

Report of the Directors

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

Activities

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

Results of the period

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

Ordinary dividends

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

Business review

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

Share capital

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

Allotment authority

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

Purchase of own shares

The Company was authorised at the 2005 annual general meeting to purchase up to 36,000,000 (approximately 10%) of its own 10p ordinary shares in the market. This authority expires at the end of the 2006 annual general meeting. In accordance with the Directors' stated intention to seek annual renewal, a special resolution will be proposed at the annual general meeting to renew this authority until the end of the next annual general meeting. The Directors consider it desirable that the possibility of making such purchases, under appropriate circumstances, is available. Following approval of the performance share plan ("PSP") at the 2005 annual general meeting, the Directors made and intend to continue to make routine purchases of Halma shares in the market and hold them in treasury until required for shares that vest under the PSP. In the year to 1 April 2006, 200,000 shares were purchased in the market for treasury. Otherwise the Directors have no present intention of using this authority. In reaching a decision to purchase shares, the Directors will take into account the Company's cash resources, capital requirements and the effect of any purchase on the Company's earnings per share. It is anticipated that renewal of the authority will be requested at subsequent annual general meetings.

Articles of Association

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

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

Supplier payment policy

The Company does not follow any particular supplier payment code of practice. The Company has due regard to the payment terms of suppliers and generally settles all undisputed accounts within 30 days of the due date for payment. At 1 April 2006 the Company's trade creditors represented 39 days (2005: 34 days) of its annual purchases.

Employees

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

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

The Company provides equal employment opportunities to all employees and applicants for employment without regard to ethnic origin, religion, gender, age, disability, sexual orientation or any other reason prohibited by local legislation. Halma gives disabled people the same consideration as other individuals.

Directors' remuneration

The Directors support the shareholders approving the remuneration of Directors as set out in the Report on remuneration on pages 95 to 99. An ordinary resolution will be proposed at the annual general meeting seeking such shareholder approval.

Corporate responsibility

The Group's Corporate responsibility report is set out on pages 100 to 103.

Research and development

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

Donations

Group companies made charitable donations amounting to £5,209 (2005: £11,913) during the financial year. There were no political donations (2005: £nil).

Directors

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

Directors proposed for re-election

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

Shareholdings

As at 9 June 2006 the Company has been notified under Section 198 of the Companies Act 1985 of the following notifiable holdings of the Company's ordinary shares:

| | Shares | Per cent |
|---|------------|----------|
| Silchester International Investors Limited | 62,596,278 | 16.9 |
| Barclays Bank PLC | 25,891,147 | 7.0 |
| Sprucegrove Investment Management Limited | 25,267,545 | 6.8 |
| Harris Associates LP | 14,636,500 | 3.9 |
| Legal & General Investment Management Limited | 12,320,633 | 3.3 |

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

Auditors

In the case of each of the persons who are Directors of the company at the date when this report was approved:

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

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

By order of the Board

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

20 June 2006

Statement of Directors' responsibilities

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

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

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

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

The Directors are also required to:

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

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

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