

HALMA

Halma p.l.c. Annual report and accounts 2007



We are protecting lives
and improving quality of life
for people worldwide.
Find out what it takes...

Performance

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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.

Financial highlights

	Change	2007	2006
Continuing operations:			
Revenue	+14%	£354.6m	£310.8m
Adjusted profit before taxation ⁽¹⁾	+14%	£66.1m	£58.1m
Statutory profit before taxation	+11%	£62.6m	£56.6m
Adjusted earnings per share ⁽²⁾	+14%	12.50p	11.01p
Statutory earnings per share	+11%	11.86p	10.73p
Total dividends (paid and proposed) per share	+5%	7.18p	6.83p
Return on sales ⁽³⁾		18.6%	18.7%
Return on total invested capital ⁽⁴⁾		14.0%	12.8%
Return on capital employed ⁽⁴⁾		60.1%	56.9%

Pro-forma information:

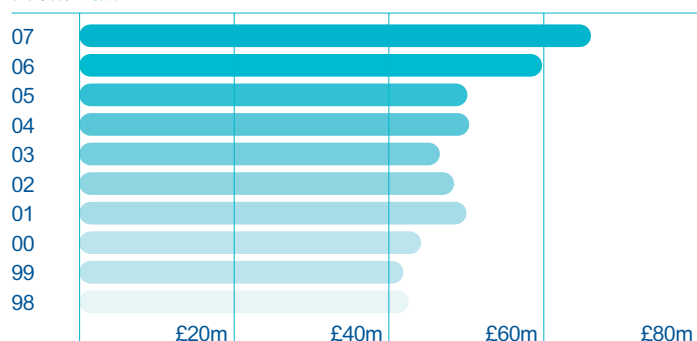
(1) Adjusted to remove the amortisation of acquired intangible assets of £3,458,000 (2006: £1,500,000).

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

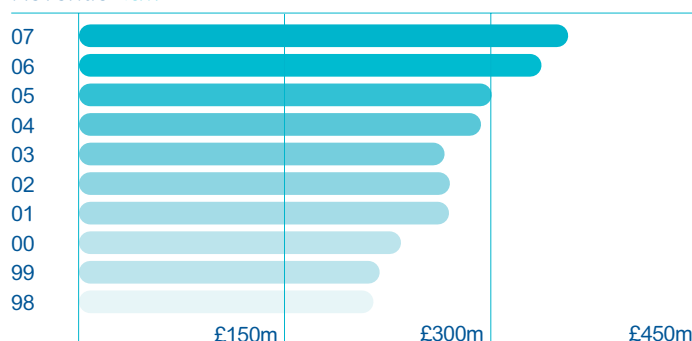
(3) Return on sales is defined as adjusted⁽¹⁾ profit before taxation from continuing operations expressed as a percentage of revenue from continuing operations.

(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.

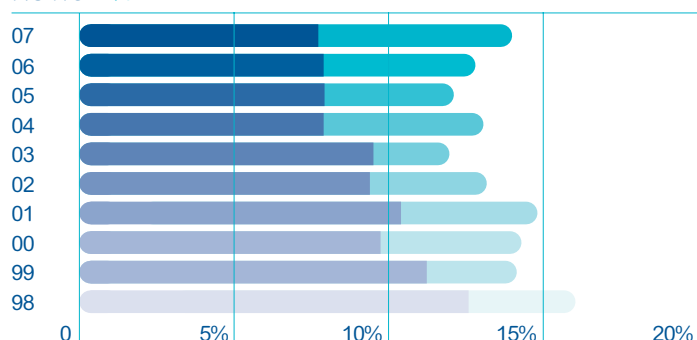
Profit* £m



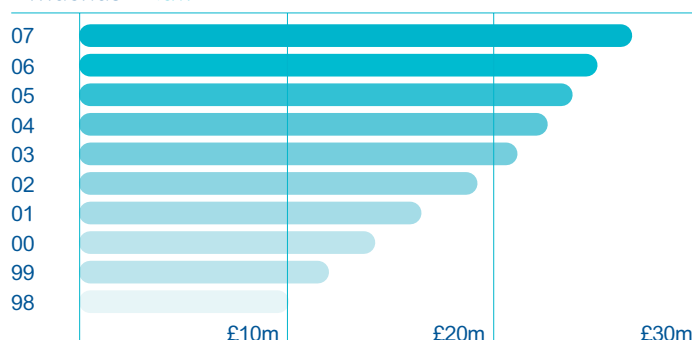
Revenue* £m



ROTC** %



Dividends*** £m



■ Weighted average cost of capital

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

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

*** Dividends paid and proposed.

Chairman's statement

Another good year with continuing investment in people, innovation, market development and acquisitions.

The last financial year has again seen good progress for Halma. Revenue from continuing operations increased 14% to £354.6 million (£310.8 million in 2006) with underlying organic growth* of 8.1% despite adverse currency effects of 2.3% i.e. 10.4% at constant currency. Profit before tax and amortisation of acquired intangibles on continuing operations was £66.1 million (2006: £58.1 million) an increase of 14%, organic growth* at constant currency was 10.1%. This organic profit growth* compares with an equivalent figure of 14% in 2006 where we benefited from the rebound in the Water business, so in the year under review we faced slightly tougher comparables. Statutory profit before tax increased by 11% to £62.6 million. The Board is recommending a final dividend of 4.33p per share, an increase of 5% for the year and our 28th consecutive year of dividend increases of 5% or more. Our dividend cover has increased to 1.74 times (2006: 1.61 times). Return on total invested capital* was 14.0% (2006: 12.8%).

We have also made a number of acquisitions during the year: Mikropack, Baldwin Environmental and Labsphere in the Health and Analysis sector and Trittech and System Technologies in the Industrial Safety sector. In total we invested £27 million in acquisitions with a maximum potential of a further £5 million in deferred consideration. After the positive action taken in the previous year, no disposals were made during the period under review. At the end of the year our net debt was £7.7 million.

During the year we have seen a continuous flow of new products, some of which are detailed in this report. We are also beginning to see results from our investments in China. During the year seven additional companies within the Group established a local presence there and during the coming year we expect several more to commence.

Our investment in people continues apace with enthusiastic attendance at our management training programmes and it is pleasing to see the energy with which attendees return to their companies, refreshed, invigorated, having learnt much, but more importantly, with a network of colleagues who actively support each other on all aspects of our business such as selling, innovation, technology and quality.

All of these investments, together with our investments in strengthening our selling and distribution resources, feed and support our strategy for healthy organic growth, so it is encouraging to see that this focus continues to bear fruit. This also gives us even more confidence that we can deliver significant value for shareholders from acquisitions that fit our strategic framework and meet our strict acquisition criteria. Furthermore we have significant financial resource at our disposal to do more.

In March, Andrew Walker stepped down from the Board and I should like to record our thanks for all his contribution during his four-year tenure as a non-executive Director of the Group and wish him well for the future.

On behalf of the Board, I should also like to thank all our employees for producing such a good performance.

In summary, another good year with continuing investment in people, innovation, market development and acquisitions. This, together with strong and effective leadership from our management team, gives us confidence for the future.

Geoff Unwin Chairman



*See Financial highlights.

Chief Executive's strategic review

Record revenues and profits once again demonstrating our ability to deliver organic growth.



Record results with 8% organic profit growth*

We have achieved record revenues and profits once again, demonstrating our ability to deliver organic growth which is the primary measure of our success. For continuing operations, total revenues increased by 14%, including 8% organic growth*, with total profits before amortisation of acquired intangibles also increasing by 14%, including 8% organic*. Impressively, these significant increases were achieved despite a 2% to 3% adverse currency impact during the year.

Strong returns and cash flow supports record dividend and investment

Return on sales* (2007: 18.6%; 2006: 18.7%), Return on capital employed* (2007: 60.1%; 2006: 56.9%) and Return on total invested capital* (2007: 14.0%; 2006: 12.8%) all remained strong or increased in accordance with our objective of generating growth without diluting the quality of our returns.

Cash flow was good and we ended the year with £7.7 million net debt having funded five acquisitions, significant organic growth and a further dividend increase of 5%.

Acquisitions completed in targeted markets

The Group completed five acquisitions during the year. Two of these acquisitions, Mikropack (April 2006) and Baldwin Environmental (September 2006) added new products to two of our leading Health and Analysis businesses and were merged with these existing businesses immediately on completion. Of greater significance were Tritech/System Technologies (November 2006) and Labsphere (February 2007) who are world leaders in subsea asset monitoring (Industrial Safety) and light measurement (Health and Analysis) respectively. All five businesses have performed well since joining the Group. We have allocated more resources to our acquisition search activity as acquisitions continue to be an important element of our long-term growth plans.

Growth in all business sectors and all global regions

Each of Halma's three business sectors achieved record revenues and profits.

- Infrastructure Sensors grew strongly with profits up 16% from 17% revenue growth following the increased investment in sales and product development made last year.
- Health and Analysis performed well generating a 7% increase in profits from revenue up 9%. This sector makes just under half of all the Group's sales into markets where the currency is US\$ (or US\$-related) and bore the brunt of adverse currency movements during the year.

Strategic achievements

- 8% organic revenue and profit growth drives record results
- Five acquisitions add technology and a new sub-sector business
- Seven Group companies newly represented in Halma hubs in Shanghai and Beijing
- 60 senior managers completed Halma Executive Development Programme
- More than 70 new products launched during 2006/07

→ Industrial Safety proved once again to be a strong and consistent performer with revenue growth of 15% driving profits up by 19%.

Geographically, revenues and profits increased in each major territory. The UK and mainland Europe proved to be particularly strong and our Industrial Safety businesses benefited from continuing high investment in the oil, gas and petrochemical industries – especially in the Middle East.

Many of our products are used to protect or improve the environment which offers us exciting opportunities for growth. In addition, we recognise that we can do more to minimise the impact that our business activities have on the environment and believe we can do this by increasing efficiencies thereby creating further value for shareholders. Examples of the actions we are taking are included in the Business and financial review.

Greater activity in Asia

Revenues to Asia Pacific and Australasia grew by 7% and continue to represent around 10% of Group sales. Over the medium term, this region offers growth rates in excess of the Group average and, as announced previously, we created Halma “hubs” in Shanghai and Beijing in August 2006 to accelerate business development by our subsidiaries in the region.

This is a good example of how the Group can help our businesses to develop more quickly without compromising their autonomy and freedom. We regularly review the opportunities for similar Group initiatives in other regions, markets or functional areas.

Product and process innovation driving organic growth

We maintained a healthy level of investment in Research & Development (R&D) (4.3% of revenues) and capital expenditure. These investments are critical factors in our ability to sustain growth through increasing innovation in products and processes. Over 70 new products were launched by Halma companies during the year, providing encouragement for our future growth prospects. Some of these products resulted from collaboration amongst Group companies.

Increasing investment in talented people

Developing and growing businesses already performing at a high level is a challenging task and I would like to thank each employee in every Halma company for their contribution to another successful year for the Group.

Strategic directions

- Organic growth to exceed 5% p.a.
- Targeted acquisitions
- Build on Chinese hubs and grow revenues in Asia
- Continued management development
- Maintain strong new product introduction

We have worked hard in recent years to change our culture from being too inwardly focussed on managing returns. This has included major people changes with over 65% of our subsidiary managers having joined the Group in the past four years.

Increased investment in training and development, including the flagship Halma Executive Development Programme (HEDP) launched 18 months ago, is translating into improved financial performance and greater strategic clarity throughout the Group. By the end of 2007, over 80 of our senior managers will have benefited from the HEDP.

This commitment to improving our people resources means that internal promotions are now a more realistic and frequent option. Accordingly, it was pleasing for me to promote Mark Lavelle to the Executive Board in April 2007 following five successful years as Managing Director of Keeler, one of our Health and Analysis businesses. This coincided with a change of divisional responsibilities in the Executive Board to ensure we continue to provide fresh insights and new approaches for our businesses.

Halma’s long-term growth record continues

Since 1970, Halma has increased revenue every year bar two. Today we have very modest net debt of £7.7 million having self-funded organic growth, acquisitions and paid dividends to shareholders over the years totalling £235 million, excluding the final dividend proposed for this year.

So what has changed over the past two years to give us a new confidence that we can attain even higher levels of success? Simply that our proven ability to choose sustainable growth markets is being boosted with greater ambition, customer focus, more innovation, new technologies and stronger management resources all driven with a clear strategy for each part of our business. These results demonstrate that we are making good progress and we remain positive about our prospects for the year and the longer term.

Andrew Williams Chief Executive

We have three sectors...

Infrastructure Sensors

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

Health and Analysis

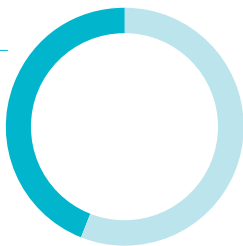
We make components and products used to improve personal and public health. We also develop technologies and products which are used for analysis in safety, environmental and leisure related markets, including Water.

Industrial Safety

We make products which protect property and people at work.

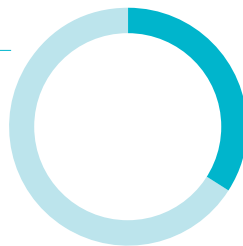
Infrastructure Sensors revenue 2007 £m

£155m
44%



Health and Analysis revenue 2007 £m

£120m
34%



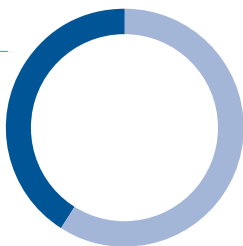
Industrial Safety revenue 2007 £m

£80m
22%



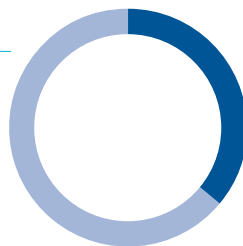
Infrastructure Sensors profit* 2007 £m

£28m
41%



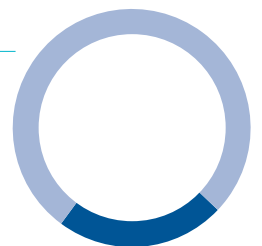
Health and Analysis profit* 2007 £m

£24m
36%



Industrial Safety profit* 2007 £m

£16m
23%



- Sub-sectors
- Fire detection
 - Security sensors
 - Automatic door sensors
 - Elevator safety

- Sub-sectors
- Water
 - Fluid technology
 - Photonics
 - Health optics

- Sub-sectors
- Gas detection
 - Bursting discs
 - Safety interlocks
 - Asset monitoring

*See note 1 to the accounts.

...and one approach

As a group we are:

- Autonomous and entrepreneurial
- Highly cash generative
- Financially strong
- Successful acquirers of good businesses
- Committed to developing our people
- 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 it takes to
shape our success...



...it takes ambition

Dr Ling Sun Director of Asia Operations for Ocean Optics, Inc.

We appointed Dr Ling Sun Director of Asia Operations for Ocean Optics, Inc. to head up a new regional sales office in 2006. Based in Shanghai, Ling's team provides region-wide sales and technical support for our photonics technologies throughout the dynamic Asian market. Before joining us, she gained a doctorate in Material Sciences from the Tokyo Institute of Technology, and was principal engineer for Ocean Optics products at our Japanese distributor.



Seven Halma businesses – Ocean Optics, Crowcon, Hanovia, Keeler, Berson, Netherlocks and Palintest – have set up new direct sales operations in China during 2006/07 using the hub offices as a springboard.



Our miniature fibre optic spectrometers are used to test LED lamps in this quality control system manufactured by Huge Winners CNC System Ltd., Shenzhen, China.



Springboard for success

There are tremendous opportunities for our companies to contribute to China's rapid economic development. To kick start our subsidiaries' entry into Chinese markets, during 2006 we set up hub offices in Shanghai and Beijing. From these hubs we offer subsidiaries fully-serviced offices. They are supported by experienced local managers providing administrative, marketing, human resources and legal services.

When Ocean Optics set up a new direct sales operation in China in 2006, they quickly established a sales and support network based on the Halma hub office in Shanghai. Now well established with growing sales, they have moved into their own premises.



The Halma Executive Development Programme (HEDP) is as much about personal development as acquiring management skills. Here Halma managers entertain children cared for by the Shisei Gakuen Children's Charity, Tokyo, Japan.



Teamwork in action as our managers on the HEDP scheme learn about group behaviour through practical exercises.



...it takes investment in people

Jim Ludwig MD of Texecom Limited

Jim Ludwig joined our US corporate team in 1998 as a specialist in acquisitions and business development. Four years later, he switched roles and moved into line management as President of Air Products and Controls Inc., a US fire products manufacturer with 33 employees. One of the many Halma executives who have benefited from the Halma Executive Development Programme (HEDP), Jim has recently moved to the UK to head up security sensor specialist Texecom, which has over 300 staff.

A black and white photograph of a hand gripping a metal railing. The railing consists of several parallel horizontal bars supported by a vertical post. The background is plain white. The image is partially obscured by a teal-colored text box at the bottom.

Improving our people resources

Raising the quality of leadership throughout the Group by investment in people is central to our growth strategy. The HEDP has been running successfully for 18 months and, by the end of 2007, over 80 of our senior managers will have completed the three-week residential course. In April 2007 we launched a new training scheme, the Halma Management Development Programme, to extend our commitment to people development across a wider group of employees.

Investment in people has greatly improved mobility and career development opportunities for our high flyers. We can consider internal candidates for top jobs more often and our managers have greater opportunities to work in different regions of the world.



Tim Stubbs, Engineering Manager, and Mike Golding, Managing Director, of Fortress Interlocks Limited, celebrate winning the Queen's Award for Innovation in addition to the "Green" Innovation Award in the 2006 Innovation & Design Excellence Awards.



The "Best Small-Scale Innovation" at the 2006 Railway Forum/Modern Railways Innovation Awards went to Radio-Tech Limited for their Rail Temperature Monitor safety system which gives early warning of the risk of track buckling.



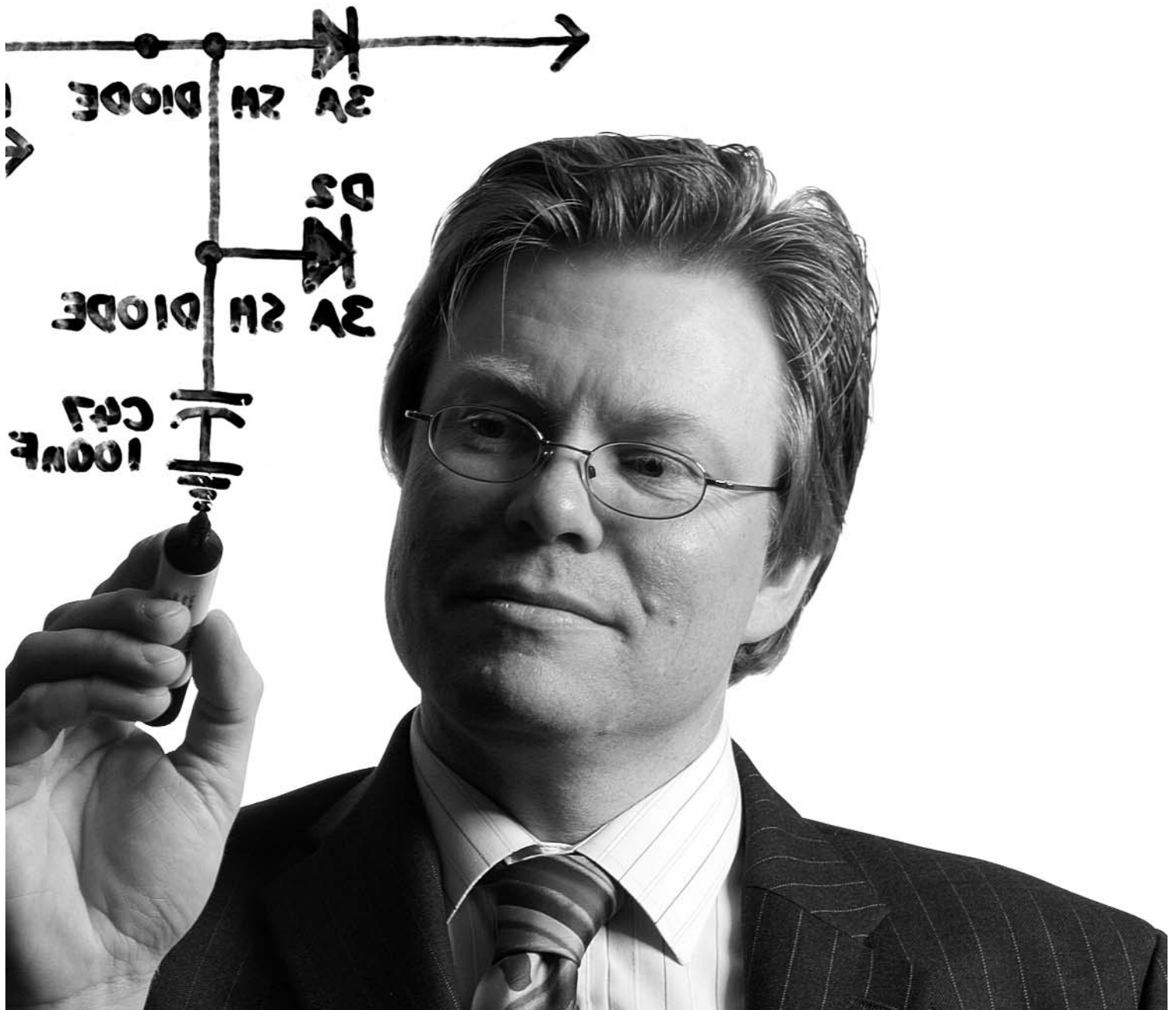
THE QUEEN'S AWARDS
FOR ENTERPRISE:
INNOVATION
2007



...it takes innovative people

Inder Panesar Director and Brian Back MD of Radio-Tech Limited

Inder Panesar and Brian Back are successful, innovative engineers. This was recognised when they won the Halma 2006 Innovation Award. They developed a unique system which remotely monitors the temperature of railway tracks. It has already achieved substantial sales. Radio-Tech is one of our many highly innovative companies and a technology leader in wireless and cellular telemetry data transmission systems.



Investment in innovation

We invest heavily in R&D to maintain competitive advantage via technological innovation. Continuous innovation is critical to our growth strategy.

We know that successful innovation in business processes and products needs more than imaginative ideas. It demands enthusiasm, resources and perseverance to drive a new concept to completion. Successful innovators continue to develop their ideas, use failures to trigger even better ideas and never give up. These employees are vital to our success and we have strategies to support and encourage them. To give innovation a high profile we award annual and monthly innovation prizes, we run innovation and creativity training courses and organise Group-wide innovation workshops.



...it takes collaboration

Rob Fish MD of Palmer Environmental Limited and Alain Soulié MD of Hydreka SAS

Close collaboration between Rob Fish and Alain Soulié's companies, together with Radio-Tech, another of our subsidiaries, has resulted in the development of a new, fixed network leak detection system for one of the world's largest water companies.



Following the organisation of our elevator safety products companies into three regional businesses covering Asia, Europe and North America, they now collaborate in all areas of R&D, manufacturing, marketing and sales.



This innovative fire detector, which has an integral audible sounder and visible flashing beacon alarm to comply with disability legislation, was developed jointly by two of our subsidiaries.

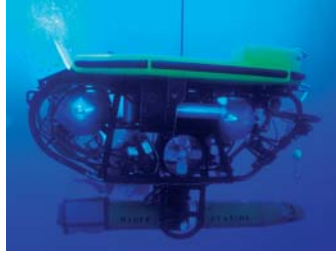
Benefits of collaboration

Hydreka successfully met its customers' demand for a state-of-the-art monitoring system by calling on the technical expertise of both Palmer and Radio-Tech. Working together, the companies developed a unique product combining the benefits of three Group technologies.

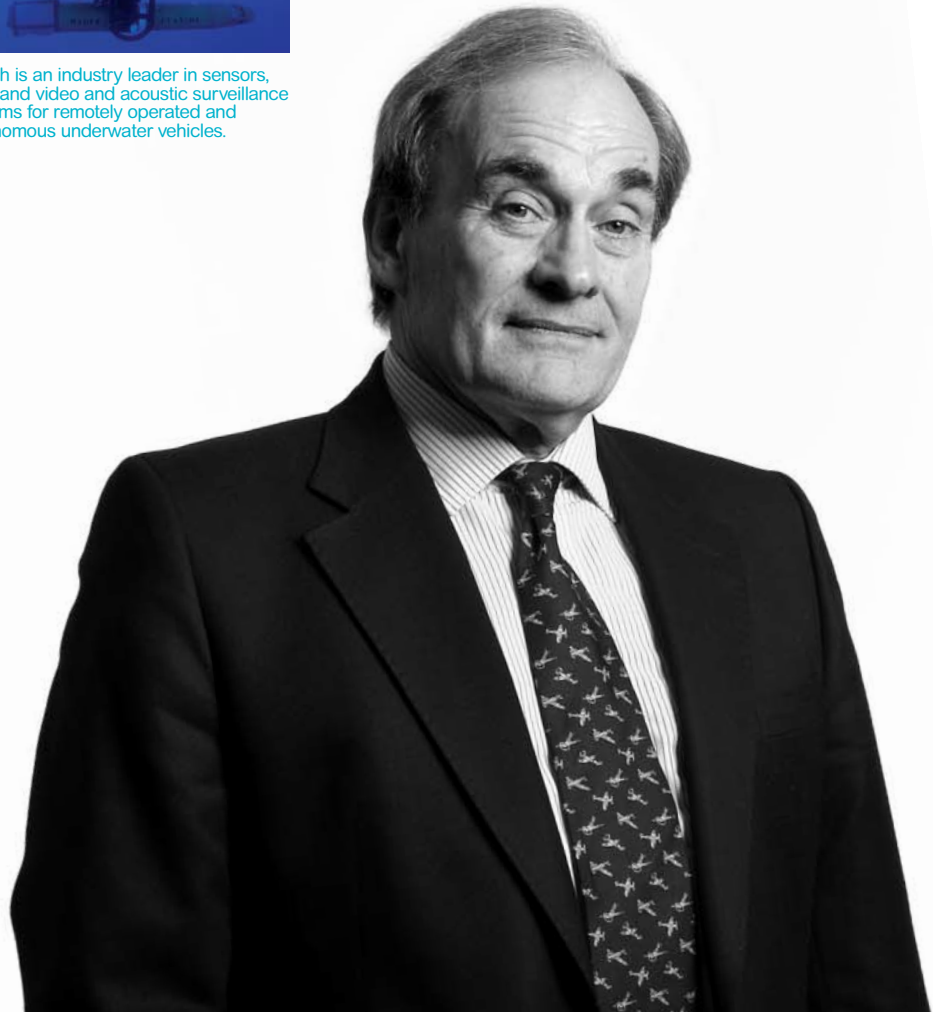
We encourage our businesses to collaborate and share technology advances and application experience. In many markets where competitors have a narrow area of expertise, collaborative product development and marketing can give us a real competitive advantage. Increasingly, our complementary technologies are being offered to the market as a package backed by unrivalled technical expertise.



Customers ranging from international aerospace agencies to digital camera manufacturers use Labsphere light sources to test and calibrate light-sensitive sensors.



Tritech is an industry leader in sensors, tools and video and acoustic surveillance systems for remotely operated and autonomous underwater vehicles.



...it takes entrepreneurs

Richard Marsh, Marcus Cardew, Alison Trepte, Jonathan Trepte and Dick Wright

Vendors of Tritech and System Technologies who have remained with the businesses

Beginning life in 1990 as a two-man operation working from a converted house, Tritech's former owners built the company into an industry leader in acoustic and video equipment for underwater asset monitoring, aided by the expertise of their colleagues at System Technologies. Halma acquired the companies in November 2006.



Acquiring entrepreneurs

Acquiring a business is not purely a financial exercise. We are interested in intellectual assets more than physical assets and search for successful companies in, or adjacent to, the markets we already operate in. We are always keen to 'acquire' the dynamic entrepreneurs who built the business through leadership, determination, single-minded pursuit of opportunities and calculated risk-taking. We have a highly decentralised, entrepreneurial culture. As a result, owners of acquired companies feel comfortable within the Group and often remain in position after selling their businesses. Over the years, a number of Divisional Chief Executives and Halma Directors have joined the Group through an acquisition.



Vulnerable patients at the Northport Veteran's Affairs Medical Center, New Jersey, USA, are protected from contact with elevator doors by our infrared safety sensors. "It's a much safer system. Patients get plenty of advance warning that doors are closing and can take their time," said Mike Boyle, Supervisor (Electrical), Northport Veteran's Affairs Medical Center.



Our UV system treats pool water at the Germantown Academy in Pennsylvania, USA. According to swimming coach Richard Shoulberg, trainer of over 15 Olympic swimmers, "Previously, many of our athletes were having respiratory problems due to heavily chlorinated water. The switch to UV treatment has been amazing. The athletes stopped needing inhalers as the atmosphere around the pool was much better, with no throat and eye irritations."

...it takes satisfied customers

Ray Kamal Vice President of Computrols Inc., New Orleans

Ray Kamal has been with Computrols Inc. for almost ten years with responsibility for sales, marketing, production and R&D. Based in New Orleans, USA, Computrols designs, manufactures and services state-of-the-art building automation systems. The company uses our fire detectors in their CSimon Fire System which delivers cutting edge fire protection. Computrols recently installed our fire detectors in a system that protects the Statue of Liberty on Liberty Island, New York City.



Excellence in customer support

Satisfied customers are essential to our future growth and we have created hundreds of thousands all over the world. Our subsidiary Apollo Fire Detectors provided technical assistance to Computrols so that they could develop control panels that work with our fire detectors. According to Ray Kamal, the companies have developed a strong relationship to ensure that Computrols can offer customers a solution which meets their expectations in this safety critical application. He said, "I've been impressed by the fact that Apollo fire detectors are so easy to install and always work straight out of the box. They are delivered on time, defect free. Apollo provides 'above and beyond' technical support and their advice has helped to get our system listed to the highest certification possible which was incredibly important to us."

computrols

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.

KPI	Group target	2007	2006
Organic revenue growth ¹	>5%	8%	11%
Organic profit growth ¹	>5%	8%	15%
Return on sales ²	~18%	18.6%	18.7%
ROCE ³ (Return on capital employed)	>45%	60.1%	56.9%
ROTIC ³ (Return on total invested capital)	>12%	14.0%	12.8%
R&D as a % of revenue ⁴	~4%	4.3%	4.3%
Operating cash to operating profit ⁵	100%	106%	117%

1. Organic growth measures the change in the revenue and profits 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 adjusted⁶ 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 expressed as a percentage of adjusted⁶ operating profit from continuing operations.

6. Adjusted to remove the amortisation of acquired intangible assets.

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 20 and 21, followed by an analysis of our three principal operating sectors in more detail on pages 22 to 27, and then we summarise the Operating environment, risks and uncertainties, review corporate responsibility and conclude with a Financial review.

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 over 20 countries and major operations in Europe, the US, Asia and 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 22 to 27. 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

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 delivered an impressive performance against our KPI targets. The prior year comparatives for 2006/07 were demanding as, unlike that year, there were no "recovery" situations in the current year to benefit from. Underlying organic profit growth remained healthy and was again driven by top line growth rather than cost reduction.

Strong Return on sales, ROCE and ROTIC metrics confirm Halma's ability to deliver growth without diluting the quality of its returns. Indeed, the increase in ROTIC indicates enhanced value creation for shareholders.

R&D investment remained high relative to many of our peers reflecting both increased innovation activity and an overall uplift in the technology level of Group companies due to M&A actions in the past two years. Further discussion of the Group's financial performance is given in the Financial review later in this Annual report.

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 to grow faster than our markets. Following a strong year in 2005/06, achieving 8% organic growth in 2006/07 was an excellent result and represents a second year of good progress following low organic growth in the preceding years 2000 to 2005.

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. Whilst respecting the autonomy of subsidiary companies, we encourage collaboration between Halma companies and see this as a potential competitive advantage that has been under-utilised in the past. During 2006/07, the increased collaboration started to bear fruit with new products launched incorporating technology and know-how from two or more Halma companies. These included fire products, which combined visual and audible alarm modules together with our market leading smoke detectors.

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 robust long-term growth drivers such as demographic change.

Growth drivers

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

How we operate

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.

Through the regular interaction between the Group’s Executive Board members, common challenges and opportunities for Group businesses are identified which sometimes leads to a central initiative. Examples of initiatives underway are sales process improvement, innovation, people development and increasing activity in China via our Halma hubs in Shanghai and Beijing.

DCEs are responsible for finding, negotiating, completing and managing acquisitions in their own business sectors. Acquisition costs, including goodwill, are incorporated in the incentive plans of all Executive Board members.

When new acquisitions join Halma they invariably retain their name and identity, and vendors often continue to work with us. Elsewhere entrepreneurs who typically find working in a large international organisation too constraining welcome our autonomous culture and decentralised structure which allows them to develop further.

Outlook

2006/07 marked another year of good progress for the Group with record revenues and profits. Significant investment continues in R&D, capital expenditure and strengthening channels to market. This combination of delivering strong results whilst increasing investment provides a solid platform from which it is possible for the Group to sustain organic growth above market rates.

Good quality prospects for further acquisitions in our target markets exist and acquisitions will continue to play an important role in the Group’s long-term growth.

We have clear growth strategies for our markets and we continue to work hard to improve the quality of our execution through active resource allocation and people development. We are well placed to deliver sustained growth and 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	2007	2006
Revenue growth ¹	>5%	17%	12%
Profit growth ²	>5%	16%	2%
Return on sales ³	~18%	18.1%	18.3%
ROCE ⁴ (Return on capital employed)	>45%	64%	60%
R&D as a % of revenue ⁵	~4%	4.2%	4.4%

KPIs are calculated on results from continuing operations.

1. Sector revenue compared with the prior year.
2. Adjusted⁶ sector profit before finance expense compared with the prior year.
3. Return on sales is defined as adjusted⁶ sector profit before finance expense and taxation expressed as a percentage of sector revenue.
4. Adjusted⁶ sector profit before finance expense expressed as a percentage of sector operating net assets.
5. Sector research and development expenditure expressed as a percentage of sector revenue.
6. Adjusted to remove the amortisation of acquired intangible assets.

Strategic achievements

- Return to organic profit growth
- New global strategy for Elevator Safety
- Further new sales offices opened in North America and Asia
- Launch of first Chinese designed and manufactured automatic door sensor product

Sector overview

Infrastructure Sensors, our largest business, contributes 44% of Group revenue (£155 million) and 41% (£28 million) of Group profit[†]. Our principal products are sensors for fire, security, automatic doors and elevator controls. There are four sub-sectors:

Fire detection 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 Middle East and Asia.

Security sensors We have 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 one of the world's largest manufacturers of sensors used on automatic doors in public and commercial buildings*. These products are made in China, Belgium 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, the Czech Republic, New Zealand, the US, China and Singapore.

Sector strategy

Our strategy in this sector is to become the leading supplier of safety-critical sensor components used in non-residential building monitoring and control systems. We focus on specialist components, not complete installed systems. The global manufacturers of complete building infrastructure systems see us as a strategic partner or specialist supplier of advanced technology components rather than a direct competitor.

To support our Elevator safety sales growth, during the past year we organised our companies into three regional businesses covering Asia, Europe and North America. Our strategy is to boost competitiveness by presenting customers with a single, seamless source for our complete range of elevator safety products in each region. As part of a strategy of getting closer to elevator customers than our competitors, we opened new regional sales offices in Delhi, Houston and Toronto adding to the new offices opened in Asia and the Middle East last year.

Continuous manufacturing cost reduction remains a key strategic activity within this sector balanced by the need to remain close to our customers. Consequently, we will continue to invest significantly in our Czech and Chinese factories.

† See note 1 to the accounts

Strategic directions

- Organic profit growth driven by revenue growth
- Increase direct presence further in China and Asia regions
- Develop internal technical/commercial collaboration opportunities
- Complete implementation of new global strategy for Elevator Safety businesses
- Add new products and technology organically and via acquisition

Market trends

A significant trend in the Infrastructure Sensors market sector is rising demand for integrated fire, security, evacuation and access systems. To accommodate this need, we have developed a new technology platform which will be licensed to our fire alarm system partners so that our fire detectors can be specified in buildings with integrated fire and security monitoring.

Worldwide demand for fire detectors remains strong. With an estimated growth rate of 18%, China continues to offer the highest revenue growth potential. Europe, where our fire product revenues grew by over 15%, reversed the downward trend of last year due to recovery in the German market.

Downward pricing pressure continues in the fire detector market, particularly in the Middle East and Asia. Further investment in our sales channels, coupled with increased spending on R&D and the supply chain, delivered continued growth in these markets and gross margins remained solid.

Our ability to innovate and respond rapidly to frequent regulatory changes maintains competitive advantage. In addition to new technical standards, during the past year we accommodated new regulations covering: safe disposal and recycling of waste electrical products (WEEE Directive); restrictions on the use of hazardous substances in electrical products (RoHs Directive); and enhanced electromagnetic compatibility standards (CPD Directive).

Our Security sensors sell into a global market worth over £2 billion annually, which continues to grow at 6% per year. Following our acquisition of Texecom in November 2005, we established a strong presence in the UK and South African markets and are making good progress towards gaining the necessary product approvals to sell our products into China and the US. These markets offer us significant growth potential and we will be using expertise in our other Infrastructure Sensors businesses to develop our presence more rapidly.

Our internal estimate is a 3% to 4% global growth rate for the automatic door safety market. We have high market shares in Europe and the US where many of our competitors have chosen low prices as their main competitive strategy. Our strategy to maintain our margins and market share by reducing production costs and introducing new market leading products tailored for each region, continued to be successful.

We believe that the global market growth rate for new elevators (and elevator services) is in the region of 5% to 6%.** We calculate the annual value of the elevator markets that we serve at £180 million. The Middle East, India and China offer the highest growth rates for elevator safety sensors. Price competition is prevalent; severe in China, but moderate in Europe and the US.

Geographic regions

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



New European legislation called "Safety Norm EN-81", designed to improve elevator safety and accessibility for people with disabilities, boosted European demand for our products in the building modernisation market.

Sector performance

Our Fire detector businesses produced record revenues and profits. In 2006/07, organic revenue and profit growth was more than double market growth rates thereby increasing market share while improving profitability. More than 10 significant new fire products were introduced and we obtained 450 new product approvals for global markets.

Despite strong revenue growth, profit growth from security sensor products suffered from currency volatility as well as high investment in new markets and product development.

Even with strong price competition in the automatic door sensor market, both revenues and profits grew significantly. We maintained our high market shares in Europe and the US and defended our good profit margins partly by cutting production costs through increased investment in our Chinese manufacturing capacity. However, we also benefited from launching innovative, market leading products, such as the 4Safe sensor which prevents people from being trapped or injured in automatic, revolving or swing doors. New legislation boosted sales of 4Safe in Germany.

Last year we began to increase our direct presence in key developing elevator markets and this year both revenue and profit moved ahead. We countered a slight dip in margins in the past year with new, lower cost products and by cutting production costs. Revenues from offices set up in Dubai and Mumbai have grown very successfully, whilst progress in new regional offices in China has been more varied.

ROCE for the sector as a whole continues to be excellent.

Sector outlook

With our Fire detector and Automatic door sensor businesses achieving solid organic profit growth on increased revenues, a flow of new products aimed at diversification and market expansion is planned to drive growth. Continued strengthening of senior management and IT investment in our Security sensor and Elevator safety businesses is well underway to improve the potential for profit growth in these businesses in the future.

Sources of information:

* Internal market analysis including confidential market sources

** Freedonia "Industry Study 2016 – World Elevators" and elevator manufacturers' websites

Main growth drivers

- Safety regulations and legislation
- Risk and cost of accidents
- Commercial construction (new build and refurbishment)
- Population growth, ageing and urbanisation
- Rising expectations of health and safety
- Capital investment in industrial facilities
- 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	2007	2006 (restated)*
Revenue growth ¹	>5%	9%	18%
Profit growth ²	>5%	7%	52%
Return on sales ³	~18%	20.4%	20.7%
ROCE ⁴ (Return on capital employed)	>45%	75%	79%
R&D as a % of revenue ⁵	~4%	5.3%	4.9%

* restated to reflect the reclassification of Radio-Tech Limited to the Industrial Safety sector.

KPIs are calculated on results from continuing operations.

1. Sector revenue compared with the prior year.
2. Adjusted⁶ sector profit before finance expense compared with the prior year.
3. Return on sales is defined as adjusted⁶ sector profit before finance expense and taxation expressed as a percentage of sector revenue.
4. Adjusted⁶ sector profit before finance expense expressed as a percentage of sector operating net assets.
5. Sector research and development expenditure expressed as a percentage of sector revenue.
6. Adjusted to remove the amortisation of acquired intangible assets.

Strategic achievements

- Organic revenue and profit growth despite strong adverse currency movement
- Mikropack, Baldwin Environmental and Labsphere acquisitions
- Five companies establish new presence in China via Halma hubs
- Increased rate of R&D to 5.3% of revenue
- Over 40 new products launched

Sector overview

Health and Analysis contributed 34% (£120 million) of Group revenue and 36% (£24 million) of Group profit[†]. There are four principal sub-sectors:

Water We estimate that we are the world leaders in monitoring and finding leaks in underground water pipelines and among the world leaders in UV technology for disinfecting and treating water. We manufacture our water products in the UK, The Netherlands, France and the US.

Fluid technology We make critical components such as pumps, probes, valves, connectors and tubing used by 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, measure and condition light and analyse the interaction of light with substances. We have manufacturing sites in the US, Germany and The Netherlands.

Health optics We make handheld devices used to assess eye health, diagnose disease and assist with eye surgery. Our ophthalmic products are made in the UK and the US.

Sector strategy

In Water management we aim to be the technology leaders and offer water utilities worldwide new solutions to their water supply problems. Our Water UV treatment growth strategy is to unlock new regulated markets via further product validations, and to adapt existing product lines for new applications.

We aim to grow our Fluid technology business by broadening our product range and our presence outside of our traditional US stronghold both via organic growth and acquisitions.

Geographic expansion and innovative product development are our twin organic growth strategies for Photonics. The Mikropack and Labsphere acquisitions completed this year added complementary light generation and measurement technologies. We will seek further photonics acquisitions which we can grow rapidly using our well-established sales channels.

In Health optics, higher R&D investment is resulting in an increased rate of new product introduction. This will enable us to grow market share in developed countries whilst we build sales channels in the developing world for the longer term.

† See note 1 to the accounts

Strategic directions

- Organic revenue and profit growth
- Develop business in China and Asia region
- Establish local manufacturing in major export territories
- Increase technical collaboration
- Target further acquisitions

Market trends

Confidential market research values the US market for UV water treatment plant at £120 million annually which our internal estimates suggest equates to the rest of the world's combined markets. Market growth is estimated to be over 15%, driven by increasing health regulation and an expanding industrial customer base including semiconductors, aquaculture and leisure pools.

Regulation plays an increasingly important role in developing regional water markets. The US Environmental Protection Agency recently issued guidance* that will accelerate adoption of UV treatment for controlling water-borne diseases in drinking water. EU expansion is driving demand; new member states must adopt EU health and safety regulations.

Using internal data, we estimate that the global market for water pipework monitoring and leak location equipment is worth over £45 million annually. We estimate the market has grown by 7% per year for the past four years and we anticipate similar growth as a minimum for the next five years.

In Fluid technology, there has been greater consolidation within the clinical diagnostic instrumentation market than in previous years due to M&A activity. We are broadening our product offering into the medical and environmental instrumentation segments which are also growing fast. For example, China plans to invest £87 billion between 2006 and 2010 on environmental protection projects**.

Photonics continues to offer us exciting organic and acquisition growth prospects. We are global leaders in the miniature spectrometer market niche which we estimate to be worth £70 million annually and growing at 15% per year.

The use of photonic methods is increasing rapidly in a vast range of end markets. The advantages of optical sensors over traditional methods can include lower cost, greater sensitivity, in-situ measurement capability (particularly in hazardous environments), immunity from electromagnetic interference, repeatability and stability. Over 60% of Halma companies use optical technologies.

Growth drivers for our Health optics products include rising demand for eye care due to demographic changes in the developed world plus increasing access to health services in developing countries. We estimate*** that the health optics market is growing in developing countries by 5% annually and 2% to 3% worldwide.

New ophthalmic products undergo lengthy clinical trials and rigorous medical product regulation which is a disincentive to market entrants. Digital and video imaging technology for examining the eye continues to evolve and a disruptive technology could emerge to change the market dynamics in the medium term. We continue to monitor this closely and have established relationships with some of the leading digital imaging companies where our products can be complementary to their technology.

Sector performance

In our Water businesses we consolidated the strong recovery achieved in 2005/06. Although progress in the US market remained patchy, revenues in European markets rose sharply.

Fluid technology revenues increased although profits were flat due to increased investment in new products as well as in sales and distribution.

Revenues and profits from Photonics products grew to record levels. A new photonics sales and technical support office was opened in Shanghai and European activities were strengthened by the Mikropack acquisition.

In Health optics our strong brand positioning and a healthy stream of new and enhanced products delivered record revenues and profit.

The increased rate of investment in R&D (now 5.3% of revenue) is an important element in maintaining the excellent operating returns in this sector.

Sector outlook

New product innovation and technical collaboration are increasingly important organic growth drivers.

Geographic expansion into developed and developing regions offers further organic growth opportunities and we hope to benefit from the higher investment in 2006/07 in the coming year.

Increased acquisition search resources are identifying opportunities which can strengthen our technology and market presence.

This combination of organic and acquisitive growth prospects should lead to further progress during 2007/08.

Sources of information:

* EPA – Long-Term 2 Enhanced Surface Water Treatment Rule

** Chinese official Xinhua News Agency

*** Discussions with competitors, company country visits, confidential market reports

Geographic regions

Australia
China
France
Germany
The Netherlands
UK
USA



Main growth drivers

- Safety regulations and legislation
- Risk and cost of accidents
- Commercial construction (new build and refurbishment)
- Population growth, ageing and urbanisation
- Rising expectations of health and safety
- Capital investment in industrial facilities
- 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	2007	2006 (restated)*
Revenue growth ¹	>5%	15%	20%
Profit growth ²	>5%	19%	34%
Return on sales ³	~18%	20.0%	19.4%
ROCE ⁴ (Return on capital employed)	>45%	75%	76%
R&D as a % of revenue ⁵	~4%	2.9%	3.2%

* restated to reflect the reclassification of Radio-Tech Limited from the Health and Analysis sector.

KPIs are calculated on results from continuing operations.

1. Sector revenue compared with the prior year.
2. Adjusted⁶ sector profit before finance expense compared with the prior year.
3. Return on sales is defined as adjusted⁶ sector profit before finance expense and taxation expressed as a percentage of sector revenue.
4. Adjusted⁶ sector profit before finance expense expressed as a percentage of sector operating net assets.
5. Sector research and development expenditure expressed as a percentage of sector revenue.
6. Adjusted to remove the amortisation of acquired intangible assets.

Strategic achievements

- Strong organic revenue and profit growth
- New Asset monitoring sub-sector created through Tritech acquisition
- Strengthened Gas detection presence in China and India
- Introduced new wireless communication technology for use by our Water businesses in the Health and Analysis sector

Sector overview

Industrial Safety contributed 22% of Group revenue (£80 million) and 23% of Group profit† (£16 million). Following recent acquisitions, we created a new Asset monitoring sub-sector.

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

Bursting discs We make “one time use” pressure relief devices to protect large vessels and pipework in process industries. We are UK market leaders and, based on our own estimates, number four in the world market. Our bursting discs are made in the UK and the 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 petrochemicals, 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.

Asset monitoring We make products which monitor the condition of physical assets above ground, below ground and underwater using innovative sensor and communications technologies. This sub-sector was created following the acquisitions of Radio-Tech in 2005 and, most recently Tritech/System Technologies in November 2006. Underwater applications include monitoring of oil pipelines and telecommunications cables as well as vessel and harbour security. Applications on dry land include systems for monitoring railway tracks and structures such as bridges. Our asset monitoring products are made in the UK.

Sector strategy

We choose to operate in global industrial safety market niches which demand innovative, robust technologies to protect against critical safety hazards where the cost of the protecting product is relatively small compared with the cost of an accident. Competitive advantage can be gained through technical innovation and superior customer service and technical support.

Strong global competition in gas detectors means that we must have a dual strategy of constant cost reduction and a regular stream of new products. In the next year we plan to start manufacturing in China and are already using R&D resources in India to accelerate the rate of product development.

† See note 1 to the accounts

Strategic directions

- Organic profit growth driven by revenue growth
- Expand gas detector R&D and manufacture in India and China
- Develop more new products for the oil and gas industry
- Accelerate new product development cycles
- Introduce wireless communication technologies into other Halma businesses

Our Bursting disc companies continue to develop their distribution network to improve market share. Capital investment in plant, improved processes, product rationalisation and outsourcing of component supplies have cut production costs and increased competitiveness by reducing lead times.

Our strong position in the global market for Safety interlocks dictates that we not only have to protect our position through new products and market leading customer service but also find ways to broaden our market opportunity. For example we are adding safety interlock capability to adjacent product categories like the new eGard product which marries safety interlocking with machine control.

In Asset monitoring we see a significant opportunity in satisfying the growing worldwide demand for remote monitoring of expensive or safety critical physical assets – particularly those in hazardous or remote locations.

Market trends

Our internal assessment of the global market for gas detection products is £500 million; we forecast an average annual growth rate of 3% to 4%. The demand for gas detection products remains robust in the developed industrial countries. The gradual adoption of Western safety standards in the fast-growing Asian economies will drive additional demand in these markets.

Our internal data suggest that the market for bursting discs is growing at 3% to 4%. Substantial continued investment by our customers in lower cost labour markets, and the transfer of US and European safety standards is leading us to allocate more of our resources into developing regions such as Eastern Europe and Asia.

In addition to increasing safety awareness and regulation, the safety interlock market continues to benefit from the trend of increasing capital spending in the oil and gas sector driven by relatively high oil prices and global demand. High-profile accidents at petrochemical processing plants during the past 18 months have impacted on customer behaviour with some oil companies now specifying safety interlocks earlier in the plant design phase.

Customer feedback suggests that Chinese authorities are now encouraging Western companies with manufacturing plants in China to adopt the same safety standards as in their home territory. Over the medium term, this will help to improve industrial safety expectations throughout China and drive demand for our products.

Rising global demand for closer monitoring of energy usage and for capturing data relating to high value infrastructure assets, offers excellent growth prospects for our Asset monitoring businesses. Our recent acquisition, Trittech, serves an exciting niche in subsea sensors and communication products which help service companies install, inspect and monitor underwater assets. The trend towards deeper water activities in the oil and gas sector will support demand for our underwater acoustic surveillance sensors. Online research indicates that between 2001 and 2005 global deepwater capital investment was £16.5 billion and it is estimated to more than double to £44 billion during 2006 to 2010.

Sector performance

2006/07 was a very successful year with organic revenue and profit growth significantly above the market growth rates and a major acquisition completed.

Geographically, revenue growth was particularly good in the Middle East where we benefited from major oil and gas projects. Regions such as the UK were also strong where our new Sprint V flue analyser product was adopted by BG Group with a £1.4 million supply contract.

We succeeded in integrating our wireless communications technology used in asset monitoring with other sectors in the Group and can see other opportunities for technical collaboration in the future.

Relative to our other sectors we invest a slightly lower percentage of revenue in R&D. However, good growth opportunities continue to exist and the Return on sales and ROCE remain at a high level.

Sector outlook

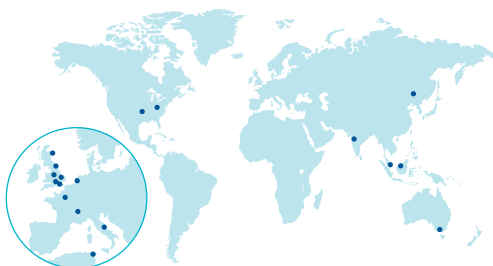
In the long term, increasing safety regulation, greater concern over the consequences of accidents from company boards and higher safety expectations by workers will continue to drive demand for our Industrial Safety products.

We will continue to seek bolt-on acquisitions which will enhance our products and distribution strength in higher growth markets.

We have solid positions in each of our chosen markets and by continuing to invest in new products, additional sales offices and our activities in lower cost territories such as Eastern Europe and Asia, we are well placed to continue our track record of healthy organic growth.

Geographic regions

Australia
China
France
India
Italy
Malaysia
The Netherlands
Singapore
Tunisia
UK
USA



Main growth drivers

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

Operating environment, risks and uncertainties

Macro-economic, regulatory and competitive environment

We anticipate that the 2007/08 macro-economic environment will be broadly favourable to our growth strategy. In global terms, we see the US, Europe and Asian economies offering good opportunities with Asia having higher growth rates from a lower base. Growth in the more mature economies is important to our overall growth prospects albeit that our products are often used in regulated markets and this affords some protection from the extremes of economic cycles.

Safety and environmental legislation is constantly evolving, worldwide, towards increased safeguards and protection. This favours us because it relentlessly drives demand growth in 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 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, Achievement and Customer Satisfaction. The core values have been selected following extensive surveying of employees across the Group. Our culture is one of openness, integrity and accountability. We encourage our employees to act fairly in their dealings with fellow employees, customers, suppliers and business partners. We recognise that our employees determine our success and therefore have invested in and encouraged their development more this year than ever before, not only with our intranet training facilities and Halma Executive Development Programme, but also through clearer leadership and decisive action. By ensuring that our team has the approach and skills required to succeed we are better placed to meet the challenges of the future.

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

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

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

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 technology, customers' needs and the dynamics of the markets we operate in, enable us to maintain leadership in many markets; and the enviable reputation enjoyed by our brands for superior product quality and market leading customer support. Our businesses build competitive advantage and strengthen barriers to entry in many ways including patents, product approvals, technical innovation, product quality, customer service levels and branding. We look for these qualities in the businesses we seek to acquire.

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 profits, generating a high return for shareholders over the long term. We view risk within the context of this objective as well as in absolute terms.

In any business there are inherent risks that are an integral component of its business activities. Our strategy is to operate a continuous process to identify the risks faced by our companies and the Group, to assess each risk's likelihood of occurring and impact were it to occur, and to ensure that a system of controls is in place to manage or mitigate those risks assessed as significant. Appropriate actions are taken to address any weaknesses. Comprehensive insurance cover is maintained where warranted and cost effective.

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. There is an ever present risk of losing market share or failing to adapt to market changes. High quality alternative products at low cost will always be a threat. Our focus on improving our rate of innovation is a direct result of assessing these risks and determining how best to concentrate our efforts. Maintaining the high quality of our products is critical. In addition, all businesses analyse revenue and margin by product line on a monthly basis. Through continual innovation and by ensuring that local management are well resourced and free to respond to changing market needs, we feel that the adverse impact of downward price pressure and competition can be mitigated.

Acquisitions The identification and purchase of businesses which meet our demanding financial and growth criteria is an important part of our strategy for developing the Group. Therefore we have been increasing the resource allocated to this activity, focusing on sectors where we see the greatest opportunity. There is always a significant potential integration risk, particularly in the purchase of private businesses, and this is an area which is being continually improved.

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

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

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

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.

Laws and regulations Group operations are subject to wide-ranging laws and regulations including employment, environmental and health and safety legislation. There is also exposure to litigation and contractual risk. All Group companies have an employee handbook detailing employment practices 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. The Group's emphasis on excellent financial control, the deployment of high quality management resource and strong focus on quality control over products and processes in each operating business helps to protect us from adverse litigation and contractual issues.

Corporate responsibility

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

The biggest area of emphasis over the past year has been the transformation of the Group's environmental policy into a Carbon Policy stating actual targeted reductions for the Group to achieve over a set timescale. Halma has an excellent health and safety record and a culture of safety is deeply embedded within the Group. We want to recognise the effort behind this exemplary record and will promote our safety culture more visibly over the coming year. Finally, the increased investment in management training continues to be valuable and we are exploring a number of key metrics to better communicate this to stakeholders.

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.

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

Regulatory demands upon us vary considerably around the world, so 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.

Keeler scholarship

Dr Srilakshmi Sharma from Bristol Eye Hospital is this year's winner of the highly prestigious Keeler Scholarship for research into ocular inflammatory disease. Worth £20,000, the scholarship is funded by Keeler, Halma's world leader in high precision optical instruments. It allows the winner to spend up to two years undertaking research into ophthalmology.

"I'm very pleased to have won this Scholarship," she said. "It will be a fantastic experience which will allow me to conduct research at an internationally acclaimed medical ophthalmology clinic."

The Keeler Scholarship is awarded every two years and is designed to advance the science and practice of ophthalmology by enabling the winner to study, research or acquire special skills, knowledge or experience for a minimum period of six months. The award is administered through the Royal College of Ophthalmologists.

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.

Our products

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

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

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

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

Carbon policy

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

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

UV and wastewater

The development of new UV technologies is a perfect example of an industry investing to meet market demand for an effective, low cost, and environmentally friendly way to disinfect wastewater for reuse.

Potential applications for wastewater reuse are extremely wide-ranging and include any instance where water is needed for non-potable use. The most popular and widespread use is for agricultural irrigation, with California and Florida leading the way in the US and a number of Australian states also making significant progress. Other irrigation uses include landscape and recreational applications such as golf courses, parks, and lawns.

Founded less than ten years ago Anthem, a town just north of Phoenix, Arizona, now has a population of over 40,000. As part of its rapid expansion the town recently installed three closed chamber medium pressure UV systems from Berson UV-technik to disinfect its wastewater. This allows the town to not only meet increased demands in its water and wastewater treatment capacity, but also to exceed the output quality standards.

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, Radcom (Technologies) Limited and Palmer Environmental Limited both 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 strategy is not to have capital-intensive manufacturing processes, so the environmental effect of our operations is relatively low compared to manufacturers in other sectors. FTSE4Good has assessed Halma as having a low impact on the environment.

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

The collected data confirms that the main areas of impact on the environment are energy consumption and solid waste disposal. The Group does not operate a fleet of distribution vehicles although we do own a number of company cars. From May 2007, we are implementing a cap on permissible CO₂ emissions of all UK company vehicles and will extend this requirement to the rest of the world in the short term. This limit will be reduced annually so as to consistently reduce our vehicles' environmental impact.

Having identified the main areas of impact, we are now committed to their reduction and minimisation. Using the baseline data the total Group carbon emissions for 2006/07 was calculated as being approximately 15,000 tonnes, an average of less than 50 tonnes per £million of revenues. We plan to reduce the Group's total carbon emissions relative to revenues by 10% by 2010.

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

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

The Group is committed to examining the establishment of "green" procurement policies and increasing our use of recycled materials.

Green innovation

Fortress Interlocks has won the prestigious "Green" Innovation Award at this year's innovation & Design Excellence Awards (iDEA) against strong competition. The award was for Fortress' eGard, a unique new product which combines both machine safety and control modules in one flexible unit.

The iDEAs, organised by Eureka, New Electronics and Cranfield School of Management, recognised that the innovation behind eGard opens up a new, large market sector for Fortress.

The award also recognised that Fortress designed and manufactured eGard along environmental principles taking into account the whole life-cycle of the product.

Fortress decided to make the housing from polymer using the same material throughout to make recycling more efficient. Other parts are made of stainless steel. In addition, the housing has no fixings or adhesive; parts are clipped together or ultrasonically welded. This reduces component count and also makes recycling much easier.

Corporate responsibility continued

The workplace

Halma operates an employment policy with the objective of ensuring equal opportunities and preventing harassment in the workplace. This gives us access to the widest labour market and enables us to secure the best employees for our needs.

Halma demonstrated that it is one of the UK's most admired businesses again this year by another 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 many of the UK's largest companies. This is a revealing survey based on the key elements that make companies succeed. Companies are, in effect, judged by their competitors, and the survey is unique in the UK.

Halma was ranked the 55th most admired company out of a list of 239 businesses. The awards are based on a survey by Nottingham Business School of the ten largest UK-based companies in each of 24 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.

Training

2006/07 was another successful year for the Halma Executive Development Programme (HEDP) which is based on our recognition of the fundamental part our people play in the success of the Group. HEDP is an integrated development plan for our senior people – including the next generation of Managing Directors and Divisional Chief Executives. Our objective is to provide these individuals with the tools and training to achieve more in their existing role and potentially to advance through the organisation if their achievements merit it.

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

The first four programmes have now been completed and the success of the programme can be measured by the enthusiasm of the participants upon their return to their businesses, the achievements and promotion of a number of participants and their eagerness to coordinate further sessions to explore topics of particular interest to their programme group. The final week of the programme immerses the participants in an environment related to an emerging market or a market of significant opportunity. Participants have been to China, India, Argentina and Japan and had access to many local businesses and officials as well as local community programmes aimed at improving the quality of life of local children and young adults.

Eureka!

In April 2007, Halma held a prize draw for its monthly innovation award, Eureka! The lucky winner, Steve Jansen of Texecom was randomly picked from over 150 names who had submitted innovation ideas during the year and won a car to the value of £9,000. Steve is Procurement Manager and entered two innovation ideas over the year that he has put into practice at the company, one for a small circuit board which reduced assembly times of the company's bell boxes by around 50% and another for the company's packaging which has also significantly increased the production rate. Eureka! is simply looking for the actual birth of the idea, the creative spark that heralds the start of an original thought process which will bring new benefit to a Group business. A prize is also awarded for the most creative innovation idea submitted during any one month.

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 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 at www.halma.com. We are pleased to report that there were no fatalities during 2006/07 or 2005/06, and we achieved a considerable decrease in both serious and minor injuries in comparison with low levels in 2005/06.

Ethics

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

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

Innovation

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 the R&D department 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.

The Group continued the successful Halma Annual Innovation Awards, launched in 2004/05, which recognise the major product and process innovations during the past year. The 2006/07 Gold Award of £20,000 was presented at the annual CEO Conference by Geoff Unwin to Brian Back and Inder Panesar of Radio-Tech for their Rail Temperature Monitor system, a radio telemetry system that enables rail temperatures to be monitored constantly, anywhere on the network, providing early warning of the risk of track buckling. The Silver Award of £10,000 was awarded to Jim Lane, Phil Buchsbaum, Cliff Batchelder, Greg Williamson and Steve Mattessich of Ocean Optics Thin Films Division for the SeaChanger xG Color Engine, a revolutionary colour filter system for spotlights. It can be used to produce dramatic lighting effects in theatres and large venues such as museums and churches. The Bronze Award of £5,000 was awarded to Emmanuel Eubelen, Thierry Jongen, Marc Meyers and Jean-Michel Bechet of BEA for the 4Safe, a new type of safety sensor, specifically designed to prevent anyone from being trapped or injured in automatic revolving or swing doors.

Queen's Award

In April 2007, following the year end, Fortress Interlocks, one of our UK-based Industrial Safety businesses was awarded a prestigious Queen's Award for Enterprise: Innovation in recognition of their mGard safety interlock product. This is the 10th Queen's Award received by one of our companies since the inception of the Queen's Award scheme.

Financial review

A strong performance with widespread growth

Record revenue and profit

We achieved our highest ever revenue from continuing operations at £354.6 million (2006: £310.8 million), an increase of 14% over the prior year. Profit before tax and amortisation of acquired intangibles at £66.1 million (2006: £58.1 million) on our continuing operations, excluding the disposals made in the prior year, was 14% higher and was also a record.

Adjusting for the extra profit which came with acquisitions gives organic growth* of 8.1% in revenue and 7.6% in terms of profit. There was a notable currency headwind through the year and without that organic revenue and profit growth would have been 2.3% and 2.5% higher respectively. See below for more detail on currency impacts. Earnings per share were up 11% on a statutory basis and up 14% on our adjusted* basis. A year of good further progress.

As noted above there were disposals last year but none this year and so the comparative figures are for continuing operations only. We have made a minor reclassification within our sector figures, moving our Asset monitoring business into the Industrial Safety sector and details of the change are given in note 1 to the accounts.

All sectors grew strongly

Infrastructure Sensors and Industrial Safety sectors both grew revenue and profit by more than 15%. The strong performance of Infrastructure Sensors, our largest sector, was underpinned by the higher investment made last year. The Health and Analysis sector grew revenue by 9% and 7% in terms of profit*, well above our target of 5% growth and following on from very strong growth in the previous year. Return on sales* for each sector remained firmly in the 18% to 21% range. Sector performances are discussed further on pages 22 to 27.

Revenue to all destinations grew

There was widespread geographic growth in revenue. The following table gives revenue from continuing operations by destination.

£ million	Revenue	% change
United States of America	98.9	5.1%
United Kingdom	96.5	16.4%
Mainland Europe	91.4	18.4%
Asia Pacific and Australasia	35.5	6.6%
Africa, Near and Middle East	22.3	51.5%
Other	10.0	16.5%
	354.6	14.1%

In the US our Health and Analysis and Industrial Safety businesses showed solid growth with Infrastructure Sensors not yet making as strong progress. In the UK, Africa, Near and Middle East, Infrastructure Sensors performed very well, as it did in Mainland Europe, with the majority of the European increase coming organically. Industrial Safety grew strongly in the UK assisted by the addition of the Tritech business. Growth in the Asia Pacific region was more modest although sales to China grew by 26% from a low base. We are putting far greater resources into this region to capture the opportunity there. Importantly, revenue outside of the US/UK/Mainland Europe grew by a further 20% as we expand our geographic coverage.

*See Financial highlights.



Kevin Thompson
Finance Director

A continued trend of strong margins and returns

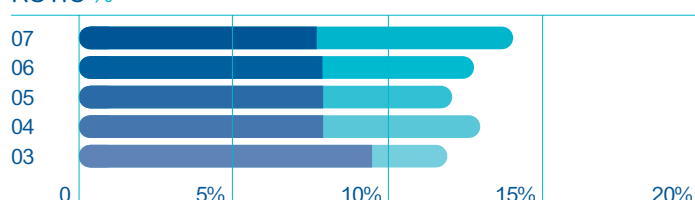
Resumption of strong growth

In the year we again achieved very good organic growth and at the same time maintained high returns. An important part of our strategy, reflected in our KPIs (see page 20) is the delivery of excellent returns and the strong cash flow which comes from them. These high returns have been a feature of the Group over many years, but significantly this has once again been coupled with good organic growth in these past two years.

ROCE* of 60.1% and ROTIC* of 14.0%

Our returns are strong and stable. Return on capital employed (ROCE) was 60.1% (2006: 56.9%) showing the high value we generate from our tangible asset base. Return on total invested capital (RODIC) increased to 14.0% (2006: 12.8%), this is a post-tax return on the total asset base including all historic goodwill but excluding the pension deficit. See note 3 to the accounts for the full calculation of ROCE and RODIC. The pattern of RODIC over the past five years is as follows:

RODIC %



■ Weighted average cost of capital

RODIC has grown recently because we have grown earnings at a faster rate than the underlying capital base. In each year RODIC has been well in excess of our Weighted average cost of capital (WACC) which has been calculated as currently being 7.7%. A sustained high RODIC well above our WACC is a central element of our value creation strategy.

High Return on sales* at 18.6%

Once again we delivered a high Return on sales* figure at 18.6% (2006: 18.7%). We disposed of some businesses last year which generated a slightly lower margin. The Group has operated with a Return on sales* range of 16.2% to 19.8% for more than 20 years. These sustained high margins demonstrate the significant value placed on our products by our customers throughout the economic cycle.

Maintaining a strong financial position

Good cash flow

The Group generated strong cash flow once again with cash generated from operations of £70.3 million. The following table sets out the main components of our cash flows and these are discussed in the sections below.

Change in net cash/(debt)

£ million	2007	2006
Cash generated from operations	70.3	70.2
Acquisition of businesses	(27.5)	(36.2)
Disposal of businesses	–	14.6
Development costs capitalised	(3.9)	(2.5)
Net capital expenditure	(7.3)	(11.6)
Dividends paid	(25.9)	(24.5)
Taxation paid	(19.5)	(16.8)
Issue of shares/purchase of treasury shares	3.6	0.6
Net finance expense	(0.8)	(0.4)
Exchange adjustments	(0.2)	(1.9)
	(11.2)	(8.5)
Net cash brought forward	3.5	12.0
Net (debt)/cash carried forward	(7.7)	3.5

The Group finances its operations from retained earnings and has access to third party borrowings when needed. There are no material funds outside the UK where repatriation is restricted. Our treasury policies seek to minimise financial risks and ensure sufficient liquidity. No speculative transactions are undertaken. Foreign currency profits are not hedged but purchase and sale transactions are hedged into the functional currency of the relevant operating company and balance sheet net currency assets are substantially hedged.

More earnings enhancing acquisitions

We continued to implement our strategy of acquiring successful businesses and helping them grow. In particular, we offer businesses an autonomous environment within which to continue their record of success. We spent £27.5 million on acquisitions in the year of which £8.2 million related to the payment of deferred consideration on acquisitions made in previous years. Acquisitions made in the year have met or exceeded our expectations.

Financial review continued

The largest acquisitions in the year were of Tritech/System Technologies and Labsphere. We acquired Tritech/System Technologies, who design and manufacture underwater asset monitoring equipment, in November 2006. Their 2005 audited accounts showed annual revenue of £5.4 million and profit of £1.1 million on a combined basis, with further encouraging growth since that time. We paid an initial consideration of £10 million, with a further potential payment of up to £4.5 million conditional on substantial future growth.

Labsphere, a world leader in light testing and measurement products, was acquired in February 2007 for a cash consideration of US\$14.3 million (£7.2 million). There are no additional payments to make for this acquisition. Labsphere's unaudited accounts for 2006 show revenues of US\$12.5 million (£6.3 million) and operating profit of US\$2.4 million (£1.2 million).

In the year we also acquired Mikropack, which makes light sources and photonic accessories, for €2.3 million (£1.5 million) and Baldwin Environmental for US\$1.1 million (£0.6 million) with a potential further total of £1.9 million payable on the two acquisitions if performance targets are met.

All of these acquisitions were immediately earnings enhancing and were generating a rate of return in excess of our WACC at the time of acquisition. We continue to invest considerable resources into identifying further acquisitions in our chosen markets.

Capital expenditure at typical levels

We spent £10.9 million on property, plant and computer software in the year, a lower figure than the high expenditure last year representing 134% of depreciation/amortisation – a more typical level for the Group. Two surplus properties sold during the year increased disposal proceeds. In 2007/08 we expect to undertake two specific property developments at separate subsidiaries which should add to the underlying rate of capital investment and also produce a small gain on a property disposal.

Further 5% dividend increase with cover raised

The Board has recommended a further 5% increase in the final dividend up to 4.33p which together with the interim dividend (also 5% higher) will give a total dividend of 7.18p for the year, assuming the final dividend is approved. This will mean a total payout to the shareholders in dividends of £26.7 million in relation to the year ended 31 March 2007. This continues our progressive dividend policy stretching back many years. It also furthers our objective of increasing dividend cover (based on profit from continuing operations before amortisation of acquired intangible assets) towards a figure of around 2.0 over time, by lifting the cover from 1.61 to 1.74 times.

Tax rate

The effective tax rate on profit from continuing operations (before amortisation of acquired intangible assets) is very similar to last year at 29.8% (2006: 30.1%). Future effective tax rates are more likely to be higher although not significantly so.

Pension contributions increased, deficit reduced

As indicated last year we have increased the rate of contributions into our defined benefit pension plans which were closed to new entrants in 2003. An additional £3 million was paid into the plans in the year and over the next couple of years we expect the annual cash contributions to continue to increase by a further £2 million so that we can meet our objective of paying off the deficit, as measured on an IAS 19 basis, over a ten-year period. These extra contributions are not insignificant but are not expected to impair our growth opportunities. The pension deficit on an IAS 19 basis reported in the accounts has reduced from £46 million last year to £37 million at year end, before the related deferred tax asset. This decrease arises from an increase in the value of plan assets, helped by the additional contributions, offset by proportionately less of an increase in the present value of plan liabilities due to a higher discount rate being applied.

Modest net debt of £7.7 million

We finished the year with a modest level of gearing at £7.7 million (2006: £3.5 million net cash). This begins to utilise the £60 million five-year debt facility put in place last year with our well-established banking partners. The Board would be willing to utilise more of this facility if good acquisition and investment opportunities are identified. The Group continues to be able to borrow at competitive rates and therefore currently deems this to be the most effective method of funding our increasing investment.

A currency headwind continues

There was a currency headwind through the year, particularly in the second half. Approximately one-third of Group revenue is denominated in US Dollars and 15% in Euros with the US Dollar recently showing significant adverse movement relative to Sterling. We translated our US Dollar revenue and profit to Sterling at an average rate of 1.78 in 2005/06 but in 2006/07 this average was 1.89. As a guide, a 1% weakening of the US Dollar relative to Sterling is expected to reduce revenue by approximately £1 million and profit by £0.2 million in a full year. The adverse movement in the South African Rand relative to Sterling in the year also reduced profitability in our Infrastructure Sensors business which has a sizable operation in South Africa. As previously indicated there has been an adverse impact in translating our results into Sterling which we estimate as reducing revenue by 2.3% and profit by 2.5% and most of this impact has fallen in the second half of the year. If current exchange rates prevail, our results will continue to be adversely impacted, particularly in the first half of the current financial year.

The impact of currency movements on the Group's net tangible assets is largely offset by the currency hedging loans we have in place.

Amongst the operating sectors it is the Health and Analysis sector which has the biggest trading exposure to the US Dollar both in terms of origin and destination of its business. The Health and Analysis businesses generate 45% of their revenue from the US compared with 21% for Infrastructure Sensors and 16% for Industrial Safety. This gives an indication of the relative impact of US Dollar movement and it is the profitability of the Health and Analysis sector which was hardest hit by the fall in the US Dollar relative to Sterling in 2006/07.

Active investment for the future

Growing R&D and extending innovation

We continue to invest heavily in Research & Development (R&D) and are active in promoting an innovative culture across the Group. Expenditure on R&D in the year was 4.3% of revenue (2006: 4.3% of revenue) and amounted to £15.3 million, 14% up on last year for continuing operations. We do not specifically capture the expenditure on all innovation as it permeates every aspect of our activities but this is an increasing use of existing and new resources. The Sector reviews on pages 22 to 27 show the percentage of revenue spent in each sector on R&D as one of our KPIs. They show that relative to our growing revenue our spend this year is consistent with last year and that the Health and Analysis sector continues to invest the highest percentage at 5.3%.

Under International Financial Reporting Standards (IFRS) we are required to capitalise certain development expenditure on the Consolidated balance sheet and also to amortise that asset over an appropriate period. In the year we capitalised £3.9 million of such development expenditure and amortised £1.5 million, giving rise to an asset of £6.1 million in the March 2007 balance sheet. The nature of R&D is that it involves risk and therefore we carefully monitor all costs carried on the balance sheet. The Consolidated income statement was charged with a cost 4% higher than last year. This increasing rate of investment in new, innovative products underpins our future growth.

Developing in China

We have taken a big step forward in China this year in terms of getting more high quality resource on the ground. The Asia Pacific region contributes only 10% of our total revenue, with China as a small part of this. We see substantial opportunity for many of our products in this region and so the extra investment in China, around £0.5 million more in 2006/07, is an important part of the growth process. Our task in 2007/08 and beyond is accelerating the payback on this investment.

Developing our strong control culture and our people

We spread our risks in part by operating through a number of closely managed individual businesses. The main risks and uncertainties facing Halma are discussed above in this Business and financial review. We have high quality local teams guiding each business within our overall reporting and control framework. There is significant external review of these operations and one element of that review process, our Internal Audit, has been further enhanced this year by more in-depth visits. Each business has a senior finance executive on site who plays an important part in the control and growth of the business. We continue to actively develop our people and we have now had 13 of our senior finance staff graduate from the Halma Executive Development Programme (HEDP) and are finding them able to make an even broader contribution to the progress of the business.

Taking our environmental responsibilities seriously

Our impact on the environment is low and we produce many products which themselves have a positive impact. Carbon emissions reduction seems to be important for the future and we are putting in place a variety of actions to both monitor and actively manage our carbon footprint. We are at the early stages of formulating reliable measures and KPIs, but are making good progress and this is discussed more fully on pages 30 and 31. We take a broader view that our impact on the environment is not just in relation to carbon emissions but also water usage, packaging and waste generally, all areas where we have a good record.

Not only should we be able to comply with regulations as they develop but also we are focussing our efforts in this area on increasing profitability and genuinely improving our business. Improving further in these areas should deliver greater value for customers and shareholders.

Cautionary note

The 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, we are only at the early stages of developing non-financial Key Performance Indicators and so these have not been included in this Annual report.

Consolidated income statement

	52 weeks to 31 March 2007				52 weeks to 1 April 2006		
	Notes	Before acquired intangibles amortisation £000	Amortisation of acquired intangibles £000	Total £000	Before acquired intangibles amortisation and goodwill written off £000	Amortisation of acquired intangibles and goodwill written off £000	Total £000
Continuing operations							
Revenue	1	354,606	–	354,606	310,768	–	310,768
Operating profit		67,920	(3,458)	64,462	59,960	(1,500)	58,460
Finance income	4	7,272	–	7,272	6,207	–	6,207
Finance expense	5	(9,101)	–	(9,101)	(8,027)	–	(8,027)
Profit before taxation	7	66,091	(3,458)	62,633	58,140	(1,500)	56,640
Taxation	10	(19,687)	1,065	(18,622)	(17,507)	473	(17,034)
Profit for the year from continuing operations		46,404	(2,393)	44,011	40,633	(1,027)	39,606
Discontinued operations							
Net profit for the year from discontinued operations	6	–	–	–	6,739	(5,470)	1,269
Profit for the year attributable to equity shareholders	1	46,404	(2,393)	44,011	47,372	(6,497)	40,875
Earnings per ordinary share	2						
From continuing operations							
Basic		12.50p		11.86p	11.01p		10.73p
Diluted				11.77p			10.69p
From continuing and discontinued operations							
Basic				11.86p			11.08p
Diluted				11.77p			11.03p
Dividends in respect of the year	11						
Paid and proposed (£000)				26,740			25,314
Paid and proposed per share				7.18p			6.83p

Consolidated balance sheet

	Notes	31 March 2007 £000	1 April 2006 £000
Non-current assets			
Goodwill	12	129,521	122,038
Other intangible assets	13	15,338	12,166
Property, plant and equipment	14	49,580	50,054
Deferred tax assets	20	11,178	13,803
		205,617	198,061
Current assets			
Inventories	15	39,134	36,660
Trade and other receivables	16	81,650	77,523
Cash and cash equivalents		22,051	35,826
		142,835	150,009
Total assets		348,452	348,070
Current liabilities			
Borrowings	17	29,762	32,308
Trade and other payables	18	62,590	66,035
Tax liabilities		6,043	7,316
		98,395	105,659
Net current assets		44,440	44,350
Non-current liabilities			
Retirement benefit obligations	28	37,260	46,019
Trade and other payables	19	3,005	5,096
Deferred tax liabilities	20	3,184	3,216
		43,449	54,331
Total liabilities		141,844	159,990
Net assets		206,608	188,080
Capital and reserves			
Called up share capital	21	37,312	36,933
Share premium account	22	15,239	10,702
Treasury shares	22	(1,664)	(379)
Capital redemption reserve	22	185	185
Translation reserve	22	(4,272)	5,944
Other reserves	22	3,654	1,592
Retained earnings	22	156,154	133,103
Shareholders' funds		206,608	188,080

Approved by the Board of Directors on 19 June 2007.

E G Unwin **K J Thompson**
Directors

Statement of recognised income and expense

	52 weeks to 31 March 2007 £000	52 weeks to 1 April 2006 £000
Exchange differences on translation of foreign operations	(10,216)	5,826
Exchange differences recycled from reserves on disposal of operations	–	(26)
Actuarial gains/(losses) on defined benefit pension plans	7,084	(10,355)
Tax on items taken directly to reserves	(2,122)	1,625
Net loss recognised directly in reserves	(5,254)	(2,930)
Profit for the year	44,011	40,875
Total recognised income and expense for the year	38,757	37,945

Reconciliation of movements in shareholders' funds

	52 weeks to 31 March 2007 £000	52 weeks to 1 April 2006 £000
Shareholders' funds brought forward	188,080	173,259
Profit for the year	44,011	40,875
Dividends paid	(25,922)	(24,468)
Exchange differences on translation of foreign operations	(10,216)	5,826
Exchange differences recycled from reserves on disposal of operations	–	(26)
Actuarial gains/(losses) on defined benefit pension plans	7,084	(10,355)
Tax on items taken directly to reserves	(2,122)	1,625
Net proceeds of shares issued	4,916	644
Treasury shares purchased	(1,285)	(379)
Movement in other reserves	2,062	1,079
Total movement in shareholders' funds	18,528	14,821
Shareholders' funds carried forward	206,608	188,080

Consolidated cash flow statement

	Notes	52 weeks to 31 March 2007 £000	52 weeks to 1 April 2006 £000
Net cash inflow from operating activities	25	50,754	53,362
Cash flows from investing activities			
Purchase of property, plant and equipment		(10,053)	(11,878)
Purchase of computer software		(847)	(717)
Proceeds from sale of property, plant and equipment		3,609	1,032
Development costs capitalised		(3,893)	(2,500)
Interest received		1,035	1,026
Acquisition of businesses	25	(27,499)	(36,178)
Disposal of businesses		–	14,641
Net cash used in investing activities		(37,648)	(34,574)
Financing activities			
Dividends paid		(25,922)	(24,468)
Proceeds from issue of share capital		4,916	644
Purchase of treasury shares		(1,272)	–
Interest paid		(1,894)	(1,455)
Repayment of borrowings	25	–	(3,050)
Net cash used in financing activities		(24,172)	(28,329)
Decrease in cash and cash equivalents	25	(11,066)	(9,541)
Cash and cash equivalents brought forward		35,826	45,348
Exchange adjustments		(2,709)	19
Cash and cash equivalents carried forward		22,051	35,826

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 at the time of preparing these accounts.

The principal Group accounting policies are explained below and have been applied consistently throughout the years ended 1 April 2006 and 31 March 2007.

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 plan liabilities.

Basis of consolidation

The Group accounts include the accounts of Halma p.l.c. and its subsidiary companies made up to 31 March 2007, 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 elected not to apply IFRS 3 "Business Combinations" to acquisitions prior to 4 April 2004 in its consolidated accounts. As a result, the net book value of goodwill recognised as an intangible asset under UK GAAP at 3 April 2004 was brought forward unadjusted as the cost of goodwill recognised under IFRS at 4 April 2004 subject to impairment testing on that date; and goodwill that was written off to reserves prior to 28 March 1998 under UK GAAP will not be taken into account in determining the profit or loss on disposal or closure of previously acquired businesses from 4 April 2004 onwards.

Other intangible assets

(a) Product development costs

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

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

(b) Acquired intangible assets

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

(c) Computer software

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

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' funds.

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 elected to deem the Translation reserve to be £nil at 4 April 2004. Accordingly, the profit or loss on disposal or closure of foreign subsidiaries will not include any currency translation differences which arose before 4 April 2004.

Financial instruments

The Group does not hold or issue derivatives for speculative or trading purposes, but uses forward foreign currency contracts to reduce its exposure to exchange rate movements. Forward currency contracts are 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' funds. The cumulative gain or loss is removed from Shareholders' funds 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' funds. The ineffective portion is recognised immediately in the Consolidated income statement.

Revenue

Revenue represents sales, less returns, by subsidiary companies to external customers excluding value added tax and other sales related taxes. Transactions are recorded as 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 plans, covering the majority of its employees.

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

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' funds.

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

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

Employee share schemes

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

(a) Share incentive plan

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

(b) Share option plans

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

The fair value of awards under these plans has been measured at the date of grant using the Black-Scholes model and will not be subsequently remeasured. The fair value is charged to the Consolidated income statement on a straight-line basis over the expected vesting period, 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' funds.

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

(c) Performance share plan

On 3 August 2005 the share option plans were replaced by the performance share plan.

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

Inventories

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

Taxation

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, deposits with an initial maturity of less than three months, and bank overdrafts that are repayable on demand. 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		Profit	
	2007 £000	2006 (restated)* £000	2007 £000	2006 (restated)* £000
Infrastructure Sensors	154,830	131,860	27,975	24,106
Health and Analysis	119,970	109,886	24,445	22,770
Industrial Safety	79,940	69,415	15,998	13,482
Inter-segmental sales	(134)	(393)	–	–
Central companies	–	–	(498)	(398)
Continuing operations	354,606	310,768	67,920	59,960
Discontinued operations (note 6)	–	26,580	–	1,501
Net finance expense	–	–	(1,829)	(1,820)
Group revenue/profit before amortisation of acquired intangibles	354,606	337,348	66,091	59,641
Amortisation of acquired intangible assets	–	–	(3,458)	(1,529)
Profit on disposal of operations before tax (note 6)	–	–	–	494
Taxation	–	–	(18,622)	(17,731)
Revenue/profit for the year	354,606	337,348	44,011	40,875

Inter-segmental sales are charged at prevailing market prices.

	Assets		Liabilities	
	2007 £000	2006 (restated)* £000	2007 £000	2006 (restated)* £000
Infrastructure Sensors	64,083	63,542	20,622	23,223
Health and Analysis	51,526	46,658	19,085	17,794
Industrial Safety	36,272	30,900	14,978	13,052
Central companies	37,353	41,980	57,397	73,613
Continuing operations	189,234	183,080	112,082	127,682
Cash and cash equivalents/borrowings	22,051	35,826	29,762	32,308
Goodwill	129,521	122,038	–	–
Acquired intangible assets	7,646	7,126	–	–
Total Group	348,452	348,070	141,844	159,990

*The comparative figures for 2006 have been restated to reflect the reclassification of Radio-Tech Limited from the Health and Analysis sector to the Industrial Safety sector.

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	
	2007 £000	2006 (restated)* £000	2007 £000	2006 (restated)* £000
Infrastructure Sensors	4,348	5,015	3,529	3,111
Health and Analysis	5,750	4,834	2,634	2,449
Industrial Safety	3,525	3,528	2,715	2,588
Central companies	1,170	1,341	4,255	2,468
Continuing operations	14,793	14,718	13,133	10,616
Discontinued operations	–	377	–	727
Total Group	14,793	15,095	13,133	11,343

*The comparative figures for 2006 have been restated to reflect the reclassification of Radio-Tech Limited from the Health and Analysis sector to the Industrial Safety sector.

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	
	2007 £000	2006 £000	2007 £000	2006 £000
United Kingdom	96,556	82,930	199,859	173,168
United States of America	98,882	94,043	110,894	104,295
Mainland Europe	91,371	77,183	56,047	45,788
Asia Pacific and Australasia	35,484	33,293	18,277	15,455
Africa, Near and Middle East	22,279	14,709	–	–
Other countries	10,034	8,610	–	–
Inter-segmental sales	–	–	(30,471)	(27,938)
Revenue from continuing operations	354,606	310,768	354,606	310,768
Discontinued operations (note 6)	–	26,580	–	26,580
Group revenue	354,606	337,348	354,606	337,348

Inter-segmental sales are charged at prevailing market prices.

1 Segmental analysis continued

	Profit	
	2007 £000	2006 £000
United Kingdom	32,626	30,354
United States of America	22,258	20,149
Mainland Europe	10,860	7,632
Asia Pacific and Australasia	2,176	1,825
Operating profit from continuing operations before amortisation of acquired intangibles	67,920	59,960
Discontinued operations (note 6)	–	1,501
Net finance expense	(1,829)	(1,820)
Group profit before amortisation of acquired intangibles	66,091	59,641
Amortisation of acquired intangible assets	(3,458)	(1,529)
Profit on disposal of operations before tax (note 6)	–	494
Taxation	(18,622)	(17,731)
Profit for the year	44,011	40,875

	Net assets		Capital additions	
	2007 £000	2006 £000	2007 £000	2006 £000
United Kingdom	29,592	18,035	8,986	9,510
United States of America	29,871	22,284	3,276	3,050
Mainland Europe	13,504	11,597	2,023	1,659
Asia Pacific and Australasia	4,185	3,482	508	499
Continuing operations	77,152	55,398	14,793	14,718
Discontinued operations	–	–	–	377
Net (debt)/cash	(7,711)	3,518	–	–
Goodwill	129,521	122,038	–	–
Acquired intangible assets	7,646	7,126	–	–
Total Group	206,608	188,080	14,793	15,095

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

Notes to the accounts continued

2 Earnings per ordinary share

Basic earnings per ordinary share are calculated using the weighted average of 371,221,629 shares in issue during the year (net of shares purchased by the Company and held as treasury shares) (2006: 369,053,181). Diluted earnings per ordinary share are calculated using the weighted average of 374,036,077 shares (2006: 370,435,138) which includes dilutive potential ordinary shares of 2,814,448 (2006: 1,381,957). 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:

	2007 £000	2006 £000	Per ordinary share	
			2007 pence	2006 pence
Earnings from continuing and discontinued operations	44,011	40,875	11.86	11.08
Remove earnings from discontinued operations	–	(1,269)	–	(0.35)
Earnings from continuing operations	44,011	39,606	11.86	10.73
Add back amortisation of acquired intangibles (after tax)	2,393	1,027	0.64	0.28
Adjusted earnings	46,404	40,633	12.50	11.01

3 Non-GAAP measures

Return on capital employed

	2007 £000	2006 £000
Operating profit from continuing operations before amortisation of acquired intangibles	67,920	59,960
Operating return	67,920	59,960
Computer software costs within intangible assets	1,577	1,213
Capitalised development costs within intangible assets	6,115	3,827
Property, plant and equipment	49,580	50,054
Inventories	39,134	36,660
Trade and other receivables	81,650	77,523
Trade and other payables	(62,590)	(66,035)
Tax liabilities	(6,043)	(7,316)
Non-current trade and other payables	(3,005)	(5,096)
Add back retirement benefit accruals included within payables	3,071	4,763
Add back accrued deferred purchase consideration	3,559	9,803
Capital employed	113,048	105,396
Return on capital employed	60.1%	56.9%

3 Non-GAAP measures continued

Return on total invested capital

	2007 £000	2006 £000
Profit from continuing operations before amortisation of acquired intangibles after taxation	46,404	40,633
Return	46,404	40,633
Total shareholders' funds	206,608	188,080
Add back retirement benefit accruals included within payables	3,071	4,763
Add back retirement benefit obligations	37,260	46,019
Less associated deferred tax assets	(11,178)	(13,803)
Cumulative amortisation of acquired intangibles	5,348	1,890
Goodwill on disposals	5,441	5,441
Goodwill amortised prior to 3 April 2004	13,177	13,177
Goodwill taken to reserves prior to 28 March 1998	70,931	70,931
Total invested capital	330,658	316,498
Return on total invested capital	14.0%	12.8%

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		
	2007 £000	2006 £000	% growth	2007 £000	2006 £000	% growth
Continuing operations	354,606	310,768		66,091	58,140	
Acquired revenue/profit	(18,802)	–		(3,516)	–	
	335,804	310,768	8.1%	62,575	58,140	7.6%

*Before amortisation of acquired intangible assets.

4 Finance income

	2007 £000	2006 £000
Interest receivable	1,035	1,027
Expected return on pension scheme assets	6,237	5,180
	7,272	6,207

5 Finance expense

	2007 £000	2006 £000
Interest payable on bank loans and overdrafts	1,890	1,456
Interest charge on pension scheme liabilities	7,103	6,138
Other interest payable	108	433
	9,101	8,027

Notes to the accounts continued

6 Discontinued operations

The discontinued operations reported in 2006 relate to SEAC Limited, Secomak Limited, Marathon Sensors Inc., Cressall Resistors Limited, IPC Resistors Company, IPC Power Resistors Inc., Mosebach Manufacturing Company and Post Glover Resistors Inc., which were sold during the 52 weeks ended 1 April 2006.

7 Profit before taxation

Profit before taxation comprises:

			2007		2006	
	Continuing operations £000	Discontinued operations £000	Total Group £000	Continuing operations £000	Discontinued operations £000	Total Group £000
Revenue	354,606	–	354,606	310,768	26,580	337,348
Cost of sales	(239,128)	–	(239,128)	(207,441)	(21,437)	(228,878)
Gross profit	115,478	–	115,478	103,327	5,143	108,470
Distribution costs	(8,573)	–	(8,573)	(7,072)	(1,081)	(8,153)
Administrative expenses	(43,219)	–	(43,219)	(38,063)	(2,590)	(40,653)
Other operating income	776	–	776	268	–	268
Net finance expense	(1,829)	–	(1,829)	(1,820)	–	(1,820)
Profit before taxation	62,633	–	62,633	56,640	1,472	58,112

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

Profit before taxation is stated after charging:

	Continuing operations		Total Group	
	2007 £000	2006 £000	2007 £000	2006 £000
Depreciation	7,636	7,246	7,636	7,892
Amortisation	5,497	3,370	5,497	3,451
Research and development ¹	11,422	10,951	11,422	11,705
Auditors' remuneration ² : Audit services	586	548	586	558
Audit-related regulatory reporting	14	61	14	61
Tax compliance services	87	44	87	44
Tax advice on disposals	–	148	–	148
Other assurance services	20	–	20	–
Operating lease rents: Property	3,938	3,779	3,938	4,014
Other	394	581	394	617

¹ A further £3,893,000 (2006: £2,500,000) of development expenditure has been capitalised in the period. See note 13.

² A further £nil (2006: £1,000) 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 £12,000 (2006: £11,000) for their audit of the Halma Group Pension Plan.

8 Employee information

	Continuing operations		Total Group	
	2007 Number	2006 Number	2007 Number	2006 Number
The average number of persons employed by the Group (including Directors) was:				
United Kingdom	1,926	1,637	1,926	1,736
Overseas	1,400	1,254	1,400	1,451
	3,326	2,891	3,326	3,187

8 Employee information continued

Group employee costs comprise:

	Continuing operations		Total Group	
	2007 £000	2006 £000	2007 £000	2006 £000
Wages and salaries	76,799	69,829	76,799	76,291
Social security costs	11,221	9,914	11,221	11,170
Other pension costs (note 28)	5,317	4,799	5,317	5,130
	93,337	84,542	93,337	92,591

9 Directors' remuneration

Details of Directors' remuneration are set out on pages 87 to 91 within the Report on remuneration and form part of these financial statements.

10 Taxation

	2007 £000	2006 £000
Current tax		
UK corporation tax at 30% (2006: 30%)	8,651	9,246
Overseas taxation	9,154	8,271
Adjustments in respect of prior years	69	133
Total current tax charge	17,874	17,650
Deferred tax		
Origination and reversal of timing differences	622	(558)
Adjustments in respect of prior years	126	(58)
Total deferred tax charge/(credit)	748	(616)
Tax on profit from continuing operations	18,622	17,034
Tax on profit from discontinued operations	–	697
Total tax charge recognised in the Consolidated income statement	18,622	17,731
Reconciliation of the effective tax rate:		
Profit before tax – continuing operations	62,633	56,640
Profit before tax – discontinued operations	–	1,966
	62,633	58,606
Tax at the UK corporation tax rate of 30% (2006: 30%)	18,790	17,582
Overseas tax rate differences	1,141	1,116
Items not subject to tax	(1,504)	(1,042)
Adjustments in respect of prior years	195	75
	18,622	17,731
Effective tax rate	29.7%	30.3%

Notes to the accounts continued

11 Ordinary dividends

	Per ordinary share		2007 £000	2006 £000
	2007 pence	2006 pence		
Amounts recognised as distributions to shareholders in the year				
Final dividend for the year to 1 April 2006 (2 April 2005)	4.12	3.92	15,308	14,462
Interim dividend for the year to 31 March 2007 (1 April 2006)	2.85	2.71	10,614	10,006
	6.97	6.63	25,922	24,468
Dividends declared in respect of the year				
Interim dividend for the year to 31 March 2007 (1 April 2006)	2.85	2.71	10,614	10,006
Proposed final dividend for the year to 31 March 2007 (1 April 2006)	4.33	4.12	16,126	15,308
	7.18	6.83	26,740	25,314

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

	2007 £000	2006 £000
Cost		
At beginning of year	122,038	99,276
Additions (note 24)	13,955	23,195
Disposals	–	(5,358)
Exchange adjustments	(6,472)	4,925
At end of year	129,521	122,038
Provision for impairment		
At beginning and end of year	–	–
Net book amount	129,521	122,038

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:

	2007 £000	2006 (restated)* £000
Infrastructure Sensors	68,172	69,833
Health and Analysis	41,464	37,467
Industrial Safety	19,885	14,738
	129,521	122,038

*The comparative figures for 2006 have been restated to reflect the reclassification of Radio-Tech Limited from the Health and Analysis sector to the Industrial Safety sector.

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.

13 Other intangible assets

	Acquired intangibles £000	Development costs £000	Computer software £000	Total £000
Cost				
At 2 April 2005	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
Assets of businesses acquired	4,049	–	213	4,262
Additions at cost	–	3,893	847	4,740
Disposals	–	–	(184)	(184)
Retirements	–	(1,240)	–	(1,240)
Exchange adjustments	(172)	(92)	(122)	(386)
At 31 March 2007	12,883	10,476	4,275	27,634
Accumulated amortisation				
At 2 April 2005	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
Assets of businesses acquired	–	–	114	114
Charge for the year	3,458	1,528	511	5,497
Disposals	–	–	(164)	(164)
Retirements	–	(1,240)	–	(1,240)
Exchange adjustments	(101)	(15)	(71)	(187)
At 31 March 2007	5,237	4,361	2,698	12,296
Net book amounts				
At 31 March 2007	7,646	6,115	1,577	15,338
At 1 April 2006	7,126	3,827	1,213	12,166

Notes to the accounts continued

14 Property, plant and equipment

	Land and buildings				Total £000
	Freehold properties £000	Long leases £000	Short leases £000	Plant, equipment and vehicles £000	
Cost					
At 2 April 2005	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
Assets of businesses acquired	1,554	–	–	3,486	5,040
Additions at cost	248	64	378	9,363	10,053
Disposals	(3,243)	(262)	(11)	(9,129)	(12,645)
Exchange adjustments	(750)	(19)	(96)	(2,114)	(2,979)
At 31 March 2007	25,942	1,558	3,583	71,586	102,669
Accumulated depreciation					
At 2 April 2005	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
Assets of businesses acquired	31	–	–	3,137	3,168
Charge for the year	445	45	306	6,840	7,636
Disposals	(558)	(150)	(10)	(8,652)	(9,370)
Exchange adjustments	(139)	(15)	(63)	(1,274)	(1,491)
At 31 March 2007	4,939	471	2,087	45,592	53,089
Net book amounts					
At 31 March 2007	21,003	1,087	1,496	25,994	49,580
At 1 April 2006	22,973	1,184	1,458	24,439	50,054

15 Inventories

	2007 £000	2006 £000
Raw materials and consumables	19,270	18,538
Work in progress	7,094	5,379
Finished goods and goods for resale	12,770	12,743
	39,134	36,660

16 Trade and other receivables

	2007 £000	2006 £000
Falling due within one year:		
Trade receivables	74,788	70,076
Other receivables	1,875	2,664
Prepayments and accrued income	4,987	4,783
	81,650	77,523

Trade receivables are stated net of provisions for estimated irrecoverable amounts of £1,034,000 (2006: £1,051,000). This provision has been determined by reference to previous default experience.

17 Borrowings

	2007 £000	2006 £000
Falling due within one year:		
Unsecured bank loans and overdrafts	29,762	32,308

Information on interest rates charged on borrowings and repayment dates is given in note 26 to the accounts.

18 Trade and other payables

	2007 £000	2006 £000
Falling due within one year:		
Trade payables	34,677	33,529
Other taxation and social security	4,016	3,748
Provision for deferred purchase consideration	2,867	8,391
Other payables	4,283	3,857
Accruals and deferred income	16,747	16,510
	62,590	66,035

19 Trade and other payables: falling due after one year

	2007 £000	2006 £000
Provision for deferred purchase consideration	692	1,412
Other payables	2,313	3,684
	3,005	5,096

Notes to the accounts continued

20 Deferred taxation

An analysis of Group deferred taxation is as follows:

	2007 £000	2006 £000
Employee benefits	11,178	13,803
Acquired intangible assets	(2,255)	(2,122)
Accelerated capital allowances	(3,067)	(3,369)
Short-term timing differences	3,799	3,836
Goodwill timing differences	(1,661)	(1,561)
Net deferred taxation asset	7,994	10,587

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

	2007 £000	2006 £000
Non-current deferred taxation assets	11,178	13,803
Non-current deferred taxation liabilities	(3,184)	(3,216)
Net deferred taxation asset	7,994	10,587

Movement in deferred taxation asset:

	2007 £000	2006 £000
At beginning of year	10,587	10,038
(Charge)/credit to Consolidated income statement:		
UK	(414)	1,387
Overseas	(334)	(771)
(Charge)/credit to Shareholders' funds	(1,396)	1,663
Acquired	(536)	(2,159)
Disposed	–	477
Exchange adjustments	87	(48)
At end of year	7,994	10,587

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 31 March 2007 the Group had unused capital tax losses of £1,793,000 (2006: £1,927,000) for which no deferred tax asset has been recognised. None of these losses has an expiry date.

In accordance with International Accounting Standard 12 "Income Taxes", the accounts do not reflect the impact of the reduction in the main rate of UK Corporation Tax announced in the Finance Bill 2007, as at the date of approval of the accounts it had not been substantively enacted. The effect of adjusting for this change would be a reduction in the tax charge in the Consolidated profit and loss account of £146,000, an increase in the tax charge taken to reserves through the Statement of recognised income and expense of £745,000, and a reduction in the net deferred tax asset in the Consolidated balance sheet of £599,000.

21 Share capital

	2007 £000	Authorised 2006 £000	Issued and fully paid 2007 £000	2006 £000
Ordinary shares of 10p each	43,656	43,656	37,312	36,933

The number of ordinary shares in issue at 31 March 2007 was 373,116,492 (2006: 369,330,680).

21 Share capital continued

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

	Issued and fully paid £000
At 1 April 2006	36,933
Share options exercised	379
At 31 March 2007	37,312

The total consideration received in cash in respect of share options exercised amounted to £4,916,000.

At 31 March 2007 options in respect of 10,508,823 (2006: 15,199,515) ordinary shares remained outstanding. Further details of these are given in note 23 to the accounts.

22 Reserves

	Share premium account £000	Treasury shares £000	Capital redemption reserve £000	Translation reserve £000	Other reserves £000	Retained earnings £000
At 2 April 2005	10,111	–	185	144	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 reserves	–	–	–	–	–	1,625
At 1 April 2006	10,702	(379)	185	5,944	1,592	133,103
Profit for the year	–	–	–	–	–	44,011
Share options exercised	4,537	–	–	–	–	–
Foreign exchange translation differences	–	–	–	(10,216)	–	–
Dividends paid	–	–	–	–	–	(25,922)
Actuarial gains on defined benefit pension schemes	–	–	–	–	–	7,084
Share-based payments	–	–	–	–	2,062	–
Treasury shares purchased	–	(1,285)	–	–	–	–
Tax on items taken directly to reserves	–	–	–	–	–	(2,122)
At 31 March 2007	15,239	(1,664)	185	(4,272)	3,654	156,154

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 31 March 2007 the number of treasury shares held was 805,635 (2006: 200,000) and their market value was £1,774,441 (2006: £375,500).

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.

Notes to the accounts continued

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:

	2007 £000	2006 £000
Share incentive plan	270	375
Share option plans	363	447
Performance share plan	974	296
	1,607	1,118

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, 1997 and 2000. 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 1997 Plan, the growth in the Retail Price Index plus 2% per annum and, for the 2000 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 1997 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 2000 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.

Options in respect of 50,500 ordinary shares remained outstanding at 31 March 2007 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
10,300	122.50p		2000
11,400	101.50p		2001
24,000	120.0p – 129.0p		2002
4,800	120.0p	2004	

Options in respect of 1,591,900 ordinary shares remained outstanding at 31 March 2007 under the 1997 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
144,400	122.5p – 138.5p		2000
105,500	101.5p – 123.5p		2001
267,200	120.0p – 136.0p		2002
264,000	122.5p – 133.0p	2002	
275,000	101.5p – 123.5p	2003	
535,800	120.0p – 136.0p	2004	

23 Share-based payments *continued*

Options in respect of 8,866,423 ordinary shares remained outstanding at 31 March 2007 under the 2000 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
619,250	111.0p		2003
634,400	163.5p		2004
491,164	144.33p		2005
853,590	134.0p		2006
2,015,528	142.25p		2007
753,399	145.67p – 157.92p		2008
645,900	111.0p	2005	
519,000	163.5p	2006	
712,166	144.33p	2007	
773,600	134.0p	2008	
848,426	142.25p	2009	

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

	2007		2006	
	Number of share options	Weighted average option price	Number of share options	Weighted average option price
Outstanding at beginning of year	15,199,515	134.62p	16,980,339	134.24p
Exercised during the year	(3,785,812)	129.84p	(529,761)	121.56p
Granted during the year	–	–	496,707	145.67p
Lapsed during the year	(962,180)	133.04p	(1,747,770)	136.62p
Outstanding at end of year	10,451,523	136.50p	15,199,515	134.62p
Exercisable at end of year	3,103,904	136.74p	1,300,629	123.29p

The weighted average share price at the date of exercise for share options exercised during the year was 201.49p.

The options outstanding at 31 March 2007 had exercise prices from 101.5p to 163.5p and a weighted average remaining contractual life of five 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:

Option section	2006		2005		2004
	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.

Notes to the accounts continued

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 under this Plan vest after three years on a sliding scale subject to the Group's relative Total Shareholder Return against, for 2006/07, the FTSE 250 excluding financial companies and, for 2005/06, the Engineering and Machinery sector, combined with an absolute Return on total invested capital measure. Awards which do not vest on the third anniversary of their award lapse.

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

	2007 Number of shares awarded	2006 Number of shares awarded
Outstanding at beginning of year	1,735,252	–
Granted during the year	1,689,658	1,932,060
Vested during the year (pro-rated for “good leavers”)	(4,921)	(15,403)
Lapsed during the year	(58,681)	(181,405)
Outstanding at end of year	3,361,308	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 the market-based performance conditions, which attach to half of the award, being met, using the following assumptions:

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

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

24 Acquisitions

	Book value £000	Fair value adjustments £000	Total £000
Non-current assets			
Intangible assets	279	3,869	4,148
Property, plant and equipment	2,497	(625)	1,872
Current assets			
Inventories	3,342	(998)	2,344
Receivables	3,186	(9)	3,177
Deferred tax	59	(59)	–
Cash and cash equivalents	2,098	–	2,098
Total assets	11,461	2,178	13,639
Current liabilities			
Payables	(2,894)	(383)	(3,277)
Deferred tax	–	(536)	(536)
Total liabilities	(2,894)	(919)	(3,813)
Net assets of businesses acquired	8,567	1,259	9,826
Cash consideration, including costs			21,382
Deferred purchase consideration			2,973
Total consideration			24,355
Goodwill arising on current year acquisitions			14,529
Goodwill arising on prior year acquisitions			(574)
Goodwill arising on acquisition			13,955

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

Company	Date of acquisition	Country of incorporation	Principal activity	Initial consideration
Mikropack GmbH	April 2006	Germany	Health and Analysis	€2,250,000
Baldwin Environmental	September 2006	USA	Health and Analysis	\$1,100,000
Tritech Holdings Limited	November 2006	United Kingdom	Industrial Safety	£8,000,000
Swift (943) Limited (t/a System Technologies)	November 2006	United Kingdom	Industrial Safety	£2,000,000
Labsphere, Inc.	February 2007	USA	Health and Analysis	\$14,300,000

Together these acquisitions contributed £6,307,000 of revenue and £1,731,000 of profit before tax and amortisation of acquired intangible assets to the Group results for the year ended 31 March 2007.

Additional purchase consideration of up to €2,250,000, £4,500,000 and \$700,000 is payable in respect of Mikropack, Tritech/System Technologies and Baldwin Environmental respectively, and has been provided at the estimated amount payable. The amount payable is dependent upon the profit growth of the businesses as follows: Mikropack – over the financial year ending March 2007; Tritech/System Technologies – over each of the two years ending November 2008; Baldwin Environmental – over each of the three years ending March 2009. 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. Other previously unrecognised assets and liabilities at acquisition were included and accounting policies were aligned with the Group where appropriate.

Notes to the accounts continued

25 Notes to the consolidated cash flow statement

	2007 £000	2006 £000
Reconciliation of profit from operations to net cash inflow from operating activities		
Profit from continuing operations before taxation	64,462	58,460
Profit from discontinued operations before taxation	–	1,472
Depreciation and amortisation of computer software	8,147	8,373
Amortisation of capitalised development costs	1,528	1,441
Amortisation of acquired intangible assets	3,458	1,529
Share-based payment expense in excess of amounts paid	1,317	742
Additional payments to pension scheme	(4,233)	(1,357)
(Profit)/loss on sale of property, plant and equipment and computer software	(314)	174
Operating cash flows before movement in working capital	74,365	70,834
(Increase)/decrease in inventories	(1,648)	647
Increase in receivables	(3,673)	(6,225)
Increase in payables	1,215	4,921
Cash generated from operations	70,259	70,177
Taxation paid	(19,505)	(16,815)
Net cash inflow from operating activities	50,754	53,362

The cash outflow of £27,499,000 on the acquisition of businesses includes cash acquired of £2,098,000 and the payment of £8,217,000 of deferred purchase consideration which arose from acquisitions made in earlier years, and where provision was made in prior years' financial statements.

	2007 £000	2006 £000
Reconciliation of net cash flow to movement in net cash/(debt)		
Decrease in cash and cash equivalents	(11,066)	(9,541)
Cash outflow from borrowings	–	3,050
Exchange adjustments	(163)	(1,995)
	(11,229)	(8,486)
Net cash brought forward	3,518	12,004
Net (debt)/cash carried forward	(7,711)	3,518

	At 1 April 2006 £000	Cash flow £000	Exchange adjustments £000	At 31 March 2007 £000
Analysis of net cash/(debt)				
Cash and cash equivalents	35,826	(11,066)	(2,709)	22,051
Bank loans	(32,308)	–	2,546	(29,762)
	3,518	(11,066)	(163)	(7,711)

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:

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

Notes to the accounts continued

26 Financial instruments continued

2006 Functional currency of operation	Net foreign currency monetary assets/(liabilities)				
	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

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 £5,901,000 at 31 March 2007 (2006: £11,501,000). These comprised Sterling denominated deposits of £5,780,000 (2006: £11,386,000), and Euro and other currency deposits of £121,000 (2006: £115,000) which are placed on local money markets and earn interest at market rates. Cash balances of £16,150,000 (2006: £24,325,000) 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 £29,762,000 at 31 March 2007 (2006: £32,308,000). All are subject to floating rates of interest. These comprise US Dollar denominated bank loans of £16,327,000 (2006: £18,497,000) which bear interest with reference to the US Dollar LIBOR rates, and Euro denominated bank loans of £13,435,000 (2006: £13,811,000) which bear interest with reference to the Euro LIBOR rates.

Maturity of financial liabilities

With the exception of the deferred purchase consideration and other payables due after one year, all of the Group's financial liabilities mature in one year or less or on demand. The total of deferred purchase consideration due after one year includes £603,000 (2006: £1,346,000) due between one and two years, with the balance of £89,000 (2006: £66,000) due between two and five years. Other creditors due after more than one year include £1,017,000 (2006: £1,220,000) due between one and two years, £1,296,000 (2006: £2,279,000) due between two and five years, with the balance of £nil (2006: £185,000) due after more than five years.

Borrowing facilities

The Group's principal source of short-term liquidity 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 providing longer-term financing and for managing foreign currency risk.

In September 2005 the Group 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 31 March 2007 were £43,503,000, of which £13,265,000 mature within one year and £30,238,000 between three and four years.

Fair values of financial assets and financial liabilities

As at 31 March 2007 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 31 March 2007 and 1 April 2006 are not significant.

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

27 Commitments

Capital commitments

Capital expenditure authorised and contracted at 31 March 2007 but not provided in these accounts amounts to £1,076,000 (2006: £2,187,000).

Commitments under operating leases

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

	Land and buildings		Other	
	2007 £000	2006 £000	2007 £000	2006 £000
Within one year	3,879	3,947	289	492
Within two to five years	8,054	8,075	320	522
After five years	1,475	2,767	–	3
	13,408	14,789	609	1,017

28 Retirement benefits

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

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

Defined contribution schemes

The amount charged to the Consolidated income statement in respect of defined contribution schemes was £1,592,000 (2006: £1,685,000).

Notes to the accounts continued

28 Retirement benefits continued

Defined benefit schemes

The assumptions used to calculate scheme liabilities are:

	2007	2006	2005
Rate of increase in salaries	4.25%	4.25%	4.25%
Rate of increase of pensions in payment (pre-April 1997)	3.00%	2.75%	2.75%
Rate of increase of pensions in payment (post-April 1997)	3.00%	2.75%	2.75%
Discount rate	5.25%	5.00%	5.40%
Inflation assumption	3.00%	2.75%	2.75%
Mortality assumption – Halma pensioners	PA 92 medium cohort	PA 92 medium cohort plus one year	PA 92
Mortality assumption – Halma non-pensioners	PA 92 medium cohort	PA 92 medium cohort plus one year	PA 92 less 3 years
Mortality assumption – Apollo pensioners	PA 92 medium cohort plus one year	PA 92 (C=2010)	PA 92 (C=2010)
Mortality assumption – Apollo non-pensioners	PA 92 medium cohort plus one year	PA 92 (C=2020)	PA 92 (C=2020)

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

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

	2007		2006	
	Expected rate of return %	Fair value £000	Expected rate of return %	Fair value £000
Equities	7.50	77,229	7.25	70,447
Bonds	5.00	27,457	4.75	22,071
Property	6.00	3,655	5.75	3,043
Total fair value of assets		108,341		95,561
Present value of scheme liabilities		(145,601)		(141,580)
Net deficit		(37,260)		(46,019)

The fair value of plan assets includes £1,445,721 of Halma p.l.c. 10p ordinary shares (2006: £2,358,891) and a receivable of £3,071,000 (2006: £4,763,000) in respect of pension plan liabilities that Halma p.l.c. has assumed on discontinued UK operations. The equivalent liability is included in the Consolidated and Company balance sheets within trade and other payables/other creditors.

28 Retirement benefits continued

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

	2007 £000	2006 £000
Current service cost (administrative expenses)	2,859	2,741
Curtailment gain (profit on disposal of operations)	–	(577)
Expected return on pension plan assets	(6,237)	(5,180)
Interest on plan liabilities	7,103	6,138
Net finance cost	866	958
Total charge	3,725	3,122

The amount credited to the Statement of recognised income and expense in respect of the actuarial gains of the plans was £7,084,000 (2006: £10,355,000 loss).

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

	2007			2006		
	Fair value of plan assets £000	Present value of plan liabilities £000	Net deficit £000	Fair value of plan assets £000	Present value of plan liabilities £000	Net deficit £000
At beginning of year	95,561	(141,580)	(46,019)	72,069	(112,914)	(40,845)
Current service cost	–	(2,859)	(2,859)	–	(2,741)	(2,741)
Contributions paid	7,092	–	7,092	4,098	–	4,098
Curtailment gain	–	–	–	–	577	577
Net finance cost	6,237	(7,103)	(866)	5,180	(6,138)	(958)
Actuarial gain/(loss)	1,143	5,941	7,084	10,009	(20,364)	(10,355)
Movement on receivable from principal employer	(1,692)	–	(1,692)	4,205	–	4,205
At end of year	108,341	(145,601)	(37,260)	95,561	(141,580)	(46,019)

History of experience adjustments:

	2007 £000	2006 £000	2005 £000	2004 £000	2003 £000
Present value of defined benefit obligations		(145,601)	(141,580)	(112,914)	(102,196)
Fair value of plan assets		108,341	95,561	72,069	61,427
Deficit in the plan		(37,260)	(46,019)	(40,845)	(40,769)
Experience adjustments on plan liabilities:					
Amount		273	536	52	–
Percentage of plan liabilities		–	–	–	–
Experience adjustments on plan assets:					
Amounts		1,321	11,271	2,821	7,717
Percentage of plan assets		1%	12%	4%	13%

Amounts disclosed for 2005 and earlier are under UK GAAP as it is not practicable to restate these amounts prior to the date of transition to IFRS.

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

We have audited the Group financial statements of Halma p.l.c. for the 52 weeks to 31 March 2007 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' funds together with the statement of Accounting policies and the related notes numbered 1 to 28. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Directors' Report on remuneration that is described as having been audited. We have reported separately on the parent Company financial statements of Halma p.l.c. for the 52 weeks to 31 March 2007.

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 whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and article 4 of the IAS Regulation and whether the part of the Directors' Report on remuneration described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Report of the Directors is consistent with the Group financial statements. The information given in the Report of the Directors includes that specific information presented in the Operating and Financial review that is cross referred from the Business review section of the Report of the Directors.

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

We review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the 2004 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 whether it is consistent with the audited Group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any further information outside the Annual report.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with International Financial Reporting Standards as adopted for use in the European Union, of the state of the Group's affairs as at 31 March 2007 and of its profit for the 52 week period then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and article 4 of the IAS Regulations;
- the part of the Directors' Report on remuneration described as having been audited has been properly prepared in accordance with the Companies Act 1985; 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, UK

19 June 2007

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

Company balance sheet

	Notes	31 March 2007 £000	1 April 2006 £000
Fixed assets			
Tangible assets	C3	2,388	4,115
Investments	C4	115,023	102,566
		117,411	106,681
Current assets			
Debtors	C5	134,200	115,242
Current taxation receivable		630	307
Short-term deposits		5,409	11,386
		140,239	126,935
Creditors: amounts falling due within one year			
Borrowings	C6	42,070	44,814
Creditors	C7	71,564	61,383
		113,634	106,197
Net current assets		26,605	20,738
Total assets less current liabilities		144,016	127,419
Creditors: amounts falling due after more than one year	C8	2,719	4,507
Provisions for liabilities and charges	C9	72	–
Net assets		141,225	122,912
Capital and reserves			
Called up share capital	C11	37,312	36,933
Share premium account	C12	15,239	10,702
Treasury shares	C12	(1,664)	(379)
Capital redemption reserve	C12	185	185
Other reserves	C12	1,611	569
Profit and loss account	C12	88,542	74,902
Equity shareholders' funds	C13	141,225	122,912

Approved by the Board of Directors on 19 June 2007.

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 on the historical cost basis and comply with applicable United Kingdom Accounting Standards. The principal Company accounting policies have been applied consistently throughout the current and preceding year and are described below.

Foreign currencies

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

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

Share-based payments

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

Investments

Investments are stated at cost less provision for impairment.

Fixed assets and depreciation

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

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

Leases

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

Pensions

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

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 £79,000 (2006: £91,000).

Total employee costs (including Directors) were:

	2007 £000	2006 £000
Wages and salaries	2,694	3,068
Social security costs	386	417
Other pension costs	398	550
	3,478	4,035

	2007 Number	2006 Number
Number of employees	30	27

Details of Directors' remuneration are set out on pages 87 to 91 within the Report on remuneration and form part of these financial statements.

C3 Fixed assets – tangible assets

	Land and buildings			Total £000
	Freehold properties £000	Short leases £000	Plant equipment and vehicles £000	
Cost				
At 1 April 2006	3,994	167	1,426	5,587
Additions at cost	–	–	292	292
Disposals	(1,944)	–	(116)	(2,060)
At 31 March 2007	2,050	167	1,602	3,819
Accumulated depreciation				
At 1 April 2006	576	74	822	1,472
Charge for the year	33	1	225	259
Disposals	(197)	–	(103)	(300)
At 31 March 2007	412	75	944	1,431
Net book amounts				
At 31 March 2007	1,638	92	658	2,388
At 1 April 2006	3,418	93	604	4,115

C4 Investments

Shares in Group companies

	2007 £000	2006 £000
At cost less amounts written off at beginning of year	102,566	48,967
Additions	12,457	54,649
Disposals	–	(1,050)
At cost less amounts written off at end of year	115,023	102,566

Additions in the year relate to the acquisitions of Trittech International Limited and Swift (943) Limited.

Notes to the Company accounts continued

C4 Investments continued

Details of principal subsidiary companies are set out on pages 92 and 93. 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	Name of company	Country of incorporation
Fortress Systems Pty. Limited	Australia	Air Products and Controls Inc.*	USA
HF Sécurité S.A.S.*	France	Aquionics Inc.*	USA
Hydreka S.A.S.*	France	B.E.A. Inc.*	USA
S.E.R.V. Trayvou Interferrouillage S.A.S.*	France	Bio-Chem Fluidics Inc.*	USA
Apollo Gesellschaft für Meldetechnologie mbH*	Germany	Diba Industries, Inc.*	USA
Mikropack GmbH	Germany	Electronic Micro Systems Inc.*	USA
Berson Milieutechniek B.V.*	The Netherlands	Janus Elevator Products Inc.*	USA
Netherlocks Safety Systems B.V.*	The Netherlands	Labsphere Inc.*	USA
Bureau D'Electronique Appliquée S.A.*	Belgium	Ocean Optics, Inc.*	USA
TL Jones Limited*	New Zealand	Oklahoma Safety Equipment Co. Inc.*	USA
E-Motive Display Pte Limited*	Singapore	Perma Pure LLC*	USA
Halma Holdings Inc.*	USA	Volk Optical Inc.*	USA

*Interests held by subsidiary companies.

C5 Debtors

	2007 £000	2006 £000
Amounts due from Group companies	131,576	112,179
Deferred taxation (note C10)	–	64
Other debtors	29	385
Prepayments and accrued income	2,595	2,614
	134,200	115,242

C6 Borrowings

	2007 £000	2006 £000
Falling due within one year:		
Bank loans	29,762	32,308
Overdrafts	12,308	12,506
	42,070	44,814

The bank loans at 31 March 2007 and 1 April 2006 mature within one year. The facility under which they are drawn expires within two to five years (2006: within two to five years) and at 31 March 2007 £30,238,000 (2006: £27,692,000) remained committed and undrawn.

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

C7 Creditors

	2007 £000	2006 £000
Falling due within one year:		
Trade creditors	640	704
Amounts owing to Group companies	62,194	51,371
Other taxation and social security	1,369	1,174
Other creditors	4,021	3,602
Accruals and deferred income	3,340	4,532
	71,564	61,383

C8 Creditors: amounts falling due after one year

	2007 £000	2006 £000
Deferred purchase consideration	569	1,061
Other creditors	2,150	3,446
	2,719	4,507
These liabilities fall due as follows:		
Within two to five years	2,719	4,322
After more than five years	–	185
	2,719	4,507

C9 Provisions for liabilities and charges

	2007 £000	2006 £000
Deferred taxation (note C10)	72	–
	72	–

C10 Deferred taxation

	2007 £000	2006 £000
Movement in deferred taxation liability/(asset):		
At beginning of year	(64)	(52)
Charge/(credit) to profit and loss account	423	(12)
Credit to reserves	(287)	–
At end of year	72	(64)

Deferred taxation comprises short-term timing differences.

Notes to the Company accounts continued

C11 Called up share capital

	Authorised		Issued and fully paid	
	2007 £000	2006 £000	2007 £000	2006 £000
Ordinary shares of 10p each	43,656	43,656	37,312	36,933

The number of ordinary shares in issue at 31 March 2007 was 373,116,492 (2006: 369,330,680).

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

	Issued and fully paid £000
At 1 April 2006	36,933
Share options exercised	379
At 31 March 2007	37,312

The total consideration received in cash in respect of share options exercised amounted to £4,916,000.

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

C12 Reserves

	Share premium account £000	Treasury shares £000	Capital redemption reserve £000	Other reserves £000	Profit and loss account £000
At 1 April 2006	10,702	(379)	185	569	74,902
Profit transferred to reserves	–	–	–	–	10,456
Share options exercised	4,537	–	–	–	–
Movement in other reserves	–	–	–	1,042	–
Treasury shares purchased	–	(1,285)	–	–	–
Exchange adjustments	–	–	–	–	3,184
At 31 March 2007	15,239	(1,664)	185	1,611	88,542

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

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.

C13 Reconciliation of movement in equity shareholders' funds

	2007 £000	2006 £000
At beginning of year	122,912	151,594
Profit/(loss) after taxation	36,378	(2,161)
Dividends paid	(25,922)	(24,468)
Exchange adjustments	3,184	(2,761)
Net proceeds of shares issued	4,916	644
Treasury shares purchased	(1,285)	(379)
Movement in other reserves	1,042	443
At end of year	141,225	122,912

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

We have audited the parent Company financial statements of Halma p.l.c. for the 52 weeks to 31 March 2007 which comprise the Balance sheet together with the statement of Accounting policies and the related notes numbered C1 to C13. These parent Company financial statements have been prepared under the accounting policies set out therein. We have reported separately on the Group financial statements of Halma p.l.c. for the 52 weeks to 31 March 2007 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 the Directors' Report on remuneration and the parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' responsibilities. Our responsibility is to audit the parent Company financial statements and the part of the Directors' Report on remuneration to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent Company financial statements give a true and fair view, in accordance with the relevant financial reporting framework, and whether the parent Company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the Report of the Directors is consistent with the parent Company financial statements. In addition 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 other information contained in the Annual report as described in the contents section and consider whether it is consistent with the audited parent Company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent Company financial statements. Our responsibilities do not extend to any further information outside the Annual report.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the parent Company financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice of the state of affairs of the Company as at 31 March 2007;
- the parent 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 parent Company financial statements.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Reading, UK

19 June 2007

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 1998 to 2007

	UK GAAP 1997/98 £000	UK GAAP 1998/99 £000
Revenue (note 2)	213,777	217,758
Overseas sales (note 2)	126,863	134,189
Profit before taxation, acquired intangibles amortisation and goodwill written off (note 3)	42,391	41,823
Net tangible assets/capital employed	98,249	102,101
Borrowings	2,784	7,730
Cash and cash equivalents	22,639	29,894
Employees	2,861	2,827
Earnings per ordinary share (note 2)	6.87p	7.91p
Adjusted earnings per ordinary share (note 3)	8.26p	7.99p
Year on year increase/(decrease) in adjusted earnings per ordinary share	17.8%	(3.3%)
Return on sales (notes 2 and 4)	19.8%	19.2%
Return on capital employed (note 5)	49.5%	45.4%
Year on year increase in dividends per ordinary share	20%	20%
Ordinary share price at financial year end	124p	92p
Market capitalisation at financial year end	£447.3m	£330.6m

Notes:

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

UK GAAP 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	IFRS 2006/07 £000
233,485	268,322	267,597	267,293	292,640	299,119	299,119	337,348	354,606
150,727	181,831	183,259	188,161	206,102	218,745	218,745	249,055	258,050
43,751	49,698	48,255	46,508	50,284	50,389	49,912	59,641	66,091
89,755	99,991	117,515	86,854	95,935	80,750	104,417	105,396	113,048
14,700	7,758	15,047	27,667	26,934	33,344	33,344	32,308	29,762
21,900	21,484	45,657	27,574	48,482	45,348	45,348	35,826	22,051
2,975	3,059	2,859	2,793	2,925	3,002	3,002	3,187	3,326
6.08p	8.91p	8.58p	7.76p	6.09p	7.97p	9.38p	11.08p	11.86p
8.41p	9.34p	9.10p	8.55p	9.44p	9.42p	9.45p	11.27p	12.50p
5.3%	11.1%	(2.6%)	(6.0%)	10.4%	(0.2%)	N/A	19.3%	10.9%
18.7%	18.5%	18.0%	17.4%	17.2%	16.8%	16.7%	17.7%	18.6%
44.7%	48.4%	45.7%	41.7%	50.5%	52.1%	48.8%	56.9%	60.1%
20%	15%	15%	10%	7%	5%	5%	5%	5%
95p	129p	164p	114p	149p	161p	161p	188p	220p
£340.1m	£465.7m	£598.2m	£416.7m	£546.5m	£593.8m	£593.8m	£693.4m	£821.8m

Management team, Directors and advisers

Management team

01 Geoff Unwin

(aged 64) is Chairman of the Halma Group and serves on the Nomination Committee (Chairman) and Remuneration Committee. 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 Taptu Limited. He is a non-voting board director of Capgemini Group, a member of the advisory board of Palamon Capital Partners and also chairs one of their investments, OmniBus Systems Limited.

02 Andrew Williams

(aged 40) 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 47) 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 56) was appointed a non-executive Director of Halma in September 2003 and serves on the Audit Committee (Chairman), Remuneration Committee and Nomination Committee. He is Chairman of Rok 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 44) 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 Richard Stone

(aged 64) 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.

07 Neil Quinn

(aged 57) is Chief Executive of the Safety Sensors Division. He joined the Group as Sales Director of Apollo Fire Detectors 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.

08 Keith Roy

(aged 57) is Chief Executive of the Photonics 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. 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).

09 Andrew Richardson

(aged 42) is Chief Executive of the Water and Asset Monitoring 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.



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10 Mark Lavelle

(aged 48) is Chief Executive of the Process Safety Division. He joined Keeler Instruments in November 2001 as Managing Director and was promoted to Assistant Divisional Chief Executive in 2006. In 2007 Mark was promoted to Divisional Chief Executive and is a member of the Executive Board. Prior to joining Halma he held various industrial roles and gained financial/transactional experience with Bank of America in both the UK and the US. Mark has a chemistry degree from Cambridge University and an MBA from INSEAD.

11 Nigel Young

(aged 57) is Chief Executive of Special Projects with responsibility for Group IT and the Halma Executive Development Programme. He joined Halma as Managing Director of Fortress Interlocks when the company joined the Group in 1987. Nigel was appointed Assistant Divisional Chief Executive in 1990 and was promoted to Divisional Chief Executive in 1992. He was appointed to the Executive Board in 1994. He has an MBA from Aston University.

12 Adam Meyers

(aged 45) is Chief Executive of the Fluid Technology Division. He joined Halma in 1996 as President of Bio-Chem Valve. 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.

13 John Campbell

(aged 48) is Chief Executive of the Elevator Safety Division. He joined the Group in 1995 as President of IPC Resistors 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 49) is Chief Executive of the Fire 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.

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
Stephen R Pettit MSc*

*Non-executive

Secretary

Carol T Chesney BA FCA

Executive Board

Andrew J Williams,
Chief Executive
Kevin J Thompson,
Finance Director
John S Campbell,
Elevator Safety
Mark S Lavelle,
Process Safety
Adam J Meyers,
Fluid Technology
Neil Quinn,
Safety Sensors
Andrew J Richardson,
Water and Asset Monitoring
Keith J Roy,
Photonics and Gas Technology
Nigel J B Trodd,
Fire
Nigel J Young,
Special Projects

Registered Office

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Amersham, Bucks HP7 0DE
Telephone: +44 (0)1494 721111
Fax: +44 (0)1494 728032
Website: www.halma.com

Registered Number

40932

Auditors

Deloitte & Touche LLP
Abbots House, Abbey Street
Reading, Berks RG1 3BD

Bankers

The Royal Bank of
Scotland plc, 280 Bishopsgate
London EC2M 4RB

Financial Advisers

Lazard & Co., Limited
50 Stratton Street
London W1J 8LL

**Brokers and Joint
Financial Advisers**

Dresdner Kleinwort 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)870 707 1046



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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 31 March 2007.

Activities

Halma p.l.c. is a holding company. A list of its principal subsidiary companies and their activities is set out on pages 92 and 93.

Results of the period

The Consolidated income statement for the 52 weeks to 31 March 2007 is set out on page 38. The Group profit on continuing operations before amortisation of acquired intangible assets and taxation is £66,091,000 (2006: £58,140,000). The profit attributable to equity shareholders amounts to £44,011,000 (2006: £40,875,000).

Ordinary dividends

The Directors are recommending a final dividend of 4.33p per share and, if approved, this dividend will be paid on 22 August 2007 to ordinary shareholders on the register at the close of business on 20 July 2007. Together with the interim dividend of 2.85p per share already paid, this will make a total of 7.18p (2006: 6.83p) per share for the financial year.

Business review

A review of activities together with business and future developments, risks and uncertainties and key performance indicators that management use is included on pages 20 to 37 inclusive and forms part of this report.

Share capital

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

Allotment authority

Under the Companies Act 1985 the Directors may only allot shares if authorised by shareholders to do so. At the annual general meeting an ordinary resolution will be proposed which, if passed, will authorise the Directors to allot and issue new shares up to an aggregate nominal value of £6,332,519.50 (up to 63,325,195 new ordinary shares of 10p each), which is equal to approximately 17% of the issued share capital of the Company (excluding treasury shares) as at 19 June 2007 (the latest practicable date prior to the publication of the notice of meeting). The authority will expire five years after the date of passing of the resolution or, if earlier, at the conclusion of the annual general meeting of the Company in 2012. Passing this resolution will give the Directors flexibility to act in the best interests of shareholders, when opportunities arise, by issuing new shares.

As at 19 June 2007 (the latest practicable date prior to the publication of the notice), the Company had 373,239,695 ordinary shares of 10p each in issue and held 805,635 treasury shares, which is equal to approximately 0.2% of the issued share capital of the Company (excluding treasury shares) as at that date.

The Companies Act 1985 also requires that, if the Company issues new shares for cash or sells any treasury shares, it must first offer them to existing shareholders in proportion to their current holdings. At the annual general meeting a special resolution will be proposed which, if passed, will authorise the Directors to issue a limited number of shares for cash and/or sell treasury shares without offering them to shareholders first. The authority is for an aggregate nominal amount of up to 5% of the aggregate nominal value of the issued share capital of the Company as at 19 June 2007 (the latest practicable date prior to the publication of the notice). The resolution will also modify statutory pre-emption rights to deal with legal, regulatory or practical problems that may arise on a rights or other pre-emptive offer or issue and to permit non pre-emptive issues pursuant to an employee share scheme. The authority will expire at the same time as the resolution conferring authority on the Directors to allot shares. The Directors consider this authority necessary in order to give them flexibility to deal with opportunities as they arise, subject to the restrictions contained in the resolution.

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

Electronic communications

The Companies Act 2006 (the 2006 Act) has introduced provisions designed to make it easier for companies to use the internet to communicate with shareholders, and so reduce printing and distribution costs.

Although it has been possible for some years for the Company to use electronic means to deliver certain documents to our shareholders, the 2006 Act has extended the range of information that can be communicated electronically and relaxed certain requirements for communication by our website. As before, the Company cannot send a shareholder material by e-mail unless the shareholder has agreed to this, and has supplied an electronic address for that purpose. Where, however, a company that complies with the requirements of the 2006 Act wishes to communicate information to its shareholders by making it available on a website, each shareholder who has been invited to accept this form of delivery, and has not objected within 28 days, is deemed to have agreed to it.

If special resolution 8 is passed at the annual general meeting, the Company will be able to send shareholders a written request (which must set out the consequences of a failure to respond) to agree to website delivery, and may deem the shareholder to have agreed unless the shareholder objects within 28 days. If a shareholder declines website delivery, that shareholder will continue to receive documents by post in the usual way and the Company will not be permitted to seek that shareholder's deemed agreement to website delivery for at least 12 months.

Those shareholders who do not object to website delivery will no longer receive documents by post. They will, however, receive notification as and when key information is made available on the Company's website, with details of how to access it. This notification will be given by post (or, if the shareholder has agreed, by e-mail). In addition, shareholders will still have the right, once they have received information electronically, to require the Company to send a hard copy of that information, free of charge, within 21 days, and they may also opt for all information to be sent in hard copy form.

The resolution, if passed, will supersede any inconsistent provisions in the Company's current Articles of Association.

The Company also intends to discontinue the practice of mailing the half-yearly financial report to shareholders with effect from November 2007 and will only make it available on its website and on request.

Purchase of own shares

The Company was authorised at the 2006 annual general meeting to purchase up to 36,000,000 of its own 10p ordinary shares in the market. This authority expires at the end of the 2007 annual general meeting. In accordance with the Directors' stated intention to seek annual renewal, a special resolution will be proposed at the annual general meeting to renew this authority until the end of next year's annual general meeting, in respect of up to 37,000,000 ordinary shares, which is approximately 10% of the Company's issued share capital (excluding treasury shares) as at 19 June 2007 (the latest practicable date prior to the publication of the notice of meeting). The Directors consider it desirable that the possibility of making such purchases, under appropriate circumstances, is available. Their present intention is that the shares purchased under the authority will (to the extent statutory requirements are met) be held in treasury for future cancellation, sale for cash or transfer for the purposes of, or pursuant to, an employee share scheme, although in the light of circumstances at the time it may be decided to cancel them immediately on repurchase. The effect of any cancellation would be to reduce the number of shares in issue. For most purposes, while held in treasury shares are treated as if they have been cancelled (for example, they carry no voting rights and do not rank for dividends).

Following approval of the performance share plan (PSP) at the 2005 annual general meeting, the Directors made, and intend to continue to make, routine purchases of Halma shares in the market for holding in treasury until required for vesting under the PSP. In the year to 31 March 2007, 614,000 shares were purchased in the market for treasury. Otherwise, the Directors have no present intention of using this authority. In reaching a decision to purchase shares, the Directors will take into account the Company's cash resources, capital requirements and the effect of any purchase on the Company's earnings per share. It is anticipated that renewal of the authority will be requested at subsequent annual general meetings.

As at 19 June 2007, which is the latest practicable date prior to the publication of the notice of meeting, options were outstanding to subscribe for a total number of 10,314,962 ordinary shares, or 2.8% of the Company's issued share capital. If this authority to purchase shares were used in full and the shares cancelled, the proportion of the adjusted issued share capital represented by this figure would be 3.1%.

Deeds of indemnity

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

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 31 March 2007 the Company's trade creditors represented 37 days (2006: 39 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.

Report of the Directors continued

Directors' remuneration

An ordinary resolution will be proposed at the annual general meeting seeking shareholder approval of the Directors' Report on remuneration set out on pages 87 to 91.

Corporate responsibility

The Group's Corporate responsibility report is set out on pages 30 to 33.

Research and development

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

Donations

Group companies made charitable donations amounting to £5,762 (2006: £5,209) during the financial year. There were no political donations (2006: £nil).

Directors

The Directors of the Company are listed on page 79. Brief biographies are set out on page 78.

Andrew Walker resigned as a non-executive Director on 22 March 2007.

Directors proposed for re-election

Stephen Pettit retires by rotation and being eligible offers himself for re-election.

Shareholdings

As at 19 June 2007 the Company has been notified of the following major shareholdings of the Company's ordinary shares:

	Shares	Per cent
Silchester International Investors Limited	25,829,195	6.94
Sprucegrove Investment Management Limited	24,361,142	6.54
Barclays Bank PLC	21,914,973	5.88
Sanderson Asset Management Limited	15,083,480	4.05
Legal & General Investment Management Limited	12,824,344	3.44

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

19 June 2007

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual report and the financial statements. The Directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRS). Company law requires the Directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and Presentation of Financial Statements"

In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards.

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; and
- 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.

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 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 differs 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, as amended in June 2006, except in respect of provisions A3.2 and C3.1, which involve the composition of the Board and the Audit Committee and the number of members who are independent non-executive Directors. The Board reaffirmed its decision to maintain the composition of the Board as a Chairman, three independent non-executive Directors and four executive Directors and is currently in the process of recruiting an independent non-executive Director to fill the vacancy arising on Andrew Walker's resignation. The Board believes this composition 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. Once the non-executive Director vacancy is filled, the Company will be able to report compliance with provision C3.1 relating to the composition of the Audit Committee.

Application of the principles of good governance

The Group is controlled and directed by a Board consisting of a Chairman, four Directors and two other non-executive Directors. Their biographies appear on page 78. The Nomination Committee is currently in the process of recruiting another non-executive Director. This individual is expected to be a member of each of the Audit, Remuneration and Nomination Committees following appointment. The Board considers the Chairman and each of the non-executive Directors to be independent. In assessing independence, the Board considers that the Chairman and non-executive Directors are independent of management and free from business and other relationships which could interfere with the exercise of independent judgment now and in the future. The Board believes that any shareholdings of the Chairman and non-executive Directors serve to align their interests with those of all shareholders. Richard Stone is acknowledged as the Senior Independent Director. Upon appointment and at regular intervals, all Directors are offered appropriate training. Each Director is subject to re-election at least every three years. The Chairman confirms that non-executive Directors standing for re-election continue to be effective and demonstrate commitment to their roles.

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

Board and Committee meeting attendance

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

	Board	Remuneration Committee	Audit Committee	Nomination Committee
Total scheduled meetings	6	3	3	1
Geoff Unwin	6	1*	N/A	1
Andrew Williams	6	N/A	N/A	1
Kevin Thompson	6	N/A	N/A	N/A
Neil Quinn	6	N/A	N/A	N/A
Richard Stone	6	3	2	1
Keith Roy	6	N/A	N/A	N/A
Stephen Pettit	6	3	3	1
Andrew Walker	6	3	3	1

*Geoff Unwin was not a member of the Remuneration Committee when two of the three meetings of the Committee were held, but was in attendance.

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 Geoff Unwin and Stephen Pettit are members. Andrew Walker was also a member of the Committee up to the date of his resignation. 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 87 to 91.

Audit Committee

Stephen Pettit chairs the Audit Committee, succeeding Andrew Walker who resigned in March 2007. Richard Stone is also a member of the Committee. The Committee reviews the interim and annual accounts and the disclosures contained therein, accounting policies and matters of significant judgment, the statement on internal controls, the process of Internal Audit and the Group whistleblowing procedures. The Committee is also responsible for the relationship with the external auditors including terms of engagement, fee levels, approval of the annual audit plan, a review of the findings of the audit and assessing auditor effectiveness and independence. The 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.

The Board has designated Richard Stone as the member of the Audit Committee with recent and relevant financial experience. His background is as a senior insolvency practitioner with Coopers & Lybrand (later PricewaterhouseCoopers).

Nomination Committee

Geoff Unwin chairs the Nomination Committee. Andrew Williams, Richard Stone and Stephen Pettit are also members. Andrew Walker was a member up to the date of his resignation. 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. As previously noted, the Committee is currently in the process of recruiting a non-executive Director to fill the vacancy created by Andrew Walker's resignation.

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 78 and 79. 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. For 2006/07 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 February 2007 Board meeting. The Board also met in February 2007, 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.

Kevin Thompson spoke at the Credit Suisse European Capital Goods Conference in London in September 2006. He talked about Halma's business sectors, strategy and track record. He also addressed some of the frequently asked questions about Halma and looked at the Group's priorities for the current year.

In February 2007, Halma hosted a site visit to its BEA subsidiary's headquarters in Liège, Belgium for analysts and investors. No new trading information is disclosed during such visits.

Andrew Williams spoke at the Dresdner Kleinwort Capital Goods Conference in London in March 2007.

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

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

The Financial calendar is set out on page 96.

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 guidance for directors on internal control ("Internal Control: Revised Guidance for Directors on the Combined Code (October 2005)"), 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 current Turnbull guidance.

Corporate governance continued

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 schedule was reviewed during the year. This procedure is intended to ensure that the Directors maintain full and effective control over all significant strategic, financial and organisational issues.

Central insurance cover is maintained for the Group and its operating companies and its adequacy is subject to annual review by the Board of Directors.

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;
- deployment of finance executives in each operating company. Further resource continues to be added in this area;
- 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 the previous year's figures on a monthly basis and reviewed at both local and Group level;
- an investment evaluation procedure to ensure an appropriate level of approval for all capital expenditure;
- self-certification by operating company management of compliance and control issues, a process which was further strengthened during the year;
- a robust IT network for Group communication.

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. These warning signs are firmly 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 audit visits, the depth 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. 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.

The Audit Committee established the internal audit function for independent reporting of the outcome of internal control visits to the Audit Committee following its review of internal control activities in 2004.

As a result of the assessment of the Group's internal audit activities carried out last year, new resource has been added and additional training undertaken.

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 currently consists of the three non-executive Directors, the members being Richard Stone (Chairman of the Committee), Geoff Unwin and Stephen Pettit. During the year, Andrew Walker was also a member up to the date of his resignation and Geoff Unwin rejoined the Committee following an amendment to the Combined Code. No Director takes part in discussions concerning his own remuneration.

The Committee, having taken external advice, 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 policy and framework 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 agreeing the total annual payments made under such plans;
- reviewing the design of all share incentive plans for approval by the Board and shareholders, and determining, each year, whether awards will be made, and if so, the overall amount of such awards, the individual awards to executive Directors and other senior executives and the performance targets to be set;
- determining the policy for, and scope of, pension arrangements for each executive Director and other senior executives.

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

The Committee appointed Watson Wyatt to advise on various aspects of executive remuneration. They also 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 remuneration packages necessary to attract, retain and motivate Directors of the quality required to run the Group successfully, manage its businesses and 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 2006/07 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 Watson Wyatt market survey data and other relevant data in order to relate remuneration levels to comparable companies. The Group Chief Executive is responsible for assessing the performance of each senior executive taking account of the complexity of the operations under their control, their opportunities for advancement within the Group, their remuneration relative to other executives in the Group and their bonus earning potential. He then formulates a remuneration proposal for the Committee's approval. Basic salary levels are set around the market median, and the Committee ensures that a balance between fixed and variable remuneration is achieved. At targeted levels of growth, the bonus expectation is approximately 60% of salary.

Remuneration of subsidiary boards is set at competitive levels to reflect the size, complexity and geographic locations of the relevant 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, recognising the need to continually assess and evaluate such incentives 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. Currently the Committee intend to use the Plan only to award performance shares. The first awards were made in August 2005. Awards, which are made annually, are determined by evaluating the financial and operational performance of the executive Directors and the Divisional Chief Executives and their 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, as set out below, subject to the Company's relative TSR performance against the FTSE 250 excluding financial companies (current year awards), combined with a measure based upon an absolute Return on total invested capital (ROTIC). Awards which do not vest on the third anniversary of their award lapse. The performance share plan is also extended to certain centrally based executives and subsidiary chief executives with maximum awards of 40% of salary.

Report on remuneration continued

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

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

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

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

For the 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.

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

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

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

Directors' remuneration

	Salaries and fees £000	Bonus £000	Benefits £000	Pension supplement £000	2007 Total £000	2006 Total £000
Geoff Unwin	140	–	16	–	156	128
Andrew Williams	350	350	94	62	856	685
Kevin Thompson	235	235	11	61	542	460
Neil Quinn	194	30	14	21	259	222
Richard Stone	43	–	–	–	43	32
Keith Roy	169	169	15	15	368	339
Andrew Walker	51	–	–	–	51*	32
Stephen Pettit	36	–	–	–	36	29
	1,218	784	150	159	2,311	1,927
Gains on share options					247	34
Aggregate remuneration					2,558	1,961

*To date of resignation.

The fees paid in relation to Geoff Unwin were paid to Gunwin Limited. Andrew Williams' benefits include relocation expense reimbursement of £74,000. Executive Directors received pension supplements to compensate them for the fact that their pension entitlement under the Halma Group Pension Plan defined benefit arrangements is limited by a pensionable salary cap introduced from 6 April 2006. The Company introduced a pensionable salary cap in order to address changes affecting the Plan made in the Pension Act 2006. Without the introduction of such a cap, there would, effectively, have been no benefit limits. This could have resulted in benefits in excess of prescribed levels with some individuals suffering penal rates of tax and potentially causing a limitation on the tax deductibility of employer contributions. The Company obtained external advice regarding the changes to the Plan and executive pension arrangements and required each affected executive to obtain independent advice prior to implementing the changes. These changes reduce the Plan's future liabilities and their associated funding risk.

To the extent that an executive's current salary exceeds the Plan salary cap, the Company compensates him at an annual rate of 26% of the excess. As of 6 April 2006 Kevin Thompson chose to cease entirely future service accrual in the Halma Group Pension Plan in return for the pension supplement on his full salary. Andrew Williams was the highest paid Director in the financial year.

Pension benefits

Except as noted above and below, the executive Directors participate in the appropriate section of the Halma Group Pension Plan. This section is a funded final salary occupational pension plan registered with HM Revenue & Customs, which provides a maximum pension of two-thirds of final pensionable salary after 25 or more years' service at normal pension age (60). Up to 5 April 2006, final pensionable salary was the greatest salary of the last three complete tax years immediately before retirement or leaving service. From 6 April 2006, final pensionable salary is capped at 7.5% of the Lifetime Allowance equating to £112,500 for the year ended 31 March 2007.

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

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

	Age at 31.3.07	Years of service at 31.3.07	Accrued pension 2006 £000	Increase in the year £000	Accrued pension 2007 £000
Andrew Williams	39	12	26	3	30
Kevin Thompson	47	19	78	6	87
Neil Quinn	57	19	82	8	92
Keith Roy	56	14	47	6	54

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

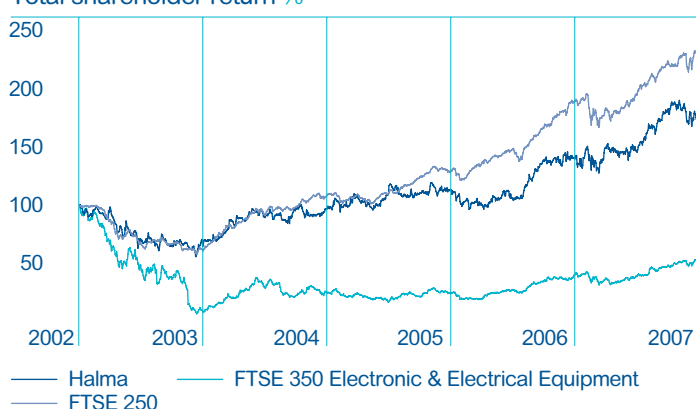
The increase in accrued pension during the year is the amount in excess of the increase due to inflation.

	Transfer value 1.4.06 £000	Directors' contributions £000	Increase in transfer value net of contributions £000	Transfer value 1.4.06 £000
Andrew Williams	205	10	16	231
Kevin Thompson	847	—	77	924
Neil Quinn	1,301	10	140	1,451
Keith Roy	754	10	102	866

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

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

Total shareholder return %



Source: Datastream total return indices

Total shareholder return

The graph above shows the Company's total shareholder return performance over the five years to 31 March 2007 as compared to the FTSE 250 and the FTSE 350 Electronic & Electrical Equipment sector indices, the latter of which the Company has been a constituent since it was reclassified in June 2006. Over the period indicated, the Company's total shareholder return was 166% compared to 218% for the FTSE 250 and 59% for the FTSE 350 Electronic & Electrical Equipment sector.

At the commencement of the five-year period depicted in the graph, the Halma p.l.c. ordinary share price was 164p and the total of dividends paid in the year ended 30 March 2002 was 4.864p per share. The Halma p.l.c. ordinary share price at 31 March 2007 was 220.25p and the total of dividends paid in the year then ended was 6.97p 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 31.3.07	Shares 1.4.06
Geoff Unwin	38,250	38,250
Andrew Williams	72,473	36,493
Kevin Thompson	99,609	72,649
Neil Quinn	69,118	50,052
Richard Stone	20,000	20,000
Keith Roy	760,649	748,536
Stephen Pettit	2,000	2,000

There are no non-beneficial interests of Directors.

There were no changes in Directors' interests from 31 March 2007 to 19 June 2007.

Report on remuneration continued

Performance share plan

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

	As at 1.4.06	Granted	Vested	As at 31.3.07
Andrew Williams	241,482	246,231	–	487,713
Kevin Thompson	169,792	165,327	–	335,119
Neil Quinn	141,305	132,446	–	273,751
Keith Roy	122,250	114,852	–	237,102

Performance conditions for the awards made in the financial year are set out above. The awards in the year were based on the three-day average share price of 199p (2006: 148.42p) on the date of grant. The current expectation is that, on average, over 60% of these awards will vest at the end of the vesting period.

Share option plans

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

	As at 1.4.06	Exercised	Share price on exercise	As at 31.3.07	2007 Gains on exercise (£)	2006 Gains on exercise (£)
Andrew Williams	460,921	(17,500)	163.5p	443,421	5,862	–
Kevin Thompson	882,534	(99,932)	127.86p	782,602	67,362	17,186
Neil Quinn	966,841	(203,466)	121.0p	763,375	150,247	10,677
Keith Roy	540,358	(43,066)	139.5p	497,292	24,027	5,836

There were no share plan grants or lapses during the financial year.

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

The closing middle market price of the Company's ordinary shares on Friday, 30 March 2007, the last trading day preceding the financial year end, was 220.25p per share and the range during the year was 172p to 239.5p.

Details of Directors' options outstanding at 31 March 2007 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 220.25p.
- 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 220.25p.

	Status of options (see above)	Year of grant	Number of shares	Weighted average exercise price (p) per share
Andrew Williams	1	2001	22,300	163.50
	2	1997–2005	421,121	139.56
Kevin Thompson	1	1997–1998; 2000–2001; 2003	295,103	125.52
	2	1997–2005	487,499	137.64
Neil Quinn	1	1999–2001; 2003	325,303	130.03
	2	1997–2005	438,072	135.82
Keith Roy	1	1997–1999; 2001–2002	210,907	134.48
	2	1997–2005	286,385	136.20

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

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

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 Geoff Unwin's services provides for termination, by either party, by giving not less than six months' notice. The fee for Geoff Unwin's services for 2006/07 was set at £140,000 per annum. In addition there is a contribution of £16,150 towards office costs.

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

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

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

*From April 2007.

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

19 June 2007

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 Fluidics Inc.	Miniature valves, micro pumps and fluid components for medical, life science and scientific instruments
Bureau D'Electronique Appliquée S.A.	Sensors for automatic doors
Castell Safety International Limited	Safety systems for controlling hazardous industrial processes
Crowcon Detection Instruments Limited	Gas detection instruments for personnel and plant safety
Diba Industries, Inc.	Specialised components and complete fluid transfer subassemblies for medical, life science and scientific instruments
Elfab Limited	Pressure sensitive relief devices to protect process plant
E-Motive Display Pte Limited	Electronic displays for providing information to elevator passengers
Fire Fighting Enterprises Limited	Beam smoke detectors and specialist fire extinguishing systems
Fortress Interlocks Limited	Safety systems for controlling access to dangerous machines
Fortress Systems Pty. Limited	Machinery and process safety systems and high power electrical resistors
Halma Holdings Inc.	US holding company
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.	Elevator safety component including fixtures, displays, door systems and emergency communications
Keeler Limited	Ophthalmic instruments for diagnostic assessment of eye conditions
Klaxon Signals Limited	Audio/visual warning systems for fire and industrial security
Labsphere, Inc.	Light testing and measurement products and specialised optical coatings
Memco Limited	Infrared safety systems for elevator doors and elevator emergency communications
Netherlocks Safety Systems B.V.	Process safety systems for petrochemical and industrial applications
Ocean Optics, Inc.	Miniature fibre optic spectrometers for consumer electronics, process control, environmental monitoring, life sciences and medical diagnostics
Oklahoma Safety Equipment Co. Inc.	Pressure sensitive relief devices to protect process plant
Palintest Limited	Instruments for analysing water and measuring environmental pollution
Palmer Environmental Limited	Instrumentation for quantifying, detecting and controlling leakage in underground water pipelines
Perma Pure LLC	Gas dryers and humidifiers for fuel cell, medical, scientific and industrial use
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
Tritech International Limited	Underwater equipment for pipeline leak detection, infrastructure maintenance, construction and security
Volk Optical Inc.	Ophthalmic equipment and lenses as aids to diagnosis and surgery
Volumatic Limited	Cash handling and security from point of sale to cash centre

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Notice of meeting

Notice is hereby given that the one hundred and thirteenth annual general meeting of Halma p.l.c. will be held at The Ballroom, The Berkeley Hotel, Wilton Place, London SW1X 7RL on Wednesday, 1 August 2007 at 11.30 am for the following purposes:

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

- 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 31 March 2007.
- 2 To declare a dividend on the ordinary shares.
- 3 To approve the Report on remuneration as set out on pages 87 to 91 of the Report and accounts for the 52 weeks to 31 March 2007.
- 4 To re-elect as a Director Stephen R Pettit* who retires from the Board by rotation and being eligible offers himself for re-election.
- 5 To re-appoint Deloitte & Touche LLP as Auditors.
- 6 To authorise the Directors to determine the remuneration of the Auditors.
- 7 That the Directors be and are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £6,332,519.50 and that this authority shall expire on the earlier of the conclusion of the annual general meeting of the Company to be held in 2012 and the fifth anniversary of the passing of this resolution (unless previously renewed, varied or revoked by the Company), save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

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

- 8 That the Company be authorised to use electronic means to convey information to its shareholders and to send or supply documents or information to its shareholders by making them available on a website and that this resolution 8 shall supersede any provision of the Company's Articles of Association to the extent that it is inconsistent with this resolution.

- 9 That, subject to the passing of resolution 7 above, 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 of the Company pursuant to the authority contained in resolution 7 above 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:

(a) any such allotment, offer, agreement and/or sale pursuant to the terms of any share scheme for employees approved by the Company in general meeting;

(b) any such allotment, offer, agreement and/or sale in connection with an issue or offer (whether by way of a rights issue, open offer or otherwise) in favour of ordinary shareholders (other than the Company) on a fixed record date where the equity securities attributable to such ordinary shareholders are proportionate (as nearly as may be) to the respective number of ordinary shares held by them on such record date, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements, legal or practical problems arising in any overseas territory, the requirements of any regulatory body or stock exchange or any other matter whatsoever; and

(c) otherwise than pursuant to sub-paragraph (a) or (b) above, any such allotment, offer, agreement and/or sale up to an aggregate nominal amount of £1,850,000,

and shall expire (unless previously renewed, revoked or varied) when the authority contained in resolution 7 above expires, 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.

- 10 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 37,000,000 ordinary shares, having an aggregate nominal value of £3,700,000;
- (b) the maximum price (excluding expenses) which may be paid for each ordinary share is an amount equal to the higher of (i) 105% of the average of the closing mid-market prices for the ordinary shares of the Company (derived from the London Stock Exchange Daily Official List) for the five business days immediately preceding the date of purchase and (ii) the price stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation; and
- (c) the minimum price per ordinary share (excluding expenses) is its nominal value and 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.

The Directors believe that the proposed resolutions to be put to the meeting are in the best interests of shareholders as a whole and recommend that shareholders vote in favour of all the resolutions, as the Directors intend to do in respect of their own beneficial shareholdings in the Company.

By order of the Board

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

2 July 2007

*Denotes membership of the Remuneration, Audit and Nomination Committees of the Board.

Notes

- 1 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. Appointing a proxy will not prevent a shareholder from attending the meeting and voting in person.
- 2 To appoint a proxy or proxies shareholders must complete: (a) a hardcopy form of proxy, sign it and return it, together with the power of attorney or other authority (if any) in hardcopy under which it is signed, or a hardcopy notarially certified of such authority, to the Company's registrars, Computershare Investment Services PLC, or (b) a CREST Proxy Instruction (as set out below), in each case so that it is received no later than 11.30 am on 30 July 2007.

- 3 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the annual general meeting and any adjournment(s) of the meeting by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members and those CREST members who have appointed any voting service provider(s) should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent (ID 3RA50) by the latest time(s) for receipt of proxy appointments set out in note 2 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed any voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as is necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

- 4 Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company gives notice that only those shareholders included in the register of members of the Company at 6.00 pm on 30 July 2007 will be entitled to attend and to vote at the annual general meeting, and then only in respect of the number of shares registered in their names at that time. Changes to entries on the share register after 6.00 pm on 30 July 2007 will be disregarded in determining the rights of any person to attend or vote at the annual general meeting.
- 5 Copies of the Directors' service contracts or appointment letters, and of the Directors' indemnities, and a summary of any transactions during the past year by the Directors and their family interests in the Company's shares will be available for inspection during normal business hours on any weekday (excluding Saturdays, Sundays and public holidays) at the registered office of the Company from the date of the above notice until 1 August 2007 and at The Berkeley Hotel from 11.15 am on the day of the meeting until the close of the meeting.
- 6 Full biographical information on the Director proposed for re-election appears on page 78 of the Annual report and accounts.
- 7 If you have sold or otherwise transferred all your ordinary shares in the Company, you should immediately send this document, together with the accompanying form of proxy, to the purchaser or transferee or to the stockbroker, bank or other person through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Shareholder information

Financial calendar

2006/07 Interim results	5 December 2006
2006/07 Interim dividend paid	7 February 2007
Trading update	26 April 2007
2006/07 Preliminary results	19 June 2007
2006/07 Report and accounts issued	2 July 2007
Annual general meeting	1 August 2007
2006/07 Proposed final dividend payable	22 August 2007
Trading update	end October 2007
2006/07 Half-yearly results	29 November 2007
2006/07 Interim dividend payable	February 2008
Interim management statement	February 2008
Trading update	end April 2008
2007/08 Preliminary results	June 2008

Analysis of shareholders at 24 May 2007

	Number	Shareholders %	Shares Number	%
Number of shares held				
1 – 7,500	5,229	79.8	10,161,105	2.7
7,501 – 25,000	735	11.2	9,736,097	2.6
25,001 – 100,000	342	5.2	17,169,771	4.6
100,001 – 750,000	173	2.7	51,944,069	13.9
750,001 and over	72	1.1	284,207,953	76.2
	6,551	100.0	373,218,995	100.0

Share price

London Stock Exchange, pence per 10p share

	2007	2006	2005	2004	2003
Highest	240	194	170	151	166
Lowest	172	139	142	109	97
Year-end	220	188	161	149	114

Dividends

Pence per 10p share

	2007	2006	2005	2004	2003
Interim	2.85	2.71	2.58	2.44	2.285
Final	4.33*	4.12	3.92	3.75	3.527
Total	7.18	6.83	6.50	6.19	5.812

*proposed

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), or telephone Computershare using the dedicated telephone number for Halma shareholders (see below).

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Annual general meeting

The 113th annual general meeting of Halma p.l.c. will be held at The Ballroom, The Berkeley Hotel, Wilton Place, London SW1X 7RL on Wednesday, 1 August 2007 at 11.30 am. The Notice convening the meeting is on page 94.



This annual report and accounts is printed on Revive Special Silk, which is composed of 30% de-inked post-consumer waste with the remainder being virgin wood fibre from sustainable sources. The bleaching is a mix of TCF and ECF processes. The paper mill involved in the production supports the growth of responsible forest management and is accredited to ISO 14001 which specifies a process for continuous environmental improvement, and is FSC certified. The printer is ISO 9001:2000, ISO 14001, EMAS and FSC certified. They also hold the Queen's Award for Enterprise for sustainable development and were the world's first printer to be Carbon Neutral. If you have finished reading this report and no longer wish to retain it, please pass it on to other interested readers or dispose of it in your recycled paper waste.

This annual report is available at:
www.halma.com/halmaplc/investors/reports.jsp

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