

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.