

**HALMA p.l.c.**

### **PRELIMINARY RESULTS FOR THE YEAR TO 31 MARCH 2007**

#### **Record revenues and profits once again with good organic growth**

Halma, the leading safety, health and sensor technology group, today announces its preliminary results for the year to 31 March 2007.

Highlights include:

- Growth in all three business sectors and across all global regions.
- Revenues from continuing operations up 14% to £354.6 million (2006: £310.8 million), including 8% organic growth\*.
- Adjusted pre-tax profits\*\* from continuing operations up 14% to £66.1 million (2006: £58.1 million), also including 8% organic growth\*.
- Strong margins and returns maintained, with Return on sales\*\*\* of 18.6% (2006: 18.7%) and ROTIC\* of 14.0% (2006: 12.8%).
- Good cash generation supporting a record dividend, increased by 5%; with modest (£7.7 million) net debt and substantial resources available for further investment in innovation and growth.
- Five acquisitions completed in closely targeted sectors, all performing well.
- Greater activity in Asia, reflecting Halma's strategy of accelerated business development in the region.

\* Organic growth rates and Return on total invested capital (ROTIC) are non-GAAP performance measures used by management in measuring the returns achieved from the Group's asset base. See note 7 for details.

\*\* Adjusted to remove the amortisation of acquired intangible assets of £3.5 million (2006: £1.5 million).

\*\*\* Return on sales is defined as adjusted\*\* profit before taxation from continuing operations expressed as a percentage of revenue from continuing operations.

Commenting on the results, Andrew Williams, Chief Executive of Halma, said:

“We have achieved record revenues and profits once again, demonstrating our ability to deliver organic growth which is the primary measure of our success. Our proven ability to choose sustainable growth markets is being boosted with greater ambition, customer focus, more innovation, new technologies and stronger management resources, all driven with a clear strategy for each part of our business. We are making good progress and we remain positive about our prospects for the year and the longer term.”

Geoff Unwin, Chairman of Halma, said:

“Another good year with continuing investment in people, innovation, market development and acquisitions. This, together with strong and effective leadership from our management team, gives us confidence for the future.”

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A copy of this announcement, together with other information about Halma, may be viewed on its website:  
[www.halma.com](http://www.halma.com).

A copy of the Annual Report and Accounts will be sent to shareholders on 2 July 2007 and will be available to the general public on written request to the Company's registered office at Misbourne Court, Rectory Way, Amersham, Bucks HP7 0DE.

#### PHOTOGRAPHS

High resolution photos of Halma senior management, including Chief Executive Andrew Williams, and images illustrating Halma business activities can be downloaded from its website: [www.halma.com](http://www.halma.com). Click on the 'News' link, then 'Image Library'. Photo queries: David Waller +44 (0)20 8205 0038, e-mail: [dwaller@halmapr.com](mailto:dwaller@halmapr.com).

#### NOTE TO EDITORS

Halma develops and markets products used worldwide to protect life and improve the quality of life. The Group comprises three business sectors:

- Infrastructure Sensors
- Health and Analysis
- Industrial Safety

The key characteristics of Halma's businesses are that they are based on advanced technology and offer strong growth potential. Many Group businesses are a clear market leader in their specialist field and, in a number of cases, are the dominant world supplier.

# HALMA p.l.c.

## Group Results for the 52 weeks to 31 March 2007

### Financial highlights

	Change	52 weeks 31 March 2007	52 weeks 1 April 2006
<b>Continuing operations:</b>			
Revenue	+ 14%	£354.6m	£310.8m
Adjusted profit before taxation <sup>(1)</sup>	+ 14%	£66.1m	£58.1m
Statutory profit before taxation	+ 11%	£62.6m	£56.6m
Adjusted earnings per share <sup>(2)</sup>	+ 14%	12.50p	11.01p
Statutory earnings per share	+ 11%	11.86p	10.73p
Total dividends (paid and proposed) per share	+ 5%	7.18p	6.83p
Return on sales <sup>(3)</sup>		18.6%	18.7%
Return on total invested capital <sup>(4)</sup>		14.0%	12.8%
Return on capital employed <sup>(4)</sup>		60.1%	56.9%

Pro-forma information:

- 1 Adjusted to remove the amortisation of acquired intangible assets of £3,458,000 (2006: £1,500,000).
- 2 Adjusted to remove the amortisation of acquired intangible assets. See note 4 for details.
- 3 Return on sales is defined as adjusted<sup>(1)</sup> profit before taxation from continuing operations expressed as a percentage of revenue from continuing operations.
- 4 Organic growth rates, return on total invested capital and return on capital employed are non-GAAP performance measures used by management in measuring the returns achieved from the Group's asset base. See note 7 for details.

### Chairman's statement

#### ***Another good year with continuing investment in people, innovation, market development and acquisitions.***

The last financial year has again seen good progress for Halma. Revenue from continuing operations increased 14% to £354.6 million (£310.8 million in 2006) with underlying organic growth\* of 8.1% despite adverse currency effects of 2.3% i.e. 10.4% at constant currency. Profit before tax and amortisation of acquired intangibles on continuing operations was £66.1 million (2006: £58.1 million) an increase of 14%, organic growth\* at constant currency was 10.1%. This organic profit growth\* compares with an equivalent figure of 14% in 2006 where we benefited from the rebound in the Water business, so in the year under review we faced slightly tougher comparables. Statutory profit before tax increased by 11% to £62.6 million. The Board is recommending a final dividend of 4.33p per share, an increase of 5% for the year and our 28th consecutive year of dividend increases of 5% or more. Our dividend cover has increased to 1.74 times (2006: 1.61 times). Return on total invested capital\* was 14.0% (2006: 12.8%).

We have also made a number of acquisitions during the year: Mikropack, Baldwin Environmental and Labsphere in the Health and Analysis sector and Tritech and System Technologies in the Industrial Safety sector. In total we invested £27 million in acquisitions with a maximum potential of a further £5 million in deferred consideration. After the positive action taken in the previous year, no disposals were made during the period under review. At the end of the year our net debt was £7.7 million.

During the year we have seen a continuous flow of new products. We are also beginning to see results from our investments in China. During the year seven additional companies within the Group established a local presence there and during the coming year we expect several more to commence.

Our investment in people continues apace with enthusiastic attendance at our management training programmes and it is pleasing to see the energy with which attendees return to their companies, refreshed, invigorated, having learnt much, but more importantly, with a network of colleagues who actively support each other on all aspects of our business such as selling, innovation, technology and quality.

All of these investments, together with our investments in strengthening our selling and distribution resources, feed and support our strategy for healthy organic growth, so it is encouraging to see that this focus continues to bear fruit. This also gives us even more confidence that we can deliver significant value for shareholders from acquisitions that fit our strategic framework and meet our strict acquisition criteria. Furthermore we have significant financial resource at our disposal to do more.

In March, Andrew Walker stepped down from the Board and I should like to record our thanks for all his contribution during his four-year tenure as a non-executive Director of the Group and wish him well for the future.

On behalf of the Board, I should also like to thank all our employees for producing such a good performance.

In summary, another good year with continuing investment in people, innovation, market development and acquisitions. This, together with strong and effective leadership from our management team, gives us confidence for the future.

Geoff Unwin Chairman

\* See Financial highlights.

## **Chief Executive's strategic review**

### ***Record revenues and profits once again demonstrating our ability to deliver organic growth***

#### **Record results with 8% organic profit growth\***

We have achieved record revenues and profits once again, demonstrating our ability to deliver organic growth which is the primary measure of our success. For continuing operations, total revenues increased by 14%, including 8% organic growth\*, with total profits before amortisation of acquired intangibles also increasing by 14%, including 8% organic\*. Impressively, these significant increases were achieved despite a 2% to 3% adverse currency impact during the year.

#### **Strong returns and cashflow supports record dividend and investment**

Return on sales\* (2007: 18.6%; 2006: 18.7%), Return on capital employed\* (2007: 60.1%; 2006: 56.9%) and Return on total invested capital\* (2007: 14.0%; 2006: 12.8%) all remained strong or increased in accordance with our objective of generating growth without diluting the quality of our returns.

Cashflow was good and we ended the year with £7.7 million net debt having funded five acquisitions, significant organic growth and a further dividend increase of 5%.

#### **Acquisitions completed in targeted markets**

The Group completed five acquisitions during the year. Two of these acquisitions, Mikropack (April 2006) and Baldwin Environmental (September 2006) added new products to two of our leading Health and Analysis businesses and were merged with these existing businesses immediately on completion. Of greater significance were Trittech/System Technologies (November 2006) and Labsphere (February 2007) who are world leaders in subsea asset monitoring (Industrial Safety) and light measurement (Health and Analysis) respectively. All five businesses have performed well since joining the Group. We have allocated more resources to our acquisition search activity as acquisitions continue to be an important element of our long-term growth plans.

## **Growth in all business sectors and all global regions**

Each of Halma's three business sectors achieved record revenues and profits.

- Infrastructure Sensors grew strongly with profits up 16% from 17% revenue growth following the increased investment in sales and product development made last year.
- Health and Analysis performed well generating a 7% increase in profits from revenue up 9%. This sector makes just under half of all the Group's sales into markets where the currency is US\$ (or US\$-related) and bore the brunt of adverse currency movements during the year.
- Industrial Safety proved once again to be a strong and consistent performer with revenue growth of 15% driving profits up by 19%.

Geographically, revenues and profits increased in each major territory. The UK and mainland Europe proved to be particularly strong and our Industrial Safety businesses benefited from continuing high investment in the oil, gas and petrochemical industries – especially in the Middle East.

Many of our products are used to protect or improve the environment which offers us exciting opportunities for growth. In addition, we recognise that we can do more to minimise the impact that our business activities have on the environment and believe we can do this by increasing efficiencies thereby creating further value for shareholders.

### **Greater activity in Asia**

Revenues to Asia Pacific and Australasia grew by 7% and continue to represent around 10% of Group sales. Over the medium term, this region offers growth rates in excess of the Group average and, as announced previously, we created Halma "hubs" in Shanghai and Beijing in August 2006 to accelerate business development by our subsidiaries in the region.

This is a good example of how the Group can help our businesses to develop more quickly without compromising their autonomy and freedom. We regularly review the opportunities for similar Group initiatives in other regions, markets or functional areas.

### **Product and process innovation driving organic growth**

We maintained a healthy level of investment in Research & Development (R&D) (4.3% of revenues) and capital expenditure. These investments are critical factors in our ability to sustain growth through increasing innovation in products and processes. Over 70 new products were launched by Halma companies during the year, providing encouragement for our future growth prospects. Some of these products resulted from collaboration amongst Group companies.

### **Increasing investment in talented people**

Developing and growing businesses already performing at a high level is a challenging task and I would like to thank each employee in every Halma company for their contribution to another successful year for the Group.

We have worked hard in recent years to change our culture from being too inwardly focussed on managing returns. This has included major people changes with over 65% of our subsidiary managers having joined the Group in the past four years.

Increased investment in training and development, including the flagship Halma Executive Development Programme (HEDP) launched 18 months ago, is translating into improved financial performance and greater strategic clarity throughout the Group. By the end of 2007, over 80 of our senior managers will have benefited from the HEDP.

This commitment to improving our people resources means that internal promotions are now a more realistic and frequent option. Accordingly, it was pleasing for me to promote Mark Lavelle to the Executive Board in April 2007 following five successful years as Managing Director of Keeler, one of our Health and Analysis businesses. This coincided with a change of divisional responsibilities in the Executive Board to ensure we continue to provide fresh insights and new approaches for our businesses.

### **Halma's long-term growth record continues**

Since 1970, Halma has increased revenue every year bar two. Today we have very modest net debt of £7.7 million having self-funded organic growth, acquisitions and paid dividends to shareholders over the years totalling £235 million, excluding the final dividend proposed for this year.

So what has changed over the past two years to give us a new confidence that we can attain even higher levels of success? Simply that our proven ability to choose sustainable growth markets is being boosted with greater ambition, customer focus, more innovation, new technologies and stronger management resources all driven with a clear strategy for each part of our business. These results demonstrate that we are making good progress and we remain positive about our prospects for the year and the longer term.

Andrew Williams Chief Executive

\* See Financial highlights.

## Financial review

### *A strong performance with widespread growth*

#### **Record revenue and profit**

We achieved our highest ever revenue from continuing operations at £354.6 million (2006: £310.8 million), an increase of 14% over the prior year. Profit before tax and amortisation of acquired intangibles at £66.1 million (2006: £58.1 million) on our continuing operations, excluding the disposals made in the prior year, was 14% higher and was also a record.

Adjusting for the extra profit which came with acquisitions gives organic growth\* of 8.1% in revenue and 7.6% in terms of profit. There was a notable currency headwind through the year and without that organic revenue and profit growth would have been 2.3% and 2.5% higher respectively. See below for more detail on currency impacts. Earnings per share were up 11% on a statutory basis and up 14% on our adjusted\* basis. A year of good further progress.

As noted above there were disposals last year but none this year and so the comparative figures are for continuing operations only. We have made a minor reclassification within our sector figures, moving our Asset monitoring business into the Industrial Safety sector and details of the change are given in note 1.

#### **All sectors grew strongly**

Infrastructure Sensors and Industrial Safety sectors both grew revenue and profit by more than 15%. The strong performance of Infrastructure Sensors, our largest sector, was underpinned by the higher investment made last year. The Health & Analysis sector grew revenue by 9% and 7% in terms of profit\*, above our target of 5% growth and following on from very strong growth in the previous year. Return on sales\* for each sector remained firmly in the 18% to 21% range. Sector performances are discussed further below.

#### **Revenue to all destinations grew**

There was widespread geographic growth in revenue. The following table gives revenue from continuing operations by destination.

<b>£ million</b>	<b>Revenue</b>	<b>% change</b>
United States of America	98.9	5.1%
United Kingdom	96.5	16.4%
Mainland Europe	91.4	18.4%
Asia Pacific and Australasia	35.5	6.6%
Africa, Near and Middle East	22.3	51.5%
Other	10.0	16.5%
	<hr/>	<hr/>
	354.6	14.1%

In the US our Health and Analysis and Industrial Safety businesses showed solid growth with Infrastructure Sensors not yet making as strong progress. In the UK, Africa, Near and Middle East, Infrastructure Sensors performed very well, as it did in Mainland Europe, with the majority of the European increase coming organically. Industrial Safety grew strongly in the UK assisted by the addition of the Trittech business. Growth in the Asia Pacific region was more modest although sales to China grew by 26% from a low base. We are putting far greater resources into this region to capture the opportunity there. Importantly, revenue outside of the US/UK/Mainland Europe grew by a further 20% as we expand our geographic coverage.

## ***A continued trend of strong margins and returns***

### **Resumption of strong growth**

In the year we again achieved very good organic growth and at the same time maintained high returns. An important part of our strategy is the delivery of excellent returns and the strong cash flow which comes from them. These high returns have been a feature of the Group over many years, but significantly this has once again been coupled with good organic growth in these past two years.

### **ROCE\* of 60.1% and ROTIC\* of 14.0%**

Our returns are strong and stable. Return on capital employed (ROCE) was 60.1% (2006: 56.9%) showing the high value we generate from our tangible asset base. Return on total invested capital (ROIC) increased to 14.0% (2006: 12.8%), this is a post-tax return on the total asset base including all historic goodwill but excluding the pension deficit. See note 7 for the full calculation of ROCE and ROTIC.

ROIC has grown recently because we have grown earnings at a faster rate than the underlying capital base. In each year ROIC has been well in excess of our Weighted average cost of capital (WACC) which has been calculated as currently being 7.7%. A sustained high ROIC well above our WACC is a central element of our value creation strategy.

### **High Return on sales\* at 18.6%**

Once again we delivered a high Return on sales\* figure at 18.6% (2006: 18.7%). We disposed of some businesses last year which generated a slightly lower margin. The Group has operated with a Return on sales\* range of 16.2% to 19.8% for more than 20 years. These sustained high margins demonstrate the significant value placed on our products by our customers throughout the economic cycle

## ***Maintaining a strong financial position***

### **Good cash flow**

The Group generated strong cash flow once again with cash generated from operations of £70.3 million. The following table sets out the main components of our cash flows and these are discussed in the sections below.

### **Change in net cash**

<b>£million</b>	<b>2007</b>	<b>2006</b>
Cash generated from operations	70.3	70.2
Acquisition of businesses	(27.5)	(36.2)
Disposal of businesses	-	14.6
Development costs capitalised	(3.9)	(2.5)
Net capital expenditure	(7.3)	(11.6)
Dividends paid	(25.9)	(24.5)
Taxation paid	(19.5)	(16.8)
Issue of shares and purchase of treasury shares	3.6	0.6
Net finance expense	(0.8)	(0.4)
Exchange adjustments	(0.2)	(1.9)
	<u>(11.2)</u>	<u>(8.5)</u>
Net cash brought forward	3.5	12.0
Net (debt)/cash carried forward	<u>(7.7)</u>	<u>3.5</u>

The Group finances its operations from retained earnings and has access to third party borrowings when needed. There are no material funds outside the UK where repatriation is restricted. Our treasury policies seek to minimise financial risks and ensure sufficient liquidity. No speculative transactions are undertaken. Foreign currency profits are not hedged but purchase and sale transactions are hedged into the functional currency of the relevant operating company and balance sheet net currency assets are substantially hedged.

### **More earnings enhancing acquisitions**

We continued to implement our strategy of acquiring successful businesses and helping them grow. In particular, we offer businesses an autonomous environment within which to continue their record of success. We spent £27.5 million on acquisitions in the year of which £8.2 million related to the payment of deferred consideration on acquisitions made in previous years. Acquisitions made in the year have met or exceeded our expectations.

The largest acquisitions in the year were of Trittech/System Technologies and Labsphere. We acquired Trittech/System Technologies, who design and manufacture underwater asset monitoring equipment, in November 2006. Their 2005 audited accounts showed annual revenue of £5.4 million and profit of £1.1 million on a combined basis, with further encouraging growth since that time. We paid an initial consideration of £10 million, with a further potential payment of up to £4.5 million conditional on substantial future growth.

Labsphere, a world leader in light testing and measurement products, was acquired in February 2007 for a cash consideration of US\$ 14.3 million (£7.2 million). There are no additional payments to make for this acquisition. Labsphere's unaudited accounts for 2006 show revenues of US\$ 12.5 million (£6.3 million) and operating profit of US\$ 2.4 million (£1.2 million).

In the year we also acquired Mikropack, which makes light sources and photonic accessories, for €2.3 million (£1.5 million) and Baldwin Environmental for US\$ 1.1 million (£0.6 million) with a potential further total of £1.9 million payable on the two acquisitions if performance targets are met.

All of these acquisitions were immediately earnings enhancing and were generating a rate of return in excess of our WACC at the time of acquisition. We continue to invest considerable resources into identifying further acquisitions in our chosen markets.

### **Capital expenditure at typical levels**

We spent £10.9 million on property, plant and computer software in the year, a lower figure than the high expenditure last year representing 134% of depreciation/amortisation – a more typical level for the Group. Two surplus properties sold during the year increased disposal proceeds. In 2007/08 we expect to undertake two specific property developments at separate subsidiaries which should add to the underlying rate of capital investment and also produce a small gain on a property disposal.

### **Further 5% dividend increase with cover raised**

The Board has recommended a further 5% increase in the final dividend up to 4.33p which together with the interim dividend (also 5% higher) will give a total dividend of 7.18p for the year, assuming the final dividend is approved. This will mean a total payout to the shareholders in dividends of £26.7 million in relation to the year ended 31 March 2007. This continues our progressive dividend policy stretching back many years. It also furthers our objective of increasing dividend cover (based on profit from continuing operations before amortisation of acquired intangible assets) towards a figure of around 2.0 over time, by lifting the cover from 1.61 to 1.74 times.

### **Tax rate**

The effective tax rate on profit from continuing operations (before amortisation of acquired intangible assets) is very similar to last year at 29.8% (2006: 30.1%). Future effective tax rates are more likely to be higher although not significantly so.

### **Pension contributions increased, deficit reduced**

As indicated last year we have increased the rate of contributions into our defined benefit pension plans which were closed to new entrants in 2003. An additional £3 million was paid into the plans in the year and over the next couple of years we expect the annual cash contributions to continue to increase by a further £2 million, so that we can meet our objective of paying off the deficit, as measured on an IAS 19 basis, over a 10-year period. These extra contributions are not insignificant but are not expected to impair our growth opportunities. The pension deficit on an IAS19 basis reported in the accounts has reduced from £46 million last year to £37 million at year end, before the related deferred tax asset. This decrease arises from an increase in the value of plan assets, helped by the additional contributions, offset by proportionately less of an increase in the present value of plan liabilities due to a higher discount rate being applied.

### **Modest net debt of £7.7 million**

We finished the year with a modest level of gearing at £7.7 million (2006: £3.5 million net cash). This begins to utilise the £60 million five-year debt facility put in place last year with our well-established banking partners. The Board would be willing to utilise more of this facility if good acquisition and investment opportunities are identified. The Group continues to be able to borrow at competitive rates and therefore currently deems this to be the most effective method of funding our increasing investment.

### **A currency headwind continues**

There was a currency headwind through the year, particularly in the second half. Approximately one-third of Group revenue is denominated in US Dollars and 15% in Euros with the US Dollar recently showing significant adverse movement relative to Sterling. We translated our US Dollar revenue and profit to Sterling at an average rate of 1.78 in 2005/06 but in 2006/07 this average was 1.89. As a guide, a 1% weakening of the US Dollar relative to Sterling is expected to reduce revenue by approximately £1 million and profit by £0.2 million in

a full year. The adverse movement in the South African Rand relative to Sterling in the year also reduced profitability in our Infrastructure Sensors business which has a sizable operation in South Africa. As previously indicated there has been an adverse impact in translating our results into Sterling which we estimate as reducing revenue by 2.3% and profit by 2.5% and most of this impact has fallen in the second half of the year. If current exchange rates prevail, our results will continue to be adversely impacted, particularly in the first half of the current financial year.

The impact of currency movements on the Group's net tangible assets is largely offset by the currency hedging loans we have in place.

Amongst the operating sectors it is the Health & Analysis sector which has the biggest trading exposure to the US Dollar both in terms of origin and destination of its business. The Health and Analysis businesses generate 45% of their revenue from the US compared with 21% for Infrastructure Sensors and 16% for Industrial Safety. This gives an indication of the relative impact of US Dollar movement and it is the profitability of the Health & Analysis sector which was hardest hit by the fall in the US Dollar relative to Sterling in 2006/07.

### ***Active investment for the future***

#### **Growing R&D and extending innovation**

We continue to invest heavily in Research & Development (R&D) and are active in promoting an innovative culture across the Group. Expenditure on R&D in the year was 4.3% of revenue (2006: 4.3% of revenue) and amounted to £15.3 million, 14% up on last year for continuing operations. We do not specifically capture the expenditure on all innovation as it permeates every aspect of our activities but this is an increasing use of existing and new resources. In our three sectors, relative to our growing revenue, our spend on R&D this year is consistent with last year. The Health & Analysis sector continues to invest the highest percentage at 5.3%.

Under International Financial Reporting Standards (IFRS) we are required to capitalise certain development expenditure on the Consolidated balance sheet and also to amortise that asset over an appropriate period. In the year we capitalised £3.9 million of such development expenditure and amortised £1.5 million, giving rise to an asset of £6.1 million in the March 2007 balance sheet. The nature of R&D is that it involves risk and therefore we carefully monitor all costs carried on the balance sheet. The Consolidated income statement was charged with a cost 4% higher than last year. This increasing rate of investment in new, innovative products underpins our future growth.

#### **Developing in China**

We have taken a big step forward in China this year in terms of getting more high quality resource on the ground. The Asia Pacific region contributes only 10% of our total revenue, with China as a small part of this. We see substantial opportunity for many of our products in this region and so the extra investment in China, around £0.5 million more in 2006/07, is an important part of the growth process. Our task in 2007/08 and beyond is accelerating the payback on this investment.

#### **Developing our strong control culture and our people**

We spread our risks in part by operating through a number of closely managed individual businesses. We have high quality local teams guiding each business within our overall reporting and control framework. There is significant external review of these operations and one element of that review process, our Internal Audit, has been further enhanced this year by more in-depth visits. Each business has a senior finance executive on site who plays an important part in the control and growth of the business. We continue to actively develop our people and we have now had 13 of our senior finance staff graduate from the Halma Executive Development Programme (HEDP) and are finding them able to make an even broader contribution to the progress of the business.

#### **Taking our environmental responsibilities seriously**

Our impact on the environment is low and we produce many products which themselves have a positive impact. Carbon emissions reduction seems to be important for the future and we are putting in place a variety of actions to both monitor and actively manage our carbon footprint. We are at the early stages of formulating reliable measures and KPIs, but are making good progress. We take a broader view that our impact on the environment is not just in relation to carbon emissions but also water usage, packaging and waste generally, all areas where we have a good record.

Not only should we be able to comply with regulations as they develop but also we are focussing our efforts in this area on increasing profitability and genuinely improving our business. Improving further in these areas should deliver greater value for customers and shareholders.

Kevin Thompson Finance Director

\* See Financial highlights

## Business Review

### Group Overview

Halma protects lives and improves quality of life for people worldwide through innovation in market leading products which make our customers safer, more competitive and more profitable.

#### Business overview

Halma is made up of three sectors each comprising autonomous operating companies which mainly manufacture innovative electronic and electrical products for niche markets with global dimensions. We are an international group with businesses in over 20 countries and major operations in Europe, the US, Asia and Africa. You will find a description of sector strategies, trends in our markets and sector performance in the sector reviews below. These sectors are:

- Infrastructure Sensors                      detecting hazards, and protecting people and property in buildings
- Health and Analysis                        improving public and personal health; protecting the environment
- Industrial Safety                             protecting property and people at work

#### Strategy and business objectives

Our strategy for driving growth and creating shareholder value centres on five key principles:

- Operate in specialised global markets offering long-term growth underpinned by robust growth drivers;
- Build businesses which lead specialised global markets through innovative products differentiated on performance and quality rather than price alone;
- Recruit and develop top quality boards to lead our businesses and nurture an entrepreneurial culture within a framework of rigorous financial discipline;
- Acquire companies and intellectual assets that extend our existing activities, enhance our entrepreneurial culture, fit into our decentralised operating structure and meet our demanding financial performance expectations;
- Achieve a high Return on capital employed to generate cash efficiently and to fund organic growth, closely targeted acquisitions and sustained dividend growth.

Organic growth is the key to our value creation strategy. The 'blended' long-term growth rate of our markets is around 5% per year and our aim is to grow faster than our markets. Following a strong year in 2005/06, achieving 8% organic growth in 2006/07 was an excellent result and represents a second year of good progress following low organic growth in the preceding years 2000 to 2005.

R&D and innovation play an important role. Strategically, we aim to provide technical resources within each business as close as possible to the customer. Whilst respecting the autonomy of subsidiary companies, we encourage collaboration between Halma companies and see this as a potential competitive advantage that has been under-utilised in the past. During 2006/07, the increased collaboration started to bear fruit with new products launched incorporating technology and know-how from two or more Halma companies. These included fire products, which combined visual and audible alarm modules together with our market leading smoke detectors.

Our businesses build competitive advantage and strengthen barriers to entry in many ways including patents, product approvals, technical innovation, product quality, customer service levels and branding. We look for these qualities in the businesses we seek to acquire. We like regulated markets which require suppliers to achieve compliance with demanding product standards but also look for other robust long-term growth drivers such as demographic change.

#### How we operate

We cultivate a highly decentralised operating culture which encourages our businesses to focus on establishing market leadership in their selected niche within a global market. Each subsidiary is led by a management team who enjoy genuine autonomy and the freedom to grow in an entrepreneurial environment.

These management teams are chaired by Halma's Divisional Chief Executives (DCEs) who understand the market needs and can contribute broadly to the individual company's strategy in technical, operational and commercial areas. These DCEs meet with the Group Chief Executive regularly to review progress against their operating division's strategic objectives.

Through the regular interaction between the Group's Executive Board members, common challenges and opportunities for Group businesses are identified which sometimes leads to a central initiative. Examples of initiatives underway are sales process improvement, innovation, people development and increasing activity in China via our Halma hubs in Shanghai and Beijing.

DCEs are responsible for finding, negotiating, completing and managing acquisitions in their own business sectors. Acquisition costs, including goodwill, are incorporated in the incentive plans of all Executive Board members.

When new acquisitions join Halma they invariably retain their name and identity, and vendors often continue to work with us. Elsewhere entrepreneurs who typically find working in a large international organisation too constraining welcome our autonomous culture and decentralised structure which allows them to develop further.

## **Group outlook**

2006/07 marked another year of good progress for the Group with record revenues and profits. Significant investment continues in R&D, capital expenditure and strengthening channels to market. This combination of delivering strong results whilst increasing investment provides a solid platform from which it is possible for the Group to sustain organic growth above market rates.

Good quality prospects for further acquisitions in our target markets exist and acquisitions will continue to play an important role in the Group's long-term growth.

We have clear growth strategies for our markets and we continue to work hard to improve the quality of our execution through active resource allocation and people development. We are well placed to deliver sustained growth and enter the new year in good shape.

## **Infrastructure Sensors sector review**

### **Sector overview**

Infrastructure Sensors, our largest business, contributes 44% of Group revenue (£155 million) and 41% (£28 million) of Group profit<sup>+</sup>. Our principal products are sensors for fire, security, automatic doors and elevator controls.

<sup>+</sup> see note 1 to the Preliminary Announcement

### **Sector strategy**

Our strategy in this sector is to become the leading supplier of safety-critical sensor components used in non-residential building monitoring and control systems. We focus on specialist components, not complete installed systems. The global manufacturers of complete building infrastructure systems see us as a strategic partner or specialist supplier of advanced technology components rather than a direct competitor.

To support our Elevator safety sales growth, during the past year we organised our companies into three regional businesses covering Asia, Europe and North America. Our strategy is to boost competitiveness by presenting customers with a single, seamless source for our complete range of elevator safety products in each region. As part of a strategy of getting closer to elevator customers than our competitors, we opened new regional sales offices in Delhi, Houston, and Toronto adding to the new offices opened in Asia and the Middle East last year.

Continuous manufacturing cost reduction remains a key strategic activity within this sector balanced by the need to remain close to our customers. Consequently, we will continue to invest significantly in our Czech and Chinese factories.

## **Market trends**

A significant trend in the Infrastructure Sensors market sector is rising demand for integrated fire, security, evacuation and access systems. To accommodate this need, we have developed a new technology platform which will be licensed to our fire alarm system partners so that our fire detectors can be specified in buildings with integrated fire and security monitoring.

Worldwide demand for fire detectors remains strong. With a growth rate of 18%, China continues to offer the highest revenue growth potential. Europe, where our fire product revenues grew by over 15%, reversed the downward trend of last year due to recovery in the German market.

Downward pricing pressure continues in the fire detector market, particularly in the Middle East and Asia. Further investment in our sales channels, coupled with increased spending on R&D and the supply chain, delivered continued growth in these markets and gross margins remained solid.

Our ability to innovate and respond rapidly to frequent regulatory changes maintains competitive advantage. In addition to new technical standards, during the past year we accommodated new regulations covering: safe disposal and recycling of waste electrical products (WEEE Directive); restrictions on the use of hazardous substances in electrical products (RoHs Directive); and enhanced electromagnetic compatibility standards (CPD Directive).

Our Security sensors sell into a global market worth over £2 billion annually, which continues to grow at 6% per year. Following our acquisition of Texecom in November 2005, we established a strong presence in the UK and South African markets and are making good progress towards gaining the necessary product approvals to sell our products into China and the US. These markets offer us significant growth potential and we will be using expertise in our other Infrastructure Sensors businesses to develop our presence more rapidly.

Our internal estimate is a 3% to 4% global growth rate for the automatic door safety market. We have high market shares in Europe and the US where many of our competitors have chosen low prices as their main competitive strategy. Our strategy to maintain our margins and market share by reducing production costs and introducing new market leading products tailored for each region, continued to be successful.

We believe that the global market growth rate for new elevators (and elevator services) is in the region of 5% to 6%. We calculate the annual value of the elevator markets that we serve at £180 million. The Middle East, India and China offer the highest growth rates for elevator safety sensors. Price competition is prevalent; severe in China, but moderate in Europe and the US.

New European legislation called 'Safety Norm EN-81', designed to improve elevator safety and accessibility for people with disabilities, boosted European demand for our products in the building modernisation market.

## **Sector performance**

Our Fire detector businesses produced record revenues and profits. In 2006/07, organic revenue and profit growth was more than double market growth rates thereby increasing market share while improving profitability. More than 10 significant new fire products were introduced and we obtained 450 new product approvals for global markets.

Despite strong revenue growth, profit growth from security sensor products suffered from currency volatility as well as high investment in new markets and product development.

Even with strong price competition in the automatic door sensor market, both revenues and profits grew significantly. We maintained our high market shares in Europe and the US and defended our good profit margins partly by cutting production costs through increased investment in our Chinese manufacturing capacity. However, we also benefited from launching innovative, market leading products, such as the 4Safe sensor which prevents people from being trapped or injured in automatic, revolving or swing doors. New legislation boosted sales of 4Safe in Germany.

Last year we began to increase our direct presence in key developing elevator markets and this year both revenue and profit moved ahead. We countered a slight dip in margins in the past year with new, lower cost products and by cutting production costs. Revenues from offices set up in Dubai and Mumbai have grown very successfully, whilst progress in new regional offices in China has been more varied.

ROCE for the sector as a whole continues to be excellent.

## **Sector outlook**

With our Fire detector and Automatic door sensor businesses achieving solid organic profit growth on increased revenues, a flow of new products aimed at diversification and market expansion is planned to drive growth. Continued strengthening of senior management and IT investment in our Security sensor and Elevator safety businesses is well underway to improve the potential for profit growth in these businesses in the future.

## **Health and Analysis sector review**

### **Sector overview**

Health and Analysis contributed 34% (£120 million) of Group revenue and 36% (£24 million) of Group profit<sup>+</sup>.

<sup>+</sup> see note 1 to the Preliminary Announcement

### **Sector strategy**

In Water management we aim to be the technology leaders and offer water utilities worldwide new solutions to their water supply problems. Our Water UV treatment growth strategy is to unlock new regulated markets via further product validations, and to adapt existing product lines for new applications.

We aim to grow our Fluid technology business by broadening our product range and our presence outside of our traditional US stronghold both via organic growth and acquisitions.

Geographic expansion and innovative product development are our twin organic growth strategies for Photonics. The Mikropack and Labsphere acquisitions completed this year added complementary light generation and measurement technologies. We will seek further photonics acquisitions which we can grow rapidly using our well-established sales channels.

In Health optics, higher R&D investment is resulting in an increased rate of new product introduction. This will enable us to grow market share in developed countries whilst we build sales channels in the developing world for the longer term.

### **Market trends**

Confidential market research values the US market for UV water treatment plant at £120 million annually which our internal estimates suggest equates to the rest of the world's combined markets. Market growth is estimated to be over 15%, driven by increasing health regulation and an expanding industrial customer base including semiconductors, aquaculture and leisure pools.

Regulation plays an increasingly important role in developing regional water markets. The US Environmental Protection Agency recently issued guidance that will accelerate adoption of UV treatment for controlling water-borne diseases in drinking water. EU expansion is driving demand; new member states must adopt EU health and safety regulations.

Using internal data, we estimate that the global market for water pipework monitoring and leak location equipment is worth over £45 million annually. We estimate the market has grown by 7% per year (compound) for the past four years and we anticipate similar growth as a minimum for the next five years.

In Fluid technology, there has been greater consolidation within the clinical diagnostic instrumentation market than in previous years due to M&A activity. We are broadening our product offering into the medical and environmental instrumentation segments which are also growing fast. For example, China plans to invest £87 billion between 2006 and 2010 on environmental protection projects.

Photonics continues to offer us exciting organic and acquisition growth prospects. We are global leaders in the miniature spectrometer market niche which we estimated to be worth £70 million annually and growing at 15% per year.

The use of photonic methods is increasing rapidly in a vast range of end markets. The advantages of optical sensors over traditional methods can include lower cost, greater sensitivity, in-situ measurement capability (particularly in hazardous environments), immunity from electromagnetic interference, repeatability and stability. Over 60% of Halma companies use optical technologies.

Growth drivers for our Health optics products include rising demand for eye care due to demographic changes in the developed world plus increasing access to health services in developing countries. We estimate that the health optics market is growing in developing countries by 5% annually and 2% to 3% worldwide.

New ophthalmic products undergo lengthy clinical trials and rigorous medical product regulation which is a disincentive to market entrants. Digital and video imaging technology for examining the eye continues to evolve and a disruptive technology could emerge to change the market dynamics in the medium term. We continue to monitor this closely and have established relationships with some of the leading digital imaging companies where our products can be complementary to their technology.

### **Sector performance**

In our Water businesses we consolidated the strong recovery achieved in 2005/06. Although progress in the US market remained patchy, revenues in European markets rose sharply.

Fluid technology revenues increased although profits were flat due to increased investment in new products as well as in sales and distribution.

Revenues and profits from Photonics products grew to record levels. A new photonics sales and technical support office was opened in Shanghai and European activities were strengthened by the Mikropack acquisition.

In Health optics our strong brand positioning and a healthy stream of new and enhanced products delivered record revenues and profit.

The increased rate of investment in R&D (now 5.3% of revenue) is an important element in maintaining the excellent operating returns in this sector.

### **Sector outlook**

New product innovation and technical collaboration are increasingly important organic growth drivers. Geographic expansion into developed and developing regions offers further organic growth opportunities and we hope to benefit from the higher investment in 2006/07 in the coming year.

Increased acquisition search resources are identifying opportunities which can strengthen our technology and market presence.

This combination of organic and acquisitive growth prospects should lead to further progress during 2007/08.

## **Industrial Safety sector review**

### **Sector overview**

Industrial Safety contributed 22% of Group revenue (£80 million) and 23% of Group profit<sup>+</sup> (£16 million). Following recent acquisitions, we created a new Asset monitoring sub-sector.

<sup>+</sup> see note 1 to the Preliminary Announcement

### **Sector strategy**

We choose to operate in global industrial safety market niches which demand innovative, robust technologies to protect against critical safety hazards where the cost of the protecting product is relatively small compared with the cost of an accident. Competitive advantage can be gained through technical innovation and superior customer service and technical support.

Strong global competition in gas detectors means that we must have a dual strategy of constant cost reduction and a regular stream of new products. In the next year we plan to start manufacturing in China and are already using R&D resources in India to accelerate the rate of product development.

Our Bursting disc companies continue to develop their distribution network to improve market share. Capital investment in plant, improved processes, product rationalisation and outsourcing of component supplies have cut production costs and increased competitiveness by reducing lead times.

Our strong position in the global market for Safety interlocks dictates that we not only have to protect our position through new products and market leading customer service but also find ways to broaden our market opportunity. For example we are adding safety interlock capability to adjacent product categories like the new eGard product which marries safety interlocking with machine control.

In Asset monitoring we see a significant opportunity in satisfying the growing worldwide demand for remote monitoring of expensive or safety critical physical assets – particularly those in hazardous or remote locations.

## **Market trends**

Our internal assessment of the global market for gas detection products is £500 million; we forecast an average annual growth rate of 3% to 4%. The demand for gas detection products remains robust in the developed industrial countries. The gradual adoption of Western safety standards in the fast-growing Asian economies will drive additional demand in these markets.

Our internal data suggest that the market for bursting discs is growing at 3% to 4%. Substantial continued investment by our customers in lower cost labour markets, and the transfer of US and European safety standards is leading us to allocate more of our resources into developing regions such as Eastern Europe and Asia.

In addition to increasing safety awareness and regulation, the safety interlock market continues to benefit from the trend of increasing capital spending in the oil and gas sector driven by relatively high oil prices and global demand. High-profile accidents at petrochemical processing plants during the past 18 months have impacted on customer behaviour with some oil companies now specifying safety interlocks earlier in the plant design phase.

Customer feedback suggests that Chinese authorities are now encouraging Western companies with manufacturing plants in China to adopt the same safety standards as in their home territory. Over the medium term, this will help to improve industrial safety expectations throughout China and drive demand for our products.

Rising global demand for closer monitoring of energy usage and for capturing data relating to high value infrastructure assets, offers excellent growth prospects for our Asset monitoring businesses. Our recent acquisition, Tritech, serves an exciting niche in subsea sensors and communication products which help service companies install, inspect and monitor underwater assets. The trend towards deeper water activities in the oil and gas sector will support demand for our underwater acoustic surveillance sensors. Online research indicates that between 2001 and 2005 global deepwater capital investment was £16.5 billion and it is estimated to more than double to £44 billion during 2006 to 2010.

## **Sector performance**

2006/07 was a very successful year with organic revenue and profit growth significantly above the market growth rates and a major acquisition completed.

Geographically, revenue growth was particularly good in the Middle East where we benefited from major oil and gas projects. Regions such as the UK were also strong where our new Sprint V flue analyser product was adopted by BG Group with a £1.4 million supply contract.

We succeeded in integrating our wireless communications technology used in asset monitoring with other sectors in the Group and can see other opportunities for technical collaboration in the future.

Relative to our other sectors we invest a slightly lower percentage of revenue in R&D. However, good growth opportunities continue to exist and the Return on sales and ROCE remain at a high level.

## **Sector outlook**

In the long term, increasing safety regulation, greater concern over the consequences of accidents from company boards and higher safety expectations by workers will continue to drive demand for our Industrial Safety products.

We will continue to seek bolt-on acquisitions which will enhance our products and distribution strength in higher growth markets.

We have solid positions in each of our chosen markets and by continuing to invest in new products, additional sales offices and our activities in lower cost territories such as Eastern Europe and Asia, we are well placed to continue our track record of healthy organic growth.

## Preliminary Results for the 52 weeks to 31 March 2007

### Consolidated income statement

	Notes	52 weeks to 31 March 2007			52 weeks to 1 April 2006		
		Before acquired intangibles amortisation £000	Amortisation of acquired intangibles £000	Total £000	Before acquired intangibles amortisation and goodwill written off £000	Amortisation of acquired intangibles and goodwill written off £000	Total £000
<b>Continuing operations</b>							
<b>Revenue</b>	1	354,606	–	354,606	310,768	–	310,768
<b>Operating profit</b>		67,920	(3,458)	64,462	59,960	(1,500)	58,460
Finance income		7,272	–	7,272	6,207	–	6,207
Finance expense		(9,101)	–	(9,101)	(8,027)	–	(8,027)
<b>Profit before taxation</b>		66,091	(3,458)	62,633	58,140	(1,500)	56,640
Taxation	3	(19,687)	1,065	(18,622)	(17,507)	473	(17,034)
<b>Profit for the year from continuing operations</b>		46,404	(2,393)	44,011	40,633	(1,027)	39,606
<b>Discontinued operations</b>							
Net profit for the year from discontinued operations		–	–	–	6,739	(5,470)	1,269
<b>Profit for the year attributable to equity shareholders</b>		46,404	(2,393)	44,011	47,372	(6,497)	40,875
<b>Earnings per ordinary share</b>							
<b>From continuing operations</b>							
Basic		12.50p		11.86p	11.01p		10.73p
Diluted				11.77p			10.69p
<b>From continuing and discontinued operations</b>							
Basic				11.86p			11.08p
Diluted				11.77p			11.03p
<b>Dividends in respect of the year</b>							
Paid and proposed (£000)	5			26,740			25,314
Paid and proposed per share				7.18p			6.83p

## Consolidated balance sheet

	31 March 2007 £000	1 April 2006 £000
<b>Non-current assets</b>		
Goodwill	129,521	122,038
Other intangible assets	15,338	12,166
Property, plant and equipment	49,580	50,054
Deferred tax assets	11,178	13,803
	<u>205,617</u>	<u>198,061</u>
<b>Current assets</b>		
Inventories	39,134	36,660
Trade and other receivables	81,650	77,523
Cash and cash equivalents	22,051	35,826
	<u>142,835</u>	<u>150,009</u>
<b>Total assets</b>	<u>348,452</u>	<u>348,070</u>
<b>Current liabilities</b>		
Borrowings	29,762	32,308
Trade and other payables	62,590	66,035
Tax liabilities	6,043	7,316
	<u>98,395</u>	<u>105,659</u>
<b>Net current assets</b>	<u>44,440</u>	<u>44,350</u>
<b>Non-current liabilities</b>		
Retirement benefit obligations	37,260	46,019
Trade and other payables	3,005	5,096
Deferred tax liabilities	3,184	3,216
	<u>43,449</u>	<u>54,331</u>
<b>Total liabilities</b>	<u>141,844</u>	<u>159,990</u>
<b>Net assets</b>	<u>206,608</u>	<u>188,080</u>
<b>Capital and reserves</b>		
Called up share capital	37,312	36,933
Share premium account	15,239	10,702
Treasury shares	(1,664)	(379)
Capital redemption reserve	185	185
Translation reserve	(4,272)	5,944
Other reserves	3,654	1,592
Retained earnings	156,154	133,103
<b>Shareholders' funds</b>	<u>206,608</u>	<u>188,080</u>

## Statement of recognised income and expense

	52 weeks to 31 March 2007 £000	52 weeks to 1 April 2006 £000
Exchange differences on translation of foreign operations	(10,216)	5,826
Exchange differences recycled from reserves on disposal of operations	–	(26)
Actuarial gains/(losses) on defined benefit pension plans	7,084	(10,355)
Tax on items taken directly to reserves	(2,122)	1,625
Net loss recognised directly in reserves	<u>(5,254)</u>	<u>(2,930)</u>
Profit for the year	44,011	40,875
<b>Total recognised income and expense for the year</b>	<u>38,757</u>	<u>37,945</u>

## Reconciliation of movements in shareholders' funds

	52 weeks to 31 March 2007 £000	52 weeks to 1 April 2006 £000
Shareholders' funds brought forward	188,080	173,259
Profit for the year	44,011	40,875
Dividends paid	(25,922)	(24,468)
Exchange differences on translation of foreign operations	(10,216)	5,826
Exchange differences recycled from reserves on disposal of operations	–	(26)
Actuarial gains/(losses) on defined benefit pension plans	7,084	(10,355)
Tax on items taken directly to reserves	(2,122)	1,625
Net proceeds of shares issued	4,916	644
Treasury shares purchased	(1,285)	(379)
Movement in other reserves	2,062	1,079
<b>Total movement in shareholders' funds</b>	<b>18,528</b>	<b>14,821</b>
<b>Shareholders' funds carried forward</b>	<b>206,608</b>	<b>188,080</b>

## Consolidated cash flow statement

	Notes	52 weeks to 31 March 2007 £000	52 weeks to 1 April 2006 £000
<b>Net cash inflow from operating activities</b>	6	50,754	53,362
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(10,053)	(11,878)
Purchase of computer software		(847)	(717)
Proceeds from sale of property, plant and equipment		3,609	1,032
Development costs capitalised		(3,893)	(2,500)
Interest received		1,035	1,026
Acquisition of businesses		(27,499)	(36,178)
Disposal of businesses		-	14,641
<b>Net cash used in investing activities</b>		<b>(37,648)</b>	<b>(34,574)</b>
<b>Financing activities</b>			
Dividends paid		(25,922)	(24,468)
Proceeds from issue of share capital		4,916	644
Purchase of treasury shares		(1,272)	-
Interest paid		(1,894)	(1,455)
Repayment of borrowings		-	(3,050)
<b>Net cash used in financing activities</b>		<b>(24,172)</b>	<b>(28,329)</b>
<b>Decrease in cash and cash equivalents</b>	6	<b>(11,066)</b>	<b>(9,541)</b>
Cash and cash equivalents brought forward		35,826	45,348
Exchange adjustments		(2,709)	19
<b>Cash and cash equivalents carried forward</b>		<b>22,051</b>	<b>35,826</b>

# Notes to the Preliminary Announcement

## 1 Segmental analysis

### Sector analysis

	2007 £000	Revenue 2006 (restated)* £000	2007 £000	Profit 2006 (restated)* £000
Infrastructure Sensors	154,830	131,860	27,975	24,106
Health and Analysis	119,970	109,886	24,445	22,770
Industrial Safety	79,940	69,415	15,998	13,482
Inter-segmental sales	(134)	(393)	–	–
Central companies	–	–	(498)	(398)
<b>Continuing operations</b>	<b>354,606</b>	<b>310,768</b>	<b>67,920</b>	<b>59,960</b>
Discontinued operations	–	26,580	–	1,501
Net finance expense	–	–	(1,829)	(1,820)
<b>Group revenue/profit before amortisation of acquired intangibles</b>	<b>354,606</b>	<b>337,348</b>	<b>66,091</b>	<b>59,641</b>
Amortisation of acquired intangible assets	–	–	(3,458)	(1,529)
Profit on disposal of operations before tax	–	–	–	494
Taxation	–	–	(18,622)	(17,731)
<b>Revenue/profit for the year</b>	<b>354,606</b>	<b>337,348</b>	<b>44,011</b>	<b>40,875</b>

\* The comparative figures for 2006 have been restated to reflect the reclassification of Radio-Tech Limited from the Health and Analysis sector to the Industrial Safety sector.

### Geographical analysis

	Revenue by destination		Revenue by origin	
	2007 £000	2006 £000	2007 £000	2006 £000
United Kingdom	96,556	82,930	199,859	173,168
United States of America	98,882	94,043	110,894	104,295
Mainland Europe	91,371	77,183	56,047	45,788
Asia Pacific and Australasia	35,484	33,293	18,277	15,455
Africa, Near and Middle East	22,279	14,709	–	–
Other countries	10,034	8,610	–	–
Inter-segmental sales	–	–	(30,471)	(27,938)
<b>Revenue from continuing operations</b>	<b>354,606</b>	<b>310,768</b>	<b>354,606</b>	<b>310,768</b>
Discontinued operations	–	26,580	–	26,580
<b>Group revenue</b>	<b>354,606</b>	<b>337,348</b>	<b>354,606</b>	<b>337,348</b>

	2007 £000	Profit 2006 £000
United Kingdom	32,626	30,354
United States of America	22,258	20,149
Mainland Europe	10,860	7,632
Asia Pacific and Australasia	2,176	1,825
<b>Operating profit from continuing operations before amortisation of acquired intangibles</b>	<b>67,920</b>	<b>59,960</b>
Discontinued operations	–	1,501
Net finance expense	(1,829)	(1,820)
<b>Group profit before amortisation of acquired intangibles</b>	<b>66,091</b>	<b>59,641</b>
Amortisation of acquired intangible assets	(3,458)	(1,529)
Profit on disposal of operations before tax	–	494
Taxation	(18,622)	(17,731)
<b>Profit for the year</b>	<b>44,011</b>	<b>40,875</b>

## 2 Basis of Preparation

The financial information included within the preliminary results for the year to 31 March 2007 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applied in accordance with the Companies Act 1985.

This Preliminary Announcement does not constitute the Group's statutory accounts for the years ended 31 March 2007 or 1 April 2006, but is derived from those accounts. Nor does it contain sufficient information to comply with the disclosure requirements of IFRS. Statutory accounts for the year to 1 April 2006, which were prepared in accordance with IFRS, have been delivered to the Registrar of Companies. Statutory accounts for the year to 31 March 2007 which comply with IFRS will be delivered before the Company's Annual General Meeting. The auditors have reported on these accounts; their reports were unqualified and did not contain statements under s237 (2) or (3) of the Companies Act 1985.

This Preliminary Announcement was approved by the Board of Directors on 19 June 2007.

## 3 Taxation

	2007 £000	2006 £000
<b>Current tax</b>		
UK corporation tax at 30% (2006: 30%)	8,651	9,246
Overseas taxation	9,154	8,271
Adjustments in respect of prior years	69	133
Total current tax charge	<u>17,874</u>	<u>17,650</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	622	(558)
Adjustments in respect of prior years	126	(58)
Total deferred tax charge/(credit)	<u>748</u>	<u>(616)</u>
Tax on profit from continuing operations	18,622	17,034
Tax on profit from discontinued operations	–	697
Total tax charge recognised in the Consolidated income statement	<u>18,622</u>	<u>17,731</u>
Reconciliation of the effective tax rate:		
Profit before tax – continuing operations	62,633	56,640
Profit before tax – discontinued operations	–	1,966
	<u>62,633</u>	<u>58,606</u>
Tax at the UK corporation tax rate of 30% (2006: 30%)	18,790	17,582
Overseas tax rate differences	1,141	1,116
Items not subject to tax	(1,504)	(1,042)
Adjustments in respect of prior years	195	75
	<u>18,622</u>	<u>17,731</u>
Effective tax rate	29.7%	30.3%

## 4 Earnings per ordinary share

Basic earnings per ordinary share are calculated using the weighted average of 371,221,629 shares in issue during the year (net of shares purchased by the Company and held as treasury shares) (2006: 369,053,181). Diluted earnings per ordinary share are calculated using the weighted average of 374,036,077 shares (2006: 370,435,138) which includes dilutive potential ordinary shares of 2,814,448 (2006: 1,381,957). Dilutive potential ordinary shares are calculated from those exercisable share options where the exercise price is less than the average price of the Group's ordinary shares during the year.

Earnings from continuing operations excludes the net profit from discontinued operations. Adjusted earnings is calculated as earnings from continuing operations excluding the amortisation of acquired intangible assets after tax. The Directors consider that adjusted earnings represents a more consistent measure of underlying performance. A reconciliation of earnings and the effect on basic earnings per share figures is as follows:

	2007 £000	2006 £000	Per ordinary share	
			2007 pence	2006 pence
<b>Earnings from continuing and discontinued operations</b>	44,011	40,875	11.86	11.08
Remove earnings from discontinued operations	–	(1,269)	–	(0.35)
<b>Earnings from continuing operations</b>	<u>44,011</u>	<u>39,606</u>	<u>11.86</u>	<u>10.73</u>
Add back amortisation of acquired intangibles (after tax)	2,393	1,027	0.64	0.28
<b>Adjusted earnings</b>	<u>46,404</u>	<u>40,633</u>	<u>12.50</u>	<u>11.01</u>

## 5 Ordinary dividends

	Per ordinary share		2007 £000	2006 £000
	2007 pence	2006 pence		
Amounts recognised as distributions to shareholders in the year				
Final dividend for the year to 1 April 2006 (2 April 2005)	4.12	3.92	15,308	14,462
Interim dividend for the year to 31 March 2007 (1 April 2006)	2.85	2.71	10,614	10,006
	<u>6.97</u>	<u>6.63</u>	<u>25,922</u>	<u>24,468</u>
Dividends declared in respect of the year				
Interim dividend for the year to 31 March 2007 (1 April 2006)	2.85	2.71	10,614	10,006
Proposed final dividend for the year to 31 March 2007 (1 April 2006)	4.33	4.12	16,126	15,308
	<u>7.18</u>	<u>6.83</u>	<u>26,740</u>	<u>25,314</u>

The proposed final dividend is subject to approval by shareholders at the annual general meeting and has not been included as a liability in these financial statements. If approved, the final dividend for 2006/07 will be paid on 22 August 2007 to shareholders on the register at the close of business on 20 July 2007.

## 6 Notes to the consolidated cash flow statement

	2007 £000	2006 £000
<b>Reconciliation of profit from operations to net cash inflow from operating activities</b>		
Profit from continuing operations before taxation	64,462	58,460
Profit from discontinued operations before taxation	–	1,472
Depreciation and amortisation of computer software	8,147	8,373
Amortisation of capitalised development costs	1,528	1,441
Amortisation of acquired intangible assets	3,458	1,529
Share-based payment expense in excess of amounts paid	1,317	742
Additional payments to pension scheme	(4,233)	(1,357)
(Profit)/loss on sale of property, plant and equipment and computer software	(314)	174
Operating cash flows before movement in working capital	<u>74,365</u>	<u>70,834</u>
(Increase)/decrease in inventories	(1,648)	647
Increase in receivables	(3,673)	(6,225)
Increase in payables	1,215	4,921
<b>Cash generated from operations</b>	<u>70,259</u>	<u>70,177</u>
Taxation paid	(19,505)	(16,815)
<b>Net cash inflow from operating activities</b>	<u>50,754</u>	<u>53,362</u>

	2007 £000	2006 £000
<b>Reconciliation of net cash flow to movement in net cash/(debt)</b>		
Decrease in cash and cash equivalents	(11,066)	(9,541)
Cash outflow from borrowings	–	3,050
Exchange adjustments	(163)	(1,995)
	<u>(11,229)</u>	<u>(8,486)</u>
Net cash brought forward	3,518	12,004
Net (debt)/cash carried forward	<u>(7,711)</u>	<u>3,518</u>

	At 1 April 2006 £000	Cash flow £000	Exchange adjustments £000	At 31 March 2007 £000
<b>Analysis of net cash/(debt)</b>				
Cash and cash equivalents	35,826	(11,066)	(2,709)	22,051
Bank loans	(32,308)	–	2,546	(29,762)
	<u>3,518</u>	<u>(11,066)</u>	<u>(163)</u>	<u>(7,711)</u>

## 7 Non-GAAP measures

### Return on capital employed

	2007 £000	2006 £000
Operating profit from continuing operations before amortisation of acquired intangibles	67,920	59,960
<b>Operating return</b>	<b>67,920</b>	<b>59,960</b>
Computer software costs within intangible assets	1,577	1,213
Capitalised development costs within intangible assets	6,115	3,827
Property, plant and equipment	49,580	50,054
Inventories	39,134	36,660
Trade and other receivables	81,650	77,523
Trade and other payables	(62,590)	(66,035)
Tax liabilities	(6,043)	(7,316)
Non-current trade and other payables	(3,005)	(5,096)
Add back retirement benefit accruals included within payables	3,071	4,763
Add back accrued deferred purchase consideration	3,559	9,803
<b>Capital employed</b>	<b>113,048</b>	<b>105,396</b>
<b>Return on capital employed</b>	<b>60.1%</b>	<b>56.9%</b>

### Return on total invested capital

Profit from continuing operations before amortisation of acquired intangibles after taxation	46,404	40,633
<b>Return</b>	<b>46,404</b>	<b>40,633</b>
Total shareholders' funds	206,608	188,080
Add back retirement benefit accruals included within payables	3,071	4,763
Add back retirement benefit obligations	37,260	46,019
Less associated deferred tax assets	(11,178)	(13,803)
Cumulative amortisation of acquired intangibles	5,348	1,890
Goodwill on disposals	5,441	5,441
Goodwill amortised prior to 3 April 2004	13,177	13,177
Goodwill taken to reserves prior to 28 March 1998	70,931	70,931
<b>Total invested capital</b>	<b>330,658</b>	<b>316,498</b>
<b>Return on total invested capital</b>	<b>14.0%</b>	<b>12.8%</b>

### Organic growth

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

	2007 £000	2006 £000	Revenue %	2007 £000	2006 £000	Profit* before taxation %
			growth			growth
Continuing operations	354,606	310,768		66,091	58,140	
Acquired revenue/profit	(18,802)	–		(3,516)	–	
	<u>335,804</u>	<u>310,768</u>	8.1%	<u>62,575</u>	<u>58,140</u>	7.6%

\* Before amortisation of acquired intangible assets.

### Cautionary note

This Preliminary Announcement contains certain forward-looking statements which have been made by the Directors in good faith using information available up until the date they approved the Announcement. Forward-looking statements should be regarded with caution as by their nature such statements involve risk and uncertainties relating to events and circumstances that may occur in the future. Actual results may differ from those expressed in such statements, depending on the outcome of these uncertain future events.