

# HALMA

Annual Report and Accounts 2003



# Halma p.l.c.

## Annual Report and Accounts 2003

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### **Halma online news**

Keep up to date with the latest Halma news by visiting our investor relations website: [www.halma.com](http://www.halma.com).

Register online for news alerts and you will be e-mailed whenever significant announcements are made.

## Financial Highlights

	Change	2003	2002
		£m	£m
Turnover	<b>0%</b>	267.3	267.6
Overseas sales	<b>+3%</b>	188.2	183.3
Profit before taxation*	<b>-4%</b>	46.5	48.3
Dividend per share	<b>+10%</b>	5.812p	5.283p
Profit before taxation* as a percentage of turnover		17.4%	18.0%
Turnover to net tangible assets		3.08 times	2.28 times
Return on capital employed**		53.5%	41.1%

\* Before goodwill amortisation of £3,235,000 (2002: £2,297,000)  
 \*\*Return on capital employed is defined as profit before taxation\* expressed as a percentage of net tangible assets

### Highlights of the year

- Highest ever return on capital employed of 54%
- Sales held at £267m with profit before taxation and goodwill amortisation of £46.5m (2002: £48.3m)
- Record free cash flow of £36m
- 10% increase in dividend for the year
- BEA, our largest acquisition to date, performing well
- R&D investment increased to 3.6% of sales, driving strong product pipeline and more profitable product mix

### Business profile

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

Our six specialist business groupings are:

Fire and Gas detection

Water leak detection and UV treatment

Elevator Electronics

Bursting discs and sequential locking for Process Safety

High power electrical Resistors

Ophthalmic Optics and Specialist technology

### Value creation strategy

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

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

Concentrating on high margin activities where products and services are differentiated on the basis of performance, not price, and where barriers to entry are high

Tightly managing our asset base in order to maintain our outstanding operating ratios and powerful cash generation

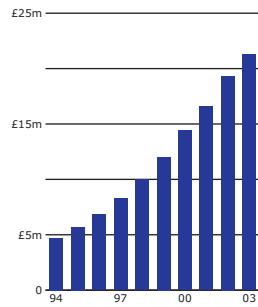
Investing in marketing, new product development and innovation to maintain high organic growth

Acquiring businesses and intellectual assets that extend our existing activities, add value, contribute to growth and will produce our exceptional operating ratios

Maintaining a high return on capital employed to self-fund organic growth, acquisition activity and rising dividends

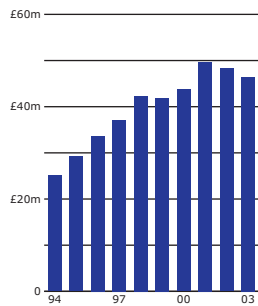
Recruiting and retaining top quality management by preserving an entrepreneurial culture within a framework of rigorous financial planning, reporting and control

Dividend growth



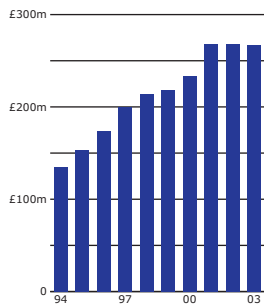
An exceptional record of unbroken dividend growth over more than 20 years.

Profit growth  
(before goodwill  
amortisation)



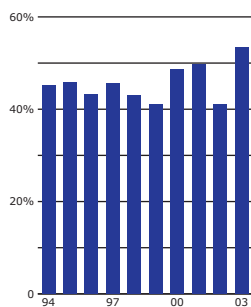
Long-term profit growth accompanied by excellent cash generation.

Sales



Stable sales in tough world markets.

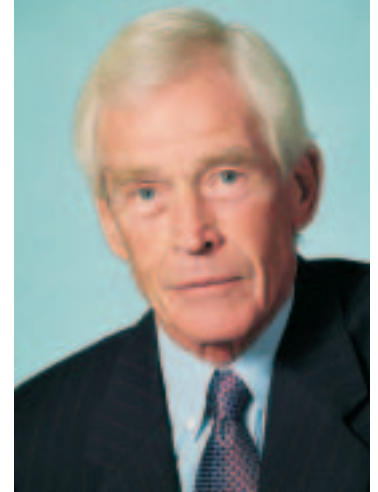
ROCE



ROCE consistently above 40% delivering real shareholder value.

“Halma’s  
remarkable  
progress over  
thirty-year period”

*David Barber,  
Chairman*



My normal pattern in these statements, as our long-term shareholders will recognise, has been to focus very specifically on the Group’s financial results in such a way that readers can easily and accurately measure our progress within the year under review. However, this will be my last Statement as Chairman of Halma. With this in mind, I have chosen not to comment on the year’s results or on our immediate prospects. These are all covered in sufficient detail elsewhere within this Annual Report.

My first Statement as Chairman of Halma was written thirty years ago, in 1973, against a political and financial background dramatically different to the one we now see. Halma was then a tiny and unknown company. I trust that shareholders will forgive me if I use this particular Statement to review the whole of that thirty-year span and give one or two examples of what has been achieved by the Group over that period.

I have been privileged throughout my time as Halma Chairman to lead a quite outstanding body of people. This team has changed and developed over the years. Some are now retired. However, the increasing size of the Group means that most are still with us and still have many years of service ahead of them. To all of this team is due the credit and the praise for what has been achieved.

#### Specific Achievements

Out of many possible examples of Halma’s remarkable progress over this thirty-year period I have selected the following:

- A consistently high rate of return on capital employed. The year-end rate of return has been in excess of 40% throughout the whole of the last twenty years, and, during the year under review, it rose to 54%.
- The compound growth rate in earnings per share over the whole of the thirty

years since 1972/73 now averages 19% per annum. Few, if any, UK companies can match this record.

- Halma's growth has been virtually self-financed. Since August 1972, having adjusted for scrip issues and for issues under the share option schemes, the total number of Halma shares in issue has increased by less than 1.3% per annum.
- Meanwhile, profit before taxation has risen by a compound increase of 20% per annum.
- The Group has a record of unbroken dividend growth since the 1970's. During the whole of a twenty-year period to March 2000, the dividend per share was increased by not less than 20% per annum, possibly the longest such sequence ever recorded by any UK quoted company.
- £10,000 invested in Halma shares at the average share price obtaining during 1974, 1975 or 1976, including gross dividend income, would be worth, as at the end of March 2003, over £4.8 million.
- It is interesting to illustrate this by way of example. Jack Welch, on his retirement from GE, was very proud to claim that during his twenty-year tenure as Chief Executive their share price increased by 2,876%. It would be *folie de grandeur* for me to compare Halma with GE, one of the most successful companies in the world in recent decades. Nonetheless, it is worthy of note that, taking our 1974, 1975 or 1976 share price as a base, the share price of Halma (as at end March 2003) has increased by 37,850%.

All of us, management and investors alike, can surely take quiet pride in such exceptional results, and I know that all my fellow shareholders would wish me to record our appreciation and thanks to everyone in Halma for what has been achieved.

#### Board Changes

In the interim accounts I reported the resignation of Hamish Ritchie after his distinguished service as a non-executive Director. Then in May 2003 we were shocked and saddened by the sudden death of another non-executive Director, Lord McGowan. Duncan was a quite exceptional individual, a delightful colleague, wise and well-loved. Our deepest sympathies go out to his widow and to his family.

We will very much miss the contribution and companionship of both Duncan and Hamish. I am very pleased, therefore, that Andrew Walker, who has a wealth of relevant Boardroom experience, joined us in May 2003, and we warmly welcome him to the Board. Action is, of course, already in hand to recruit a further additional non-executive Director to bring us back to full strength.

I have left until last the pleasurable task of welcoming Geoff Unwin as my successor as Chairman of the Halma Group. I need hardly comment on the crucial importance of this succession, especially in a Group like Halma which has had a consistent management team over many years. Geoff, of course, joined us after

a brilliant executive career, latterly as the Chief Executive of Cap Gemini, one of the world's largest and most successful Information Technology companies. He has worked very closely with me during the past twelve months, and I have had ample opportunity to observe his skills and his ability.

With this background and with my own, I believe unique, appreciation of the qualities needed for this position, I can assure shareholders that we have a Chairman with exactly the right combination of experience, sensitivity and drive and who I believe can provide us with a future of consistent and substantial growth. I wish him every good fortune.

In conclusion, may I thank everyone in the Halma Group and all of our shareholders for their unfailing support and friendship to me over the years. It has been an exciting and immensely satisfying experience for me, and I trust that, as the song says, the best is yet to come.



David S Barber



“Provided markets remain stable we expect profit growth”

*Stephen O'Shea,  
Chief Executive*



#### Summary

Results in the second half of the year moved ahead of the first half not only in organic terms but also from the success of the acquisitions of BEA and Radcom. We have produced good results even though improvements in markets did not occur.

Our operations made pre-tax pre-goodwill profit of £46.5 million\* (2001/02: £48.3 million) on sales of £267 million (2001/02: £268 million). Our very strong operating cash generation, 110% of operating profit, funded a further dividend growth of 10% at the interim and subject to shareholder approval, a final dividend growth also of 10%.

This cash is generated by our remarkably high return on sales and return on capital employed, which this year reached 54% (2001/02: 41%). This is the highest level ever achieved in the Group. This is a testament to the quality of management in our subsidiaries who have made more effective use of their resources, controlled costs, developed new products and in a number of cases improved their market shares.

For the first time the USA became our largest market, representing 31% of the Group's sales. However, movements in the value of the US dollar reduced the Sterling value of our American earnings. We made our greatest growth in mainland Europe where sales grew by 10%. Sales increased to Africa and the Middle East, and to the Far East and Australasia. There is a trend towards increased manufacturing migration from Europe and the USA towards the Far East and Eastern Europe. Indeed an increasing proportion of components and sub-assemblies used in the Group are sourced from these territories as we continue to keep our product costs low.

I am pleased but not surprised by the success of BEA. This was our largest acquisition so far at £46 million net of cash but including earn-out payments for

\* see Consolidated Profit and Loss Account

results to the end of March 2003. In the six months we have owned it, net of interest on the cash we used, BEA delivered £2.1 million to Group profits. Operating profits at £2.9 million reached our target levels. The acquisition was fully funded from cash accumulated from earnings in operating companies so that even after a further small acquisition the Group was cash neutral at the end of the year.

In the year we invested record amounts in product development. This produces growth opportunities and refreshes our offering to customers. Together with the acquisitions we have a stronger set of products to start the new year.

#### Sectoral Performance

Despite challenging conditions in the markets we serve, three of our six business groups – Fire and Gas, Elevator Electronics and Process Safety – achieved an improved profit performance.

Profits were increased in our FIRE & GAS sector as the mix of products sold was moved towards more profitable products, causing the return on sales to improve. Apollo, our professional smoke detector business, increased sales to almost all territories with particularly impressive sales growth into mainland Europe. R&D has been continuing at a high pace with several new products launched at the beginning of the new financial year. This will lead to a short-term increase in marketing costs, but will allow us to grow market share by providing our customers with a larger range of products and training them in their use. This reinforces customer loyalty which is a strong feature of our fire detection business.

We have been growing sales of gas detectors in the USA and in mainland Europe but experienced reduced volume of sales into the UK. We are concentrating on products with a high ease of use, usually single button operation, that are tough enough to survive the aggressive and hazardous environments where they are used. We also launched new products in May 2003. These include a new range of personal gas monitors for hostile environments. These are potentially life-saving products. Our customers include water, electricity and gas utilities and also telecoms, construction and chemical companies.

Our two strengths in the WATER sector are leak detection and water sterilisation using ultraviolet (UV) light technology. Our leak detection and flow management business is based in the UK and France and is affected by the spending patterns of the water utilities. They have been deferring capital expenditure and the UK water regulator has reduced the emphasis on cutting leakage. Our efforts have therefore increasingly been directed towards the USA where sales are growing, and to other countries where, because of shortages, the wastage of large amounts of clean water through leaks is unacceptable. We are offering technology that is new to some of these territories and we are confident of long-term development even though the start up phase can be relatively slow and resource intensive.

At the end of the financial year we further strengthened our flow measurement activities by the purchase of Radcom which added a strength in measuring flows of dirty water and reporting results by using satellite communications.

In UV sterilisation we take contaminated water and make it fit for use in a variety of applications including for drinking, in swimming pools, as water used for

irrigation, and also to improve the quality and shelf-life of food and drinks. Chlorination of water is not always effective in eliminating parasites and chlorine by-products have been shown to damage both people and buildings. We minimise or eliminate the use of this poisonous gas in many critical applications thereby making a useful contribution to improving the environment. There is growing recognition of the value of this technology and its use is increasing particularly in the USA.

We make a considerable number of products that protect people at work. In our PROCESS SAFETY sector we make pressure relief products and safety systems that ensure machines are safe before people can gain access. We specialise in situations where it is critical that an ordered process is carried out correctly to safely manage the plant, protect the operations and to prevent accidents and emissions.

Growth in profits during the year has been partly driven by some recovery in spending by the petrochemical companies which includes safety spending with us. We are also operating successfully in the USA where safety expectations are rising towards the high levels demanded in Europe. Automotive applications have had a good year as customers have moved, changed, upgraded or made new production lines.

We foresee opportunities to grow our emergency pressure relief operations. We currently have a moderate market share. There are three larger US based competitors, all of whom have a very large installed base, and a big and regular demand for spares. We have a greater dependence on the chemical industry, our largest customer, which has had a slow year for major new process plants. We provide an extraordinarily high level of service and response and thereby are capturing some of our competitors' spares business. We have also been developing products specifically for the food industry, a niche that we can develop into a strong market for us.

As expected, heavy industry in the USA has been slow to improve, such that our RESISTORS sector which is largely based in America, has continued to experience difficult conditions in its biggest market. Accordingly we have moved resource into exports. Sales have grown into the Near, Middle and Far East, and to Africa and Australasia, but this has only partially offset the reductions in US sales. The net effect is a £4 million sales reduction and £1 million profit reduction compared to last year.

Work is continuing on controlling our costs, further increasing exports and managing our working capital. In this sector our assets employed have been reduced by £2 million (22%) in the year and the cash generated used, in part, to purchase BEA. The return on sales reduced from 13% to 11% in our resistors sector, but as a result of good resource management the return on capital employed remained at 36%. In many engineering businesses this return would be considered high even in the best of times.

Because of our range of technologies and broad customer base, we expect to reverse the current trend in resistor sales. However, we will need better export strength or an improvement in American markets to reach previous levels of profit in this particular sector.

Within our OPTICS & SPECIALIST sector we include our ophthalmic diagnosis companies, and a grouping of other subsidiaries along with the national and international holding companies.

Our optics business has held steady in sales and profits, with new products launched last year making useful contributions. There is an increasing level of cross-fertilisation between these companies. The quality of Research & Development, for us mainly development, has been improving and producing a range of new products. Increasingly our customers are becoming more and more careful about cross-contamination of patients, and recently we introduced a number of unique precision aspheric lenses that can be sterilised regularly by high heat levels.

The specialist businesses in this sector have market shares that are lower than elsewhere in the Group. They are more subject to pricing pressures and do not have as much power with suppliers as our market leading companies. To improve profitability we have made a number of changes in the management of several of these companies.

As you travel around the world, automatic doors in elevators and in airports, shops and hotels help to maximise the comfortable and safe flow of people. Our businesses lead the world and hold by far the largest market shares in sensors for automatic doors. We have long held this position for elevator doors. In our ELEVATOR ELECTRONICS sector we also provide controls, displays and emergency communications for elevators and other transit applications.

Active management of costs has been important, particularly because the major US market has remained both dull and steady. By sourcing extrusions, electrical sub-assemblies and mechanical parts in Eastern Europe we have made valuable material cost savings. There is some consolidation of our smaller customers into our larger ones, which changes the pricing mix and offsets our productivity and material cost gains.

In October we purchased BEA. This company is the world market leader in sensors for fixed automatic doors. It is headquartered in Liège, Belgium with a major facility in Pittsburgh USA, an operation in China and offices in Japan and elsewhere. I am very pleased with our managers and BEA's management in the purchase and integration of this operation. My initial targets have been met. BEA brings some new technologies and techniques into the Group and is being effective in transferring their best practice to other companies in the Group. They use a number of innovation techniques that are being reviewed for use elsewhere in the Group.

### People

The Group's executive managers would like to associate themselves wholeheartedly with the remarks of David Barber in his Chairman's Statement. We too were greatly saddened by Lord McGowan's death and had a very high regard for Hamish Ritchie. We are very pleased to have attracted Geoff Unwin and Andrew Walker to our Board. I have enjoyed working with Geoff over recent months and I am looking forward to working even more closely with him in the future.

On a personal note, I have learned hugely from David Barber for every one of the last 20 years. He is by any measure a remarkable man, his vision has guided the development of the Group. His enduring contribution includes the assembly and coaching of a management that is committed to exceptional standards. There is a deep seated, results orientated culture in Halma. David provided an outstanding environment for managers to develop and many of us owe much to him.

I would also like to thank executives and managers right the way through the Group, in every country and every company. Most have had to overcome market difficulties, have improved productivity and motivated their staff. Our employees contributed energy, enthusiasm and skill to the companies they work in – many thanks to each of you.

#### Strategy & Prospects

Our strategy of building high market shares in safety related markets has proved effective and shows in the Group's resilience under the current difficult market conditions. We continue to generate exceptional returns on capital employed, at a record level this year, thereby creating wealth for shareholders. We have again demonstrated the ability to find, complete and integrate related acquisitions successfully. We are creating new products for existing customers and also improving our effectiveness in export markets.

Provided markets remain stable, even at current levels, we expect to achieve sales and profit growth. We are not relying on markets to improve in order to achieve high profits and high returns. We consider the future is in our own hands. Significant new products are being launched at the start of 2003/04. Initially launch costs are incurred but these are high value units so payback is quite rapid.

We are aiming to return to a sequence of record profits.



Stephen R O'Shea

“ . . . entering  
the new year  
in good shape”

*Kevin Thompson,  
Finance Director*



#### Financial performance

The full year's turnover of £267 million was held at last year's figure. Profit before taxation and goodwill amortisation was £46.5 million\* (2001/02: £48.3 million). Turnover, profit before taxation and return on sales were higher in the second half of the year than the first, without including the benefit of acquisitions. The Group continues to operate at a high rate of profitability with return on sales now exceeding 17% for more than 10 consecutive years.

Relative to Sterling, the weak US dollar and stronger Euro have had an impact on these results. Approximately one-third of turnover and profits are made in US dollars and translating these weaker US dollars into Sterling has reduced turnover and profits by 2.4%, offset a little by the benefit of contributions in stronger Euros.

Looking ahead, I expect some continuation of the increase in insurance costs which we have seen impact the Group in 2002/03, together with higher UK National Insurance and pension costs. In total, I believe these costs will increase overheads by £1.7 million in 2003/04, however a number of initiatives are continuing which will reduce both overhead and material purchase costs and I expect these to mitigate the increases at least in part. We are managing to offset sales price pressures in some markets through improved product design and even better procurement.

#### Cashflow and Returns

Even by Halma standards, the cash flow performance this year was very good. Free cash flow (the cash left over from our operating activities and interest but after funding capital expenditure, working capital and tax) was £36 million, exceeding the record achieved last year. Excluding currency effects and acquisitions made in the year, stocks were reduced by £3.3 million (9%) following a £5.1 million reduction last year, and working capital in total was pushed down

\* see Consolidated Profit and Loss Account

by £8.8 million (13%). We finished the year with net debt of less than £0.1 million after spending £47 million on acquisitions.

Operating cash flow for the year, being cash flow from operating activities less capital expenditure, amounted to £50.9 million. This means that the cash conversion rate (operating cash flow as a percentage of operating profit before goodwill amortisation) was very strong at 110%.

A consistently high return on capital employed has long been a feature of Halma. During the year we converted our cash, which earns a relatively low return, into businesses which earn a much higher return. I am very pleased to report a return on capital employed of 54% this year, the twentieth consecutive year over 40%, and the highest ever year-end figure.

#### Dividends

Following the 10% increase in the interim dividend, the Directors recommend an increase of 10% in the final dividend per share. If approved, this dividend, amounting to 3.527p per share, will be paid on 18 August 2003 to shareholders on the register at the close of business on 18 July 2003, giving a total dividend for the year of 5.812p. Our excellent cash generation will therefore finance a distribution to shareholders of £21 million for the year.

#### Tax and Treasury

The effective tax rate on profit before goodwill amortisation has increased from 31.5% to 32.9%, in part due to the increase in income earned in higher tax jurisdictions and in particular that of the BEA companies. I expect an effective tax rate closer to 32% in 2003/04 depending on the exact mix of profits earned around the world.

At 29 March 2003 the Group held currency loans amounting to US dollar 31 million and Euro 10 million. These loans are only for balance sheet hedging purposes, covering the majority of our US dollar and Euro assets.

We do not use complex tax planning schemes nor complex derivative financial instruments. No speculative treasury transactions are undertaken.

#### Pensions

The triennial valuation of the Group pension schemes was carried out during the year. This showed that the main Group scheme is 69% funded, compared with 97% funding at the 1999 valuation. This reduction arises because of the fall in equity markets and investment returns.

We have increased both employer and employee contributions to the schemes during the year in line with the actuary's recommendations. The charge against profit in 2003/04 will be £1 million higher than this year but there is no need for a further increase in the cash contributions. Under current assumptions the deficit would be eliminated over a 15-year period.



As with many companies, the cost of providing a defined benefit promise to employees has increased significantly in the last few years. The effects of increased longevity, loss of ACT relief and of course the fall in equity valuations more recently have led us to close the defined benefit pension scheme to new members and a defined contribution scheme has now been established.

We have adopted the transitional provisions of FRS 17 (Retirement Benefits) for the year ended 29 March 2003. There is no material difference between the charge to the Group profit and loss account under FRS 17 compared to SSAP 24 (the existing rules). Full adoption of FRS 17 will mean that the net deficit on the Group's defined benefit pension schemes is shown as a liability on the consolidated balance sheet. At 29 March 2003, the deficit, net of deferred tax, was £31 million. This figure reflects the prudent assumptions required under FRS 17 and the significant decline in equity values over the period, and represents a relatively small proportion of Halma's current market capitalisation.

#### Compliance

High quality finance executives operate within each business, monitoring and assisting progress. In addition to self-certification, each business is subject to regular, comprehensive financial review, carried out by our senior finance staff. The output from these reviews supports the continued improvement in simple, valuable systems and allows us to address any weaknesses found. I am committed to maintaining the strong control in the Group and to increasing the pace of improvement even further.

During the year we carried out a review of our audit services and appointed Deloitte & Touche as our auditors. I am pleased with the quality of service they are able to provide to us.

#### BEA Acquisition

The BEA group of companies was acquired in October 2002. At the company level, BEA's pre-tax return on its operating assets is in excess of 70%. Its contribution to pre-tax profit in the year, net of the cost of financing the acquisition, was £2.1 million and is of course strongly earnings enhancing. Including deferred consideration earned up to March 2003 but not including the cash we acquired, the purchase price is £46 million and the post-tax return on investment for the period we have owned BEA is 8.3%. We bought BEA for its long-term benefits but this figure still compares well with our cost of capital which has been calculated as falling in the range of 7% to 8.5%. This was a strong acquisition.

#### Value Creation

We are entering the new year in good shape. Returns and cash flow remain strong and we have minimal net debt. Good financial controls are embedded in the Group. It is against this background that we will push to increase the pace of improvement even further and continue to focus on the creation of value.





### Financial calendar

2002/03 Interim results	3 December 2002
2002/03 Interim dividend paid	3 February 2003
Trading update	24 April 2003
2002/03 Preliminary results	17 June 2003
2002/03 Report and Accounts issued	30 June 2003
Annual General Meeting	29 July 2003
2002/03 Final dividend payable	18 August 2003
Trading update	end October 2003
2003/04 Interim results	9 December 2003
2003/04 Interim dividend payable	February 2004
Trading update	end April 2004
2003/04 Preliminary results	June 2004

### Analysis of shareholders at 28 May 2003

	Shareholders		Shares	
	Number	%	Number	%
<b>Number of shares held</b>				
1 - 7,500	5,616	79.9	11,334,237	3.1
7,501 - 25,000	818	11.6	10,766,004	3.0
25,001 - 100,000	352	5.0	17,933,297	4.9
100,001 - 750,000	169	2.4	47,252,011	12.9
750,001 and over	74	1.1	278,208,423	76.1
	<u>7,029</u>	<u>100.0</u>	<u>365,493,972</u>	<u>100.0</u>
<b>Category of shareholders</b>				
Notifiable shareholders (excluding Directors)	4	0.1	121,721,457	33.3
Directors	8	0.1	14,156,757	3.9
Private shareholders	5,240	74.5	47,570,353	13.0
Others	1,777	25.3	182,045,405	49.8
	<u>7,029</u>	<u>100.0</u>	<u>365,493,972</u>	<u>100.0</u>

### Share price

London Stock Exchange, pence per 10p share					
	2003	2002	2001	2000	1999
Highest	<b>166</b>	175	145	137	144
Lowest	<b>97</b>	126	82	94	92
Year end	<b>114</b>	164	129	95	92

### Dividends

Pence per 10p share					
	2003	2002	2001	2000	1999
Interim	<b>2.285</b>	2.077	1.806	1.570	1.308
Final	<b>3.527</b>	3.206	2.787	2.423	2.019
Total	<b>5.812</b>	5.283	4.593	3.993	3.327

### Investor information

Visit our website, [www.halma.com](http://www.halma.com), for investor information and company news. In addition to accessing financial data, you can view and download Analyst Presentations and find contact details for Halma senior executives and subsidiary companies.

### E-mail news alert

You can subscribe to an e-mail news alert service on our website [www.halma.com](http://www.halma.com) to automatically receive an e-mail when significant announcements are made.

### Shareholding information

Please contact our registrars directly for all enquiries about your shareholding. Visit [www.computershare.com](http://www.computershare.com) for online information about your shareholding. (You will need your shareholder reference number which can be found on your share certificate).

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### Annual General Meeting

The 109th Annual General Meeting of Halma p.l.c. will be held at The Ballroom, The Berkeley Hotel, Wilton Place, London SW1X 7RL on Tuesday, 29 July 2003 at 12 noon. The Notice convening the Meeting is on page 74.

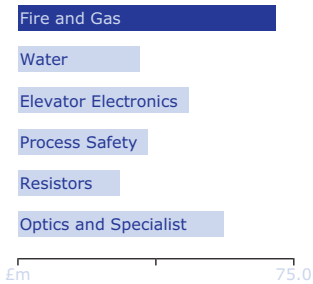
Fire and Gas turnover

2003	£70.0m
2002	£70.4m

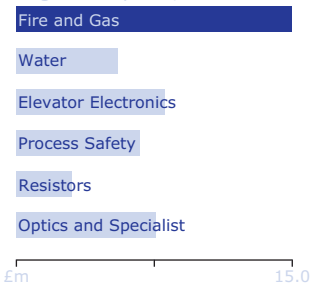
Fire and Gas profit\*

2003	£15.0m
2002	£14.8m

Segmental turnover, 2003



Segmental profit, 2003\*



\*before interest, tax and goodwill amortisation

Sector Overview

We own two of the world’s leading fire and gas detector brands – Apollo and Crowcon. Countless millions of people depend on us to protect them, and their properties, from the dangers of fire and gas. We are a world class manufacturer of commercial fire detectors with an international reputation for technical excellence and customer service. Our second key product group in this sector is gas detectors that protect industrial workers from flammable and toxic gases. The principal sales channels for fire products are distributors and system installers; gas detectors are also sold via distributors and direct to end-users, including customers in construction, utilities, chemicals and telecoms. We have distributors in 89 countries; exports account for over 60% of sales in this sector. In 2002/03, fire and gas contributed 26% of Group turnover and 32% of operating profit.

We increased fire product sales in both the UK and export markets. The fastest growing territory for fire products was Australia and we grew sales significantly in Germany, despite the market shrinking by 13%. This progress was achieved despite flat worldwide demand.

Our fire companies’ ability to grow even during adverse market conditions is mainly due to continuous investment in product innovation and customer service. The anticipated resumption of growth in the fire products market, within the next year, will allow our businesses to capitalise on their increasing market share.

China and Russia both offer excellent opportunities for growth in fire safety products. To consolidate our position in China we set up a technical office in Shanghai to liaise with the national

organisation which tests and approves fire detectors.

In the developed world, the market for gas detection equipment is largely driven by health and safety legislation. The US market, in particular, is still growing at about 4% a year. We see strong growth potential in developing countries as they continue to industrialise and adopt higher health and safety standards. We have excellent growth prospects in this sector.

A new portable multi-gas detector, Tetra, was conceived, developed and launched in under 12 months with full European and North American approvals. This will be a major driver to export growth where its ease of service will be very attractive to distributors. To combat an increasing focus on price in gas detection markets, we have developed innovative products with enhanced features, together with new basic specification products that exactly match the needs of some markets, and extended aftermarket services.

We set new sales records for gas drying and humidifying products, as demand in the US medical market for breath gas drying has grown strongly. Patient breath monitoring, which is standard practice during anaesthesia, is now increasingly used to monitor critical care patients. There are also good indications that our single-use, disposable medical dryers are becoming the preferred method of breath gas drying in US hospitals. A new range of oxygen humidification products, with better performance and higher flow capacity, has generated significant new sales for medical applications in Japan. Continuing medical market growth is fuelled both by demographics and rising standards of care.



Our wide-area smoke detectors protect the Reichstag, seat of the German parliament in Berlin.



Water turnover

2003	£33.1m
2002	£34.1m

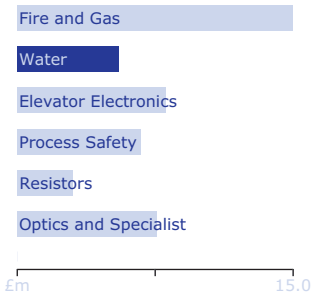
Water profit\*

2003	£5.5m
2002	£7.7m

Segmental turnover, 2003



Segmental profit, 2003\*



\*before interest, tax and goodwill amortisation

Sector Overview

Our businesses in this sector are world leaders in three important technologies: instruments for monitoring and controlling water distribution, ultraviolet (UV) light water treatment systems, and water analysis equipment. All of these businesses sell to global markets; exports typically make up over 60% of sales. These companies are based in the UK, The Netherlands, France and the US. The principal customers for our advanced water technology products include water supply companies, municipal authorities, and the manufacturing, food and process industries. In the 2002/03 period, this sector generated 12% of Group turnover and 12% of operating profit.

Profits from sales of water network instrumentation in France reached record levels on the back of increased exports, despite tough trading conditions in the home market. Instrumentation sales in the US also rose, where emergency drought controls are still imposed in most US states. This has given momentum to discussions with several major water utilities about high capital investment leakage detection and control projects. However, we saw a sharp fall in UK sales and profits as demand weakened, partly as a result of less regulatory pressure to reduce leakage and postponement of capital projects by water utilities. Overall, sales of water conservation instruments fell in 2002/03 but we are continuously introducing new products to exploit changing market opportunities.

We acquired Radcom (Technologies) Limited in February and its growing strength in wastewater flow monitoring technology is a perfect complement to our world-leading instruments for drinking water

monitoring. The process of making Radcom products available through the Group's unrivalled worldwide sales distribution channels is already well underway. This should impact positively on profits in 2003/04.

Sales of water analysis products were boosted by strong export demand. Improved distribution channels in the US for swimming pool testing kits produced an encouraging upward sales trend that should continue. Reflecting the shifting pattern of investment in the UK water industry towards wastewater, sales to the effluent and sewage treatment markets grew by 19%. An important new water analyser was launched recently which promises to set new performance benchmarks. This product should establish a strong position in the wastewater testing market.

Growing concern about toxic by-products produced by chemical treatment of drinking water is boosting sales of our non-chemical treatment systems based on ultraviolet light. Contamination of drinking water by a waterborne parasite called Cryptosporidium is an increasing problem in the US and Europe. This favours our technology because ultraviolet light is much more effective at deactivating this bug than traditional chlorination.

New research suggests that chlorine treatment in swimming pools is a major contributor to childhood asthma. Sales of UV water treatment equipment into the large public swimming pools market is already well established in Europe. However, the use of UV for pool water is largely undeveloped in the US and is a potentially valuable growth opportunity. We are the first UV manufacturer to win a crucial US technical approval and sales, in partnership with an established US pool equipment supplier, exceeded expectations.

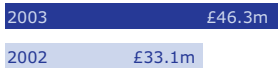




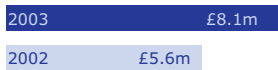
Fully digital, our latest acoustic leak location instrument is used to pinpoint pipe bursts underground.



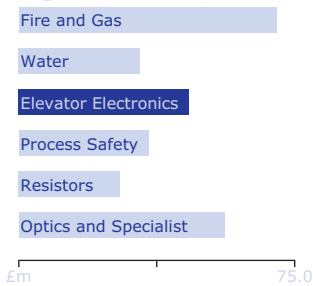
Elevator Electronics turnover



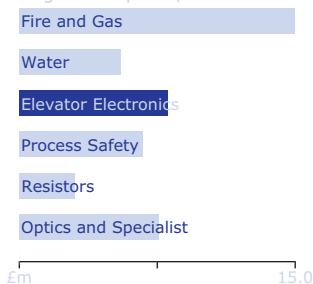
Elevator Electronics profit\*



Segmental turnover, 2003



Segmental profit, 2003\*



\*before interest, tax and goodwill amortisation

Sector Overview

Our primary products in this sector are safety devices that protect people from harm by making the use of elevators and automatic doors safe and efficient. The key products here are electronic sensors for elevators and automatic doors, plus voice communication and information display panels. These businesses are based in Belgium, the UK, New Zealand, the US and Singapore. We also have manufacturing facilities in China.

This market divides into two sub-sectors: new-build, where customers are a small number of multinational and regional manufacturers, and refurbishment, where large numbers of building contractors purchase locally. Our businesses in this sector typically have high export sales. The major development in 2002/03 was the acquisition of BEA, the world leader in sensors for automatic doors. This year, this sector generated 18% of Group turnover and 18% of operating profit.

Sales and profit from this sector rose sharply in 2002/03 due to an excellent performance by BEA following its acquisition in October 2002. Our existing elevator businesses maintained sales at a consistent level.

Several markets showed strong growth, notably Japan and China where investment in new buildings and infrastructure is continuing at a high level. A new Chinese sales office was set up to market automatic door controls.

In the past year we saw a sharp rise in sales and profit from elevator display panels, which we make in Singapore. New LCD screen products were launched that can deliver real-

time information, such as broadcast TV pictures, to the in-elevator displays. Formerly, sales to the local South-East Asian zone dominated, but successful exploitation of the Group's worldwide sales channels boosted exports by 25% in 2002/03.

Global market conditions for elevator products have been difficult, especially in the US, and we took aggressive action to maintain margins. A key element of our strategy has been tight manufacturing cost control. This has been achieved, in particular, by outsourcing more manufacturing to the Czech Republic and China.

In the US, implementation of disability legislation plus a trend to cut railway staff, especially platform workers, is creating rising demand for our emergency telephone systems. A good example is the New York City subway, where our vandal-proof platform telephones are replacing manned ticket booths. We also saw strong growth in exports to Europe of our US-made emergency telecoms equipment.

The major growth from automatic door sensors came from the US and Japan where new products based on both microwave and infrared sensor technology contributed to increased sales. As part of a programme to improve customer safety, a major US retailer has committed to fit our sensor packages at up to 10,000 entrances to its stores.



Building operators rely on our safety sensors to keep elevator passengers moving swiftly and safely between floors.



\*before interest, tax and goodwill amortisation

Sector Overview

A long-term commitment to developing market-leading applications knowledge and customer service has delivered unrivalled world leadership in specialist areas of industrial health and safety technology. Halma companies are the global brand leaders in trapped key interlocks. These products create a life-saving interface between industrial workers and the dangerous machinery they work with. We are also a global supplier of bursting discs, ranking third largest in Europe and fourth in the US. These high precision pressure control devices protect people, production plant and the environment. They prevent devastating explosions and toxic releases during chemical processing and transit. Our process safety businesses operate from the UK, France and the US, contributing 13% of Group sales and 15% of operating profit in 2002/03, up from 13% in 2001/02.

The strengthening of workers' rights and introduction of more rigorous public health and safety legislation continues worldwide. This legislative pressure creates increasing demand over time for our safety products, particularly in this sector, but also in our fire, gas and elevator businesses. Many European and American companies are transferring their home market safety standards to their satellite operations in the developing world. This has created growth markets for industrial safety products in the Far East.

Our response to these global trends has been to develop increasingly sophisticated products, with higher added value, for Western markets, and to commit more resources to marketing to the developing world. For example, we are currently working

with Siemens AG to develop new products that ensure safety for operators of automated production machinery. These new access control devices have embedded electronics enabling them to be integrated with the most advanced factory automation technology. Profits from this sector rose while sales fell slightly.

Increased exports from the UK and from France more than offset flat demand for interlocking systems in the UK market. Sales and profit grew significantly in the US, despite an unfavourable economic environment. We exploited strong demand for improved safety on vast industrial dust filters called precipitators in the US, and in the automotive sector.

The principal drivers for bursting disc sales are capital investment and extra capacity utilisation within the chemical and pharmaceutical industries. New products aimed at the special needs of pharmaceutical production and explosion prevention in bulk powder storage made significant contributions to sales. We currently have a relatively small share of this global market, so there is high growth potential. Growth in this area came from increased exports.

Our strategy to grow market share focuses on fast deliveries, product offerings that allow customers to carry less stock, and innovative products that deliver superior performance.





In the transport of fuels, potentially catastrophic pressure is safely released by our rupture panels.

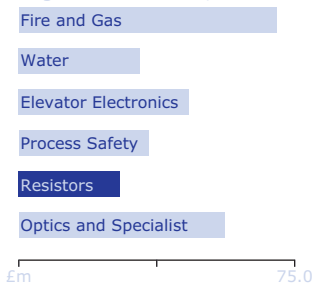
Resistors turnover



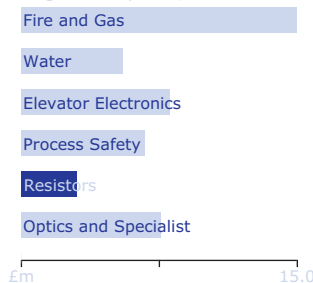
Resistors profit\*



Segmental turnover, 2003



Segmental profit, 2003\*



\*before interest, tax and goodwill amortisation

Sector Overview

The combined sales and product portfolios of our high power resistor businesses position us as world leader in this specialised electrical power technology. We satisfy over 50% of North American demand. The global market splits three ways: electricity distribution, electric motor control and rail transport. Sales are either to major electrical engineering OEMs or to large projects; success comes from our applications experience and the ability to solve customers’ problems with unique engineering solutions. Our resistor makers specialise in niche applications in their local markets and bid cooperatively for large international projects. Based in the US, Canada, Australia and the UK, the resistor businesses contributed 10% of Group sales and 7% of operating profit in 2002/03.

Overall sales and profits from this sector declined in 2002/03, driven by a downturn in our markets. The sales decline was due to lower exports with domestic sales remaining flat. Profit performance was better than many of our peers based on rigorous cost control.

The main business driver affecting this product group is capital investment in the industrial and rail infrastructure in our target markets. These are cyclical markets where customers are relatively price-insensitive in busy times and prepared to pay a premium for superior quality and service. Our operations thrive in these conditions, producing strong profit growth, but can also defend market share in tough markets when pricing becomes fiercely competitive.

Our strategy to increase global market share is to create greater competitive advantage through applications experience, manufacturing flexibility

and product innovation. Although heavy resistors are a well-established technology, and we are the world leader, there are many opportunities to sell into new application areas and to grow market share.

Expansion into new markets was a notable feature of 2002/03. While exports were down overall, we saw a sharp rise in sales to South East Asia where basic infrastructure investment is a driver. In the UK, we won a contract from Ford to supply resistors as an automotive component for the first time. The automotive sector will increase in importance to us as electric vehicles become commonplace.

Our entry into the US market for resistors to control elevator movement also generated significant new sales and we won new business from manufacturers of fitness treadmills. Other successes included a large US transit resistor contract with train maker Bombardier, assignment of preferred supplier status for the French TGV rail system and the winning of the aftermarket business for Komatsu mining trucks.

A prototype ground fault location system installed on commuter rail cars in Toronto has been successful. A fault can now be located in ten minutes in contrast to 8-10 hours previously. This has eliminated the previous need to take the car out of service. As a result, the customer now plans to fit out the whole fleet. A new US test facility lets us self-inspect new products to the requirements of Underwriters Laboratories, the principal US technical approvals organisation. This will help us to better meet customer needs and create technical barriers against competitors.





A major application for heavy resistors is in braking systems for mining trucks.

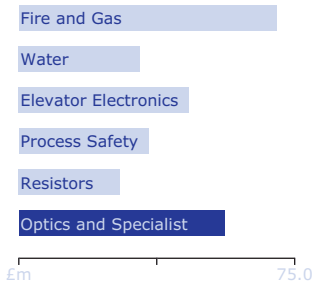
Optics and Specialist turnover



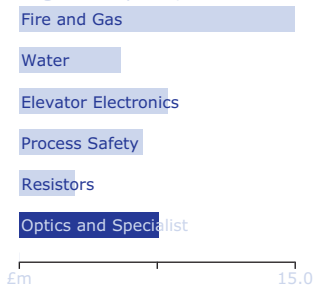
Optics and Specialist profit\*



Segmental turnover, 2003



Segmental profit, 2003\*



\*before interest, tax and goodwill amortisation

Sector Overview

Our main focus in the Optics and Specialist sector is the manufacture of ophthalmic instruments and lenses. These products are used by optometrists and surgeons to assess eyesight and diagnose disease, and for laser eye surgery. The market for ophthalmic products is global, exports account for over half of sales and we are world leaders in our niche markets. We also have specialist businesses that manufacture analytical products and cash management systems. Our optics and specialist businesses are based in the US and UK. In 2002/03 this sector contributed 21% of turnover and 17% of Group operating profit.

We saw good performances by our optical businesses. However, overall results from this sector were mixed as sales and profit from the specialist companies fell back. The specialist businesses generally sell into single markets and lack global presence. As a result, they are less able to offset the impact of unfavourable local economic conditions.

Our optics companies pushed profits ahead of the previous year. These results were achieved through tight manufacturing cost control, a new regional US sales operation for ophthalmic instruments, and a successful export campaign for US-made lenses. Profits from lens sales set a new record. The global market for ophthalmic products has, however, been difficult and demand in the important US market has been flat.

Following last year’s launch of the Pulsair Tonometer, an optometrist’s instrument for measuring pressure inside the eye, sales have been very encouraging, especially in the US where our market share increased. In response to rising concern about the

potential for disease transfer via medical instruments, we have introduced new diagnostic and treatment lenses that can be cleaned in very high temperature hospital sterilisers. This new range has been developed to exploit both US and international markets.

In 2002/03 we encouraged more businesses to capitalise on the market strength and distribution networks of sister companies in other countries. This has been put into practice by our two principal optics companies. They have formed a much closer relationship to cooperatively exploit sales opportunities in the UK and US. Joint R&D has already produced some product innovations and more development projects are in progress. The two businesses now share marketing resources and they exhibit jointly at international trade fairs.





Opticians get a brighter, clearer view of the eye with our latest ophthalmoscopes.

**1 Stephen O'Shea**

(aged 57) is Chief Executive of the Halma Group. He was one of the founders of Apollo Fire Detectors Limited in 1980 and was Managing Director when it joined the Group in 1983. He joined the Halma p.l.c. Board in 1990 and became a Divisional Chief Executive in 1992. He was appointed Deputy Chief Executive in 1994 and Chief Executive in 1995.

Telephone +44(0)1494 72111

**3 Kevin Thompson**

(aged 43) is Finance Director of the Halma Group. He joined the Group in 1987 as Group Financial Controller and in 1995 was appointed to the Executive Board as Finance Director. In 1997 he became Group Finance Director and in 1998 was appointed to the Halma p.l.c. Board. An economics and accounting graduate of Bristol University, Kevin qualified as a Chartered Accountant with Price Waterhouse.

Telephone +44(0)1494 721111

**5 Nigel Young**

(aged 53) is Chief Executive of the Process Safety Division. He joined Halma as Managing Director of Fortress Interlocks Limited when the company joined the Group in 1987. Nigel was appointed Assistant Chief Executive of the Safety Division in 1990 and took up his current position as Divisional Chief Executive in 1992. He was appointed to the Executive Board in 1994. He has an MBA from Aston University.

Telephone +44(0)1902 499640

**7 Andrew Walker**

(aged 51) was appointed a non-executive Director of Halma in May 2003 and serves on the Audit Committee. He is a non-executive Director of Ultra Electronics Holdings plc, Bioganix Ltd and Galileo Innovations plc.

**9 Bill Seymour**

(aged 43) is Chief Executive of the Elevator Electronics Division. He joined Halma on the acquisition of Janus Elevator Products in December 1990 and became Vice President of that company in 1991. In 1993 he was appointed Joint President of Janus and in 1999 became an Assistant Divisional Chief Executive. In 2000 Bill was appointed Divisional Chief Executive of the Elevator Electronics Division and a member of the Executive Board. He is an electrical engineering graduate of Limerick College of Technology.

Telephone +1(1)631 864 3699

**11 Richard Stone**

(aged 60) was appointed a non-executive Director of Halma in January 2001. He serves on the Audit Committee, Remuneration Committee and Nomination Committee and is the Senior Independent Director. He is Chairman of Shearings Group Limited, and a non-executive Director of British Nuclear Fuels plc, Gartmore Global Trust p.l.c., Trust Union Finance (1991) plc and TR Property Investment Trust plc.

**13 Keith Roy**

(aged 53) is Chief Executive of the Water and Gas Technology Division. He joined Halma having been joint owner of Reten Acoustics when Halma acquired it in 1992 and was appointed Managing Director and subsequently Chairman of Palmer Environmental Limited. He became an Assistant Divisional Chief Executive in 1998. In 2000 Keith was appointed Divisional Chief Executive of the Water Technology Division and was appointed to the Halma p.l.c. Board in 2001. He is an electronic engineering graduate of both Nottingham University (BSc) and Aston University (MSc).

Telephone +44(0)1494 721111

**2 David Barber**

(aged 71) is non-executive Chairman of the Halma Group, serves on the Audit Committee and Remuneration Committee, and chairs the Nomination Committee. He joined the Group in 1972 as Managing Director when its annualised turnover was £1.3 million and annualised profits were £128,000. He was Chairman and Chief Executive from 1973 to 1995 and non-executive Chairman from 1996.

**4 Geoff Unwin**

(aged 60) was appointed as non-executive Deputy Chairman and Chairman Elect of the Halma Group in September 2002 and serves on the Audit Committee, Remuneration Committee and the Nomination Committee. He is Chairman of United Business Media plc, Chairman of 3G Lab and a non-voting board director of Cap Gemini Ernst & Young.

**6 Neil Quinn**

(aged 53) is Chief Executive of the Fire and Security Division. He joined the Group as Sales Director of Apollo Fire Detectors Limited in 1987, becoming Managing Director in 1992. In 1994 he was appointed Chief Executive of the Fire Detection Division and was appointed to the Halma p.l.c. Board in 1998. He is a material science graduate from Sheffield University.

Telephone +44(0)23 9249 9412

**8 Adam Meyers**

(aged 41) is Chief Executive of the Fluid Technology Division. He joined Halma in 1996 as President of Bio-Chem Valve Inc. He was appointed Assistance Divisional Chief Executive of the Water and Gas Technology Division in April 2001 and became Divisional Chief Executive of the newly formed Fluid Technology Division and a member of the Executive Board in April 2003. He is a systems engineering graduate of the University of Pennsylvania and gained his MBA from Harvard Business School.

Telephone +1(1)973 263 3001

**10 John Campbell**

(aged 44) joined the Group in 1995 as President of IPC Resistors Inc. and became Chief Executive of the Resistors Division upon its formation in 1998 and a member of the Executive Board. He is an electrical engineering graduate of the University of Toronto and before joining Halma was a senior sales and marketing executive within the Industrial Power Group of Rolls-Royce p.l.c.

Telephone +1(1)513 772 5501

**12 Carol Chesney**

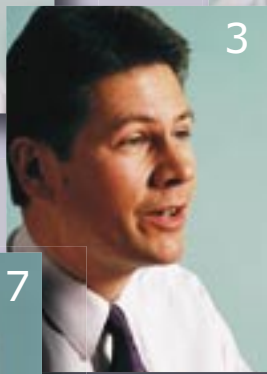
(aged 40) is Company Secretary of Halma p.l.c. She spent three years with English China Clays p.l.c. before joining Halma in 1995 as Group Finance Manager. Carol was appointed Company Secretary in 1998. She is a maths graduate of Randolph-Macon Woman's College, Virginia and qualified as a Chartered Accountant with Arthur Andersen.

Telephone +44(0)1494 721111

**14 Andrew Williams**

(aged 36) is Chief Executive of the Optics and Water Instrumentation Division. He joined Halma in 1994 as Manufacturing Director of Reten Acoustics (now Palmer Environmental) and became Managing Director of that company in 1997. He was appointed Assistant Divisional Chief Executive of the Optics and Water Instrumentation Division in 2001 and became Divisional Chief Executive of that division and a member of the Executive Board in 2002. Andrew is a production engineering graduate of Birmingham University.

Telephone +44(0)1633 489479



**Board of Directors**

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

**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*  
John S Campbell *Resistors*  
Keith J Roy *Water and Gas Technology*  
William J Seymour *Elevator Electronics*  
Andrew J Williams *Optics and Water Instrumentation*  
Adam J Meyers *Fluid Technology*

**Registered Office**

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Telephone: +44 (0)1494 721111  
Fax: +44 (0)1494 728032  
Website: www.halma.com

**Registered Number**

40932

**Auditors**

Deloitte & Touche  
Abbots House Abbey Street  
Reading Berks RG1 3BD

**Bankers**

The Royal Bank of Scotland plc  
15 Bishopsgate  
London EC2P 2AP

**Financial Advisers**

Lazard Brothers & Co., Limited  
21 Moorfields  
London EC2P 2HT

**Solicitors**

CMS Cameron McKenna  
Mitre House 160 Aldersgate Street  
London EC1A 4DD

**Brokers**

Dresdner Kleinwort Wasserstein Limited  
20 Fenchurch Street  
London EC3P 3DB

**Registrars**

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



The Directors present their annual report on the affairs of the Group, together with the Accounts and the Independent Auditors' Report, for the 52 weeks to 29 March 2003.

**Activities**

Halma p.l.c. is a holding company. A list of its principal subsidiary companies and their activities is set out on pages 78 and 79.

**Results of the period**

The Consolidated Profit and Loss Account for the 52 weeks to 29 March 2003 is set out on page 46. The Group profit before taxation and goodwill amortisation is £46,508,000 (2002: £48,255,000). The profit after taxation and goodwill amortisation amounts to £28,359,000 (2002: £31,157,000).

**Ordinary dividends**

The Directors will submit a resolution at the Annual General Meeting proposing a final dividend of 3.527p per share and if approved this dividend will be paid on 18 August 2003 to ordinary shareholders on the register at the close of business on 18 July 2003. Together with the interim dividend of 2.285p per share already paid, this will make a total of 5.812p per share for the financial year.

**Review**

A review of activities together with business and future developments is included on pages 7 to 27 inclusive.

**Share capital**

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

**Allotment authority**

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

**Purchase of own shares**

The Company was authorised at the 2002 Annual General Meeting to purchase up to 36,000,000 (approximately 10%) of its own 10p ordinary shares in the market. This authority expires at the end of the 2003 Annual General Meeting. In accordance with the Directors' stated intention to seek annual renewal, a special resolution will be proposed at the Annual General Meeting to renew this authority until the end of the next Annual General Meeting. The Directors consider it desirable that the possibility of making such purchases, under appropriate circumstances, is available. The Directors have no present intention of using this authority. In reaching a decision to purchase shares, the Directors will take into account the Company's cash resources, capital requirements and the effect of any purchase on the Company's earnings per share. It is anticipated that renewal of the authority will be requested at subsequent Annual General Meetings.

**Supplier payment policy**

The Company does not follow any particular supplier payment code of practice. The Company has due regard to the payment terms of suppliers and generally settles all undisputed accounts within 30 days of the due date for payment. At 29 March 2003 the Company's trade creditors represented 38 days (2002: 34 days) of annual purchases.

**Employees**

Matters which affect the Group are communicated to employees through formal and informal meetings, internal announcements, the Group bulletin board on our

secure Virtual Private Network (VPN) and regular contact with Directors and Divisional Chief Executives.

An employee share scheme is open to all UK employees of the Group following a qualifying period and has been operating since 1980.

The Company is an equal opportunity employer and gives disabled people the same consideration as other individuals.

### **Directors' remuneration**

The Directors consider it appropriate that shareholders be given the opportunity to approve the remuneration of Directors as set out in the Report on Remuneration on pages 38 to 43. The special business of the Annual General Meeting contains an ordinary resolution seeking such shareholder approval.

### **Social responsibility**

#### **The environment**

Within Halma, we have an excellent long-term record and a clear strategy for addressing environmental issues that affect our businesses and for developing products that protect the environment and improve safety at work and in public places. Many of our innovative products play a very positive role in monitoring and improving the environment. Halma brands lead the world in a number of technologies which help to minimise environmental damage.

Our principal environmental technologies are water leakage detection, gas emissions monitoring, water and effluent analysis and UV water treatment. Our commitment to the development of equipment for measuring environmental changes and controlling the damaging impact of industrial activities is long-term.

Our contribution to increased personal safety in public places and at work includes protecting people from fire, making elevators and automatic doors safe and effective and providing safety products that ensure safe practices at work. We are the major world supplier in several of these areas.

We support the concept of sustainability and recognise that, in common with all businesses, our activities have an environmental impact. Our products do not require capital intensive manufacturing processes, so the environmental effect of our operations is relatively low compared to manufacturers in other sectors. However, Group companies are encouraged to improve energy efficiency, reduce waste and emissions, reduce the use of materials and reduce environmental impact.

We tirelessly promote the use of UV water sterilisation which eliminates the need to use dangerous chemicals, as well as products that minimise the waste of clean water. We make equipment that ensures safe practices that prevent accidents, emissions and fires and safety equipment for use in public places and transportation systems.

The Group's policy on environmental issues is published on our website and has been distributed to all Halma business units.

The senior executive in each of our business units is responsible for implementing the environmental policy at local level. The Group Finance Director, Mr K J Thompson, has principal responsibility for coordinating and monitoring the policy.

We are committed to work towards implementing an environmental management system to measure and control environmental impact. We are working towards measuring, reporting and controlling our environmental impact. We expect to develop performance indicators that will assist local management in implementing the policy. The Group's environmental performance will be reported via the Annual Report and on our website.

**Health and safety**

The Group recognises the necessity of safeguarding the health and safety of our own employees whilst at work and operates so as to provide a safe working environment for employees, visitors and the public. Given the autonomous structure of the Group, operational responsibility for compliance with relevant local environmental and health and safety regulations is delegated to the board of directors of each Group company. Adequate internal reporting exists in order that the Group Finance Director may monitor each company's stated compliance with such regulations.

**FTSE4Good index**

Halma was designated a member of the FTSE4Good UK index on its establishment in July 2001. The FTSE4Good index measures and benchmarks the performance of companies with good records of corporate social responsibility and aids investors who use socially responsible investment criteria. The FTSE4Good Selection Criteria cover three areas: working towards environmental sustainability; developing positive relationships with stakeholders; and upholding and supporting universal human rights.

**Research and development**

Group companies have continuous research and development programmes established with the objective of the improvement of their product ranges and increasing the profitability of their operations.

**Donations**

Group companies made charitable donations amounting to £1,308 during the financial year. There were no political donations.

**Directors**

The Directors of the Company are listed on page 30. Brief biographies are set out on page 28.

Following the announcement on 28 August 2002 that Mr D S Barber intends to retire from the Board immediately after the 2003 Annual General Meeting, Mr E G Unwin was appointed to the Board as non-executive Deputy Chairman (Chairman Elect) on 2 September 2002.

Mr A J Walker was appointed to the Board as a non-executive Director on 8 May 2003.

On 30 April 2002 Mr C Q Summerhayes retired from service with the Group and resigned as a Director of the Company. On 8 November 2002 Mr H M J Ritchie resigned as a Director of the Company.

Lord McGowan, who joined the Board in 1997, died on 7 May 2003.

**Directors proposed for re-election**

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

Mr E G Unwin and Mr A J Walker, who joined the Board since the last Annual General Meeting, retire under Clause 95 of the Articles of Association and being eligible offer themselves for re-election.

**Shareholdings**

As at 5 June 2003 the Company has been notified under Section 198 of the Companies Act 1985 of the following notifiable holdings of the Company's ordinary shares:

	shares	per cent
Silchester International Investors Limited	65,511,005	17.9
Oppenheimer Funds, Inc	23,300,828	6.3
Sprucegrove Investment Management Limited	21,897,149	5.9
Mr D S Barber	13,053,056	3.5
Legal & General Investment Management Limited	11,012,475	3.0

No other notification has been received in respect of a holding of 3% or more of the Company's ordinary share capital.

**Auditors**

The Directors appointed Deloitte & Touche as auditors in April 2003 succeeding PricewaterhouseCoopers. Special notice has been received in accordance with Sections 379 and 388(3) of the Companies Act 1985 of a resolution that Deloitte & Touche be re-appointed as auditors of the Company and this will be proposed at the Annual General Meeting along with authority for the Directors to determine their remuneration.

By Order of the Board  
C T Chesney Secretary  
Misbourne Court Rectory Way Amersham Bucks HP7 0DE  
17 June 2003

**Application of the principles of good governance**

The Board is committed to the maintenance of high standards of Corporate Governance. The policy of the Board is to manage the affairs of the Company in accordance with the Principles of Good Governance and the Code Provisions set out in Section 1 of the Combined Code on Corporate Governance ("the Combined Code") issued by the Financial Services Authority.

The Group is controlled and directed by a Board consisting of a non-executive Chairman, four executive Directors and three other non-executive Directors. Their biographies appear on page 28. The Board considers each of the non-executive Directors to be independent. In assessing independence, the Board considers that the non-executive Directors are independent of management and free from business and other relationships which could interfere with the exercise of independent judgement. The Board believes that any shareholdings of non-executive Directors serve to align their interests with those of all shareholders. Mr Stone is acknowledged as the Senior Independent Director. Upon appointment and at regular intervals, all Directors are offered appropriate training. Each Director is subject to re-election at least every three years.

The Directors retain responsibility for the formulation of corporate strategy, investment decisions, and treasury and risk management policies. There is a formal schedule of matters reserved for the Board's decision and the Board meets at least eight times each year. Directors are issued an agenda and comprehensive board papers in the week preceding each Board Meeting. All Directors have access to the advice and services of the Company Secretary as well as there being an agreed procedure for obtaining independent professional advice.

Lord McGowan chaired the Remuneration Committee until November 2002 when Mr Stone assumed the chair. Mr Barber and Mr Unwin are also members of the Committee, and Lord McGowan remained a member until his death in May 2003. Formal terms of reference exist which follow the recommendations of the Combined Code. The Committee makes recommendations to the Board on the framework for executive Directors' and senior executives' remuneration based on proposals formulated by the Group Chief Executive.

Mr Ritchie chaired the Audit Committee until his resignation in November 2002 when Lord McGowan assumed the chair. Following Lord McGowan's death, Mr Unwin chairs the Audit Committee. Each of the non-executive Directors is a member of the Committee. Formal terms of reference exist which follow the recommendations of the Combined Code. The Committee reviews the interim and annual accounts, the statement on internal controls and is responsible for the relationship with the external auditors. The Group Chief Executive and Group Finance Director attend Committee meetings by invitation in order to provide appropriate advice.

Mr Barber chairs the Nomination Committee. Mr Unwin, Mr Stone and Mr O'Shea are also members of the Committee. Lord McGowan was also a member of the Committee throughout the financial year. Formal terms of reference exist which follow the recommendations of the Combined Code. The Committee makes recommendations to the Board on the appointment of new Directors.

Control of divisional operating matters is delegated to the Divisional Chief Executives all of whom are members of the Executive Board. Biographies of

Executive Board members appear on page 28. The Group Chief Executive chairs the Executive Board of which the Group Finance Director is also a member thereby ensuring the Board's strategies are communicated to those overseeing operations. The Group Chief Executive and Group Finance Director meet regularly with each Divisional Chief Executive to monitor progress against key objectives and review operational performance.

Individual operating company boards, chaired by the appropriate Divisional Chief Executive, manage operating companies. These boards have clearly defined responsibilities for the operation of their businesses, including compliance with legislation and regulations, and for internal reporting. The system of internal control exercised within the Group is described below.

**Investor relations**

In regular meetings with shareholders and analysts the Group Chief Executive and Group Finance Director communicate the Group's methods and results. Meetings include the Annual General Meeting and briefings following the interim and annual results. The financial calendar is set out on page 15.

The Group website, [www.halma.com](http://www.halma.com), contains copies or summaries of all Company announcements, summaries of presentations to analysts, electronic versions of the latest Annual Report and Accounts, biographical information on key Directors and Officers, share price information, and full subsidiary company contact details as well as hotlinks to their own websites.

**Going concern**

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

**Internal control**

The Board of Directors has overall responsibility to the shareholders for the Group's system of internal control and responsibility for reviewing its effectiveness has been delegated to the Audit Committee. Any system of internal control can provide only reasonable but not absolute assurance against material misstatement or loss.

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

The Group's external auditors, Deloitte & Touche, have audited the financial statements and have reviewed the internal financial control systems to the extent they consider necessary to support their audit report.

The Board meets regularly throughout the year and has adopted a schedule of matters which are required to be brought to it for decision. This procedure is intended to ensure that the Directors maintain full and effective control over all significant strategic, financial and organisational issues.

Group companies operate under a system of controls which includes but is not limited to:

- a defined organisational structure with an appropriate delegation of authority to operational management
- the identification and appraisal of risks both formally, through the annual process of preparing business plans and budgets, and informally through close monitoring of operations
- a comprehensive financial reporting system within which actual results are compared with approved budgets and previous year's figures on a monthly basis and reviewed at both local and Group level
- an investment evaluation procedure to ensure an appropriate level of approval for all capital expenditure
- self-certification by operating company management of compliance and control issues
- a prescribed robust structure under which it is appropriate to adopt means of electronic communication and to conduct e-commerce.

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

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

The Group does not maintain a formal internal audit function. The need for such a function was last reviewed in 2003 by the Audit Committee, which concluded that it is not appropriate to the Group's current size and structure. Half-yearly reviews of Group companies' results are undertaken by senior financial staff as are regular internal control visits.

During the year the Audit Committee carried out a full review of the external audit arrangements concluding that Deloitte & Touche be appointed as auditors to the Group.



The following sections of the Report on Remuneration have been audited: the table of Directors' remuneration and subsequent notes; individual pension entitlements; Directors' interests in shares.

### Remuneration policy

The policy on Directors' Remuneration is to provide the remuneration packages necessary to attract, retain and motivate Directors of the quality required to manage the business of the Group and to align the interests of the Directors with those of the shareholders.

In accordance with rule 12.43A(c) of the Listing Rules of the Financial Services Authority the Board presents its Report on Remuneration to the shareholders. The Board confirms that when determining the remuneration policy for executive Directors for 2002/03 full consideration was given to the Combined Code appended to the Listing Rules of the Financial Services Authority.

The Remuneration Committee consists entirely of non-executive Directors, the current members being Mr R A Stone (Chairman of the Committee), Mr D S Barber and Mr E G Unwin. Lord McGowan was also a member throughout the financial year. The Committee makes recommendations to the Board on the framework for executive remuneration, based on proposals formulated by the Group Chief Executive, and determines the terms of service and remuneration of executive Directors and senior executives.

### Basic salary and benefits

In determining recommended basic salary levels for each individual, the Committee uses independent surveys and other relevant data to relate remuneration levels to comparable publicly quoted companies. In assessing the data that the Committee utilises, the Committee considers the benefits in comparable companies, the Company's market capitalisation, the Group's turnover and the complexity of Group operations in order to determine each Executive's basic salary level. Basic salary levels are set in order to achieve a balance between fixed and variable remuneration.

### Share options

The Directors have long believed that share option plans are an excellent way to align the interests of senior management with those of shareholders and that share options provide excellent motivation.

The 1990 and 1996 Share Option Plans each provide for the grant of two categories of option both of which are subject to performance criteria. No further grants may be made from either of these plans. Section 'A' options are exercisable after three years if the Company's earnings per share growth exceeds, for the 1990 Scheme, the growth in the Retail Price Index and, for the 1996 Scheme, the growth in the Retail Price Index plus 2% per annum. Section 'B' options are exercisable after five years if the Company's earnings per share growth exceeds the earnings per share growth of all but the top quarter of companies which were within the FTSE 100 at the date of grant of any option.

Options under the 1999 Company Share Option Plan have more stringent exercise criteria. Section 'A' options are exercisable after three years if the Company's earnings per share growth exceeds the growth in the Retail Price Index plus 3% per annum. Section 'B' options are exercisable after five years if the Company's earnings per share growth exceeds the earnings per share growth of all but the top quarter of companies which were within a peer group at the date of grant of any option.



**Performance related bonus scheme**

The granting of options is spread over the life of the plan. Executive Directors receive a triennial award of 'A' options, an annual award of 'B' options and the possibility of further 'A' options under the Performance Related Bonus Scheme.

This scheme, which applies only to executive Directors, is reviewed annually by the Remuneration Committee and approved by the Board. Without such approval there is no alternative bonus arrangement for Directors.

In the case of a Divisional Chief Executive, a bonus would be earned for 2002/03 if the profit of the Division for which he is responsible for that year exceeds the previous highest peak of the preceding three financial years. The profits calculated for this purpose regard each Division as a stand-alone group of companies charging it with the cost of capital it utilises including the cost of acquisitions. In order to earn a bonus for 2003/04, the profit of the Division for which a Divisional Chief Executive is responsible must exceed a target calculated from the profits of the three preceding financial years.

For the Group Chief Executive and Group Finance Director, bonuses are based on the increase in profits, calculated as above, of the aggregated Divisions for each year. In order to earn a bonus for 2003/04, the aggregated profit of the Divisions must exceed a target calculated from the profits of the Divisions for the three preceding financial years.

A pre-determined percentage of the profit improvement is payable in cash and generally a further percentage is granted in the form of Section 'A' share options. For 2003/04, the percentage payable in cash will commence at a low level for modest growth increasing, in percentage terms, as performance improves. The maximum bonus payable to any one Director will be capped at 100% of his salary.

**Directors' remuneration**

	Salaries and fees £000	Bonus £000	Benefits £000	2003 Total £000	2002 Total £000
D S Barber	81	-	-	81	61
E G Unwin	58	-	7	65	-
S R O'Shea	290	-	24	314	285
C Q Summerhayes	15	-	1	16	197
J C Conacher	-	-	-	-	30
Lord McGowan	22	-	-	22	20
H M J Ritchie	10	-	-	10	20
K J Thompson	145	-	13	158	147
N Quinn	145	-	17	162	148
R A Stone	22	-	-	22	20
K J Roy	125	-	18	143	104
	<u>913</u>	<u>-</u>	<u>80</u>	<u>993</u>	<u>1,032</u>

The fees paid to Lord McGowan were paid to WestLB Panmure Limited through 31 January 2002 and to himself thereafter. The fees paid to Mr H M J Ritchie were paid to Marsh Europe SA. The fees paid in relation to Mr E G Unwin were paid to Gunwin Limited.

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

**Pension benefits**

The Directors participate in the appropriate section of the Halma Group Pension Plan. This section is a funded, Inland Revenue approved, final salary occupational pension scheme, which provides a pension equal to the lower of two-thirds of final pensionable salary and the Inland Revenue maximum pension at normal pension age (60). Pensionable salary is the greatest salary of the last three complete tax years immediately before retirement or leaving service. Bonuses and other fluctuating emoluments and benefits in kind are not pensionable. The scheme also provides for life cover of three times pensionable salary, pensions in the event of early retirement through ill health and dependants' pensions of one-half of the member's prospective pension. Early retirement pensions, possible from age 50 with the consent of the Company and the Trustees of the Halma Group Pension Plan, are subject to actuarial reduction. Pensions in payment increase by 3% per annum for service up to 5 April 1997 and by price inflation thereafter subject to a maximum of 5%.

**Individual pension entitlements**

	Age at 29.3.03	Years of service at 29.3.03	Accrued pension 2002 £000	Increase in the year £000	Accrued pension 2003 £000
S R O'Shea	57	27	128	15	145
C Q Summerhayes	61*	28*	109	8	117*
K J Thompson	43	15	34	9	44
N Quinn	53	15	44	7	52
K J Roy	52	10	21	2	23

\* as at date of retirement

The accrued pension shown is that which would be paid annually on retirement based on service to the end of the year.

The increase in accrued pension during the year is the amount in excess of the increase due to inflation.

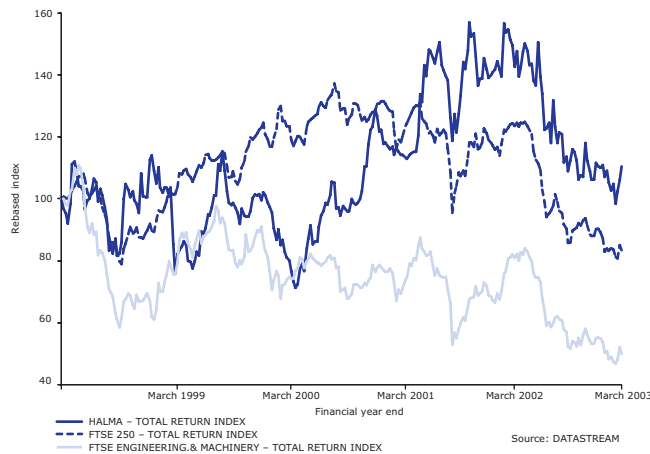
	Transfer value 30.3.02 £000	Directors' contributions £000	Increase in transfer value net of contributions £000	Transfer value 29.3.03 £000
S R O'Shea	1,744	23	512	2,279
C Q Summerhayes	1,826	1	150	1,977*
K J Thompson	229	11	123	363
N Quinn	480	11	183	674
K J Roy	228	9	60	297

\* as at date of retirement

The transfer values disclosed above do not represent a sum paid or payable to the individual Director. Instead they represent a potential liability of the pension scheme. These values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.

**Total shareholder return**

The graph below shows the Company’s total shareholder return performance over the five years to 29 March 2003 as compared to the FTSE 250 and Engineering & Machinery indices which have been chosen as the Company is a constituent of both of these indices. Over the period indicated, the Company’s total shareholder return was 11% compared to a negative return of 17% for the FTSE 250 and a negative return of 50% for the FTSE Engineering & Machinery sector.



At the commencement of the five-year period depicted in the graph, the Halma p.l.c. ordinary share price was 124p and the total of dividends paid in the year ended 28 March 1998 was 2.491p per share. The Halma p.l.c. ordinary share price at 29 March 2003 was 114p and the total of dividends paid in the year then ended was 5.491p per share.

**Directors’ interests in shares**

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

	Shares	Shares
D S Barber	29,303	30,302
E G Unwin	13,053,056	13,053,056
S R O’Shea	38,250	—*
Lord McGowan	242,482	222,482
K J Thompson	41,540	41,540
N Quinn	47,786	47,786
R A Stone	25,596	25,596
K J Roy	5,000	5,000
	744,587	744,587

\*as at date of appointment

There are no non-beneficial interests of Directors.

There were only two changes in Directors’ interests from 29 March 2003 to 17 June 2003. Lord McGowan’s interest in 41,540 shares ceased upon his death and, at the date of his appointment to the Board, Mr A J Walker was beneficially interested in nil shares of the Company.

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

	As at 30.3.02	Granted	Exercised	Lapsed	As at 29.3.03
S R O'Shea	1,177,029	281,299	-	-	1,458,328
K J Thompson	539,160	40,186	-	-	579,346
N Quinn	691,172	40,186	-	-	731,358
K J Roy	315,742	121,250	-	-	436,992

The total gains on options exercised by Directors during the financial year amounted to £121,282. The total gains arise on Mr Summerhayes' exercise of options granted in 1992, 1993, 1994 and 1995. The gains are calculated by deducting the exercise price from the closing middle market price at the date of exercise or the actual gross sales proceeds if appropriate.

Options granted to Directors during the financial year were at 144.33p. The closing middle market price of the Company's ordinary shares on Friday, 28 March 2003, the last trading day preceding the financial year end, was 114p per share and the range during the year was 96.5p to 166p.

Details of Directors' options outstanding at 29 March 2003 are set out in the table below. The status of the options can be summarised as follows:

- 1 Exercisable at that date at a price less than 114p.
- 2 Exercisable at that date at a price greater than 114p.
- 3 Not yet exercisable, will only be exercisable when the performance criteria, set out above, have been met and have an exercise price per share of less than 114p.
- 4 Not yet exercisable, will only be exercisable when the performance criteria, set out above, have been met and have an exercise price per share of greater than 114p.

	Status of options (see above)	Year of grant	Number of shares	Weighted average exercise price (p) per share
S R O'Shea	1	1993-95	121,598	109.76
	2	1993-99	710,931	128.77
	3	2000	90,100	111.00
	4	1997-02	535,699	141.89
K J Thompson	1	1993-95	67,821	109.60
	2	1993-98	200,739	125.20
	3	2000	138,800	111.00
	4	1997-02	171,986	138.75
N Quinn	1	1993-95	49,262	108.41
	2	1993-99	282,810	121.11
	3	2000	175,100	111.00
	4	1997-02	224,186	143.01
K J Roy	1	1994-98	54,999	106.60
	2	1993-99	130,743	127.46
	3	1998-00	44,600	107.80
	4	1997-02	206,650	145.87

All options lapse if not exercised with 10 years from the date of grant. The Company's Register of Directors' Interests, which is open to inspection at the Registered Office, contains full details of Directors' shareholdings and share options.

**Service contracts**

It is the Company's policy that executive Directors should have contracts with an indefinite term providing for a maximum of one year's notice. The service contract of Mr S R O'Shea has a two-year rolling notice period which the Board reviewed during the year and confirmed its appropriateness. All other executive Directors have contracts with a notice period of one year. None of the contracts have pre-determined compensation clauses in the event of early termination. The Board and the Remuneration Committee confirm that these contracts are appropriate having regard, amongst other things, to the individuals' length of service.

**Non-executive Directors**

All non-executive Directors have specific terms of engagement and their remuneration is determined by the Board based on independent surveys of fees paid to non-executive directors of similar companies. The non-executive Directors receive a basic fee supplemented, from 1 January 2003, by additional fees for membership and/or chairmanship of the Audit and Remuneration Committees.

The contract in respect of Mr Unwin's services provides for termination, by either party, by giving not less than six months' notice. Mr Unwin's basic fee for 2002/03 was set at £8,333.33 per month and he received a contribution of £1,000 per month towards his office costs. The other non-executive Directors do not have service contracts.

Non-executive Directors' fees were last reviewed and updated by the Board of Directors in April 2003.

By Order of the Board

R A Stone Chairman of the Remuneration Committee  
Misbourne Court Rectory Way Amersham Bucks HP7 0DE  
17 June 2003



## Responsibilities of the Directors

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United Kingdom Company Law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for that period.

The Directors have responsibility for ensuring that proper accounting records are maintained which disclose with reasonable accuracy the financial position of the Company and the Group and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors also have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities and are responsible for the system of internal control.

The Directors consider that, in preparing the financial statements on pages 46 to 73 and the disclosures on pages 38 to 43 relating to the remuneration of the Directors, appropriate accounting policies have been used, which have been consistently applied and supported by reasonable and prudent judgements and estimates, that all accounting standards which they consider to be applicable have been followed.

**To the Members of Halma p.l.c.**

We have audited the consolidated financial statements of Halma p.l.c. for the 52 weeks to 29 March 2003 which comprise the Consolidated Profit and Loss Account, the Balance Sheets, the Consolidated Cash Flow Statement, the statement of Accounting Policies and the related Notes numbered 1 to 25, together with the Statement of Total Recognised Gains and Losses and the reconciliation of Movements in Equity Shareholders' Funds. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members on those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of Directors and Auditors**

As described in the statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards. They are also responsible for the preparation of the other information contained in the Annual Report including the Directors' remuneration report. Our responsibility is to audit the financial statements and the part of the Directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Directors' report and the other information contained in the Annual Report for the above period as described in the contents section including the unaudited part of the Directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

**Basis of audit opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' remuneration report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' remuneration report described as having been audited.

**Opinion**

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 29 March 2003 and of the profit of the Group for the 52 week period then ended; and
- the financial statements and part of the Directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

**Deloitte & Touche**

Chartered Accountants and Registered Auditors

Reading

17 June 2003

Neither an audit nor a review provides assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area. Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

	Notes	52 weeks to 29 March 2003			2002
		Before Goodwill amortisation	Goodwill amortisation	Total	52 Weeks Total
<b>Turnover</b>	1				
Continuing operations		252,159	-	252,159	267,597
Acquisitions		15,134	-	15,134	-
		<u>267,293</u>	<u>-</u>	<u>267,293</u>	<u>267,597</u>
<b>Operating profit before goodwill amortisation</b>					
Continuing operations		43,159	(2,282)	40,877	45,721
Acquisitions		2,941	(953)	1,988	-
<b>Operating profit</b>	3	46,100	(3,235)	42,865	45,721
Interest	6	408	-	408	237
<b>Profit on ordinary activities before taxation</b>	1	46,508	(3,235)	43,273	45,958
Taxation	7	(15,279)	365	(14,914)	(14,801)
<b>Profit for the financial year</b>		<u>31,229</u>	<u>(2,870)</u>	<u>28,359</u>	<u>31,157</u>
<b>Dividends</b>					
Ordinary dividends	8			(21,246)	(19,323)
<b>Profit transferred to reserves</b>	9			7,113	11,834
<b>Earnings per ordinary share before goodwill amortisation</b>	2			8.55p	9.10p
<b>Earnings per ordinary share</b>	2			7.76p	8.58p
<b>Diluted earnings per ordinary share</b>	2			7.75p	8.54p

Operating profit for the 52 weeks to 30 March 2002 is after charging goodwill amortisation of £2,297,000.

The notes on pages 51 to 73 form part of these Accounts.

# Consolidated Balance Sheet

£000

HALMA

	Notes	At 29 March 2003	At 30 March 2002
<b>Fixed assets</b>			
Intangible assets	10	76,592	40,042
Tangible assets	11	49,883	43,860
		<u>126,475</u>	<u>83,902</u>
<b>Current assets</b>			
Stocks	12	35,186	35,212
Debtors	13	73,076	67,993
Short-term deposits		14,309	34,386
Cash at bank and in hand		13,265	11,271
		<u>135,836</u>	<u>148,862</u>
<b>Creditors: amounts falling due within one year</b>			
Borrowings	14	27,667	15,047
Creditors	15	46,090	36,946
Current taxation		5,286	6,844
Dividends payable		12,892	11,712
		<u>91,935</u>	<u>70,549</u>
<b>Net current assets</b>		<u>43,901</u>	<u>78,313</u>
<b>Total assets less current liabilities</b>		<u>170,376</u>	<u>162,215</u>
<b>Creditors: amounts falling due after one year</b>	16	1,665	491
<b>Provisions for liabilities and charges</b>	17	5,265	4,167
		<u>163,446</u>	<u>157,557</u>
<b>Capital and reserves</b>			
Called up share capital	18	36,549	36,473
Share premium account	9	6,375	5,631
Other reserves	9	185	185
Profit and loss account	9	120,337	115,268
<b>Equity shareholders' funds</b>		<u>163,446</u>	<u>157,557</u>

Approved by the Board of Directors on 17 June 2003

D S Barber K J Thompson Directors

## Statement of Total Recognised Gains and Losses

£000

	2003 52 weeks	2002 52 weeks
<b>Profit for the financial year</b>	28,359	31,157
<b>Other recognised gains and losses</b>		
Exchange adjustments	(2,408)	(102)
Related corporation tax	364	(26)
	(2,044)	(128)
<b>Recognised gains and losses relating to the year</b>	26,315	31,029

## Movements in Equity Shareholders' Funds

	Notes	2003 52 weeks	2002 52 weeks
<b>Profit for the financial year</b>		28,359	31,157
Dividends		(21,246)	(19,323)
Profit transferred to reserves	9	7,113	11,834
Total other recognised gains and losses		(2,044)	(128)
Net proceeds of shares issued		820	4,382
Increase in equity shareholders' funds		5,889	16,088
<b>Equity shareholders' funds brought forward</b>		157,557	141,469
<b>Equity shareholders' funds carried forward</b>		163,446	157,557



## Consolidated Cash Flow Statement

£000

HALMA

	Notes	2003 52 weeks	2002 52 weeks
<b>Cash flow from operating activities</b>	22	<u>60,309</u>	<u>55,860</u>
<b>Return on investments and servicing of finance</b>			
Interest received		1,280	770
Interest paid		(622)	(522)
		<u>658</u>	<u>248</u>
<b>Taxation</b>			
Current taxation paid		(15,498)	(17,023)
<b>Capital expenditure</b>			
Purchase of tangible fixed assets		(11,257)	(8,120)
Sale of tangible fixed assets		<u>1,872</u>	<u>1,667</u>
		<u>(9,385)</u>	<u>(6,453)</u>
<b>Acquisitions</b>			
Acquisition of businesses	22	(49,857)	(2,571)
Cash and overdrafts acquired		<u>2,655</u>	<u>-</u>
		<u>(47,202)</u>	<u>(2,571)</u>
<b>Equity dividends paid</b>		<u>(20,066)</u>	<u>(17,673)</u>
		<u>(31,184)</u>	<u>12,388</u>
<b>Management of liquid resources</b>			
Decrease/(increase) in short-term deposits	22	20,064	(20,912)
<b>Financing</b>			
Issue of ordinary share capital		820	4,382
Increase in loans		<u>13,399</u>	<u>8,253</u>
		<u>14,219</u>	<u>12,635</u>
<b>Increase in cash</b>	22	<u>3,099</u>	<u>4,111</u>

	Notes	2003 52 weeks	2002 52 weeks
<b>Fixed assets</b>			
Tangible assets	11	3,663	4,556
Investments	20	42,760	40,119
		<u>46,423</u>	<u>44,675</u>
<b>Current assets</b>			
Debtors	13	119,983	91,105
Short-term deposits		14,000	34,200
Cash at bank and in hand		57	-
		<u>134,040</u>	<u>125,305</u>
<b>Creditors: amounts falling due within one year</b>			
Borrowings	14	27,506	14,668
Creditors	15	17,084	15,825
Current taxation		1,462	2,838
Dividends payable		12,892	11,712
		<u>58,944</u>	<u>45,043</u>
<b>Net current assets</b>		<u>75,096</u>	<u>80,262</u>
<b>Total assets less current liabilities</b>		121,519	124,937
<b>Creditors: amounts falling due after one year</b>	16	143	131
<b>Provisions for liabilities and charges</b>	17	534	476
		<u>120,842</u>	<u>124,330</u>
<b>Capital and reserves</b>			
Called up share capital	18	36,549	36,473
Share premium account	9	6,375	5,631
Other reserves	9	185	185
Profit and loss account	21	77,733	82,041
<b>Equity shareholders' funds</b>		<u>120,842</u>	<u>124,330</u>
Approved by the Board of Directors on 17 June 2003			
D S Barber   K J Thompson   Directors			

## Accounting Policies

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### Basis of accounting

The accounts set out on pages 46 to 73 are prepared under the historical cost convention and comply with applicable UK Accounting Standards. The principal Group accounting policies have been applied consistently throughout the current and preceding year. The accounts also reflect the transitional requirements of FRS 17 (Retirement Benefits).

### Basis of consolidation

The consolidated accounts include the accounts of Halma p.l.c. and its subsidiary companies made up to 29 March 2003. The results of subsidiary companies acquired are included from the month of acquisition.

### Acquisitions

Fair values are ascribed to tangible assets and liabilities of subsidiary companies and businesses at the dates of acquisition and the resultant goodwill is capitalised as an intangible asset. Prior to 28 March 1998 any goodwill surplus or deficiency was taken to reserves as a matter of accounting policy.

### Intangible assets

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

### Foreign currencies

Transactions in foreign currency are recorded at the rate of exchange at the date of the transaction unless matched by a forward currency contract. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates prevailing at that date, or, where appropriate, at the forward currency contract rate. Any gain or loss arising from subsequent exchange rate movements is included as an exchange gain or loss in the Consolidated Profit and Loss Account.

Net assets of overseas subsidiary companies are expressed in sterling at the rates of exchange ruling at the end of the financial year, and trading results and cash flows at the average rates of exchange for the financial year. Exchange gains or losses arising on these translations, together with those on foreign currency borrowings which are taken out to hedge the Group's overseas investments, are taken to reserves.

### Turnover

Turnover represents sales, less returns, by subsidiary companies to external customers excluding value added tax.

### Investments

Investments are stated at cost less provision for impairment.

#### Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less provisions for impairment and depreciation which, with the exception of freehold land which is not depreciated, is provided on all tangible fixed assets on the straight line method, each item being written off over its estimated life. The principal annual rates used for this purpose are:

Freehold buildings	2%
Leasehold properties –	
more than 50 years unexpired	2%
less than 50 years unexpired	Period of lease
Plant, machinery and equipment	8% to 20%
Motor vehicles	20%
Short-life tooling	33 <sup>1</sup> / <sub>3</sub> %

#### Leases

The costs of operating leases of property and other assets are charged as incurred.

#### Pensions

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

#### Research and development

Expenditure on research and development is written off in the financial year in which it is incurred.

#### Stocks

Stocks and work in progress of subsidiary companies are included at the lower of cost and net realisable value. Cost includes the appropriate proportion of production and other overheads considered by the Directors to be attributable to bringing the stock to its location and condition at the year end.

#### Deferred taxation

The Group provides for taxation deferred because of timing differences between profits as computed for taxation purposes and profits as stated in the accounts, on an undiscounted basis. Deferred taxation is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

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

**1 Segmental analysis**

## Geographical analysis

	By destination		By origin	
	2003	2002	2003	2002
<b>Turnover</b>				
United Kingdom	79,132	84,338	162,194	168,483
United States of America	82,060	83,208	84,724	85,610
Europe excluding UK	61,145	55,755	30,823	20,949
Far East and Australasia	26,289	23,758	10,199	8,319
Africa, Near and Middle East	10,064	9,339	-	-
Other	8,603	11,199	2,840	3,584
Inter-segmental sales	-	-	(23,487)	(19,348)
	<u>267,293</u>	<u>267,597</u>	<u>267,293</u>	<u>267,597</u>
<b>Profit before taxation</b>				
United Kingdom			24,768	29,327
United States of America			14,366	13,841
Other countries			6,966	4,850
			<u>46,100</u>	<u>48,018</u>
Goodwill amortisation			(3,235)	(2,297)
Interest			408	237
Profit on ordinary activities before taxation			<u>43,273</u>	<u>45,958</u>
<b>Net assets</b>				
United Kingdom			46,763	52,493
United States of America			22,916	24,957
Other countries			17,268	9,455
			<u>86,947</u>	<u>86,905</u>
Net (debt)/cash			(93)	30,610
Net tangible assets			86,854	117,515
Intangible assets			76,592	40,042
Equity shareholders' funds			<u>163,446</u>	<u>157,557</u>



**1 Segmental analysis continued**

## Sector analysis

	2003	2002
<b>Turnover</b>		
Fire and Gas	70,026	70,414
Water	33,090	34,051
Elevator Electronics	46,308	33,097
Process Safety	35,241	36,704
Resistors	27,493	31,461
Optics and Specialist	55,996	62,462
Inter-segmental sales	(861)	(592)
	<u>267,293</u>	<u>267,597</u>
<b>Profit before taxation</b>		
Fire and Gas	15,028	14,792
Water	5,517	7,728
Elevator Electronics	8,126	5,642
Process Safety	6,753	6,247
Resistors	3,067	4,033
Optics and Specialist including holding companies	7,609	9,576
	<u>46,100</u>	<u>48,018</u>
Goodwill amortisation	(3,235)	(2,297)
Interest	408	237
Profit on ordinary activities before taxation	<u>43,273</u>	<u>45,958</u>
<b>Net assets</b>		
Fire and Gas	18,239	20,392
Water	14,747	16,512
Elevator Electronics	16,416	10,292
Process Safety	11,176	10,964
Resistors	8,483	10,817
Optics and Specialist including holding companies	17,886	17,928
	<u>86,947</u>	<u>86,905</u>
Net (debt)/cash	(93)	30,610
Net tangible assets	86,854	117,515
Intangible assets	76,592	40,042
Equity shareholders' funds	<u>163,446</u>	<u>157,557</u>

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

## 2 Earnings per ordinary share

Earnings per ordinary share are calculated by dividing the profit for the financial year of £28,359,000 (2002: £31,157,000) by the weighted average of 365,411,453 shares in issue during the year (2002: 363,099,764).

Diluted earnings per ordinary share are calculated using the same earnings as for earnings per ordinary share, divided by 365,809,420 shares (2002: 364,980,744) which includes dilutive potential ordinary shares of 397,967 (2002: 1,880,980). The Company's dilutive potential ordinary shares are calculated from those exercisable share options where the exercise price is less than the average price of the Company's ordinary shares during the year. The earnings per ordinary share before goodwill amortisation as presented on the profit and loss account, represents a more consistent measure of underlying performance. A reconciliation of earnings and the effect on per share figures is presented below:

	Per ordinary share			
	2003	2002	2003 p	2002 p
Earnings	28,359	31,157	7.76	8.58
Add back: goodwill amortisation (after tax)	2,870	1,902	0.79	0.52
Earnings before goodwill amortisation	<u>31,229</u>	<u>33,059</u>	<u>8.55</u>	<u>9.10</u>

## 3 Operating profit

	2003	2002
Operating profit comprises:		
Turnover	267,293	267,597
Cost of sales	(187,006)	(189,023)
Gross profit	80,287	78,574
Distribution costs	(6,725)	(6,275)
Administrative expenses (including goodwill amortisation)	(31,092)	(26,905)
Other operating income	395	327
	<u>42,865</u>	<u>45,721</u>

Included in the above for 2003 are the following amounts related to acquired operations: cost of sales £9,825,000; gross profit £5,309,000; distribution costs £520,000; administrative expenses £2,801,000 (including goodwill amortisation £953,000).

### 3 Operating profit continued

	2003	2002
Operating profit is arrived at after charging:		
Depreciation	7,554	7,371
Goodwill amortisation	3,235	2,297
Research and development	9,623	8,206
Auditors' remuneration: Deloitte & Touche	430	-
PricewaterhouseCoopers	-	460
Operating lease rents: property	3,129	3,162
other	132	97

Auditors' remuneration includes £60,000 (2002: £59,000) in respect of the Company. In addition, fees amounting to £42,000 (2002: £38,000) were charged by the Group's former auditors, PricewaterhouseCoopers, and £3,000 (2002: nil) by Deloitte & Touche, the Group's current auditors, for non-audit services provided to UK Group companies.

### 4 Employee information

	2003 Number	2002 Number
The average number of persons employed by the group during the year was:		
United Kingdom	1,801	1,878
Overseas	992	981
	<u>2,793</u>	<u>2,859</u>
Group employee costs comprise:	£000	£000
Wages and salaries	63,334	63,468
Social security costs	8,485	8,276
Other pension costs (note 25)	3,859	3,676
	<u>75,678</u>	<u>75,420</u>

### 5 Directors' remuneration

Details of Directors' remuneration are set out on pages 38 to 43 within the Report on Remuneration and form part of these financial statements.

### 6 Interest

	2003	2002
Interest receivable on short-term deposits	1,220	820
Interest payable on bank loans and overdrafts	(717)	(462)
Other interest	(95)	(121)
	<u>408</u>	<u>237</u>

No amounts of interest were capitalised during the year (2002: £70,000 attributable to property additions).

## 7 Taxation

	2003		2002	
Current tax				
UK corporation tax at 30% (2002: 30%)	7,114		9,199	
Overseas taxation	6,829		4,871	
Adjustments in respect of prior years	203		(268)	
Total current tax	14,146		13,802	
Deferred tax				
Origination and reversal of timing differences	738		1,039	
Adjustments in respect of prior years	30		(40)	
Total deferred tax charge	768		999	
	14,914		14,801	
	Before goodwill amortisation		After goodwill amortisation	
Reconciliation of effective tax rate on profit on ordinary activities:	2003	2002	2003	2002
	%	%	%	%
UK corporation tax rate	30.0	30.0	30.0	30.0
Higher tax rates on overseas profits	3.3	2.5	3.6	2.6
Adjustments in respect of prior years	0.5	(0.7)	0.5	(0.7)
Other timing differences	(0.9)	(0.3)	0.4	0.3
Effective tax rate	32.9	31.5	34.5	32.2

## 8 Ordinary dividends

	2003 p	2002 p	2003	2002
Interim paid	2,285	2,077	8,352	7,564
Final proposed	3,527	3,206	12,892	11,712
Balance of final dividend	-	-	2	47
	5,812	5,283	21,246	19,323

If approved, the final dividend will be paid on 365,493,972 shares in issue. No shares have been issued after 29 March 2003.

## 9 Reserves

	Share premium account	Capital redemption reserve	Profit and loss account
At 30 March 2002	5,631	185	115,268
Profit transferred to reserves	-	-	7,113
Share options exercised	744	-	-
Exchange adjustments	-	-	(2,044)
At 29 March 2003	6,375	185	120,337

**10 Fixed assets – intangible assets**

	Goodwill
<b>Cost</b>	
At 30 March 2002	45,817
Additions (Note 19)	39,785
At 29 March 2003	<u>85,602</u>
<b>Amortisation</b>	
At 30 March 2002	5,775
Charge for the year	3,235
At 29 March 2003	<u>9,010</u>
<b>Net book amounts</b>	
At 29 March 2003	76,592
At 30 March 2002	40,042

**11 Fixed assets – tangible assets**

Group	Freehold properties	Land and buildings Long leases	Short leases	Plant equipment & vehicles	Total
<b>Cost</b>					
At 30 March 2002	21,449	1,355	2,478	60,915	86,197
Assets of businesses acquired	4,713	–	51	3,217	7,981
Additions at cost	2,401	93	305	8,458	11,257
Disposals	(1,246)	–	(178)	(4,694)	(6,118)
Exchange adjustments	186	–	(33)	(806)	(653)
At 29 March 2003	<u>27,503</u>	<u>1,448</u>	<u>2,623</u>	<u>67,090</u>	<u>98,664</u>
<b>Accumulated depreciation</b>					
At 30 March 2002	2,914	298	1,222	37,903	42,337
Assets of businesses acquired	1,371	–	10	2,341	3,722
Charge for the year	460	21	250	6,823	7,554
Disposals	(366)	–	(106)	(3,929)	(4,401)
Exchange adjustments	41	–	(19)	(453)	(431)
At 29 March 2003	<u>4,420</u>	<u>319</u>	<u>1,357</u>	<u>42,685</u>	<u>48,781</u>
<b>Net book amounts</b>					
At 29 March 2003	23,083	1,129	1,266	24,405	49,883
At 30 March 2002	18,535	1,057	1,256	23,012	43,860



**11 Fixed assets – tangible assets continued**

Halma p.l.c.	Land and buildings Freehold properties	Short leases	Plant equipment & vehicles	Total
<b>Cost</b>				
At 30 March 2002	4,811	76	981	5,868
Additions at cost	34	91	183	308
Disposals	(1,067)	–	(152)	(1,219)
At 29 March 2003	3,778	167	1,012	4,957
<b>Accumulated depreciation</b>				
At 30 March 2002	730	45	537	1,312
Charge for the year	65	6	144	215
Disposals	(125)	–	(108)	(233)
At 29 March 2003	670	51	573	1,294
<b>Net book amounts</b>				
At 29 March 2003	3,108	116	439	3,663
At 30 March 2002	4,081	31	444	4,556

**12 Stocks**

	2003	2002
Raw materials and consumables	15,231	14,566
Work in progress	8,024	7,481
Finished goods and goods for resale	11,931	13,165
	35,186	35,212

**13 Debtors**

	Group		Halma p.l.c.	
	2003	2002	2003	2002
Falling due within one year:				
Trade debtors	65,578	64,059	–	–
Amounts due from group companies	–	–	117,588	90,678
Prepayments and accrued income	3,979	2,558	1,259	423
Other debtors	3,519	1,376	1,136	4
	73,076	67,993	119,983	91,105

**14 Borrowings**

	Group		Halma p.l.c.	
	2003	2002	2003	2002
Falling due within one year:				
Unsecured bank loans and overdrafts	26,584	15,047	26,423	14,668
Other unsecured loans	1,083	–	1,083	–
	<u>27,667</u>	<u>15,047</u>	<u>27,506</u>	<u>14,668</u>

**15 Creditors**

	Group		Halma p.l.c.	
	2003	2002	2003	2002
Trade creditors	28,878	23,606	375	411
Other taxation and social security	3,842	3,976	1,197	1,244
Amounts owing to group companies	–	–	13,609	11,704
Accruals and deferred income	8,778	7,134	1,144	1,060
Other creditors	4,592	2,230	759	1,406
	<u>46,090</u>	<u>36,946</u>	<u>17,084</u>	<u>15,825</u>

**16 Creditors: amounts falling due after one year**

	Group		Halma p.l.c.	
	2003	2002	2003	2002
Deferred purchase consideration	1,665	491	143	131

**17 Provisions for liabilities and charges**

	Group		Halma p.l.c.	
	2003	2002	2003	2002
Deferred taxation	5,265	4,167	534	476

Analysis of Group deferred tax provided is as follows:

	2003	2002
Accelerated capital allowances	3,186	2,784
Short-term timing differences	(2,223)	(1,762)
Goodwill timing differences	4,302	3,145
Net deferred tax liability	<u>5,265</u>	<u>4,167</u>

**17 Provisions for liabilities and charges continued**

Movement in deferred tax liability:

	Group	Halma p.l.c.
At 30 March 2002	4,167	476
Charge to profit and loss account:		
UK	195	227
Overseas	573	-
Deferred tax on exchange differences	(169)	(169)
Acquired (Note 19)	(217)	-
Exchange adjustments	716	-
At 29 March 2003	<u>5,265</u>	<u>534</u>

No provision is made for taxation which might become payable if profits retained by overseas subsidiary companies are distributed as dividends. There are no plans to pay such dividends.

**18 Called up share capital**

	2003	Authorised 2002	Issued and fully paid 2003	2002
Ordinary shares of 10p each	43,656	43,656	36,549	36,473

The number of ordinary shares in issue at 29 March 2003 was 365,493,972.

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

	Issued and fully paid
At 30 March 2002	36,473
Share options exercised	76
At 29 March 2003	<u>36,549</u>

The total consideration received in respect of share options exercised amounted to £820,000.

**18 Called up share capital continued**

Options in respect of 2,091,445 ordinary shares remained outstanding at 29 March 2003 under the share option plan approved by shareholders in 1990. Subject to the performance restrictions on the exercise of options granted under this plan, options are exercisable for the periods and at the prices set out below:

Number of shares	Option price	Five years from	Seven years from
160,885	117.57p – 128.81p		1996
458,475	122.63p – 130.52p		1997
238,797	111.75p – 126p		1998
52,665	138p – 144.76p		1999
154,000	122.5p – 126.5p		2000
22,200	101.5p – 116.5p		2001
171,500	120p – 137p		2002
244,776	98.05p – 128.36p	1998	
269,492	104.23p – 124.94p	1999	
309,989	111.75p – 126p	2000	
3,866	138.02p	2001	
4,800	120p	2004	

Options in respect of 4,852,224 ordinary shares remained outstanding at 29 March 2003 under the share option plan approved by shareholders in 1996. Subject to the performance restrictions on the exercise of options granted under this plan, options are exercisable for the periods and at the prices set out below:

Number of shares	Option price	Five years from	Seven years from
366,660	138p – 144.75p		1999
964,000	122.5p – 138.5p		2000
380,500	101.5p – 123.5p		2001
1,173,200	120p – 137p		2002
302,264	138p – 144.75p	2001	
415,800	122.5p – 137p	2002	
414,400	101.5p – 123.5p	2003	
835,400	120p – 136p	2004	

**18 Called up share capital continued**

Options in respect of 8,486,380 ordinary shares remained outstanding at 29 March 2003 under the share option plan approved by shareholders in 1999. Subject to the performance restrictions on the exercise of options granted under this plan, options are exercisable for the periods and at the prices set out below:

Number of shares	Option price	Five years from	Seven years from
2,435,100	111p		2003
1,259,500	163.5p		2004
1,984,314	132p – 144.33p		2005
999,800	111p	2005	
766,300	163.5p	2006	
1,041,366	144.33p	2007	

The 1990, 1996 and 1999 Share Option Plans provide for the grant of two categories of option, both of which are subject to performance criteria.

Section A options are exercisable after three years if the Company's earnings per share growth exceeds, for the 1990 Plan, the growth in the Retail Price Index, for the 1996 Plan, the growth in the Retail Price Index plus 2% per annum and, for the 1999 Plan, the growth in the Retail Price Index plus 3% per annum. Section B options are exercisable after five years if the Company's earnings per share growth exceeds the earnings per share growth of, for the 1990 and 1996 Plans, all but the top quarter of companies which were within the FTSE 100 at the date of grant of any option and for the 1999 Plan, all but the top quarter of companies which were within a peer group at the date of grant of any option.

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



**19 Goodwill arising on acquisition**

	Book value	Fair value adjustments	Total
Tangible fixed assets	5,075	(816)	4,259
Current assets:			
Stocks	5,254	(1,026)	4,228
Debtors	5,084	(185)	4,899
Cash	2,655	–	2,655
Total assets	18,068	(2,027)	16,041
Current liabilities:			
Creditors	(2,908)	(244)	(3,152)
Corporation tax	39	(63)	(24)
Deferred tax	(366)	583	217
Total liabilities	(3,235)	276	(2,959)
Net assets of businesses acquired	14,833	(1,751)	13,082
Deferred purchase consideration			(3,404)
Cash consideration			(49,530)
Total consideration			(52,934)
Goodwill arising on current year acquisitions			(39,852)
Adjustments relating to prior years' acquisitions			67
Goodwill arising on acquisition (note 10)			(39,785)

The goodwill on current year acquisitions arose on the purchase, in October 2002, of the whole of the issued share capital of Bureau D'Electronique Appliquée S.A. and B.E.R. Group S.A. ('BEA Group'), and of the whole of the issued share capital of Radcom (Technologies) Limited in February 2003. In the year to December 2001 BEA Group made sales of Euro 42 million and earnings before interest, tax and amortisation (EBITA) of Euro 7 million and in the period from January 2002 to acquisition, sales of Euro 32 million and EBITA of Euro 6 million. Total purchase consideration, including deferred amounts, was £49,470,000 for BEA Group and £3,464,000 for Radcom (Technologies) Limited.

Adjustments were made to the book value of the net assets acquired to reflect their fair value to the Group. Acquired stocks were valued at the lower of cost and net realisable value adopting Group bases; freehold properties were adjusted to their market value at the date of acquisition; any liabilities for warranties relating to past trading were recognised. Other previously unrecognised assets and liabilities at acquisition were included; and accounting policies were aligned with those of the Group where appropriate.

Deferred purchase consideration is payable in cash and comprises both fixed and contingent elements. The contingent element relates to the acquisition of BEA Group and has been provided at the estimated amount payable. The amount ultimately payable is dependent on the profit achieved by BEA Group for the period to March 2004.

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

Cumulative goodwill written off against reserves on acquisitions prior to 28 March 1998, net of that attributable to closures and sales, amounts to £76,526,000 (2002: £76,526,000).

**20 Investments**

Shares in Group companies	2003	2002
At cost less amounts written off at 30 March 2002	40,119	38,428
Additions	2,641	1,691
At cost less amounts written off at 29 March 2003	42,760	40,119

The principal movement in the year relates to the acquisition of the whole of the issued share capital of Radcom (Technologies) Limited, a company incorporated in Great Britain.

Details of principal subsidiary companies are set out on pages 78 and 79. All these subsidiaries are wholly owned and, apart from the following, are subsidiaries of Halma p.l.c. and are incorporated in Great Britain where they principally operate.

Name of company	Country of incorporation
Fortress Systems Pty. Limited	Australia
*IPC Resistors Inc.	Canada
*HF Sécurité S.A.S.	France
*Hydreka S.A.S.	France
*S.E.R.V. Trayvou Interverrouillage S.A.S.	France
*Apollo Gesellschaft für Meldetechnologie mbH	Germany
*Berson Milieutechniek B.V.	The Netherlands
*Bureau D'Electronique Appliquée S.A.	Belgium
*TL Jones Limited	New Zealand
*E-Motive Display Pte Limited	Singapore
*Halma Holdings Inc.	USA
*Air Products and Controls Inc.	USA
*Aquionics Inc.	USA
*B.E.A. Inc.	USA
*Bio-Chem Valve Inc.	USA
*Electronic Micro Systems Inc.	USA
*IPC Power Resistors International Inc.	USA
*Janus Elevator Products Inc.	USA
*Marathon Sensors Inc.	USA
*Monitor Controls Inc.	USA
*Mosebach Manufacturing Company	USA
*Oklahoma Safety Equipment Co. Inc.	USA
*Perma Pure LLC	USA
*Post Glover Resistors Inc.	USA
*Volk Optical Inc.	USA

\*Interests held by subsidiary companies.

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

As permitted by Section 230 of the Companies Act 1985, the Profit and Loss Account of Halma p.l.c. is not presented as part of these accounts. The movements on that account during the year were:

	2003	2002
At 30 March 2002	82,041	79,008
Profit after taxation	18,152	22,445
Dividends	(21,246)	(19,323)
Exchange adjustments	(1,214)	(89)
At 29 March 2003	77,733	82,041

## 22 Consolidated cash flow statement

	2003	2002
<b>Reconciliation of operating profit to net cash inflow from operating activities</b>		
Operating profit	42,865	45,721
Depreciation	7,554	7,371
Goodwill amortisation	3,235	2,297
(Profit)/loss on sale of tangible fixed assets	(155)	48
Increase in SSAP 24 pension prepayment	(916)	(126)
Property sale receivable	(1,100)	-
Decrease in stocks	3,288	5,097
Decrease in debtors	122	1,825
Increase/(decrease) in creditors	5,416	(6,373)
Net cash inflow from operating activities	60,309	55,860

Included in the Consolidated Cash Flow Statement are the following amounts related to acquired operations: net cash inflow from operating activities £2,428,000; net interest received £3,000; taxation paid £375,000; net capital expenditure £2,678,000.

The cash outflow of £49,857,000 on the acquisition of businesses includes the payment of £327,000 of deferred purchase consideration which arose from acquisitions made in earlier years, and where provision was made in prior years' financial statements.

	2003	2002
<b>Reconciliation of net cash flow to movement in net (debt)/cash</b>		
Increase in cash	3,099	4,111
(Decrease)/increase in liquid resources	(20,064)	20,912
Loan notes issued	(1,083)	-
Cash inflow from loans	(13,399)	(8,253)
Exchange adjustments	744	114
	(30,703)	16,884
Net cash brought forward	30,610	13,726
Net (debt)/cash carried forward	(93)	30,610

**22 Consolidated cash flow statement continued**

	At 30 March 2002	Cash flow	Other non-cash changes	Exchange adjustments	At 29 March 2003
Analysis of net (debt)/cash:					
Cash	11,271	2,647	-	(653)	13,265
Overdrafts	(615)	452	-	1	(162)
		3,099			
Short-term deposits	34,386	(20,064)	-	(13)	14,309
Bank loans	(14,432)	(13,399)	-	1,409	(26,422)
Other unsecured loans	-	-	(1,083)	-	(1,083)
	<u>30,610</u>	<u>(30,364)</u>	<u>(1,083)</u>	<u>744</u>	<u>(93)</u>

**23 Financial instruments****Policy**

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

**Foreign currency risk**

The Group has transactional currency exposures. These arise on sales or purchases by operating companies in currencies other than the companies' operating (or 'functional') currency. Significant sales are hedged at the date of invoicing by means of matched borrowings and forward currency contracts. Significant purchases are hedged by means of forward currency contracts.

The Group which is based in the UK and reports in Sterling, has a significant investment in overseas operations in the USA and Europe, with further investments in Australia, New Zealand, Canada, Malaysia, Singapore and China. As a result, the Group's balance sheet can be affected by movements in these countries' exchange rates. Where significant and appropriate, currency denominated net assets are hedged by currency borrowings. These currency exposures are reviewed regularly. The Group does not hedge future currency profits, so the Sterling value of overseas profits earned during the year is sensitive to the strength of Sterling, particularly against the US dollar and the Euro.

**Finance and interest rate risk**

The Group does not have significant exposure to interest rate fluctuations. Where bank borrowings are used to finance operations they tend to be short term with floating interest rates. Borrowings used to manage foreign currency risk are drawn on the Group's revolving loan facilities and have fixed interest rates with maturities of not more than one year.

### 23 Financial instruments continued

Surplus funds are placed on short-term fixed rate deposit or in floating rate deposit accounts.

#### *Liquidity risk*

The Group has a strong cash flow and the funds generated by operating companies are managed regionally based on geographic location. Funds are placed on deposit with secure, highly-rated banks. For short-term working capital purposes, most operating companies utilise local bank overdrafts. These practices allow a balance to be maintained between continuity of funding, security and flexibility. Because of the nature of their use, the facilities are typically "on demand" and as such uncommitted. Borrowing facilities, including the Group's revolving loan facilities, are typically reviewed annually.

#### Currency exposures

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

2003					
Net foreign currency monetary assets/(liabilities)					
Functional currency of operation	Sterling	US dollar	Euro	Other	Total
Sterling	–	1,345	2,593	146	4,084
US dollar	(45)	–	19	–	(26)
Euro	20	666	–	40	726
Other	129	798	1	53	981
<b>Total</b>	<b>104</b>	<b>2,809</b>	<b>2,613</b>	<b>239</b>	<b>5,765</b>

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

The amounts shown in the tables above take into account the effect of any forward currency contracts entered into to manage these currency exposures.

#### Interest rate risk profile

The Group's financial assets which are subject to interest rate fluctuations are short-term cash deposits which totalled £14,309,000 at 29 March 2003 (2002: £34,386,000). These comprised Sterling denominated deposits of £14,022,000 (2002: £34,200,000), US dollar denominated deposits of £58,000 (2002: £3,000), Euro and other currency deposits of £229,000 (2002: £183,000) which are placed on local money markets and earn interest at market rates.



## 23 Financial instruments continued

The financial liabilities which are subject to interest rate fluctuations are bank loans, bank overdrafts and certain unsecured loans, which totalled £27,667,000 at 29 March 2003 (2002: £15,047,000). All are subject to floating rates of interest. These comprise US dollar denominated bank loans of £19,745,000 (2002: £8,450,000) which bear interest with reference to the US dollar LIBOR rates, US dollar denominated bank overdrafts of £152,000 (2002: £8,000) which bear interest at rates referenced to US dollar base rates, Euro denominated bank loans of £6,678,000 (2002: £5,982,000) which bear interest with reference to the Euro LIBOR rates, Euro denominated bank overdrafts of £nil (2002: £245,000) which bear interest at rates referenced to Euro base rates and Sterling denominated bank overdrafts of £9,000 (2002: £362,000) and loan notes of £1,083,000 (2002: nil) which bear interest at rates referenced to UK base rates.

### Maturity of financial liabilities

With the exception of the deferred purchase consideration due after one year, all of the Group's financial liabilities mature in one year or less or on demand. The total of deferred purchase consideration due after one year includes £1,492,000 (2002: £92,000) due between one and two years, with the balance of £173,000 (2002: £399,000) due between two and five years.

### Borrowing facilities

The Group's principal source of borrowing facilities is through 'on demand' bank overdrafts which are, by definition, uncommitted. These facilities are generally reviewed on an annual or ongoing basis and hence the facilities expire within one year or less.

The Group also has committed borrowing facilities which are used for the purpose of managing foreign currency risk. At 29 March 2003 committed facilities of this type amounted to £43,822,000 of which £26,423,000 was drawn down. The borrowing facilities are reviewed annually, and as such the weighted average maturity of the facilities is less than one year.

### Fair values of financial assets and financial liabilities

As at 29 March 2003 there was no significant difference between the book value and fair value (as determined by market value) of the Group's financial assets and financial liabilities.

### Hedging

As explained above, the Group's policy is to hedge significant sales and purchases denominated in foreign currency using forward currency contracts. The gains and losses on these instruments are recognised upon recognition of the underlying exposure. The amounts of unrecognised gains or losses on instruments used for hedging at 29 March 2003 and 30 March 2002 are not significant.

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

## 24 Commitments

### Capital commitments

Capital expenditure authorised and contracted at 29 March 2003 but not provided in these accounts amounts to £2,101,000 (2002: £719,000).

## 24 Commitments continued

### Commitments under operating leases

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

	Land and buildings		Other	
	2003	2002	2003	2002
Within one year	380	224	44	17
Within two to five years	1,594	1,258	254	66
After five years	1,229	1,630	-	-
	<u>3,203</u>	<u>3,112</u>	<u>298</u>	<u>83</u>

Total annual commitments under non-cancellable operating leases amount to £3,501,000 (2002: £3,195,000).

## 25 Pensions

Group companies operate both defined benefit and defined contribution pension schemes. The Halma Group Pension Plan and the Apollo Pension and Life Assurance Plan have sections of the defined benefit type with assets held in separate trustee administered funds. During the financial year, both of these defined benefit sections were closed to new entrants and a defined contribution section was established within the Halma Group Pension Plan. Defined contribution schemes are mainly adopted in overseas subsidiaries. Pension contributions for the Group are paid in accordance with the advice of professionally qualified actuaries.

The total pension cost for the Group was £3,859,000 (2002: £3,676,000) of which £757,000 (2002: £875,000) relates to overseas schemes.

The Halma Group Pension Plan was last assessed as at 1 December 2002, and the Apollo Pension and Life Assurance Plan as at 1 April 2002, using the projected unit method. The principal actuarial assumptions adopted in both valuations were firstly that the investment return would exceed the rate of salary growth by 3.25% per annum dependent on the scheme membership category, and secondly that pensions in the course of payment would increase at 2.5% per annum or, for future service, in accordance with the requirements of the Pension Act 1995.

At 1 December 2002 the market value of the Halma Group Pension Plan's assets was £42,533,000. The actuarial value of the scheme's assets represented 69% of the benefits that had accrued to members after allowing for expected future increases in earnings. The shortfall is being addressed by increased company contributions.

At 1 April 2002 the market value of the Apollo Pension and Life Assurance Plan's assets was £7,283,000. The actuarial value of the scheme's assets represented 77% of the benefits that had accrued to members after allowing for expected future increases in earnings. The shortfall is being addressed by increased company contributions.

### Financial Reporting Standard 17 (Retirement Benefits)

The Group has adopted the transitional provisions of FRS 17 (Retirement Benefits), and the following second year transitional disclosures are required.

## 25 Pensions continued

The financial assumptions used to calculate scheme liabilities at 29 March 2003 under FRS 17 are:

	2003	2002
Rate of increase in salaries	4.00%	4.25%
Rate of increase of pensions in payment (pre April 1997)	3.00%	3.00%
Rate of increase of pensions in payment (post April 1997)	2.50%	2.75%
Discount rate	5.50%	6.00%
Inflation assumption	2.50%	2.75%

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

	Expected rate of return 2003	Market value 2003	Expected rate of return 2002	Market value 2002
Equities	7.50%	37,301	8.25%	45,407
Bonds	4.50%	7,569	5.25%	8,128
Property	6.00%	1,704	6.75%	1,609
Total market value of assets		46,574		55,144
Present value of scheme liabilities		(90,545)		(67,705)
Deficit in schemes		(43,971)		(12,561)
Related deferred tax asset		13,191		3,768
Net pension liability		(30,780)		(8,793)

The total market value of assets in the UK defined benefit schemes under FRS 17 differs from that disclosed under SSAP 24 as at the latest actuarial valuation dates primarily due to changes in stock market values since the dates of the actuarial valuations.

Analysis of the amount that would have been charged to operating profit under FRS 17 in respect of the UK defined benefit schemes:

	2003
Current service cost	2,924
Past service cost	–
	<u>2,924</u>

Analysis of the amount that would have been credited to net finance income under FRS 17:

	2003
Expected return on pension scheme assets	4,438
Interest on scheme liabilities	(4,153)
	<u>285</u>

**25 Pensions continued**

Analysis of the total actuarial loss that would have been recognised in the statement of total recognised gains and losses:

	2003
Actual return less expected return on scheme assets	(17,042)
Experience losses arising on scheme liabilities	(3,260)
Changes in assumptions	(12,427)
	<u>(32,729)</u>

Movement in deficit during the year:

	2003
Deficit at beginning of year	(12,561)
Current service cost	(2,924)
Contributions paid	3,958
Past service costs	-
Net finance income	285
Actuarial loss	(32,729)
Deficit at end of year	<u>(43,971)</u>

History of experience losses:

	2003
Actual return less expected return on scheme assets	(17,042)
Percentage of scheme assets	(37)%
Experience losses arising on scheme liabilities	(3,260)
Percentage of scheme liabilities	(4)%
Total actuarial loss recognised in the statement of total recognised gains and losses	(32,729)
Percentage of scheme liabilities	(36)%

**25 Pensions continued**

If the above amount was recognised in the Accounts, the Group's net assets and profit and loss account reserve at 29 March 2003 would be as follows:

	2003	2002
Net assets excluding pension liability	163,446	157,557
less SSAP 24 pension prepayment	(1,042)	(126)
Pension liability	<u>(30,780)</u>	<u>(8,793)</u>
Net assets including pension liability	<u>131,624</u>	<u>148,638</u>
Profit and loss account reserve excluding pension liability	120,337	115,268
less SSAP 24 pension prepayment	(1,042)	(126)
Pension liability	<u>(30,780)</u>	<u>(8,793)</u>
Profit and loss account reserve including pension liability	<u>88,515</u>	<u>106,349</u>

Other post retirement benefits liabilities are already fully included in net assets.

## Notice of Meeting

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Notice is hereby given that the one hundred and ninth Annual General Meeting of Halma p.l.c. will be held at The Ballroom, The Berkeley Hotel, Wilton Place, London SW1X 7RL on Tuesday, 29 July 2003 at 12 noon for the following purposes:

### Ordinary business

- 1 To approve the Report of the Directors, the audited part of the Report on Remuneration and the Accounts for the period of 52 weeks to 29 March 2003.
- 2 To declare a dividend on the ordinary shares.
- 3 To re-elect as a Director Mr S R O'Shea who retires from the Board by rotation and being eligible offers himself for re-election.
- 4 To re-elect as a Director Mr K J Thompson who retires from the Board by rotation and being eligible offers himself for re-election.
- 5 To re-elect as a Director Mr N Quinn who retires from the Board by rotation and being eligible offers himself for re-election.
- 6 To re-elect as a Director Mr E G Unwin\* who was appointed in September 2002 and who retires in accordance with the Articles of Association and being eligible offers himself for re-election.
- 7 To re-elect as a Director Mr A J Walker\*\* who was appointed in May 2003 and who retires in accordance with the Articles of Association and being eligible offers himself for re-election.
- 8 To re-appoint Deloitte & Touche as Auditors.
- 9 To authorise the Directors to determine the remuneration of the Auditors.

### Special business

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

- 10 That the Report on Remuneration as set out on pages 38 to 43 of the Report and Accounts for the 52 weeks to 29 March 2003 be approved.

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

- 11 That the Directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot or to make any offer or agreement to allot equity securities of the Company pursuant to the authority contained in Resolution 10 passed at the Company's Annual General Meeting on 1 August 2002 as if Section 89(1) of the Companies Act 1985 did not apply to any such allotment, provided that such power shall be limited to the allotment of equity securities:
  - (a) pursuant to the terms of any share scheme for employees approved by the Company in general meeting; and
  - (b) otherwise than pursuant to sub-paragraph (a) above, up to an aggregate nominal amount of £1,825,000,

and shall expire at the conclusion of the next Annual General Meeting of the Company, save that the Company may make any offer or agreement before such expiry which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred hereby has expired; words and expressions defined in or for the purposes of Section 89 to 96 inclusive of the Companies Act 1985 shall bear the same meanings in this resolution.



- 12 That the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of ordinary shares of 10p each ("ordinary shares") provided that:
- (a) the maximum number of shares hereby authorised to be acquired is 36,000,000 ordinary shares, having an aggregate nominal value of £3,600,000;
  - (b) the maximum price which may be paid for any ordinary share is an amount equal to 105 per cent of the average of the middle market quotations for such an ordinary share as derived from the London Stock Exchange's Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased and the minimum price which may be paid for any such ordinary share shall be the nominal value of that share; and
  - (c) the authority hereby conferred shall expire at the conclusion of the Company's next Annual General Meeting (except in relation to the purchase of ordinary shares the contract for which was concluded before such date and which would or might be executed wholly or partly after such date), unless such authority is renewed prior to such time.

A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and on a poll, vote instead of him. A proxy need not be a member. A form of proxy is enclosed. By signing and returning the form of proxy, a shareholder will not be precluded from attending and voting in person should he subsequently find it possible to be present.

By Order of the Board

C T Chesney Secretary  
Misbourne Court Rectory Way Amersham Bucks HP7 0DE  
30 June 2003

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In accordance with the requirements of the Companies Act 1985, a summary of any transactions during the past year by the Directors and their family interests in the Company's shares and copies of Directors' service contracts will be available for inspection at the registered office of the Company from the date of the above notice until 29 July 2003 and at The Berkeley Hotel from 11:45 am on the day of the meeting until the close of the meeting.

Full biographical information of the Directors proposed for re-election appears on page 28 of the Report and Accounts.

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

\*\* denotes non-executive Director and membership of the Audit Committee of the Board

## Summary 1994 to 2003

	93/94	94/95	95/96	96/97	97/98	98/99
Turnover	135,318	153,739	173,652	200,140	213,777	217,758
Overseas sales	74,976	90,045	104,432	119,235	126,863	134,189
Profit before taxation, goodwill amortisation and exceptional items	25,075	29,234	33,619	37,076	42,391	41,823
Net tangible assets	55,518	63,833	77,650	81,209	98,249	102,101
Borrowings	6,898	7,096	8,350	3,763	2,784	7,730
Cash and short-term deposits	16,794	19,759	27,459	13,447	22,639	29,894
Employees	2,099	2,226	2,384	2,677	2,861	2,827
Earnings per ordinary share (Note 1)	4.79p	5.59p	6.44p	7.01p	6.87p	7.91p
Earnings per ordinary share before goodwill amortisation and exceptional items (Note 1)	4.79p	5.59p	6.44p	7.01p	8.26p	7.99p
Year on year increase/(decrease) in earnings per ordinary share before goodwill amortisation and exceptional items	14.3%	16.7%	15.2%	8.9%	17.8%	(3.3%)
Net tangible assets per ordinary share (Note 1)	15.6p	17.9p	21.7p	22.5p	27.1p	28.2p
Year on year increase/(decrease) in net tangible assets per ordinary share	18.2%	14.7%	21.2%	3.7%	20.4%	4.1%
Profit before taxation, goodwill amortisation and exceptional items as a % of turnover	18.5%	19.0%	19.4%	18.5%	19.8%	19.2%
Return on capital employed (Note 2)	45.2%	45.8%	43.3%	45.7%	43.1%	41.0%
Year on year increase in dividends per ordinary share	20%	20%	20%	20%	20%	20%
Ordinary share price at financial year end (Note 1)	127p	113p	138p	134p	124p	92p
Market capitalisation at financial year end	£446.9m	£401.5m	£492.1m	£479.2m	£447.3m	£330.6m

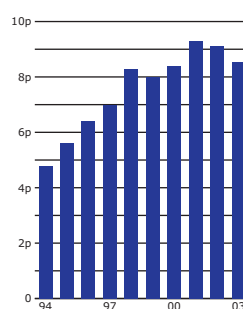
### Notes:

1. Restated for the capitalisation issues made in 1995 and 1997.
2. Return on capital employed is defined as profit before taxation, goodwill amortisation and exceptional items expressed as a % of net tangible assets.
3. Figures prior to 2001/02 have not been restated for the adoption of FRS 19.

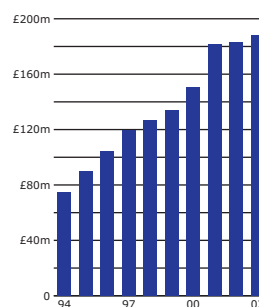
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99/00	00/01	01/02	02/03
233,485	268,322	267,597	267,293
150,727	181,831	183,259	188,161
43,751	49,698	48,255	46,508
89,755	99,991	117,515	86,854
14,700	7,758	15,047	27,667
21,900	21,484	45,657	27,574
2,975	3,059	2,859	2,793
6.08p	8.91p	8.58p	7.76p
8.41p	9.34p	9.10p	8.55p
5.3%	11.1%	(2.6%)	(6.0%)
24.9p	27.7p	32.2p	23.8p
(11.7%)	11.2%	16.2%	(26.1%)
18.7%	18.5%	18.0%	17.4%
48.7%	49.7%	41.1%	53.5%
20%	15%	15%	10%
95p	129p	164p	114p
£340.1m	£465.7m	£598.2m	£416.7m

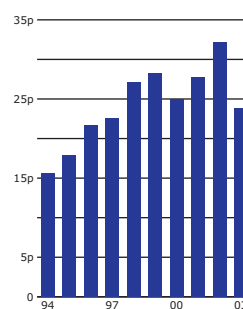
Earnings per share  
(before goodwill amortisation  
and exceptional items)



Overseas sales



Net tangible  
assets per share



	<i>Main products</i>
Air Products and Controls Inc.	Duct detectors and control relays for smoke control systems
Apollo Fire Detectors Limited	Smoke and heat detectors for commercial fire alarm systems
Apollo Gesellschaft für Meldetechnologie mbH	Smoke and heat detectors for commercial fire alarm systems
Aquionics Inc.	Ultraviolet light equipment for water sterilisation
B.E.A. Inc.	Sensors for automatic doors
Berson Milieutechniek B.V.	Ultraviolet light equipment for treating drinking water and water used in the manufacture of food, drinks, pharmaceuticals and electronic components
Bio-Chem Valve Inc.	Miniature valves and micro pumps for scientific instruments
Bureau D'Electronique Appliquée S.A.	Sensors for automatic doors
Castell Safety International Limited	Safety systems for controlling the use of and access to dangerous machines
Cressall Resistors Limited	High power electrical resistors
Crowcon Detection Instruments Limited	Gas detection instruments for personnel and plant safety
Electronic Micro Systems Inc.	Elevator controls and emergency communication systems
Elfab Limited	Pressure sensitive relief devices to protect process plant
E-Motive Display Pte Limited	Electronic displays for providing information to elevator passengers
Fire Fighting Enterprises Limited	Beam smoke detectors and specialist fire extinguishing systems
Fortress Interlocks Limited	Safety systems for controlling access to dangerous machines
Fortress Systems Pty. Limited	Machinery and process safety systems and high power electrical resistors
Halma Holdings Inc.	American holding company
Hanovia Limited	Ultraviolet light equipment for treating drinking water and water used in the manufacture of food, drinks, pharmaceuticals and electronic components
HF Sécurité S.A.S.	Safety systems and high security locks
Hydreka S.A.S.	Equipment and software for flow analysis of water and sewerage systems and leak detection systems
IPC Power Resistors International Inc.	High power electrical resistors
IPC Resistors Inc.	High power electrical resistors and ground fault detection equipment
Janus Elevator Products Inc.	Infrared safety systems for elevator doors and elevator electronic displays
Keeler Limited	Ophthalmic instruments for diagnostic assessment of eye conditions
Kerry Ultrasonics Limited	Ultrasonic cleaning systems for electronic and precision-engineered products
Klaxon Signals Limited	Audio/visual warning systems for industrial security
Marathon Sensors Inc.	Sensors and instruments for combustion control and heat treatment processes
Memco Limited	Infrared safety systems for elevator doors and elevator emergency communications
Monitor Controls Inc.	Elevator signal fixtures
Mosebach Manufacturing Company	High power electrical resistors
Oklahoma Safety Equipment Co. Inc.	Pressure sensitive relief devices to protect process plant
Palintest Limited	Instruments for analysing water and measuring environmental pollution
Palmer Environmental Limited	Instrumentation for quantifying, detecting and controlling leakage in underground water pipelines
Perma Pure LLC	Gas dryers and humidifiers for fuel cell, medical, scientific and industrial use
Post Glover Resistors Inc.	High power electrical resistors and isolated power products
Radcom (Technologies) Limited	Instrumentation for recording data, and detecting and controlling leakage, in water distribution pipelines
S & P Coil Products Limited	Heat exchange coils, heat pipes and specialist heating equipment
SEAC Limited	Specialist fasteners for the building trade
Secomak Limited	Industrial heaters, fans, drying systems, heat tunnels, loudspeakers and microphones
S.E.R.V. Trayvou Interverrouillage S.A.S.	Safety systems for controlling access to dangerous machines
Smith Flow Control Limited	Safety systems for controlling valves on oil rigs and at chemical plants
Thames Side-Maywood Limited	Load cells for industrial weighing systems and force measurement
TL Jones Limited	Infrared safety systems for elevator doors
Volk Optical Inc.	Ophthalmic lenses as aids to diagnosis and surgery
Volumatic Limited	Cash security and handling from point-of-sale to cash office

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