

HALMA

Annual Report and Accounts 2002



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Halma online news

Keep up to date with the latest Halma news by visiting our investor relations website: www.halma.com. Register online for news alerts and you will be e-mailed whenever significant announcements are made.

Financial Highlights

	Change	2002 £m	2001 £m
Turnover	0%	267.6	268.3
Overseas sales	+1%	183.3	181.8
Profit before taxation*	-3%	48.3	49.7
Net tangible assets	+18%	117.5	100.0†
Earnings per share*	-3%	9.10p	9.34p†
Net tangible assets per share	+16%	32.2p	27.7p†
Dividend per share	+15%	5.283p	4.593p
Profit before taxation* as a percentage of turnover		18.0%	18.5%
Turnover to net tangible assets		2.28 _{times}	2.68 _{times} †
Return on capital employed**		41.1%	49.7%†

*Before goodwill amortisation

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

†Restated for the adoption of FRS 19 (Deferred Tax)

Highlights of the year

- Sales held at last year's record level with profit only marginally down
- Strong cashflow underpins further 15% dividend growth and record level of cash
- New products driving continuing growth opportunities
- US weaker but particularly strong sales in Europe
- Consistently high returns and margins earned

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:

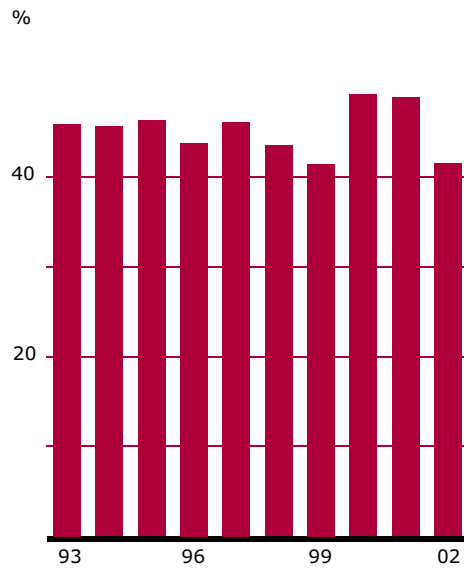
- Fire and Gas detection
- Water leak detection and UV treatment
- Elevator Electronics
- Bursting discs and sequential locking for Process Safety
- High power electrical Resistors
- Ophthalmic Optics and Specialist technology

Value creation strategy

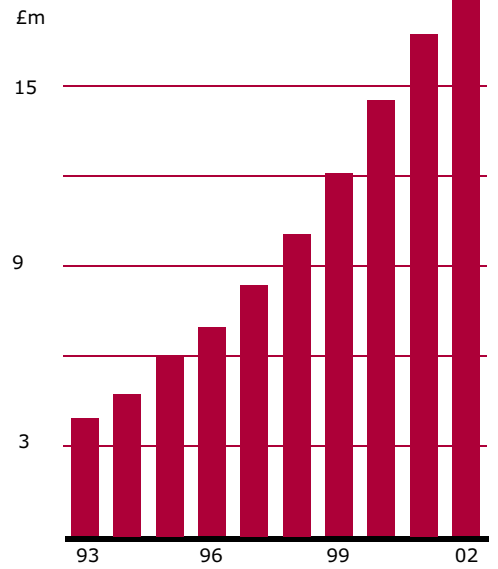
Our over-riding objective is to create shareholder value by:

- Building global businesses that sustain a leading position in specialised markets in areas of long-term sales growth
 - 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, contribute to growth 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
-

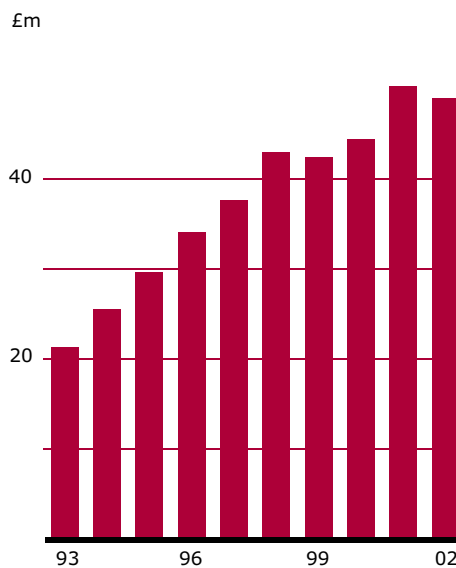
ROCE consistently above 40%



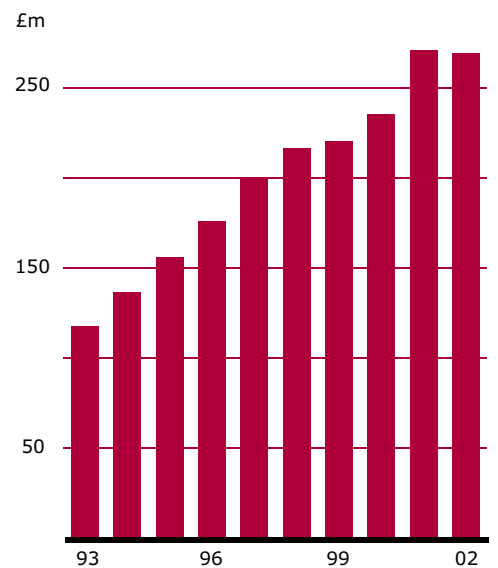
Unbroken dividend growth



Long-term profit growth

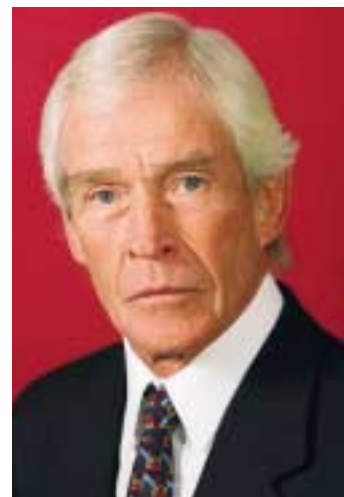


Stable sales in tough world markets



"... seeking acquisitions in key markets"

David Barber, Chairman



Results

My statement in the Interim Report was made against the background of a troubled world situation, and I commented on the difficulty which this imposed on assessing our prospects. I therefore chose to express my confidence in terms of our performance relative to other companies, and in this context I believe that shareholders will agree that our performance has indeed been encouraging, despite the fact that the Group's pre-tax profit at £48.3 million was marginally below that of the previous year.

The USA is a major market for us, comprising one-third of our total sales. Inevitably, the downturn in this market during the year has held back our profit growth. This is graphically demonstrated by noting that our annual rate of growth in sales to the USA over the five years to March 2001 averaged 19% per annum compound. In contrast, during the year under review, our sales to the USA actually reduced by 4.5%.

Cash flow

The Group yet again demonstrated its cash generating abilities. After the expenditure of £8.1 million on capital investment and £2.6 million on businesses acquired for cash, the net cash balances at the year end amounted to £31 million, easily the largest in the Group's history.

We are continually seeking acquisitions to further strengthen our position in our key markets, and the existence of this strong cash balance I believe offers considerable potential for profit enhancement.

Dividends

The Directors again recommend an increase of 15% in the final dividend per share. This is the twenty-fourth consecutive year in which the total dividend per share has been increased by 15% or more. The total dividend is covered 1.7 times by profit before amortisation of goodwill but after taxation. If approved, this dividend amounting to 3.206p per share will be paid on 19 August 2002 to shareholders on the register at the close of business on 19 July 2002.

Board changes

On 30 April 2002, Clive Summerhayes retired as a Director of Halma p.l.c. Clive has been an invaluable member of the Halma Board, and we wish him every happiness in his retirement. Clive joined Halma in 1973 and during the past 29 years has made a very significant contribution to the Group's outstanding growth record. In addition to his own impact on our success, Clive has been outstanding as a developer of management talent within the Group, helping to build the very strong team we have today.

Prospects

The Group's dominance in its selected markets and its cash generating ability continue to demonstrate its quite exceptional strength. Although the short-term prospects are difficult to forecast with precision I am sure that the Group will continue to deliver consistent and increasing value to its shareholders.



David S Barber

*" . . . US slowdown caused a pause
in growth . . . "*

Stephen O'Shea, Chief Executive



Summary

This year has seen a pause in our tradition of delivering record profit each year. The scale of the short-term slowdown in the USA has exceeded the rate of growth achieved in Europe and elsewhere. The Group's results are therefore slightly below last year, as indicated in our April trading statement. We made profit before tax and goodwill amortisation of £48.3 million (2001: £49.7 million) on sales at the same level as last year.

Overall our operating companies continue to provide a high return on sales together with an exceptionally good return on capital employed. This has meant that not only were we fully self-funded but also increased our cash balances to record levels by the end of the year. Such a consistent performance across our businesses is underpinned by continual innovation in production methods, systems and new products. We have also continued to increase our R&D spend to record levels, a key element in ensuring future growth.

Efforts to reduce material costs and increase productivity have continued throughout the year and are expected to show through in increased profits in 2002/03. The powerful positions we have built up over many years in safety-related growth markets have provided considerable resilience in the Group results.

Sectoral growth

The USA has been a significant source of growth in sales and profits over a considerable period. The difficulties in this market inevitably affected this year's performance. Profits from the USA in 1999/00 were £12.3 million, in 2000/01 were £16.3 million and this year were £13.8 million. Sales show a similar pattern of reduction from last year's

peak but growth over the previous record. This characteristic is widespread across our six sectors. Only in our water sector did sales grow in the USA as a result of effective selling into our niche areas of the growing US water market. The US market is showing signs of improvement. Recovery in America should lead into a recovery in profits from this region in the second half of the coming year.

In the **Fire and Gas** sector management was successful in growing sales into mainland Europe to such an extent that declines in the USA and UK were fully offset. Profit remained steady at last year's record level. Our success in developing added value products through our commitment to R&D and our successes in growing market shares and reducing costs have allowed margins to be held at the former satisfactory levels.

A substantial proportion of the world's elevator industry is based on the USA. New York represents 20% of their national market. There has been therefore a significant effect on our **Elevator Electronics** sector as a result of the disaster of 11 September and from broader US economic effects. Although worldwide sales equalled last year, profit margins were reduced. Some of our biggest customers have been buying some of our smaller ones. This leads to a degree of pricing pressure. Exports of emergency telecommunication equipment and displays for elevators are growing to become a more significant part of our operations. This should allow us to grow sales in other parts of the world further assisted by a strong pipeline of new products.

Right across the world our **Process Safety** products protect life and health at work. Reductions in sales to the USA were more than offset by increased sales into Europe and the Far East. Our machine guarding and interlocking activities moved ahead well. Recently we have introduced a range of highly sensitive pressure relief sensors that are the most reliable and predictable in the industry according to independent tests. However in the year we earned less from our emergency pressure relief operations. Total profits were close to last year's level. We are working to increase our geographical coverage and bring a wider range of products to each of our customers.

Within our **Water** business Ultrapure water systems for the semiconductor industry declined to a low level but we increased sales into the more competitive municipal water cleansing market in the USA. We occupy a niche, medium pressure closed systems, in this growing market and increased sales to the USA by £3 million. The change in product mix caused a reduction in margins and profit for the year.

We are the world leaders in the high power **Resistor** market. This is a diverse market and we supply products into telecoms, internet providers, transport, power generation, heavy industry and mining. All of these industries have been affected in the USA leading to a reduction in US sales of over £3 million. This was only partially offset in other territories where sales grew by less than £1 million. Action was taken during the year to reduce staffing levels and cut some costs. This is however still a highly successful sector and on a medium-term growth track. Despite this the profit made in this sector has been exceeded only once and that was last year. There are early signs of useful growth in our earth-fault control business. This is an area of increasing technology offering valuable operating advantages to customers.

Profits were increased in our **Optics & Specialist** sector. This was achieved by selling an improved mix of products that earn higher margins. The division increased its return on sales from 14.7% last year to 15.4% this year. One new product that contributed to the improvement is a new automatic instrument for measuring the fluid pressure inside the eye. This is an important diagnostic aid in several forms of eye disease.

People

It takes special people to create and develop market-leading businesses. Our management team continuously achieves this and at the same time delivers an extraordinarily consistent record of high return on sales and high return on capital employed. Much of this talent is developed within the Group and I would like to endorse the Chairman's words of thanks to Clive Summerhayes, who demonstrated an exceptional ability to recognise, recruit and coach high quality managers during his many years with the Group. Clive will be greatly missed as a valued colleague, but his legacy remains with each of us who benefited from his skills.

There is no disguising the fact that this has been a challenging year for our Executives in each subsidiary. However, once again, they have demonstrated their talent by making the necessary decisions and implementing them successfully. As a result, we have leaner, more productive companies. I would like to thank all our employees for their efforts. As a result of their work, we have continued to create wealth for our shareholders who will deservedly reap the rewards as we return to our remarkable long-term growth track.

Strategy and prospects

In each of our chosen sectors there are long-term growth opportunities. We have considerably improved our sales into Europe and have taken management actions to reduce costs. These factors will assist future operating results, particularly in the second half of the year ending in March 2003. We have substantial resources available to acquire complementary operations that extend our market share or give us access to new or emerging technologies with strong growth potential. Taken together with the fruits of our own R&D, these opportunities provide a strong platform from which to return to our normal pattern of record sales and record profits.



Stephen R O'Shea

*"Strong financial controls in place
across the Group"*

Kevin Thompson, Finance Director



Financial performance

At £48.3 million, profit before taxation and goodwill amortisation was 3% (£1.4 million) below last year's record on similar turnover. The Group continues to operate at a high rate of profitability with return on sales at 18%, having exceeded a figure of 17% for 10 consecutive years.

Costs continue to be well managed with materials purchase cost being driven down, thereby maintaining gross margin levels, despite sales price pressure in some markets. The overhead cost base has been reduced through the year, a pattern accelerated in the second half, so that Group headcount finished the year 9% below March 2001. As a result of changes to the cost base, approximately £1.5 million of reorganisation costs were incurred and have been charged against operating profit.

Cash flow and returns

Good cash generation and consistently high returns were a feature of this year as in previous years. Free cash flow (the cash left over from our operating activities and interest but after funding capital expenditure, working capital and tax) was £33 million, equalling the record achieved last year. We finished the year with net cash in excess of £30 million. This strong cash generation will finance a dividend increase of 15%, giving a total distribution to shareholders of more than £19 million for the year.

Return on capital employed is an excellent performance measure for the Group. It combines profitability (return on sales) with efficiency (asset turns). The Group's return on capital employed was over 40% for the nineteenth consecutive year. If we exclude the high levels of cash (on which we earn a lower return) from the calculation, the return is an exceptional 55%.

Taxation

The effective rate of tax on profit before goodwill amortisation was 31.5%. Going forward, we expect the effective tax rate to be slightly higher as we increasingly earn profits in higher tax jurisdictions.

Accounting Standards

Three new Accounting Standards have become applicable in these accounts.

FRS 17 (Retirement Benefits) requires extra disclosure. When FRS 17 is implemented in full in 2004 the effect on profit is not expected to be material. Under FRS 17 the Group's defined benefit pension schemes had an aggregate deficit of £9 million net of tax at the end of March 2002. This is primarily the result of the decline in interest rates and the fall in the world stock markets, as well as the relatively prudent assumptions of FRS 17. To protect the Group against future volatility in pension costs, the defined benefit schemes will shortly be closed to new members and a defined contribution scheme established.

FRS 18 (Accounting Policies) required no adjustment to the Group accounts.

FRS 19 (Deferred Tax) required full rather than partial provision for deferred tax and caused an increase in the effective tax rate. A deferred tax provision of £4 million is now included in the Consolidated Balance Sheet, also as a result of the new Accounting Standard. Comparative figures have been restated accordingly.

Financial risk

We believe that it is vital for strong financial controls to be in place across the Group and for a culture of openness, honesty and accountability to exist within our highly autonomous structure. High quality finance executives resident in each operating company oversee best practice. We do not use complex derivative financial instruments nor complex tax planning schemes. Our balance sheet is strong with no net debt or off balance sheet financing arrangements. This straightforward approach, together with our intensive management, protects assets, controls liabilities and provides future opportunity.

Value creation

Through product and process improvements, tight management of costs and the continuing strength of the balance sheet, the Group remains in very good shape. We focus consistently on stable safety-related world markets and the creation of value. The evidence for this is apparent in the cash generated and the excellent returns earned year after year.



Kevin J Thompson

Operating Review

**Quality wins orders as
customers focus on
lifetime ownership costs**

Fire and Gas

Halma has maintained its role as a world leader in the manufacture of commercial grade fire detectors and portable detectors for hazardous gases.

The global fire detector market is protected from new entrants and rapid technological change, to a degree, by complex local and international standards governing manufacture, installation codes and product certification. However, this is a competitive sector with a small number of multinational players. While effective marketing strategies are essential to sustaining growth in mature business sectors, continuous product innovation is also vital to grow market share and penetrate new application areas.



Workers in confined underground spaces rely on Crowcon detectors for protection against gas hazards.

A primary aim of fire detector R&D is to develop sensors that outperform competitive products in their ability to discriminate between a real fire threat and a benign change in an environment. However, research also continues into technical advances that reduce customers' cost of ownership during the whole life of the product.

One of the Group's newest fire detector technologies has gained rapid acceptance for use in technically sophisticated fire alarm systems. Available with dual fire and smoke sensing capability, Discovery series detectors are being installed in high occupancy, multi-use buildings such as universities, hospitals and hotels.



A fire protection system based on 900 Apollo fire detectors protects the New World Hotel, Ho Chi Minh City, Vietnam.

While sales of fire products in the USA showed some decline, this was offset by buoyant sales elsewhere, particularly in Europe, where the technical requirements to meet product approval standards are

becoming more difficult to achieve. UK sales growth was helped by more stringent safety codes for sports stadia. The fastest growing sales area for infrared wide-area smoke detection equipment was the USA.

Several Halma companies are developing products to improve evacuation of buildings during a fire. Based on original research by scientists at Leeds University, a new product has been developed that could reduce fire deaths. A world first, this new device emits sounds at special frequencies that allow people to tell the direction the sound is coming from. The directional sounders guide people trapped in smoke-laden buildings to the nearest safe exit.

The Group's gas detector businesses are reaping the rewards of encouraging large customers to make buying decisions on lifetime ownership costs, not just on purchase price. This trend greatly benefits Halma companies because they lead competitors in product reliability and service support. As large companies, such as BP, de-man and outsource non-core activities, the Group is winning substantial new business in equipment servicing. Last year's sale of 8,000 instruments to British Gas has been followed by a service contract for 600 units per month.

Greater emphasis on worker health and safety usually follows economic and social development. This trend is changing the global market for personal hazardous gas detectors, with the emergence of a new 'compliance products' segment. Essentially, these are low price, minimum specification products that meet the needs of local employee safety regulations. Four new 'compliance' portable detectors have been introduced to capture new business in this growth sector.

Within the Group's technology portfolio is a unique product that is used to humidify hydrogen gas in fuel cells. Halma has applied for several patents in this area that could prove valuable. These devices are predicted to replace batteries and small-scale power generators during the next decade.



Infrared smoke detectors from Fire Fighting Enterprises safeguard the Great Court of the British Museum in London.

**Water scarcity and
contamination problems
solved with innovative
technology**

Water

In many parts of the world, water supplies for drinking, manufacturing and agriculture are reaching crisis point. Fresh water reserves are finite, yet demand rises relentlessly due to population growth and economic development. By 2005, there will be 50 cities with populations of over 10 million. In parts of China, Latin America and Southern Asia, ground water is being extracted at an unsustainable rate.

Halma companies operating in the water sector are world leaders in their specialist areas, supplying innovative, advanced technology products that help to conserve, treat and analyse water.

Compounding the supply problem, fresh water reserves are continually being degraded by air pollution, agricultural run-



One million litres of water per day for soft drinks production is treated by Hanovia UV systems at the Silver Spring Mineral Water Company, England.

off and contamination from wastewater. Competition for resources, rising water quality expectations and environmental regulation are combining to stimulate demand for better conservation strategies and more effective treatment processes. This creates opportunities for new technological solutions, many coming from Halma companies, that address the problems of water scarcity and contamination.

Singapore is a country with rising demand and limited fresh water resources. In response, the Government

is investing heavily in water conservation and infrastructure. An imaginative water-recycling scheme has attracted world attention. Called NEWater, this project has reduced the burden on drinking water supplies by reusing treated sewage effluent in industrial processes. Following a three-year pilot study at a NEWater test site,



A Hanovia UV water treatment system disinfects municipal sewage effluent for reuse as agricultural irrigation water in Murcia, Spain.

the Group has won contracts to supply ultraviolet (UV) water disinfection systems to three new full-scale plants.

In the USA, strict environmental pollution regulations now limit the amount of chlorine disinfectant that can be discharged to rivers from sewage treatment plants. This has stimulated demand for cost-effective, non-chemical effluent disinfection techniques such as UV treatment.

Halma is a world leader in the UV disinfection process and is supplying two large wastewater treatment systems in Cobb County, Georgia, valued at \$5 million. As the world's largest UV wastewater facilities treating effluent within enclosed pipework, these US plants represent a major technological advance.

In the developed world, conservation is a vital element in water resource management, and Halma is the world leader in instrumentation that finds leaks in water pipes. A reduced UK market demand for leak location products was compensated by overseas growth, particularly in the US and France. During the past year, the Group has regained its market leadership for leak location products in France and also in most French-speaking territories.

The phased worldwide launch of the revolutionary Permalog high-speed leak monitoring system has been successfully completed. UK patents for Permalog were granted in 2002 and international patent applications are pending.

Sales and profits from water analysis products reached new records in the period under review. Growing acceptance among US pool and spa maintenance professionals of the Group's instrument-based water analysis system led to record sales in that territory.



Many well-known American theme parks rely on Palintest testing kits to monitor water quality and hygiene.

Technically advanced products have reinforced market leadership

Elevator Electronics

Halma has maintained leadership of the elevator safety products sector. The Group remains the principal global manufacturer of electronic elevator door safety controls, emergency communication systems and information display panels. Our market position has been reinforced during the past year with the launch of several innovative products and marketing initiatives.

The Group supplies over half of the worldwide market for elevator safety edges and this delivers many competitive benefits. However, it also means that Halma elevator products companies are sensitive to rapid changes in market conditions.

For the first six months, sales in this sector were ahead of the previous year. However, a market downturn during the second half, particularly in the USA, eliminated the previous gains. Restructuring actions, designed to compensate for the downturn in demand, put a brake on the decline but had not restored profit growth to its former rate by the year end.

Business drivers in this sector are primarily the rate at which new buildings are constructed and old ones refurbished. There is also a continuing trend of public safety legislation being upgraded and tightening of building controls leading to increased demand for the Group's elevator products. EU

regulations are moving towards a requirement for all elevators, not just new build, to be fitted with emergency communication equipment.

More than half of Group sales in this sector come from North America. The Greater New York City area is said to account for 20% of the total US market for elevator systems. A combination of the recent



Elevators at the Fountain House offices, in the City of London, are equipped with Memco door safety sensors.



Memco elevator safety systems aid the swift movement of passengers through Hong Kong International Airport, China.

economic decline and the impact of the 11 September terrorism had a severe impact on sales. In the aftermath of 11 September, a surge in demand for refurbished office space was anticipated. In the event, demand for offices in New York by displaced businesses was offset by cutbacks and closures which created a large reservoir of unlet space.

Despite the overall downturn in this sector, several territories showed very promising growth. The Group's third sales office established in China last year has quickly proved successful. Halma is now the market leader in elevator door detectors in Brazil, the South American centre of elevator manufacture. Significant reductions in manufacturing costs have been achieved by relocating a large proportion of European production to the Czech Republic. In Europe, the Group is now marketing its motor control power resistors to elevator manufacturers through its established elevator businesses.

Sales of electronic displays, which the Group manufactures in Singapore, rose significantly, particularly in Europe and the US. A significant installation was the Al Faisaliah building in Saudi Arabia, where the Group won a £100,000 contract for displays and electronic elevator monitoring systems. All passenger elevators in this 267 metre tower are fitted with electronic displays that show the location, direction of travel, floor number, and the outside temperature, date and time.

The ageing of the global population is a long-term trend that should create extra demand in the elevator sector. Despite population expansion, the United Nations predicts that the elderly will grow in proportion to outnumber the youth by 2050. The rate of population ageing in the developed countries is most rapid. As a result, Halma companies have targeted the emerging market for safety products in luxury private residence elevators as a new sales opportunity.



The Al Faisaliah hotel and office complex in Riyadh, Saudi Arabia, where E-Motive LCD information displays are fitted in the elevators.

**Profit growth from
workplace safety
products**

Process Safety

Halma is a world leader in specialist areas of industrial safety that protect workers from hazardous machinery, and protect process plant and the environment from catastrophic explosions.

Expenditure on industrial health and safety divides into regulatory costs, which are essential for an organisation to operate within the law, and discretionary spending. The latter provides better plant protection and employee safeguards for humane or environmental reasons. Because safety performance can affect recruitment, retention, productivity and morale, manufacturers are increasingly making a connection between safety and profitability. This can lead to higher discretionary safety spending on top of the rising spend required to satisfy legislation, with the Group benefiting from both.

The Group's interlocking products are an ingeniously simple way of protecting people at work from the risk of injury. These systems are designed to be foolproof and protect workers even if they are negligent of their own safety. The interlock businesses delivered good profit growth during the past year.

In the past, commitment to worker safety has often been higher among European manufacturers than their counterparts in the USA. There are strong signs that safety is becoming a more important issue to US manufacturing industries with increased acceptance of the Group's well established and proven safety technologies.

Despite the poor profitability of the global automotive industry, this sector continues to invest heavily in new production facilities and offers growing sales opportunities. Halma companies have developed safety products ideally suited to controlling access to car production lines. These products have now gained worldwide acceptance by the auto industry, including the Ford Motor Company and its principal suppliers.

On the back of strengthening oil prices, increased capital spending in the petrochemical sector pushed up demand for the Group's valve control safety systems. Significant contracts have been won recently in Kazakhstan and Colombia.



***Halma process safety systems
protect workers and plant in
every industrialised country in
the world.***

Sales of explosion-prevention bursting discs by the Group's UK and US businesses were depressed by a global slump in capital spending by the chemical processing industry. Our reaction to this downturn has been restructuring to reduce the cost base together with changes to the sales operation that have improved customer service and extended market penetration.



Several new products were developed in this sector. The most significant is a unique bursting disc that will replace several existing products. Features of its design and production method have been patented. Special products optimised for process safety in pharmaceutical manufacture have gained rapid acceptance by the market and attracted new customers. In the UK, expansion of customer support services has opened up new sales opportunities in offshore oil and marine applications.

OSECO's new sanitary quality pressure control products have been rapidly accepted by the pharmaceutical industry.



In response to continuing globalisation of the customer base, worldwide sales and marketing by the Group's bursting disc companies has become more unified. A sharper focus on customer service has resulted in faster order-to-delivery times and even greater competitiveness.

Smith Flow Control valve safety systems help eliminate human error in the operation of Shell Expro's Delta oil platform in the North Sea.

Successful entry into new markets

Resistors

The Group's six resistor businesses are world leaders in heavy-duty electrical resistor technology. Throughout the world, power utilities rely on Halma resistor systems to safeguard their electricity generation and distribution infrastructure. Our resistors are also widely used to control powerful electric motors and for speed control on trains.

Operating from the USA, Canada, the UK and Australia, Halma's resistor companies market cooperatively worldwide, sharing technology, R&D advances, application experience and market intelligence.

In the period under review, the principal resistor markets, power distribution and locomotive braking, were significantly depressed. This was especially evident in the USA, where Halma has a high market share in both sectors. To offset the downturn in demand from existing customers, the Group responded by a sharp reduction in the overhead cost base and an aggressive entry into new markets. After restructuring, costs have been cut by 12%.

One of the most interesting new markets for the Group's resistor technology is the elevator industry. Resistors safely control elevator speed by absorbing excess power generated by the winding motors. Because this application is safety critical, and requires products of exceptional reliability and longevity, it is a natural market for the Group to enter. Working with the Group's elevator electronics companies, the resistor businesses are now selling to the large elevator manufacturers in North America and Europe. In the USA, Halma is now the principal supplier of resistors to Otis Elevators.

A technology bought into the Group by the Cutler-Hammer acquisition in 2000 has significantly contributed to growth in sales of resistors for



Control of the heavy electric motors that power overhead cranes is a major market for the Group's resistor products.



Cressall filter resistors improve power transmission efficiency at the Willington Power Station, England.

locomotive and mining truck applications. Since joining the Group, the transit resistor part of the acquired business has been re-engineered with a new emphasis on product quality and customer service. As a result, two major transit customers have awarded the Group approved supplier status. Braking resistors with a contract value of approximately £1.7 million are being supplied to Mitsubishi Electric for the Long Island Rail Road in New York State, USA.

In May 2001 the Group extended its technology portfolio with the acquisition of Schneider Canada's earth-fault relay business. These devices monitor industrial power systems and protect them from damage in the event of an electrical surge.

Halma companies already market allied products called earth-fault resistors, and there is great synergy between the two technologies. The Group can now provide customers with an integrated approach to detecting, locating and preventing the kind of major electrical failures that, unchecked, could bring a factory's production to a standstill.



In the UK, the National Grid Company specifies Cressall resistors to protect electrical power distribution equipment.

Continuous technical innovation stimulates demand for optical products

Optics and Specialist

The Group's activities in the Optics and Specialist sector principally cover the manufacture of magnification and diagnostic products for professionals in the optical and healthcare industries. However, the Group also has several highly successful specialist businesses that make sensors, analytical products and cash management systems.



Halma continues to develop new products that give healthcare professionals a greater insight into eye disorders.

Halma is a world leader in high precision optical instruments used by opticians around the world to diagnose and treat eye conditions. The past year saw the launch of a much improved and enhanced version of the Group's flagship product in this market, the Pulsair Tonometer. This is a hand-held instrument that lets opticians measure the pressure inside a patient's eyes without any physical contact. Regular upgrades have maintained this instrument's market leadership in many countries. The latest improvements in portability and usability have helped to increase US sales despite a difficult economic climate.

The Group also has an international reputation as the premier designer and manufacturer of precision lenses for the investigation of eye disorders and laser surgery. Worldwide, the ophthalmic market showed little growth in the past year. Lens sales were down in the USA, but higher export sales compensated. Latest innovations include new lenses for surgery on the retina and inside the eye cavity; their revolutionary optical design provides surgeons with greatly improved visibility while allowing easier access to surgical tools.

Halma's business that formerly specialised in retail security products has now undergone a comprehensive transition to focus on cash management and cash handling systems. A new range of cash counting scales for use with the Euro helped to double sales in Europe.



Volk is a world leader in the specialist lenses needed to diagnose and treat ocular disease.

The Group has been working with several large UK retailers to develop techniques that cut the considerable costs involved in handling and banking cash.

Recent European legislation governing the crash testing of new cars means that it is now necessary to measure impact forces very accurately. The Group is now one of the leading designers and manufacturers of the special sensor arrays needed for vehicle crash testing. Halma has supplied systems to several car makers as well as testing and certification organisations such as the Transport Research Laboratory in the UK and UTAC in France.

The Group is one of only a handful of manufacturers of very high specification miniature valves used for precise control of liquid and gas flow in scientific instruments. An interesting new application is in portable biohazard instruments. These have been developed in America to rapidly detect disease organisms released into the environment by terrorists or sent in the mail. Heightened global concern over bio-terrorism could prompt rapid growth in this market and create significant opportunities for sales of our specialist valves.



Keeler's new Pulsair Tonometer is a simple way of measuring pressure inside the eye, an important factor in the diagnosis of glaucoma.

Board of Directors

David S Barber *Chairman**
 Stephen R O'Shea *Chief Executive*
 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*
 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 and Gas Technology*
 William J Seymour *Elevator Electronics*
 Andrew J Williams *Optics and Water Instrumentation*

Assistant Divisional Chief Executive

Adam J Meyers *Water and Gas Technology*

Registered Office

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 Website: www.halma.com

Registered Number

40932

Auditors

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 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



David S Barber



Lord McGowan



Hamish M J Ritchie



Richard A Stone

David S Barber (aged 70) 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 63) 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 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, IQ-Ludorum plc and Jarvis plc.

Hamish M J Ritchie (aged 60) 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 59) 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, a director of Gartmore Global Trust p.l.c., and a non-executive Director of British Nuclear Fuels plc, Trust Union Finance (1991) plc and TR Property Investment Trust plc.

Halma Executives



Stephen O'Shea

(aged 56) 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*



Nigel Young

(aged 52) 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 52) 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 42) 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 45) 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 43) 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 52) is Chief Executive of the Water and Gas 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 and Gas 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 42) 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)631 650 1488*



Andrew Williams

(aged 35) is Chief Executive of the Optics and Water Instrumentation Division. He joined Halma in 1994 as Manufacturing Director of Reten Acoustics (now Palmer Environmental) and became Managing Director of that company in 1997. He was appointed Assistant Divisional Chief Executive of the Optics and Water Instrumentation Division in 2001 and became Divisional Chief Executive of that division and a member of the Executive Board in 2002. Andrew is a production engineering graduate of Birmingham University.

*Tel: +44
(0)1633 489479*



Carol Tredway

(aged 39) 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*

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 30 March 2002 is set out on page 42. The Group profit before taxation and goodwill amortisation is £48,255,000. The profit after taxation and goodwill amortisation amounts to £31,157,000.

Ordinary dividends

The Directors will submit a resolution at the Annual General Meeting proposing a final dividend of 3.206p per share and if approved this dividend will be paid on 19 August 2002 to shareholders on the register at the close of business on 19 July 2002. Together with the interim dividend of 2.077p per share already paid, this will make a total of 5.283p 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.

Share capital

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

Allotment authority

The special business of the Annual General Meeting includes an ordinary resolution to allot shares of the Company in accordance with Section 80 of the Companies Act 1985 and 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 2001 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 2002 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 any further impact on the Group's performance following the full introduction of the Euro.

Articles of Association

The Articles of Association currently provide for Directors' fees not to exceed £150,000 per annum. The Directors believe this amount to be insufficient, therefore, an ordinary resolution will be submitted to shareholders at the Annual General Meeting proposing that the Company's Articles be altered by providing that Article 105 be amended to state that the aggregate sum of all fees paid to Directors shall not exceed £500,000 per annum.

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 30 March 2002 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. The special business of the Annual General Meeting contains an ordinary resolution seeking such shareholder approval.

Social responsibility**The environment**

The Group plays a very positive and proactive role in the monitoring and improvement of the environment through its commitment to the development and promotion of products which protect the environment. The Group is widely recognised as being amongst the leading companies in the field of environmental control and monitoring. Through its manufacturing companies, the Group has a long-term involvement in the production of equipment designed to monitor changes in the environment and also to control industrial activities which generate pollution.

The Group is committed to adopting responsible procedures and operating in such a way as to minimise the effect of Group internal operations on the environment. With this aim in mind, the Board has identified the Group Finance Director as the Director responsible for overseeing the Group's efforts in this area. 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.

Health and safety

The Group recognises the necessity of safeguarding the health and safety of our own 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. Adequate internal reporting exists in order that the Group Finance Director may monitor each company's stated compliance with such regulations.

Halma was designated a member of the FTSE4Good UK index of socially responsible companies on its establishment in July 2001.

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 £1,557 during the financial year. There were no political donations.

Directors

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

Retirement of Directors

On 30 April 2001 and 30 April 2002 respectively, Mr J C Conacher and Mr C Q Summerhayes retired from service with the Group and resigned as Directors of the Company.

Directors proposed for re-election

Mr D S Barber (aged 70), Lord McGowan and Mr H M J Ritchie retire by rotation and being eligible offer themselves for re-election.

Shareholdings

As at 6 June 2002 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	62,589,905	17.1
Mr D S Barber	13,053,056	3.5

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	25,077,236	6.8
Baillie Gifford & Co	24,400,675	6.6
Friends Ivory & Sime plc	13,444,088	3.6

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
 18 June 2002

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, four 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. Upon appointment and at regular intervals, all Directors are offered appropriate training. Each Director is subject to re-election at least every three years.

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 as well as there being an agreed procedure for obtaining independent professional advice.

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 controls 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. Divisional Chief Executives carry out an independent risk assessment for each operating company. 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 2002 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.

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 2001/02 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' options.

Directors' remuneration

	Salaries and fees £000	Bonus £000	Benefits £000	2002 Total £000	2001 Total £000
D S Barber	61	-	-	61	67
M J Arthur	-	-	-	-	7
S R O'Shea	270	-	15	285	300
C Q Summerhayes	175	7	15	197	218
P A Tett	-	-	-	-	12
J C Conacher	29	-	1	30	292
Lord McGowan	20	-	-	20	20
H M J Ritchie	20	-	-	20	20
K J Thompson	135	-	12	147	134
N Quinn	135	-	13	148	192
R A Stone	20	-	-	20	5
K J Roy	92	-	12	104	-
	<u>957</u>	<u>7</u>	<u>68</u>	<u>1,032</u>	<u>1,267</u>

The fees paid to Lord McGowan were paid to WestLB Panmure Limited until 31 January 2002 and to himself thereafter. The fees paid to Mr H M J Ritchie were paid to Marsh Europe SA.

After inclusion of gains on the exercise of share options, where applicable, Mr S R O'Shea was the highest paid director in the financial year.

Pension benefits

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

Defined benefit scheme

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

(a) Normal pension age: this is age 60 under the Halma Board Director and Divisional Chief Executive section. Transitional arrangements are

in place for entrants to this section prior to 1 August 1992 until when the normal pension age was 65.

- (b) Dependants' pensions: for death in service, a spouse's pension of 50% of the member's prospective pension is payable and the member's contributions are refunded. For death in retirement, a spouse's pension of 50% of the member's pension is payable as well as a sum equal to the balance of five years' pension payments if death occurs within five years of retirement. In the event of death after leaving service but before commencement of pension, a spouse's pension of 50% of the accrued preserved pension is payable and member's contributions are refunded. In certain circumstances, children's allowances are also payable, at the rate of $16\frac{2}{3}\%$ of the member's pension.
- (c) Pension increases: post-retirement pension increases are guaranteed at the rate of 3% per annum on the pension earned for service up to 5 April 1997 and by the lesser of 5% per annum or the increase in the Retail Price Index (known as Limited Price Indexation) for service after 5 April 1997.
- (d) Early retirement rights: members over 50 may retire early with the consent of the Company and the Trustees of the Halma Group Pension Plan. The early retirement pension is determined to be equivalent in value to the deferred pension.

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

	Age at 30.3.02	Years of service at 30.3.02	Directors' contributions in the year £000	Increase in accrued pension during the year £000	Total accrued pension £000
S R O'Shea	56	26	12	11	128
C Q Summerhayes	60	28	8	7	109
J C Conacher*	60*	14*	–	–	94
K J Thompson	42	14	5	5	34
N Quinn	52	14	6	6	44
K J Roy	51	9	4	6	21

* 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 had 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 £7,500 (2001: £58,000).

Directors' interests in shares

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

	Shares 30.3.02	Shares 31.3.01
D S Barber	13,053,056	13,053,056
S R O'Shea	222,482	222,482
C Q Summerhayes	1,643,221	1,613,236
Lord McGowan	41,540	41,540
H M J Ritchie	30,000	30,000
K J Thompson	47,786	47,786
N Quinn	25,596	1,894
R A Stone	5,000	5,000
K J Roy	744,587	776,975*

* as at date of appointment

There are no non-beneficial interests of Directors.

The only changes in Directors' interests from 30 March 2002 to 18 June 2002 were in relation to Mr C Q Summerhayes. He sold 12,986 shares on 4 April 2002, and on 9 April 2002 he exercised share options over 215,492 shares and sold 127,188 shares.

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

	As at 31.3.01	Granted	Exercised	Lapsed	As at 30.3.02
S R O'Shea	1,076,229	100,800	-	-	1,177,029
C Q Summerhayes	963,458	45,600	(255,366)	-	753,692
K J Thompson	490,760	48,400	-	-	539,160
N Quinn	635,276	96,900	(41,004)	-	691,172
K J Roy	295,886*	54,700	(34,844)	-	315,742

* as at date of appointment

The total gains on options exercised by Directors during the financial year amounted to £100,953. The total gains arise on options granted in 1992, 1993 and 1996 to 1998. The gains are calculated by deducting the exercise price from the closing middle market price at the date of exercise or the actual gross sales proceeds if appropriate.

Options granted to Directors during the financial year were at 163.5p. The closing middle market price of the Company's ordinary shares on Thursday, 28 March 2002, the last trading day preceding the financial year end, was 164p per share and the range during the year was 126p to 174.5p.

Details of Directors' options outstanding at 30 March 2002 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 164p
- 2 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 164p.

	Status of options (see above)	Year of grant	Number of shares	Weighted average exercise price (p) per share
S R O'Shea	1	1993-98	630,029	127.92
	2	1997-01	547,000	127.44
C Q Summerhayes	1	1992-95	215,492	103.22
	2	1999-01	538,200	121.24
K J Thompson	1	1993-98	268,560	121.26
	2	1997-01	270,600	123.69
N Quinn	1	1993-98	321,372	119.20
	2	1997-01	369,800	127.05
K J Roy	1	1993-98	126,042	121.90
	2	1997-01	189,700	129.76

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 three 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
 18 June 2002

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 64 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.

To the Members of Halma p.l.c.

We have audited the financial statements on pages 42 to 64 (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 law and 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 30 March 2002 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.

Notes:

(a) The maintenance and integrity of the Halma website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

PricewaterhouseCoopers

Chartered Accountants and Registered Auditors
1 Embankment Place London WC2N 6RH
18 June 2002

Consolidated Profit and Loss Account

£000

	Notes	52 weeks to 30 March 2002			Restated† 2001 52 weeks Total
		Before goodwill amortisation	Goodwill amortisation	Total	
Turnover	1	267,597	–	267,597	268,322
Operating profit before goodwill amortisation		48,018	–	48,018	49,703
Goodwill amortisation		–	(2,297)	(2,297)	(1,935)
Operating profit	3	48,018	(2,297)	45,721	47,768
Interest	6	237	–	237	(5)
Profit on ordinary activities before taxation	1	48,255	(2,297)	45,958	47,763
Taxation	7	(15,196)	395	(14,801)	(15,641)
Profit for the financial year		33,059	(1,902)	31,157	32,122
Dividends					
Ordinary dividends	8			(19,323)	(16,580)
Profit transferred to reserves	9			11,834	15,542
Earnings per ordinary share before goodwill amortisation	2			9.10p	9.34p
Earnings per ordinary share	2			8.58p	8.91p
Diluted earnings per ordinary share	2			8.54p	8.90p

†Restated for the adoption of FRS 19 (Deferred Tax)

The notes on pages 47 to 64 form part of these Accounts.

Consolidated Balance Sheet

£000

At 30 March 2002	Notes	2002	Restated† 2001
Fixed assets			
Intangible assets	10	40,042	41,478
Tangible assets	11	43,860	44,754
		<u>83,902</u>	<u>86,232</u>
Current assets			
Stocks	12	35,212	40,129
Debtors	13	67,993	69,713
Cash and short-term deposits		45,657	21,484
		<u>148,862</u>	<u>131,326</u>
Creditors: amounts falling due within one year			
Borrowings	14	15,047	7,758
Creditors	15	36,946	43,432
Current taxation		6,844	10,224
Dividends payable		11,712	10,062
		<u>70,549</u>	<u>71,476</u>
Net current assets		<u>78,313</u>	<u>59,850</u>
Total assets less current liabilities		<u>162,215</u>	<u>146,082</u>
Creditors: amounts falling due after one year	16	491	1,730
Provisions for liabilities and charges	17	4,167	2,883
		<u>157,557</u>	<u>141,469</u>
Capital and reserves			
Called up share capital	18	36,473	36,099
Share premium account	9	5,631	1,623
Other reserves	9	185	185
Profit and loss account	9	115,268	103,562
Shareholders' funds		<u>157,557</u>	<u>141,469</u>

†Restated for the adoption of FRS 19 (Deferred Tax)

Approved by the Board of Directors on 18 June 2002

D S Barber K J Thompson Directors

Statement of Total Recognised Gains and Losses

£000

	2002 52 weeks	Restated† 2001 52 weeks
Profit for the financial year	31,157	32,122
Other recognised gains and losses		
Exchange adjustments	(102)	4,258
Related corporation tax	(26)	(757)
	(128)	3,501
Recognised gains and losses relating to the year	31,029	35,623
Prior year adjustment (note 7)	(3,411)	–
Total recognised gains and losses	27,618	35,623

Movements in Shareholders' Funds

	Notes	2002 52 weeks	Restated† 2001 52 weeks
Shareholders' funds brought forward as originally stated			125,539
Prior year adjustment			(3,745)
Shareholders' funds brought forward (restated)		141,469	121,794
Profit for the financial year		31,157	32,122
Dividends		(19,323)	(16,580)
Profit transferred to reserves	9	11,834	15,542
Total other recognised gains and losses		(128)	3,501
Net proceeds of shares issued		4,382	632
Increase in shareholders' funds		16,088	19,675
Shareholders' funds carried forward		157,557	141,469

†Restated for the adoption of FRS 19 (Deferred Tax)

Consolidated Cash Flow Statement

£000

	Notes	2002 52 weeks	2001 52 weeks
Cash flow from operating activities	22	55,860	55,493
Return on investments and servicing of finance			
Interest received		770	713
Interest paid		(522)	(700)
		248	13
Taxation			
Current taxation paid		(17,023)	(14,489)
Capital expenditure			
Purchase of tangible fixed assets		(8,120)	(9,441)
Sale of tangible fixed assets		1,667	1,161
		(6,453)	(8,280)
Acquisitions and disposals			
Acquisition of businesses	22	(2,571)	(12,128)
Cash and overdrafts acquired		-	144
Sale of businesses		-	95
		(2,571)	(11,889)
Equity dividends paid		(17,673)	(15,248)
		12,388	5,600
Management of liquid resources			
(Increase)/decrease in short-term deposits	22	(20,912)	3,189
Financing			
Issue of ordinary share capital		4,382	632
Increase/(decrease) in loans		8,253	(9,278)
		12,635	(8,646)
Increase in cash	22	4,111	143

Halma p.l.c. Balance Sheet

£000

At 30 March 2002	Notes	2002	Restated† 2001
Fixed assets			
Tangible assets	11	4,556	4,669
Investments	20	40,119	38,428
		<u>44,675</u>	<u>43,097</u>
Current assets			
Debtors	13	91,105	98,660
Cash and short-term deposits		34,200	9,005
		<u>125,305</u>	<u>107,665</u>
Creditors: amounts falling due within one year			
Borrowings	14	14,668	6,266
Creditors	15	15,825	13,309
Current taxation		2,838	3,006
Dividends payable		11,712	10,062
		<u>45,043</u>	<u>32,643</u>
Net current assets		<u>80,262</u>	<u>75,022</u>
Total assets less current liabilities		<u>124,937</u>	<u>118,119</u>
Creditors: amounts falling due after one year	16	131	864
Provisions for liabilities and charges	17	476	340
		<u>124,330</u>	<u>116,915</u>
Capital and reserves			
Called up share capital	18	36,473	36,099
Share premium account	9	5,631	1,623
Other reserves	9	185	185
Profit and loss account	21	82,041	79,008
Shareholders' funds		<u>124,330</u>	<u>116,915</u>

†Restated for the adoption of FRS 19 (Deferred Tax)

Approved by the Board of Directors on 18 June 2002

D S Barber K J Thompson Directors

Basis of accounting

The accounts set out on pages 42 to 64 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. However, following the adoption of Financial Reporting Standard ('FRS') 19 (Deferred Tax), comparative figures have been restated. The accounts also reflect the adoption of FRS 18 (Accounting Policies), which did not require any change in accounting policy, and the transitional requirements of FRS 17 (Retirement Benefits).

Basis of consolidation

The consolidated accounts include the accounts of Halma p.l.c. and its subsidiary companies made up to 30 March 2002. 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

Goodwill arising on acquisitions after 28 March 1998 is capitalised and is classified as an intangible asset in the Consolidated Balance Sheet. Goodwill arising on acquisitions prior to that date was written off to reserves, and would be included in the determination of profit or loss arising from the sale or closure of the business to which it relates. Capitalised goodwill is amortised through the Consolidated Profit and Loss Account on a straight line basis over its estimated economic life of 20 years.

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	33 $\frac{1}{3}$ %

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 its employees, which are charged against profits on a systematic and rational basis over the period during which benefit is derived from the employees' service. Any differences between this charge and amounts payable to the schemes are recorded as provisions or prepayments as appropriate.

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

Following the adoption of FRS 19 (Deferred Tax), the Group has provided for taxation deferred because of timing differences between profits as computed for taxation purposes and profits as stated in the accounts, on an undiscounted basis. Previously, in accordance with the accounting standards in force at the time, the Group provided for such differences to the extent that they were likely to be payable in the foreseeable future. The effect of this change on the current and previous year is shown in note 7 on the accounts; and prior year figures in the Consolidated Profit and Loss Account, Consolidated Balance Sheet and notes on the accounts have been restated accordingly.

The principal timing differences in the Group accounts arise on the excess of tax allowances on tangible fixed assets over the corresponding depreciation charged in the accounts; and on goodwill arising in jurisdictions where it is eligible for deduction against tax, where it has been charged against reserves in the Group accounts but would be accounted for through the Consolidated Profit and Loss Account on a sale or closure of the business to which it relates.

1 Segmental analysis**Geographical analysis**

	By destination		By origin	
	2002	2001	2002	Restated 2001
Turnover				
United Kingdom	84,338	86,491	168,483	167,586
United States of America	83,208	87,088	85,610	89,402
Europe excluding UK	55,755	51,887	20,949	19,771
Far East and Australasia	23,758	22,295	8,319	9,217
Africa, Near and Middle East	9,339	9,124	-	-
Other	11,199	11,437	3,584	3,480
Inter-segmental sales	-	-	(19,348)	(21,134)
	<u>267,597</u>	<u>268,322</u>	<u>267,597</u>	<u>268,322</u>

Profit before taxation

United Kingdom		29,327	29,844
United States of America		13,841	16,284
Other countries		4,850	3,575
		<u>48,018</u>	<u>49,703</u>
Goodwill amortisation		(2,297)	(1,935)
Interest		237	(5)
Profit on ordinary activities before taxation		<u>45,958</u>	<u>47,763</u>

Net assets

United Kingdom		52,493	50,560
United States of America		24,957	25,968
Other countries		9,455	9,737
		<u>86,905</u>	<u>86,265</u>
Net cash		30,610	13,726
Net tangible assets		117,515	99,991
Intangible assets		40,042	41,478
Shareholders' funds		<u>157,557</u>	<u>141,469</u>

1 Segmental analysis continued

Sector analysis

	2002	Restated 2001
Turnover		
Fire and Gas	70,414	69,218
Water	34,051	32,709
Elevator Electronics	33,097	33,009
Process Safety	36,704	36,050
Resistors	31,461	34,261
Optics and Specialist	62,462	64,004
Inter-segmental sales	(592)	(929)
	<u>267,597</u>	<u>268,322</u>
Profit before taxation		
Fire and Gas	14,792	14,803
Water	7,728	7,835
Elevator Electronics	5,642	6,092
Process Safety	6,247	6,369
Resistors	4,033	5,183
Optics and Specialist including holding companies	9,576	9,421
	<u>48,018</u>	<u>49,703</u>
Goodwill amortisation	(2,297)	(1,935)
Interest	237	(5)
Profit on ordinary activities before taxation	<u>45,958</u>	<u>47,763</u>
Net assets		
Fire and Gas	20,392	20,074
Water	16,512	14,427
Elevator Electronics	10,292	10,591
Process Safety	10,964	11,413
Resistors	10,817	12,197
Optics and Specialist including holding companies	17,928	17,563
	<u>86,905</u>	<u>86,265</u>
Net cash	<u>30,610</u>	<u>13,726</u>
Net tangible assets	117,515	99,991
Intangible assets	<u>40,042</u>	<u>41,478</u>
Shareholders' funds	<u>157,557</u>	<u>141,469</u>

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

2 Earnings per ordinary share

Earnings per ordinary share are calculated by dividing the profit for the financial year of £31,157,000 (2001: £32,122,000 as restated) by the weighted average of 363,099,764 shares in issue during the year (2001: 360,653,940).

Diluted earnings per ordinary share are calculated using the same earnings as for earnings per ordinary share, divided by 364,980,744 shares (2001: 361,095,012) which includes dilutive potential ordinary shares of 1,880,980 (2001: 441,072). 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 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 is presented below:

	Per ordinary share			
	2002	Restated 2001	2002 p	Restated 2001 p
Earnings	31,157	32,122	8.58	8.91
Add back: goodwill amortisation (after tax)	1,902	1,573	0.52	0.43
Earnings before goodwill amortisation	33,059	33,695	9.10	9.34

3 Operating profit

	2002	Restated 2001
Operating profit on continuing activities comprises		
Turnover	267,597	268,322
Cost of sales	(189,023)	(187,974)
Gross profit	78,574	80,348
Distribution costs	(6,275)	(6,540)
Administrative expenses	(24,608)	(24,486)
Other operating income	327	381
	48,018	49,703
Goodwill amortisation	(2,297)	(1,935)
	45,721	47,768
Operating profit is arrived at after charging		
Depreciation	7,371	7,022
Goodwill amortisation	2,297	1,935
Research and development	8,206	7,994
Auditors' remuneration	460	449
Operating lease rents: property	3,162	3,070
other	97	125

Auditors' remuneration includes £59,000 (2001: £59,000) in respect of the Company. In addition, fees amounting to £38,000 (2001: £43,000) 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	2002 Number	2001 Number
United Kingdom	1,878	2,026
Overseas	981	1,033
	<u>2,859</u>	<u>3,059</u>
Group employee costs comprise	£000	£000
Wages and salaries	63,468	63,443
Social security costs	8,276	7,918
Other pension costs (note 25)	3,676	3,478
	<u>75,420</u>	<u>74,839</u>

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

	2002	2001
Interest receivable on short-term deposits	820	708
Interest payable on bank loans and overdrafts	(462)	(623)
Other interest	(121)	(90)
	<u>237</u>	<u>(5)</u>

Interest amounting to £70,000 (2001: £32,000) was capitalised during the year as part of the cost attributable to a property addition.

7 Taxation

	2002	Restated 2001
Current tax		
UK corporation tax at 30% (2001: 30%)	9,199	9,724
Overseas taxation	4,871	5,321
Adjustments in respect of prior years	(268)	(114)
Total current tax	<u>13,802</u>	<u>14,931</u>
Deferred tax		
Origination and reversal of timing differences	1,039	710
Adjustments in respect of prior years	(40)	-
Total deferred tax charge	<u>999</u>	<u>710</u>
	<u>14,801</u>	<u>15,641</u>
Reconciliation of effective tax rate on profit on ordinary activities before goodwill amortisation	%	%
UK corporation tax rate	30.0	30.0
Higher tax rates on overseas profits	2.5	2.3
Adjustments in respect of prior years	(0.7)	(0.2)
Other timing differences	(0.3)	0.1
Effective tax rate before goodwill amortisation	<u>31.5</u>	<u>32.2</u>

7 Taxation continued

Following the adoption of FRS 19 (Deferred Tax) during the current year, comparative figures have been restated in the Consolidated Profit and Loss Account, Consolidated Balance Sheet and in the notes on the accounts. The effect on the Group's previously reported results has been to reduce the profit after tax for the year ended 31 March 2001 by £681,000 and to reduce net assets by £3,411,000. If the previous policy had been adopted in the current year's results, the effect would have been to increase profit after tax by £971,000.

8 Ordinary dividends

	2002	2001	2002	2001
	p	p		
Interim paid	2,077	1,806	7,564	6,517
Final proposed	3,206	2,787	11,712	10,062
Balance of final dividend	-	-	47	1
	<u>5,283</u>	<u>4,593</u>	<u>19,323</u>	<u>16,580</u>

If approved, the final dividend will be paid on 365,323,265 shares in issue. 591,422 shares have been issued after 30 March 2002.

9 Reserves

	Share premium account	Capital redemption reserve	Profit and loss account
At 31 March 2001 (as originally stated)	1,623	185	106,973
Prior year adjustment (note 7)	-	-	(3,411)
At 31 March 2001 (restated)	1,623	185	103,562
Profit transferred to reserves	-	-	11,834
Share options exercised	4,008	-	-
Exchange adjustments	-	-	(128)
At 30 March 2002	<u>5,631</u>	<u>185</u>	<u>115,268</u>

10 Fixed assets – intangible assets

	Goodwill
Cost	
At 31 March 2001 (as originally stated)	45,529
Prior year adjustment	(573)
At 31 March 2001 (restated)	44,956
Additions (Note 19)	861
At 30 March 2002	<u>45,817</u>

10 Fixed assets – intangible assets continued

Amortisation

At 31 March 2001 (as originally stated)	3,523
Prior year adjustment	(45)
At 31 March 2001 (restated)	3,478
Charge for the year	2,297
At 30 March 2002	5,775

Net book amounts

At 30 March 2002	40,042
At 31 March 2001 (restated)	41,478

Following the adoption of FRS19 (Deferred Tax) in these accounts, the carrying value of capitalised goodwill has been restated to recognise deferred tax balances on timing differences at acquisition. This has been accounted for as a prior year adjustment. Previously, such balances were recognised only to the extent they were likely to be payable in the foreseeable future, in accordance with the accounting standards in force at the time.

11 Fixed assets – tangible assets

Group	Land and buildings			Plant equipment & vehicles	Total
	Freehold properties	Long leases	Short leases		
Cost					
At 31 March 2001	21,472	1,375	2,370	58,981	84,198
Assets of businesses acquired	-	-	-	20	20
Additions at cost	1,009	-	108	7,073	8,190
Disposals	(1,020)	-	(19)	(5,151)	(6,190)
Reclassification	-	(20)	20	-	-
Exchange adjustments	(12)	-	(1)	(8)	(21)
At 30 March 2002	21,449	1,355	2,478	60,915	86,197
Accumulated depreciation					
At 31 March 2001	2,830	280	1,018	35,316	39,444
Charge for the year	329	28	216	6,798	7,371
Disposals	(244)	-	(22)	(4,209)	(4,475)
Reclassification	-	(10)	10	-	-
Exchange adjustments	(1)	-	-	(2)	(3)
At 30 March 2002	2,914	298	1,222	37,903	42,337
Net book amounts					
At 30 March 2002	18,535	1,057	1,256	23,012	43,860
At 31 March 2001	18,642	1,095	1,352	23,665	44,754

11 Fixed assets – tangible assets continued

Halma p.l.c.	Land and buildings Freehold properties	Short leases	Plant equipment & vehicles	Total
Cost				
At 31 March 2001	4,811	76	955	5,842
Additions at cost	–	–	151	151
Disposals	–	–	(125)	(125)
At 30 March 2002	4,811	76	981	5,868
Accumulated depreciation				
At 31 March 2001	665	38	470	1,173
Charge for the year	65	7	133	205
Disposals	–	–	(66)	(66)
At 30 March 2002	730	45	537	1,312
Net book amounts				
At 30 March 2002	4,081	31	444	4,556
At 31 March 2001	4,146	38	485	4,669

12 Stocks

	2002	2001
Raw materials and consumables	14,566	16,710
Work in progress	7,481	9,770
Finished goods and goods for resale	13,165	13,649
	<u>35,212</u>	<u>40,129</u>

13 Debtors

	Group		Halma p.l.c.	
	2002	2001	2002	2001
Falling due within one year				
Trade debtors	64,059	65,733	–	–
Amounts due from group companies	–	–	90,678	98,384
Prepayments and accrued income	2,558	2,634	423	218
Other debtors	1,376	1,346	4	58
	<u>67,993</u>	<u>69,713</u>	<u>91,105</u>	<u>98,660</u>

14 Borrowings

	Group		Halma p.l.c.	
	2002	2001	2002	2001
Falling due within one year				
Bank loans and overdrafts	15,047	7,548	14,668	6,056
Other unsecured loans	–	210	–	210
	<u>15,047</u>	<u>7,758</u>	<u>14,668</u>	<u>6,266</u>

15 Creditors

	Group		Halma p.l.c.	
	2002	2001	2002	2001
Trade creditors	23,606	28,579	411	249
Other taxation and social security	3,976	3,919	1,244	1,283
Amounts owing to group companies	-	-	11,704	10,502
Accruals and deferred income	7,134	7,776	1,060	1,083
Other creditors	2,230	3,158	1,406	192
	<u>36,946</u>	<u>43,432</u>	<u>15,825</u>	<u>13,309</u>

16 Creditors: amounts falling due after one year

	Group		Halma p.l.c.	
	2002	2001	2002	2001
Deferred purchase consideration	491	1,730	131	864

17 Provisions for liabilities and charges

	Group		Halma p.l.c.	
	2002	2001	2002	2001
Deferred taxation	4,167	2,883	476	340
Analysis of Group deferred tax provided is as follows			2002	2001
Accelerated capital allowances			2,784	2,639
Short-term timing differences			(1,762)	(2,266)
Goodwill timing differences			3,145	2,510
Net deferred tax liability			<u>4,167</u>	<u>2,883</u>
Movement in deferred tax liability			Group	Halma p.l.c.
At 31 March 2001 (as originally stated)			-	-
Prior year adjustment			2,883	340
At 31 March 2001 (restated)			2,883	340
Charge/(credit) to profit and loss account:				
UK			97	(33)
Overseas			902	-
Reclassification from current tax			169	169
Deferred tax on exchange differences			116	-
At 30 March 2002			<u>4,167</u>	<u>476</u>

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.

18 Called up share capital

	Authorised		Issued and fully paid	
	2002	2001	2002	2001
Ordinary shares of 10p each	43,656	43,656	36,473	36,099

The number of ordinary shares in issue at 30 March 2002 was 364,731,843.

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

At 31 March 2001	36,099
Share options exercised	374
At 30 March 2002	36,473

Total consideration received in respect of share options exercised amounts to £4,382,000.

Options in respect of 2,913,317 ordinary shares remained outstanding at 30 March 2002 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
51,436	65.39p		1995
262,395	117.57p – 128.81p		1996
553,227	122.63p – 130.52p		1997
261,063	111.75p – 126p		1998
67,065	138p – 144.76p		1999
174,900	122.5p – 126.5p		2000
37,100	101.5p – 116.5p		2001
236,700	120p – 137p		2002
72,530	55.59p – 58.81p	1997	
351,257	98.03p – 128.82p	1998	
388,059	104.23p – 126.06p	1999	
448,919	111.75p – 126p	2000	
3,866	138.02p	2001	
4,800	120p	2004	

Options in respect of 6,745,290 ordinary shares remained outstanding at 30 March 2002 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
406,793	138p – 144.75p		1999
1,100,300	122.5p – 138.5p		2000
456,500	101.5p – 123.5p		2001
2,468,700	120p – 137p		2002
364,797	138p – 144.75p	2001	
493,700	122.5p – 137p	2002	
492,000	101.5p – 123.5p	2003	
962,500	120p – 136p	2004	

18 Called up share capital continued

Options in respect of 5,839,700 ordinary shares remained outstanding at 30 March 2002 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
2,624,900	111p		2003
1,313,300	163.5p		2004
1,092,300	111p	2005	
809,200	163.5p	2006	

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.

19 Goodwill arising on acquisition

	Book value	Fair value adjustments	Total
Tangible fixed assets	20	-	20
Current assets			
Stocks	214	(3)	211
Total assets	234	(3)	231
Current liabilities			
Creditors	-	23	23
Total liabilities	-	23	23
Net assets of businesses acquired	234	(26)	208
Cash consideration			(757)
Goodwill arising on current year acquisitions			(549)
Adjustments relating to prior years' acquisitions			(312)
Goodwill arising on acquisition (note 10)			(861)

The current year acquisition relates to the purchase in May 2001 of the business and assets of the Earth Fault Detection Product Line of Schneider Canada.

In respect of this acquisition, 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.

The adjustments to goodwill relating to prior years' acquisitions comprise revisions to the estimate of deferred purchase consideration payable.

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 (2001: £76,526,000).

20 Investments

Shares in Group companies	2002	2001
At cost less amounts written off at 31 March 2001	38,428	29,372
Additions	1,691	9,056
At cost less amounts written off at 30 March 2002	40,119	38,428

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 Interferrouillage 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
*Monitor Controls Inc.	USA
*Mosebach Manufacturing Company	USA
*Oklahoma Safety Equipment Co. Inc.	USA
*Perma Pure LLC	USA
*Post Glover Resistors Inc.	USA
*Volk Optical Inc.	USA

*Interests held by subsidiary companies.

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

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

The movements on that account during the year were	2002	2001
At 31 March 2001 (as originally stated)		70,773
Prior year adjustment		(347)
At 31 March 2001 (restated)	79,008	70,426
Profit after taxation	22,445	22,582
Dividends	(19,323)	(16,580)
Transfer from special reserve	-	237
Exchange adjustments	(89)	2,343
At 30 March 2002	82,041	79,008

22 Consolidated cash flow statement

	2002	2001
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	45,721	47,768
Depreciation	7,371	7,022
Goodwill amortisation	2,297	1,935
Loss on sale of tangible fixed assets	48	90
Increase in SSAP 24 pension prepayment	(126)	-
Decrease/(increase) in stocks	5,097	(2,348)
Decrease/(increase) in debtors	1,825	(1,385)
(Decrease)/increase in creditors	(6,373)	2,411
Net cash inflow from operating activities	55,860	55,493

The cash outflow of £2,571,000 on the acquisition of businesses includes the payment of £1,814,000 of deferred purchase consideration which arose from acquisitions made in earlier years, and where provision was made in prior years' financial statements.

Reconciliation of net cash flow to movement in net cash

Increase in cash	4,111	143
Increase/(decrease) in liquid resources	20,912	(3,189)
Short-term deposits acquired	-	861
Cash (inflow)/outflow from loans	(8,253)	9,278
Exchange adjustments	114	(567)
	16,884	6,526
Net cash brought forward	13,726	7,200
Net cash carried forward	30,610	13,726

22 Consolidated cash flow statement continued

Analysis of net cash

	At 31 March 2001	Cash flow	Exchange adjustments	At 30 March 2002
Cash	7,976	3,234	61	11,271
Overdrafts	(1,492)	877	-	(615)
		4,111		
Short-term deposits	13,508	20,912	(34)	34,386
Bank loans	(6,056)	(8,463)	87	(14,432)
Other unsecured loans	(210)	210	-	-
	<u>13,726</u>	<u>16,770</u>	<u>114</u>	<u>30,610</u>

23 Financial instruments

Policy

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

Foreign currency risk

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

The Group which is based in the UK and reports in Sterling, has a significant investment in overseas operations in the USA, with further investments in The Netherlands, France, Germany, Italy, Australia, New Zealand, Canada, Malaysia, Singapore and China. As a result, the Group's balance sheet can be affected by movements in these countries' exchange rates. Where significant 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.

23 Financial instruments continued

Currency exposures

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

		Net foreign currency monetary assets/(liabilities)				
2002	Functional currency of operation	Sterling	US dollar	Euro	Other	Total
	Sterling	-	1,455	2,750	208	4,413
	US dollar	(13)	-	3	(4)	(14)
	Euro	(167)	(297)	-	87	(377)
	Other	107	1,141	25	155	1,428
	Total	(73)	2,299	2,778	446	5,450

		Net foreign currency monetary assets/(liabilities)				
2001	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

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 £34,386,000 at 30 March 2002 (2001: £13,508,000). These comprised Sterling denominated deposits of £34,200,000 (2001: £8,600,000), US dollar denominated deposits of £3,000 (2001: £4,326,000), Euro and other currency deposits of £183,000 (2001: £582,000) 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 £15,047,000 at 30 March 2002 (2001: £7,758,000). All are subject to floating rates of interest. These comprise \$ denominated bank loans of £8,450,000 (2001: nil) which bear interest with reference to the US dollar LIBOR rates, \$ denominated bank overdrafts of £8,000 (2001: nil) which bear interest at rates referenced to \$ base rates, Euro denominated bank loans of £5,982,000 (2001: £6,056,000) which bear interest with reference to the Euro LIBOR rates, Euro denominated bank overdrafts of £245,000 (2001: £55,000) which bear interest at rates referenced to Euro base rates and Sterling denominated bank overdrafts of £362,000 (2001: £1,437,000) and, in 2001, loan notes of £210,000 which bore interest at rates referenced to UK base rates.

Maturity of financial liabilities

With the exception of the deferred purchase consideration due after one year, all of the Group's financial liabilities mature in one year or less or on demand. The total of deferred purchase consideration due after one year includes £92,000 (2001: £1,245,000) 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.

23 Financial instruments continued

The Group also has committed borrowing facilities which are used for the purposes of managing foreign currency risk. At 30 March 2002 committed facilities of this type amounted to £26,268,000 (2001: £23,451,000) of which £14,432,000 (2001: £6,056,000) 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 30 March 2002 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 30 March 2002 and 31 March 2001 are not significant.

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

24 Commitments**Capital commitments**

Capital expenditure authorised and contracted at 30 March 2002 but not provided in these accounts amounts to £719,000 (2001: £1,741,000).

Commitments under operating leases

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

	Land and buildings		Other	
	2002	2001	2002	2001
Within one year	224	331	17	13
Within two to five years	1,258	1,156	66	71
After five years	1,630	1,591	-	-
	<u>3,112</u>	<u>3,078</u>	<u>83</u>	<u>84</u>

Total annual commitments under non-cancellable operating leases amount to £3,195,000 (2001: £3,162,000).

25 Pensions

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

The total pension cost for the Group was £3,676,000 (2001: £3,478,000) of which £875,000 (2001: £778,000) 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.

25 Pensions continued

Financial Reporting Standard 17 (Retirement Benefits)

The Group will be adopting FRS 17 (Retirement Benefits), in full, for the financial year ending 3 April 2004. Prior to full implementation, the following transitional disclosures are required.

The financial assumptions used to calculate scheme liabilities at 30 March 2002 under FRS 17 are:

	2002
Rate of increase in salaries	4.25%
Rate of increase of pensions in payment (pre April 1997)	3.00%
Rate of increase of pensions in payment (post April 1997)	2.75%
Discount rate	6.00%
Inflation assumption	2.75%

The expected rates of return and the aggregated assets in the UK defined benefit schemes were:

	Expected rate of return 2002	Market value 2002
Equities	8.25%	45,407
Bonds	5.25%	8,128
Property	6.75%	1,609
Total market value of assets		<u>55,144</u>
Present value of scheme liabilities		(67,705)
Deficit in schemes		<u>(12,561)</u>
Related deferred tax asset		3,768
Net pension liability		<u>(8,793)</u>

If the above amount was recognised in these Accounts, the Group's net assets and profit and loss account reserve at 30 March 2002 would be as follows:

Net assets excluding pension liability	157,557
less SSAP 24 pension prepayment	(126)
Pension liability	(8,793)
Net assets including pension liability	<u>148,638</u>
Profit and loss account reserve excluding pension liability	115,268
less SSAP 24 pension prepayment	(126)
Pension liability	(8,793)
Profit and loss account reserve including pension liability	<u>106,349</u>

Other post retirement benefits liabilities are already fully included in the 30 March 2002 net assets.

Analysis of Shareholders

Ordinary shareholdings as at 20 May 2002

	Shareholders		Shares	
	Number	%	Number	%
Number of shares held				
1 - 7,500	4,986	77.9	9,735,766	2.6
7,501 - 25,000	819	12.8	11,030,814	3.0
25,001 - 100,000	362	5.6	18,161,381	5.0
100,001 - 750,000	164	2.6	46,278,366	12.7
750,001 and over	69	1.1	280,116,938	76.7
	<u>6,400</u>	<u>100.0</u>	<u>365,323,265</u>	<u>100.0</u>

Category of shareholders

Insurance companies	35	0.5	15,473,772	4.2
Pension funds	64	1.0	60,840,804	16.7
Investment companies and unit trusts	88	1.4	161,833,100	44.3
Banks and nominee companies	1,137	17.8	72,262,311	19.8
Other corporate bodies	138	2.2	7,121,621	1.9
Total corporate bodies	1,462	22.9	317,531,608	86.9
Directors	8	0.1	14,170,047	3.9
Other individual shareholders	4,930	77.0	33,621,610	9.2
	<u>6,400</u>	<u>100.0</u>	<u>365,323,265</u>	<u>100.0</u>

Notice of Meeting

Notice is hereby given that the one hundred and eighth Annual General Meeting of Halma p.l.c. will be held at The Ballroom, The Berkeley Hotel, Wilton Place, London SW1X 7RL on Thursday, 1 August 2002 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 30 March 2002.
- 2 To declare a dividend on the ordinary shares.
- 3 To re-elect as a Director Mr D S Barber* (aged 70) who retires from the Board by rotation and being eligible offers himself for re-election.
- 4 To re-elect as a Director Lord McGowan* who retires from the Board by rotation and being eligible offers himself for re-election.
- 5 To re-elect as a Director Mr H M J Ritchie* who retires from the Board by rotation and being eligible offers himself for re-election.
- 6 To re-appoint PricewaterhouseCoopers as Auditors.
- 7 To authorise the Directors to determine the remuneration of the Auditors.

Special business

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

- 8 That the remuneration policy for Directors as set out on page 35 of the Report and Accounts for the 52 weeks to 30 March 2002 be approved.
- 9 That Article 105 of the Company's Articles of Association be and is hereby amended by the deletion of the reference to "£150,000" where it appears and replacing it with "£500,000" in respect of the aggregate sum per annum of all fees paid to Directors which shall not be exceeded.
- 10 That the Directors be and are hereby generally and unconditionally authorised for the purpose of Section 80 of the Companies Act 1985 to allot relevant securities (within the meaning of that Section) up to a maximum aggregate nominal amount of £7,124,162.50 and to make any offer or agreement which may require any such relevant securities be allotted after the expiry of this authority, in each case on such terms as the Directors may determine, such authority to expire on 31 July 2007.

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

- 11 That subject to the passing of Resolution 10 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 as if Section 89(1) of the Companies Act 1985 did not apply to any such allotment, provided that such power shall be limited to the allotment of equity securities:
 - (a) pursuant to the terms of any share scheme for employees approved by the Company in general meeting; and
 - (b) otherwise than pursuant to sub-paragraph (a) above, up to an aggregate nominal amount of £1,825,000,

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
 1 July 2002

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 2002 and at The Berkeley Hotel from 11:45 am on the day of the meeting until the close of the meeting.

Full biographical information of the Directors proposed for re-election appears on page 25 of the Report and Accounts.

* denotes non-executive Director and member of the Remuneration, Audit and Nomination Committees of the Board

Summary 1993 to 2002

	1992/93	1993/94	1994/95	1995/96	1996/97
Turnover	116,145	135,318	153,739	173,652	200,140
Overseas sales	59,808	74,976	90,045	104,432	119,235
Profit before taxation, goodwill amortisation and exceptional items	20,891	25,075	29,234	33,619	37,076
Net tangible assets (note 1)	46,064	55,518	63,833	77,650	81,209
Borrowings	8,726	6,898	7,096	8,350	3,763
Cash and short-term deposits	17,248	16,794	19,759	27,459	13,447
Employees	1,902	2,099	2,226	2,384	2,677
Earnings per ordinary share (Notes 1, 2 and 3)	4.19p	4.79p	5.59p	6.44p	7.01p
Earnings per ordinary share before goodwill amortisation and exceptional items (Notes 1 and 2)	4.19p	4.79p	5.59p	6.44p	7.01p
Year on year increase/(decrease) in earnings per ordinary share before goodwill amortisation and exceptional items	28.9%	14.3%	16.7%	15.2%	8.9%
Net tangible assets per ordinary share (Notes 1 and 2)	13.2p	15.6p	17.9p	21.7p	22.5p
Year on year increase/(decrease) in net tangible assets per ordinary share	17.9%	18.2%	14.7%	21.2%	3.7%
Profit before taxation, goodwill amortisation and exceptional items as a % of turnover	18.0%	18.5%	19.0%	19.4%	18.5%
Return on capital employed (Note 4)	45.4%	45.2%	45.8%	43.3%	45.7%
Year on year increase in dividends per ordinary share	20%	20%	20%	20%	20%
Ordinary share price at financial year end (Note 2)	108p	127p	113p	138p	134p
Market capitalisation at financial year end	£375.2m	£446.9m	£401.5m	£492.1m	£479.2m

Notes:

1. Figures for 2000/01 have been restated to reflect the change in accounting policy relating to deferred tax following the adoption of FRS19 in 2001/02. Earlier figures have not been restated.
2. Restated for the capitalisation issues made in 1993, 1995 and 1997.
3. Earnings per ordinary share figures have been restated where appropriate on an FRS3 basis for items previously disclosed as extraordinary.
4. Return on capital employed is defined as profit before taxation, goodwill amortisation and exceptional items expressed as a % of net tangible assets.

£000

1997/98	1998/99	1999/00	2000/01	2001/02
213,777	217,758	233,485	268,322	267,597
126,863	134,189	150,727	181,831	183,259
42,391	41,823	43,751	49,698	48,255

98,249	102,101	89,755	99,991	117,515
2,784	7,730	14,700	7,758	15,047
22,639	29,894	21,900	21,484	45,657
2,861	2,827	2,975	3,059	2,859

6.87p	7.91p	6.08p	8.91p	8.58p
8.26p	7.99p	8.41p	9.34p	9.10p

17.8%	(3.3%)	5.3%	11.1%	(2.6%)
27.1p	28.2p	24.9p	27.7p	32.2p

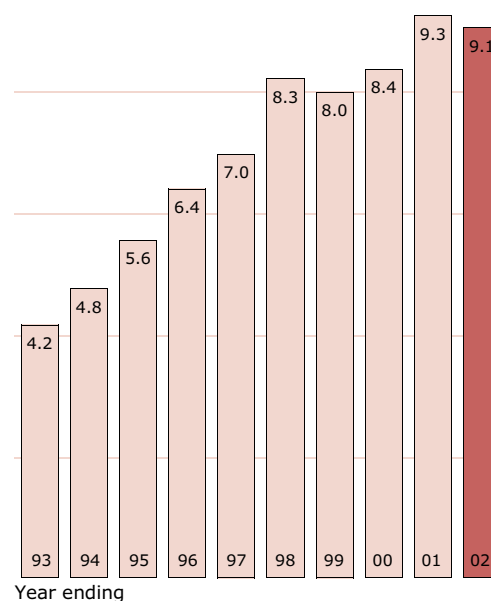
20.4%	4.1%	(11.7%)	11.2%	16.2%
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19.8%	19.2%	18.7%	18.5%	18.0%
43.1%	41.0%	48.7%	49.7%	41.1%
20%	20%	20%	15%	15%

124p	92p	95p	129p	164p
£447.3m	£330.6m	£340.1m	£465.7m	£598.2m

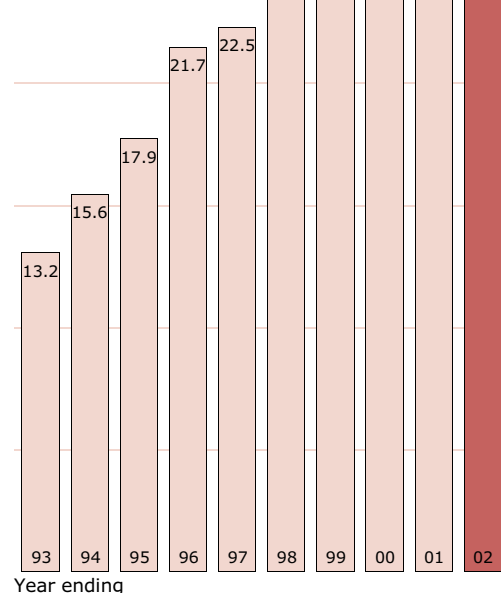
Earnings per share before goodwill amortisation and exceptional items

pence



Net tangible assets per share

pence



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
Monitor Controls Inc.	Elevator signal fixtures
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 LLC	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

<i>Location</i>	<i>Contact</i>	<i>Telephone</i>	<i>Fax</i>	<i>Website</i>
Pontiac, Michigan	JE Ludwig	+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	S van Gaalen	+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	HJ Karmazyn	+44 (0)116 273 3633	+44 (0)116 273 7911	www.cressall.com
Abingdon, Oxfordshire	A Stamper	+44 (0)1235 553057	+44 (0)1235 553062	www.crowcon.com
Hauppauge, New York	MG Ryan	+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 6776 4111	+65 6774 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.hfsecureite.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	MS Lavelle	+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	CB Whitehead	+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
Hauppauge, New York	JF Farella	+1 (1)631 543 4334	+1 (1)631 543 4372	www.mcontrols.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.com
Gateshead, Tyne & Wear	AJ Lever	+44 (0)191 491 0808	+44 (0)191 482 5372	www.palintest.com
Cwmbran, Gwent	NR Summers	+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	JD Whincup	+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.spc coils.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-maywood.com
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

2001/02 Interim results	4 December 2001
2001/02 Interim dividend paid	4 February 2002
Trading update	25 April 2002
2001/02 Preliminary results	18 June 2002
2001/02 Report and Accounts issued	1 July 2002
Annual General Meeting	1 August 2002
2001/02 Final dividend payable	19 August 2002
Trading update	end October 2002
2002/03 Interim results	3 December 2002
2002/03 Interim dividend payable	February 2003
Trading update	end April 2003
2002/03 Preliminary results	June 2003

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