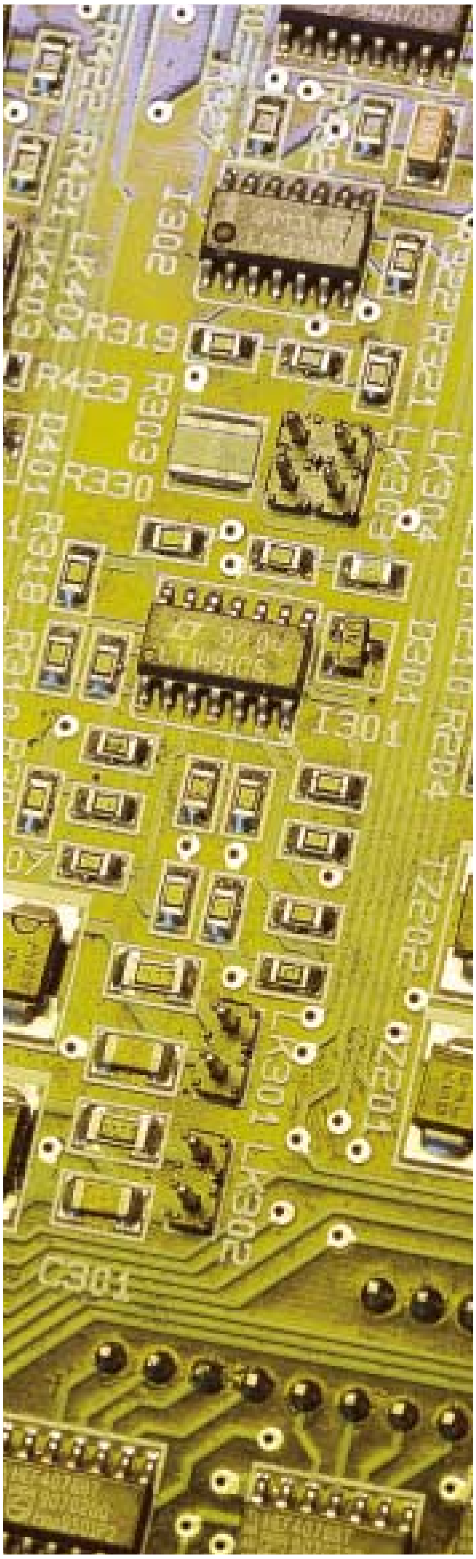
HALMA

ANNUAL REPORT
AND ACCOUNTS
2001



HALMA ANNUAL REPORT AND ACCOUNTS 2001

HALMA

Annual Report and Accounts 2001

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Financial Highlights

	Change	2001	2000
		£m	£m
Turnover	**+15%**	268.3	233.5
Overseas sales	**+21%**	181.8	150.7
Profit before taxation*	**+14%**	49.7	43.8
Dividends	**+15%**	16.6	14.4
Net tangible assets	**+15%**	102.9	89.8
Earnings per share*	**+13%**	9.52p	8.41p
Net tangible assets per share	**+14%**	28.5p	24.9p
Profit before taxation* as a percentage of turnover		18.5%	18.7%
Turnover to net tangible assets		2.61 times	2.60 times
Return on capital employed**		48.3%	48.7%

*Before goodwill amortisation and exceptional items

**Return on capital employed is defined as profit before taxation* expressed as a percentage of net tangible assets

Highlights of the year

- Outstanding returns and powerful cash flow generates strong organic growth and 15% dividend increase
- Continuous innovation driven by record levels of research and development
- Strengthened product focus produces growth in all business sectors
- Record profits earned across the world

HALMA

Halma at a glance

Business profile

Halma is a strongly cash generative and highly profitable group which develops, makes and markets products worldwide that are used to enhance public safety and minimise hazards at work.

Our six specialist business groupings are:

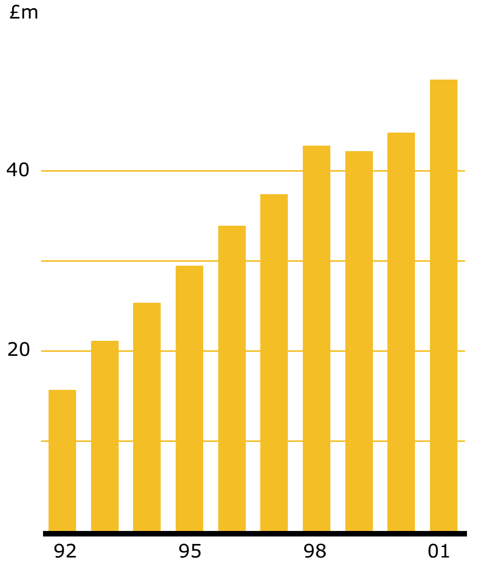
- Fire and Gas detection
- Water leak detection and UV treatment
- Elevator Electronics
- Bursting discs and sequential locking for Process Safety
- High power electrical Resistors
- Ophthalmic Optics and Specialist technology

Value creation strategy

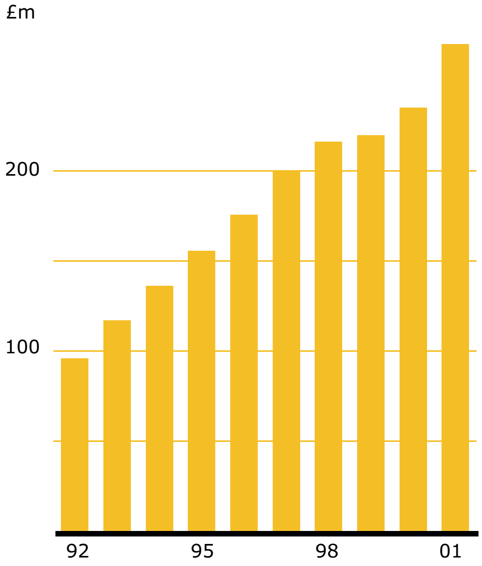
Our over-riding objective is to create shareholder value by:

- Building global businesses that sustain a leading position in specialised markets
- Concentrating on high margin activities where products and services are differentiated on the basis of performance, not price, and where barriers to entry are high
- Tightly managing our asset base in order to maintain our outstanding operating ratios and powerful cash generation
- Investing in marketing, new product development and innovation to maintain high organic growth
- Acquiring businesses and intellectual assets that extend our existing activities, add value and will produce our exceptional operating ratios
- Maintaining a high return on capital employed to self-fund organic growth, acquisition activity and rising dividends
- Recruiting and retaining top quality management by preserving an entrepreneurial culture within a framework of rigorous financial planning, reporting and control

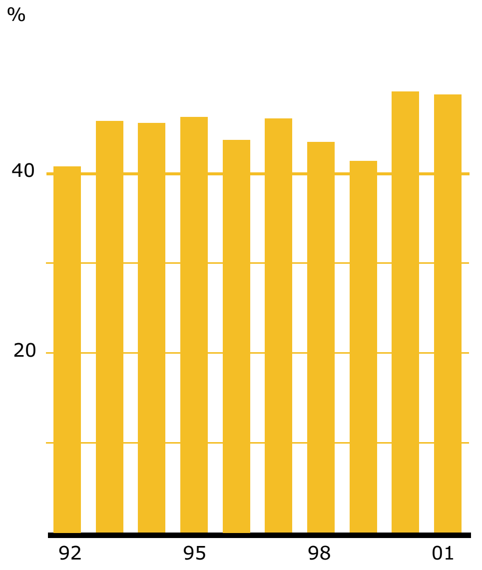
Strong profit growth



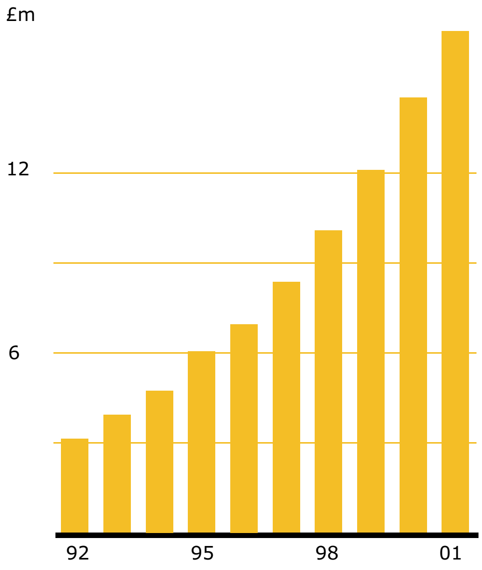
Sales treble in 10 years



ROCE consistently above 40%

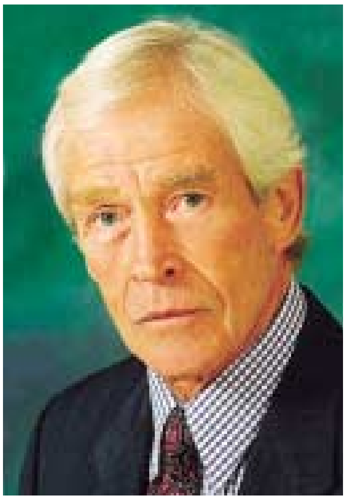


Unbroken dividend growth



HALMA

Chairman's Statement



"... strong and competitive organisation"

David Barber, Chairman

Results

My statement in the Interim Report expressed "ongoing confidence in the Group's future prospects", and I am pleased that this confidence was fully justified. Group pre-tax profits increased to £49.7 million, a 14% increase over the preceding year's record figure.

Sales increased by 15% to £268 million. Overseas sales increased by 21% and now make up 68% of total Group sales. Earnings per share, before amortisation of goodwill and before exceptionals, increased by 13%, and assets per share increased by 14%. Each of the absolute figures referred to above represents a new record for the Group.

Cash flow

The Group's exceptional cash generation was again evident. Despite the expenditure of £12.1 million on businesses acquired for cash, and £9.4 million on capital investment, net cash balances at the year end amounted to £13.7 million, double the level of the previous year end.

Queen's Award

I am delighted that Hanovia Limited has been granted a Queen's Award for Technological Innovation. This is the sixth Queen's Award to be received by a Group company. It is particularly noteworthy that these include awards for all three categories recognised for Queen's Awards, i.e. Export achievement, Technical achievement and Environmental achievement. Only a very small number of UK companies have received an award in all three of these categories, and I am particularly proud that the Halma Group has now achieved this distinction.

Dividends

Following the 15% increase in the interim dividend, the Directors recommend an increase of 15% in the final dividend per share. The total dividend is covered 2.1 times by profit before amortisation of goodwill and exceptionals but after taxation. If approved, this dividend, amounting to 2.787p per share, will be paid on 20 August 2001 to shareholders on the register at the close of business on 20 July 2001.

Board changes

In August 2000 Mike Arthur retired as a Director of Halma p.l.c., and John Conacher retired in April 2001. It gives me great pleasure to pay tribute to their outstanding contribution to Halma's success over the years.

Mike joined Halma in August 1972 when it was still a very small and little-known Group. First as Finance Director and subsequently as Deputy Chairman, he played a key role in its development into a major international company which has created substantial wealth for its long-term shareholders. Since 1997 he has been a non-executive Director of Halma. He has surely been one of the most able UK Finance Directors of his generation.

John joined Halma in 1982 as Managing Director of Hanovia and then transferred to the USA in 1986 to run what was then a small and fledgling US Division. The subsequent dynamic growth of the Group's North American activities to their present size and strength bears eloquent testimony to John's leadership. He has established a strong and self-reliant management team which has produced exceptional results this year and which offers great potential for future growth.

Both Mike and John have been invaluable members of Halma's Board, and we wish them every happiness in their retirement.

I am very pleased to welcome Keith Roy, the Chief Executive of our Water Technology Division, to the Halma p.l.c. Board. He joined the Group in 1992 when his company was acquired by Halma, and he was appointed to the Board in April 2001.

Prospects

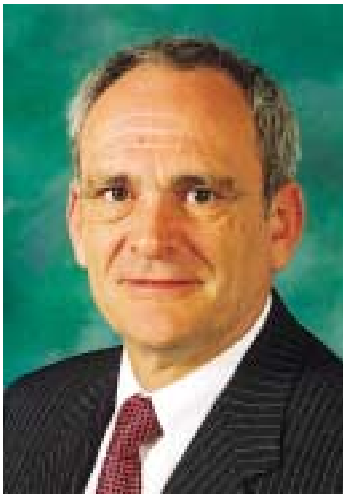
The Halma Group has continued to improve and refine what was already a very strong and competitive organisation. I believe that this ongoing strength will serve us well during the current year and I remain very confident of the Group's long-term growth prospects.

David S Barber

Chief Executive's Review

"Excellent results . . . primarily from organic growth"

Stephen O'Shea, Chief Executive



Summary

I am pleased by the way our operating management teams have grasped the opportunities available to them and created new opportunities this year. They have achieved results which have exceeded market expectations, accelerating the Group's progress to make record sales of £268 million (15% increase over the previous record) and record profits before tax of £49.7 million (14% increase over the previous record). Every one of our business groups increased profits over last year.

Success with a number of new products and the benefits from our recent strengthening of focus by moving from geographical to product-centred management has led to strong organic growth. Within the 14% overall profit increase 2% came from businesses acquired during 2000/2001 and a further 4% from businesses acquired during the previous year. The remaining 8% increase therefore is pure organic growth. We are able to grow acquisitions because of our stronger market positions, our wider routes to market, our ability to identify and invest in successful new products and our powerful and well proven management methods. All the growth has been entirely self-funded from cash generated within our businesses as a result of the remarkably high return on capital employed that we continuously achieve.

Sectoral growth

One-third of sales and profits originate in the USA. Sales and profits have been growing strongly, and we consider that – even if there were to be a decline in consumer spending – there are continuing opportunities for growth in this market. These include the recovery in petrochemical markets, the opportunities arising from increased power generation capacity in the USA, our increasing exports from the USA, strengthening of safety legislation and the range of new products we are bringing to customers.

Fire and Gas sales moved ahead by 13%, primarily from new products introduced recently. All British Gas technicians are now equipped with our new safety and boiler efficiency monitoring instruments. We also benefited from bringing the products of our recent acquisition, Fire Fighting Enterprises, to wider world markets. One element of our long-term value creation strategy is to build our influence over the market by producing a stream of new products, some relevant to a small group of customers, others that will be offered worldwide. This is an important tool in long-term customer retention.

Sales of **Elevator Electronics** grew as the sector's market-leading position was reinforced. Research and development investment was increased to achieve two objectives. Firstly, equipment that is strong in local markets has been developed into world compatible products. An example of this would be the range of American style emergency telecommunications that has been developed to meet new European requirements. In addition, we are developing novel techniques to satisfy existing elevator safety applications.

The **Resistor** business had an outstanding year. Excellent results were achieved, partly from a particularly successful integration of the Cutler-Hammer resistors operation we purchased in March 2000, but primarily from organic growth. This is likely to continue. Business with the major US train operating companies slowed. However, this was outweighed by organic growth arising from the early stages of the increased spend in the USA on power generation equipment. A major part of our sales in this sector is maintenance and replacement resistors for existing applications.

Within our ophthalmic **Optics and Specialist** technology business, the equipment for ophthalmic surgeons and optometrists produced by Keeler has been a source of increased profits. Several new products that help the surgeon in carrying out laser treatments for eye disorders were launched. We have shortened our routes to market by closing our distribution business in Singapore such that sales are now made by the originating companies.

In the **Water** sector our strength in the measurement and reduction or elimination of drinking water losses has been reinforced. We believe we now have the best range of products for this purpose in the world. This has been built up using innovative product development, supplemented by judicious acquisitions. Hydreka, bought in March 2000, is an example of this. As a result of joining the Group, it offers a new extended and improved range of products that is now being supplied to the French-located and French-managed water utilities worldwide. The sector is one of many examples of management both improving the focus of the Group and the proportion of electronic products we sell. Our water sterilisation operation made record profits.

Our **Process Safety** business is developing well, with a 16% increase in profits. We continue to increase the market overall in sequential locking systems, a market which we dominate around the world. A large number of industries are supplied, and there is therefore some sensitivity to worldwide industrial capital expenditure. Our network encompasses production and service facilities in the UK, France, Holland, the USA and Australia. We have brought a pleasing number of new products to market which provide emergency pressure relief. Pharmaceutical and chemical companies experience safety related plant shutdowns and in the USA we are capturing new customers in these industries by providing a unique fast track service for vital safety components.

People

The considerable number of talented people we continue to attract to, and retain within, the Group play an important part in our ability to grow continuously. Keith Roy, the most recent appointment to the Halma p.l.c. Board, joined the Group when we acquired his business. He has played a major part in developing our product range for water leak detection.

I would like to thank the executive team in each subsidiary for their efforts this year. It is at the sharp end, in the operating companies, that wealth is created for shareholders. They have responded well to the change in organisation which has been successful in improving the Group's overall focus. This has been enhanced by the coaching and guidance provided by our most senior executives.

I endorse the tributes to Mike Arthur and John Conacher in the Chairman's Statement. Both made major contributions to the Group's robust culture and disciplined operating methods. Ralph Jessop, who retired shortly after the year end, has been responsible at various points in his career for rapidly growing Apollo's sales, for taking Crowcon from a small business to a major world player in gas detection and for purchasing and developing businesses and products within our gas detection area. I am very appreciative of his long-term contribution.

Strategy and prospects

The Group creates and markets unique products that save lives and protect health. There is a growing need for these products and demand expands as ever-increasing levels of public safety are required by governments all round the world. Our long-term record of high levels of free cash flow and high levels of return on investment provides us with opportunities to produce strong organic growth based on investment in unique intellectual assets. The stability and self-reliance of our company, and the way it is organised enable us to build and sustain high market shares in growing market sectors, many of which are relatively insensitive to consumer demand. The Group has improved its focus on these areas in the last year and is well positioned to grow strongly in the market sectors that we have chosen so carefully.

Stephen R O'Shea

Financial Review

"Outstanding cash flow year after year"

Kevin Thompson, Finance Director

Financial performance

Profit before taxation, goodwill amortisation and exceptional items rose by 14% to £49.7 million on turnover up 15% to £268 million. At 18.5%, profit as a percentage of turnover exceeded 17% for the ninth consecutive year. Return on capital employed was 48% and has now been above 40% for the past 18 years. These figures demonstrate the Group's outstanding operating performance over the long term.

Cash flow

Turning profits into cash through a strong focus on the management of working capital provides flexibility and finances growth. The Group has considerable success in this area but there is more that can be done. Free cash flow (the cash left over from our operating activities after funding capital expenditure, working capital and tax) was £33 million in the year. Dividends financed from this high cash flow increased by a further 15% and the Group once again finished the year with net cash.

EBITDA is a key cash-related performance indicator and on this measure the Group grew by 14% to a figure of £57 million.

Treasury

The Group does not use complex derivative financial instruments and no speculative treasury transactions are undertaken. Currency denominated net assets are partially hedged. Some borrowings have been repaid in the year using strong local currency cash flows.

Technology focus and product innovation

Product innovation is a key driver of Halma's growth. Expenditure on research and development increased at a faster rate than turnover growth and now represents 3% of turnover. Investment in research and development in the Elevator Electronics business group doubled in the year.

£12 million was spent on acquisitions in the year bringing new Intellectual assets into the Group and further strengthening the technology base.

Taxation

The effective rate of tax on profit before goodwill amortisation was 30.9%, slightly above last year's figure. We expect this rate to increase in 2001/2002, partly due to the effect of an increasing proportion of profits earned in higher tax jurisdictions. Cash paid out for tax was below last year as the UK rules which accelerated these payments have a much reduced impact this year.

Internal control

Strong controls throughout the Group operating companies underpin the commercial freedom and entrepreneurial approach which generates Halma's exceptional returns. The Board considers it to be essential that such controls are embedded within the organisation. The Group culture is one of openness, honesty and accountability. We report on page 33 full compliance with the Turnbull guidelines which focus on the area of internal control and the identification, evaluation and management of significant risks.

Value creation

Return on capital employed calculated using pre-tax profits and including all historic goodwill is again over 20%, a figure which is broadly double any reasonable calculation of the Group's cost of capital. This highlights the Group's ability to generate substantial economic profit year after year.

Kevin J Thompson

Skilful investment in continuous product innovation drives Halma's success in fire and gas hazard markets

Fire and Gas

Apollo and **Crowcon** are two of Halma's world-class businesses whose fire and gas sensing products and customer service are industry benchmarks in many international markets.

Health and safety legislation is protecting workers in a growing number of countries.
Photo: Superstock Limited

Record sales figures for all companies selling fire detection products have enhanced the Group's reputation as a major international supplier in the fire safety market. Sales to the USA reached record levels accounting for 20% of total fire products turnover.

Fire Fighting Enterprises was acquired in October 2000 extending the Group's portfolio of fire protection technologies. This company is a world leader in infrared beam smoke detectors that monitor large open areas, such as warehouses. Its products are entirely complementary to **Apollo's** and the two companies benefit from shared market intelligence and collaborative marketing.

An important factor affecting growth potential, in both the fire and gas hazard sectors, is the adoption of increasingly proscriptive safety legislation. A number of Group employees sit on the standards committees that advise legislators on health and safety regulations. Close monitoring of the drafting and implementation of new legislation enables the Group to introduce products and services that exactly match the needs of customers having to comply with changing safety laws. For example, in a growing number of countries, legislation is being enacted that protects workers from gas hazards in confined spaces such as tunnels.

A trend in industrial hazard sensing is that customers are becoming increasingly responsive to benefits from new technology and software. As a result, fire and gas detector product life cycles are becoming shorter. The Group's continued success in fire and gas detection markets benefits from skilful investment in research and development to produce a constant stream of new and improved products. Over the past twelve months 30 new fire and gas products have been launched.

A new system for monitoring fire and toxic or flammable gases, called Vortex, was launched mid-year. This has sophisticated digital controls

The Staples Center in Los Angeles, California, a $400m sports and entertainment venue protected by 1,000 Apollo fire detectors.

and special features for operation in arduous conditions. High demand for this type of fixed gas detection system from the oil and gas industry gave second half sales a boost at **Crowcon** with significant orders from Nigeria, India and several Middle East countries.

Carbon monoxide is a dangerous gas produced in homes by faulty heaters. British Gas service engineers are now equipped with 8,000 of our state-of-the-art instruments that optimise fuel efficiency, minimise pollution and greatly reduce the risk of carbon monoxide poisoning.

Intensive care patients are monitored by Hudson RCI breath gas analysers incorporating Perma Pure gas drying products.
Photo: Hudson RCI

Perma Pure is developing a strong position in the US fuel cell market where its gas treatment products regulate the amount of moisture in fuel gases. Fuel cells are widely predicted to become an important way of generating electricity in the future. The Group is working with the leading makers of residential fuel cell power generators. Patents will protect the Group’s research in this area as it becomes commercially significant.

Group sales of fire and gas detectors extend across the world with exports now accounting for approximately half the turnover. This provides some protection from national or regional downturns. However, the Group’s competitive advantage from market leadership, combined with its ability to innovate and rapidly turn new technical ideas into practical products, should ensure continued profit growth.

World leadership in water treatment, conservation and testing technologies

Water

Halma recognised many years ago that global economic development, climate change and population increase would inevitably put water resources under pressure. A recent report revealed water shortages in 400 out of China's 668 cities, and even in the USA, Washington State has been declared a drought zone.

Through its treatment, testing and conservation technologies, Halma helps water utilities worldwide meet rising demand for clean water.
Photo: Robert Harding

To help meet constantly rising international demand for clean water, and also greater regulation of drinking water quality and wastewater discharges, the Group has developed core competencies in water treatment, conservation and testing. Halma's water technology businesses are world leaders in their specialist fields.

Following the acquisition of **Hydreka** and **Wessex**, the Group now offers water utilities a comprehensive range of analysis technologies for conserving water in distribution networks. Water pipe networks can be audited to measure losses, and leaks can be located and pinpointed using unique instruments. In its first year within the Group, **Hydreka** delivered record sales and profits exceeding expectations at acquisition.

The considerable research and development investment that led to **Palmer Environmental's** revolutionary Permalog system for identifying leaking water pipes produced an excellent return in the year under review. An evaluation by water utility Severn Trent showed that leak surveying with Permalog was eight times faster than before and they placed a second order worth over £2 million. Thames Water also trialed Permalog and placed significant orders. Permalog is now being marketed overseas, already producing substantial sales in Spain and Hong Kong.

Thames Water uses Palmer Environmental's Permalog system to remotely monitor leakage from water pipes.

New applications for the disinfecting power of ultra-violet light (UV), such as treatment of packaging to extend the shelf life of food, are continually

This Hanovia UV treatment plant at Bedok, Singapore, disinfects wastewater for reuse in irrigation.

being developed. The Group now supplies this type of UV equipment to the top three American makers of food packing machinery.

Industries operating at the leading edge of applied science, such as electronics and pharmaceuticals, need extraordinarily pure water supplies. Pharmaceutical production processes, for example, require ultra-pure water with less than one part per billion of contamination, otherwise yields drop and costs rise. Halma companies have developed UV water treatment systems that meet these exacting requirements.

Hanovia's technical pre-eminence in this area was recognised by the grant of a *Queen's Award For Innovation* for its development of SuperTOC®. This is a unique technology that removes contaminants from ultra-pure water used in electronics manufacture. This product is now being evaluated in the USA and Canada for removal of industrial pollutants that contaminate drinking water. Both **Aquionics** and **Hanovia** achieved record sales and profits in the past year.

THE QUEEN'S AWARDS
FOR ENTERPRISE
2001

Hanovia's award-winning SuperTOC® technology removes contaminants from water used in electronics manufacturing processes.
©Corbis Stockmarket

Through organic growth and strategic acquisition Halma dominates the global market for electronic elevator safety products

Elevator Electronics

Halma has become the world's leading manufacturer of electronic elevator safety products through a combination of organic growth and strategic acquisition to fill technology gaps or gain market presence. Today, the Group meets half of the global demand for infrared door sensors and emergency telecommunications networks for elevators.

Halma electronic products ensure the safety and security of elevator passengers worldwide.
©Corbis Stockmarket

The Group's principal products in this sector are infrared sensors that stop doors from closing onto passengers, emergency voice communications systems and visual displays. Halma is constantly seeking new ways of applying electronics technology to elevators to make them safer, more secure and more reliable.

The rate of new building construction worldwide is a primary demand driver for elevator safety devices. However, the buoyancy of the commercial property rental market is also very important. This is because owners of high-rise residential and office buildings upgrade facilities like elevators to compete for occupancy and to maximise rent income. Generally, both new build and refurbishment markets are continuing to grow.

Disability access legislation can require building owners to upgrade elevator equipment.
©1999 PhotoDisc, Inc

In many countries Group sales continue to benefit from increasing legislation designed to improve public and worker safety. In some markets disability access legislation also drives demand. This is particularly true of the impact of the "Americans with Disabilities Act" on building codes in the USA.

Management reorganisation has further integrated the Group companies operating in the elevator safety sector. This has enabled the companies to gain extra benefits from the synergy between their businesses. Mutual benefits are being achieved through co-ordinated selling activity to shared international customers, joint marketing activities, sharing market intelligence and increased inter-company sales. Sales in this sector moved ahead by 22%.

Halma's elevator product companies invested heavily in research and development in the year. The principal focus has been to bring new technology to market and to transform products that are already successful in one market into world-class products with global impact. **E-Motive** and **Electronic Micro Systems** have used this technique to build new routes to world markets.

Elevators in the Burj Al Arab Hotel, Dubai, are fitted with Memco door safety systems.

Memco maintained its position as world leader in elevator door safety systems, achieving record turnover in the past year. A new sales office in Funabashi reinforced the Group's status as market leader in Japan. The growth in high-rise building construction in China, and other parts of Asia, is so rapid that this zone may soon represent 50% of total world elevator sales. A third sales office now established in China should strengthen the Group's dominance in the world's fastest growing elevator market.

Wider application of safety regulations within Europe has continued to drive demand for the Group's safety products

Process Safety

Halma companies specialising in process safety are international leaders in the field of industrial safety and security. Group subsidiaries manufacture and distribute engineered products designed to eliminate the risks associated with hazardous machinery or manufacturing processes.

The Group has adapted its pressure relief safety products to match the special needs of the growing biotechnology sector.
©Image Bank/Jay Freis

The Group focuses on two core sectors of the industrial safety products market: sequential locking control systems, known as interlocks, and bursting discs. Both of these technologies protect workers from injury, prevent damage to capital plant and safeguard the environment. Halma companies are clear world leaders in sequential locking systems.

Demand in this sector is influenced partly by the growth rate of industrial capital investment, but more significantly from wider adoption of worker safety legislation. **Castell** is the world leader in interlock products for machinery safety. In the past year it benefited from the continuous improvement in health and safety standards, with rising demand from machinery exporters in Southern Europe. The likelihood of more countries joining the EU and having to operate within its regulatory framework should drive European demand for industrial safety systems forward in the short-to-medium term.

Following the stabilisation of oil prices in the second half, petrochemicals capital spending resumed. This has improved sales opportunities for **Smith Flow Control**, the world leader in valve control safety technology. As international oilfield projects are being brought to the

Safety control systems supplied by SERV help to safeguard the operation of Spain's new high speed rail network.
©Milepost 92½

construction stage demand for this company's safety systems is growing.

Last year's market-focused management reorganisation unified the Group's interlock businesses. A co-ordinated bid, centred on **Fortress'** unique modular safety products, helped the Group win significant orders in the USA from Ford at its Dearborn, Michigan, engine design centre. In France, both **H F Sécurité** and **SERV** won large orders for safety control equipment for high-speed TGV railway projects in South Korea and Spain, and tramways in six French cities.

Oseco had an excellent year reporting record sales and profits. A new range of patented bursting discs was launched. These are designed to meet growing demand for this type of safe pressure control equipment in the biotechnology and pharmaceutical industries. A new sales office in Singapore is already profitable and enables the Group to sell into the growing South East Asia petrochemicals sector.

In an emergency, Elfab bursting discs would safely release excessive pressure from these Wessington Cryogenics Ltd gas storage vessels.

Halma's ability to exploit the technologies and markets of acquired businesses, coupled with strong organic growth, generated record resistor sales and profits

Resistors

Industry needs high power resistors to safely absorb excess electrical power. Power resistors also help maintain a continuous electricity supply even when faults occur in the power distribution network.

An important application of power resistors is the protection of electricity distribution networks from the potentially damaging effect of power surges.
Photo: Telegraph Colour Library

Halma's position as a leading international supplier of high power resistor systems was reinforced by strong organic growth that produced record sales and profits in the past year. The Group also extended its customer base and enhanced its portfolio of resistor technologies through the acquisition of **Cutler-Hammer** in March 2000. This business, which had facilities in the USA, the UK and Canada, was successfully integrated into the Group's resistor companies in those three countries in the first half of the year.

The key growth drivers in this sector during the past year were: increased competitiveness resulting from further integration of the separate businesses; electricity supply problems in a key market; and the imaginative adaptation of existing technologies to satisfy new customer needs.

An integrated management structure and co-ordinated marketing provides Halma's US, Canadian, UK and Australian resistor businesses with a global presence in this sector that helps develop long-term relationships with multinational customers. Customers benefit from a partnership with a unified business possessing unrivalled international application experience and understanding of materials technology. At the same time, local manufacturing maintains the ability to satisfy unique regional demands.

Standby power supplies for critical electrical equipment, like this cellular telephone relay station, are a growing market for the Group's power resistor products.

Rapid changes are occurring in the electric power industry, particularly in America. In California, for example, demand has recently exceeded supply causing power blackouts. The problem stems from escalating power costs combined with deregulation of the energy industry. This power crisis has created new sales opportunities that the Group's resistor companies have been quick to exploit.

A Cressall resistor system valued at £1 million was supplied to Rolls-Royce plc in Canada for testing Trent power generation turbines.
©Rolls-Royce plc

Many American businesses can no longer take electric power availability and reliability for granted. This has created rising demand for resistor systems that allow electrical equipment to operate even if power supplies vary in quality. The growing reliance on emergency power generators also creates demand for resistor systems. This trend benefited **Post Glover** which was very successful at selling equipment designed to safeguard power continuity into the internet and telecommunications sectors.

Because the Group has a broader portfolio of power resistor technologies than any other supplier, it can enter new markets faster and solve new customer needs more effectively than most competitors. Considerable opportunities exist for increasing resistor sector profit from growth in existing markets, materials and technology advances and new applications. Significant global markets such as power generation/transmission and passenger trains will see increased capital investment for the foreseeable future and the Group is well placed to meet the evolving needs of energy utilities and train operators worldwide.

New opportunities for co-operative marketing and sales growth

Optics and Specialist

The Group's **Keeler** business, which has its main operations in the UK and USA, makes and sells instruments for opticians and ophthalmologists. An integrated approach to international sales and marketing combined with effective pooling of technical and sales resources delivered a substantial profit increase in this sector. The USA showed most growth with instrument sales rising by 36%. A combination of advanced new products, sales growth from further integration, and a focus on capital employed should deliver further profit growth.

Volk's latest lenses help ophthalmologists carry out delicate laser surgery.
©Science Photo Library

Volk is a world leader in the manufacture of specialist lenses used by ophthalmologists. Last year the company applied its unique lens-making technology to a new series of lenses for the diagnosis and treatment of glaucoma. This is a common eye disorder that can cause blindness. Compared to competitors' plastic lenses, **Volk's** new glass lenses deliver clearer images for diagnosis and greater precision when used in laser treatment.

The sales and profits from the Group's Singapore sales office, which marketed Group products to South East Asia, were redistributed back to its principals as part of a worldwide product group reorganisation completed this year.

New from Keeler is the All Pupil II ophthalmoscope used by opticians to examine patients' eyes.

Klaxon performed strongly and won significant orders for a special type of safety sounder it has developed for fitting on the outside and interior of train carriages. These sounders, which tell blind people when train doors are opening and closing, are a new requirement of disability access legislation in the UK.

The buoyancy of the US life sciences instrumentation market provided sales opportunities for **Omnifit** and also for **Bio-Chem Valve** which reported record profits and sales of its miniature, high precision valves. Life science research is a primary growth market for these companies because it demands components of the very highest technical quality and reliability.

Precision fluid control components made by Bio-Chem Valve are used in the gene sequencing machines used by researchers working on the Human Genome Project.
Photo: Telegraph Colour Library

HALMA

Directors and Advisers

Board of Directors

David S Barber *Chairman**
Stephen R O'Shea *Chief Executive*
Clive Q Summerhayes BSc
Lord McGowan*
Hamish M J Ritchie MA*
Kevin J Thompson BSc FCA
Neil Quinn BSc
Richard A Stone MA FCA*
Keith J Roy MSc

Secretary

E Carol Tredway BA FCA
* Non-executive

Executive Board

Stephen R O'Shea *Chief Executive*
Clive Q Summerhayes *Sectoral Managing Director*
Nigel J Young *Process Safety*
Neil Quinn *Fire and Security*
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 Executives

Andrew J Williams *Water Technology*
Adam J Meyers *Optics and Instruments*

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 6RH

Bankers

The Royal Bank of Scotland 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

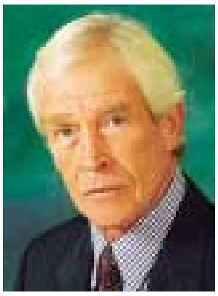
Brokers

HSBC
Vintners Place 68 Upper Thames Street
London EC4V 3BJ

Registrars

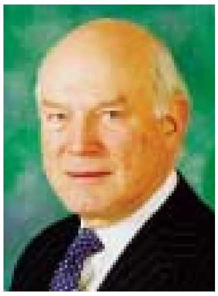
Computershare Investor Services PLC
PO Box 82
The Pavilions Bridgwater Road
Bristol BS99 7NH
Telephone: +44 (0)870 702 0000

Non-executives


David S Barber


Lord McGowan


Hamish M J Ritchie


Richard A Stone

David S Barber (aged 69) 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.

Lord McGowan (aged 62) 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 a Director of WestLB Panmure Limited and a non-executive Director of The Monthly High Income Trust P.L.C., The Wanger Investment Company p.l.c., P&O Pension Fund Investments Limited, West Merchant Bank Holdings Limited, IQ-Ludorum plc and Jarvis plc.

Hamish M J Ritchie (aged 59) 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.

Richard A Stone (aged 58) was appointed a non-executive Director of Halma in January 2001. He serves on the Audit Committee, Remuneration Committee and Nomination Committee. He is Chairman of Shearings Group Limited and a non-executive Director of British Nuclear Fuels plc, Trust Union Finance (1991) plc and TR Property Investment Trust plc.

Mr Stone retired from PricewaterhouseCoopers and as a member of their Global Board at the end of 2000. Prior to the merger with Price Waterhouse in 1998, he was Chairman of Coopers & Lybrand, Head of UK Corporate Finance and Chairman of the firm's European Corporate Finance activities. PricewaterhouseCoopers are auditors to Halma p.l.c. but during his time there, Mr Stone had no involvement or influence on any matter relating to Halma p.l.c.

Halma Executives

Stephen O'Shea

(aged 55) 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 60) 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 8038

Nigel Young

(aged 51) 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 51) 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

Kevin Thompson

(aged 41) 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 44) 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 1700

John Campbell
(aged 42) 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)513 772 5501

Keith Roy
(aged 51) 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 was appointed to the Halma p.l.c. Board in 2001. He is an electronic engineering graduate of both Nottingham University (BSc) and Aston University (MSc).

Tel: +44 (0)1494 721111

Bill Seymour
(aged 41) 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 38) 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 31 March 2001 is set out on page 42. The Group profit before taxation and goodwill amortisation is £49,698,000. The profit after taxation and goodwill amortisation amounts to £32,803,000.

Ordinary dividends

The Directors will submit a resolution at the Annual General Meeting proposing a final dividend of 2.787p per share and if approved this dividend will be paid on 20 August 2001 to shareholders on the register at the close of business on 20 July 2001. Together with the interim dividend of 1.806p per share already paid, this will make a total of 4.593p per share for the financial year.

Review

A review of activities together with business and future developments is included on pages 6 to 23 inclusive. A summary of acquisitions by the Group is included on page 64.

Share capital

Details of share capital issued in the financial year are set out in note 17 on the accounts.

Allotment authority

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

Purchase of own shares

The Company was authorised at the 2000 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 2001 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.

Economic and Monetary Union

Each Group company continues to monitor the implications, on information systems and other aspects of their operations, of full introduction of the Euro in 2002. To date, no adverse consequences have arisen, and the Company does not anticipate that full introduction of the Euro will have a significant impact on the Group's performance.

Supplier payment policy

The Company does not follow any particular supplier payment code of practice. The Company has due regard to the payment terms of suppliers and generally settles all undisputed accounts within 30 days of the due date for payment. At 31 March 2001 the Company's trade creditors represented 34 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 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.

Directors' remuneration

The Directors consider it appropriate that shareholders be given the opportunity to approve the remuneration policy for Directors set out in the Report on Remuneration on page 35 of the Report and Accounts. The special business of the Annual General Meeting contains an ordinary resolution seeking such shareholder approval.

The environment and health and safety

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.

The Group is committed to operating in such a way as to reduce any adverse impact on the environment. Group companies seek ways to improve efficiency and reduce their use of materials and energy and operate waste management programmes. Group products do not require capital intensive manufacturing processes, so the environmental impact of production operations is minimal.

The Group recognises the necessity of safeguarding the health and safety of all employees whilst at work and operates so as to provide a safe working environment for employees, visitors and the public. Given the autonomous structure of the Group, operational responsibility for compliance with relevant local environmental and health and safety regulations is delegated to the board of directors of each Group company. Internal reporting procedures exist to monitor each company's stated compliance with such regulations.

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 £2,612 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.

Appointment of Directors

On 2 January 2001 Mr R A Stone joined the Board as a non-executive Director and on 30 April 2001 Mr K J Roy joined the Board as an executive Director.

Retirement of Directors

On 30 April 2000 Mr P A Tett retired from service with the Group and resigned as a Director of the Company. On 2 August 2000 Mr M J Arthur resigned as Deputy Chairman and as a Director of the Company. On 30 April 2001 Mr J C Conacher retired from service with the Group and resigned as a Director of the Company.

Directors proposed for re-election

Mr S R O'Shea, Mr K J Thompson and Mr N Quinn retire by rotation and being eligible offer themselves for re-election.

Mr R A Stone and Mr K J Roy, who joined the Board since the last Annual General Meeting, retire under Clause 95 of the Articles of Association and being eligible offer themselves for re-election.

Shareholdings

As at 7 June 2001 the Company has been notified under Section 198 of the Companies Act 1985 of the following notifiable holdings of the Company's ordinary shares:

	shares	per cent
Silchester International Investors Limited	54,706,748	15.1
Mr D S Barber	13,053,056	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
M&G Investment Management Limited	26,252,236	7.2
Baillie Gifford & Co	23,689,956	6.5
AMVESCAP PLC	21,486,063	5.9
F P Asset Management	13,925,686	3.8

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
19 June 2001

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. Lord McGowan 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 Group 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 control and is responsible for the relationship with the external auditors. The Group Chief Executive and Group 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 Group 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 Divisional Chief Executives all of whom are members of the Executive Board. Biographies of Executive Board members appear on pages 26 and 27. The Group Chief Executive chairs the Executive Board of which the Group Finance Director is also a member thereby ensuring the Board's strategies are communicated to those overseeing operations. The Group Chief Executive and Group Finance Director meet regularly with each Divisional Chief Executive to monitor progress against key objectives and review operational performance.

Individual operating company Boards, chaired by the appropriate Divisional Chief Executive or Assistant 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 Group Chief Executive and Group 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 72.

The Group web site, www.halma.com, 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 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.

Following publication by the Turnbull Committee of the guidance for directors on internal control (''Internal Control: Guidance for Directors on the Combined Code''), the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, that this has been in place for the year under review and up to the date of approval of the Annual Report and Accounts. This process has been reviewed by the Board and the Group accords with the Turnbull guidance.

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.

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
- self-certification by operating company management of compliance and control issues
- a prescribed robust structure under which it is appropriate to adopt means of electronic communication and to conduct e-commerce.

The processes which the Board has applied in reviewing the effectiveness of the Group's system of internal control are summarised below.

- Operating companies carry out a detailed risk assessment as part of the annual strategic planning process and identify mitigating actions in place or proposed. A similar review of Group risks is conducted.
- Each month the board of each operating company meets, discusses and reports on its operating performance, its opportunities, the risks facing it and the resultant actions. The relevant Divisional Chief Executive or Assistant Divisional Chief Executive chairs this meeting. Divisional Chief Executives meet regularly with the Group Chief Executive and Group Finance Director and report progress to the Executive Board.
- The Group Chief Executive submits a report to each Halma p.l.c. Board meeting which includes financial information, the main features of Group operations and an analysis of the significant risks facing the Group at that time.
- The Group Finance Director and Group Chief Executive report to the Audit Committee on all aspects of Internal Control for its review. The Board receives the minutes of the Audit Committee meetings and uses these as a basis for its annual review of internal control.

The Group does not maintain a formal internal audit function. The need for such a function was reviewed in 2001 by the Audit Committee, which concluded that it is not appropriate to the Group's current size and structure. Half-yearly reviews of Group companies' results are undertaken by senior financial staff as are regular internal control visits.

Compliance with the code of best practice
The Company complied with the Combined Code throughout the financial year.

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 2000/01 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 H M J Ritchie and Mr R A Stone. The Committee makes recommendations to the Board on the framework for executive remuneration, based on proposals formulated by the Group Chief Executive, and determines the terms of service and remuneration of executive Directors.

Basic salary and benefits

In determining recommended 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 may 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 Scheme, the growth in the Retail Price Index and, for the 1996 Scheme, 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.

Options under the 1999 Company Share Option Plan have 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 the 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.

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 of the preceding three financial years. The profits calculated for this purpose regard each Division as 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 pre-determined 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	2001 Total £000	2000 Total £000
D S Barber	67	–	–	67	57
M J Arthur	7	–	–	7	20
S R O'Shea	250	32	18	300	238
C Q Summerhayes	163	41	14	218	213
P A Tett	11	–	1	12	144
J C Conacher	239	27	26	292	243
Lord McGowan	20	–	–	20	17
H M J Ritchie	20	–	–	20	17
K J Thompson	110	14	10	134	112
N Quinn	121	58	13	192	136
R A Stone	5	–	–	5	–
	1,013	172	82	1,267	1,197

Mr J C Conacher was based in the USA and his basic salary was 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 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 & McLennan Cos. UK Limited at the individuals' request.

Mr S R O'Shea was the highest paid director in the financial year after aggregating his share option gain of £100,096 with his emoluments. This share option gain arises on options granted in 1990, 1991 and 1992.

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 16⅔% 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 31.3.01	Years of service at 31.3.01	Directors' contributions in the year £000	Increase in accrued pension during the year £000	Total accrued pension £000
S R O'Shea	55	25	11	9	115
C Q Summerhayes	59	27	7	7	100
P A Tett	60*	16*	–	–	56
J C Conacher	60	16	–	4	94
K J Thompson	41	13	5	4	29
N Quinn	51	13	5	3	37

* as at date of retirement

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, increased 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 paid 5% of his salary. The Company also paid into this plan an additional amount equal to 24.4% of salary each year. In the financial year this amount was £58,000 (2000: £50,000).

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 31.3.01	shares 1.4.00	shares 31.3.01	shares 1.4.00
D S Barber	13,053,056	13,203,056	–	–
S R O'Shea	222,482	120,980	–	–
C Q Summerhayes	1,613,236	1,613,236	–	–
J C Conacher	395,456	345,523	–	–
Lord McGowan	41,540	41,540	–	–
H M J Ritchie	30,000	30,000	–	–
K J Thompson	47,786	47,786	–	–
N Quinn	1,894	1,894	–	–
R A Stone	5,000	–*	–	–*

* as at date of appointment

There were no changes in Directors' interests from 31 March 2001 to 19 June 2001.

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

	As at 1.4.00	Granted	Exercised	Lapsed	As at 31.3.01
S R O'Shea	1,282,255	90,100	296,126	–	1,076,229
C Q Summerhayes	817,158	146,300	–	–	963,458
J C Conacher	1,022,396	92,300	49,933	–	1,064,763
K J Thompson	351,960	138,800	–	–	490,760
N Quinn	460,176	175,100	–	–	635,276

The total gains on options exercised by Directors during the financial year amounted to £123,169. The total gains arose 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.

At the date of his appointment to the Board Mr K J Roy was beneficially interested in 776,975 shares of the Company and held options over 295,886 shares.

Options granted to Directors during the financial year were at 111p. The closing middle market price of the Company's ordinary shares on Friday, 30 March 2001, the last trading day preceding the financial year end, was 129p per share and the range during the year was 81.5p to 144.5p.

Details of Directors' options outstanding at 31 March 2001 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 less than 129p
2 Exercisable at that date at a price greater than 129p
3 Not yet exercisable, will only be exercisable when the performance criteria, set out above, have been met and have an exercise price per share of less than 129p
4 Not yet exercisable, will only be exercisable when the performance criteria, set out above, have been met and have an exercise price per share of greater than 129p.

	Status of options (see above)	Year of grant	Number of shares	Weighted average exercise price (p) per share
S R O'Shea	1	1993-95	282,665	124.10
	2	1996-97	198,033	138.80
	3	1993-00	524,398	117.31
	4	1996-97	71,133	136.91
C Q Summerhayes	1	1992-93	115,494	95.97
	2	1996-97	188,366	135.24
	3	1993-00	635,598	116.84
	4	1996	24,000	139.50
J C Conacher	1	1991-93	175,699	85.90
	2	1996-97	164,866	134.07
	3	1993-00	724,198	119.16
K J Thompson	1	1994-97	151,177	120.88
	2	1996	15,466	138.01
	3	1993-00	305,051	115.00
	4	1996	19,066	138.00
N Quinn	1	1992-97	174,114	108.02
	3	1993-00	442,096	114.24
	4	1996	19,066	138.00

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

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, Lord McGowan, Mr H M J Ritchie and Mr R A Stone have no service contracts. Mr S R O'Shea has a two year rolling service contract. All other executive Directors, and any subsequent appointees, 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 four 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
19 June 2001

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 Independent 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 responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

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 1985. 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 corporate governance statement on page 34 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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 31 March 2001 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 6RH
19 June 2001

Consolidated Profit and Loss Account

£000

	Notes	52 weeks to 31 March 2001 Before goodwill amortisation	Goodwill amortisation	Total	2000 52 weeks Total
Turnover	1	268,322	–	268,322	233,485
Operating profit before goodwill amortisation		49,703	–	49,703	43,419
Goodwill amortisation		–	(1,964)	(1,964)	(1,283)
Operating profit	3	49,703	(1,964)	47,739	42,136
Exceptional items					
Costs of closure and sale of businesses		–	–	–	(3,036)
Related goodwill adjustment		–	–	–	(4,732)
Loss on closure and sale of businesses		–	–	–	(7,768)
		49,703	(1,964)	47,739	34,368
Interest	6	(5)	–	(5)	332
Profit on ordinary activities before taxation	1	49,698	(1,964)	47,734	34,700
Taxation	7	(15,379)	448	(14,931)	(12,693)
Profit for the financial year		34,319	(1,516)	32,803	22,007
Dividends					
Preference dividends				–	(21)
Ordinary dividends	8			(16,580)	(14,413)
				(16,580)	(14,434)
Profit transferred to reserves	9			16,223	7,573
Earnings per ordinary share before goodwill amortisation and exceptional items	2			9.52p	8.41p
Earnings per ordinary share	2			9.10p	6.08p
Diluted earnings per ordinary share	2			9.08p	6.07p

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

Consolidated Balance Sheet

£000

At 31 March 2001	Notes	2001	2000
Fixed assets			
Intangible assets	10	42,006	35,784
Tangible assets	11	44,754	42,214
		86,760	77,998
Current assets			
Stocks	12	40,129	35,842
Debtors	13	69,713	64,629
Cash and short-term deposits		21,484	21,900
		131,326	122,371
Creditors: amounts falling due within one year			
Borrowings	14	7,758	14,700
Dividends payable		10,062	8,730
Current taxation		10,224	8,355
Creditors	15	43,432	38,728
		71,476	70,513
Net current assets		59,850	51,858
Total assets less current liabilities		146,610	129,856
Creditors: amounts falling due after one year	16	1,730	4,317
		144,880	125,539
Capital and reserves			
Called up share capital	17	36,099	35,994
Share premium account	9	1,623	1,096
Other reserves	9	185	422
Profit and loss account	9	106,973	88,027
Shareholders' funds		144,880	125,539

Approved by the Board of Directors on 19 June 2001

D S Barber S R O'Shea Directors

Statement of Total Recognised Gains and Losses

£000

	2001 52 weeks	2000 52 weeks
Profit for the financial year	32,803	22,007
Other recognised gains and losses		
Exchange adjustments	3,243	(483)
Related corporation tax	(757)	(6)
	2,486	(489)
Total recognised gains and losses	35,289	21,518

Movements in Shareholders' Funds

	Notes	2001 52 weeks	2000 52 weeks
Profit for the financial year		32,803	22,007
Dividends		(16,580)	(14,434)
Profit transferred to reserves	9	16,223	7,573
Total other recognised gains and losses		2,486	(489)
Net proceeds of shares issued		632	252
Cancellation and repayment of preference shares		–	(656)
Purchase of own shares		–	(2,032)
Goodwill adjustment on closure and sale of businesses		–	4,732
Increase in shareholders' funds		19,341	9,380
Shareholders' funds brought forward		125,539	116,159
Shareholders' funds carried forward		144,880	125,539

Consolidated Cash Flow Statement

£000

	Notes	2001 52 weeks	2000 52 weeks
Cash flow from operating activities	21	55,493	47,369
Return on investments and servicing of finance			
Interest received		713	1,107
Interest paid		(700)	(529)
Preference dividends paid		–	(21)
		13	557
Taxation			
Current taxation paid		(14,489)	(16,317)
Capital expenditure			
Purchase of tangible fixed assets		(9,441)	(8,298)
Sale of tangible fixed assets		1,161	1,118
		(8,280)	(7,180)
Acquisitions and disposals			
Acquisition of businesses	21	(12,128)	(25,730)
Cash and overdrafts acquired		144	377
Sale of businesses		95	1,107
Overdrafts sold		–	313
		(11,889)	(23,933)
Equity dividends paid		(15,248)	(12,977)
		5,600	(12,481)
Management of liquid resources			
Decrease in short-term deposits	21	3,189	10,509
Financing			
Issue of ordinary share capital		632	252
Purchase and repayment of shares		–	(2,688)
(Decrease)/increase in loans		(9,278)	6,257
		(8,646)	3,821
Increase in cash	21	143	1,849

Halma p.l.c. Balance Sheet

£000

At 31 March 2001	Notes	2001	2000
Fixed assets			
Tangible assets	11	4,669	5,514
Investments	19	38,428	29,372
		43,097	34,886
Current assets			
Debtors	13	98,660	88,465
Cash and short-term deposits		9,005	13,630
		107,665	102,095
Creditors: amounts falling due within one year			
Borrowings	14	6,266	6,123
Dividends payable		10,062	8,730
Current taxation		3,006	2,292
Creditors	15	13,309	11,381
		32,643	28,526
Net current assets		75,022	73,569
Total assets less current liabilities		118,119	108,455
Creditors: amounts falling due after one year	16	864	170
		117,255	108,285
Capital and reserves			
Called up share capital	17	36,099	35,994
Share premium account	9	1,623	1,096
Other reserves	9	185	422
Profit and loss account	20	79,348	70,773
Shareholders' funds		117,255	108,285

Approved by the Board of Directors on 19 June 2001

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 31 March 2001. 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), 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 on a straight line basis over its estimated economic life of 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.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation which, with the exception of freehold land which is not depreciated, 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 2001	By destination 2000	By origin 2001	By origin 2000
United Kingdom	86,491	82,758	167,586	154,262
United States of America	87,088	67,650	89,402	67,463
Europe excluding UK	51,887	45,525	19,771	17,582
Far East and Australasia	22,295	22,975	9,217	10,448
Africa, Near and Middle East	9,124	6,517	–	–
Other	11,437	8,060	3,480	2,798
Inter-segmental sales	–	–	(21,134)	(19,068)
	268,322	233,485	268,322	233,485

Profit before taxation	2001	2000
United Kingdom	29,844	27,600
United States of America	16,284	12,164
Other countries	3,575	3,655
	49,703	43,419
Goodwill amortisation	(1,964)	(1,283)
Exceptional items	–	(7,768)
Interest	(5)	332
Profit on ordinary activities before taxation	47,734	34,700

Net assets	2001	2000
United Kingdom	51,825	51,899
United States of America	27,726	22,229
Other countries	9,597	8,427
	89,148	82,555
Net cash	13,726	7,200
Net tangible assets	102,874	89,755
Intangible assets	42,006	35,784
Shareholders' funds	144,880	125,539

Notes on the Accounts continued £000

1 **Segmental analysis continued**

Sector analysis

Turnover	2001	2000
Fire and Gas	69,218	61,299
Water	32,709	27,118
Elevator Electronics	33,009	27,150
Process Safety	36,050	31,293
Resistors	34,261	23,079
Optics and Specialist	64,004	64,627
Inter-segmental sales	(929)	(1,081)
	268,322	233,485
Profit before taxation		
Fire and Gas	14,803	12,345
Water	7,835	7,423
Elevator Electronics	6,092	6,078
Process Safety	6,369	5,476
Resistors	5,183	3,554
Optics and Specialist including holding companies	9,421	8,543
	49,703	43,419
Goodwill amortisation	(1,964)	(1,283)
Exceptional items	–	(7,768)
Interest	(5)	332
Profit on ordinary activities before taxation	47,734	34,700
Net assets		
Fire and Gas	20,074	19,138
Water	14,427	13,078
Elevator Electronics	10,591	8,967
Process Safety	11,413	10,947
Resistors	12,197	10,510
Optics and Specialist including holding companies	20,446	19,915
	89,148	82,555
Net cash	13,726	7,200
Net tangible assets	102,874	89,755
Intangible assets	42,006	35,784
Shareholders' funds	144,880	125,539

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.

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 £32,803,000 (2000: £22,007,000 less preference dividends) by the weighted average of 360,653,940 shares in issue during the year (2000: 361,334,514).

Diluted earnings per ordinary share are calculated using the same earnings as for earnings per ordinary share, divided by 361,095,012 shares (2000: 362,198,599) which includes dilutive potential ordinary shares of 441,072 (2000: 864,085). 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 goodwill amortisation and exceptional items 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:

			Per ordinary share	
	2001	2000	2001 p	2000 p
Profit for the financial year	32,803	22,007		
Preference dividends	–	(21)		
Earnings	32,803	21,986	9.10	6.08
Add back: goodwill amortisation (after tax)	1,516	1,283	0.42	0.36
Add back: exceptional items (after tax)	–	7,120	–	1.97
Earnings before goodwill amortisation and exceptional items	34,319	30,389	9.52	8.41

3 Operating profit

	2001	2000
Operating profit on continuing activities comprises		
Turnover	268,322	233,485
Cost of sales	(187,974)	(163,496)
Gross profit	80,348	69,989
Distribution costs	(6,540)	(5,312)
Administrative expenses	(24,486)	(21,599)
Other operating income	381	341
	49,703	43,419
Goodwill amortisation	(1,964)	(1,283)
	47,739	42,136
Operating profit is arrived at after charging		
Employee share scheme allocation	525	475
Depreciation	7,022	6,252
Goodwill amortisation	1,964	1,283
Research and development	7,994	6,753
Auditors' remuneration	449	435
Operating lease rents: property	3,070	2,728
other	125	76

Auditors' remuneration includes £59,000 (2000: £58,000) in respect of the Company. In addition, fees amounting to £43,000 (2000: £143,000) were charged by PricewaterhouseCoopers for non-audit services provided to UK Group companies.

4 Employee information

The average number of persons employed by the Group during the year was	2001 Number	2000 Number
United Kingdom	2,026	2,003
Overseas	1,033	972
	3,059	2,975

Group employee costs comprise	£000	£000
Wages and salaries	63,443	56,430
Social security costs	7,918	6,672
Other pension costs	3,478	3,196
	74,839	66,298

5 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.

6 Interest

	2001	2000
Interest receivable on short-term deposits	708	1,086
Interest payable on bank loans and overdrafts	(623)	(488)
Other interest	(90)	(266)
	(5)	332

Interest amounting to £32,000 (2000: nil) was capitalised during the year as part of the cost attributable to a property addition.

7 Taxation

	2001	2000
UK corporation tax at 30% (2000: 30%)	9,724	8,890
Overseas taxation	5,321	3,878
	15,045	12,768
Adjustments in respect of prior years	(114)	(75)
	14,931	12,693

The prior year UK corporation tax is stated net of a tax credit of £14,000 and the prior year overseas taxation is stated net of a tax credit of £634,000 in respect of the exceptional item.

On a full potential liability basis the unprovided deferred taxation in respect of the year would be a credit of £45,000 (2000: charge of £43,000).

£000

7 Taxation continued

	Group 2001	Group 2000	Halma p.l.c. 2001	Halma p.l.c. 2000
Deferred taxation				
Timing differences due to				
Fixed assets	405	411	11	–
Other items	(405)	(411)	(11)	–
	–	–	–	–
Unprovided deferred taxation				
Timing differences due to				
Fixed assets	1,506	1,551	340	367
Other items	–	–	–	–
	1,506	1,551	340	367

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.

8 Ordinary dividends

	2001	2000	2001	2000
	p	p		
Interim paid	1.806	1.570	6,517	5,679
Final proposed	2.787	2.423	10,062	8,730
Balance of final dividend	–	–	1	4
	4.593	3.993	16,580	14,413

If approved, the final dividend will be paid on 361,025,913 shares in issue. 38,133 shares have been issued after 31 March 2001.

9 Reserves

	Share premium account	Capital redemption reserve	Special reserve	Profit and loss account
At 1 April 2000	1,096	185	237	88,027
Profit transferred to reserves	–	–	–	16,223
Share options exercised	527	–	(237)	237
Exchange adjustments	–	–	–	2,486
At 31 March 2001	1,623	185	–	106,973

Total other reserves comprising the capital redemption and special reserves amount to £185,000 (2000: £422,000).

Notes on the Accounts continued £000

10 Fixed assets – intangible assets

	Goodwill
Cost	
At 1 April 2000	37,343
Additions (Note 18)	8,186
At 31 March 2001	45,529
Amortisation	
At 1 April 2000	1,559
Charge for the year	1,964
At 31 March 2001	3,523
Net book amounts	
At 31 March 2001	42,006
At 1 April 2000	35,784

11 Fixed assets – tangible assets

Group	Land and buildings Freehold properties	Long leases	Short leases	Plant equipment & vehicles	Total
Cost					
At 1 April 2000	19,656	1,367	1,971	53,750	76,744
Assets of businesses acquired	–	–	55	455	510
Additions at cost	1,646	6	344	7,477	9,473
Disposals	(391)	–	(79)	(4,221)	(4,691)
Exchange adjustments	561	2	79	1,520	2,162
At 31 March 2001	21,472	1,375	2,370	58,981	84,198
Accumulated depreciation					
At 1 April 2000	2,500	234	831	30,965	34,530
Assets of businesses acquired	–	–	33	289	322
Charge for the year	273	46	182	6,521	7,022
Disposals	(55)	–	(79)	(3,306)	(3,440)
Exchange adjustments	112	–	51	847	1,010
At 31 March 2001	2,830	280	1,018	35,316	39,444
Net book amounts					
At 31 March 2001	18,642	1,095	1,352	23,665	44,754
At 1 April 2000	17,156	1,133	1,140	22,785	42,214

£000

11 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 1 April 2000	5,908	76	846	6,830
Additions at cost	67	–	364	431
Disposals	(1,164)	–	(255)	(1,419)
At 31 March 2001	4,811	76	955	5,842
Accumulated depreciation				
At 1 April 2000	797	32	487	1,316
Charge for the year	69	6	127	202
Disposals	(201)	–	(144)	(345)
At 31 March 2001	665	38	470	1,173
Net book amounts				
At 31 March 2001	4,146	38	485	4,669
At 1 April 2000	5,111	44	359	5,514

12 Stocks

	2001	2000
Raw materials and consumables	16,710	14,462
Work in progress	9,770	8,816
Finished goods and goods for resale	13,649	12,564
	40,129	35,842

13 Debtors

	Group 2001	Group 2000	Halma p.l.c. 2001	Halma p.l.c. 2000
Falling due within one year				
Trade debtors	65,733	61,143	–	–
Amounts due from group companies	–	–	98,384	88,187
Prepayments and accrued income	2,634	2,409	218	207
Other debtors	1,346	1,077	58	71
	69,713	64,629	98,660	88,465

14 Borrowings

	Group 2001	Group 2000	Halma p.l.c. 2001	Halma p.l.c. 2000
Falling due within one year				
Bank loans and overdrafts	7,548	14,415	6,056	5,838
Other unsecured loans	210	285	210	285
	7,758	14,700	6,266	6,123

HALMA Notes on the Accounts continued £000

15 Creditors

	Group 2001	Group 2000	Halma p.l.c. 2001	Halma p.l.c. 2000
Trade creditors	28,579	25,608	249	195
Other taxation and social security	3,919	3,650	1,283	1,098
Amounts owing to group companies	–	–	10,502	9,060
Accruals and deferred income	7,776	7,025	1,083	870
Other creditors	3,158	2,445	192	158
	43,432	38,728	13,309	11,381

16 Creditors: amounts falling due after one year

	Group 2001	Group 2000	Halma p.l.c. 2001	Halma p.l.c. 2000
Deferred purchase consideration	1,730	4,317	864	170

17 Called up share capital

	Authorised 2001	Authorised 2000	Issued and fully paid 2001	Issued and fully paid 2000
Ordinary shares of 10p each	43,656	43,656	36,099	35,994

The number of ordinary shares in issue at 31 March 2001 was 360,987,780.

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

At 1 April 2000	35,994
Share options exercised	105
At 31 March 2001	36,099

Options in respect of 4,907,104 ordinary shares remained outstanding at 31 March 2001 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
78,456	52.53p – 52.84p		1994
130,128	65.39p – 69.61p		1995
537,410	115.31p – 128.81p		1996
1,037,297	122.63p – 132.19p		1997
438,662	111.75p – 126p		1998
98,664	138p – 144.76p		1999
365,800	122.5p – 139p		2000
111,200	101.5p – 116.5p		2001
259,700	120p – 137p		2002
60,205	52.84p	1996	
220,433	55.59p – 69.61p	1997	
468,050	98.02p – 128.82p	1998	
498,984	104.23p – 132.23p	1999	
583,449	111.75p – 126p	2000	
3,866	138.02p	2001	
1,100	101.5p	2003	
13,700	120p	2004	

£000

17 Called up share capital continued

Options in respect of 9,000,285 ordinary shares remained outstanding at 31 March 2001 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
758,122	138p – 144.75p		1999
2,374,200	122.5p – 139p		2000
803,900	101.5p – 123.5p		2001
2,550,500	120p – 137p		2002
448,663	138p – 144.75p	2001	
528,500	122.5p – 137p	2002	
541,200	101.5p – 123.5p	2003	
995,200	120p – 136p	2004	

Options in respect of 3,865,600 ordinary shares remained outstanding at 31 March 2001 under the share option plan approved by shareholders in 1999. 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
2,730,800	111p		2003
1,134,800	111p	2005	

The 1990, 1996 and 1999 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, for the 1996 Plan, the growth in the Retail Price Index plus 2% per annum and, for the 1999 Plan, the growth in the Retail Price Index plus 3% per annum. Section B options are exercisable after five years if the Company's earnings per share growth exceeds the earnings per share growth of, for the 1990 and 1996 Plans, all but the top quarter of companies which were within the FTSE100 at the date of grant of any option and for the 1999 Plan, all but the top quarter of companies which were within a peer group at the date of grant of any option.

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

HALMA Notes on the Accounts continued £000

18 Goodwill arising on acquisition

	Book value	Fair value adjustments	Total
Intangible fixed assets	64	(64)	–
Tangible fixed assets	189	(1)	188
Current assets			
Stocks	680	(92)	588
Debtors	1,208	(19)	1,189
Cash and short-term deposits	1,065	–	1,065
Total assets	3,206	(176)	3,030
Current liabilities			
Borrowings	60	–	60
Current taxation	537	(27)	510
Creditors	865	26	891
Total liabilities	1,462	(1)	1,461
Net assets of businesses acquired	1,744	(175)	1,569
Deferred purchase consideration			(831)
Cash consideration			(10,175)
Total consideration			(11,006)
Goodwill arising on current year acquisitions			(9,437)
Adjustments relating to prior years' acquisitions			1,251
Goodwill arising on acquisition (note 10)			(8,186)

In respect of current year acquisitions, 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.

Deferred purchase consideration is payable on the acquisitions of Vandal-Proof Products Inc. and Wessex Electronics Consultants Limited. Deferred purchase consideration is payable in cash and comprises both fixed and contingent elements. The contingent elements have been provided at the estimated amount payable. The amounts ultimately paid are dependent on sales for Vandal-Proof Products Inc. and in the case of Wessex Electronics Consultants Limited on margins achieved during specified periods following acquisition.

The adjustments to goodwill relating to prior years' acquisitions comprise revisions to the estimate of deferred purchase consideration payable of £1,898,000, offset by hindsight period fair value adjustments, which predominantly relate to stocks, of £412,000, and additional consideration paid of £235,000.

The goodwill of £9,437,000 arose on current year acquisitions as follows:

Vandal-Proof Products Inc.	(399)
Wessex Electronics Consultants Limited	(2,709)
FFE Holdings Limited	(6,329)
Goodwill arising on current year acquisitions	(9,437)

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 (2000: £76,526,000).

£000

19 Investments

Shares in Group companies	2001	2000
At cost less amounts written off at 1 April 2000	29,372	29,344
Additions	9,056	1,800
Amounts written off in financial year	–	(1,772)
At cost less amounts written off at 31 March 2001	38,428	29,372

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.

HALMA Notes on the Accounts continued £000

20 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	2001	2000
At 1 April 2000	70,773	69,178
Profit after taxation	22,575	18,598
Dividends	(16,580)	(14,434)
Cancellation and repayment of preference shares	–	(656)
Purchase of own shares	–	(2,032)
Transfer from special reserve	237	107
Exchange adjustments	2,343	12
At 31 March 2001	79,348	70,773

21 Consolidated cash flow statement

	2001	2000
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	47,739	42,136
Depreciation	7,022	6,252
Goodwill amortisation	1,964	1,283
Loss on sale of tangible fixed assets	90	11
Increase in stocks	(2,348)	(878)
Increase in debtors	(1,385)	(1,155)
Increase in creditors	2,411	249
Net cash flow relating to exceptional items	–	(529)
Net cash inflow from operating activities	55,493	47,369

The cash outflow of £12,128,000 on the acquisition of businesses includes the payment of £1,718,000 of deferred purchase consideration which arose from acquisitions made in earlier years, and where provision was made in prior years' financial statements, and £235,000 additional consideration on a prior year acquisition.

Reconciliation of net cash flow to movement in net cash		
Increase in cash	143	1,849
Decrease in liquid resources	(3,189)	(10,509)
Short-term deposits acquired	861	409
Loans acquired	–	(604)
Cash outflow/(inflow) from loans	9,278	(6,257)
Exchange adjustments	(567)	148
	6,526	(14,964)
Net cash brought forward	7,200	22,164
Net cash carried forward	13,726	7,200

HALMA Notes on the Accounts continued £000

21 Consolidated cash flow statement continued

Analysis of net cash

	At 1 April 2000	Cash flow	Acquisitions (excluding cash and overdrafts)	Exchange adjustments	At 31 March 2001
Cash	6,328	1,592	–	56	7,976
Overdrafts	(42)	(1,449)	–	(1)	(1,492)
		143			
Short-term deposits	15,572	(3,189)	861	264	13,508
Bank loans	(14,373)	9,203	–	(886)	(6,056)
Other unsecured loans	(285)	75	–	–	(210)
	7,200	6,232	861	(567)	13,726

22 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 and appropriate, 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.

Notes on the Accounts continued £000

22 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:

2001	Net foreign currency monetary assets/(liabilities)				
Functional currency of operation	Sterling	US dollar	Euro	Other	Total
Sterling	–	1,360	1,889	56	3,305
US dollar	(188)	–	57	(130)	(261)
Euro	(166)	(65)	–	(2)	(233)
Other	26	2,127	40	652	2,845
Total	(328)	3,422	1,986	576	5,656

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

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 totalled £13,508,000 at 31 March 2001 (2000: £15,572,000). These comprised Sterling denominated deposits of £8,600,000 (2000: £13,600,000), US dollar denominated deposits of £4,326,000 (2000: nil), Euro and other currency deposits of £582,000 (2000: £1,972,000) which are placed on local 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 £7,758,000 at 31 March 2001 (2000: £14,700,000). All are subject to floating rates of interest. These comprise Euro denominated bank loans of £6,056,000 (2000: £5,967,000) which bear interest with reference to the Euro LIBOR rates, Euro denominated bank overdrafts of £55,000 (2000: £29,000) which bear interest at rates referenced to Euro base rates and Sterling denominated bank overdrafts of £1,437,000 (2000: £13,000) and loan notes of £210,000 (2000: £285,000) which bear interest at rates referenced to UK base rates. The prior year figure also included US dollar denominated bank loans of £8,406,000 which bore interest with reference to the US dollar LIBOR 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 £1,245,000 (2000: £3,426,000) 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.

HALMA Notes on the Accounts continued £000

22 Financial instruments continued

The Group also has committed borrowing facilities which are used for the purposes of managing foreign currency risk. At 31 March 2001 committed facilities of this type amounted to £23,451,000 (2000: £26,250,000) of which £6,056,000 (2000: £14,088,000) was drawn down. The borrowing facilities are reviewed annually, and as such the weighted average maturity of the borrowing facilities is less than one year.

Fair values of financial assets and financial liabilities
As at 31 March 2001 there was no significant difference between the book value and fair value of the Group financial assets and financial liabilities.

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 31 March 2001 and 1 April 2000 are not significant.

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

23 Commitments

Capital commitments
Capital expenditure authorised and contracted at 31 March 2001 but not provided in these accounts amounts to £1,741,000 (2000: £573,000).

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

	Land and buildings		Other	
	2001	2000	2001	2000
Within one year	331	139	13	22
Within two to five years	1,156	1,211	71	64
After five years	1,591	1,476	–	4
	3,078	2,826	84	90

Total annual commitments under non-cancellable operating leases amount to £3,162,000 (2000: £2,916,000).

24 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 £3,478,000 (2000: £3,196,000) of which £778,000 (2000: £611,000) 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.

Recent Acquisition Activity

A summary of acquisition activity during the 15 month period from April 2000 to June 2001 is set out below:

May 2000	The business and assets of Vandal-Proof Products Inc. were acquired for an initial consideration of US$700,000.
September 2000	Wessex Electronics Consultants Limited was acquired for an initial consideration of £2,000,000.
October 2000	FFE Holdings Limited was acquired for a consideration of £7,500,000.
May 2001	The business and assets of the Earth Fault Detection Product Line of Schneider Canada were acquired for a consideration of Can$1,600,000.

Analysis of Shareholders

Ordinary shareholdings as at 21 May 2001

	Shareholders Number	Shareholders %	Shares Number	Shares %
Number of shares held				
1 – 7,500	5,315	76.7	11,235,327	3.1
7,501 – 25,000	984	14.2	12,927,351	3.6
25,001 – 100,000	398	5.8	19,992,996	5.5
100,001 – 750,000	176	2.5	46,803,917	13.0
750,001 and over	55	0.8	270,038,589	74.8
	6,928	100.0	360,998,180	100.0
Category of shareholders				
Insurance companies	53	0.8	9,558,758	2.7
Pension funds	79	1.1	63,292,668	17.5
Investment companies and unit trusts	76	1.1	163,815,607	45.4
Banks and nominee companies	1,546	22.3	67,568,490	18.7
Other corporate bodies	166	2.4	6,854,399	1.9
Total corporate bodies	1,920	27.7	311,089,922	86.2
Directors	9	0.1	15,791,969	4.4
Other individual shareholders	4,999	72.2	34,116,289	9.4
	6,928	100.0	360,998,180	100.0

Notice of Meeting

Notice is hereby given that the one hundred and seventh Annual General Meeting of Halma p.l.c. will be held at The Ballroom, The Berkeley Hotel, Wilton Place, London SW1X 7RL on Wednesday, 1 August 2001 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 to 31 March 2001.
2. To declare a dividend on the ordinary shares.
3. To re-elect as a Director Mr S R O'Shea who retires from the Board by rotation and being eligible offers himself for re-election.
4. To re-elect as a Director Mr K J Thompson who retires from the Board by rotation and being eligible offers himself for re-election.
5. To re-elect as a Director Mr N Quinn who retires from the Board by rotation and being eligible offers himself for re-election.
6. To re-elect as a Director Mr R A Stone who was appointed in January 2001 and who retires in accordance with the Articles of Association.
7. To re-elect as a Director Mr K J Roy who was appointed in April 2001 and who retires in accordance with the Articles of Association.
8. To re-appoint PricewaterhouseCoopers as Auditors.
9. To authorise the Directors to determine the remuneration of the Auditors.

Special business

To consider, and if thought fit, pass the following ordinary resolution:

10. That the remuneration policy for Directors as set out on page 35 of the Report and Accounts for the 52 weeks to 31 March 2001 be approved.

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

11. 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 plan 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 £1,805,000,

    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.

12 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
2 July 2001

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 1 August 2001 and at The Berkeley Hotel from 11.45 am on the day of the meeting until the close of the meeting.

Summary 1992 to 2001

	1991/92	1992/93	1993/94	1994/95	1995/96
Turnover	94,547	116,145	135,318	153,739	173,652
Overseas sales	44,311	59,808	74,976	90,045	104,432
Profit before taxation, goodwill amortisation and exceptional items	15,514	20,891	25,075	29,234	33,619
Net tangible assets	38,404	46,064	55,518	63,833	77,650
Borrowings	8,424	8,726	6,898	7,096	8,350
Cash and short-term deposits	12,701	17,248	16,794	19,759	27,459
Employees	1,841	1,902	2,099	2,226	2,384
Earnings per ordinary share (Notes 1 and 2)	2.92p	4.19p	4.79p	5.59p	6.44p
Earnings per ordinary share before goodwill amortisation and exceptional items (Note 1)	3.25p	4.19p	4.79p	5.59p	6.44p
Year on year increase/(decrease) in earnings per ordinary share before goodwill amortisation and exceptional items	13.2%	28.9%	14.3%	16.7%	15.2%
Net tangible assets per ordinary share (Note 1)	11.2p	13.2p	15.6p	17.9p	21.7p
Year on year increase/(decrease) in net tangible assets per ordinary share	14.3%	17.9%	18.2%	14.7%	21.2%
Profit before taxation, goodwill amortisation and exceptional items as a % of turnover	16.4%	18.0%	18.5%	19.0%	19.4%
Return on capital employed (Note 3)	40.4%	45.4%	45.2%	45.8%	43.3%
Year on year increase in dividends per ordinary share	25%	20%	20%	20%	20%
Ordinary share price at financial year end (Note 1)	68p	108p	127p	113p	138p
Market capitalisation at financial year end	£229.8m	£375.2m	£446.9m	£401.5m	£492.1m

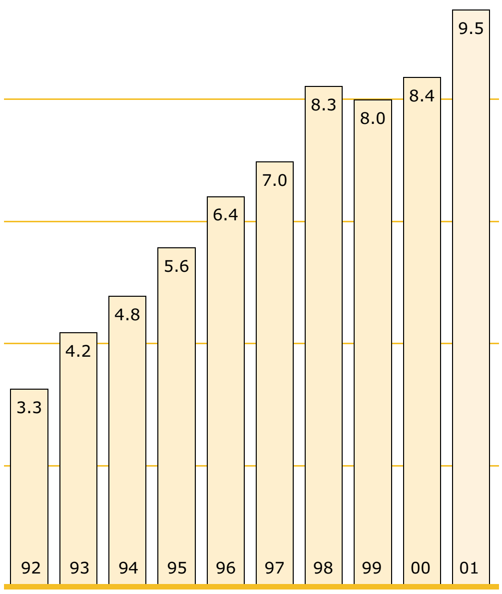
Notes:

1. Restated for the capitalisation issues made in 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, goodwill amortisation and exceptional items expressed as a % of net tangible assets.

				£000
1996/97	1997/98	1998/99	1999/00	2000/01
200,140	213,777	217,758	233,485	268,322
119,235	126,863	134,189	150,727	181,831
37,076	42,391	41,823	43,751	49,698
81,209	98,249	102,101	89,755	102,874
3,763	2,784	7,730	14,700	7,758
13,447	22,639	29,894	21,900	21,484
2,677	2,861	2,827	2,975	3,059
7.01p	6.87p	7.91p	6.08p	9.10p
7.01p	8.26p	7.99p	8.41p	9.52p
8.9%	17.8%	(3.3%)	5.3%	13.2%
22.5p	27.1p	28.2p	24.9p	28.5p
3.7%	20.4%	4.1%	(11.7%)	14.5%
18.5%	19.8%	19.2%	18.7%	18.5%
45.7%	43.1%	41.0%	48.7%	48.3%
20%	20%	20%	20%	15%
134p	124p	92p	95p	129p
£479.2m	£447.3m	£330.6m	£340.1m	£465.7m

Earnings per share before goodwill amortisation and exceptional items

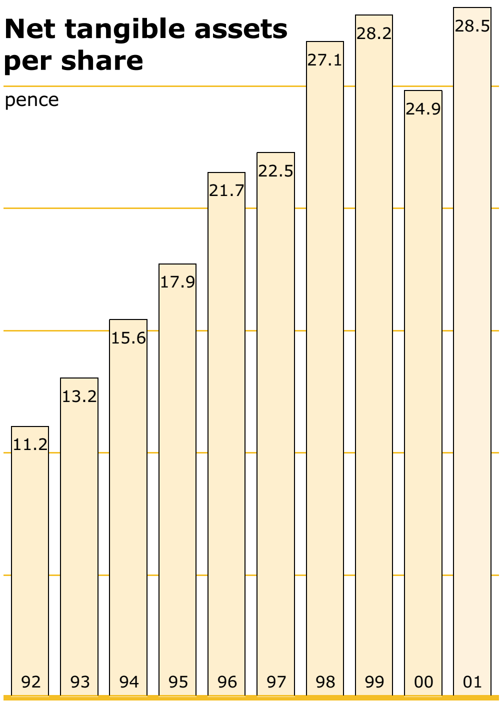
pence



Year ending

Net tangible assets per share

pence



Year ending

Halma Group Directory

	Main products
Air Products and Controls Inc.	Duct detectors and control relays 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 safety and emissions monitoring
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
Fire Fighting Enterprises Limited	Beam detectors and specialist extinguishing systems
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 and leak detection systems
IPC Power Resistors International Inc.	High power electrical resistors
IPC Resistors Inc.	High power electrical resistors
Janus Elevator Products Inc.	Infrared safety systems for elevator doors and elevator electronic displays
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 and instruments for combustion control and heat treatment processes
Memco Limited	Infrared safety systems for elevator doors and elevator emergency communications
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	Instrumentation for quantifying, detecting and controlling leakage in underground water pipelines
Perma Pure Inc.	Gas dryers and humidifiers for medical, scientific and industrial use
Post Glover Resistors Inc.	High power electrical resistors
S & P Coil Products Limited	Heat exchange coils, heat pipes and specialist heating 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
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	Cash handling products and retail security

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)859 341 0710	+1 (1)859 341 0350	www.aquionics.com
Eindhoven, The Netherlands	JP Corbijn	+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	DR Jackson	+1 (1)859 341 3075	+1 (1)859 341 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.com
Leicester	DG Cummins	+44 (0)116 273 3633	+44 (0)116 273 7911	www.cressall.com
Abingdon, Oxfordshire	LK Greenham	+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	S Keenan	+44 (0)191 293 1234	+44 (0)191 293 1200	www.elfab.com
Singapore	SD Black	+65 776 4111	+65 774 7555	www.emotive.com.sg
Stevenage, Hertfordshire	RA Brown	+44 (0)1438 317216	+44 (0)1438 722136	www.ffeuk.com
Wolverhampton, West Midlands	MJC Golding	+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.com.au
Cincinnati, Ohio	SD Sowell	+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.com
Cluses, France	G Denis	+33 (0)4 50 98 96 71	+33 (0)4 50 98 87 42	www.hfsecurite.com
Lyon, France	AHP Soulié	+33 (0)4 72 53 11 53	+33 (0)4 78 83 44 37	www.hydreka.com
Florence, Kentucky	RL Field	+1 (1)859 282 2900	+1 (1)859 282 2904	www.ipcresistors.com
Toronto, Canada	AH Cochran	+1 (1)905 673 1553	+1 (1)905 673 8472	www.ipc-resistors.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	RI Higgons	+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)859 283 0778	+1 (1)859 283 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 18 15 15	+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
Reading, Berkshire	MA Bailey	+44 (0)118 945 8200	+44 (0)118 945 8225	www.thames-side.co.uk
Christchurch, New Zealand	CR Stoelhorst	+64 (0)3 349 4456	+64 (0)3 349 5466	www.tljonesltd.com
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

Financial Calendar

2000/01 Interim results	5 December 2000
2000/01 Interim dividend paid	5 February 2001
Trading update	26 April 2001
2000/01 Preliminary results	19 June 2001
2000/01 Report and Accounts issued	2 July 2001
Annual General Meeting	1 August 2001
2000/01 Final dividend payable	20 August 2001
Trading update	end October 2001
2001/02 Interim results	4 December 2001
2001/02 Interim dividend payable	February 2002
Trading update	end April 2002
2001/02 Preliminary results	June 2002

Pillans & Wilson, Edinburgh. 65239

Halma p.l.c.

Misbourne Court
Rectory Way
Amersham
Bucks HP7 0DE
Tel: +44 (0) 1494 721111
Fax: +44 (0) 1494 728032

www.halma.com