

# 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 2006 that are applicable to companies reporting under IFRS. The financial statements have also been prepared in accordance with IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued and effective at the time of preparing these accounts.

The principal Group accounting policies are explained below and have been applied consistently throughout the years ended 28 March 2009 and 3 April 2010 other than those noted below.

The Group accounts have been prepared under the historical cost convention, except as described below under the heading 'Derivative financial instruments and hedge accounting'.

## New, revised or changes to existing standards which have been adopted by the Group in the year ending 3 April 2010

IAS 1 (revised), effective for periods commencing 1 January 2009, requires the presentation of a statement of changes in equity as a primary statement, separate from the Income statement and Statement of comprehensive income. As a result, a Consolidated statement of changes in equity has been included in the primary statements, showing changes in each component of equity for each period presented.

IFRS 8 'Operating segments', became effective on 1 January 2009. The new standard has not required any significant changes to segmental reporting from that reported in 2009.

IAS 23 'Borrowing costs' amendment became effective on 1 January 2009 and requires borrowing costs which meet certain criteria to be capitalised. The Group does not currently have any material borrowings or interest costs, which are covered by this standard.

Amendments to IFRS 2 'Share-based payment' and IFRS 7 'Financial instruments: Disclosures' became effective in 2009 and did not have a material impact on the Group.

## New standards and interpretations not yet adopted

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 1 (amended)	Additional Exemptions for First-time Adopters
IFRS 2 (amended)	Group Cash-settled Share-based Payment transactions
IFRS 3 (revised 2008)	Business Combinations
IFRS 9	Financial Instruments
IAS 24 (revised)	Related Party Disclosure
IAS 27 (revised 2008)	Consolidated and Separate Financial Statements
IAS 32 (amended)	Classification of Rights Issue
IAS 39 (amended)	Eligible Hedged Items
IFRIC 9 and IAS 39	Embedded Derivatives
IFRIC 14 (amended)	Prepayments of a Minimum Funding Requirement
IFRIC 17	Distributions of Non-cash Assets to Owners
IFRIC 18	Transfer of Assets from Customers
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
Improvements to IFRS (April 2009)	

None of these is anticipated to have any material impact on future periods other than IFRS 3 (revised) (with effect from 4 April 2010), which will change the Group's treatment of the cost of business combinations and deferred consideration for transactions completed from that date.

## Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained on page 53.

## Key sources of estimation uncertainty and critical accounting judgments

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 following two areas of key estimation uncertainty and critical accounting judgment have been identified as having significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year:

– Goodwill impairment

Determining whether goodwill is impaired requires an estimation of the value in use of cash generating units (CGUs) to which goodwill has been allocated. In turn, the value in use calculation involves an estimation of the present value of future cash flows of CGUs. The future cash flows are based on annual budgets, as approved by the Board, to which the management's expectation of market-share and long-term growth rates are applied. The present value is then calculated based on management's judgment of future discount rates. The Board reviews these key assumptions (market-share, long-term growth rates, and discount rates) and the sensitivity analysis around these assumptions. Further details are provided in note 11.

– Defined benefit pension scheme liabilities

Determining the value of the future defined benefit obligation requires judgment in respect of the assumptions used to calculate present values. These include future mortality, discount rate, inflation and salary increases. Management makes these judgments in consultation with an independent actuary. Details of the judgments made in calculating these transactions are disclosed in note 27.

## **Basis of consolidation**

The Group accounts include the accounts of Halma p.l.c. and its subsidiary companies made up to 3 April 2010, 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 (the date from which the financial statements were reported under IFRS) 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, 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.

### **(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. Acquired intangible assets are amortised through the Consolidated income statement on a straight-line basis over their estimated economic lives 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.

### **(d) Other intangibles**

Other intangibles are amortised through the Consolidated income statement on a straight-line basis over their estimated economic lives of between three and ten 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.

### Segmental reporting

An operating segment is a distinguishable component of the Group that is engaged in business activities from which it may earn revenues and incur expenses, and whose operating results are reviewed regularly by the Chief Operating Decision Maker (the Chief Executive Officer) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Group has adopted IFRS 8 in the current year. The reportable segments disclosed are consistent with operating segments previously determined and presented in accordance with IAS14 Segment Reporting. Reportable segments are operating segments that either meet the thresholds and conditions set out in IFRS 8 or are considered by the Board to be appropriately designated as reportable segments. Segment result represents operating profits and includes an allocation of head office expenses. Segment result excludes tax and financing items. Segment assets comprise goodwill, other intangible assets, property, plant and equipment (excluding land and buildings), inventories, trade and other receivables. Segment liabilities comprise trade and other payables, provisions and other payables. Unallocated items represent land and buildings, corporate and deferred taxation balances, defined benefit scheme liabilities, deferred purchase consideration, all components of net cash/borrowings and derivative financial instruments.

### 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 Hedging and 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 Hedging and translation reserve attributable to that subsidiary. As permitted by IFRS 1, the Group has elected to deem the Hedging and translation 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.

### Derivative financial instruments and hedge accounting

The Group enters into derivative financial instruments to manage its exposure to foreign exchange rate risk using forward exchange contracts. Further details of derivative financial instruments are disclosed in note 25.

Derivative financial instruments are classified as fair value through profit and loss (held for trading) unless they are in a designated hedge relationship.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

## Cash flow hedge accounting

The Group designates certain hedging instruments as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument has been or is expected to be highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 25 sets out details of the fair values of the derivative instruments used for hedging purposes and the movements in the hedging reserve in equity.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in Other comprehensive income. The gain or loss relating to the ineffective portion as a result of being overhedged is recognised immediately in profit or loss.

Amounts previously recognised in Other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in Other comprehensive income at that time is accumulated in equity and is recognised, when the forecast transaction is ultimately recognised, in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

## Net investment hedge accounting

The Group uses US Dollar and Euro denominated borrowings as a hedge against the translation exposure on the Group's net investment in overseas companies. Where the hedge is fully effective at hedging the variability in the net assets of such companies caused by changes in exchange rates, the changes in value of the borrowings are recognised in the Statement of comprehensive income and accumulated in the Hedging and translation reserve. The ineffective part of any change in value caused by changes in exchange rates is recognised 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.

## 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 property	2%
Leasehold properties:	
Long leases (more than 50 years unexpired)	2%
Short leases (less than 50 years unexpired)	Period of lease
Plant, equipment and vehicles	8% to 20%
Short-life tooling	33 $\frac{1}{3}$ %

## Leases

Leases that confer rights and obligations similar to those that attach to owned assets are classified as finance leases, of which the Group has none. All other leases are classified as operating leases.

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 schemes, covering the majority of its employees.

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

Actuarial gains and losses are recognised in full in the period in which they occur, and are taken to Shareholders' funds.

# Accounting Policies

## continued

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.

Awards under this plan are partly equity-settled and partly cash-settled, and are subject to both market based and non-market based vesting criteria.

The fair value of the equity-settled portion 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.

For the cash-settled portion, a liability equal to the portion of the services received is recognised at the current fair value determined at each balance sheet date.

### 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.

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of the cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

## **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 too 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 profit 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 profit; and 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

The Group has three main reportable segments (Infrastructure Sensors, Health and Analysis and Industrial Safety), which are defined by markets rather than product type. Each segment includes businesses with similar operating and marketing characteristics. These segments are consistent with the internal reporting as reviewed by the Chief Executive Officer.

These reportable segments remain unchanged from the 28 March 2009 financial statements.

### Segment revenue and results

	Revenue (all continuing operations)	
	53 weeks to 3 April 2010 £000	52 weeks to 28 March 2009 £000
Infrastructure Sensors	182,923	186,042
Health and Analysis	175,988	165,123
Industrial Safety	100,462	105,026
Inter-segmental sales	(255)	(263)
<b>Revenue for the year</b>	<b>459,118</b>	<b>455,928</b>

Inter-segmental sales are charged at prevailing market prices and have not been disclosed separately by segment as they are not considered material. The Group does not analyse revenue by product group.

	Profit (all continuing operations)	
	53 weeks to 3 April 2010 £000	52 weeks to 28 March 2009 £000
<i>Segment profit before allocation of amortisation of acquired intangible assets</i>		
Infrastructure Sensors	35,510	32,950
Health and Analysis	35,254	28,738
Industrial Safety	19,795	22,159
	<b>90,559</b>	<b>83,847</b>
<i>Segment profit after allocation of amortisation of acquired intangible assets</i>		
Infrastructure Sensors	35,510	31,588
Health and Analysis	31,755	25,764
Industrial Safety	18,454	20,194
<b>Segment profit</b>	<b>85,719</b>	<b>77,546</b>
Central administration costs	(1,424)	(1,339)
Net finance expense	(2,921)	(3,421)
<b>Group profit before taxation</b>	<b>81,374</b>	<b>72,786</b>
Taxation	(20,937)	(20,205)
<b>Profit for the year</b>	<b>60,437</b>	<b>52,581</b>

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit before amortisation of acquired intangible assets is disclosed separately above as this is the measure reported to the Group Chief Executive Officer for the purpose of allocation of resources and assessment of segment performance.

### Segment assets and liabilities

<i>Goodwill and acquired intangibles not allocated to specific segment assets/liabilities</i>	Assets		Liabilities	
	2010 £000	2009 £000	2010 £000	2009 £000
Infrastructure Sensors	70,905	76,397	23,429	23,621
Health and Analysis	76,484	81,983	22,512	19,385
Industrial Safety	43,861	45,669	16,945	13,131
<b>Total segment assets/liabilities excluding goodwill and acquired intangible assets</b>	<b>191,250</b>	<b>204,049</b>	<b>62,886</b>	<b>56,137</b>
Goodwill	195,334	198,084	-	-
Acquired intangible assets	21,230	27,424	-	-
<b>Total segment assets/liabilities including goodwill and acquired intangible assets</b>	<b>407,814</b>	<b>429,557</b>	<b>62,886</b>	<b>56,137</b>

## 1 Segmental analysis continued

<i>Goodwill and acquired intangibles allocated to specific segment assets/liabilities</i>	Assets		Liabilities	
	2010 £000	2009 £000	2010 £000	2009 £000
Infrastructure Sensors	153,112	160,799	23,429	23,621
Health and Analysis	186,751	196,918	22,512	19,385
Industrial Safety	67,951	71,840	16,945	13,131
<b>Total segment assets/liabilities including goodwill and acquired intangibles</b>	<b>407,814</b>	<b>429,557</b>	<b>62,886</b>	<b>56,137</b>
Cash and cash equivalents/borrowings	31,323	34,987	22,241	86,173
Derivative financial instruments	232	–	331	–
Other unallocated assets/liabilities	44,781	49,032	76,199	71,651
<b>Total Group</b>	<b>484,150</b>	<b>513,576</b>	<b>161,657</b>	<b>213,961</b>

Segment assets and liabilities, excluding the allocation of goodwill and acquired intangible assets, have been disclosed separately above as this is the measure reported to the Chief Executive Officer for the purpose of monitoring segment performance and allocating resources between segments. Other unallocated assets include land and buildings and tax assets and unallocated liabilities include deferred purchase consideration, retirement benefit provisions and tax liabilities.

### Other segment information

	Additions to non-current assets (restated)		Depreciation and amortisation (restated)	
	2010 £000	2009 £000	2010 £000	2009 £000
Infrastructure Sensors	4,517	5,907	5,633	6,338
Health and Analysis	10,290	22,031	9,930	8,136
Industrial Safety	3,651	6,245	5,087	5,537
Total segment additions/depreciation and amortisation	18,458	34,183	20,650	20,011
Unallocated	395	798	582	329
<b>Total Group</b>	<b>18,853</b>	<b>34,981</b>	<b>21,232</b>	<b>20,340</b>

Non-current asset additions comprise acquired and purchased goodwill, intangible assets and property, plant and equipment.

2010 includes, and the prior year has been restated after, the following allocation of additions to, and amortisation of, acquired tangible and intangible assets and goodwill to the operating segments.

	Additions to acquired tangibles and intangibles and goodwill		Amortisation of acquired intangibles	
	2010 £000	2009 £000	2010 £000	2009 £000
Infrastructure Sensors	–	–	–	1,362
Health and Analysis	4,702	14,075	3,499	2,974
Industrial Safety	–	–	1,341	1,965
<b>Total Group</b>	<b>4,702</b>	<b>14,075</b>	<b>4,840</b>	<b>6,301</b>

There were no impairment losses incurred during the year (2009: £nil).

### Geographical information

The Group's revenue from external customers (by location of customer) and its non-current assets by geographical location are detailed below:

	Revenue by destination		Non-current assets	
	2010 £000	2009 £000	2010 £000	2009 £000
Mainland Europe	135,676	132,556	27,239	29,483
United States of America	127,152	120,681	36,028	39,303
United Kingdom	98,339	104,406	230,139	239,247
Asia Pacific and Australasia	59,143	54,071	2,419	2,353
Africa, Near and Middle East	23,695	27,556	–	–
Other countries	15,113	16,658	–	–
	<b>459,118</b>	<b>455,928</b>	<b>295,825</b>	<b>310,386</b>

# Notes to the Accounts

## continued

### 1 Segmental analysis continued

Non-current assets comprise goodwill, other intangible assets and property, plant and equipment.

#### Information about major customers

The Group had no revenue from a single customer, which accounts for more than 2% of the Group's revenue.

### 2 Earnings per ordinary share

Basic earnings per ordinary share are calculated using the weighted average of 375,485,642 shares in issue during the year (net of shares purchased by the Company and held as treasury shares) (2009: 373,831,805). Diluted earnings per ordinary share are calculated using the weighted average of 376,513,219 shares (2009: 374,893,326), which includes dilutive potential ordinary shares of 1,027,577 (2009: 1,061,521). 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.

Adjusted earnings are calculated as earnings from continuing operations excluding the amortisation of acquired intangible assets after tax. The Directors consider that adjusted earnings represent 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			
	2010 £000	2009 £000	2010 pence	2009 pence
<b>Earnings from continuing operations</b>	<b>60,437</b>	52,581	<b>16.10</b>	14.07
Add back amortisation of acquired intangibles (after tax)	<b>2,970</b>	4,618	<b>0.79</b>	1.23
<b>Adjusted earnings</b>	<b>63,407</b>	57,199	<b>16.89</b>	15.30

### 3 Non-GAAP measures

The Board uses certain non-GAAP measures to help it effectively monitor the performance of the Group. These measures include Return on Capital Employed, Return on Total Invested Capital and organic growth.

#### Return on capital employed

	2010 £000	2009 £000
Operating profit from continuing operations before amortisation of acquired intangible assets	<b>89,135</b>	82,508
Computer software costs within intangible assets	<b>3,050</b>	3,022
Capitalised development costs within intangible assets	<b>9,202</b>	10,194
Other intangibles within intangible assets	<b>223</b>	–
Property, plant and equipment	<b>66,786</b>	71,408
Inventories	<b>47,014</b>	51,381
Trade and other receivables	<b>98,077</b>	103,544
Trade and other payables	<b>(66,955)</b>	(61,361)
Provisions	<b>(1,515)</b>	(2,018)
Net tax liabilities	<b>(6,776)</b>	(481)
Non-current trade and other payables	<b>(4,554)</b>	(3,013)
Non-current provisions	<b>(1,954)</b>	(719)
Add back retirement benefit accruals included within payables	–	1,103
Add back accrued deferred purchase consideration	<b>2,921</b>	68
<b>Capital employed</b>	<b>145,519</b>	173,128
<b>Return on capital employed</b>	<b>61.3%</b>	47.7%

#### Return on total invested capital

	2010 £000	2009 £000
Post-tax profit from continuing operations before amortisation of acquired intangible assets	<b>63,407</b>	57,199
Total shareholders' funds	<b>322,493</b>	299,615
Add back retirement benefit accruals included within payables	–	1,103
Add back retirement benefit obligations	<b>43,071</b>	42,568
Less associated deferred tax assets	<b>(12,060)</b>	(11,920)
Cumulative amortisation of acquired intangibles	<b>21,919</b>	17,360
Goodwill on disposals	<b>5,441</b>	5,441
Goodwill amortised prior to 3 April 2004	<b>13,177</b>	13,177
Goodwill taken to reserves prior to 28 March 1998	<b>70,931</b>	70,931
<b>Total invested capital</b>	<b>464,972</b>	438,275
<b>Return on total invested capital</b>	<b>13.6%</b>	13.1%

### 3 Non-GAAP measures continued

#### Organic growth

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

	Revenue			Profit* before taxation		
	2010 £000	2009 £000	% growth	2010 £000	2009 £000	% growth
Continuing operations	459,118	455,928		86,214	79,087	
Acquired/disposed revenue/profit	(942)	–		(5)	–	
	458,176	455,928	0.5%	86,209	79,087	9.0%

\* Before amortisation of acquired intangible assets.

#### 4 Finance income

	2010 £000	2009 £000
Interest receivable	189	643
Expected return on pension scheme assets	6,377	7,762
	6,566	8,405

#### 5 Finance expense

	2010 £000	2009 £000
Interest payable on bank loans and overdrafts	972	3,231
Interest charge on pension scheme liabilities	8,375	8,521
Other interest payable	75	74
	9,422	11,826
Fair value movement on derivative financial instruments	52	–
Unwinding of discount on provisions	13	–
	9,487	11,826

#### 6 Profit before taxation

Profit before taxation comprises:

	2010 £000	2009 £000
Revenue	459,118	455,928
Cost of sales	(310,530)	(313,842)
Gross profit	148,588	142,086
Distribution costs	(9,616)	(10,725)
Administrative expenses	(55,059)	(55,737)
Other operating income	382	583
Net finance expense	(2,921)	(3,421)
Profit before taxation	81,374	72,786

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

# Notes to the Accounts

## continued

### 6 Profit before taxation continued

	2010 £000	2009 £000
Profit before taxation is stated after charging/(crediting):		
Depreciation	11,461	10,260
Amortisation	9,771	10,080
Research and development <sup>1</sup>	18,299	19,062
Foreign exchange gain	(138)	(61)
Profit on disposal of operations <sup>2</sup>	(382)	(357)
Loss/(profit) on sale of property, plant and equipment and computer software	42	(14)
Cost of inventories recognised as an expense	232,285	235,971
Auditors' remuneration <sup>3</sup>		
Audit services to the Company	98	88
Audit services to the Group	510	566
Total audit services pursuant to legislation	608	654
Other services pursuant to legislation <sup>4</sup>	12	12
Tax services	230	275
Other services	9	60
Operating lease rents:		
Property	5,672	4,993
Other	739	567

<sup>1</sup> A further £3,072,000 (2009: £3,846,000) of development costs have been capitalised in the year. See note 12.

<sup>2</sup> During the year, the Group disposed of part of its Asset Monitoring business for a profit of £407,000. There was also a write down of £25,000 on a prior year disposal. In 2009, the Group disposed of two operations: (a) the assets of the South Africa-based portion of Texecom Limited at book value, but with a foreign exchange loss of £270,000; and (b) the high-power resistors business of Fortress Systems Pty Limited, Australia, for a profit of £627,000.

<sup>3</sup> Enil (2009: Enil) non-audit fees were paid to the auditors in respect of acquisition advice, which otherwise would have been included in cost of investments.

<sup>4</sup> Audit of the Halma Group Pension Plan.

### 7 Employee information

The average number of persons employed by the Group (including Directors) was:

	2010 Number	2009 Number
United Kingdom	1,755	2,062
Overseas	1,934	1,956
	3,689	4,018

Group employee costs comprise:

	2010 £000	2009 £000
Wages and salaries	103,530	105,980
Social security costs	15,692	15,928
Pension costs (note 27)	4,636	5,119
Share-based payment charge (note 22)	2,067	2,307
	125,925	129,334

### 8 Directors' remuneration

The remuneration of the Directors, who are the key management personnel of the Group, is set out on pages 57 to 64 within the Remuneration report described as being audited and forms part of these financial statements.

Directors' remuneration comprises:

	2010 £000	2009 £000
Wages, salaries and fees	1,875	1,625
Pension costs	75	90
Share-based payment charge	580	726
	2,530	2,441

## 9 Taxation

	2010 £000	2009 £000
Current tax		
UK corporation tax at 28% (2009: 28%)	8,608	7,710
Overseas taxation	10,941	8,782
Adjustments in respect of prior years	238	(294)
Total current tax charge	19,787	16,198
Deferred tax		
Origination and reversal of timing differences	1,013	3,808
Adjustments in respect of prior years	137	199
Total deferred tax charge	1,150	4,007
Total tax charge recognised in the Consolidated income statement	20,937	20,205
Reconciliation of the effective tax rate:		
Profit before tax	81,374	72,786
Tax at the UK corporation tax rate of 28% (2009: 28%)	22,785	20,380
Overseas tax rate differences	2,144	476
Permanent differences	(4,367)	(556)
Adjustments in respect of prior years	375	(95)
	20,937	20,205
Effective tax rate (after amortisation of acquired intangible assets)	25.7%	27.8%
Profit before tax (before amortisation of acquired intangible assets)	86,214	79,087
Total tax charge (before amortisation of acquired intangible assets)	22,807	21,888
Effective tax rate (before amortisation of acquired intangible assets)	26.5%	27.7%

In addition to the amount charged to the Consolidated income statement, the following amounts relating to tax have been recognised directly in the Consolidated statement of comprehensive income:

	2010 £000	2009 £000
Current tax		
Corporation tax deduction on foreign exchange loss reclassified to Other comprehensive income on consolidation	1,592	3,251
Other	9	–
	1,601	3,251
Deferred tax (note 20)		
Retirement benefit obligations	1,300	3,064
Short-term timing differences	16	–
	1,316	3,064
	2,917	6,315

In addition to the amounts charged to the Consolidated income statement and the Consolidated statement of comprehensive income, the following amounts relating to tax have been recognised directly in equity:

	2010 £000	2009 £000
Current tax		
Excess tax deductions related to share-based payments on exercised options	73	–
Deferred tax (note 20)		
Change in estimated excess tax deductions related to share-based payments	949	(659)
	1,022	(659)

# Notes to the Accounts

## continued

### 10 Dividends

	Per ordinary share		2010 £000	2009 £000
	2010 pence	2009 pence		
Amounts recognised as distributions to shareholders in the year				
Final dividend for the year to 28 March 2009 (29 March 2008)	<b>4.78</b>	4.55	<b>17,935</b>	16,997
Interim dividend for the year to 3 April 2010 (28 March 2009)	<b>3.31</b>	3.15	<b>12,459</b>	11,788
	<b>8.09</b>	7.70	<b>30,394</b>	28,785
Dividends declared in respect of the year				
Interim dividend for the year to 3 April 2010 (28 March 2009)	<b>3.31</b>	3.15	<b>12,459</b>	11,788
Proposed final dividend for the year to 3 April 2010 (28 March 2009)	<b>5.19</b>	4.78	<b>19,525</b>	17,935
	<b>8.50</b>	7.93	<b>31,984</b>	29,723

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.

### 11 Goodwill

	2010 £000	2009 £000
<b>Cost</b>		
At beginning of year	<b>198,084</b>	161,230
Additions (note 23)	<b>4,585</b>	5,509
Exchange adjustments	<b>(7,335)</b>	31,345
At end of year	<b>195,334</b>	198,084
<b>Provision for impairment</b>		
At beginning and end of year	–	–
<b>Carrying amounts</b>	<b>195,334</b>	198,084

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill has been allocated as follows:

	2010 £000	2009 £000
<b>Infrastructure Sensors</b>		
Fire Detection	<b>10,961</b>	11,363
Security Sensors	<b>15,795</b>	15,795
Automatic Door Sensors	<b>45,433</b>	47,537
Elevator Safety	<b>10,018</b>	9,706
	<b>82,207</b>	84,401
<b>Health and Analysis</b>		
Water	<b>7,841</b>	7,972
Photonics	<b>42,755</b>	43,889
Health Optics	<b>32,044</b>	30,142
Fluid Technology	<b>6,676</b>	7,142
	<b>89,316</b>	89,145
<b>Industrial Safety</b>		
Bursting Disks	<b>7,570</b>	8,100
Safety Interlocks	<b>5,610</b>	5,806
Asset Monitoring	<b>10,631</b>	10,632
	<b>23,811</b>	24,538
	<b>195,334</b>	198,084

Goodwill values have been tested for impairment by comparing them against the value in use in perpetuity of the relevant CGUs. The value in use calculations were based on projected cash flows, derived from the latest budget approved by the Board, discounted at the Group's pre-tax estimated short-term discount rate to calculate their net present value.

#### Key assumptions used in 'value in use' calculations

The calculation of 'value in use' is most sensitive to the following assumptions, which are the same for all CGUs:

- Discount rates;

## 11 Goodwill continued

- Market share during the budget period for the financial year to March 2011; and
- Growth rate used to extrapolate risk adjusted cash flows beyond the budget period.

Discount rates are based on the Group's borrowing and equity profile. The Directors do not currently expect any significant change in the present discount rate of 9.84% (2009: 10.25%). The discount rate of 9.84%, which is pre-tax and is based on short-term variables, may differ from the Weighted Average Cost of Capital (WACC) used in long-term return measures such as ROTIC.

Market share assumptions are important because, as well as the growth rates (as noted below), management assess how each unit's relative position to its competitors might change over the budget period. Management expects each unit's position to be stable over the projected period.

Growth rate estimates of respectively 3.25%, 2.0% and 1.25% for the first, second and third year onwards into perpetuity following the budget year are based on conservative estimates keeping in view past performance growth.

### Sensitivity to changes in assumptions

Management believes that no reasonable potential change in any of the above key assumptions would cause the carrying value of any unit to exceed its recoverable amount.

## 12 Other intangible assets

	Acquired intangibles			Internally generated capitalised development costs £000	Computer software £000	Other intangibles*** £000	Total £000
	Customer relationships* £000	Trademarks** £000	Total £000				
<b>Cost</b>							
At 29 March 2008	19,307	13,906	33,213	13,780	5,389	–	52,382
Assets of businesses acquired	1,429	5,067	6,496	–	–	–	6,496
Assets of business sold	–	–	–	–	(27)	–	(27)
Additions at cost	–	–	–	3,846	1,631	220	5,697
Disposals	–	–	–	–	(89)	–	(89)
Retirements	–	–	–	(971)	–	–	(971)
Exchange adjustments	2,177	2,898	5,075	1,631	869	44	7,619
At 28 March 2009	22,913	21,871	44,784	18,286	7,773	264	71,107
Assets of businesses acquired (note 23)	–	–	–	–	6	–	6
Additions at cost	–	–	–	3,072	1,260	38	4,370
Disposals	–	–	–	–	(313)	–	(313)
Retirements	–	–	–	(640)	–	–	(640)
Exchange adjustments	(662)	(973)	(1,635)	(371)	(205)	(15)	(2,226)
<b>At 3 April 2010</b>	<b>22,251</b>	<b>20,898</b>	<b>43,149</b>	<b>20,347</b>	<b>8,521</b>	<b>287</b>	<b>72,304</b>
<b>Accumulated amortisation</b>							
At 29 March 2008	7,549	2,563	10,112	5,540	3,478	–	19,130
Assets of business sold	–	–	–	–	(11)	–	(11)
Charge for the year	3,710	2,591	6,301	2,868	903	8	10,080
Disposals	–	–	–	–	(87)	–	(87)
Retirements	–	–	–	(738)	–	–	(738)
Exchange adjustments	509	438	947	422	468	2	1,839
At 28 March 2009	11,768	5,592	17,360	8,092	4,751	10	30,213
Charge for the year	2,260	2,580	4,840	3,762	1,116	53	9,771
Disposals	–	–	–	–	(286)	–	(286)
Retirements	–	–	–	(621)	–	–	(621)
Exchange adjustments	(155)	(126)	(281)	(88)	(110)	1	(478)
At 3 April 2010	<b>13,873</b>	<b>8,046</b>	<b>21,919</b>	<b>11,145</b>	<b>5,471</b>	<b>64</b>	<b>38,599</b>
<b>Carrying amounts</b>							
<b>At 3 April 2010</b>	<b>8,378</b>	<b>12,852</b>	<b>21,230</b>	<b>9,202</b>	<b>3,050</b>	<b>223</b>	<b>33,705</b>
At 28 March 2009	11,145	16,279	27,424	10,194	3,022	254	40,894

\* Customer relationship assets are amortised over their useful economic lives estimated to be between three and eight years.

\*\* Trademarks (including protected technical knowledge) are amortised over their useful economic lives estimated to be between three and ten years.

\*\*\* Other intangibles comprise a licence and product registration costs amortised over their useful economic lives estimated to be between three and five years.

# Notes to the Accounts

## continued

### 13 Property, plant and equipment

	Land and buildings			Plant, equipment and vehicles £000	Total £000
	Freehold properties £000	Long leases £000	Short leases £000		
<b>Cost</b>					
At 29 March 2008	30,746	1,613	4,541	83,200	120,100
Assets of businesses acquired	(125)	–	24	2,171	2,070
Assets of businesses sold	–	–	(44)	(538)	(582)
Additions at cost	855	100	859	13,395	15,209
Disposals	–	(92)	(235)	(3,857)	(4,184)
Exchange adjustments	3,767	44	537	11,688	16,036
At 28 March 2009	35,243	1,665	5,682	106,059	148,649
Assets of businesses acquired (note 23)	<b>21</b>	<b>–</b>	<b>–</b>	<b>90</b>	<b>111</b>
Assets of businesses sold	<b>–</b>	<b>(19)</b>	<b>–</b>	<b>(575)</b>	<b>(594)</b>
Additions at cost	<b>44</b>	<b>104</b>	<b>217</b>	<b>9,416</b>	<b>9,781</b>
Disposals	<b>–</b>	<b>(12)</b>	<b>(151)</b>	<b>(7,806)</b>	<b>(7,969)</b>
Reclassification of category	<b>–</b>	<b>450</b>	<b>–</b>	<b>(450)</b>	<b>–</b>
Exchange adjustments	<b>(964)</b>	<b>18</b>	<b>(123)</b>	<b>(3,001)</b>	<b>(4,070)</b>
<b>At 3 April 2010</b>	<b>34,344</b>	<b>2,206</b>	<b>5,625</b>	<b>103,733</b>	<b>145,908</b>
<b>Accumulated depreciation</b>					
At 29 March 2008	5,334	535	2,492	54,287	62,648
Assets of businesses sold	–	–	(32)	(305)	(337)
Charge for the year	674	53	499	9,034	10,260
Disposals	–	(91)	(236)	(3,289)	(3,616)
Exchange adjustments	943	19	367	6,957	8,286
At 28 March 2009	6,951	516	3,090	66,684	77,241
Assets of businesses sold	<b>–</b>	<b>(11)</b>	<b>–</b>	<b>(470)</b>	<b>(481)</b>
Charge for the year	<b>747</b>	<b>159</b>	<b>607</b>	<b>9,948</b>	<b>11,461</b>
Disposals	<b>–</b>	<b>(1)</b>	<b>(136)</b>	<b>(6,963)</b>	<b>(7,100)</b>
Reclassification of category	<b>–</b>	<b>91</b>	<b>–</b>	<b>(91)</b>	<b>–</b>
Exchange adjustments	<b>(225)</b>	<b>6</b>	<b>(89)</b>	<b>(1,691)</b>	<b>(1,999)</b>
<b>At 3 April 2010</b>	<b>7,473</b>	<b>760</b>	<b>3,472</b>	<b>67,417</b>	<b>79,122</b>
<b>Carrying amounts</b>					
<b>At 3 April 2010</b>	<b>26,871</b>	<b>1,446</b>	<b>2,153</b>	<b>36,316</b>	<b>66,786</b>
At 28 March 2009	28,292	1,149	2,592	39,375	71,408

### 14 Inventories

	2010 £000	2009 £000
Raw materials and consumables	<b>26,166</b>	25,766
Work in progress	<b>5,738</b>	7,301
Finished goods and goods for resale	<b>15,110</b>	18,314
	<b>47,014</b>	51,381

The above is stated net of provision for slow-moving and obsolete stock, movements of which are shown below:

	2010 £000	2009 £000
At beginning of the year	<b>8,616</b>	7,761
Amounts reversed against inventories previously impaired	<b>(700)</b>	(619)
Write downs of inventories recognised as an expense	<b>1,029</b>	30
Exchange adjustments	<b>(343)</b>	1,444
At end of the year	<b>8,602</b>	8,616

There is no material difference between the balance sheet value of inventories and their cost of replacement. None of the inventory has been pledged as security.

## 15 Trade and other receivables

	2010 £000	2009 £000
Trade receivables	<b>89,597</b>	94,344
Allowance for doubtful debts	<b>(1,566)</b>	(1,457)
	<b>88,031</b>	92,887
Other receivables	<b>2,868</b>	3,547
Prepayments and accrued income	<b>7,178</b>	7,110
	<b>98,077</b>	103,544

The movement in the allowance for doubtful debts in respect of trade receivables during the year was as follows:

	2010 £000	2009 £000
At beginning of the year	<b>1,457</b>	980
Net impairment loss recognised	<b>416</b>	512
Amounts recovered against trade receivables previously written down	<b>(289)</b>	(204)
Exchange adjustments	<b>(18)</b>	169
At end of the year	<b>1,566</b>	1,457

An impairment has been recorded against the trade receivables which the Group believes may not be recoverable. In the case of trade receivables that are past due, management makes an assessment of the risk of non-collection, taking into account factors such as previous default experience, any disputes or other factors delaying payment and the risk of bankruptcy or other failure of the customer to meet their obligations. For trade receivables that are not past due, taking into account good historic collection experience, management records an impairment charge only where there is a specific risk of non-collection.

The fair value of trade and other receivables approximates to book value due to the short-term maturities associated with these items. There is no impairment risk identified with regards to prepayments and accrued income or other receivables where no amounts are past due.

The ageing of trade receivables was as follows:

	Gross trade receivables		Trade receivables net of doubtful debts	
	2010 £000	2009 £000	2010 £000	2009 £000
Not yet due	<b>65,610</b>	70,687	<b>65,362</b>	70,372
Up to 1 month overdue	<b>16,420</b>	14,384	<b>16,401</b>	14,402
Up to 2 months overdue	<b>3,176</b>	4,053	<b>3,149</b>	4,006
Up to 3 months overdue	<b>843</b>	1,390	<b>811</b>	1,349
Over 3 months overdue	<b>3,548</b>	3,830	<b>2,308</b>	2,758
	<b>89,597</b>	94,344	<b>88,031</b>	92,887

## 16 Borrowings

	2010 £000	2009 £000
Unsecured bank overdraft falling due within one year	<b>317</b>	–
Unsecured bank loans:		
Falling due within one year	–	6,559
Falling due after more than one year	<b>21,924</b>	79,614
Total borrowings	<b>22,241</b>	86,173

Information concerning the security, currency, interest rates and maturity of the Group's borrowings is given in note 25 to the accounts.

# Notes to the Accounts

## continued

### 17 Trade and other payables: falling due within one year

	2010 £000	(Restated)* 2009 £000
Trade payables	40,210	37,093
Other taxation and social security	4,641	4,880
Provision for deferred purchase consideration	1,082	12
Other payables	2,092	1,836
Accruals and deferred income	18,930	17,540
	<b>66,955</b>	<b>61,361</b>

\* Provisions previously within 'Other payables' and 'Accruals and deferred income' have been reclassified in the prior year and shown separately in note 18. As provisions have increased, management consider it appropriate to disclose them separately.

### 18 Provisions

Provisions are presented as:

	2010 £000	2009 £000
Current	1,515	2,018
Non-current	1,954	719
	<b>3,469</b>	<b>2,737</b>

	Dilapidations and empty property £000	Product warranty £000	Legal, contractual and other £000	Total £000
At beginning of the year	1,089	1,515	133	2,737
Additional provision in the year	919	246	374	1,539
Acquired on acquisition	42	-	-	42
Utilised during the year	(114)	(82)	(91)	(287)
Released during the year	(107)	(357)	(12)	(476)
Exchange adjustments	(27)	(53)	(6)	(86)
At end of the year	1,802	1,269	398	3,469

#### Dilapidations and empty property provisions

Dilapidations and empty property provisions exist where the Group has lease contracts under which the unavoidable costs of meeting its obligations under the contracts exceed the economic benefits expected to be received under them. The provisions comprise the Directors' best estimates of future payments:

- a) to restore the fabric of buildings to their original condition where it is a condition of the leases prior to return of the properties; and
- b) on vacant properties, the rental costs of which are not expected to be recoverable from subleasing the properties.

These commitments cover the period from 2010 to 2028, though they predominantly fall due within five years.

#### Product warranty

Product warranty provisions reflect commitments made to customers on the sale of goods in the ordinary course of business and included within the Group companies' standard terms and conditions. Warranty commitments typically apply for a 12-month period. Any warranties longer than 12 months are not significant and the provision represents the Directors' best estimate of the Group's liability based on past experience.

#### Legal, contractual and other

Legal, contractual and other comprise mainly amounts reserved against open legal and contractual disputes. The Company has on occasion been required to take legal or other actions to defend itself against proceedings brought by other parties. Provisions are made for the expected costs associated with such matters, based on past experience of similar items and other known factors, taking into account professional advice received, and represent Directors' best estimate of the likely outcome. The timing of utilisation of these provisions is frequently uncertain reflecting the complexity of issues and the outcome of various court proceedings and negotiations. Contractual and other provisions represent the Directors' best estimate of the cost of settling future obligations. Unless specific evidence exists to the contrary, these reserves are shown as current.

However, no provision is made for proceedings which have been or might be brought by other parties against Group companies unless the Directors, taking into account professional advice received, assesses that it is more likely than not that such proceedings may be successful.

## 19 Trade and other payables: falling due after one year

	2010 £000	(Restated)* 2009 £000
Provision for deferred purchase consideration	1,839	56
Other payables	2,715	2,957
	<b>4,554</b>	<b>3,013</b>

\* Provisions previously within 'Other payables' have been reclassified in the prior year and shown separately in note 18.

## 20 Deferred tax

	Retirement benefit obligations £000	Acquired intangible assets £000	Accelerated tax depreciation £000	Short-term timing differences £000	Share-based payment £000	Goodwill timing differences £000	Total £000
At 28 March 2009	11,920	(8,807)	(8,247)	3,021	1,218	(3,455)	(4,350)
(Charge)/credit to Consolidated income statement	<b>(1,160)</b>	<b>1,869</b>	<b>(676)</b>	<b>61</b>	<b>(366)</b>	<b>(878)</b>	<b>(1,150)</b>
Credit to Consolidated statement of comprehensive income	<b>1,300</b>	-	-	<b>16</b>	-	-	<b>1,316</b>
Credit to equity	-	-	-	-	<b>949</b>	-	<b>949</b>
Acquired (note 23)	-	-	-	<b>140</b>	-	<b>(277)</b>	<b>(137)</b>
Exchange adjustments	-	<b>445</b>	<b>344</b>	<b>(266)</b>	-	<b>268</b>	<b>791</b>
<b>At 3 April 2010</b>	<b>12,060</b>	<b>(6,493)</b>	<b>(8,579)</b>	<b>2,972</b>	<b>1,801</b>	<b>(4,342)</b>	<b>(2,581)</b>

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2010 £000	2009 £000
Deferred tax liability	<b>(13,193)</b>	(14,353)
Deferred tax asset	<b>10,612</b>	10,003
Net deferred tax liability	<b>(2,581)</b>	(4,350)

Movement in deferred tax (liability)/asset:

	2010 £000	2009 £000
At beginning of year	<b>(4,350)</b>	3,961
Charge to Consolidated income statement:		
UK	<b>(107)</b>	(1,788)
Overseas	<b>(1,043)</b>	(2,219)
Credit to Consolidated statement of comprehensive income	<b>1,316</b>	3,064
Credit/(charge) to equity	<b>949</b>	(659)
Acquired (note 23)	<b>(137)</b>	(3,989)
Exchange adjustments	<b>791</b>	(2,720)
At end of year	<b>(2,581)</b>	(4,350)

No deferred tax liability is recognised on temporary differences of £13,921,000 (2009: £22,421,000) relating to the unremitted earnings of overseas subsidiaries as the Group is able to control the timings of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future. The temporary differences at 3 April 2010 are significantly reduced from the previous year as a result of a change to UK tax legislation which largely exempts from UK tax overseas dividends received on or after 1 July 2009.

At 3 April 2010 the Group had unused capital tax losses of £871,000 (2009: £889,000) for which no deferred tax asset has been recognised.

# Notes to the Accounts

## continued

### 21 Share capital

	Authorised		Issued and fully paid	
	2010 £000	2009 £000	2010 £000	2009 £000
Ordinary shares of 10p each	<b>43,656</b>	43,656	<b>37,765</b>	37,539

The number of ordinary shares in issue at 3 April 2010 was 377,654,037 (2009: 375,390,677), including treasury shares of 1,130,036 (2009: 1,274,108).

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

	Issued and fully paid £000
At 28 March 2009	37,539
Share options exercised	226
<b>At 3 April 2010</b>	<b>37,765</b>

The total consideration received in cash in respect of share options exercised amounted to £3,039,000.

At 3 April 2010 options in respect of 4,133,788 (2009: 6,776,695) ordinary shares remained outstanding. Further details of these are given in note 22 to the accounts.

At the date of these accounts, the number of ordinary shares in issue was 377,721,994, including treasury shares of 1,523,217.

### 22 Share-based payments

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

	2010			2009		
	Equity-settled £000	Cash-settled £000	Total £000	Equity-settled £000	Cash-settled £000	Total £000
Share incentive plan	<b>337</b>	-	<b>337</b>	306	-	306
Share option plans	<b>(33)</b>	-	<b>(33)</b>	39	-	39
Performance share plan	<b>1,509</b>	<b>254</b>	<b>1,763</b>	1,711	251	1,962
	<b>1,813</b>	<b>254</b>	<b>2,067</b>	2,056	251	2,307

The Group has recorded liabilities of £398,000 (2009: £400,000) in respect of the cash settled portion of the awards granted under the performance share plan.

#### 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.

## 22 Share-based payments continued

Options in respect of 4,133,788 ordinary shares remained outstanding at 3 April 2010 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
130,100	111.0p		2003
351,100	163.5p		2004
184,354	144.33p		2005
330,162	134.0p		2006
396,482	142.25p		2007
104,528	145.67p		2008
497,700	111.0p	2005	
381,400	163.5p	2006	
535,536	144.33p	2007	
578,826	134.0p	2008	
643,600	142.25p	2009	

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

	2010		2009	
	Number of share options	Weighted average option price	Number of share options	Weighted average option price
Outstanding at beginning of year	<b>6,776,695</b>	<b>137.98p</b>	8,388,631	136.87p
Exercised during the year	<b>(2,263,360)</b>	<b>134.28p</b>	(932,179)	138.47p
Lapsed during the year	<b>(379,547)</b>	<b>139.12p</b>	(679,757)	123.63p
Outstanding at end of year	<b>4,133,788</b>	<b>139.90p</b>	6,776,695	137.98p
Exercisable at end of year	<b>1,496,726</b>	<b>143.19p</b>	3,286,986	140.26p

The weighted average share price at the date of exercise for share options exercised during the year was 225.03p.

The options outstanding at 3 April 2010 had exercise prices from 111.0p to 163.5p and a weighted average remaining contractual life of 2.6 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.

### 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 the FTSE 250 excluding financial companies, combined with an absolute Return on Total Invested Capital measure. Awards which do not vest on the third anniversary of their award lapse.

# Notes to the Accounts

## continued

### 22 Share-based payments continued

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

	2010 Number of shares awarded	2009 Number of shares awarded
Outstanding at beginning of year	3,939,960	4,493,694
Granted during the year	1,640,315	1,572,194
Vested during the year (pro-rated for 'good leavers')	(1,180,518)	(933,950)
Lapsed during the year	(136,085)	(1,191,978)
Outstanding at end of year	4,263,672	3,939,960
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:

	2010	2009	2008
Expected volatility (%)	27.5%	25%	19%
Expected life (years)	3	3	3
Share price on date of grant (p)	196.90	192.75	240.67
Option price (p)	nil	nil	nil
Fair value per option (%)	61.8%	56%	55%
Fair value per option (p)	121.68	107.94	132.37

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

### 23 Acquisitions

	Book value £000	Fair value adjustments £000	Total £000
<b>Non-current assets</b>			
Intangible assets	6	-	6
Property, plant and equipment	111	-	111
<b>Current assets</b>			
Inventories	339	(153)	186
Trade and other receivables	568	-	568
Cash and cash equivalents	38	-	38
Deferred tax	-	91	91
<b>Total assets</b>	<b>1,062</b>	<b>(62)</b>	<b>1,000</b>
<b>Current liabilities</b>			
Trade and other payables	(532)	(193)	(725)
Corporation tax	-	(242)	(242)
<b>Non-current liabilities</b>			
Provisions	-	(42)	(42)
<b>Total liabilities</b>	<b>(532)</b>	<b>(477)</b>	<b>(1,009)</b>
<b>Net assets/(liabilities) of businesses acquired</b>	<b>530</b>	<b>(539)</b>	<b>(9)</b>
Cash consideration, including costs			1,703
Deferred purchase consideration			1,730
<b>Total consideration</b>			<b>3,433</b>
Goodwill arising on current year acquisition			3,442
Goodwill arising on prior year acquisition			1,143
<b>Goodwill arising on acquisitions</b>			<b>4,585</b>

The goodwill in the current year arose on the acquisition of the assets and liabilities of SphereOptics LLC and its French subsidiary SphereOptics SARL in January 2010 for an initial cash consideration (excluding expenses) of \$2,500,000. Their principal activity relates to the Health and Analysis sector. Solely goodwill arose from the acquisition of SphereOptics assembled workforce and consequently no acquired intangible assets were recognised.

## 23 Acquisitions continued

This acquisition contributed £509,000 of revenue and £54,000 of loss after tax for the year ended 3 April 2010. If this acquisition had been held since the start of the financial year, it is estimated the Group's reported revenue would have been £2,484,000 higher and profit after tax £24,000 lower.

Adjustments were made to the book value of the net assets of the company acquired to reflect its 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 those of the Group where appropriate.

The adjustment to goodwill arising on prior year acquisitions related to an additional deferred tax liability fair value adjustment (£228,000) on the acquisition of Fiberguide Industries, Inc and a revision to its estimated deferred purchase consideration (£915,000).

The best estimates of the deferred purchase considerations for SphereOptics LLC and Fiberguide Industries, Inc are \$2,800,000 and \$1,638,000 and the minimum and maximum values payable are \$nil (both) and \$3,500,000 and \$5,000,000 respectively. The considerations for both acquisitions are based on profit before tax results and are payable June 2011 and 2012, and November 2010 respectively.

## 24 Notes to the Consolidated Cash Flow Statement

	2010 £000	2009 £000
<b>Reconciliation of profit from operations to net cash inflow from operating activities</b>		
Profit on continuing operations before finance income and expense	84,295	76,207
Profit on disposal of operations before taxation	(382)	(357)
Depreciation of property, plant and equipment	11,461	10,260
Amortisation of computer software	1,116	903
Amortisation of capitalised development costs and other intangibles	3,815	2,876
Retirement of capitalised development costs	19	233
Amortisation of acquired intangible assets	4,840	6,301
Share-based payment expense in excess of amounts paid	1,333	1,634
Additional payments to pension plans	(6,902)	(6,224)
Loss/(profit) on sale of property, plant and equipment and computer software	42	(14)
Operating cash flows before movement in working capital	99,637	91,819
Decrease/(increase) in inventories	2,990	(1,055)
Decrease in receivables	3,636	7,440
Increase/(decrease) in payables and provisions	6,427	(11,779)
<b>Cash generated from operations</b>	<b>112,690</b>	<b>86,425</b>
Taxation paid	(12,352)	(20,494)
<b>Net cash inflow from operating activities</b>	<b>100,338</b>	<b>65,931</b>

The cash outflow on page 73 of £1,676,000 (2009: £12,388,000) on the acquisition of businesses includes cash acquired of £38,000 (2009: £nil) and the payment of £11,000 (2009: £18,000) of deferred purchase consideration which arose from acquisitions made in earlier years, and where provision was made in prior years' financial statements.

	2010 £000	2009 £000
<b>Reconciliation of net cash flow to movement in net cash/(debt)</b>		
(Decrease)/increase in cash and cash equivalents	(3,425)	2,193
Cash outflow from borrowings	58,845	3,519
Exchange adjustments	4,848	(12,623)
	60,268	(6,911)
Net debt brought forward	(51,186)	(44,275)
Net cash/(debt) carried forward	9,082	(51,186)

	2010 £000	2009 £000
<b>Analysis of cash and cash equivalents</b>		
Cash and bank balances	31,323	34,987
Bank overdraft	(317)	-
	<b>31,006</b>	<b>34,987</b>

# Notes to the Accounts

## continued

### 24 Notes to the Consolidated Cash Flow Statement continued

	At 28 March 2009 £000	Cash flow £000	Exchange adjustments £000	At 3 April 2010 £000
<b>Analysis of net cash/(debt)</b>				
Cash and cash equivalents	34,987	(3,425)	(556)	31,006
Bank loans	(86,173)	58,845	5,404	(21,924)
	(51,186)	55,420	4,848	9,082

The cash outflow from bank loans in 2010 and 2009 of £58,845,000 and £3,519,000 respectively related solely to repayment of borrowings.

Included within cash and cash equivalents is an amount of £1,418,000 (2009: £893,000) which is restricted.

### 25 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. Other than entering into forward foreign exchange contracts in designated cash flow hedges, policies have remained unchanged since the beginning of the financial year.

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases of recognition income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in the Accounting policies note.

#### 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') currencies. 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 a proportion of the net exposure is 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, Singapore, China and India. 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.

## 25 Financial instruments continued

### Credit risk

Credit risk is defined as the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties, as a means of mitigating the risk of financial loss from defaults. Credit ratings are supplied by independent agencies where available, and if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed regularly.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

The carrying amount of trade, tax and other receivables, derivative financial instruments and cash of £130,699,000 (2009: £141,806,000) represents the Group's maximum exposure to credit risk as no collateral or other credit enhancements are held.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

### Liquidity risk

The main source of long-term funding for the Group is its unsecured revolving credit facility for £165m, which is a five-year facility to February 2013, with a small syndicate of its principal bankers.

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 £285,000 (2009: £185,000) 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 £204,000 (2009: £210,000) impact on the Group's profit before tax for the year ended 3 April 2010.

#### Transactional exposures

The Group has net foreign currency monetary assets and liabilities that are assets and liabilities not denominated in the functional currency of the underlying company. These comprise cash and overdrafts as well as certain trade receivable and payable balances. 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. The exposures are predominantly Euro and US Dollar. Group policy is for the majority of foreign currency exposures, including sales and purchases, to be hedged by forward foreign exchange contracts in the company in which the transaction is recorded.

### Interest rate risk profile

The Group's financial assets which are subject to interest rate fluctuations comprise interest bearing cash equivalents which totalled £2,344,000 at 3 April 2010 (2009: £8,100,000). These comprised Sterling denominated deposits of £1,591,000 (2009: £6,980,000), and Euro, US Dollar and other currency deposits of £753,000 (2009: £1,120,000) which are placed on local money markets and earn interest at market rates. Cash balances of £28,979,000 (2009: £26,887,000) earn interest at local market rates.

The financial liabilities which are subject to interest rate fluctuations comprise bank loans, bank overdrafts and certain unsecured loans, which totalled £22,241,000 at 3 April 2010 (2009: £86,173,000). All bear interest at floating rates or fixed rates where the fixed period is typically no more than three months. Interest rates are based on LIBOR plus a small margin. These liabilities comprise US Dollar denominated bank loans of £8,081,000 (2009: £39,182,000) which bear interest with reference to the US Dollar LIBOR rates, Euro denominated bank loans of £13,843,000 (2009: £46,991,000) which bear interest with reference to the EURIBOR rates and overdrafts of £317,000 (mainly in Euros), which bear interest at local base rates.

# Notes to the Accounts

## continued

### 25 Financial instruments continued

#### Maturity of financial liabilities

With the exception of the deferred purchase consideration, other payables, provisions and borrowings 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 £946,000 (2009: £13,000) due between one and two years, with the balance of £893,000 (2009: £43,000) due between two and five years. Other creditors due after more than one year include £1,758,000 (2009: £1,721,000) due between one and two years, £279,000 (2009: £817,000) due between two and five years, with the balance of £678,000 (2009: £1,138,000) 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 undrawn committed facilities available at 3 April 2010 were £158,762,000 (2009: £97,009,000) of which £15,686,000 (2009: £11,622,000) mature within one year and £143,076,000 (2009: £85,387,000) between two and five years.

UK companies have cross-guaranteed £20,684,000 (2009: £21,023,000) of overdraft facilities of which £169,000 (2009: £242,000) was drawn.

#### Fair values of financial assets and financial liabilities

As at 3 April 2010 and 28 March 2009 there were no significant differences between the book value and fair value (as determined by market value) of the Group's financial assets and liabilities.

	2010		2009	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
<b>Fair value and carrying amount of financial instruments</b>				
Trade and other receivables	98,077	98,077	103,544	103,544
Trade, other payables and provisions (falling due within one year)	(68,470)	(68,470)	(63,379)	(63,379)
Trade, other payables and provisions (falling due after one year)	(6,508)	(6,508)	(3,732)	(3,732)
Cash and cash equivalents	31,323	31,323	34,987	34,987
Floating rate borrowings	(317)	(317)	-	-
Fixed rate borrowings	(21,924)	(21,924)	(86,173)	(86,173)
Derivative financial instruments (in a designated cash flow hedge)	(71)	(71)	-	-
Derivative financial instruments (not in a designated cash flow hedge)	(28)	(28)	-	-
	<b>32,082</b>	<b>32,082</b>	<b>(14,753)</b>	<b>(14,753)</b>

The fair value of the floating and fixed rate borrowings approximate to the carrying value because interest rates are reset to market rates at intervals of less than one year.

The fair value of the derivative financial instruments is estimated by discounting the future contracted cash flow, using readily available market data and represents a level 2 measurement in the fair value hierarchy under IFRS 7.

## 25 Financial instruments continued

### Hedging

As explained previously, 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 fair value, which is typically £nil, and subsequent changes in fair value are taken to the Consolidated income statement, unless hedge accounted.

The following table details the forward foreign currency contracts outstanding as at the year end, which all mature within one year and therefore the cash flows and resulting effect on profit and loss are expected to occur within the next 12 months:

	Average exchange rate/£		Foreign currency		Contract value		Fair value	
	2010	2009	2010 000	2009 000	2010 £000	2009 £000	2010 £000	2009 £000
<i>Forward contracts not in a designated cash flow hedge</i>								
US Dollars	1.55	1.43	2,342	5,131	1,516	3,578	(17)	(11)
Euros	1.13	1.10	4,653	9,422	4,116	8,535	(2)	(189)
Other currencies	-	-	-	-	233	1,957	(9)	(69)
					5,865	14,070	(28)	(269)
<i>Forward contracts in a designated cash flow hedge</i>								
US Dollars	1.64	-	4,322	-	2,643	-	(186)	-
Euros	1.14	-	11,288	-	9,913	-	(89)	-
Czech Koruna	29.93	-	(70,815)	-	(2,366)	-	121	-
Other currencies	-	-	-	-	(1,415)	-	83	-
					8,775	-	(71)	-
<i>Total forward contracts</i>								
US Dollars	1.60	1.43	6,664	5,131	4,159	3,578	(203)	(11)
Euros	1.14	1.10	15,940	9,422	14,029	8,535	(91)	(189)
Czech Koruna	29.93	-	(70,815)	-	(2,366)	-	121	-
Other currencies	-	-	-	-	(1,182)	1,957	74	(69)
					14,640	14,070	(99)	(269)
Amounts recognised in the Consolidated income statement							(52)	(269)
Amounts recognised in the Consolidated statement of comprehensive income and expenditure							(47)	-
							(99)	(269)

In 2009, the fair values of the contracts were not separately disclosed and any movement was charged/(credited) to Administrative expenses. The fair values of the forward contracts are disclosed as a £232,000 asset and £331,000 liability in the Consolidated balance sheet.

In 2010, the Group commenced entering into forward exchange contracts to hedge forecast transactions. The fair values of the contracts are now separately disclosed and any movements recognised in equity until the hedge transaction occurs, when gains/losses are recycled to finance income or finance expense.

	2010 £000	2009 £000
<b>Analysis of movement in hedging reserves</b>		
At beginning of year	-	-
Amounts recognised in the Consolidated statement of comprehensive income and expenditure	(47)	-
At end of year	(47)	-

There was no ineffectiveness arising with regards to forward contracts in a designated cash flow hedge.

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

# Notes to the Accounts

## continued

### 25 Financial instruments continued

#### Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Group enters into derivative financial instruments to manage its exposure to foreign currency risk, including:

- forward foreign exchange contracts to hedge the exchange rate risk arising on the export of goods to and from the USA, mainland Europe and the UK; and
- foreign exchange loans to hedge the exchange rate risk arising on translation of the Group's investment in foreign operations which have the Euro and US Dollar as their functional currencies.

Market risk exposures are measured using sensitivity analysis as described below.

There has been no change to the Group's exposure to market risks or in the manner in which these risks are managed and measured.

#### Foreign currency sensitivity analysis

The Group is mainly exposed to the currency of the USA (US Dollar currency) and the currency of Mainland Europe (Euro currency).

The carrying amount of the Group's Euro and US Dollar denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2010 £000	2009 £000	2010 £000	2009 £000
Euro	62,463	70,018	13,601	14,398
US Dollar	82,589	87,965	16,973	19,450

If Sterling increased by 10% against the US Dollar and the Euro, profits before taxation and other equity would decrease as follows:

	US Dollar		Euro	
	2010 £000	2009 £000	2010 £000	2009 £000
Profit	2,620	1,696	1,871	1,930
Other equity	6,951	7,245	13,706	13,616

The profit sensitivity arises mainly from the translation of overseas profits earned during the year. 10% is the sensitivity rate which management assesses to be a reasonably possible change in foreign exchange rates. The Group's profit sensitivity has increased significantly against the US Dollar because more of the Group's profits are earned in this currency.

### 26 Commitments

#### Capital commitments

Capital expenditure authorised and contracted at 3 April 2010 but not provided in these accounts amounts to £740,000 (2009: £1,841,000).

#### Commitments under operating leases

The Group has entered into commercial leases on properties and other equipment. The former expire between April 2010 and November 2028 and the latter between April 2010 and November 2014. Only certain property agreements contain an option for renewal at rental prices based on market prices at the time of exercise.

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

	Land and buildings		Other	
	2010 £000	2009 £000	2010 £000	2009 £000
Within one year	5,303	5,160	459	520
Within two to five years	10,535	12,367	675	766
After five years	3,025	4,354	–	–
	18,863	21,881	1,134	1,286

## 27 Retirement benefits

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

### Defined contribution schemes

The amount charged to the Consolidated income statement in respect of defined contribution schemes was £2,433,000 (2009: £2,388,000) and represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. The assets of the schemes are held separately from those of the Group in funds under the control of trustees. Where there are employees who leave the schemes prior to vesting fully in the contributions, the ancillary contributions payable by the Group are reduced by the amount of forfeited contributions.

### Defined benefit schemes

The Group operates defined benefit schemes for qualifying employees of its UK subsidiaries. Under the schemes, the employees are entitled to retirement benefits of up to two-thirds of final pensionable salary on attainment of a retirement age of 60, for members of the Executive Board, and 65, for all other qualifying employees. No other post-retirement benefits are provided. The schemes are funded schemes.

The most recent actuarial valuation of the Halma Group Pension Plan assets and the present value of the defined benefit obligation was carried out at 1 December 2008 by Mr Adrian Gibbons, Fellow of the Institute of Actuaries. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method. Mr Gibbons also carried out the 1 April 2009 actuarial valuation of the Apollo Pension and Life Assurance Plan on the same basis.

The projected unit credit method is an accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. The accumulated benefit obligation (ABO) is an actuarial measure of the present value for service already rendered but differs from the projected unit credit method in that it includes no assumptions for future salary increases. At the balance sheet date the gross accumulated benefit obligation was £171 million.

An alternative method of valuation is a solvency basis, often estimated using the cost of buying out benefits at the balance sheet date with a suitable insurance company. This amount represents the amount that would be required to settle the scheme liabilities at the balance sheet date rather than the Group continuing to fund the on-going liabilities of the scheme. The Group estimates that this would amount to £240 million.

	2010	2009	2008
Key assumptions used:			
Discount rate	<b>5.60%</b>	6.40%	5.85%
Expected return on scheme assets	<b>7.00%</b>	6.80%	7.01%
Expected rate of salary increases	<b>4.50%</b>	4.45%	4.75%
Future pension increases	<b>3.40%</b>	3.20%	3.50%
Inflation	<b>3.50%</b>	3.20%	3.50%

# Notes to the Accounts

## continued

### 27 Retirement benefits continued

#### Mortality assumptions:

Investigations have been carried out within the past three years into the mortality experience of the Group's defined benefit schemes. These investigations concluded that the current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement at age 65 are:

	2010 years	2009 years	2008 years
Retiring today:			
Males	21.9	22.0	22.0
Females	24.7	24.9	24.8
Retiring in 20 years:			
Males	23.8	23.1	23.1
Females	26.6	25.9	25.9

The Halma Group Pension Plan baseline mortality assumption is derived from the SN03 tables less one year (2009 and 2008: PA92 medium cohort).

The Apollo Pension and Life Assurance Plan baseline mortality assumption is derived from the PA92 medium cohort tables plus one year (2009 and 2008: PA92 medium cohort tables plus one year).

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 10.8 %
Rate of inflation	Increase/decrease by 0.5%	Increase/decrease by 7.0 %
Rate of salary growth	Increase/decrease by 0.5%	Increase/decrease by 2.6 %
Rate of mortality	Increase by 1 year	Increase by 2.3%

Amounts recognised in income in respect of these defined benefit schemes are as follows:

	2010 £000	2009 £000
Current service cost	2,203	2,731
Interest cost	8,375	8,521
Expected return on scheme assets	(6,377)	(7,762)
	4,201	3,490

Actuarial gains and losses have been reported in Comprehensive Income and Expenditure.

The actual return on scheme assets was £32.9 million (2009: £25.9 million).

The cumulative amount of actuarial losses recognised in the other comprehensive income since the date of transition to IFRSs is £23 million (2009: £18 million).

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit retirement benefit schemes is as follows:

	2010 £000	2009 £000	2008 £000
Present value of defined benefit obligations	(170,901)	(132,379)	(145,992)
Fair value of scheme assets	127,830	89,811	110,035
Deficit in scheme	(43,071)	(42,568)	(35,957)
Past service cost not yet recognised in balance sheet	-	-	-
Liability recognised in the balance sheet	(43,071)	(42,568)	(35,957)

## 27 Retirement benefits continued

Movements in the present value of defined benefit obligations were as follows:

	2010 £000	2009 £000
At beginning of year	<b>(132,379)</b>	(145,992)
Service cost	<b>(2,203)</b>	(2,731)
Interest cost	<b>(8,375)</b>	(8,521)
Actuarial gains and losses	<b>(31,952)</b>	21,586
Contributions from scheme members	<b>(1,094)</b>	(1,212)
Benefits paid	<b>4,766</b>	4,092
Expenses paid	<b>180</b>	102
Premiums paid	<b>156</b>	297
At end of year	<b>(170,901)</b>	(132,379)

Movements in the fair value of scheme assets were as follows:

	2010 £000	2009 £000
At beginning of year	<b>89,811</b>	110,035
Expected return on scheme assets	<b>6,377</b>	7,762
Actuarial gains and losses	<b>27,308</b>	(32,678)
Movement on section 75 receivable	<b>(763)</b>	(984)
Contributions from the sponsoring companies	<b>9,105</b>	8,955
Contributions from scheme members	<b>1,094</b>	1,212
Benefits paid	<b>(4,766)</b>	(4,092)
Expenses paid	<b>(180)</b>	(102)
Premiums paid	<b>(156)</b>	(297)
At end of year	<b>127,830</b>	89,811

The analysis of the scheme assets and the expected rate of return at the balance sheet date was as follows:

	Expected return			Fair value of assets		
	2010 %	2009 %	2008 %	2010 £000	2009 £000	2008 £000
Equity instruments	<b>7.80</b>	7.50	7.50	<b>83,641</b>	57,407	76,753
Debt instruments	<b>5.20</b>	6.00	5.85	<b>33,604</b>	28,880	29,742
Property	<b>6.30</b>	7.50	6.00	<b>10,585</b>	3,524	3,540
	<b>7.00</b>	6.80	7.01	<b>127,830</b>	89,811	110,035

The overall expected rate of return is a weighted average.

# Notes to the Accounts

## continued

### 27 Retirement benefits continued

In conjunction with the trustees, the Group has recently conducted an asset-liability review for its defined benefit pension scheme. The results of this review are used to assist the trustees and the Group to determine the optimal long-term asset allocation with regard to the structure of the liabilities of the scheme. They are also used to assist the trustees in managing the volatility in the underlying investment performance and risk of a significant increase in the defined benefit deficit by providing information used to determine the scheme's investment strategy.

As a consequence, the Group will be giving more emphasis to a closer return matching of scheme assets and liabilities, both to ensure the long-term security of our defined benefit commitment and to reduce earnings and balance sheet volatility.

The five-year history of experience adjustments was as follows.

	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
Present value of defined benefit obligations	<b>(170,901)</b>	(132,379)	(145,992)	(145,601)	(141,580)
Fair value of scheme assets	<b>127,830</b>	89,811	110,035	108,341	95,561
Deficit in the scheme	<b>(43,071)</b>	(42,568)	(35,957)	(37,260)	(46,019)
Experience adjustments on scheme liabilities					
Amount	<b>(136)</b>	-	273	536	52
Percentage of scheme liabilities	-	-	-	-	-
Experience adjustments on scheme assets					
Amount	<b>27,648</b>	(33,696)	12,327	1,321	11,271
Percentage of scheme assets	<b>22%</b>	(37)%	11%	1%	12%

The estimated amounts of contributions expected to be paid to the schemes during the year ending 2 April 2011 is £8.8 million.

The levels of contributions are based on the current service cost and the expected future cash flows of the defined benefit scheme. The Group estimates the scheme liabilities on average to fall due over 22 years.

### 28 Disposal of businesses

In 2010 the Group disposed of part of its Asset Monitoring business for £520,000 with a profit on disposal of £407,000. There was an additional write down on a prior year disposal of £25,000.

During 2009, the Group disposed of two operations: the assets of the South Africa-based portion of Texecom Limited and the high-power resistors business of Fortress Systems Pty Limited, Australia. Total consideration for the disposed businesses was £2,652,000 comprising assets with a value of £1,951,000. After costs and recycling of foreign exchange losses from reserves to the Consolidated income statement, the profit on disposal was £357,000.

Due to the nature and size of these disposed operations, they have not been separately disclosed as discontinued operations as defined by IFRS 5.

# Independent Auditors' Report to the Members of Halma p.l.c.

We have audited the parent company financial statements of Halma p.l.c. for the 53 week period ended 3 April 2010 which comprise the Parent Company Balance Sheet and the related notes C1 to C12. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

## Opinion on Financial Statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 3 April 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## Other matter

We have reported separately on the Group financial statements of Halma p.l.c. for the 53 week period ended 3 April 2010.

Mark Mullins (Senior Statutory Auditor)  
for and on behalf of **Deloitte LLP**  
Chartered Accountants and Statutory Auditors  
Reading, UK  
22 June 2010

**The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.**

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