman). He was appointed Deputy Chairman and Chairman Elect in September 2002 and Chairman in July 2003. He is also Chairman of United Business Media plc, Liberata plc and The Cloud Networks Limited. He is a non-voting board director of Capgemini Group, a member of the advisory board of Palamon Capital Partners and also chairs one of their investments, OmniBus Systems Limited.

02 **Andrew Williams**
(aged 39) 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 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.

03 **Kevin Thompson**
(aged 46) 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.

04 **Stephen Pettit**
(aged 55) was appointed a non-executive Director of Halma in September 2003 and serves on the Audit Committee, Remuneration Committee and Nomination Committee. He is Chairman of ROK Property Solutions plc and a non-executive Director of National Grid plc, National Air Traffic Services and BT Group plc – Equality of Access Board.

05 **Carol Chesney**
(aged 43) 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.

06 **Andrew Walker**
(aged 54) was appointed a non-executive Director of Halma in May 2003 and serves on the Audit Committee (Chairman), Remuneration Committee and the Nomination Committee. He is Chairman of Bioganix plc, a non-executive Director of Ultra Electronics Holdings plc, Manganese Bronze Holdings plc, API Group plc, Porvair plc, Delta plc, Fountains plc and Brintons Limited.

07 **Andrew Richardson**
(aged 41) 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.

08 **Richard Stone**
(aged 63) was appointed a non-executive Director of Halma in January 2001. He serves on the Audit Committee, Remuneration Committee (Chairman) and the Nomination Committee and is the Senior Independent Director. He is Chairman of Drambuie Limited and CSW Group Limited, a non-executive Director of Gartmore Global Trust p.l.c., Trust Union Finance (1991) plc, Engandscot Limited, TR Property Investment Trust plc and Candover Investments plc.

09 **Nigel Young**
(aged 56) is Chief Executive of the Specialist Products Division and has responsibility for Group IT and the Halma Executive Development Programme. 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.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10 **Adam Meyers**
(aged 44) 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.

11 **Neil Quinn**
(aged 56) is Chief Executive of the Fire and Security 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.

12 **Keith Roy**
(aged 56) 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 an 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).

13 **John Campbell**
(aged 47) is Chief Executive of the Elevator and Door Safety Division. He joined the Group in 1995 as President of IPC Resistors Inc. and was Chief Executive of the Resistors Division upon its formation in 1998 until the division was sold in February 2006. 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.

14 **Nigel Trodd**
(aged 48) 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.


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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 and Security
Kevin J Thompson,
Finance Director
John S Campbell,
Elevator and Door Safety
Keith J Roy,
Water and Gas Technology
Adam J Meyers,
Fluid Technology
Nigel J B Trodd,
Process Safety
Andrew J Richardson,
Water Management

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Bankers
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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
PO Box 52715
30 Gresham Street
London EC2P 2XY

Solicitors
CMS Cameron McKenna LLP
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

Report of the Directors

The Directors present their Annual report on the affairs of the Group, together with the Accounts and the Independent Auditors' reports, for the 52 weeks to 1 April 2006.

Activities
Halma p.l.c. is a holding company. A list of its principal subsidiary companies and their activities is set out on pages 104 and 105.

Results of the period
The Consolidated income statement for the 52 weeks to 1 April 2006 is set out on page 40. The Group profit on continuing operations before amortisation of acquired intangible assets and taxation is £58,140,000 (2004/05: £48,306,000). The profit attributable to equity shareholders amounts to £40,875,000 (2004/05: £34,551,000). This Annual report represents the first time the results for the financial year have been prepared under International Financial Reporting Standards ("IFRS") and the prior period comparatives have been amended where necessary to comply with IFRS.

Ordinary dividends
The Directors will submit a resolution at the annual general meeting proposing a final dividend of 4.12p per share and if approved this dividend will be paid on 23 August 2006 to ordinary shareholders on the register at the close of business on 21 July 2006. Together with the interim dividend of 2.71p per share already paid, this will make a total of 6.83p per share for the financial year.

Business review
A review of activities together with business and future developments is included on pages 5 to 37 inclusive.

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

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 2005 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 2006 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. Following approval of the performance share plan ("PSP") at the 2005 annual general meeting, the Directors made and intend to continue to make routine purchases of Halma shares in the market and hold them in treasury until required for shares that vest under the PSP. In the year to 1 April 2006, 200,000 shares were purchased in the market for treasury. Otherwise the Directors have no present intention of using this authority. In reaching a decision to purchase shares, the Directors will take into account the Company's cash resources, capital requirements and the effect of any purchase on the Company's earnings per share. It is anticipated that renewal of the authority will be requested at subsequent annual general meetings.

Articles of Association
A special resolution will be submitted to shareholders at the annual general meeting proposing that the Company's Articles be updated for some matters of clarification as indicated in the Chairman's letter to shareholders.

The most significant change relates to the Company's ability to enter into deeds of indemnity with its Directors which are qualifying third party indemnity provisions for the purpose of the Companies Act 1985.

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 1 April 2006 the Company's trade creditors represented 39 days (2005: 34 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 provides equal employment opportunities to all employees and applicants for employment without regard to ethnic origin, religion, gender, age, disability, sexual orientation or any other reason prohibited by local legislation. Halma gives disabled people the same consideration as other individuals.

Directors' remuneration
The Directors support the shareholders approving the remuneration of Directors as set out in the Report on remuneration on pages 95 to 99. 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 100 to 103.

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 £5,209 (2005: £11,913) during the financial year. There were no political donations (2005: £nil).

Directors
The Directors of the Company are listed on page 87. Brief biographies are set out on pages 86 and 87.

Directors proposed for re-election
Andrew Walker, Richard Stone and Keith Roy retire by rotation and being eligible offer themselves for re-election.

Shareholdings
As at 9 June 2006 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	62,596,278	16.9
Barclays Bank PLC	25,891,147	7.0
Sprucegrove Investment Management Limited	25,267,545	6.8
Harris Associates LP	14,636,500	3.9
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
In the case of each of the persons who are Directors of the company at the date when this report was approved:

- so far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's Auditors are unaware; and
- each of the Directors has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information (as defined) and to establish that the Company's Auditors are aware of that information.

Deloitte & Touche LLP have expressed their willingness to continue in office as Auditors and resolutions to re-appoint them and to authorise the Directors to determine their remuneration will be proposed at the forthcoming annual general meeting.

By order of the Board

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

20 June 2006

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and have elected to prepare the Company financial statements in accordance with UK Accounting Standards.

The Group financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The Company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

The Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- for the Group financial statements, provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- for the Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Company financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Report of the Directors and Directors' Report on remuneration and business and financial review which comply with the requirements of the Companies Act 1985.

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

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 reaffirmed its decision to maintain the composition of the Board based on its assessment that this is the most appropriate structure for the Company; the Chairman also specifically raised this point with shareholders during the 2005 Annual General Meeting and received the unanimous support of those present. However Geoff Unwin, Chairman of the Board, did step down from membership of the Audit and Remuneration Committees in August 2005 to ensure compliance with the Combined Code. The Board believes it important that the Chairman continue to attend these Committee meetings, by invitation, to enable him to contribute to their deliberations and to enable him to properly discharge his responsibilities as Chairman.

From August 2005, the Nomination Committee comprises a majority of independent non-executive Directors.

Application of the principles of good governance
The Group is controlled and directed by a Board consisting of a Chairman, four Directors and three other non-executive Directors. Their biographies appear on pages 86 and 87. 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	3	3	2
Geoff Unwin	5	1*	1*	2
Andrew Williams	6	N/A	N/A	2
Kevin Thompson	6	N/A	N/A	N/A
Neil Quinn	6	N/A	N/A	N/A
Richard Stone	6	3	3	2
Keith Roy	6	N/A	N/A	N/A
Andrew Walker	6	3	3	1*
Stephen Pettit	6	3	3	1*

*Geoff Unwin was not a member of the Remuneration Committee and the Audit Committee when two of the three meetings of each Committee were held. Andrew Walker and Stephen Pettit were not members of the Nomination Committee when one of the two meetings was held.

Corporate governance continued

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

Richard Stone chairs the Remuneration Committee of which 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 Report on remuneration on pages 95 to 99.

Audit Committee

Andrew Walker chairs the Audit Committee. 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 judgement, 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 Chairman, 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

Geoff Unwin chairs the Nomination Committee. Andrew Williams joined the Committee on his appointment as Group Chief Executive in February 2005. Richard Stone is also a member of the Committee, and Andrew Walker and Stephen Pettit joined the Committee on 3 August 2005. 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 succession planning. The Committee meets at least annually.

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 that 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 pages 86 and 87. 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 2005/06 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 November 2005 Board meeting. The Board then met in February 2006, separate from any scheduled meeting, for a general discussion on Board effectiveness followed by a meeting of the executive Directors with the Chairman, a meeting of the Chairman and non-executive Directors, and then a meeting of the non-executive Directors without the Chairman present. The outcomes of these meetings were then fed back to individuals by the Chairman, Senior Independent Director or 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.

All shareholders are encouraged to attend the Annual General Meeting, and major shareholders are also invited to briefings following the interim and annual results. The content of presentations to shareholders and analysts at results announcements and all announcements are 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 108.

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

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

• a defined organisational structure with an appropriate delegation of authority to operational management;

• the identification and appraisal of risks both formally, through the annual process of preparing business plans and budgets, through an annual detailed risk assessment carried out at local level and informally through close monitoring of operations;

• a comprehensive financial reporting system within which actual 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.

Corporate governance continued

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. During the year the use of these "warning signs" has become further embedded within the operating processes of each company. As a result, potential risks are highlighted at an earlier stage for corrective action.

• 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, the frequency of which has been increased this year, 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 papers and 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.

During the year several benchmarking activities have been undertaken to assess the Group's Internal Audit activities. As a result further improvements have been targeted for the coming year to enhance our processes.

Auditor independence

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

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 three non-executive Directors, the members being Richard Stone (Chairman of the Committee), Andrew Walker and Stephen Pettit. During the year, Geoff Unwin stepped down from the Committee in recognition of best practice under the current Combined Code. 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, determine 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 Watson Wyatt to advise on certain aspects of executive remuneration. This firm provided the Company with limited additional advice, regarding the UK defined benefit pension plan, 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 2005/06 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 boards 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 adopted a performance share plan following approval at the 2005 annual general meeting.

The Plan contains provisions permitting share option grants, restricted share awards and performance share awards, however, the Committee intend to initially use the Plan to award performance shares only. The first awards were made in August 2005. Awards, which are made annually, are 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% of salary and 80% of salary respectively. Awards vest after three years on a sliding scale subject to the Company's relative TSR performance against its FTSE 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 is also extended to certain centrally based executives and subsidiary chief executives with maximum awards of 40% of salary.

The 1990, 1996 and 1999 share option plans all provided for the grant of two categories of option both of which are subject to performance criteria. The exercise criteria for these three plans are noted in note 23 to the accounts. No further grants may be made from the first two of these plans nor does the Company plan to make any further grants from the 1999 Plan now that the performance share plan was approved by shareholders at the 2005 annual general meeting. The granting of options was spread over the life of the Plan.

Report on remuneration continued

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 assessed 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.

For 2005/06 and subsequently, 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	2006 Total £000	2005 Total £000
Geoff Unwin	112	–	16	128	124
Andrew Williams	339	320	26	685	240*
Kevin Thompson	225	225	10	460	248
Neil Quinn	187	22	13	222	201
Richard Stone	32	–	–	32	32
Keith Roy	162	162	15	339	237
Andrew Walker	32	–	–	32	32
Stephen Pettit	29	–	–	29	29
Stephen O'Shea	–	–	–	–	810+
	1,118	729	80	1,927	1,953
Gains on share options				34	242
Aggregate remuneration				1,961	2,195

+to date of resignation

*from date of appointment

The fees paid in relation to Geoff Unwin were paid to Gunwin Limited. Andrew Williams' salary above includes a supplement of £18,581 (2005: £nil) to compensate him for the fact that his pension entitlement under the Halma Group Pension Plan defined benefit arrangements is limited by the earnings cap.

Andrew Williams 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 final salary occupational pension plan registered with HM Revenue & Customs, which provides a maximum pension of two-thirds of final pensionable salary after 25 or more years' service at normal pension age (60). Final 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 Plan 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, currently possible from age 50 with the consent of the Company and the Trustees of the Plan, are subject to actuarial reduction. Pensions in payment increase by 3% per annum for service up to 5 April 1997 and by price inflation thereafter subject to a maximum of 5%.

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

	Age at 1.4.06	Years of service at 1.4.06	Accrued pension 2005 £000	Increase in the year £000	Accrued pension 2006 £000
Andrew Williams	39	11	23	2	26
Kevin Thompson	46	18	59	17	78
Neil Quinn	56	18	71	9	82
Keith Roy	55	13	39	7	47

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 2.4.05 £000	Directors' contri-butions £000	Increase in transfer value net of contri-butions £000	Transfer value 1.4.06 £000
Andrew Williams	153	9	43	205
Kevin Thompson	555	16	278	847
Neil Quinn	1,006	15	281	1,301
Keith Roy	557	13	185	754

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.

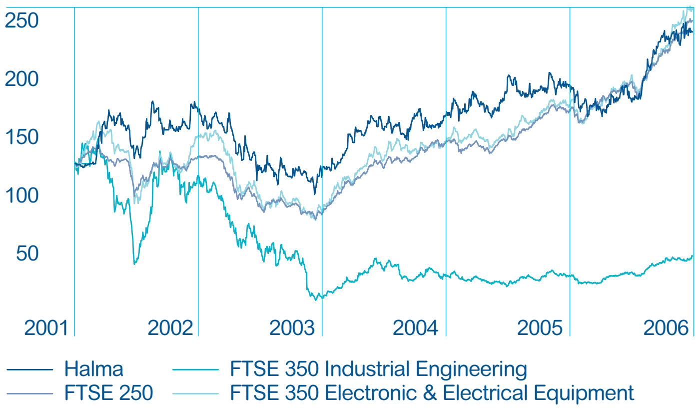
These values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.

As noted under Directors' remuneration, Andrew Williams' pension benefit under the Plan was capped by HM Revenue & Customs' limits as of 1 December 2005. To the extent that Andrew Williams' uncapped pensionable salary exceeds such limits, the Company compensates Andrew at an annual rate of 26% of the excess.

Total shareholder return

The graph below shows the Company's total shareholder return performance over the five years to 1 April 2006 as compared to the FTSE 250, the FTSE 350 Industrial Engineering and the FTSE 350 Electronic & Electrical Equipment indices which have been chosen as the Company was a constituent of the first two indices throughout the financial year and subsequent to year end was reclassified to the FTSE 350 Electronic & Electrical Equipment sector. Over the period indicated, the Company's total shareholder return was 180% compared to 187% for the FTSE 250, 194% for the FTSE 350 Industrial Engineering sector and 44% for the FTSE 350 Electronic & Electrical Equipment sector.

Total shareholder return %



Source: Datastream total return indices

At the commencement of the five-year period depicted in the graph, the Halma p.l.c. ordinary share price was 129p and the total of dividends paid in the year ended 31 March 2001 was 4.229p per share. The Halma p.l.c. ordinary share price at 1 April 2006 was 187.75p and the total of dividends paid in the year then ended was 6.63p 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 1.4.06	Shares 2.4.05
Geoff Unwin	38,250	38,250
Andrew Williams	36,493	19,493
Kevin Thompson	72,649	60,857
Neil Quinn	50,052	43,586
Richard Stone	20,000	5,000
Keith Roy	748,536	744,587
Andrew Walker	71,520	5,500
Stephen Pettit	2,000	2,000

There are no non-beneficial interests of Directors.

There were no changes in Directors' interests from 1 April 2006 to 20 June 2006.

Report on remuneration continued

Performance share plan

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

	As at 2.4.05	Granted	Vested	As at 1.4.06
Andrew Williams	–	241,482	–	241,482
Kevin Thompson	–	169,792	–	169,792
Neil Quinn	–	141,305	–	141,305
Keith Roy	–	122,250	–	122,250

Performance conditions for the awards made in the financial year are set out above.

Share option plans

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

	As at 2.4.05	Granted	Exercised	Share price on exercise	As at 1.4.06	2006 Gains on exercise (£)	2005 Gains on exercise (£)
Andrew Williams	354,999	105,922	–	–	460,921	–	–
Kevin Thompson	841,774	92,626	(51,866)	144.5p	882,534	17,186	17,886
Neil Quinn	957,652	37,855	(28,666)	149.0p	966,841	10,677	18,155
Keith Roy	496,397	61,427	(17,466)	146.5p	540,358	5,836	7,331

There were no share plan 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 145.67p. The closing middle market price of the Company's ordinary shares on Friday, 31 March 2006, the last trading day preceding the financial year end, was 187.75p per share and the range during the year was 138.5p to 194p.

Details of Directors' options outstanding at 1 April 2006 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 187.75p.

2 Not yet exercisable, will only be exercisable when the performance criteria, set out in note 23, have been met and have an exercise price per share of less than 187.75p.

	Status of options (see above)	Year of Grant	Number of shares	Weighted average exercise price (p) per share
Andrew Williams	2	1997-2005	460,921	141.63
Kevin Thompson	1	1996-1998	161,232	126.01
	2	1997-2005	580,276	129.59
Neil Quinn	1	1996-1999	214,166	120.95
	2	1997-2005	752,675	133.55
Keith Roy	1	1996-1999	137,166	123.45
	2	1997-2005	403,192	139.99

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

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

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.

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

The contract in respect of Mr Unwin's services provides for termination, by either party, by giving not less than six months' notice. Mr Unwin's basic fee for 2005/2006 was set at £112,000 per annum and he received a contribution of £15,500 towards his office costs.

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

The Chairman and the non-executive Directors' fees were last reviewed by the Board of Directors in April 2006 at which time the revised fee levels were set for three years from 2006/2007 as follows:

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

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

By order of the Board

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

20 June 2006

Corporate responsibility

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, business partners and shareholders.

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

Regulatory demands upon us vary considerably around the world, so in each of the following areas 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 workplace

Halma demonstrated that it is one of the UK's most admired businesses by a high ranking in Management Today magazine's annual survey of corporate reputation. The awards are a peer review, distilling the opinions of directors who run 220 of the UK's largest companies. This is a revealing survey based on the key elements that help make companies successful. Companies are, in effect, judged by their competitors, and the survey is unique in the UK.

Halma was ranked the 27th most admired company out of a list of more than two hundred businesses. The awards are based on a survey by Nottingham Business School of the ten largest UK-based companies in each of 22 different sectors. Respondents rate companies in categories such as quality of management, financial soundness, quality of products, ability to attract, develop and retain talented managers, value as a long-term investment and capacity to innovate.

We believe that everyone who works for Halma can take pride in this result because everyone, whatever their role, contributes to the Group's reputation. It is a great compliment to our business, especially when you see that we are ranked above big companies like Shell, British Airways, J Sainsbury and Marks & Spencer.

Training

2005/06 saw the launch of the Halma Executive Development Programme ("HEDP") which is based on our recognition of the fundamental part our people play in the success of the Group. HEDP is an integrated development plan for our senior people – the next generation of Managing Directors and Divisional Chief Executives. Our objective is to provide these individuals with the tools and training to achieve more in their existing role and potentially to advance through the organisation playing a pivotal role in continuing the success of the Group.

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

The programme has been developed from a proven course structure and is specifically tailored to suit Halma's needs. It focuses strongly on strategic and leadership capabilities and on developing personal attributes – commitment, determination and resilience. There is an emphasis on Performance Management and Team Development. It includes skill-based elements such as Sales and Marketing Management, Project Leadership, Personal Communication, Corporate Governance, Finance and Innovation, but all are presented in a strategic context.

Additional training on the Group intranet also provides the opportunity for all Group employees to expand their skill set by making available to them a wide ranging menu of courses for completion at their own pace. The courses available broadly fall into the classifications of innovation, management, personal development, sales and technical areas of expertise such as manufacturing and accounting. Since the launch of e-learning in October 2004, 178 modules have been completed.

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's health and safety policy, which is set out on our website, is to manage our activities to avoid causing any unnecessary or unacceptable risks to health and safety. The policy is understood by all Group companies, and given the autonomous structure of the Group, operational responsibility for compliance with relevant local health and safety regulations is delegated to the Board of Directors of each Group company. We believe health and safety training is very important and it 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 are available on our website.

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

Innovation
Continuous innovation is a critical ingredient for Halma's growth. Continually refreshing our intellectual property leads to new products and processes and helps us to maintain the strong market positions held by many of our companies. Innovation is not just the responsibility of our development departments but is integral to all commercial activities within the business. Innovative ideas can range from a novel way to enter a new or remote market to administration process improvements speeding the delivery of products to customers. All employees within the Group have the opportunity to deliver innovative ideas to help their company and the Group achieve the growth objectives.

During 2005/06, Halma introduced Eureka!, a monthly prize for the most creative innovation idea submitted during any one month. The idea does not need to have been implemented or even have proven financial viability – we are simply looking for the actual birth of the idea, the creative spark, the eureka! that heralds the start of an original thought process which upon germination will bring new benefit to a Group business.

The Group continued the successful Innovation Initiative, launched in 2004/05, 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 2005/06 Gold Award of £20,000 was presented at the annual CEO Conference by Geoff Unwin to Ed Agar of Palintest for his work on the Cool Pool Tester, a hand-held electronic instrument for monitoring water quality of residential swimming pools and spas. The Silver Award of £10,000 was awarded to Carol Cessford of Elfab for her Think Global, Act Local project, a global telecommunications network in 50 countries linked to a multilingual sales team. The Bronze Award of £5,000 was shared by two teams – Matt Carroll, Bill Benson and Gordon Denny of Mosebach for their H-Pin Resistor Retention System, a new design for Mosebach's off-highway dynamic braking resistors – and Brian Rogers and David Landis of Ocean Optics for their Custom Fiber Optic Assembly Quoting and CAD Drawing Creation Website, a website for the rapid creation of quotations and CAD drawings, incorporating a customer approval e-mail service.

The environment
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.

Corporate responsibility continued

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, Kevin Thompson, has principal responsibility for coordinating and monitoring the policy.

Environmental management system

We are committed to developing and implementing an environmental management system ("EMS") throughout the Group to measure, control and, where practical, reduce our environmental impacts. We 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 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, and during the year, Apollo Fire Detectors Limited and Berson Milieutechniek BV 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.

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 Group updates the results of this annual exercise on its website each July. The data collected for the past two years 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 collected data confirms 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 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.

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.

Halma Group directory

	Main products
Air Products and Controls Inc.	Duct detectors and control relays for smoke control systems
Apollo Fire Detectors Limited	Smoke and heat detectors, sounders, beacons and interfaces
Apollo Gesellschaft für Meldetechnologie mbH	Smoke and heat detectors, sounders, beacons and interfaces
Aquionics Inc.	Ultraviolet light equipment for water sterilisation
Berson Milieutechniek B.V.	Ultraviolet light equipment for treating drinking water, 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 hazardous industrial processes
Crowcon Detection Instruments Limited	Gas detection instruments for personnel and plant safety
Diba Industries, Inc.	Specialised components and complete fluid transfer subassemblies for medical, life science and scientific instruments
Elfab Limited	Pressure sensitive relief devices to protect process plant
E-Motive Display Pte Limited	Electronic displays for providing information to elevator passengers
Fire Fighting Enterprises Limited	Beam smoke detectors and specialist fire extinguishing systems
Fortress Interlocks Limited	Safety systems for controlling access to dangerous machines
Fortress Systems Pty. Limited	Machinery and process safety systems and high power electrical resistors
Halma Holdings Inc.	US holding company
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
Janus Elevator Products Inc.	Infrared safety systems and emergency communication 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 fire and industrial security
Memco Limited	Infrared safety systems for elevator doors and elevator emergency communications
Monitor Controls Inc.	Elevator signal fixtures
Netherlocks Safety Systems B.V.	Process safety systems for petrochemical and industrial applications
Ocean Optics, Inc.	Miniature fibre optic spectrometers for consumer electronics, process control, environmental monitoring, life sciences and medical diagnostics
Oklahoma Safety Equipment Co. Inc.	Pressure sensitive relief devices to protect process plant
Palintest Limited	Instruments for analysing water and measuring environmental pollution
Palmer Environmental Limited	Instrumentation for quantifying, detecting and controlling leakage in underground water pipelines
Perma Pure LLC	Gas dryers and humidifiers for fuel cell, medical, scientific and industrial use
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
Radio-Tech Limited	Radio telemetry
SERV Trayvou Interverrouillage S.A.S.	Safety systems for controlling access to dangerous machines
Smith Flow Control Limited	Process safety systems for petrochemical and industrial applications
Texecom Limited	Security alarm products
TL Jones Limited	Infrared safety systems, emergency communications and displays for elevators
Volk Optical Inc.	Ophthalmic equipment and lenses as aids to diagnosis and surgery
Volumatic Limited	Cash handling and security from point of sale to cash centre

www.halma.com
visit the Halma website and register for e-mail news alerts

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Hitchin, Hertfordshire	Warren Rees	+44 (0)845 402 4242	info@ffeuk.com	www.ffeuk.com
Wolverhampton, West Midlands	Mike Golding	+44 (0)1902 499 600	sales@fortress-interlocks.co.uk	www.fortress-interlocks.co.uk
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Hauppauge, New York	Mike Byrne	+1 (1)631 864 3699	sales@januselevator.com	www.januselevator.com
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Notice of meeting

Notice is hereby given that the one hundred and twelfth annual general meeting of Halma p.l.c. will be held at The Ballroom, The Berkeley Hotel, Wilton Place, London SW1X 7RL on Wednesday, 2 August 2006 at 11.30 am 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 1 April 2006.

2 To declare a dividend on the ordinary shares.

3 To approve the Report on remuneration as set out on pages 95 to 99 of the Report and accounts for the 52 weeks to 1 April 2006.

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

5 To re-elect as a Director Richard A Stone* who retires from the Board by rotation and being eligible offers himself for re-election.

6 To re-elect as a Director Keith J Roy who retires from the Board by rotation and being eligible offers himself for re-election.

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

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

Special business

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

9 That the regulations contained in the document produced to this meeting and signed by the Chairman for the purposes of identification, are approved and adopted as new Articles of Association in substitution for, and to the exclusion of, the existing Articles of Association.

10 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 162D 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 £1,845,000,

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.

11 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% 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

3 July 2006

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 2 August 2006 and at The Berkeley Hotel from 11:15 am on the day of the meeting until the close of the meeting.

Copies of the proposed new Articles of Association of Halma p.l.c. 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 on the Directors proposed for re-election appears on pages 86 and 87 of the Report and accounts.

* Denotes 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.

Shareholder information

Financial calendar

2005/06 Interim results	6 December 2005
2005/06 Interim dividend paid	8 February 2006
Trading update	27 April 2006
2005/06 Preliminary results	20 June 2006
2005/06 Report and Accounts issued	3 July 2006
Annual General Meeting	2 August 2006
2005/06 Final dividend payable	23 August 2006
Trading update	end October 2006
2006/07 Interim results	5 December 2006
2006/07 Interim dividend payable	February 2007
Trading update	end April 2007
2006/07 Preliminary results	June 2007

Analysis of shareholders

at 31 May 2006

	Shareholders Number	Shareholders %	Shares Number	Shares %
Number of shares held				
1 – 7,500	5,357	79.8	10,302,723	2.8
7,501 – 25,000	769	11.5	10,108,553	2.7
25,001 – 100,000	344	5.1	17,119,260	4.6
100,001 – 750,000	176	2.6	50,781,082	13.8
750,001 and over	64	1.0	281,067,662	76.1
	6,710	100.0	369,379,280	100.0

Share price

London Stock Exchange, pence per 10p share

	2006	2005	2004	2003	2002
Highest	194	170	151	166	175
Lowest	139	142	109	97	126
Year End	188	161	149	114	164

Dividends

Pence per 10p share

	2006	2005	2004	2003	2002
Interim	2.71	2.58	2.44	2.285	2.077
Final	4.12	3.92	3.75	3.527	3.206
Total	6.83	6.50	6.19	5.812	5.283

Share dealing facilities

A low cost telephone dealing service has been arranged with Stocktrade which provides a simple way for buying or selling Halma shares. Basic commission is 0.5% up to £10,000, reducing to 0.2% thereafter (subject to a minimum commission of £15). For further information please call 0845 601 0995 and quote reference Low Co0198.

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 112th annual general meeting of Halma p.l.c. will be held at The Ballroom, The Berkeley Hotel, Wilton Place, London SW1X 7RL on Wednesday, 2 August 2006 at 11.30 am. The Notice convening the meeting is on page 106.

Designed and produced by Radley Yeldar (London)

HALMA

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