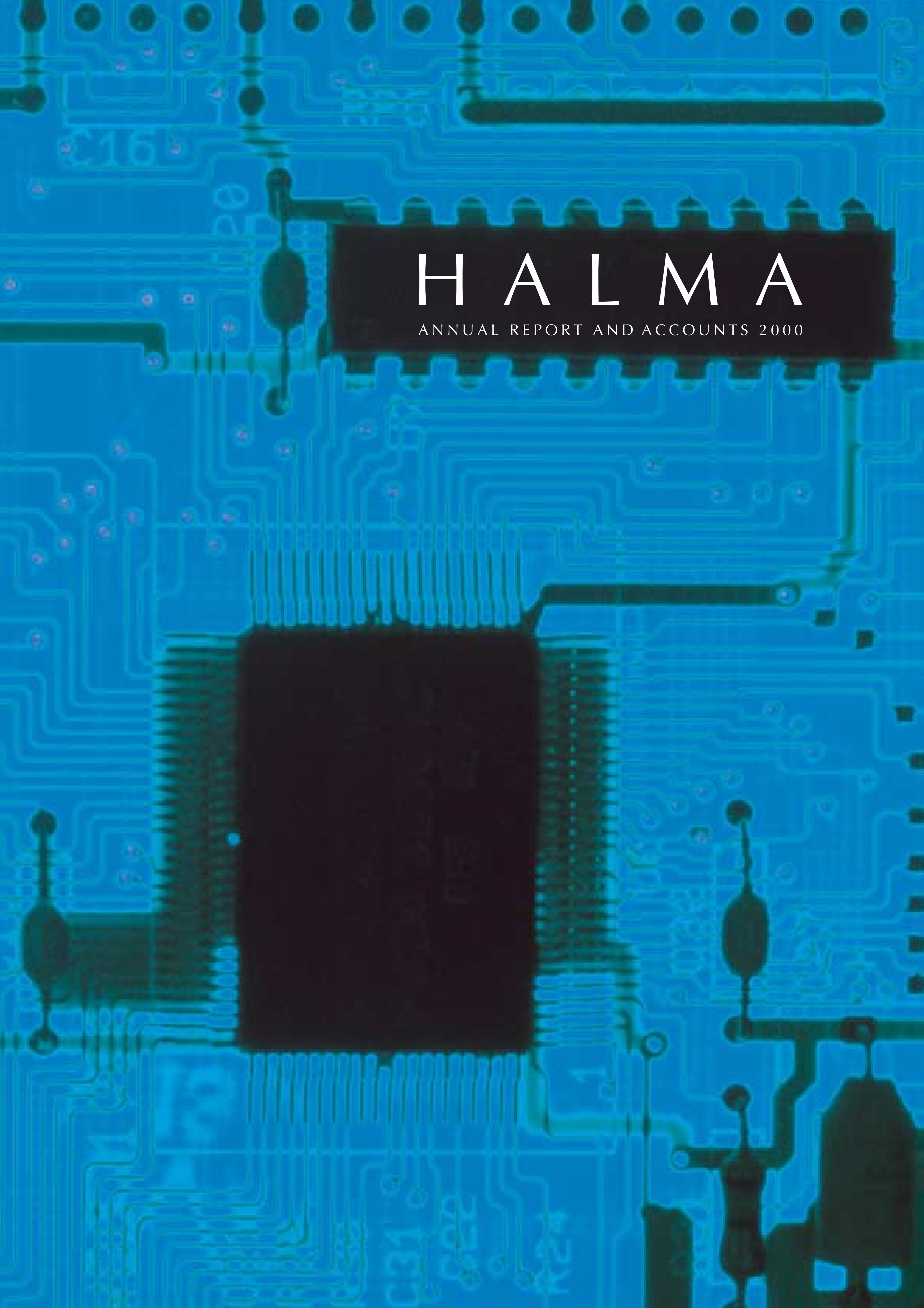


HALMA

ANNUAL REPORT AND ACCOUNTS 2000

HALMA

Annual Report and Accounts 2000

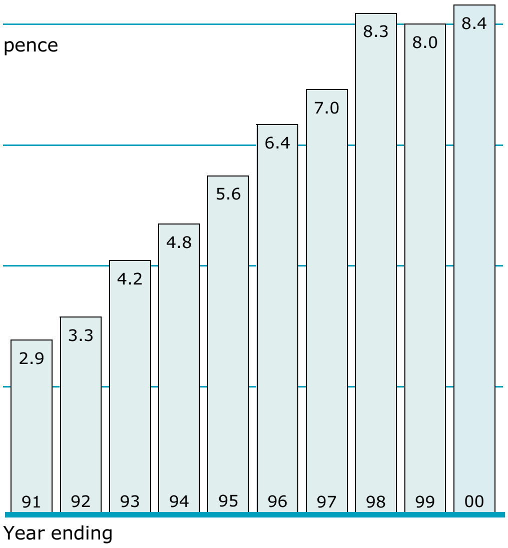
Contents	Page

Financial Highlights

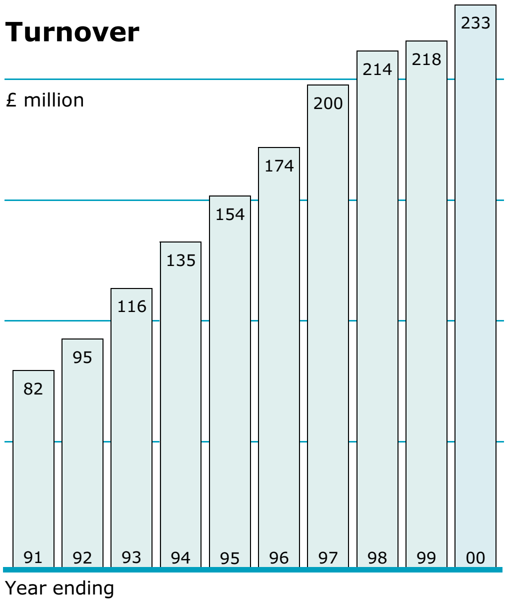
	Change	2000	1999
		£000	£000
Turnover	**+7%**	233,485	217,758
Overseas sales	**+12%**	150,727	134,189
Profit before taxation, exceptional items and goodwill amortisation	**+5%**	43,751	41,823
Ordinary dividends	**+20%**	14,413	12,021
Net tangible assets	**–12%**	89,755	102,101
Earnings per ordinary share before exceptional items and goodwill amortisation	**+5%**	8.41p	7.99p
Net tangible assets per ordinary share	**–12%**	24.9p	28.2p
Profit before taxation, exceptional items and goodwill amortisation as a % of turnover		18.7%	19.2%
Turnover to net tangible assets		2.60 times	2.13 times
Return on capital employed*		48.7%	41.0%

*Return on capital employed is defined as profit before taxation, exceptional items and goodwill amortisation expressed as a % of net tangible assets

Earnings per share before exceptional items and goodwill amortisation

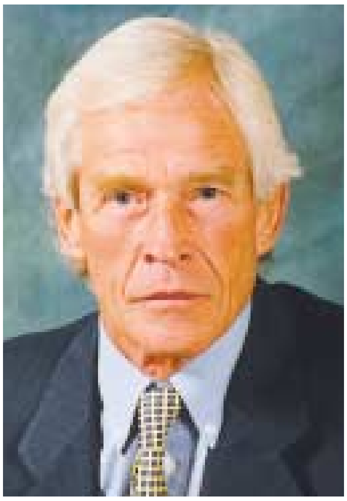


Turnover



HALMA

Chairman's Statement



"worldwide strengths in product development, material procurement, production and marketing"

David Barber, Chairman

Results

In my statement in the Interim Report I commented that the figures then achieved would provide a solid platform for the Group's second half results. It is pleasing, therefore, to report that Group pre-tax profits for the full year have established a new record level with an increase of 5% over the preceding year.

Profits before taxation, exceptional items and goodwill amortisation increased to £43.8 million. Turnover increased by 7% to £233 million. Overseas sales increased by 12% and, at £151 million, now represent 65% of overall Group sales. Sales to other European countries, notwithstanding the weakness of the Euro, also increased by 5%. Earnings per share, before exceptionals and before amortisation of goodwill, increased by 5% to 8.41p. Each one of the preceding absolute figures is a new record for the Group.

Cash flow

Cash flow continued to be very strong. After the expenditure of £25.7 million on businesses acquired for cash, £8.3 million on capital investment and a further £2.7 million on the repurchase of Halma shares, the Group ended the year with positive net cash balances of £7.2 million.

Dividends

The Directors again recommend an increase of 20% in the dividend per share. The total dividend is covered 2.1 times by profit before exceptionals and amortisation of goodwill but after taxation and preference dividends. If approved this dividend, amounting to 2.423p per share, will be paid on 21 August 2000 to shareholders on the register at the close of business on 21 July 2000.

Retirement of Director

In April 2000 Peter Tett retired after having served for 16 years as a Director of Halma p.l.c. Tribute is paid elsewhere within this Report to his outstanding contribution to the Group's development and I would like to record here my own personal thanks to Peter. Throughout this period he has been an invaluable member of our Board and we shall truly miss his friendship and his wise counsel.

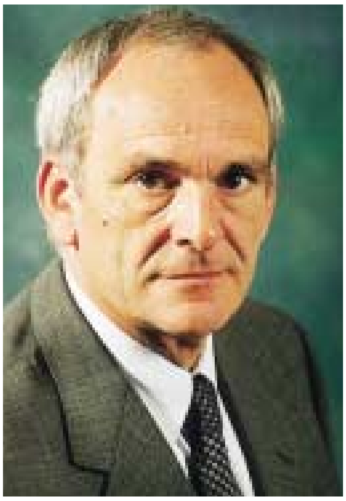
Prospects

Tremendous strides have been made in strengthening the Group and equipping it to be a formidable competitor in what is becoming an ever more demanding market place. We now have worldwide strengths in product development, material procurement, production and marketing. The management effort and financial cost of achieving this have been well spent. I believe that the current financial year will demonstrate very real progress towards our long-term goals.

David S Barber

HALMA

Chief Executive's Review



"Our business groupings have each built up national or international market leadership"

Stephen O'Shea, Chief Executive

Summary

Halma has again reported record sales and record profits. During the year we developed many new products and made a number of excellent acquisitions. Each of these has reinforced our market strength in our chosen sectors. We made further substantial progress towards our objective of simplifying our activities into a small number of specialist world-class businesses. In each case these are globally organised, with widespread production and sales facilities heading up to a specialist senior executive. These changes and developments have created opportunities for further significant growth.

Product grouping and global strength

Our specialist business groupings now are:

- Fire and Gas detection
- Water leak detection and UV treatment
- Elevator Electronics
- Bursting discs and sequential locking for Process Safety
- High power electrical Resistors
- Ophthalmic Optics

For the first time the Group is reporting separate sales and profit figures for each sector. This segmental analysis is set out in the notes on the accounts.

The key characteristics of the above business groupings are that they are predominantly electronics, they are based on advanced technology and offer strong potential for further growth. Each has built up national or international market leadership in its specialist field.

These comments about the Group's global strength can conveniently be illustrated by taking one sector as an example.

Halma is now substantially the largest world player in the rapidly growing field of elevator sensors and communications. All the Group's companies in this sector come under the direct control of one senior executive with many years' experience in this field. This business group performed very encouragingly with a profit increase of 14%.

Memco, some years ago, was the originator of electronic sensors for elevator doors. These can detect the presence of an obstruction before the door closes onto it and are progressively replacing the more old fashioned mechanical sensors. Memco, with its fellow subsidiary Janus in the USA, has maintained overall leadership as the market has grown. During the year this position was further strengthened by the acquisition of T L Jones and the Group now supplies almost 50% of the total world market for this product.

From this strong position the Group has also developed to become the world market leader in an allied product field, emergency telecommunications for use in elevators. New regulations have come into force requiring the use of these products in territories other than the USA. The Group was already strong in this field through Electronic Micro Systems and within the last twelve months has purchased two more specialists, E-Motive in Singapore and Vandal-Proof Products in the USA.

Elevator Electronics is an excellent example of the Halma Group's current operating philosophy. Equally compelling examples of product strength and market dominance exist in each of the other business groupings and these are reviewed below.

Review

Fire and Gas, the largest product grouping, was the only one not to report a profit improvement during the year. A strong performance by fire detection companies was more than offset by a downturn within the gas detection companies. These suffered from a lack of large scale projects and in this context it is pleasing to report that Telegan has recently been awarded a £1.2 million contract from Centrica to equip its technicians with our newly-developed gas monitoring instruments.

The water-related companies in aggregate recorded a 13% profit increase, with another exceptional performance from Palmer Environmental. This company is the world leader in advanced equipment for water leak detection and its new Permalog product is capturing substantial repeat orders.

Resistors had an outstanding year with a 16% profit increase. At the year end this business was very substantially strengthened by the acquisition of the resistor activities of Cutler-Hammer from Eaton Corporation.

Bursting discs and locking systems increased profits by 7%, largely as a result of the acquisition of Oklahoma Safety Equipment Co. (''OSECO'') in the USA. The sequential locking companies continued to be affected by a lack of petrochemical contracts but made good progress in their other markets.

Optics and Specialist companies reported a 14% increase in profits.

The fastest growing geographical sales territory was the USA with a 19% year on year gain. Despite the strength of Sterling, Far East and Australasia sales recovered from the previous year's downturn with a gain of 14% and European sales, excluding the UK, grew by 5%.

Acquisitions and development

During the year and since the year end we have made the following acquisitions to strengthen our key business groups.

Elevator Electronics	T L Jones based in New Zealand with a manufacturing base in China
	E-Motive Display based in Singapore
	Vandal-Proof Products based in the USA
High Power Resistors	Cutler-Hammer resistor business based in the USA and in the UK
Bursting Discs	OSECO based in the USA
Water	Hydreka based in France

Four smaller businesses within the Group which offered insufficiently attractive long-term prospects were closed or sold during the year at a net cost well within the original estimate.

People

Clive Summerhayes, our longest-serving senior executive, has been promoted to Sectoral Managing Director. Keith Roy and Bill Seymour, responsible respectively for our Water and our Elevator Electronics activities, have been appointed to the Executive Board.

I admire the dedication and skill exhibited throughout the organisation during the past year. This has established our current strong position and I thank everyone concerned for their efforts. In particular I would like to thank Peter Tett who, after a 16 year career at the most senior levels of the Group, retired in April this year. Over a considerable period he has played a crucial role in the development of our fire, security and elevator safety businesses. We all wish him very well in his retirement.

Strategy and prospects

The steady, persistent and determined growth of the Halma Group is sometimes under-estimated by the casual observer. It is worth noting that over the past five years, for example, we have spent almost £70 million on acquisitions. These acquisitions, funded entirely by internally generated cash, have added very substantial intellectual capital to our carefully selected activities.

These activities and our progressively increasing product strength are the means whereby we sustain our consistently high performance ratios. Over the past eight years the average net margin on sales has never been below 18% and the Group's overall return on capital employed has been in excess of 40% for 17 successive years. The strong cash flow resulting from this allows us to grow our businesses, to make acquisitions and to increase our dividend. I trust that the remarkable fundamental strengths of the Group will continue to be recognised by shareholders and will be increasingly reflected in our share price.

Stephen R O'Shea

Financial Review

"The Group is now predominantly engaged in the manufacture and sale of electronic products . . ."

Kevin Thompson, Finance Director

Financial performance

Turnover increased to £233 million and profit before taxation, exceptional items and goodwill amortisation rose to £43.8 million. Profit was 19% of turnover and return on capital employed was 49%, figures consistent with the high levels achieved over the last five years. Earnings per share before exceptionals and goodwill amortisation increased by 5% to 8.41p.

Cash flow

Free cash flow, being cash flow from operating activities plus interest less net capital expenditure and taxation, was £24.5 million in the year. This equates to over 90% of profit after tax, before exceptionals and goodwill amortisation, having adjusted for the accelerated tax payments under new UK rules.

EBITDA (earnings before interest, tax, depreciation and amortisation) is a cash-related performance indicator which is widely used. The Group, as would be expected, consistently performs well against this key indicator and in the year moved its pre-exceptional EBITDA ahead by 7% to £49.7 million.

Segmental information

The increasing focus of the Group's activities into its six key business areas now makes it possible for us to publish a detailed segmental analysis of turnover, profit and net assets for these groupings. This analysis is shown on page 50 and further information on each business group is given in the Chief Executive's Review and the Operating Review.

The Group is now predominantly engaged in the manufacture and sale of electronic products with almost 60% of Group turnover coming from this sector and a further 12% from electrical equipment.

Investment

Capital expenditure in the year amounted to £8.3 million and exceeded the depreciation charge by 33%. Research and development expenditure was at a record level of £6.8 million, 5% above last year and representing 2.9% of turnover. The Group sees new product development as a key driver of its profit growth. Research and development is monitored not only in terms of expenditure, but in terms of the quality, volume and additional gross margin of the new products actually brought to market.

Taxation

The effective rate of taxation before exceptionals and goodwill amortisation decreased to 30.5%. This reflects the fall of 1% in the UK basic rate of corporation tax offset by the effect of the increasing proportion of profits earned in higher tax jurisdictions. We expect the effective rate to stay broadly at this level in 2000/2001.

Exceptional items

The exceptional items charged against profits in the year relate to the sale and closure of certain operating companies as announced in last year's Annual Report. The net aggregate cost of this action is £3 million, well below the original estimate of £4.5 million, due to careful management of the closures and a successful sales process. The associated amount of goodwill previously written off is in line with that estimated last year.

Treasury

The Group's approach to treasury activities remains unchanged, complex derivative products are not used and no speculative transactions are undertaken. In the year a £6 million loan was taken up in Euros to hedge the Group's Euro denominated assets. US dollar loans were used to finance some US acquisition activity. Operating companies continue to hedge significant purchases and sales at the time of the transactions. Currency exposures are reviewed regularly. As announced during the year, the Company spent £2.7 million on the repurchase and cancellation of its shares, including all of its preference shares.

Internal control

The Turnbull Report (Internal Control – Guidance for Directors on the Combined Code) was published in September 1999. The focus of the Turnbull Report is the identification, evaluation and management of significant risks. The Group continues to operate with strong internal controls embedded within its organisation. By managing risk at all levels throughout the Group, adverse situations can be mitigated as profitable opportunities arise. We continue to retain and recruit high quality executives and to benefit significantly from our regular internal review processes.

Kevin J Thompson

Recent Acquisition Activity

A summary of acquisition activity during the 15 month period from April 1999 to June 2000 is set out below:

April 1999	The business of Veccer was acquired for a consideration of £523,000.
July 1999	E-Motive Display Pte Limited was acquired for an initial consideration of Sing$5,900,000.
July 1999	Oklahoma Safety Equipment Co., Inc. was acquired for an initial consideration of US$13,261,000.
October 1999	T L Jones Limited was acquired for an initial consideration of £4,806,000.
November 1999	Mistura Systems Limited was acquired for an initial consideration of £1,500,000.
March 2000	The business and assets of Cutler-Hammer were acquired for a consideration of US$7,710,000.
March 2000	Hydreka S.A. was acquired for an initial consideration of FF 27,000,000.
May 2000	The business and assets of Vandal-Proof Products Inc. were acquired for an initial consideration of US$700,000.

Understanding Halma

Summary

Halma is a strongly cash generative and profitable manufacturing group. It develops unique electronic products which are used worldwide to enhance safety and to reduce hazards. It has subsidiary companies in the UK, continental Europe, North America, Asia and Australasia.

Growth policy

The Group's product strength has enabled it to maintain a high rate of return on capital employed. This supports not only organic growth but also an exceptionally successful and dynamic acquisition activity. For many years this has been self-funded, with virtually no recourse to shareholders.

Business sectors

Halma is best understood as comprising six world-class businesses. In this context the phrase "world-class" is meant to indicate that each such business is a clear market leader in its specialist field and, in a number of cases, is the dominant world supplier.

These businesses are:

- Fire and Gas detection
- Water leak detection and UV treatment
- Elevator Electronics
- Bursting discs and sequential locking for Process Safety
- High power electrical Resistors
- Ophthalmic Optics

Organisation

The above specialist businesses comprise over 80% of Group sales and profits. For managerial purposes they, together with other Group companies, are allocated to divisions, each of which is responsible for its own profit growth organically and by acquisition. There is significant delegation to divisional and company level so as to encourage freedom of entrepreneurial action. A small head office team sets strategy guidelines and maintains an overall framework of financial planning, reporting and control.

Halma's sales growth in the fire and gas sector is built on the development of increasingly sophisticated electronic sensors that detect life-threatening hazards

Fire and Gas

One of Halma's key strengths is detecting hazards to life and the Group is a world leader in electronic detectors that protect people from the twin dangers of fire and gas.

Apollo is the clear market leader in Europe for commercial quality fire detectors, and it has a significant share of the global market with sales to more than 70 countries. This year, the company sold record numbers of detectors, installed across the world in commercial, industrial and public buildings. This company has consolidated its European leadership with the launch of new, microprocessor-based "intelligent" detectors, while an increasingly sophisticated range of electronic add-on products helped to expand its global presence.

Firefighters rely on Crowcon detectors to warn of toxic and flammable gases and low oxygen levels. As well as giving visual and audible warning signals, the latest instruments vibrate to alert the user even in noisy environments.

Halma reinforced its fire detection focus in March 1999 with the acquisition of **Air Products and Controls.** Several new products have enhanced this company's position as North America's leading brand of smoke detectors for air-conditioning ducts. Record sales and profits were achieved in its first full year in the Group.

Toxic and flammable gases are a common threat to life and Halma companies specialise in instruments that detect gases, measure them and warn users of an immediate danger.

Electronic gas detectors from **Crowcon** provide a vital early warning to personnel who may be exposed to gas hazards, such as firefighters, chemical workers and people in confined spaces. Excellent results in the previous year were partly due to three major overseas contracts to equip telecoms engineers; a record achievement which has not been possible to repeat this year. Also, a downturn in the oil and gas industry has caused several customers to defer capital projects. Substantial orders for

Telegan has won a major contract to supply this new instrument, which measures the safety and efficiency of gas boilers, to all British Gas service engineers in the UK.

permanently installed fire and gas safety systems will be received later than expected. However recent sales growth in the USA and two new products are expected to have significant impact in 2000/2001, when full profit recovery is expected.

Telegan has recently won a major contract with Centrica, worth over £1 million, to supply all British Gas service engineers with a new instrument for checking the safety and measuring the energy efficiency of gas boilers. This prestige contract should provide a strong stimulus for sales to independent gas engineers.

British Airways' award-winning Waterside Business Centre near Heathrow, which provides office and leisure facilities for nearly 3,000 personnel, is protected from fire by over 2,500 Apollo devices.

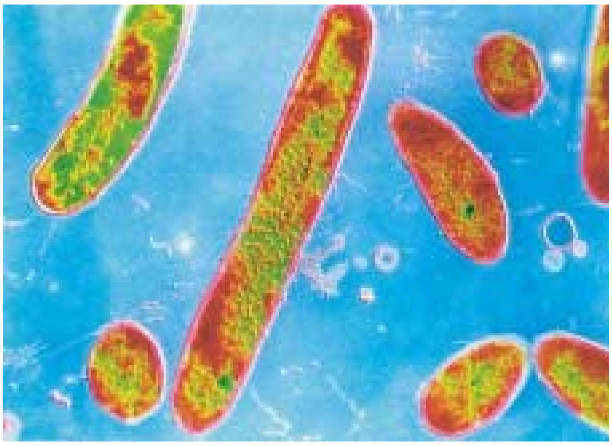
Record sales and profits were reported by **Perma Pure,** whose unique products remove unwanted moisture from gas samples. This success is due to continued growth in its core markets, which include instruments to monitor the breathing of intensive care patients in hospital. New products for bio-medical and fuel cell applications are expected to build on this success in the coming year.

Halma has a strong involvement with water technology. The Group meets the growing need for safe drinking water and relieves pressure on natural water resources

Water

Worldwide demand for clean drinking water is rising continuously due to economic development. At the same time, industrialisation and urbanisation are putting water resources under pressure through pollution and increased consumption.

Halma companies specialise in water technologies that meet the global need for cleaner, safer water. The Group has world-class water technology products – electronic instruments for measuring water quality and locating leaking pipes, and water treatment systems based on ultraviolet light.



Halma's ultraviolet light water treatment systems for air conditioning plants kill Legionella pneumophila bacteria, the cause of Legionnaires' disease.

In an increasing number of markets, growth in demand for water technology is reinforced by legislation. Improving water quality standards, and regulatory limits on pollution and tolerated wastage drive demand for Halma products.

Regulation of wastewater discharged into rivers has created strong demand for instruments that accurately and quickly analyse water. **Palintest,** which produced record sales and profits, makes electronic instruments, advanced chemical sensors and test reagents for testing water quality and monitoring industrial effluents. In the past year, excellent growth was achieved in sales of its world-leading lead analysis system which has recently been approved by the US Environmental Protection Agency. New electronic sensors are being developed for measuring metal pollutants in water, anticipating increased regulation, particularly from the EU.

Severn Trent Water engineers installing Palmer Environmental's revolutionary Permalog leak detection system. Data from permanently fitted underground sensors is collected remotely from a passing vehicle.

Two Halma companies have developed an extremely strong position in the European market for ultraviolet light water treatment equipment. Demand for this technology is rising due to increasing pollution of water supplies and improving standards for drinking water and wastewater discharges. Market growth is also coming from high technology manufacturing processes, such as semi-conductors and pharmaceuticals, that require water of exceptional biological and chemical purity. **Berson,** based in The Netherlands, launched several new patented products, including a wastewater treatment system. **Hanovia** reported record order intake, record sales and record profits, supplying over 100 treatment systems to the electronics sector alone. There has been strong demand for a new treatment system that de-activates the Cryptosporidium organism in drinking water.

Precise measurement and location of leaks in water pipes has important economic, environmental and health consequences and is a market in which Halma companies offer world-class technology. **Palmer Environmental** is the global leader in advanced electronic instruments that detect and locate underground leaks and it reported record profits. Last year's launch of Permalog, a radically new leak detection product, has produced significant UK and overseas sales. This new product may transform leak location technology throughout the world. The purchase of **Hydreka** (France) in March 2000 extends the Group's technology portfolio into water flow auditing. It also provides a marketing platform for the sale of Group products to the major international water utilities headquartered in France.

All the common pollutants and naturally occurring compounds found in lakes and rivers can be measured accurately, quickly and cheaply with Palintest's electronic analysis instruments.

Halma is the world leader in elevator safety. Our products make elevator use a safe and reliable experience for countless millions of people every day

Elevator Electronics

Elevators are the safest form of transport and Halma dominates the world market for elevator safety systems. The Group's primary products in this sector are the electronic devices that prevent elevator doors from closing onto passengers. These employ the latest developments in electronic infrared sensor technology. The most advanced systems sense passengers between doors or approaching an elevator.

Demand patterns for these products depend primarily on building construction growth in national markets. However, worldwide population drift towards cities is forcing up land values making high-rise buildings viable and creating increasing demand for elevators.

Building managers fit Halma elevator safety systems to prevent accidents with closing doors and also to maximise the efficiency of passenger movement.

The new-build market consists of about 300,000 new elevator installations each year plus continual safety upgrading of the world's installed base of about 7 million elevators. The Group believes it commands almost 50% of the world market for elevator passenger protection systems.

Memco is the world's largest manufacturer of elevator door safety systems. Access to new markets, through intragroup trading, should help to deliver profit growth this year. A unique product will soon be launched that will detect and stop anyone attempting to ride on the top of elevator cars, a growing problem known as "elevator surfing".

In October 1999, the Group strengthened its dominant position in elevator safety with the purchase of **T L Jones,** a major supplier of safety systems to elevator constructors and contractors in Australasia, China and west coast USA. To extend market share in China, this company has recently opened a third sales office supported by an established production facility in Shanghai.

Halma is also a global force in elevator emergency communication systems. The Group now enjoys market leadership in telecoms networks for elevator cars in the USA. **Electronic Micro Systems** achieved record sales and profits. Demand for its electronic telecoms products is growing in most countries, and new European legislation requiring emergency communication systems should boost sales next year.

This state-of-the-art elevator position indicator, developed by E-Motive, can even display weather forecasts and news reports.

The Group has recently bought **Vandal-Proof Products** to extend its emergency telecoms range and enter new public access area markets like train stations, airports and college campuses. From a Singapore base, the Group also supplies high quality elevator visual displays and messaging systems through **E-Motive,** purchased in July 1999.

That company is extending sales beyond its home territories in south-east Asia through joint marketing activities with other Halma Group companies, benefiting from their well-established relationships with elevator manufacturers in North and South America and Europe.

Memco's latest elevator door safety systems can prevent damage to doors, as well as safeguarding passengers, by sensing approaching hospital beds or supermarket trolleys.

Halma's process safety products safeguard the lives of hundreds of millions of workers in almost every country, every day

Process Safety

A common theme running through Halma Group activities is the detection of hazards and the protection of life. In the process safety sector, the Group is a world leader in systems that prevent workers from coming into contact with dangerous machines and in products which eliminate the risk of catastrophic explosions.

OSECO and Elfab produce bursting discs to release pressure safely from process pipework. These companies are producing increasingly sophisticated, high-accuracy products to meet growing demand from the biochemical and pharmaceutical industries.

Manufacturing processes are becoming faster and more complex. As a result, the potential risk of industrial workers being injured or killed continues to rise. Around the world, governments are imposing increasingly stringent safety regulations to reflect the rising dangers and changing social attitudes to acceptable risk. This background provides momentum for sales of products that protect people and prevent damage to industrial plant.

While the global process safety sector has long-term growth potential, investment cutbacks in petrochemicals have adversely affected sales of safety control systems in that market. With an increase in the oil price and a restoration of processing capacity, sales to this sector should rise again.

Halma's businesses dominate the world market in sequential locking systems, a principal area of process safety. These products control access to dangerous machinery. Because most production processes pose some risk to the operating staff, safe access control systems are essential throughout manufacturing industry. **Castell Safety International** is the world leader in this branch of industrial safety and maintained its historical level of profitability last year despite the impact of Sterling's strength on exports.

Unloading liquefied natural gas from a tanker is potentially dangerous. In Malaysia, safety systems from Smith Flow Control ensure that Petronas tankers cannot move until gas flow is stopped and the loading arm disconnected.

OSECO, which was purchased in July 1999, achieved record sales and profits post-acquisition. This company is a major US manufacturer of process plant protection devices called bursting discs. These products are fitted to pressurised pipes in almost all chemical processing facilities in the world. Excessive pressure causes bursting discs to rupture in a safe and controlled way, avoiding the possibility of a devastating random explosion.

Elfab is the largest UK manufacturer of bursting discs and during the year launched a series of innovative new products. These combine electrical sensors for status reporting and new types of disc for use in hygienic processes, such as biotechnology and pharmaceutical production.

At BT's satellite communications centre in Cornwall, England, Castell safety systems ensure that access to antennas is available only to authorised personnel, and only when it is safe to enter.

Halma has built up a portfolio of power resistor manufacturers that can offer customers a range of technologies unequalled anywhere else in the world

Resistors

The Group is a major international supplier of high power resistors. These products are used by many industries, and their role is to safely absorb excess electrical power or to control the quality of an electrical supply. They are widely used to protect electricity generating plants and power distribution networks from damage and also to prevent supply interruption.

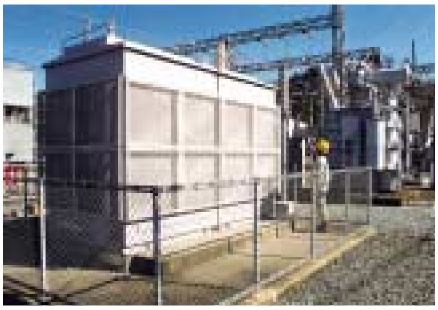
At first sight, the global market for power resistors appears to be mature. However, continued industrialisation and increasing electrical power generation will grow the size and value of this market for the foreseeable future. Allied to this, many industrial power consumers are demanding an improved quality of supply, in both electrical and continuity terms.

Thousands of power generating plants around the world are protected by neutral earthing safety systems provided by Halma companies.

In recent years, Halma companies have created entirely new markets and applications for power resistor technology. Fast response by **Post Glover** to an emerging market in the protection of electrical supplies for internet service providers ("ISPs"), where continuity of supply is crucial, has enabled them to dominate this new market. ISPs buy resistive systems to control electrical faults and allow equipment to operate during a fault condition until it is repaired. The company set new sales records last year and raised profits significantly after a decline the previous year.

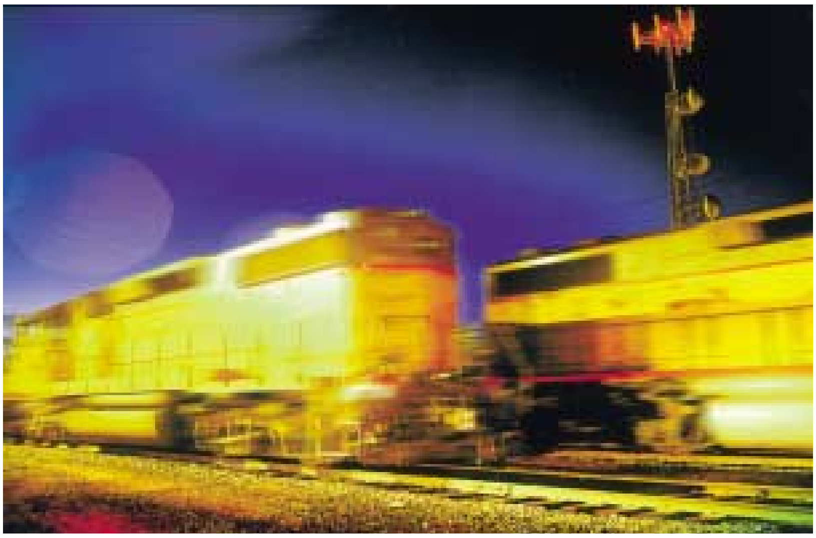
An important safety-critical power resistor application is in speed control of locomotives and mass transit vehicles, where our resistors are used for braking.

In March 2000 the Group purchased from Eaton Corporation the **Cutler-Hammer** resistor business, which has facilities in the USA, the UK and Canada. Combined with Halma's existing market share, this acquisition makes the Group the key world supplier of locomotive braking resistors.



Cressall resistor systems at a substation in Chuse, Japan. If an earth fault occurs, the resistors prevent equipment damage and ensure that other vital safety systems can function.

When it was acquired in 1998, traction resistor specialist **Mosebach** had negligible earnings from exports. At the end of its first full year within the Group, the company had achieved exceptional results in growing its export business, to the extent that overseas sales made up over one third of turnover.



A high proportion of all the world's locomotive traction resistors are manufactured by Halma companies.

Recovery in its key Latin American export market enabled **IPC Resistors** to report record profits and sales. New products that detect and signal electrical ground faults in industrial plants, already well received by the market, will create significant new sales opportunities.

As a whole, the Group's resistor businesses made record sales and close to record profits last year. Prospects for exceeding these figures this year are very promising. A single order for braking resistors for the Long Island Railway (New York, USA) will be shipped this year valued at over £1 million.

One of Halma's key strengths is its ability to identify very specific customer needs and develop an ideal solution, with a high perceived value, using leading-edge technology

Optics and Specialist

Today, Halma focuses its activities in six core markets, including optics. However, the Group also has several highly successful businesses operating in specialist sectors such as pharmaceuticals, biotech and life sciences.

The Group is one of the world leaders in precision optical products for diagnosing and treating eye defects. An exciting new product currently being launched by **Keeler** uses miniaturised video technology to help the partially sighted to become more independent.

Halma companies exploit the latest scientific advances in optics and electronics in the development of instruments for investigating and treating eye defects.

Volk is the US market leader in high precision ophthalmic lenses used by opticians and doctors. In the past year, the company reported a new sales record and launched VolkStore, the Group's first direct sales e-tailing web site.

This company's research and development investment delivers a continuous stream of innovative new products, such as lenses for new types of laser treatment.

Miniature, precision flow control devices are another of the Group's successful specialist products. These measure and control flows of very valuable or hazardous gases or liquids in biotechnology processes and scientific instruments. Halma's miniature valves are built into the gene sequencing machines used by scientists working on the human genome project. The Group's micro-pumps can also be found in blood analysis machines controlling antibiotic dosing, chemical reagents and aggressive solvents.

Volk leads the world in the design and manufacture of high precision lenses used by optometrists and ophthalmologists to examine and treat eye disorders.

Summary

This review has been illustrated with a few examples from Halma's large portfolio of world-class products. Overwhelmingly, the Group's products prevent injury and preserve human life. These products are often used in safety-critical applications where people's lives depend on them. Halma businesses mainly operate in sectors where they are, or can become, market leaders.

The Group's successful approach to product development and innovation is to supplement original ideas generated by internal research and development with leading-edge technology bought in via acquisitions. Acquisition prospects are selected from businesses operating in the same markets as existing Group companies, or with closely complementary products and technologies.

Keeler's innovative NuVision product will enable some partially sighted people to read books, use computers and watch TV for the first time. A head-mounted visor conceals a miniature video camera and two display screens, providing the user with a hugely magnified view of the world.

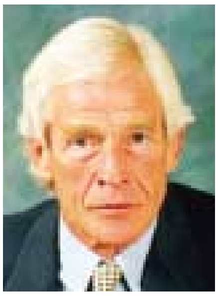
Using this strategy, Halma has established an ever-increasing range of valuable products focused in a narrow range of core markets, which puts the Group in a powerful position for both immediate and long-term growth.

HALMA

Directors and Advisers

Board of Directors	David S Barber *Chairman** Michael J Arthur BCom FCA *Deputy Chairman** Stephen R O'Shea *Chief Executive* Clive Q Summerhayes BSc John C Conacher MA Lord McGowan* Hamish M J Ritchie MA* Kevin J Thompson BSc FCA Neil Quinn BSc
Secretary	E Carol Tredway BA FCA * Non-executive
Executive Board	Stephen R O'Shea *Chief Executive* Clive Q Summerhayes *Sectoral Managing Director* John C Conacher *Sectoral Managing Director* Nigel J Young *Process Safety* Neil Quinn *Fire and Security* Ralph R Jessop *Gas Detection* Kevin J Thompson *Group Finance Director* Gavin N S Turner *Materials Technology* John S Campbell *Resistors* Keith J Roy *Water Technology* William J Seymour *Elevator Electronics*
Assistant Divisional Chief Executive	Robert H Michaels *Gas Detection*
Registered Office	Misbourne Court Rectory Way Amersham Bucks HP7 0DE Telephone: +44 (0)1494 721111 Fax: +44 (0)1494 728032 Web site: www.halma.com
Registered Number	40932
Auditors	PricewaterhouseCoopers 1 Embankment Place London WC2N 6NN
Bankers	National Westminster Bank Plc 15 Bishopsgate London EC2P 2AP
Financial Advisers	Lazard Brothers & Co., Limited 21 Moorfields London EC2P 2HT
Solicitors	CMS Cameron McKenna Mitre House 160 Aldersgate Street London EC1A 4DD
Brokers	HSBC Vintners Place 68 Upper Thames Street London EC4V 3BJ
Registrars	Computershare Services PLC PO Box 82 The Pavilions Bridgwater Road Bristol BS99 7NH Telephone: +44 (0)870 702 0000

Non-executives



David S Barber

Michael J Arthur

Lord McGowan

Hamish M J Ritchie

David S Barber (aged 68) is Chairman of the Halma Group, serves on the Audit Committee and Remuneration Committee, and chairs the Nomination Committee. He joined the Group in 1972 as Managing Director when its annualised turnover was £1.3 million and annualised profits were £128,000. He was Chairman and Chief Executive from 1973 to 1995 and non-executive Chairman from 1996.

Michael J Arthur (aged 65) is non-executive Deputy Chairman of the Halma Group, the Senior Independent Director and serves on the Audit Committee, Remuneration Committee and Nomination Committee. He joined Halma in 1972, was appointed to the Halma p.l.c. Board as Finance Director in 1973 and became Deputy Chairman in 1978. He took up his role as a non-executive Director in 1997. He is a commerce graduate of Birmingham University and a Chartered Accountant.

Lord McGowan (aged 61) was appointed a non-executive Director of Halma in May 1997. He is Chairman of the Remuneration Committee and is a member of the Audit Committee and Nomination Committee. He is Chairman of WestLB Panmure Limited and a non-executive Director of BNB Resources P.L.C., The Monthly High Income Trust P.L.C., The Wanger Investment Company p.l.c. and West Merchant Bank Holdings Limited.

Hamish M J Ritchie (aged 58) was appointed a non-executive Director of Halma in May 1997. He is Chairman of the Audit Committee and is a member of the Remuneration Committee and Nomination Committee. He is Chairman of both Marsh & McLennan Cos. UK Limited and Marsh Europe SA.

Halma Executives

Stephen O'Shea
(aged 54) is Chief Executive of the Halma Group. He was one of the founders of Apollo Fire Detectors in 1980 and was Managing Director when it joined the Group in 1983. He joined the Halma p.l.c. Board in 1990 and became a Divisional Chief Executive in 1992. He was appointed Deputy Chief Executive in 1994 and Chief Executive in 1995.

Tel: +44 (0)1494 721111

Clive Summerhayes
(aged 59) is Sectoral Managing Director and Chief Executive of the Optics and Instruments Division. He joined Halma in 1973 as Managing Director of Standard Engineering Limited and was appointed to the Halma p.l.c. Board in 1977. Clive became a Divisional Chief Executive in 1981 and is currently the longest serving executive Director. In May 2000 he was appointed Sectoral Managing Director. He is a civil engineering graduate of Leeds University.

Tel: +44 (0)116 249 0044

John Conacher
(aged 59) is Sectoral Managing Director in North America and is largely responsible for the Group's US growth. He is Chief Executive of the Applied Materials Division. John joined Halma as Managing Director of Hanovia Limited in 1982, became a Divisional Chief Executive in 1988 and was appointed to the Halma p.l.c. Board in 1990. He is a chemistry graduate of Oxford University.

Tel: +1 (1)513 772 5501

Nigel Young
(aged 50) is Chief Executive of the Process Safety Division. He joined Halma as Managing Director of Fortress Interlocks Limited when the company joined the Group in 1987. Nigel was appointed Assistant Chief Executive of the Safety Division in 1990 and took up his current position as Divisional Chief Executive in 1992. He was appointed to the Executive Board in 1994. He has an MBA from Aston University.

Tel: +44 (0)1902 499640

Neil Quinn
(aged 50) is Chief Executive of the Fire and Security Division. He joined the Group as Sales Director of Apollo Fire Detectors Limited in 1987 becoming Managing Director in 1992. In 1994 he was appointed Chief Executive of the Fire Detection Division and was appointed to the Halma p.l.c. Board in 1998. He is a material science graduate from Sheffield University.

Tel: +44 (0)23 9249 9412

Ralph Jessop
(aged 57) is Chief Executive of the Gas Detection Division. A chemistry graduate, he joined the Group in 1983 as Sales and Marketing Director of Apollo Fire Detectors Limited, becoming Managing Director of Crowcon Detection Instruments Limited in 1986. He was appointed Assistant Chief Executive of the Gas Detection Division in 1994 and later in the same year was appointed Divisional Chief Executive and a member of the Executive Board.

Tel: +44 (0)23 9249 9102

Kevin Thompson
(aged 40) is Finance Director of the Halma Group. He joined the Group in 1987 as Group Financial Controller and in 1995 was appointed to the Executive Board as Finance Director. In 1997 he became Group Finance Director and in 1998 was appointed to the Halma p.l.c. Board. An economics and accounting graduate of Bristol University, Kevin qualified as a Chartered Accountant with Price Waterhouse.

Tel: +44 (0)1494 721111

Gavin Turner
(aged 43) is Chief Executive of the Materials Technology Division. Gavin was Managing Director of Elfab Hughes Limited when it joined the Halma Group in 1993. He was appointed Assistant Chief Executive of the Safety and Services Division in 1997 and became Divisional Chief Executive and a member of the Executive Board later in the same year. Gavin is a Chartered Accountant.

Tel: +44 (0)116 249 0049

John Campbell
(aged 41) joined the Group in 1995 as President of IPC Resistors Inc and became Chief Executive of the Resistors Division upon its formation in 1998 and a member of the Executive Board. He is an electrical engineering graduate of the University of Toronto and before joining Halma was a senior sales and marketing executive within the Industrial Power Group of Rolls-Royce p.l.c.

Tel: +1 (1)905 892 7773

Keith Roy
(aged 50) is Chief Executive of the Water Technology Division. He joined Halma having been joint owner of Reten Acoustics when Halma acquired it in 1992 and was appointed Managing Director and subsequently Chairman of Palmer Environmental Limited. He became an Assistant Divisional Chief Executive in 1998. In 2000 Keith was appointed Divisional Chief Executive of the Water Technology Division and a member of the Executive Board. He is an electronic engineering graduate of both Nottingham University (BSc) and Aston University (MSc).

Tel: +44 (0)1494 721111

Bill Seymour
(aged 40) is Chief Executive of the Elevator Electronics Division. He joined Halma on the acquisition of Janus Elevator Products in December 1990 and became Vice President of that company in 1991. In 1993 he was appointed Joint President of Janus and in 1999 became an Assistant Divisional Chief Executive. In 2000 Bill was appointed Divisional Chief Executive of the Elevator Electronics Division and a member of the Executive Board. He is an electrical engineering graduate of Limerick College of Technology.

Tel: +1 (1)631 864 3699

Carol Tredway
(aged 37) is Company Secretary of Halma p.l.c. She spent three years with English China Clays p.l.c. before joining Halma in 1995 as Group Finance Manager. Carol was appointed Company Secretary in 1998. She is a maths graduate of Randolph-Macon Woman's College, Virginia and qualified as a Chartered Accountant with Arthur Andersen.

Tel: +44 (0)1494 721111

Report of the Directors

Activities

Halma p.l.c. is a holding company. A list of its principal subsidiary companies and their activities is set out on pages 70 and 71.

Results of the period

The Consolidated Profit and Loss Account for the 52 weeks to 1 April 2000 is set out on page 42. The Group profit before taxation, exceptional items and goodwill amortisation is £43,751,000. The profit after taxation, exceptional items and goodwill amortisation amounts to £22,007,000.

Ordinary dividends

The Directors will submit a resolution at the Annual General Meeting proposing a final dividend of 2.423p per share and if approved this dividend will be paid on 21 August 2000 to shareholders on the register at the close of business on 21 July 2000. Together with the interim dividend of 1.570p per share already paid, this will make a total of 3.993p per share for the financial year.

Review

A review of activities together with business and future developments is included on pages 4 to 9 and pages 12 to 23 inclusive. A summary of acquisitions by the Group is included on page 10.

Share capital

Details of share capital issued in the financial year are set out in note 18 on the accounts.

The 1999 Annual General Meeting approved a special resolution to cancel and repay the Company's entire preference share capital. On 20 October 1999 the High Court confirmed the cancellation of the entire 11% cumulative preference share capital consisting of 343,511 shares of £1 each, and on 29 October 1999 the preference shareholders were repaid at 175 pence per share. The aggregate consideration paid, excluding expenses, was £601,144.

Pursuant to the authority granted to the Company at the 1999 Annual General Meeting, the Company purchased 1,850,000 ordinary shares of 10p each (0.5% of the issued ordinary share capital) for an aggregate consideration, excluding expenses and stamp duty, of £2,017,500.

Share option plans

The Directors will propose a resolution at the Annual General Meeting recommending the amendment of the 1999 Company Share Option Plan (Part B) ("Part B") to permit the Company to recover from option holders any secondary Class 1 National Insurance Contributions ("NICs") arising on the exercise of share options granted pursuant to the Rules of Part B, once the legislation permitting the transfer of the liability to pay such NICs from employer to employee has been enacted (and then only to the extent permitted by such legislation). Such recovery will be subject to employee consent and employees must be informed of the method by which payment of the NICs is to be made.

Allotment authority

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

Purchase of own shares

The Company was authorised at the 1999 Annual General Meeting to purchase up to 36,000,000 (approximately 10%) of its own 10p ordinary shares in the market. This authority expires at the end of the 2000 Annual General Meeting. In accordance with the Directors' stated intention to seek annual renewal, a special resolution will be proposed at the Annual General Meeting to renew this authority until the end of the next Annual General Meeting. The Directors consider it desirable that the possibility of making such purchases, under appropriate circumstances, is available. The Directors have no present intention of using this authority. In reaching a decision to purchase shares, the Directors will take into account the Company's cash resources, capital requirements and the effect of any purchase on the Company's earnings per share. It is anticipated that renewal of the authority will be requested at subsequent Annual General Meetings.

Millennium and Economic and Monetary Union

Following each Group company's review of the impact of the millennium software issue and the implications of the Economic and Monetary Union, including the introduction of the Euro, on information systems and other aspects of their operations, no adverse consequences arose and there were no interruptions to the Group's operations. The Audit Committee continues to monitor progress and contingency plans have remained in place to ensure continuity of business.

The total incremental costs to the Group to address all identified issues were not significant.

Supplier payment policy

The Company does not follow any particular supplier payment code of practice. The Company has due regard to the payment terms of suppliers and generally settles all undisputed accounts within 30 days of the due date for payment. At 1 April 2000 the Company's trade creditors represented 29 days of annual purchases.

Employees

Matters which affect the Group are communicated to employees through formal and informal meetings, internal announcements and regular contact with Directors, Sectoral Managing Directors and Divisional Chief Executives.

The Employee Share Scheme is open to all UK employees of the Group following a qualifying period and has been operating since 1980.

The Company is an equal opportunity employer and gives disabled people the same consideration as other individuals.

The environment

The Group plays a very positive and proactive role in the monitoring and improvement of the environment through its commitment to the development and promotion of products which protect the environment. The Group is widely recognised as being amongst the leading companies in the field of environmental control and monitoring. Through its manufacturing companies, the Group has a long-term involvement in the production of equipment designed to monitor changes in the environment and also to control industrial activities which generate pollution. Given the autonomous structure of the Group, operational responsibility for compliance with relevant local environmental regulations is delegated to the board of directors of each Group company.

Research and development

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

Donations

Group companies made charitable donations amounting to £2,373 during the financial year. There were no political donations.

Directors

The Directors of the Company are listed on page 24. Brief biographies are set out on pages 25 to 27.

Retirement of Director

On 30 April 2000 Mr P A Tett retired from service with the Group and resigned as a Director of the Company.

Directors proposed for re-election

Mr C Q Summerhayes, Lord McGowan and Mr H M J Ritchie retire by rotation and being eligible offer themselves for re-election.

Shareholdings

As at 8 June 2000 the Company had been notified under Section 198 of the Companies Act 1985 of the following notifiable holdings of the Company's ordinary shares:

	shares	per cent
Silchester International Investors Limited	44,480,910	12.3
Mr D S Barber	13,203,056	3.6

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

The Company is also aware of the following non-notifiable holdings of its ordinary shares in relation to funds managed by:

	shares	per cent
Baillie Gifford & Co	23,565,799	6.5
Oppenheimer Funds Inc.	23,238,500	6.4
Perpetual Unit Trust Management	21,173,007	5.8
F P Asset Management	18,545,000	5.1
Prudential Group of Companies	18,357,136	5.0
Phillips & Drew Fund Management	18,146,760	5.0

Auditors

Resolutions will be proposed at the Annual General Meeting to re-appoint PricewaterhouseCoopers as Auditors and to authorise the Directors to determine their remuneration.

By Order of the Board
E C Tredway Secretary
Misbourne Court Rectory Way Amersham Bucks HP7 0DE
20 June 2000

Corporate Governance

The Board is committed to the maintenance of high standards of Corporate Governance. The policy of the Board is to manage the affairs of the Company in accordance with the Principles of Good Governance and the Code Provisions set out in Section 1 of the Combined Code on Corporate Governance ("the Combined Code") issued by the Financial Services Authority.

Application of the Principles of Good Governance

The Group is controlled and directed by a Board consisting of a non-executive Chairman, five executive Directors and three other non-executive Directors. Their biographies appear on pages 25 to 27. The Board considers each of the non-executive Directors to be independent. In assessing independence, the Board considers that the non-executive Directors are independent of management and free from business and other relationships which could interfere with the exercise of independent judgement. The Board believes that any shareholdings of non-executive Directors serve to align their interests with those of all shareholders. Mr Arthur is acknowledged as the Senior Independent Director.

The Directors retain responsibility for the formulation of corporate strategy, investment decisions, and treasury and risk management policies. There is a formal schedule of matters reserved for the Board's decision and the Board meets at least eight times each year. All Directors have access to the advice and services of the Company Secretary.

Lord McGowan chairs the Remuneration Committee of which each of the non-executive Directors is a member. Formal terms of reference exist which follow the recommendations of the Combined Code. The Committee makes recommendations to the Board on the framework for executive Directors' remuneration based on proposals formulated by the Chief Executive.

Mr Ritchie chairs the Audit Committee of which each of the non-executive Directors is a member. Formal terms of reference exist which follow the recommendations of the Combined Code. The Committee reviews the interim and annual accounts, the statement on internal controls and is responsible for the relationship with the external auditors. The Chief Executive and Finance Director attend Committee meetings by invitation in order to provide appropriate advice.

Mr Barber chairs the Nomination Committee of which each of the non-executive Directors and the Chief Executive are members. Formal terms of reference exist which follow the recommendations of the Combined Code. The Committee makes recommendations to the Board on the appointment of new Directors.

Control of divisional operating matters is delegated to the Sectoral Managing Directors and Divisional Chief Executives all of whom are members of the Executive Board. Biographies of Executive Board members appear on pages 26 and 27. The Chief Executive chairs the Executive Board of which the Finance Director is also a member thereby ensuring the Board's strategies are communicated to those overseeing operations. The Chief Executive and Finance Director meet regularly with each Sectoral Managing Director and each Divisional Chief Executive to monitor progress against key objectives and review operational performance.

Individual boards of directors, chaired by the appropriate Sectoral Managing Director or Divisional Chief Executive, manage operating companies. These Boards have clearly defined responsibilities for the operation of their businesses, including compliance with legislation and regulations, and for internal reporting. The system of internal control exercised within the Group is described below.

Investor relations

In regular meetings with shareholders and analysts the Chief Executive and Finance Director communicate the Group's methods and results. Meetings include the Annual General Meeting and briefings following the interim and annual results. The Financial Calendar is set out on page 65.

During the financial year the Group relaunched its web site, www.halma.com, which contains copies or summaries of all Company announcements, electronic versions of the latest Annual Report and Accounts, biographical information on key Directors and Officers, and full subsidiary company names and addresses as well as hotlinks to their own web sites.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Internal control

The Board of Directors has overall responsibility to the shareholders for the Group's system of internal control and formal responsibility for reviewing its effectiveness has been delegated to the Audit Committee. Any system of internal control can provide only reasonable but not absolute assurance against material misstatement or loss. The Audit Committee has carried out its annual review of internal controls covering key commercial and financial risks. The Committee has also satisfied itself that the procedures established to implement the recommendations of the Turnbull Committee, as set out in the document entitled ''Internal Control – Guidance for Directors on the Combined Code'', are sufficient to ensure compliance with these recommendations for the financial year to 31 March 2001. The transitional approach for complying with the internal control provisions of the Code and for disclosures has been adopted by the Board.

The Group's external auditors, PricewaterhouseCoopers, have audited the financial statements and have reviewed the internal financial control systems to the extent they consider necessary to support their audit report.

As noted earlier, the Board meets regularly throughout the year and has adopted a schedule of matters which are required to be brought to it for decision. This procedure is intended to ensure that the Directors maintain full and effective control over all significant strategic, financial and organisational issues.

Group companies operate under a system of controls which includes but is not limited to:

- a defined organisational structure with an appropriate delegation of authority to operational management
- the identification and appraisal of risks both formally, through the annual process of preparing business plans and budgets, and informally through close monitoring of operations
- a comprehensive financial reporting system within which actual results are compared with approved budgets and previous year's figures on a monthly basis and reviewed at both local and Group level
- an investment evaluation procedure to ensure an appropriate level of approval for all capital expenditure
- half-yearly reviews of Group companies' results by senior financial staff
- a prescribed robust structure under which it is appropriate to adopt means of electronic communication and to conduct e-commerce.

Compliance with the Code of Best Practice

The Company complied with the Combined Code throughout the financial year except for those areas noted below for which compliance was achieved during the financial year.

- Directors were re-elected at least every three years, however, the Company's Articles of Association did not require them to be so re-elected. In order to ensure compliance with the provisions of the Combined Code, a special resolution was approved by shareholders at the 1999 Annual General Meeting amending the Company's Articles of Association to provide that all Directors should submit themselves for re-election at least every three years.
- The terms of reference of the Remuneration Committee were amended in April 1999 so that the Committee now makes recommendations to the Board on the Company's framework for executive remuneration, whereas previously, the Committee had determined it.
- At Annual General Meetings in earlier years, proxy votes had not been announced after a show of hands on each resolution. Following the introduction of the provisions of the Combined Code this practice was introduced with effect from the 1999 Annual General Meeting.

Report on Remuneration

Remuneration policy

The policy on Directors' Remuneration is to provide the remuneration packages necessary to attract, retain and motivate Directors of the quality required to manage the business of the Group and to align the interests of the Directors with those of the shareholders.

In accordance with rule 12.43A(c) of the Listing Rules of the Financial Services Authority the Board presents its Report on Remuneration to the shareholders. The Board confirms that when determining the remuneration policy for executive Directors for 1999/2000 full consideration was given to the Combined Code appended to the Listing Rules of the Financial Services Authority.

A Remuneration Committee was formed in May 1997 which consists entirely of non-executive Directors, the members being Lord McGowan (Chairman of the Committee), Mr D S Barber, Mr M J Arthur and Mr H M J Ritchie. The Committee makes recommendations to the Board on the framework for executive remuneration and determines the terms of service and remuneration of executive Directors.

Basic salary and benefits

In determining basic salary levels for each individual, the Committee uses independent surveys and other relevant data to relate remuneration levels to comparable publicly quoted companies.

Share options

The Directors have long believed that share option plans are an excellent way to align the interests of senior management with those of the shareholders and that share options provide excellent motivation.

The 1990 and 1996 Share Option Plans each provide for the grant of two categories of option both of which are subject to performance criteria. No further grants will be made from either of these plans.

Section 'A' options are exercisable after three years if the Company's earnings per share growth exceeds, for the 1990 Plan, the growth in the Retail Price Index and, for the 1996 Plan, the growth in the Retail Price Index plus 2% per annum. Section 'B' options are exercisable after five years if the Company's earnings per share growth exceeds the earnings per share growth of all but the top quarter of companies which were within the FTSE100 at the date of grant of any option.

The new 1999 Company Share Option Plan, under which no options have yet been granted, has more stringent exercise criteria. Section 'A' options are exercisable after three years if the Company's earnings per share growth exceeds 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 growth of all but the top quarter of companies which were within a peer group at the date of grant of any option.

The granting of options is spread over the life of the plan. Executive Directors receive a triennial award of 'A' options, an annual award of 'B' options and the possibility of further 'A' options under a performance related bonus scheme.

Performance related bonus scheme

This scheme, which applies only to executive Directors, is reviewed annually by the Remuneration Committee and approved by the Board. Without such approval there is no alternative bonus arrangement for Directors.

The scheme differentiates between Directors who are Sectoral Managing Directors or Divisional Chief Executives and other Directors.

In the case of a Sectoral Managing Director or Divisional Chief Executive a bonus is earned if the profit of the Division(s) for which he is responsible for that year exceeds the previous highest peak when compared with the preceding three financial years. The profits calculated for this purpose regard each Division as if it was a stand-alone group of companies charging it with the cost of capital it utilises including the cost of acquisitions.

For other eligible Directors, bonuses are based on the increase in profits, calculated as above, of the aggregated Divisions for each year.

A predetermined percentage of the profit improvement is payable in cash and generally a further percentage is granted in the form of Section 'A' share options.

Directors' remuneration

	Salaries and fees £000	Bonus £000	Benefits £000	2000 Total £000	1999 Total £000
D S Barber	57	–	–	57	56
M J Arthur	20	–	–	20	20
S R O'Shea	221	–	17	238	226
C Q Summerhayes	150	54	9	213	169
P A Tett	133	–	11	144	136
J C Conacher	207	13	23	243	214
Lord McGowan	17	–	–	17	17
H M J Ritchie	17	–	–	17	17
K J Thompson	100	–	12	112	95
N Quinn	110	14	12	136	114
	1,032	81	84	1,197	1,064

Mr J C Conacher is based in the USA and his basic salary has been determined to reflect local employment conditions and an additional element for working overseas. Included in Mr Conacher's benefits is $17,405 in respect of securing him medical insurance from the anticipated date of his retirement through to age 65.

The fees paid to Lord McGowan were paid to WestLB Panmure Limited and the fees paid to Mr H M J Ritchie were paid to Marsh Europe SA at the individuals' request.

Mr J C Conacher was the highest paid director in the financial year after aggregating his share option gain of £116,910 with his emoluments. This share option gain arises on an option granted in 1990.

Pension benefits

Directors participate in the following defined benefit and money purchase pension arrangements.

Defined benefit scheme

The Directors participate in the appropriate section of the Halma Group Pension Plan. This is a funded, Inland Revenue approved, final salary occupational pension scheme, which provides a pension equal to the lower of two-thirds of final pensionable salary and the Inland Revenue maximum pension at normal pension age. Pensionable salary is the greatest salary of the last three complete tax years immediately before retirement or leaving service. Bonuses and other fluctuating emoluments and benefits in kind are not pensionable. The scheme also provides for life cover of three times pensionable salary, pensions in the event of early retirement through ill health and dependants' pensions.

(a) Normal pension age: this is age 60 under the Halma Board Director and Divisional Chief Executive section. Transitional arrangements are in place for entrants to this section prior to 1 August 1992 until when the normal pension age was 65.

(b) Dependants' pensions: for death in service, a spouse's pension of 50% of the member's prospective pension is payable and the member's contributions are refunded. For death in retirement, a spouse's pension of 50% of the member's pension is payable as well as a sum equal to the balance of five years' pension payments if death occurs within five years of retirement. In the event of death after leaving service but before commencement of pension, a spouse's pension of 50% of the accrued preserved pension is payable and member's contributions are refunded. In certain circumstances, children's allowances are also payable, at the rate of $16\frac{2}{3}$% of the member's pension.

(c) Pension increases: post-retirement pension increases are guaranteed at the rate of 3% per annum on the pension earned for service up to 5 April 1997 and by the lesser of 5% per annum or the increase in the Retail Price Index (known as Limited Price Indexation) for service after 5 April 1997.

(d) Early retirement rights: members over 50 may retire early with the consent of the Company and the Trustees of the Halma Group Pension Plan. The early retirement pension is determined to be equivalent in value to the deferred pension.

Details of the value of individual pension entitlements are shown below. This information is necessary to enable a reasonable assessment to be made of the increase in the transfer value over the year.

	Age at 1.4.00	Years of service at 1.4.00	Directors' contributions in the year £000	Increase in accrued pension during the year £000	Total accrued pension £000
S R O'Shea	54	24	10	9	103
C Q Summerhayes	58	26	7	5	90
P A Tett	60	16	6	2	55
J C Conacher	59	15	–	6	87
K J Thompson	40	12	4	5	24
N Quinn	50	12	4	10	32

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

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

Mr J C Conacher withdrew from active membership of the Halma Group Pension Plan in November 1996. Money purchase arrangements, details of which are given below, were subsequently established. The above table presents his preserved benefits which, by agreement, increase at a rate of 8% per annum up to the date of retirement.

Money purchase arrangements

Mr J C Conacher has a money purchase arrangement in an overseas pension plan established under a trust into which he pays 5% of his salary. The Company also pays into this plan an additional amount equal to 24.4% of salary each year. In the financial year this amount was £50,000 (1999: £48,000).

Directors' interests in shares

The beneficial and non-beneficial interests of Directors and their families in the ordinary shares of the Company during the financial year were as follows:

	Beneficial interests		Non-beneficial interests	
	shares 1.4.00	shares 3.4.99	shares 1.4.00	shares 3.4.99
D S Barber	13,203,056	13,203,056	–	–
M J Arthur	1,552,806	1,552,806	185,000	185,000
S R O'Shea	120,980	100,980	–	–
C Q Summerhayes	1,613,236	1,613,236	–	–
P A Tett	193,161	193,161	107,000	120,000
J C Conacher	345,523	275,205	–	–
Lord McGowan	41,540	41,540	–	–
H M J Ritchie	30,000	30,000	–	–
K J Thompson	47,786	97,786	–	–
N Quinn	1,894	1,894	–	–

The changes in Directors' interests from 1 April 2000 to 20 June 2000 were Mr D S Barber's sale of 150,000 ordinary shares on 11 April 2000 and Mr S R O'Shea's share option exercise over 296,126 ordinary shares and his sale of 194,624 ordinary shares, both on 18 April 2000.

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

	As at 3.4.99	Granted	Exercised	Lapsed	As at 1.4.00
S R O'Shea	998,755	283,500	–	–	1,282,255
C Q Summerhayes	470,858	346,300	–	–	817,158
P A Tett	776,717	200,800	–	–	977,517
J C Conacher	704,658	480,500	162,762	–	1,022,396
K J Thompson	343,129	36,800	27,969	–	351,960
N Quinn	408,976	51,200	–	–	460,176

The total gains on options exercised by Directors during the financial year amounted to £135,265. The total gains arise on options granted between 1990 and 1992. The gains are calculated by deducting the exercise price from the closing middle market price at the date of exercise.

Options granted to Directors during the financial year were at a weighted average of 120p. The closing middle market price of the Company's ordinary shares on Friday, 31 March 2000, the last trading day preceding the financial year end, was 94.5p per share and the range during the year was 93.5p to 137p.

Details of Directors' options outstanding at 1 April 2000 are set out in the table below. The status of the options can be summarised as follows:

1 Exercisable at that date at a price per share less than 94.5p
2 Exercisable at that date at a price per share greater than 94.5p
3 Not yet exercisable, will only be exercisable when the performance criteria, set out above, have been met but have an exercise price per share of greater than 94.5p.

	Status of options (see above)	Year of grant	Number of shares	Weighted average exercise price (p) per share
S R O'Shea	1	1990-92	296,126	51.70
	2	1993-96	400,798	130.19
	3	1993-99	585,331	122.40
C Q Summerhayes	1	1992	48,828	58.81
	2	1993-96	170,532	133.12
	3	1993-99	597,798	121.04
P A Tett	1	1990-92	413,065	54.68
	2	1993-96	256,664	125.22
	3	1994-99	307,788	122.24
J C Conacher	1	1990-92	158,966	58.29
	2	1993-96	150,532	133.43
	3	1993-99	712,898	121.45
K J Thompson	2	1994-96	70,843	122.42
	3	1993-99	281,117	121.09
N Quinn	1	1992	41,004	60.88
	2	1994	48,710	122.63
	3	1993-99	370,462	118.87

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

Service contracts

Mr D S Barber, Mr M J Arthur, Lord McGowan and Mr H M J Ritchie have no service contracts. Mr S R O'Shea, Mr C Q Summerhayes and Mr J C Conacher have two year rolling service contracts. All other executive Directors have, and any subsequent appointees will have, contracts with a notice period of one year. None of the contracts has pre-determined compensation clauses in the event of early termination. The Board and the Remuneration Committee confirm that these contracts are appropriate having regard, amongst other things, to the individuals' length of service. Within five years, no Director will have a contract in excess of one year.

By Order of the Board
Lord McGowan Chairman of the Remuneration Committee
Misbourne Court Rectory Way Amersham Bucks HP7 0DE
20 June 2000

Responsibilities of the Directors

It is the responsibility of the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for that period.

The Directors have responsibility for ensuring that proper accounting records are maintained which disclose with reasonable accuracy the financial position of the Company and the Group and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors also have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors consider that, in preparing the financial statements on pages 42 to 63 and the disclosures on pages 36 to 39 relating to the remuneration of the Directors, appropriate accounting policies have been used, which have been consistently applied and supported by reasonable and prudent judgements and estimates, that all accounting standards which they consider to be applicable have been followed, and that it is appropriate to use a going concern basis.

Report of the Auditors

To the Members of Halma p.l.c.

We have audited the financial statements on pages 42 to 63 (including the additional disclosures on pages 36 to 39 relating to the remuneration of the Directors specified for our review by the Financial Services Authority), which have been prepared under the historical cost convention, and the accounting policies set out on pages 47 and 48.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report. As described on page 40, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on page 34 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 1 April 2000 and of the profit and cash flows of the Group for the 52 week period then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
1 Embankment Place   London WC2N 6NN
20 June 2000

Consolidated Profit and Loss Account

£000

	Notes	52 weeks to 1 April 2000 Before exceptional items and goodwill amortisation	Exceptional items	Goodwill amortisation	Total	1999 53 weeks Total
Turnover	1	233,485	–	–	233,485	217,758
Operating profit before goodwill amortisation		43,419	–	–	43,419	40,777
Goodwill amortisation		–	–	(1,283)	(1,283)	(276)
Operating profit	3	43,419	–	(1,283)	42,136	40,501
Exceptional items	4					
Costs of closure and sale of businesses		–	(3,036)	–	(3,036)	–
Related goodwill adjustment		–	(4,732)	–	(4,732)	–
Loss on closure and sale of businesses		–	(7,768)	–	(7,768)	–
		43,419	(7,768)	(1,283)	34,368	40,501
Interest	7	332	–	–	332	1,046
Profit on ordinary activities before taxation	1	43,751	(7,768)	(1,283)	34,700	41,547
Taxation	8	(13,341)	648	–	(12,693)	(12,959)
Profit for the financial year		30,410	(7,120)	(1,283)	22,007	28,588
Dividends						
Preference dividends					(21)	(38)
Ordinary dividends	9				(14,413)	(12,021)
					(14,434)	(12,059)
Profit transferred to reserves	10				7,573	16,529
Earnings per ordinary share before exceptional items and goodwill amortisation	2				8.41p	7.99p
Earnings per ordinary share	2				6.08p	7.91p
Diluted earnings per ordinary share	2				6.07p	7.88p

The notes on pages 47 to 63 form part of these Accounts.

Consolidated Balance Sheet

£000

At 1 April 2000	Notes	2000	1999
Fixed assets			
Intangible assets	11	35,784	14,058
Tangible assets	12	42,214	40,644
		77,998	54,702
Current assets			
Stocks	13	35,842	34,790
Debtors	14	64,629	59,530
Cash and short-term deposits		21,900	29,894
		122,371	124,214
Creditors: amounts falling due within one year			
Borrowings	15	14,700	7,730
Dividends payable		8,730	7,294
Current taxation		8,355	11,927
Creditors	16	38,728	33,639
		70,513	60,590
Net current assets		51,858	63,624
Total assets less current liabilities		129,856	118,326
Creditors: amounts falling due after one year	17	4,317	2,167
		125,539	116,159
Capital and reserves			
Called up share capital	18	35,994	36,473
Share premium account	10	1,096	894
Other reserves	10	422	–
Profit and loss account	10	88,027	78,792
Shareholders' funds (including non-equity interests)		125,539	116,159

Approved by the Board of Directors on 20 June 2000

D S Barber S R O'Shea Directors

Statement of Total Recognised Gains and Losses

£000

	2000 52 weeks	1999 53 weeks
Profit for the financial year	22,007	28,588
Other recognised gains and losses		
Exchange adjustments	(483)	1,210
Related corporation tax	(6)	(163)
	(489)	1,047
Total recognised gains and losses	21,518	29,635

Movements in Shareholders' Funds

	Notes	2000 52 weeks	1999 53 weeks
Profit for the financial year		22,007	28,588
Dividends		(14,434)	(12,059)
Profit transferred to reserves	10	7,573	16,529
Total other recognised gains and losses		(489)	1,047
Net proceeds of shares issued		252	334
Cancellation and repayment of preference shares	10	(656)	–
Purchase of own shares	10	(2,032)	–
Goodwill adjustment on closure and sale of businesses		4,732	–
Increase in shareholders' funds		9,380	17,910
Shareholders' funds brought forward		116,159	98,249
Shareholders' funds carried forward		125,539	116,159

Consolidated Cash Flow Statement

£000

	Notes	2000 52 weeks	1999 53 weeks
Cash flow from operating activities	22	47,369	42,972
Return on investments and servicing of finance			
Interest received		1,107	1,690
Interest paid		(529)	(632)
Preference dividends paid		(21)	(57)
		557	1,001
Taxation			
Current taxation paid		(16,317)	(10,998)
Capital expenditure			
Purchase of tangible fixed assets		(8,298)	(6,960)
Sale of tangible fixed assets		1,118	796
		(7,180)	(6,164)
Acquisitions and disposals			
Acquisition of businesses	22	(25,730)	(14,622)
Cash and overdrafts acquired		377	822
Sale of businesses		1,107	282
Overdrafts sold		313	–
		(23,933)	(13,518)
Equity dividends paid		(12,977)	(10,795)
		(12,481)	2,498
Management of liquid resources			
Decrease/(increase) in short-term deposits	22	10,509	(7,282)
Financing			
Issue of ordinary share capital		252	334
Purchase and repayment of shares	10	(2,688)	–
Increase in loans		6,257	3,312
		3,821	3,646
Increase/(decrease) in cash	22	1,849	(1,138)

Halma p.l.c. Balance Sheet

£000

At 1 April 2000	Notes	2000	1999
Fixed assets			
Tangible assets	12	5,514	5,784
Investments	20	29,372	29,344
		34,886	35,128
Current assets			
Debtors	14	88,465	70,501
Cash and short-term deposits		13,630	24,017
		102,095	94,518
Creditors: amounts falling due within one year			
Borrowings	15	6,123	369
Dividends payable		8,730	7,294
Current taxation		2,292	2,938
Creditors	16	11,381	12,500
		28,526	23,101
Net current assets		73,569	71,417
Total assets less current liabilities		108,455	106,545
Creditors: amounts falling due after one year	17	170	–
		108,285	106,545
Capital and reserves			
Called up share capital	18	35,994	36,473
Share premium account	10	1,096	894
Other reserves	10	422	–
Profit and loss account	21	70,773	69,178
Shareholders' funds (including non-equity interests)		108,285	106,545

Approved by the Board of Directors on 20 June 2000

D S Barber S R O'Shea Directors

Accounting Policies

Basis of accounting

The accounts set out on pages 42 to 63 are prepared under the historical cost convention and comply with applicable UK Accounting Standards. The principal Group accounting policies have been applied consistently throughout the current and preceding year.

Basis of consolidation

The consolidated accounts include the accounts of Halma p.l.c. and its subsidiary companies made up to 1 April 2000. The results of subsidiary companies acquired are included from the month of acquisition.

Acquisitions

Fair values are ascribed to tangible assets and liabilities of subsidiary companies and businesses at the dates of acquisition and the resultant goodwill is capitalised as an intangible asset. Prior to 28 March 1998 any goodwill surplus or deficiency was taken to reserves.

Intangible assets

Following the adoption of Financial Reporting Standard 10 (Goodwill and Intangible Assets) in the previous financial year, goodwill arising on acquisitions after 28 March 1998 is capitalised and is classified as an intangible asset in the Consolidated Balance Sheet. Capitalised goodwill is amortised through the Consolidated Profit and Loss Account over 20 years. Goodwill arising on earlier acquisitions was not restated.

Foreign currencies

Transactions in foreign currency are recorded at the rate of exchange at the date of the transaction unless matched by a forward currency contract. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates prevailing at that date, or, where appropriate, at the forward currency contract rate. Any gain or loss arising from subsequent exchange rate movements is included as an exchange gain or loss in the Consolidated Profit and Loss Account.

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 of the financial year. Exchange gains or losses arising on these translations, together with those on foreign currency borrowings which are taken out to hedge the Group's overseas investments, are taken to reserves.

Turnover

Turnover represents sales, less returns, by subsidiary companies to external customers excluding value added tax.

Depreciation

With the exception of freehold land, depreciation is provided on all tangible fixed assets on the straight line method, each item being written off over its estimated life. The principal annual rates used for this purpose are:

Freehold buildings	2%
Leasehold properties –	
more than 50 years unexpired	2%
less than 50 years unexpired	Period of lease
Plant, machinery and equipment	8% to 20%
Motor vehicles	20%
Short-life tooling	33⅓%

Leases

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

Pensions

The Group makes contributions to various pension schemes, covering the majority of the employees, which are charged against profits on a systematic and rational basis over the period during which benefit is derived from the employees' service.

Research and development

Expenditure on research and development is written off in the financial year in which it is incurred.

Stocks

Stocks and work in progress of subsidiary companies are included at the lower of cost and net realisable value. Cost includes the appropriate proportion of production and other overheads considered by the Directors to be attributable to bringing the stock to its location and condition at the year end.

Deferred taxation

Provision is made for taxation deferred because of timing differences between profits as computed for taxation purposes and profits as stated in the accounts except to the extent that such taxation will not be payable in the foreseeable future. Timing differences are due primarily to the excess of tax allowances on tangible fixed assets over the corresponding depreciation charged in the accounts.

Notes on the Accounts

£000

1 Segmental analysis

Geographical analysis

Turnover	By destination 2000	By destination 1999	By origin 2000	By origin 1999
United Kingdom	82,758	83,569	154,262	154,673
United States of America	67,650	56,949	67,463	55,329
Europe excluding UK	45,525	43,312	17,582	18,702
Far East and Australasia	22,975	20,221	10,448	4,457
Africa, Near and Middle East	6,517	7,041	–	–
Other	8,060	6,666	2,798	2,048
Inter-segmental sales	–	–	(19,068)	(17,451)
	233,485	217,758	233,485	217,758

Profit before taxation	2000	1999
United Kingdom	27,600	30,082
United States of America	12,164	8,280
Other countries	3,655	2,415
	43,419	40,777
Exceptional items	(7,768)	–
Goodwill amortisation	(1,283)	(276)
Interest	332	1,046
Profit on ordinary activities before taxation	34,700	41,547

Net assets	2000	1999
United Kingdom	51,899	49,954
United States of America	22,229	21,923
Other countries	8,427	8,060
	82,555	79,937
Net cash	7,200	22,164
Net tangible assets	89,755	102,101
Intangible assets	35,784	14,058
Shareholders’ funds	125,539	116,159

Notes on the Accounts continued £000

1 Segmental analysis continued

Sector analysis

Turnover	2000	1999
Fire and Gas	61,299	59,103
Water	27,118	26,671
Elevator Electronics	27,150	21,952
Process Safety	31,293	26,245
Resistors	23,079	22,981
Optics and Specialist	64,627	62,358
Inter-segmental sales	(1,081)	(1,552)
	233,485	217,758
Profit before taxation		
Fire and Gas	12,345	13,219
Water	7,423	6,573
Elevator Electronics	6,078	5,345
Process Safety	5,476	5,108
Resistors	3,554	3,063
Optics and Specialist including holding companies	8,543	7,469
	43,419	40,777
Exceptional items	(7,768)	–
Goodwill amortisation	(1,283)	(276)
Interest	332	1,046
Profit on ordinary activities before taxation	34,700	41,547
Net assets		
Fire and Gas	19,138	19,536
Water	13,078	11,854
Elevator Electronics	8,967	6,269
Process Safety	10,947	9,937
Resistors	10,510	8,176
Optics and Specialist including holding companies	19,915	24,165
	82,555	79,937
Net cash	7,200	22,164
Net tangible assets	89,755	102,101
Intangible assets	35,784	14,058
Shareholders' funds	125,539	116,159

All of the Group's land and buildings, dividends payable, taxation and deferred purchase consideration are included within the net tangible assets of the sector described as Optics and Specialist including holding companies.

The above segmental figures are analysed for the first time by specialist business groupings. Comparative figures are restated accordingly.

HALMA Notes on the Accounts continued £000

2 Earnings per ordinary share

Earnings per ordinary share are calculated by dividing the profit for the financial year of £22,007,000 (1999: £28,588,000) less preference dividends by the weighted average of 361,334,514 shares in issue during the year (1999: 360,967,345).

Diluted earnings per ordinary share are calculated using the same earnings as for earnings per ordinary share, divided by 362,198,599 shares (1999: 362,259,427) which includes dilutive potential ordinary shares of 864,085 (1999: 1,292,082). The Company's 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.

The earnings per ordinary share before exceptional items and goodwill amortisation as presented on the profit and loss account, represents a more consistent measure of underlying performance. A reconciliation of earnings and the effect on per share figures are presented below:

	2000	1999	Per ordinary share 2000 p	Per ordinary share 1999 p
Profit for the financial year	22,007	28,588	–	–
Preference dividends	(21)	(38)	–	–
Earnings	21,986	28,550	6.08	7.91
Add back: exceptional items (after tax)	7,120	–	1.97	–
Add back: goodwill amortisation	1,283	276	0.36	0.08
Earnings before exceptional items and goodwill amortisation	30,389	28,826	8.41	7.99

3 Operating profit

	2000	1999
Operating profit on continuing activities comprises:		
Turnover	233,485	217,758
Cost of sales	(163,496)	(152,129)
Gross profit	69,989	65,629
Distribution costs	(5,312)	(4,754)
Administrative expenses	(21,599)	(20,265)
Other operating income	341	167
	43,419	40,777
Goodwill amortisation	(1,283)	(276)
	42,136	40,501
Operating profit is arrived at after charging:		
Employee share scheme allocation	475	460
Depreciation	6,252	5,748
Goodwill amortisation	1,283	276
Research and development	6,753	6,419
Auditors' remuneration	435	400
Operating lease rents: property	2,728	2,302
other	76	71

Auditors' remuneration includes £58,000 (1999: £52,000) in respect of the Company. In addition, fees amounting to £143,000 (1999: £24,000) were charged by PricewaterhouseCoopers for non-audit services provided to UK Group companies.

4 Exceptional items

Exceptional items arose on the closure and sale of parts of the business of Marathon Monitors Inc., the sale of the business of American Tech Manufacturing Corporation and the shoe machinery business of Standard Cressall Limited, and the sale of the entire share capital of Tradinco Instrumenten-Apparaten B.V.

Tradinco Instrumenten-Apparaten B.V. was sold to a company, Tradinco Holding BV, in which A G J Remmerswaal was a shareholder. A G J Remmerswaal was a director of Tradinco Instrumenten-Apparaten B.V. during the year. Consideration for the sale was £414,000 which was inclusive of debt.

5 Employee information

The average number of persons employed by the Group during the year was:	2000 Number	1999 Number
United Kingdom	2,003	2,047
Overseas	972	780
	2,975	2,827

Group employee costs comprise:	£000	£000
Wages and salaries	56,430	53,433
Social security costs	6,672	6,510
Other pension costs	3,196	3,102
	66,298	63,045

6 Directors' remuneration

Details of Directors' remuneration are set out on pages 36 to 39 within the Report on Remuneration and form part of these financial statements.

7 Interest

	2000	1999
Interest receivable on short-term deposits	1,086	1,619
Interest payable on bank loans and overdrafts	(488)	(510)
Other interest	(266)	(63)
	332	1,046

8 Taxation

	2000	1999
UK corporation tax at 30% (1999: 31%)	8,890	9,937
Overseas taxation	3,878	3,254
	12,768	13,191
Adjustments in respect of prior years	(75)	(232)
	12,693	12,959

In respect of the exceptional items UK corporation tax is stated net of a tax credit of £14,000 and overseas taxation is stated net of a tax credit of £634,000.

On a full potential liability basis the unprovided deferred taxation in respect of the year would be £43,000 (1999: £186,000).

£000

8 Taxation continued

	Group 2000	Group 1999	Halma p.l.c. 2000	Halma p.l.c. 1999
Deferred taxation				
Timing differences due to:				
Fixed assets	411	366	–	1
Other items	(411)	(366)	–	(1)
	–	–	–	–
Unprovided deferred taxation				
Timing differences due to:				
Fixed assets	1,551	1,508	367	365
Other items	–	–	–	–
	1,551	1,508	367	365

No provision is made for taxation which might become payable if profits retained by overseas subsidiary companies are distributed as dividends. There are no plans to pay such dividends.

9 Ordinary dividends

	2000	1999	2000	1999
	p	p		
Interim paid	1.570	1.308	5,679	4,723
Final proposed	2.423	2.019	8,730	7,294
Balance of final dividend	–	–	4	4
	3.993	3.327	14,413	12,021

If approved, the final dividend will be paid on 360,287,952 shares in issue. 350,641 shares have been issued after 1 April 2000.

10 Reserves

	Share premium account	Capital redemption reserve	Special reserve	Profit and loss account
At 3 April 1999	894	–	–	78,792
Profit transferred to reserves	–	–	–	7,573
Goodwill on closure/sale	–	–	–	4,732
Preference shares	–	–	344	(656)
Purchase of own shares	–	185	–	(2,032)
Share options exercised	202	–	(107)	107
Exchange adjustments	–	–	–	(489)
	1,096	185	237	88,027

Total other reserves comprising the capital redemption and special reserves amount to £422,000 (1999: nil). The total purchase and repayment of shares, comprising preference shares and purchase of own shares, amounted to £2,688,000 (1999: nil).

Notes on the Accounts continued £000

11 Fixed assets – intangible assets

	Goodwill
Cost	
At 3 April 1999	14,334
Additions (Note 19)	23,009
At 1 April 2000	37,343
Amortisation	
At 3 April 1999	276
Charge for the year	1,283
At 1 April 2000	1,559
Net book amounts	
At 1 April 2000	35,784
At 3 April 1999	14,058

12 Fixed assets – tangible assets

	Land and buildings			Plant	
Group	Freehold properties	Long leases	Short leases	equipment & vehicles	Total
Cost					
At 3 April 1999	20,438	1,503	1,797	47,540	71,278
Assets of businesses acquired	–	–	30	3,370	3,400
Additions at cost	96	14	161	8,027	8,298
Assets of businesses sold	(454)	–	–	(1,336)	(1,790)
Disposals	(376)	(150)	(3)	(3,585)	(4,114)
Exchange adjustments	(48)	–	(14)	(266)	(328)
At 1 April 2000	19,656	1,367	1,971	53,750	76,744
Accumulated depreciation					
At 3 April 1999	2,232	218	689	27,495	30,634
Assets of businesses acquired	–	–	14	1,677	1,691
Charge for the year	302	27	142	5,781	6,252
Exceptional write down	247	–	–	–	247
Assets of businesses sold	(174)	–	–	(989)	(1,163)
Disposals	(95)	(11)	(3)	(2,855)	(2,964)
Exchange adjustments	(12)	–	(11)	(144)	(167)
At 1 April 2000	2,500	234	831	30,965	34,530
Net book amounts					
At 1 April 2000	17,156	1,133	1,140	22,785	42,214
At 3 April 1999	18,206	1,285	1,108	20,045	40,644

Notes on the Accounts continued £000

12 Fixed assets – tangible assets continued

Halma p.l.c.	Land and buildings Freehold properties	Land and buildings Short leases	Plant equipment & vehicles	Total
Cost				
At 3 April 1999	6,109	76	822	7,007
Additions at cost	–	–	139	139
Disposals	(201)	–	(115)	(316)
At 1 April 2000	5,908	76	846	6,830
Accumulated depreciation				
At 3 April 1999	744	26	453	1,223
Charge for the year	81	6	125	212
Disposals	(28)	–	(91)	(119)
At 1 April 2000	797	32	487	1,316
Net book amounts				
At 1 April 2000	5,111	44	359	5,514
At 3 April 1999	5,365	50	369	5,784

13 Stocks

	2000	1999
Raw materials and consumables	14,462	13,573
Work in progress	8,816	8,616
Finished goods and goods for resale	12,564	12,601
	35,842	34,790

14 Debtors

	Group 2000	Group 1999	Halma p.l.c. 2000	Halma p.l.c. 1999
Falling due within one year:				
Trade debtors	61,143	55,676	–	–
Amounts due from group companies	–	–	88,187	70,307
Prepayments and accrued income	2,409	2,505	207	148
Other debtors	1,077	1,349	71	46
	64,629	59,530	88,465	70,501

15 Borrowings

	Group 2000	Group 1999	Halma p.l.c. 2000	Halma p.l.c. 1999
Falling due within one year:				
Bank loans and overdrafts	14,415	7,361	5,838	–
Other unsecured loans	285	369	285	369
	14,700	7,730	6,123	369

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16 Creditors

	Group 2000	Group 1999	Halma p.l.c. 2000	Halma p.l.c. 1999
Trade creditors	25,608	22,363	195	192
Other taxation and social security	3,650	3,651	1,098	1,076
Amounts owing to group companies	–	–	9,060	10,317
Accruals and deferred income	7,025	6,471	870	835
Other creditors	2,445	1,154	158	80
	38,728	33,639	11,381	12,500

17 Creditors: amounts falling due after one year

	Group 2000	Group 1999	Halma p.l.c. 2000	Halma p.l.c. 1999
Deferred purchase consideration	4,317	2,167	170	–

18 Called up share capital

	Authorised 2000	Authorised 1999	Issued and fully paid 2000	Issued and fully paid 1999
Ordinary shares of 10p each	43,656	43,656	35,994	36,129
11% cumulative preference shares of £1	–	344	–	344
	43,656	44,000	35,994	36,473

The number of ordinary shares in issue at 1 April 2000 was 359,937,311.

The preference share capital is the only non-equity interest included in prior year total shareholders' funds.

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

At 3 April 1999	36,129
Purchase of own shares	(185)
Share options exercised	50
At 1 April 2000	35,994

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

At 3 April 1999	344
Cancellation and repayment	(344)
At 1 April 2000	–

On 20 October 1999 the High Court confirmed the cancellation of the entire 11% Cumulative preference share capital consisting of 343,511 shares of £1 each, and on 29 October 1999 the preference shareholders were repaid at 175 pence per share. The aggregate consideration paid, excluding expenses, was £601,144.

Options in respect of 37,606 ordinary shares remained outstanding at 1 April 2000 under the share option plan approved by shareholders in 1983. Options are exercisable for the periods and at the prices set out below:

Number of shares	Option price	Seven years from
37,606	46.67p – 55.7p	1993

HALMA Notes on the Accounts continued £000

18 Called up share capital continued

Options in respect of 6,672,335 ordinary shares remained outstanding at 1 April 2000 under the share option plan approved by shareholders in 1990. 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
199,108	50.63p – 50.94p		1993
241,296	52.53p – 54.85p		1994
178,956	65.39p – 69.61p		1995
693,675	115.31p – 128.81p		1996
1,224,846	122.63p – 132.19p		1997
569,859	111.75p – 126p		1998
119,730	138p – 144.76p		1999
486,000	122.5p – 139p		2000
125,800	101.5p – 116.5p		2001
277,200	120p – 137p		2002
163,703	50.63p – 53.79p	1995	
242,480	52.84p	1996	
390,142	55.59p – 69.61p	1997	
508,758	98.02p – 128.82p	1998	
562,803	104.23p – 132.23p	1999	
669,313	111.75p – 126p	2000	
3,866	138.02p	2001	
1,100	101.5p	2003	
13,700	120p	2004	

Options in respect of 10,432,383 ordinary shares remained outstanding at 1 April 2000 under the share option plan approved by shareholders in 1996. 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
896,387	138p – 144.75p		1999
2,972,000	122.5p – 139p		2000
915,300	101.5p – 123.5p		2001
2,704,700	120p – 137p		2002
529,196	138p – 144.75p	2001	
623,300	122.5p – 137p	2002	
646,100	101.5p – 123.5p	2003	
1,145,400	120p – 136p	2004	

The 1990 and 1996 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 Company's earnings per share growth exceeds, for the 1990 Plan, the growth in the Retail Price Index and, for the 1996 Plan, the growth in the Retail Price Index plus 2% per annum. Section B options are exercisable after five years if the Company's earnings per share growth exceeds the earnings per share growth of all but the top quarter of companies which were within the FTSE100 at the date of grant of any option.

All options lapse if not exercised within 10 years from the date of grant.

HALMA Notes on the Accounts continued £000

19 Goodwill arising on acquisition

	Book value	Fair value adjustments	Total
Tangible fixed assets	2,055	(346)	1,709
Current assets			
Stocks	4,041	(1,167)	2,874
Debtors	5,690	(465)	5,225
Cash and short-term deposits	804	(17)	787
Total assets	12,590	(1,995)	10,595
Current liabilities			
Borrowings	605	–	605
Current taxation	197	(104)	93
Creditors	3,729	369	4,098
Deferred taxation	160	(136)	24
Total liabilities	4,691	129	4,820
Net assets of businesses acquired	7,899	(2,124)	5,775
Deferred purchase consideration			(3,480)
Cash consideration			(25,304)
Total consideration			(28,784)
Goodwill arising on acquisition (Note 11)			(23,009)

Adjustments were made to the book value of the net assets acquired to reflect their fair value to the Group. The principal fair value adjustments ensured that accounting policies were aligned with those of the Group. Other previously unrecognised assets and liabilities at acquisition were included where appropriate.

Deferred purchase consideration is payable on the acquisitions of E-Motive Display Pte Limited, Oklahoma Safety Equipment Co. Inc., Mistura Systems Limited and Hydreka S.A. Deferred purchase consideration is payable in cash and comprises both fixed and contingent elements. The contingent elements have been accrued at the estimated amount payable. The amounts ultimately paid are dependent on sales for Oklahoma Safety Equipment Co. Inc., and in the case of E-Motive Display Pte Limited on margins achieved during specified periods following acquisition.

The goodwill of £23,009,000 arose on acquisition as follows:

Veccer	(213)
E-Motive Display Pte Limited	(2,426)
Oklahoma Safety Equipment Co. Inc.	(9,107)
TL Jones Limited	(4,190)
Mistura Systems Limited	(1,751)
Cutler-Hammer	(2,693)
Hydreka S.A.	(2,635)
Other	6
Goodwill arising on acquisition	(23,009)

Cumulative goodwill written off against reserves on acquisitions prior to 28 March 1998, net of that attributable to closures and sales, amounts to £76,526,000 (1999: £81,258,000).

Notes on the Accounts continued £000

20 Investments

Shares in Group companies	2000	1999
At cost less amounts written off 3 April 1999	29,344	28,844
Additions	1,800	500
Amounts written off in financial year	(1,772)	–
At cost less amounts written off 1 April 2000	29,372	29,344

Details of principal subsidiary companies are set out on pages 70 and 71. All these subsidiaries are wholly owned and, apart from the following, are subsidiaries of Halma p.l.c. and are incorporated in Great Britain where they principally operate.

Name of company	Country of incorporation and principal operations
Fortress Systems Pty. Limited	Australia
*IPC Resistors Inc.	Canada
*HF Sécurité S.A.	France
*Hydreka S.A.	France
*S.E.R.V. Trayvou Interverrouillage S.A.	France
*Apollo Gesellschaft für Meldetechnologie mbH	Germany
*Berson Milieutechniek B.V.	The Netherlands
*CEF Safety Systems B.V.	The Netherlands
*TL Jones Limited	New Zealand
*E-Motive Display Pte Limited	Singapore
*Halma Holdings Inc.	USA
*Air Products and Controls Inc.	USA
*Aquionics Inc.	USA
*Bio-Chem Valve Inc.	USA
*Castell Interlocks Inc.	USA
*Electronic Micro Systems Inc.	USA
*IPC Power Resistors International Inc.	USA
*Janus Elevator Products Inc.	USA
*Marathon Sensors Inc.	USA
*Mosebach Manufacturing Company	USA
*Oklahoma Safety Equipment Co. Inc.	USA
*Perma Pure Inc.	USA
*Post Glover Resistors Inc.	USA
*Volk Optical Inc.	USA

*Interests held by subsidiary companies.

Notes on the Accounts continued £000

21 Profit and loss account of Halma p.l.c.

As permitted by Section 230 of the Companies Act 1985, the Profit and Loss Account of Halma p.l.c. is not presented as part of these accounts.

The movements on that account during the year were:	2000	1999
At 3 April 1999	69,178	57,674
Profit after taxation	18,598	22,987
Dividends	(14,434)	(12,059)
Preference shares	(656)	–
Purchase of own shares	(2,032)	–
Transfer from special reserve	107	–
Exchange adjustments	12	576
At 1 April 2000	70,773	69,178

22 Consolidated cash flow statement

	2000	1999
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	42,136	40,501
Depreciation	6,252	5,748
Goodwill amortisation	1,283	276
Loss on sale of tangible fixed assets	11	58
Increase in stocks	(878)	(2,632)
(Increase)/decrease in debtors	(1,155)	294
Increase/(decrease) in creditors	249	(582)
Net cash flow relating to exceptional items	(529)	(691)
Net cash inflow from operating activities	47,369	42,972

The cash outflow of £25,730,000 on the acquisition of businesses includes the payment of £426,000 of deferred purchase consideration which arose from acquisitions made in earlier years, and where provision was made in prior years' financial statements.

Reconciliation of net cash flow to movement in net cash

	2000	1999
Increase/(decrease) in cash	1,849	(1,138)
(Decrease)/increase in liquid resources	(10,509)	7,282
Short-term deposits acquired	409	–
Loans acquired	(604)	(281)
Cash inflow from loans	(6,257)	(3,312)
Exchange adjustments	148	(242)
	(14,964)	2,309
Net cash brought forward	22,164	19,855
Net cash carried forward	7,200	22,164

HALMA Notes on the Accounts continued £000

22 Consolidated cash flow statement continued

Analysis of net cash

	At 3 April 1999	Cash flow	Acquisitions (excluding cash and overdrafts)	Other non-cash changes	Exchange adjustments	At 1 April 2000
Cash	4,972	1,408	–	–	(52)	6,328
Overdrafts	(486)	441	–	–	3	(42)
		1,849				
Short-term deposits	24,922	(10,509)	409	750	–	15,572
Bank loans	(6,875)	(6,472)	(473)	(750)	197	(14,373)
Other unsecured loans	(369)	215	(131)	–	–	(285)
	22,164	(14,917)	(195)	–	148	7,200

23 Financial instruments

Policy
The Group does not use complex derivative financial instruments. Where it does use financial instruments these are mainly to manage the currency risks arising from normal operations and its financing. Operations are financed mainly through retained profits and in certain geographical locations, bank borrowings. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments is undertaken. Foreign currency risk is the most significant aspect for the Group in the area of financial instruments. It is exposed to a lesser extent to other risks such as interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and these policies are summarised below. Policies have remained unchanged since the beginning of the financial year.

Foreign currency risk
The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating companies in currencies other than the companies' operating (or "functional") currency. Operating companies use forward currency contracts to hedge at the time of invoicing significant sales denominated in foreign currencies. Currency purchases are hedged similarly.

The Group which is based in the UK and reports in Sterling, has a significant investment in overseas operations in the USA, with further investments in The Netherlands, France, Germany, Italy, Australia, New Zealand, Canada, Malaysia, Singapore and China. As a result, the Group's balance sheet can be affected by movements in these countries' exchange rates. Where significant, currency denominated net assets are partially hedged by local borrowings. Currency exposures are reviewed regularly.

Finance and interest rate risk
The Group has limited borrowings and hence any related exposure to interest rate fluctuations is not significant. Borrowings other than those used to manage foreign currency risk tend to be short-term with floating interest rates.

The Group's policy is to place surplus funds on short-term deposit. These deposits have floating rates of interest, and thus there is some modest exposure to interest rate fluctuations.

Liquidity risk
The Group has a strong cash flow and the funds generated by operating companies are managed regionally based on geographic location. Funds are placed on deposit with secure, highly-rated banks. For short-term working capital purposes, most operating companies utilise local bank overdrafts. These practices allow a balance to be maintained between continuity of funding, security and flexibility. Because of the nature of their use, the facilities are typically "on demand" and as such uncommitted. Borrowing facilities are typically reviewed annually.

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23 Financial instruments continued

Currency exposures

The table below shows the Group's net foreign currency monetary assets and liabilities. These are the assets and liabilities of Group companies which are not denominated in the functional currency of the company involved. These comprise cash and overdrafts, and certain debtors and creditors. These foreign currency monetary assets and liabilities give rise to the net currency gains and losses recognised in the Profit and Loss Account as a result of movement in exchange rates. As at year end these exposures were as follows:

2000	Net foreign currency monetary assets/(liabilities)				
Functional currency of operation	Sterling	US dollar	Euro	Other	Total
Sterling	–	2,305	2,224	337	4,866
US dollar	(19)	–	–	(24)	(43)
Euro	(412)	606	–	(8)	186
Other	(215)	2,326	10	241	2,362
Total	(646)	5,237	2,234	546	7,371

1999	Net foreign currency monetary assets/(liabilities)				
Functional currency of operation	Sterling	US dollar	Euro	Other	Total
Sterling	–	1,596	332	616	2,544
US dollar	–	–	–	(74)	(74)
Euro	(190)	89	–	(16)	(117)
Other	(59)	226	–	212	379
Total	(249)	1,911	332	738	2,732

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

Interest rate risk profile

The Group's only financial assets which are subject to interest rate fluctuations are short-term cash deposits which are predominantly Sterling denominated and placed on money markets and earn interest at market rates.

The only financial liabilities which are subject to interest rates are bank loans, bank overdrafts and certain unsecured loans, which totalled £14,700,000 at 1 April 2000 (1999: £7,730,000). All are subject to floating rates of interest. These comprised US dollar denominated bank loans of £8,406,000 (1999: £6,875,000) which bear interest with reference to the US dollar LIBOR rates, Euro denominated bank loans of £5,967,000 (1999: nil) which bear interest with reference to the Euro LIBOR rates, Euro denominated bank overdrafts of £29,000 (1999: £486,000) which bear interest at rates referenced to Euro base rates and Sterling denominated bank overdrafts of £13,000 (1999: nil) and loan notes of £285,000 (1999: £369,000) which bear interest at rates referenced to UK base rates.

Maturity of financial liabilities

With the exception of the deferred purchase consideration 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 £3,426,000 (1999: £1,513,000) due between one and two years, with the balance due between two and five years.

Borrowing facilities

The Group's principal source of borrowing facilities is through "on demand" bank overdrafts which are, by definition, uncommitted. These facilities are generally reviewed on an annual or ongoing basis and hence the facilities expire within one year or less.

The Group also has committed borrowing facilities which are used for the purposes of managing foreign currency risk. At 1 April 2000 committed facilities of this type amounted to £26,250,000 (1999: £6,875,000) of which £14,088,000 (1999: £6,875,000) was fully drawn down. The borrowing facilities are reviewed annually, and as such the weighted average maturity of the borrowing facilities is less than one year.

Notes on the Accounts continued £000

23 Financial instruments continued

Fair values of financial assets and financial liabilities
As at 1 April 2000 there was no significant difference between the book value and fair value of the Group financial assets and financial liabilities. At the prior year end the only significant difference was in respect of the preference shares which had a book value of £344,000 and a fair value of £515,000.

Hedging
As explained above, the Group's policy is to hedge significant sales and purchases denominated in foreign currency using forward currency contracts. The gains and losses on these instruments are recognised when the exposure that is being hedged is itself recognised. The amounts of unrecognised gains or losses on instruments used for hedging at 1 April 2000 are not significant.

24 Commitments

Capital commitments:
Capital expenditure authorised and contracted at 1 April 2000 but not provided in these accounts amounts to £573,000 (1999: £660,000).

Commitments under operating leases:
Annual commitments under non-cancellable operating leases expire as follows:

	Land and buildings		Other	
	2000	1999	2000	1999
Within one year	139	214	22	20
Within two to five years	1,211	1,056	64	71
After five years	1,476	1,597	4	1
	2,826	2,867	90	92

Total annual commitments under non-cancellable operating leases amount to £2,916,000 (1999: £2,959,000).

25 Pensions

Group companies operate both defined benefit and defined contribution pension schemes. The major schemes are of the defined benefit type with assets held in separate trustee administered funds. Defined contribution schemes are mainly adopted in overseas subsidiaries. Pension contributions for the Group are paid in accordance with the advice of professionally qualified actuaries.

The total pension cost for the Group was £3,196,000 (1999: £3,102,000) of which £611,000 (1999: £655,000) relates to overseas schemes.

The major UK scheme was last assessed as at 1 December 1999 using the projected unit method. The principal actuarial assumptions adopted in the valuation were firstly that the investment return would exceed the rate of salary growth by 2.5% per annum dependent on scheme membership category, and secondly that pensions in the course of payment would increase at 3% per annum or, for future service, in accordance with the requirements of the Pensions Act 1995.

At 1 December 1999 the market value of the major UK scheme's assets was £45,910,000. The actuarial value of the scheme's assets represented 97% of the benefits that had accrued to members after allowing for expected future increases in earnings. The shortfall is being addressed by increased Company contributions.

Analysis of Shareholders

Ordinary shareholdings as at 22 May 2000

	Shareholders Number	Shareholders %	Shares Number	Shares %
Number of shares held				
1 – 7,500	5,018	74.6	11,143,198	3.1
7,501 – 25,000	1,019	15.1	13,681,105	3.8
25,001 – 100,000	429	6.4	22,142,667	6.1
100,001 – 750,000	200	3.0	55,130,429	15.3
750,001 and over	62	0.9	258,164,007	71.7
	6,728	100.0	360,261,406	100.0
Category of shareholders				
Insurance companies	71	1.0	28,384,797	7.9
Pension funds	99	1.5	69,175,175	19.2
Investment companies and unit trusts	86	1.3	109,391,135	30.4
Banks and nominee companies	1,486	22.1	95,858,503	26.6
Other corporate bodies	167	2.5	4,848,538	1.3
Total corporate bodies	1,909	28.4	307,658,148	85.4
Directors	9	0.1	17,093,323	4.7
Other individual shareholders	4,810	71.5	35,509,935	9.9
	6,728	100.0	360,261,406	100.0

Financial Calendar

1999/2000 Interim results	7 December 1999
1999/2000 Interim dividend payable	7 February 2000
Trading update	27 April 2000
1999/2000 Preliminary results	20 June 2000
1999/2000 Report and Accounts issued	3 July 2000
Annual General Meeting	2 August 2000
1999/2000 Final dividend payable	21 August 2000
Trading update	end October 2000
2000/2001 Interim results	5 December 2000
2000/2001 Interim dividend payable	February 2001
Trading update	end April 2001
2000/2001 Preliminary results	June 2001

HALMA

Notice of Meeting

Notice is hereby given that the one hundred and sixth Annual General Meeting of Halma p.l.c. will be held at The Ballroom, The Four Seasons Hotel, Hamilton Place, London W1 on Wednesday, 2 August 2000 at 12 noon for the following purposes:

Ordinary business

1 To approve the Report of the Directors and the Accounts for the period of 52 weeks ended 1 April 2000.

2 To declare a dividend on the ordinary shares.

3 To re-elect as a Director Mr C Q Summerhayes who retires from the Board by rotation and being eligible offers himself for re-election.

4 To re-elect as a Director Lord McGowan who retires from the Board by rotation and being eligible offers himself for re-election.

5 To re-elect as a Director Mr H M J Ritchie who retires from the Board by rotation and being eligible offers himself for re-election.

6 To re-appoint PricewaterhouseCoopers as Auditors.

7 To authorise the Directors to determine the remuneration of the Auditors.

Special business

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

8 That:

(a) the Directors be and are hereby authorised to amend the Halma 1999 Company Share Option Plan (Part B) (''Part B'') to permit the Company to recover from option holders any secondary Class 1 National Insurance Contributions (''NICs'') arising on the exercise of share options granted pursuant to the Rules of Part B, once the legislation permitting the transfer of the liability to pay such NICs from employer to employee has been enacted (and then to the extent only permitted by such legislation). Such recovery will be subject to employee consent and will be administered in accordance with the terms of the legislation then in place;

(b) the Directors be authorised to inform employees of the method by which the payment of the NICs amount, due on exercise of the share options, is to be made;

(c) the Directors be and are hereby authorised to vote, and to be counted in the quorum, on any matter concerning or connected with Part B, notwithstanding that they may be interested in the same (except that no Director may be counted in the quorum or vote in respect of his own participation) and that the prohibitions on voting by interested Directors contained in the Articles of Association of the Company be accordingly relaxed to that extent.

9 That the Directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot or to make any offer or agreement to allot equity securities of the Company pursuant to the authority contained in Resolution 10 passed at the Company's Annual General Meeting on 30 July 1997 as if Section 89(1) of the Companies Act 1985 did not apply to any such allotment, provided that such power shall be limited to the allotment of equity securities:

(a) pursuant to the terms of any share scheme for employees approved by the Company in general meeting; and

(b) otherwise than pursuant to sub-paragraph (a) above, up to an aggregate nominal amount of £1,801,400,

and shall expire at the conclusion of the next Annual General Meeting of the Company, save that the Directors may make any offer or agreement before such expiry which would or might require equity securities to be allotted after such expiry; words and expressions defined in or for the purposes of Section 89 to 96 inclusive of the Companies Act 1985 shall bear the same meanings in this resolution.

10 That the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of ordinary shares of 10p each (''ordinary shares'') provided that:

(a) the maximum number of shares hereby authorised to be acquired is 36,000,000 ordinary shares, having an aggregate nominal value of £3,600,000;

(b) the maximum price which may be paid for any ordinary share is an amount equal to 105 per cent of the average of the middle market quotations for such an ordinary share as derived from the London Stock Exchange's Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased and the minimum price which may be paid for any such ordinary share shall be the nominal value of that share; and

(c) the authority hereby conferred shall expire at the conclusion of the Company's next Annual General Meeting (except in relation to the purchase of ordinary shares the contract for which was concluded before such date and which would or might be executed wholly or partly after such date), unless such authority is renewed prior to such time.

A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him. A proxy need not be a member. A form of proxy is enclosed. By signing and returning the form of proxy, a shareholder will not be precluded from attending and voting in person should he subsequently find it possible to be present.

By Order of the Board
E C Tredway Secretary
Misbourne Court Rectory Way Amersham Bucks HP7 0DE
3 July 2000

In accordance with the requirements of the Companies Act 1985, a summary of any transactions during the past year by the Directors and their family interests in the Company's shares will be available for inspection at the registered office of the Company from the date of the above notice until 2 August 2000 and at The Four Seasons Hotel from 11.45 am on the day of the meeting until the close of the meeting.

Summary 1991 to 2000

	1990/91	1991/92	1992/93	1993/94	1994/95
Turnover	81,869	94,547	116,145	135,318	153,739
Overseas sales	34,203	44,311	59,808	74,976	90,045
Profit before taxation, exceptional items and goodwill amortisation	13,255	15,514	20,891	25,075	29,234

Net tangible assets	32,445	38,404	46,064	55,518	63,833
Borrowings	7,081	8,424	8,726	6,898	7,096
Cash and short-term deposits	8,100	12,701	17,248	16,794	19,759
Employees	1,718	1,841	1,902	2,099	2,226

Earnings per ordinary share (Notes 1 and 2)	2.16p	2.92p	4.19p	4.79p	5.59p
Earnings per ordinary share before exceptional items and goodwill amortisation (Note 1)	2.87p	3.25p	4.19p	4.79p	5.59p
Year on year (decrease)/increase in earnings per ordinary share before exceptional items and goodwill amortisation	(6.8%)	13.2%	28.9%	14.3%	16.7%
Net tangible assets per ordinary share (Note 1)	9.8p	11.2p	13.2p	15.6p	17.9p
Year on year increase/(decrease) in net tangible assets per ordinary share	5.4%	14.3%	17.9%	18.2%	14.7%
Profit before taxation, exceptional items and goodwill amortisation as a % of turnover	16.2%	16.4%	18.0%	18.5%	19.0%
Return on capital employed (Note 3)	40.9%	40.4%	45.4%	45.2%	45.8%
Year on year increase in dividends per ordinary share	27%	25%	20%	20%	20%

Ordinary share price at financial year end (Note 1)	50p	68p	108p	127p	113p
Market capitalisation at financial year end	£163.7m	£229.8m	£375.2m	£446.9m	£401.5m

Notes:

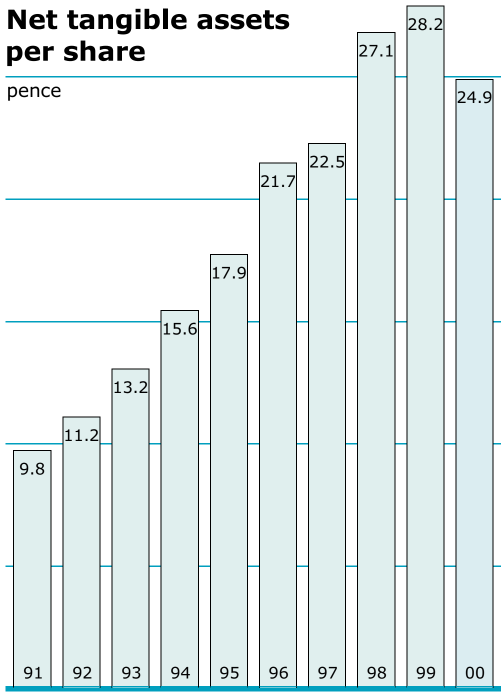
1. Restated for the capitalisation issues made in 1991, 1993, 1995 and 1997.
2. Earnings per ordinary share figures have been restated where appropriate on an FRS3 basis for items previously disclosed as extraordinary.
3. Return on capital employed is defined as profit before taxation, exceptional items and goodwill amortisation expressed as a % of net tangible assets.

£000

1995/96	1996/97	1997/98	1998/99	1999/00
173,652	200,140	213,777	217,758	233,485
104,432	119,235	126,863	134,189	150,727
33,619	37,076	42,391	41,823	43,751
77,650	81,209	98,249	102,101	89,755
8,350	3,763	2,784	7,730	14,700
27,459	13,447	22,639	29,894	21,900
2,384	2,677	2,861	2,827	2,975
6.44p	7.01p	6.87p	7.91p	6.08p
6.44p	7.01p	8.26p	7.99p	8.41p
15.2%	8.9%	17.8%	(3.3%)	5.3%
21.7p	22.5p	27.1p	28.2p	24.9p
21.2%	3.7%	20.4%	4.1%	(11.7%)
19.4%	18.5%	19.8%	19.2%	18.7%
43.3%	45.7%	43.1%	41.0%	48.7%
20%	20%	20%	20%	20%
138p	134p	124p	92p	95p
£492.1m	£479.2m	£447.3m	£330.6m	£340.1m

Net tangible assets per share

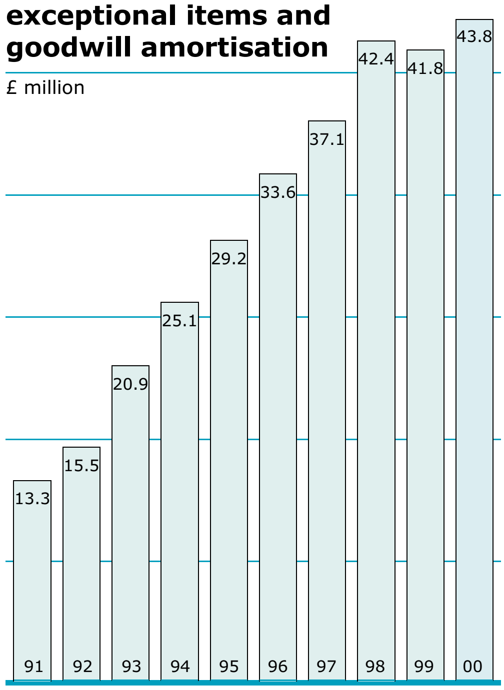
pence



Year ending

Profit before taxation, exceptional items and goodwill amortisation

£ million



Year ending

Halma Group Directory

	Main products
Air Products and Controls Inc.	Duct detectors for smoke control systems
Apollo Fire Detectors Limited	Smoke and heat detectors for commercial fire alarm systems
Apollo Gesellschaft für Meldetechnologie mbH	Smoke and heat detectors for commercial fire alarm systems
Aquionics Inc.	Ultraviolet light equipment for water treatment
Berson Milieutechniek B.V.	Ultraviolet light equipment for treating drinking water and water used in the manufacture of food, drinks, pharmaceuticals and electronic components
Bio-Chem Valve Inc.	Miniature valves for scientific instruments
Castell Interlocks Inc.	Safety systems for controlling the use of and access to dangerous machines
Castell Safety International Limited	Safety systems for controlling the use of and access to dangerous machines
CEF Safety Systems B.V.	Supplier of machinery and process safety systems in Germany and Benelux
Cressall Resistors Limited	High power electrical resistors
Crowcon Detection Instruments Limited	Gas detection instruments for safeguarding people and property
Electronic Micro Systems Inc.	Elevator controls and emergency communication systems
Elfab Limited	Pressure sensitive relief devices to protect process plant
E-Motive Display Pte Limited	Electronic displays for providing information to elevator passengers
Fortress Interlocks Limited	Safety systems for controlling access to dangerous machines
Fortress Systems Pty. Limited	Machinery and process safety systems and high power electrical resistors
Halma Holdings Inc.	American holding company
Hanovia Limited	Ultraviolet light equipment for treating drinking water and water used in the manufacture of food, drinks, pharmaceuticals and electronic components
HF Sécurité S.A.	Safety systems and high security locks
Hydreka S.A.	Equipment and software for flow analysis of water and sewerage systems
IPC Resistors Inc.	High power electrical resistors
IPC Power Resistors International Inc.	High power electrical resistors
Janus Elevator Products Inc.	Infrared safety systems for elevator doors
Keeler Limited	Ophthalmic instruments for diagnostic assessment of eye conditions
Kerry Ultrasonics Limited	Ultrasonic cleaning systems for electronic and precision-engineered products
Klaxon Signals Limited	Sirens, fans and specialist packaging machinery
Marathon Sensors Inc.	Sensors for heat treatment processes and boiler control
Memco Limited	Infrared safety systems for elevator doors
Micotech Limited	Audio/visual warning signals for industrial security
Mosebach Manufacturing Company	High power electrical resistors
Oklahoma Safety Equipment Co. Inc.	Pressure sensitive relief devices to protect process plant
Omnifit Limited	Scientific instrument valves and laboratory connectors, columns and fittings
Palintest Limited	Instruments for analysing water and measuring environmental pollution
Palmer Environmental Limited	Instruments for detecting and locating water leaks from underground pipes
Perma Pure Inc.	Gas dryers for treating gas samples before analysis
Post Glover Resistors Inc.	High power electrical resistors
S & P Coil Products Limited	Heat exchange coils, heating and cooling equipment
SEAC Limited	Specialist fasteners for the building trade
S.E.R.V. Trayvou Interverrouillage S.A.	Safety systems for controlling access to dangerous machines
Smith Flow Control Limited	Safety systems for controlling valves on oil rigs and at chemical plants
Telegan Gas Monitoring Limited	Instruments for detecting and measuring gas emissions and pollutants
Thames Side-Maywood Limited	Load cells for industrial weighing systems and force measurement
TL Jones Limited	Infrared safety systems for elevator doors
Volk Optical Inc.	Ophthalmic lenses as aids to diagnosis and surgery
Volumatic Limited	Products for cash handling and the protection of merchandise and property

Location	Contact	Telephone	Fax	Web site
Pontiac, Michigan	RE Skaggs	+1 (1)248 332 3900	+1 (1)248 332 8807	www.ap-c.cc
Havant, Hampshire	MP Hamilton	+44 (0)23 9249 2412	+44 (0)23 9249 2754	www.apollo-fire.co.uk
Gütersloh, Germany	FW Blödorn	+49 (0)524 133060	+49 (0)524 1330629	www.apollo-feuer.de
Erlanger, Kentucky	DL McCarty	+1 (1)606 341 0710	+1 (1)606 341 0350	www.aquionics.com
Eindhoven, The Netherlands	MM Baas	+31 (0)40 290 7777	+31 (0)40 283 5755	www.bersonuv.com
Boonton, New Jersey	AJ Meyers	+1 (1)973 263 3001	+1 (1)973 263 2880	www.bio-chemvalve.com
Erlanger, Kentucky	PE Kanis	+1 (1)606 341 3075	+1 (1)606 341 2302	www.castellinterlocks.com
Kingsbury, London	DA Milner	+44 (0)20 8200 1200	+44 (0)20 8205 0055	www.castell.com
Rijswijk, The Netherlands	P Kalsbeek	+31 (0)70 319 2129	+31 (0)70 319 2128	www.cefsafety.demon.nl
Leicester	DG Cummins	+44 (0)116 273 3633	+44 (0)116 273 7911	www.cressall.com
Abingdon, Oxfordshire	D Frew	+44 (0)1235 553057	+44 (0)1235 553062	www.crowcon.com
Hauppauge, New York	WJ Seymour	+1 (1)631 864 4742	+1 (1)631 864 4770	www.emscomm.com
North Shields, Tyne & Wear	AJ Green	+44 (0)191 293 1234	+44 (0)191 296 0219	www.elfab.com
Singapore	WK Tan	+65 776 4111	+65 774 7555	www.emotive.com.sg
Wolverhampton, West Midlands	S Bailey	+44 (0)1902 499600	+44 (0)1902 499610	www.fortress-interlocks.co.uk
Melbourne, Australia	DJ Atkin	+61 (0)3 9587 4099	+61 (0)3 9587 4130	www.fortress.co.au
Cincinnati, Ohio	JC Conacher	+1 (1)513 772 5501	+1 (1)513 772 5507	www.halmaholdings.com
Slough, Berkshire	JC McClean	+44 (0)1753 515300	+44 (0)1753 534277	www.hanovia.co.uk
Cluses, France	G Denis	+33 (0)4 50 98 96 71	+33 (0)4 50 98 87 42	www.hfsecurite.com
Lyon, France	A Soulié	+33 (0)4 72 53 11 53	+33 (0)4 78 83 44 37	www.hydreka.com
Toronto, Canada	AH Cochran	+1 (1)905 673 1553	+1 (1)905 673 8472	www.ipc-resistors.com
Florence, Kentucky	MA Horn	+1 (1)606 282 2900	+1 (1)606 282 2904	www.ipcresistors.com
Hauppauge, New York	MA Byrne	+1 (1)631 864 3699	+1 (1)631 864 2631	www.januselevator.com
Windsor, Berkshire	M Buxton-Hoare	+44 (0)1753 857177	+44 (0)1753 857817	www.keeler.co.uk
Hitchin, Hertfordshire	W Lambert	+44 (0)1462 450761	+44 (0)1462 420712	www.kerry.co.uk
Stanmore, Middlesex	DJ Archer	+44 (0)20 8952 5566	+44 (0)20 8952 6983	www.klaxonsignals.com
Cincinnati, Ohio	ES Boltz	+1 (1)513 772 1000	+1 (1)513 326 7090	www.marathonsensors.com
Maidenhead, Berkshire	PL Bailey	+44 (0)1628 770734	+44 (0)1628 621947	www.memco.co.uk
Oldham, Lancashire	BO Coughlan	+44 (0)161 287 5555	+44 (0)161 287 5511	www.micotech.com
Pittsburgh, Pennsylvania	GP Denny	+1 (1)412 220 0200	+1 (1)412 220 0236	www.mosebachresistors.com
Broken Arrow, Oklahoma	JM Ragosta	+1 (1)918 258 5626	+1 (1)918 251 2809	www.oseco.com
Cambridge	PD Fuller	+44 (0)1223 416642	+44 (0)1223 416787	www.omnifit.co.uk
Gateshead, Tyne & Wear	AJ Lever	+44 (0)191 491 0808	+44 (0)191 482 5372	www.palintest.com
Cwmbran, Gwent	AJ Williams	+44 (0)1633 489479	+44 (0)1633 877857	www.palmer.co.uk
Toms River, New Jersey	DA Leighty	+1 (1)732 244 0010	+1 (1)732 244 8140	www.permapure.com
Erlanger, Kentucky	NE Gambow	+1 (1)606 283 0778	+1 (1)606 283 2978	www.postglover.com
Leicester	AJ Westbury	+44 (0)116 249 0044	+44 (0)116 249 0033	www.spcoils.co.uk
Leicester	DC Buckley	+44 (0)116 273 9501	+44 (0)116 273 8373	www.seac.uk.com
Paris, France	T Laigle	+33 (0)1 48 59 43 31	+33 (0)1 48 59 68 50	www.servtrayvou.com
Witham, Essex	M D'Anzieri	+44 (0)1376 517901	+44 (0)1376 518720	www.smithflowcontrol.com
Crawley, Sussex	PMF Turner	+44 (0)1293 528866	+44 (0)1293 528811	www.telegan.co.uk
Reading, Berkshire	MA Bailey	+44 (0)118 945 8200	+44 (0)118 945 8225	www.thames-side.co.uk
Christchurch, New Zealand	CM Stoelhorst	+64 (0)3 349 4456	+64 (0)3 349 5466	www.tljones-microscan.co.nz
Mentor, Ohio	PL Mastores	+1 (1)440 942 6161	+1 (1)440 942 2257	www.volk.com
Coventry, West Midlands	PW Bonné	+44 (0)247 668 4217	+44 (0)247 663 8155	www.volumatic.com

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