

Accounting policies

Basis of accounting

The financial statements have been prepared in accordance with 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, except as detailed below, have been applied consistently throughout the years ended 31 March 2007 and 29 March 2008.

In the current year, the Group adopted IFRS 7 'Financial Instruments: Disclosures' which is effective for annual reporting periods beginning on or after 1 January 2007 and the related amendment to IAS 1 'Presentation of Financial Statements'. The impact of these changes has been to expand the disclosures provided in note 26 regarding the Group's financial instruments and management of capital. In addition, the Group has elected to adopt IAS 23 (revised) 'Borrowing Costs' in advance of its effective implementation date. This has had no impact on the Group's accounting policies. The principal change to the Standard, which was to eliminate the previously available option to expense all borrowing costs as incurred, has no impact on these financial statements because it has always been the Group's policy to capitalise borrowing costs on qualifying assets.

At the date of authorisation of these financial statements, the following Standards and Interpretations in issue have not been applied as they are not yet in effect: IFRS 8 'Operating Segments'; IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions'; and IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'. The Directors anticipate that the adoption of these Standards and Interpretations in future periods will not have a material effect on the Group's financial statements, except for additional segment disclosures when IFRS 8 comes into effect for periods commencing on or after 1 January 2009.

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 the valuation of acquired intangible assets, 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 29 March 2008, 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, buyer-specific synergies, 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.

Accounting policies (continued)

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

Financial instruments

The Group does not hold or issue derivatives for speculative or trading purposes, but uses forward foreign currency contracts to reduce its exposure to exchange rate movements. Forward currency contracts are initially recognised at fair value and subsequently remeasured to their fair value at each balance sheet date. The resultant gain or loss is recognised in the Consolidated income statement immediately.

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 revenue 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	33 ¹ / ₃ %

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.

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.

Actuarial gains and losses are recognised in full in the period in which they occur, and 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, based on the Group's estimate of shares that will ultimately vest and adjusted for the effect of non market-based vesting 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.

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	
	2008 £000	2007 £000	2008 £000	2007 £000
Infrastructure Sensors	167,262	154,830	28,504	27,975
Health and Analysis	134,630	116,483	27,842	23,980
Industrial Safety	93,731	79,940	19,355	15,998
Inter-segmental sales	(562)	(134)	–	–
Central companies	–	–	(778)	(516)
Continuing operations	395,061	351,119	74,923	67,437
Discontinued operations (note 6)	2,894	3,487	436	483
Net finance expense	–	–	(2,144)	(1,829)
Group revenue/profit before amortisation of acquired intangibles	397,955	354,606	73,215	66,091
Amortisation of acquired intangible assets	–	–	(4,757)	(3,458)
Profit on disposal of operations before tax (note 6)	–	–	1,669	–
Taxation	–	–	(19,843)	(18,622)
Revenue/profit for the year	397,955	354,606	50,284	44,011

Inter-segmental sales are charged at prevailing market prices.

	Assets		Liabilities	
	2008 £000	2007 £000	2008 £000	2007 £000
Infrastructure Sensors	70,802	64,083	24,046	20,622
Health and Analysis	63,853	50,619	23,166	18,673
Industrial Safety	43,719	36,272	18,423	14,978
Central companies	43,306	37,353	56,997	57,397
Continuing operations	221,680	188,237	122,632	111,670
Discontinued operations	–	907	–	412
Cash and cash equivalents/borrowings	28,118	22,051	72,393	29,762
Goodwill	161,230	129,521	–	–
Acquired intangible assets	23,101	7,646	–	–
Total Group	434,129	348,452	195,025	141,844

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

	Capital additions		Depreciation and amortisation	
	2008 £000	2007 £000	2008 £000	2007 £000
Infrastructure Sensors	5,567	4,348	3,777	3,529
Health and Analysis	7,005	5,689	3,695	2,579
Industrial Safety	3,681	3,525	3,165	2,715
Central companies	3,264	1,170	5,188	4,255
Continuing operations	19,517	14,732	15,825	13,078
Discontinued operations	18	61	55	55
Total Group	19,535	14,793	15,880	13,133

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.

1 Segmental analysis continued

Geographical analysis

	Revenue by destination		Revenue by origin	
	2008 £000	2007 £000	2008 £000	2007 £000
United Kingdom	109,253	96,556	228,090	199,859
United States of America	103,013	96,173	115,932	107,407
Mainland Europe	107,883	91,371	61,709	56,047
Asia Pacific and Australasia	42,859	35,481	19,422	18,277
Africa, Near and Middle East	22,136	22,027	–	–
Other countries	9,917	9,511	–	–
Inter-segmental sales	–	–	(30,092)	(30,471)
Revenue from continuing operations	395,061	351,119	395,061	351,119
Discontinued operations (note 6)	2,894	3,487	2,894	3,487
Group revenue	397,955	354,606	397,955	354,606

Inter-segmental sales are charged at prevailing market prices.

	Profit	
	2008 £000	2007 £000
United Kingdom	37,608	32,626
United States of America	22,710	21,775
Mainland Europe	12,597	10,860
Asia Pacific and Australasia	2,008	2,176
Operating profit from continuing operations before amortisation of acquired intangibles	74,923	67,437
Discontinued operations (note 6)	436	483
Net finance expense	(2,144)	(1,829)
Group profit before amortisation of acquired intangibles	73,215	66,091
Amortisation of acquired intangible assets	(4,757)	(3,458)
Profit on disposal of operations before tax (note 6)	1,669	–
Taxation	(19,843)	(18,622)
Profit for the year	50,284	44,011

	Net assets		Capital additions	
	2008 £000	2007 £000	2008 £000	2007 £000
United Kingdom	32,545	29,592	11,046	8,986
United States of America	33,206	29,376	5,493	3,215
Mainland Europe	27,838	13,504	2,296	2,023
Asia Pacific and Australasia	5,459	4,185	682	508
Continuing operations	99,048	76,657	19,517	14,732
Discontinued operations	–	495	18	61
Net debt	(44,275)	(7,711)	–	–
Goodwill	161,230	129,521	–	–
Acquired intangible assets	23,101	7,646	–	–
Total Group	239,104	206,608	19,535	14,793

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 372,769,853 shares in issue during the year (net of shares purchased by the Company and held as treasury shares) (2007: 371,221,629). Diluted earnings per ordinary share are calculated using the weighted average of 374,604,505 shares (2007: 374,036,077) which includes dilutive potential ordinary shares of 1,834,652 (2007: 2,814,448). Dilutive potential ordinary shares are calculated from those exercisable share options where the exercise price is less than the average price of the Company's ordinary shares during the year.

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

	Per ordinary share			
	2008 £000	2007 £000	2008 pence	2007 pence
Earnings from continuing and discontinued operations	50,284	44,011	13.49	11.86
Remove earnings from discontinued operations	(1,950)	(314)	(0.52)	(0.09)
Earnings from continuing operations	48,334	43,697	12.97	11.77
Add back amortisation of acquired intangibles (after tax)	3,344	2,393	0.89	0.65
Adjusted earnings	51,678	46,090	13.86	12.42

3 Non-GAAP measures

Return on capital employed

	2008 £000	2007 £000
Operating profit from continuing operations before amortisation of acquired intangibles	74,923	67,437
Operating profit from discontinued operations in prior period before amortisation of acquired intangibles	–	483
Operating return	74,923	67,920
Computer software costs within intangible assets	1,911	1,577
Capitalised development costs within intangible assets	8,240	6,115
Property, plant and equipment	57,452	49,580
Inventories	44,267	39,134
Trade and other receivables	99,741	81,650
Trade and other payables	(69,420)	(62,590)
Tax liabilities	(8,273)	(6,043)
Non-current trade and other payables	(2,874)	(3,005)
Add back retirement benefit accruals included within payables	2,087	3,071
Add back accrued deferred purchase consideration	1,189	3,559
Capital employed	134,320	113,048
Return on capital employed	55.8%	60.1%

3 Non-GAAP measures continued

Return on total invested capital

	2008 £000	2007 £000
Post-tax profit from continuing operations before amortisation of acquired intangibles	51,678	46,090
Post-tax profit from discontinued operations in prior period before amortisation of acquired intangibles	–	314
Return	51,678	46,404
Total shareholders' funds	239,104	206,608
Add back retirement benefit accruals included within payables	2,087	3,071
Add back retirement benefit obligations	35,957	37,260
Less associated deferred tax assets	(10,069)	(11,178)
Cumulative amortisation of acquired intangibles	10,112	5,348
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	366,740	330,658
Return on total invested capital	14.1%	14.0%

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		
	2008 £000	2007 £000	% growth	2008 £000	2007 £000	% growth
Continuing operations	395,061	351,119		72,779	65,608	
Acquired revenue/profit	(15,762)	–		(2,794)	–	
	379,299	351,119	8.0%	69,985	65,608	6.7%

* Before amortisation of acquired intangible assets.

4 Finance income

	2008 £000	2007 £000
Interest receivable	721	1,035
Expected return on pension scheme assets	7,438	6,237
	8,159	7,272

5 Finance expense

	2008 £000	2007 £000
Interest payable on bank loans and overdrafts	2,474	1,890
Interest charge on pension scheme liabilities	7,664	7,103
Other interest payable	165	108
	10,303	9,101

Notes to the accounts (continued)

6 Discontinued operations

The discontinued operations relate to Post Glover Lifelink, Inc. ('PGL') which was sold in January 2008. PGL is incorporated in the USA and formed part of the Health and Analysis sector. PGL's results, which have been included in the Consolidated income statement, were as follows:

	2008 £000	2007 £000
Revenue	2,894	3,487
Operating expenses	(2,458)	(3,004)
Operating profit	436	483
Taxation	(155)	(169)
Profit from operations after taxation	281	314
Profit on disposal of operations	1,733	–
Exchange differences transferred to profit on disposal of operations	(64)	–
Profit on disposal of operations before and after taxation	1,669	–
Net profit from discontinued operations	1,950	314

The profit on disposal of operations includes gross disposal proceeds received and receivable of £3,035,000. The net cash inflow in the year on disposal of operations was £2,405,000.

PGL's net assets at the date of disposal were as follows:

	£000
Property, plant and equipment	579
Computer software	16
Inventories	303
Receivables	547
Cash and cash equivalents	80
Payables	(520)
	1,005

7 Profit before taxation

Profit before taxation comprises:

	2008			2007		
	Continuing operations £000	Discontinued operations £000	Total Group £000	Continuing operations £000	Discontinued operations £000	Total Group £000
Revenue	395,061	2,894	397,955	351,119	3,487	354,606
Cost of sales	(266,577)	(2,082)	(268,659)	(236,576)	(2,552)	(239,128)
Gross profit	128,484	812	129,296	114,543	935	115,478
Distribution costs	(9,124)	(102)	(9,226)	(8,447)	(126)	(8,573)
Administrative expenses	(50,118)	(274)	(50,392)	(42,893)	(326)	(43,219)
Other operating income	924	–	924	776	–	776
Net finance expense	(2,144)	–	(2,144)	(1,829)	–	(1,829)
Profit before taxation	68,022	436	68,458	62,150	483	62,633

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

7 Profit before taxation (continued)

	Continuing operations		Total Group	
	2008 £000	2007 £000	2008 £000	2007 £000
Profit before taxation is stated after charging:				
Depreciation	8,462	7,589	8,511	7,636
Amortisation	7,363	5,489	7,369	5,497
Research and development ¹	14,839	11,365	14,886	11,422
Auditors' remuneration ² :				
Audit services to the Company	88	79	88	79
Audit services to the Group	527	503	531	507
Total audit services pursuant to legislation	615	582	619	586
Other services pursuant to legislation	12	14	12	14
Tax services	254	87	254	87
Other services	16	20	16	20
Operating lease rents:				
Property	3,916	3,938	3,916	3,938
Other	473	394	473	394

1. A further £3,796,000 (2007: £3,893,000) of development expenditure has been capitalised in the period. See note 13.

2. A further £20,000 (2007: £nil) 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 (2007: £12,000) for their audit of the Halma Group Pension Plan.

8 Employee information

	Continuing operations		Total Group	
	2008 Number	2007 Number	2008 Number	2007 Number
The average number of persons employed by the Group (including Directors) was:				
United Kingdom	2,002	1,926	2,002	1,926
Overseas	1,661	1,374	1,681	1,400
	3,663	3,300	3,683	3,326

	Continuing operations		Total Group	
	2008 £000	2007 £000	2008 £000	2007 £000
Group employee costs comprise:				
Wages and salaries	89,698	76,154	90,199	76,799
Social security costs	13,199	11,060	13,317	11,221
Other pension costs (note 28)	5,538	5,289	6,197	5,317
	108,435	92,503	109,713	93,337

9 Directors' remuneration

The remuneration of the Directors, who are the key management personnel of the Group, is set out on pages 46 to 48 within the Remuneration report described as being audited and forms part of these financial statements.

Notes to the accounts (continued)

10 Taxation

	2008 £000	2007 £000
Current tax		
UK corporation tax at 30% (2007: 30%)	8,970	8,651
Overseas taxation	10,046	8,985
Adjustments in respect of prior years	(74)	69
Total current tax charge	18,942	17,705
Deferred tax		
Origination and reversal of timing differences	462	622
Adjustments in respect of prior years	284	126
Total deferred tax charge	746	748
Tax on profit from continuing operations	19,688	18,453
Tax on profit from discontinued operations	155	169
Total tax charge recognised in the Consolidated income statement	19,843	18,622
Reconciliation of the effective tax rate:		
Profit before tax – continuing operations	68,022	62,150
Profit before tax – discontinued operations	2,105	483
	70,127	62,633
Tax at the UK corporation tax rate of 30% (2007: 30%)	21,038	18,790
Overseas tax rate differences	633	1,141
Items not subject to tax	(2,038)	(1,504)
Adjustments in respect of prior years	210	195
	19,843	18,622
Effective tax rate on continuing and discontinued operations	28.3%	29.7%

11 Ordinary dividends

	Per ordinary share			
	2008 pence	2007 pence	2008 £000	2007 £000
Amounts recognised as distributions to shareholders in the year				
Final dividend for the year to 31 March 2007 (1 April 2006)	4.33	4.12	16,139	15,308
Interim dividend for the year to 29 March 2008 (31 March 2007)	3.00	2.85	11,190	10,614
	7.33	6.97	27,329	25,922
Dividends declared in respect of the year				
Interim dividend for the year to 29 March 2008 (31 March 2007)	3.00	2.85	11,190	10,614
Proposed final dividend for the year to 29 March 2008 (31 March 2007)	4.55	4.33	16,982	16,139
	7.55	7.18	28,172	26,753

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

	2008 £000	2007 £000
Cost		
At beginning of year	129,521	122,038
Additions (note 24)	22,695	13,955
Exchange adjustments	9,014	(6,472)
At end of year	161,230	129,521
Provision for impairment		
At beginning and end of year	-	-
Carrying amounts	161,230	129,521

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

	2008 £000	2007 £000
Infrastructure Sensors	74,303	68,172
Health and Analysis	64,289	41,464
Industrial Safety	22,638	19,885
	161,230	129,521

Goodwill values have been tested for impairment by comparing them against the value in use in perpetuity of the relevant cash generating units. The value in use calculations were based on projected cash flows, derived from the latest budget approved by the Board, with average growth rates of 2.3% used for periods not covered by the budget, discounted at the Group's estimated weighted average cost of capital of 8.4% per annum to calculate their net present value.

The most significant elements of the Group's consolidated goodwill figure at 29 March 2008 were allocated to: Texecom Limited (£15,795,000) and Bureau D'Electronique Appliquée S.A. (£40,746,000) within the Infrastructure Sensors sector; Ocean Optics, Inc. (£21,704,000) and Rudolf Riester GmbH & Co. KG (£22,492,000) within the Health and Analysis sector; and Trittech International Limited (£7,804,000) within the Industrial Safety sector.

13 Other intangible assets

	Acquired intangibles £000	Development costs £000	Computer software £000	Total £000
Cost				
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
Assets of businesses acquired (note 24)	18,472	-	130	18,602
Assets of business sold	-	-	(60)	(60)
Additions at cost	-	3,796	952	4,748
Disposals	-	-	(23)	(23)
Retirements	-	(903)	-	(903)
Exchange adjustments	1,858	411	115	2,384
At 29 March 2008	33,213	13,780	5,389	52,382

Notes to the accounts (continued)

13 Other intangible assets continued

	Acquired intangibles £000	Development costs £000	Computer software £000	Total £000
Accumulated amortisation				
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
Assets of businesses acquired (note 24)	–	–	121	121
Assets of business sold	–	–	(44)	(44)
Charge for the year	4,757	1,981	631	7,369
Disposals	–	–	(11)	(11)
Retirements	–	(903)	–	(903)
Exchange adjustments	118	101	83	302
At 29 March 2008	10,112	5,540	3,478	19,130
Carrying amounts				
At 29 March 2008	23,101	8,240	1,911	33,252
At 31 March 2007	7,646	6,115	1,577	15,338

14 Property, plant and equipment

	Land and buildings			Plant, equipment and vehicles £000	Total £000
	Freehold properties £000	Long leases £000	Short leases £000		
Cost					
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
Assets of businesses acquired (note 24)	1,315	17	–	3,280	4,612
Assets of businesses sold	(624)	–	–	(348)	(972)
Additions at cost	3,724	34	886	10,143	14,787
Disposals	(390)	–	–	(3,200)	(3,590)
Exchange adjustments	779	4	72	1,739	2,594
At 29 March 2008	30,746	1,613	4,541	83,200	120,100
Accumulated depreciation					
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
Assets of businesses acquired (note 24)	130	8	–	2,686	2,824
Assets of businesses sold	(190)	–	–	(203)	(393)
Charge for the year	490	53	374	7,594	8,511
Disposals	(134)	–	–	(2,523)	(2,657)
Exchange adjustments	99	3	31	1,141	1,274
At 29 March 2008	5,334	535	2,492	54,287	62,648
Carrying amounts					
At 29 March 2008	25,412	1,078	2,049	28,913	57,452
At 31 March 2007	21,003	1,087	1,496	25,994	49,580

15 Inventories

	2008 £000	2007 £000
Raw materials and consumables	22,412	19,270
Work in progress	8,075	7,094
Finished goods and goods for resale	13,780	12,770
	44,267	39,134

16 Trade and other receivables

	2008 £000	2007 £000
Falling due within one year:		
Trade receivables	89,105	74,788
Other receivables	3,282	1,875
Prepayments and accrued income	7,354	4,987
	99,741	81,650

Trade receivables are stated net of provisions for estimated irrecoverable amounts of £1,204,000 (2007: £1,034,000). This provision has been determined by reference to previous default experience.

The ageing of trade receivables was as follows:

	2008 £000	2007 £000
Not yet due	68,597	56,551
Up to 1 month overdue	14,162	13,365
Up to 2 months overdue	3,568	2,652
Up to 3 months overdue	1,239	920
Over 3 months overdue	1,539	1,300
	89,105	74,788

17 Borrowings

	2008 £000	2007 £000
Unsecured bank loans:		
Falling due within one year	7,035	29,762
Falling due after more than one year	65,358	–
Total borrowings	72,393	29,762

Information concerning the currency, interest rates and maturity of the Group's borrowings is given in note 26 to the accounts.

18 Trade and other payables: falling due within one year

	2008 £000	2007 £000
Trade payables	40,081	34,677
Other taxation and social security	4,838	4,016
Provision for deferred purchase consideration	1,082	2,867
Other payables	3,816	4,283
Accruals and deferred income	19,603	16,747
	69,420	62,590

19 Trade and other payables: falling due after one year

	2008 £000	2007 £000
Provision for deferred purchase consideration	107	692
Other payables	2,767	2,313
	2,874	3,005

Notes to the accounts (continued)

20 Deferred tax

An analysis of Group deferred tax is as follows:

	2008 £000	2007 £000
Employee benefits	10,069	11,178
Acquired intangible assets	(7,726)	(2,255)
Accelerated capital allowances	(3,143)	(3,067)
Short-term timing differences	6,929	3,799
Goodwill timing differences	(2,168)	(1,661)
Net deferred tax asset	3,961	7,994

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

	2008 £000	2007 £000
Non-current deferred tax assets	10,069	11,178
Non-current deferred tax liabilities	(6,108)	(3,184)
Net deferred tax asset	3,961	7,994

Movement in deferred tax asset:

	2008 £000	2007 £000
At beginning of year	7,994	10,587
Credit/(charge) to Consolidated income statement:		
UK	85	(414)
Overseas	(831)	(334)
Charge to Shareholders' funds	(226)	(1,396)
Acquired	(2,785)	(536)
Exchange adjustments	(276)	87
At end of year	3,961	7,994

No provision is made for tax which might become payable if profits retained by overseas subsidiary companies are distributed as dividends unless there is an intention to distribute such profits. The gross undistributed earnings of these subsidiaries at 29 March 2008 was £15,312,000.

At 29 March 2008 the Group had unused capital tax losses of £695,000 (2007: £1,793,000) for which no deferred tax asset has been recognised. None of these losses has an expiry date.

21 Share capital

	Authorised 2008 £000	2007 £000	Issued and fully paid 2008 £000	2007 £000
Ordinary shares of 10p each	43,656	43,656	37,446	37,312

The number of ordinary shares in issue at 29 March 2008 was 374,458,498 (2007: 373,116,492).

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

	Issued and fully paid £000
At 31 March 2007	37,312
Share options exercised	134
At 29 March 2008	37,446

The total consideration received in cash in respect of share options exercised amounted to £1,844,000.

At 29 March 2008 options in respect of 8,388,631 (2007: 10,451,523) ordinary shares remained outstanding. Further details of these are given in note 23 to the accounts.

At the date of these accounts, the number of ordinary shares in issue was 374,796,280, including treasury shares of 1,563,813.

22 Reserves

	Share premium account £000	Treasury shares £000	Capital redemption reserve £000	Translation reserve £000	Other reserves £000	Retained earnings £000
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 equity	–	–	–	–	–	(2,122)
At 31 March 2007	15,239	(1,664)	185	(4,272)	3,654	156,154
Profit for the year	–	–	–	–	–	50,284
Share options exercised	1,710	–	–	–	–	–
Foreign exchange translation differences	–	–	–	11,352	–	–
Exchange differences transferred to profit on disposal of foreign operations	–	–	–	64	–	–
Dividends paid	–	–	–	–	–	(27,329)
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	(3,886)
Share-based payments	–	–	–	–	1,452	–
Treasury shares purchased	–	(1,628)	–	–	–	–
Tax on items taken directly to equity	–	–	–	–	–	343
At 29 March 2008	16,949	(3,292)	185	7,144	5,106	175,566

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 29 March 2008 the number of treasury shares held was 1,563,813 (2007: 805,635) and their market value was £2,994,702 (2007: £1,774,441).

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.

23 Share-based payments

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

	2008 £000	2007 £000
Share incentive plan	251	270
Share option plans	204	363
Performance share plan	1,658	974
	2,113	1,607

Share incentive plan

Shares awarded under this plan 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 plan are recognised in the Consolidated income statement over the three-year vesting period.

Share option plans

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

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

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

No further awards have been made under the Company share option plans since 3 August 2005.

Notes to the accounts (continued)

23 Share-based payments continued

Options in respect of 18,900 ordinary shares remained outstanding at 29 March 2008 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	Seven years from
18,900	129.0p	2002

Options in respect of 1,126,300 ordinary shares remained outstanding at 29 March 2008 under the 1996 Plan. Subject to the performance restrictions on the exercise of options granted under this Plan, options are exercisable for the periods and at the prices set out below:

Number of shares	Option price	Five years from	Seven years from
105,500	101.5p – 123.5p		2001
246,500	120.0p		2002
262,900	101.5p – 123.5p	2003	
511,400	120.0p – 131.0p	2004	

Options in respect of 7,243,431 ordinary shares remained outstanding at 29 March 2008 under the 1999 Plan. Subject to the performance restrictions on the exercise of options granted under this Plan, options are exercisable for the periods and at the prices set out below:

Number of shares	Option price	Five years from	Seven years from
361,200	111.0p		2003
443,200	163.5p		2004
491,164	144.33p		2005
759,080	134.0p		2006
1,097,567	142.25p		2007
741,042	145.67 – 157.92p		2008
615,900	111.0p	2005	
486,500	163.5p	2006	
688,250	144.33p	2007	
747,350	134.0p	2008	
812,178	142.25p	2009	

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

	2008		2007	
	Number of share options	Weighted average option price	Number of share options	Weighted average option price
Outstanding at beginning of year	10,451,523	136.50p	15,199,515	134.62p
Exercised during the year	(1,342,006)	139.80p	(3,785,812)	129.84p
Lapsed during the year	(720,886)	130.21p	(962,180)	133.04p
Outstanding at end of year	8,388,631	136.87p	10,451,523	136.50p
Exercisable at end of year	3,779,803	138.96p	3,103,904	136.74p

The weighted average share price at the date of exercise for share options exercised during the year was 220.30p.

The options outstanding at 29 March 2008 had exercise prices from 101.5p to 163.5p and a weighted average remaining contractual life of four years.

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

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

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

23 Share-based payments continued

Performance share plan

The performance share plan was approved by shareholders on 3 August 2005 and replaced the previous 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 2007/08 and 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:

	2008 Number of shares awarded	2007 Number of shares awarded
Outstanding at beginning of year	3,361,308	1,735,252
Granted during the year	1,379,707	1,689,658
Vested during the year (pro-rated for 'good leavers')	(17,662)	(4,921)
Lapsed during the year	(229,659)	(58,681)
Outstanding at end of year	4,493,694	3,361,308
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:

	2008	2007	2006
Expected volatility (%)	19%	20%	25%
Expected life (years)	3	3	3
Share price on date of grant (p)	240.67	199.00	148.42
Option price (p)	nil	nil	nil
Fair value per option (%)	55%	66%	46%
Fair value per option (p)	132.37	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.

Notes to the accounts (continued)

24 Acquisitions

	Book value £000	Fair value adjustments £000	Total £000
Non-current assets			
Intangible assets	9	18,472	18,481
Property, plant and equipment	1,938	(150)	1,788
Current assets			
Inventories	2,940	(696)	2,244
Trade and other receivables	3,983	(146)	3,837
Cash and cash equivalents	295	–	295
Total assets	9,165	17,480	26,645
Current liabilities			
Trade and other payables	(2,177)	(480)	(2,657)
Deferred tax	26	(2,811)	(2,785)
Total liabilities	(2,151)	(3,291)	(5,442)
Net assets of businesses acquired	7,014	14,189	21,203
Cash consideration, including costs			42,780
Deferred purchase consideration			–
Total consideration			42,780
Goodwill arising on current year acquisitions			21,577
Goodwill arising on prior year acquisitions			1,118
Goodwill arising on acquisition			22,695

The values relating to the acquisitions of PP Medizintechnik GmbH and subsidiaries (including the operating company Rudolf Riester GmbH & Co. KG 'Riester') included in the table above were: net assets at book value £5,785,000; fair value adjustments £13,467,000; total net assets £19,252,000; total consideration £39,610,000; goodwill arising on acquisition £20,358,000.

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

Company	Date of acquisition	Country of incorporation	Principal activity	Initial consideration
BKKI	September 2007	China	Industrial Safety	RMB3.8m
Sonar Research & Development Ltd	October 2007	United Kingdom	Industrial Safety	£2.6m
PP Medizintechnik GmbH and subsidiaries	December 2007	Germany	Health and Analysis	€55m

Together these acquisitions contributed £5,225,000 of revenue and £1,150,000 of profit before tax and amortisation of acquired intangible assets to the Group results for the year ended 29 March 2008. If these acquisitions had been held since the start of the financial year, it is estimated the Group's reported revenue would have been £11,700,000 higher and profit before tax and amortisation of acquired intangible assets £2,170,000 higher.

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

25 Notes to the consolidated cash flow statement

	2008 £000	2007 £000
Reconciliation of profit from operations to net cash inflow from operating activities		
Profit from continuing operations before taxation	70,166	63,979
Profit from discontinued operations before taxation	436	483
Depreciation and amortisation of computer software	9,142	8,147
Amortisation of capitalised development costs	1,981	1,528
Amortisation of acquired intangible assets	4,757	3,458
Share-based payment expense in excess of amounts paid	1,997	1,317
Additional payments to pension plans	(6,352)	(4,233)
Profit on sale of property, plant and equipment and computer software	(1,186)	(314)
Operating cash flows before movement in working capital	80,941	74,365
Increase in inventories	(2,278)	(1,648)
Increase in receivables	(9,605)	(3,673)
Increase in payables	6,970	1,215
Cash generated from operations	76,028	70,259
Taxation paid	(17,627)	(19,505)
Net cash inflow from operating activities	58,401	50,754

The cash outflow of £46,537,000 on the acquisition of businesses includes cash acquired of £295,000 and the payment of £3,650,000 of deferred purchase consideration which arose from acquisitions made in earlier years, and where provision was made in prior years' financial statements.

	2008 £000	2007 £000
Reconciliation of net cash flow to movement in net cash/(debt)		
Increase/(decrease) in cash and cash equivalents	4,492	(11,066)
Cash inflow from borrowings	(37,796)	–
Exchange adjustments	(3,260)	(163)
	(36,564)	(11,229)
Net (debt)/cash brought forward	(7,711)	3,518
Net debt carried forward	(44,275)	(7,711)

	At 31 March 2007 £000	Cash flow £000	Exchange adjustments £000	At 29 March 2008 £000
Analysis of net debt				
Cash and cash equivalents	22,051	4,492	1,575	28,118
Bank loans	(29,762)	(37,796)	(4,835)	(72,393)
	(7,711)	(33,304)	(3,260)	(44,275)

The cash inflow from bank loans in 2008 of £37,796,000 included a cash outflow on repayment of borrowings of £54,205,000 and a cash inflow on drawdown of new borrowings of £92,001,000.

Notes to the accounts (continued)

26 Financial instruments

Policy

The Group's treasury policies seek to minimise financial risks and to ensure sufficient liquidity for the Group's operations and strategic plans. No complex derivative financial instruments are used, and no trading or speculative transactions in financial instruments are undertaken. Where the Group 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 is exposed to foreign currency risk as a consequence of both trading with foreign companies and owning subsidiaries located in foreign countries.

The Group earns a significant proportion of its profit in currencies other than Sterling. This gives rise to translational currency risk, where the Sterling value of profits earned by the Group's foreign subsidiaries fluctuates with the strength of Sterling relative to their operating (or 'functional') currency. The Group does not hedge this risk, so its reported profit is sensitive to the strength of Sterling, particularly against the US Dollar and Euro. The Group also 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 and purchases are matched where possible and the net exposure hedged by means of forward foreign currency contracts.

The Group has a significant investment in overseas operations in the USA and Europe, with further investments in Australia, New Zealand, Malaysia, Singapore, China, India and South 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.

Interest rate risk

The Group is exposed to interest rate fluctuations on its borrowings and cash deposits. Where bank borrowings are used to finance operations they tend to be short-term with floating interest rates. Borrowings used to provide longer term funding 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 main source of long-term funding for the Group is its unsecured revolving credit facility, which was renewed in February 2008 for a further five years with a small syndicate of its principal bankers and extended to £165 million.

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

Translational exposures

It is estimated, by reference to the Group's US Dollar and Euro denominated profits, that a one per cent change in the value of the US Dollar relative to Sterling would have had a £225,000 impact on the Group's reported profit before tax; and a one per cent change in the value of the Euro relative to the Sterling would have had a £160,000 impact on the Group's profit before tax for the year ended 29 March 2008.

Transactional 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:

2008 Functional currency of operation	Net foreign currency monetary assets/(liabilities)				
	Sterling £000	US Dollar £000	Euro £000	Other £000	Total £000
Sterling	-	685	1,637	(521)	1,801
US Dollar	(7)	-	(10)	-	(17)
Euro	411	192	-	(8)	595
Other	(37)	1,335	113	655	2,066
Total	367	2,212	1,740	126	4,445

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

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

26 Financial instruments continued

Interest rate risk profile

The Group's financial assets which are subject to interest rate fluctuations comprise interest bearing cash equivalents which totalled £3,166,000 at 29 March 2008 (2007: £5,901,000). These comprised Sterling denominated deposits of £2,946,000 (2007: £5,780,000), and Euro and other currency deposits of £220,000 (2007: £121,000) which are placed on local money markets and earn interest at market rates. Cash balances of £24,952,000 (2007: £16,150,000) 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 £72,394,000 at 29 March 2008 (2007: £29,762,000). All bear interest at floating rates or fixed rates where the period of the fix is typically no more than three months. Interest rates are based on LIBOR plus a small margin. These comprise Sterling bank loans of £9,000,000 (2007: £nil) which bear interest with reference to UK LIBOR rates, US Dollar denominated bank loans of £23,116,000 (2007: £16,327,000) which bear interest with reference to the US Dollar LIBOR rates, and Euro denominated bank loans of £40,278,000 (2007: £13,435,000) 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 £67,000 (2007: £603,000) due between one and two years, with the balance of £40,000 (2007: £89,000) due between two and five years. Other creditors due after more than one year include £1,000,000 (2007: £1,017,000) due between one and two years, £1,299,000 (2007: £1,296,000) due between two and five years, with the balance of £468,000 (2007: £nil) due after more than five years.

Borrowing facilities

The Group's principal source of long-term funding is its unsecured five-year £165 million revolving credit facility, which expires in February 2013.

Short-term operational funding is provided by cash generated from operations and by local bank overdrafts. These overdraft facilities are uncommitted and are generally renewed on an annual or ongoing basis and hence the facilities expire within one year or less.

The Group's indrawn committed facilities available at 29 March 2008 were £105,872,000 of which £6,230,000 mature within one year and £99,642,000 between four and five years.

Fair values of financial assets and financial liabilities

As at 29 March 2008 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. These instruments are initially recognised at cost, which is typically £nil, and subsequently measured at fair value. Changes in fair value are taken to the Consolidated income statement.

The following table details the forward foreign currency contracts outstanding as at the year end, which all mature within one year:

	Average Exchange Rate/£		Foreign Currency		Contract Value		Fair Value	
	2008	2007	2008 '000	2007 '000	2008 £000	2007 £000	2008 £000	2007 £000
US Dollars	1.98	1.95	5,051	6,892	2,550	3,527	11	10
Euros	1.31	1.48	10,069	9,091	7,680	6,138	(311)	(46)
Other currencies	-	-	-	-	1,928	1,891	62	(10)
					12,158	11,556	(238)	(46)

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

Notes to the accounts (continued)

27 Commitments

Capital commitments

Capital expenditure authorised and contracted at 29 March 2008 but not provided in these accounts amounts to £1,469,000 (2007: £1,076,000).

Commitments under operating leases

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

	Land and buildings		Other	
	2008 £000	2007 £000	2008 £000	2007 £000
Within one year	3,831	3,879	456	289
Within two to five years	9,133	8,054	624	320
After five years	3,469	1,475	-	-
	16,433	13,408	1,080	609

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 £71.5m for the Halma Group Pension Plan and £13.8m 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 £2,016,000 (2007: £1,592,000).

Defined benefit schemes

The assumptions used to calculate scheme liabilities are:

	2008	2007	2006
Rate of increase in salaries	4.75%	4.25%	4.25%
Rate of increase of pensions in payment (pre-April 1997)	3.50%	3.00%	2.75%
Rate of increase of pensions in payment (post-April 1997)	3.50%	3.00%	2.75%
Discount rate	5.85%	5.25%	5.00%
Inflation assumption	3.50%	3.00%	2.75%
Mortality assumption – Halma pensioners	PA 92 medium cohort	PA 92 medium cohort	PA 92 medium cohort plus one year
Mortality assumption – Halma non-pensioners	PA 92 medium cohort	PA 92 medium cohort	PA 92 medium cohort plus one year
Mortality assumption – Apollo pensioners	PA 92 medium cohort plus one year	PA 92 medium cohort plus one year	PA 92 (C=2010)
Mortality assumption – Apollo non-pensioners	PA 92 medium cohort plus one year	PA 92 medium cohort plus one year	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 £3m.

28 Retirement benefits continued

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

	2008		2007	
	Expected rate of return %	Fair value £000	Expected rate of return %	Fair value £000
Equities	7.50	76,753	7.50	77,229
Bonds	5.85	29,742	5.00	27,457
Property	6.00	3,540	6.00	3,655
Total fair value of assets		110,035		108,341
Present value of plan liabilities		(145,992)		(145,601)
Net deficit		(35,957)		(37,260)

The fair value of plan assets includes £101,525 of Halma p.l.c. 10p ordinary shares (2007: £1,445,721) and a receivable of £2,087,000 (2007: £3,071,000) 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.

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

	2008 £000	2007 £000
Current service cost (administrative expenses)	2,844	2,859
Expected return on pension plan assets	(7,438)	(6,237)
Interest on plan liabilities	7,664	7,103
Net finance cost	226	866
Total charge	3,070	3,725

The amount charged to the Consolidated statement of recognised income and expense in respect of the actuarial loss of the plans was £3,886,000 (2007: £7,084,000 gain).

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

	2008			2007		
	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	108,341	(145,601)	(37,260)	95,561	(141,580)	(46,019)
Current service cost	–	(2,844)	(2,844)	–	(2,859)	(2,859)
Contributions paid	9,243	–	9,243	7,092	–	7,092
Net finance cost	7,438	(7,664)	(226)	6,237	(7,103)	(866)
Actuarial (loss)/gain	(14,003)	10,117	(3,886)	1,143	5,941	7,084
Movement on receivable from principal employer	(984)	–	(984)	(1,692)	–	(1,692)
At end of year	110,035	(145,992)	(35,957)	108,341	(145,601)	(37,260)

History of experience adjustments:

	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
Present value of defined benefit obligations	(145,992)	(145,601)	(141,580)	(112,914)	(102,196)
Fair value of plan assets	110,035	108,341	95,561	72,069	61,427
Deficit in the plan	(35,957)	(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:					
Amount	12,327	1,321	11,271	2,821	7,717
Percentage of plan assets	11%	1%	12%	4%	13%

The amount disclosed for 2004 is under UK GAAP as it is not practicable to restate 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 29 March 2008 which comprise the Consolidated income statement, the Consolidated balance sheet, the Consolidated statement of recognised income and expense, the Reconciliation of movements in shareholders' funds, and the Consolidated cash flow statement together with the statement of Accounting policies and the related notes 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 Directors' Remuneration report 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 29 March 2008.

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' Remuneration report 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 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 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' Remuneration report 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 Directors' Report is consistent with the Group financial statements.

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 is not disclosed.

We review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Directors' Report and the other information contained in the Annual report for the above period as described in the Contents section 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' Remuneration report 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' Remuneration report 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' Remuneration report 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 by the European Union, of the state of the Group's affairs as at 29 March 2008 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 Regulation;
- the part of the Directors' Remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Group financial statements.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Reading, UK

17 June 2008

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.