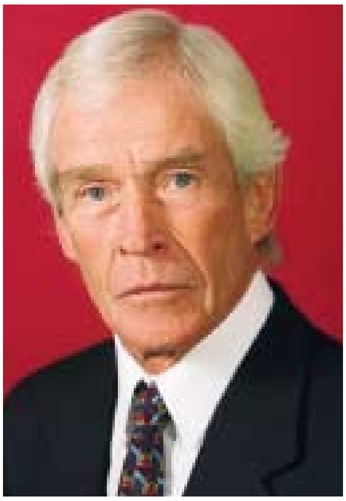
HALMA

Chairman's Statement



". . . 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

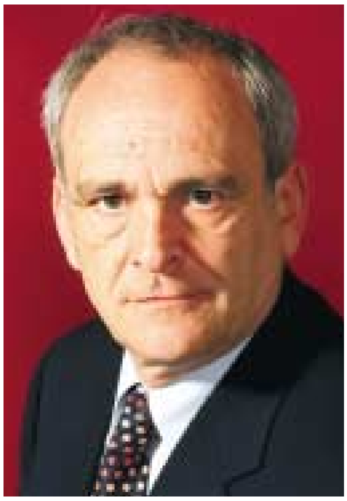
On 30 April 2002, Clive Summerhayes retired as a Director of Halma p.l.c. Clive has been an invaluable member of the Halma Board, and we wish him every happiness in his retirement. Clive joined Halma in 1973 and during the past 29 years has made a very significant contribution to the Group's outstanding 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

Chief Executive's Review



". . . 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

HALMA

Financial Review

"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