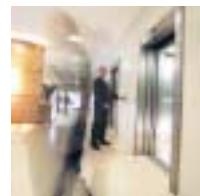


HALMA

Interim Report 2002



Financial Highlights

	Change	2002	2001
		£m	£m
Turnover	-5%	123.8	130.8
Overseas sales	-4%	86.1	89.8
Profit before taxation*	-6%	21.2	22.7
Earnings per share*	-8%	3.91p	4.23p
Dividend per share	+10%	2.285p	2.077p
Profit before taxation* as a percentage of turnover		17.1%	17.3%
Return on capital employed**		34.9%	41.6%

* Before goodwill amortisation
 ** Return on capital employed is defined as the annualised profit before taxation* expressed as a % of net tangible assets

Highlights

- Trading in the first half as predicted with profit before taxation* of £21.2 million (2001: £22.7 million)
- 10% dividend increase
- Sales slightly lower but overseas sales amounting to a record 70% of the total
- High returns and high margins continue
- Very strong cash generation leading to a record net cash balance of £37 million at the half year end
- BEA acquisition in October – excellent strategic fit and immediately earnings enhancing

Results

The Group's operating performance for the first half of the financial year, whilst revealing many encouraging features, demonstrated that we are not immune from the impact of unfavourable trading conditions in some of our major markets. Profit before tax reduced by 6% to £21.2 million and earnings per share by 8% to 3.91 pence. Both figures are expressed before goodwill amortisation. Sales were 5% lower at £123.8 million but overseas sales, expressed as a percentage of total sales, increased to 70%.

The Group's net cash balances as at the end of this half year rose to £37 million, easily a record in the Group's history.

Acquisition

One of the Group's key strategies is to re-invest its internally generated cash in judicious acquisitions. It is very satisfactory that the large cash figure referred to above has been invested since the half year end, in an attractive acquisition. Details regarding the acquisition of BEA are set out elsewhere within this document.

Dividends

The continuing incidence of low inflation has prompted the Directors to review our pattern of dividend increases. We have established an enviable record of progressively increasing our dividend per share over a very long period. It is our aim and intention to continue this and the Board have increased the interim dividend per share by a further 10%. This interim dividend, which will amount to 2.285p per share, will be paid on 3 February 2003 to shareholders on the register at the close of business on 6 January 2003.

Board Changes

I am delighted that Geoff Unwin has joined our Board as Deputy Chairman and will take over from me as Chairman of Halma immediately following our next AGM on 29 July 2003. I will have more to say on this topic in the Annual Accounts but I would, meanwhile, like to say how happy I am on behalf of the shareholders that we have secured the services of such an outstandingly able and suitable Chairman for the Halma Group.

Hamish Ritchie resigned from the Board in November 2002 after five years of distinguished service as a non-executive Director. We wish him well, and we shall miss his warm companionship and his trenchant contribution to our discussions.

Prospects

The acquisition of BEA is expected to make a useful contribution to our profits, and I believe that the results for the full financial year will provide encouraging evidence of the Group's potential for growth.



David S Barber

3 December 2002

Summary

Those parts of the Group where we have built up high market shares have produced good results despite the prevailing economic conditions. Careful management of costs and of product mix resulted in profits for the Group in total a little lower than in the first half of last year on marginally lower sales. We have maintained our high return on sales and made a high return on capital employed, resulting in strong cash generation. Net cash reached a record level.

Acquisition of BEA Group

Immediately after the end of the period we acquired the BEA Group of companies using the cash we had earned from our existing companies. BEA makes the sensors that control automatic doors in shops, offices and factories. It is the world market leader and is growing profits. Within the Group we already own the market leader in sensors that control elevator doors. BEA is an excellent fit with the Group and is immediately earnings enhancing. The initial consideration was Euro 72 million and we will make additional payments for BEA only if demanding profit growth targets are achieved. Even at the maximum possible price for BEA under this earn-out formula the return on this acquisition will be well above our cost of capital.

Product groups

We have built up powerful market positions in the Fire and Gas, Process Safety, Elevator Electronics and Water sectors. Together they made sales close to last year and profits very close to last year. Costs are being reduced and we are improving the effectiveness of routes to market of a number of our products.

We are market leaders in high power resistors, particularly for safety applications. This sector supplies the heavier industries and transport and is strongest in the USA. Demand in this market has reduced and we have made sales and profits a little lower than last year despite good management action.

In our Optics and Specialist sector sales were lower than the same period last year by £3 million and profits were also somewhat lower. In this sector we have smaller market shares and less pricing power.

Business environment

Because of legislation, the requirement for safety products is significantly more robust than the industries to which they are supplied. This tends to underpin our sales even in adverse market conditions, and this was again demonstrated in the period.

Although sales in the UK and USA were down by 7%, sales into Europe increased, leading to an overall 5% reduction. Halma companies are successfully searching out opportunities for current and new products, offsetting much of the market pressure.

Outlook

We have yet to experience an upturn in the UK or USA, our two main markets. However the Group is strongly profitable and highly cash generative. We are creating new products and finding new ways to protect life and health in the workplace. We will benefit from the new products and additional customers brought in by BEA. This puts us in a strong position to benefit quickly from any improvement in the economic conditions in our markets.



3 December 2002

Stephen R O'Shea

Consolidated Profit and Loss Account

£000

	Notes	Unaudited 26 weeks to 28 September 2002 Before goodwill amortisation	Goodwill amortisation	Total	Unaudited 26 weeks to 29 September 2001	Audited 52 weeks to 30 March 2002
Turnover		123,846	–	123,846	130,773	267,597
Operating profit before goodwill amortisation		20,723	–	20,723	22,555	48,018
Goodwill amortisation	2	–	(1,138)	(1,138)	(1,141)	(2,297)
Operating profit		20,723	(1,138)	19,585	21,414	45,721
Interest		496	–	496	108	237
Profit on ordinary activities before taxation		21,219	(1,138)	20,081	21,522	45,958
Taxation	3	(6,942)	173	(6,769)	(7,169)	(14,801)
Profit for the financial period		14,277	(965)	13,312	14,353	31,157
Dividends						
Ordinary dividends				(8,355)	(7,608)	(19,323)
Profit transferred to reserves				4,957	6,745	11,834
Ordinary dividend per share				2.285p	2.077p	5.283p
Earnings per ordinary share before goodwill amortisation				3.91p	4.23p	9.10p
Earnings per ordinary share				3.64p	3.96p	8.58p
Diluted earnings per ordinary share				3.63p	3.95p	8.54p

Consolidated Balance Sheet

£000

	Notes	Unaudited 28 September 2002	Unaudited 29 September 2001	Audited 30 March 2002
Fixed assets				
Intangible assets	2	38,837	41,021	40,042
Tangible assets		42,833	44,940	43,860
		<u>81,670</u>	<u>85,961</u>	<u>83,902</u>
Current assets				
Stocks		31,872	40,602	35,212
Debtors		62,580	63,783	67,993
Cash and short-term deposits		52,453	22,560	45,657
		<u>146,905</u>	<u>126,945</u>	<u>148,862</u>
Creditors: amounts falling due within one year				
Borrowings		15,524	6,266	15,047
Creditors		32,054	33,499	36,946
Current taxation		6,779	10,032	6,844
Dividends payable		8,353	7,562	11,712
		<u>62,710</u>	<u>57,359</u>	<u>70,549</u>
Net current assets		84,195	69,586	78,313
Total assets less current liabilities		165,865	155,547	162,215
Creditors: amounts falling due after one year				
Provisions for liabilities and charges		488	1,872	491
		<u>4,990</u>	<u>3,603</u>	<u>4,167</u>
Shareholders' funds	4	160,387	150,072	157,557
Capital and reserves				
Called up share capital		36,545	36,393	36,473
Share premium account		6,336	4,748	5,631
Other reserves		185	185	185
Profit and loss account		117,321	108,746	115,268
Shareholders' funds	4	160,387	150,072	157,557

Consolidated Cash Flow Statement

£000

	Notes	Unaudited 26 weeks to 28 September 2002	Unaudited 26 weeks to 29 September 2001	Audited 52 weeks to 30 March 2002
Cash flow from operating activities	5	27,450	22,755	55,860
Return on investments and servicing of finance				
Interest received		876	398	770
Interest paid		(298)	(299)	(522)
		578	99	248
Taxation				
Current taxation paid		(6,544)	(6,666)	(17,023)
Capital expenditure				
Purchase of tangible fixed assets		(3,733)	(4,709)	(8,120)
Sale of tangible fixed assets		253	506	1,667
		(3,480)	(4,203)	(6,453)
Acquisitions and disposals				
Acquisition of businesses		(25)	(2,495)	(2,571)
Equity dividends paid				
		(11,714)	(10,108)	(17,673)
		6,265	(618)	12,388
Management of liquid resources				
(Increase)/decrease in short-term deposits		(7,856)	461	(20,912)
Financing				
Issue of ordinary share capital		777	3,419	4,382
Increase in loans		-	-	8,253
		777	3,419	12,635
(Decrease)/increase in cash	5	(814)	3,262	4,111

Segmental Analysis

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Geographical analysis

	By destination		By origin	
	Unaudited 26 weeks to 28 September 2002	Unaudited 26 weeks to 29 September 2001	Unaudited 26 weeks to 28 September 2002	Unaudited 26 weeks to 29 September 2001
Turnover				
United Kingdom	37,748	40,977	78,265	80,540
United States of America	38,783	41,684	39,717	43,170
Europe excluding UK	26,281	26,079	9,585	10,223
Far East and Australasia	12,608	11,986	4,149	4,162
Africa, Near and Middle East	4,277	4,372	-	-
Other	4,149	5,675	1,556	1,941
Inter-segmental sales	-	-	(9,426)	(9,263)
	123,846	130,773	123,846	130,773
Profit before taxation				
United Kingdom			11,960	12,790
United States of America			6,477	7,340
Other countries			2,286	2,425
			20,723	22,555
Goodwill amortisation			(1,138)	(1,141)
Interest			496	108
Profit on ordinary activities before taxation			20,081	21,522

Sector analysis

	Unaudited 26 weeks to 28 September 2002	Unaudited 26 weeks to 29 September 2001
Turnover		
Fire and Gas	33,049	33,620
Water	15,842	16,022
Elevator Electronics	16,022	16,501
Process Safety	17,352	18,308
Resistors	14,363	15,855
Optics and Specialist	27,547	30,941
Inter-segmental sales	(329)	(474)
	123,846	130,773

Notes on the Interim Report

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1 Basis of preparation

The interim report for the 26 weeks to 28 September 2002 is prepared on the basis of the accounting policies set out in the accounts for the 52 weeks to 30 March 2002.

The figures shown for the 52 weeks to 30 March 2002 are an abridged version of the Group's statutory accounts for that period, which received an unqualified audit report and have been filed with the Registrar of Companies.

2 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.

3 Taxation

The tax charge for the 26 weeks to 28 September 2002 of £6,769,000 comprises a current taxation charge of £6,464,000 (2001: £6,774,000) and a deferred tax charge of £305,000 (2001: £395,000). The current taxation charge is based on the estimated effective tax rate for the year.

The tax charge includes £2,665,000 (2001: £2,816,000) in respect of overseas tax.

4 Reconciliation of shareholders' funds

	Unaudited 26 weeks to 28 September 2002	Unaudited 26 weeks to 29 September 2001	Audited 52 weeks to 30 March 2002
Shareholders' funds brought forward	157,557	141,469	141,469
Profit transferred to reserves	4,957	6,745	11,834
Net proceeds of shares issued	777	3,419	4,382
Exchange adjustments	(2,904)	(1,561)	(128)
Shareholders' funds carried forward	<u>160,387</u>	<u>150,072</u>	<u>157,557</u>

Notes on the Interim Report continued

£000

5 Notes on cash flow statement

	Unaudited 26 weeks to 28 September 2002	Unaudited 26 weeks to 29 September 2001	Audited 52 weeks to 30 March 2002
Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit	19,585	21,414	45,721
Depreciation	3,592	3,658	7,371
Goodwill amortisation	1,138	1,141	2,297
Loss on sale of tangible fixed assets	125	73	48
Increase SSAP 24 pension prepayment	(591)	–	(126)
Decrease/(increase) in stocks	2,444	(795)	5,097
Decrease in debtors	4,383	5,233	1,825
Decrease in creditors	(3,226)	(7,969)	(6,373)
Net cash inflow from operating activities	27,450	22,755	55,860
Reconciliation of net cash flow to movement in net cash			
(Decrease)/increase in cash	(814)	3,262	4,111
Increase/(decrease) in liquid resources	7,856	(461)	20,912
Loan notes issued	(1,083)	–	–
Cash inflow from loans	–	–	(8,253)
Exchange adjustments	360	(233)	114
	6,319	2,568	16,884
Net cash brought forward	30,610	13,726	13,726
Net cash carried forward	36,929	16,294	30,610

Board of Directors

David S Barber *Chairman**
E Geoffrey Unwin *Deputy Chairman and Chairman Elect**
Stephen R O'Shea *Chief Executive*
Lord McGowan*
Kevin J Thompson BSc FCA
Neil Quinn BSC
Richard A Stone MA FCA*
Keith J Roy MSc

Secretary

Carol T Chesney 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*

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